



Washington State Auditor's Office

Troy Kelley

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Financial Statements Audit Report

Timberland Regional Library

Thurston County

For the period January 1, 2013 through December 31, 2013

Published March 23, 2015

Report No. 1013799





Washington State Auditor
Troy Kelley

March 23, 2015

Board of Trustees
Timberland Regional Library
Tumwater, Washington

Report on Financial Statements

Please find attached our report on the Timberland Regional Library's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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STATUS OF PRIOR AUDIT FINDINGS

Timberland Regional Library Thurston County January 1, 2013 through December 31, 2013

The status of findings contained in the prior years' audit reports of the Timberland Regional Library is provided below:

1. The District needs to strengthen internal controls over financial statement preparation to ensure accurate and timely reporting.

Report No. 1011189 dated January 21, 2014

Background

We identified the following weaknesses in internal controls over financial reporting that, when taken together, represent a significant deficiency in controls:

- The District has one employee who is responsible for all accounting functions.
- The District lacks oversight and monitoring procedures over accounting journal entries and monthly bank reconciliations to ensure these systems are being processed accurately.
- The District lacks a secure accounting system. All Business Office employees have access to make changes in the system. There is no review process over adjustments.
- The District lacks an effective review process to ensure amounts reported on the financial statements agree to supporting records and are prepared in accordance with the *Budgeting, Accounting and Reporting Systems* (BARS) Manual.

District staff did not detect errors in financial information. During our audit of the District's financial statements, we found the following significant errors in the original statements we received:

- The District understated its 2011 ending cash balance in the financial statements by approximately \$18,000.
- The Schedule of Long Term Liabilities for 2011 understated debt by \$9,984.
- The District's managerial funds were not rolled up to the general fund.
- The Notes to the financial statements required several corrections.

Status

We noted the District improved internal controls and implemented some of the prior audit recommendations. However, we still identified some issues that were communicated to management.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Timberland Regional Library
Thurston County
January 1, 2013 through December 31, 2013**

Board of Trustees
Timberland Regional Library
Tumwater, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Timberland Regional Library, Thurston County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated February 4, 2015.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the District using accounting practices prescribed by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial

statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

In addition, we noted certain matters that we have reported to the management of the District in a separate letter dated February 4, 2015.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other

purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in cursive script that reads "Troy X. Kelley". The signature is written in dark ink on a white background.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

February 4, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Timberland Regional Library Thurston County January 1, 2013 through December 31, 2013

Board of Trustees
Timberland Regional Library
Tumwater, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Timberland Regional Library, Thurston County, Washington, for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 12.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the Timberland Regional Library has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Timberland Regional Library, for the year ended December 31, 2013, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the District used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Timberland Regional Library, as of December 31, 2013, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

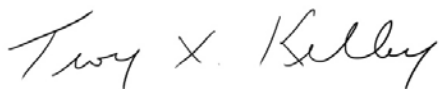
Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

February 4, 2015

FINANCIAL SECTION

**Timberland Regional Library
Thurston County
January 1, 2013 through December 31, 2013**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2013
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SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2013

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds*	000 General	301 Building Fund
Beginning Cash and Investments				
30810	Beg Fund Bal-Reserved	1,162,749	1,162,749	0
30880	Beg Fund Bal-Unreserved	10,696,391	10,101,646	594,745
38800/58800	Prior Period Adjustments, net	0	0	0
Operating Revenues				
310	Taxes	19,496,830	19,496,830	0
330	Intergovernmental Revenues	229,919	229,919	0
340	Charges for Goods and Services	203,571	203,571	0
350	Fines & Penalties	339,968	339,968	0
360	Miscellaneous Revenues	355,135	245,008	110,128
Total Operating Revenues:		20,625,424	20,515,297	110,128
Operating Expenditures				
570	Culture And Recreation	20,372,822	20,372,822	0
598	Intergovernmental Payments	0	0	0
Total Operating Expenditures:		20,372,822	20,372,822	
Net Operating Increase (Decrease):		252,602	142,475	110,128
Nonoperating Revenues				
370, 380, 395, 398	Other Financing Sources	736,795	736,795	0
391-393	Debt Proceeds	0	0	0
397	Transfers-In	2,020,000	320,000	1,700,000
Total Nonoperating Revenues:		2,756,795	1,056,795	1,700,000
Nonoperating Expenditures				
580, 596, 599	Other Financing Uses	10,000	10,000	0
591-593	Debt Service	0	0	0
594-595	Capital Expenditures	775,933	413,823	362,109
597	Transfers-Out	2,020,000	2,020,000	0
Total Nonoperating Expenditures:		2,805,933	2,443,823	362,109
Increase (Decrease) in Cash and Investments		203,464	-1,244,553	1,448,019
Ending Cash and Investments				
50810	End Fund Bal-Reserved	1,288,122	1,288,122	0
50880	End Fund Balance-Unreserved	10,774,482	8,731,719	2,042,763

The accompanying notes are an integral part of this Statement.

TIMBERLAND REGIONAL LIBRARY
Notes to Financial Statements
January 1, 2013 through December 31, 2013

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

Timberland Regional Library is a special purpose government that provides library services to the general public and is supported primarily through property taxes. The District was incorporated on December 9, 1968 and operates under Chapter 27.12 RCW, the laws of the state of Washington applicable to a library district.

a. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues, and expenditures, as appropriate. The District's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following fund types used by the District:

GOVERNMENTAL FUND TYPES

General (Current Expense) Fund

This fund is the primary operating fund of the District. It accounts for all financial resources and transactions not required or elected to be accounted for in another fund.

Capital Projects Fund

These funds account for financial resources that are designated for the acquisition or construction of general government capital projects.

b. Basis of Accounting

The Timberland Regional Library district reports financial activity using the revenue and expenditure classifications, statements and schedule contained in the Cash Basis Budgeting, Accounting and Reporting System (BARS) manual. This basis of accounting and reporting is an other comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid.

Purchases of Capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory, including collection materials, is expensed when purchased.

c. Cash

It is the District's policy to invest all temporary cash surpluses. The amount is included on the statement of resources and uses arising from cash transactions as cash and investments.

d. Deposits

See Note 2 - Deposits and Investments.

e. Collection Materials

Collection materials (books, magazines, videos, audios, etc.) are recorded as operating expenditures when purchased.

f. Capital Assets

Capital assets are long-lived assets of the library and are recorded as capital expenditures when purchased.

g. Compensated Absences

Vacation leave may be accumulated up to 240 hours for full-time employees (FTE). Less than full-time employees may accumulate vacation leave to a maximum of their FTE portion of 240 hours. Accumulated vacation leave is payable, after six months of employment, upon separation or retirement.

Sick leave may be accumulated indefinitely. Sick leave may be granted for personal illness or physical incapacity resulting from causes beyond the employee's control, enforced quarantine by physician, injury or illness of any person living with or legally dependent upon the employee up to ten days or as allowed by law, medical or dental care appointments, medical or dental treatment of any person legally dependent upon the employee, or physical disability caused by pregnancy, and recovery therefrom.

Upon separation or retirement, employees do not receive payment for unused sick leave.

h. Reserved Fund Balance

The Timberland Regional Library district has established an Unemployment Compensation Fund restricted to unemployment compensation payments. The District is self insured and therefore only reimburses the State of Washington Employment Security Department for actual benefits paid to former Timberland Regional Library employees. Restricted Resources for unemployment compensation payments at December 31, 2013 include the following:

	<u>2013</u>
Unemployment Compensation Fund	\$181,327.62

In addition, the District has established a Gift Fund used to track receipts and disbursements for gifts and bequests to libraries of the library of the district.

	<u>2013</u>
Gift Fund	\$1,106,794.45

NOTE 2 - DEPOSITS AND INVESTMENTS

The Thurston County Treasurer is the ex-officio treasurer for the library. In this capacity, the Thurston County Treasurer receives deposits and transacts investments on the library's behalf.

It is the policy of the library to invest all temporary cash surpluses through the Thurston County Treasurer. Beginning in 1989, the library authorized the Thurston County Treasurer to include its investments in the Thurston County's pooled investment program. Therefore all investments are treated by the library as cash and cash equivalents with the Treasurer.

All investments of the library's funds are obligations of the Thurston County Investment Pool with the Thurston County Treasurer. As of December 31, 2013, the library had \$12,044,603.67 invested in the Thurston County Investment Pool. This amount is included in the ending cash and cash equivalents shown in the Schedule of Cash Activity. The interest on these investments is prorated to the various funds.

NOTE 3 - LONG-TERM DEBT

The accompanying Schedule of Long-Term Liabilities (09) provides a listing of the outstanding debt of the District and summarizes the District's debt transactions for 2013.

NOTE 4 - PENSION PLAN

Substantially all of the Timberland Regional Library District's full-time and qualifying part-time employees participate in the Public Employee's Retirement Plans administered by the Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement systems. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the State Department of Retirement Systems annual financial report. A copy of this report may be obtained at:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98504-8380

NOTE 5 - RISK MANAGEMENT

The library maintains insurance against most normal hazards except for unemployment insurance where it has elected to become self insured. The district pays the Washington State Employment Security Department only for actual claims filed through the department.

Timberland Regional Library
Schedule of Liabilities
For the Year Ended December 31, 2013

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations						
259.11	Compensated Absences		655,608	50,984	48,370	658,222
Total General Obligations:			655,608	50,984	48,370	658,222
Total Liabilities:			655,608	50,984	48,370	658,222

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov