



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Kitsap Rural Library District
(Kitsap Regional Library)

Kitsap County

For the period January 1, 2014 through December 31, 2015

Published February 23, 2017

Report No. 1018412





**Office of the Washington State Auditor
Pat McCarthy**

February 23, 2017

Board of Trustees
Kitsap Regional Library
Bremerton, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Kitsap Regional Library Kitsap County January 1, 2014, through December 31, 2015

2015-001 The Library's internal controls over financial reporting were inadequate to ensure financial statements were accurate and complete.

Background

Library management is responsible for the preparation and presentation of the financial statements in accordance with the cash basis *Budgeting, Accounting and Reporting System* (BARS) Manual. This includes establishing and following internal controls over the preparation and fair presentation of financial statements that are free from material misstatement.

During the previous audit, we recommended the Library reconcile the amounts reported in the financial statements to the general ledger and document the reconciling items.

During 2015, a new requirement was added to the BARS Manual that called for the Library to report its share of the net pension liability for defined-benefit retirement plans on the Schedule of Liabilities, and disclose related information in the Notes to Financial Statements.

Description of Condition

We identified the following deficiencies in internal controls that, when taken together, represent a material weakness:

- The Library did not use the most current version of the BARS Manual to prepare the annual financial statement and related schedules, and did not have sufficient procedures to ensure new pension reporting standards were properly implemented.
- The financial statements were not reviewed by an independent person who was knowledgeable about Library activity and applicable reporting requirements.

Cause of Condition

The Library did not devote sufficient time and resources to ensure financial statements were presented in accordance with the BARS Manual, including new pension reporting requirements.

Effect of Condition

We identified the following errors:

- Because the District did not implement the new pension reporting requirements:
 - The net pension liability of \$4,862,711 was omitted from the Schedule of Liabilities.
 - Required disclosures were not included in the Notes to Financial Statements.
- The beginning and ending cash balances on the 2014 and 2015 Fund Resources and Uses Arising from Cash Transactions did not reconcile to fund balances by approximately \$20,000.
- The Notes to Financial Statements omitted the following disclosures:
 - A description of the departures from GAAP
 - Budget information
 - Self-insurance
 - Property taxes

During our audit, the Library corrected the identified errors.

Recommendations

We recommend the Library:

- Use the current accounting and reporting guidance provided in the BARS Manual when preparing its financial statements.
- Establish a formal process to evaluate the applicability of new reporting standards, and obtain additional training and technical guidance as needed.
- Establish a detailed review of the financial statements by an independent person who is knowledgeable about reporting requirements for cash-basis

entities to ensure accurate preparation of the Library's financial statements.

District's Response

Use the current accounting and reporting guidance provided in the BARS Manual when preparing its financial statements.

The Library plans to implement procedures to ensure that the manual is checked periodically for revisions to current practices and procedures.

Establish a formal process to evaluate the applicability of new reporting standards, and obtain additional training and technical guidance as needed.

The library has already allocated additional resources to its finance unit to obtain training to keep abreast of ever-changing standards, specially related to BARS and GASB 68 regulations. The library will review its current processes and practices and determine what, if any, new processes may be helpful in implementing this recommendation.

Establish a detailed review of financial statements by an independent person who is knowledgeable about reporting requirements for cash basis entities to ensure accurate preparation of the Library's financial statement.

The Library welcomes recommendations from the Auditor regarding agencies or persons who could perform such a review.

Auditor's Remarks

We appreciate the steps the Library is taking to resolve this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

Government Auditing Standard, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Deficiency in 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. 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.

.A11 Indicators of material weaknesses in internal control include:

- Identification of fraud, whether or not material, on the part of senior management;
- Restatement of previously issued financial statements to reflect the correction of a material misstatement due to fraud or error;
- Identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control; and

- Ineffective oversight of the entity's financial reporting and internal control by those charged with governance.

Budget Accounting and Reporting System (BARS) Manual - Part 3, Accounting, Chapter 1. Accounting Principles and General Procedures, Section B. Internal Control, states in part:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

RCW 43.09.200 – Local government accounting – Uniform system of accounting, states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

Budgeting, Accounting and Reporting Standards (BARS) Manual, Section 3.4.13.10 states in part:

Starting with the fiscal year ended on or after December 31, 2015, cash basis local governments are required to report their pension related liabilities. This section provides guidance for accounting and reporting these liabilities.

**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**

**Kitsap Regional Library
Kitsap County
January 1, 2014 through December 31, 2015**

Board of Trustees
Kitsap Regional Library
Bremerton, 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 Kitsap Regional Library, Kitsap County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated February 15, 2017.

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 audits 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2015-001 to be a material weakness.

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*.

DISTRICT'S RESPONSE TO FINDINGS

The District's response to the findings identified in our audit are described in the accompanying Schedule of Audit Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 black ink that reads "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy
State Auditor
Olympia, WA

February 15, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Kitsap Regional Library Kitsap County January 1, 2014 through December 31, 2015

Board of Trustees
Kitsap Regional Library
Bremerton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Kitsap Regional Library, Kitsap County, Washington, for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 15.

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 audits. We conducted our audits 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 Kitsap Regional Library has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by 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 Kitsap Regional Library, for the years ended December 31, 2015 and 2014, 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 Kitsap Regional Library, as of December 31, 2015 and 2014, or the changes in financial position or cash flows for the years 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 audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are 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 15, 2017 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.



Pat McCarthy

State Auditor

Olympia, WA

February 15, 2017

FINANCIAL SECTION

**Kitsap Regional Library
Kitsap County
January 1, 2014 through December 31, 2015**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2015
Fund Resources and Uses Arising from Cash Transactions – 2014
Notes to Financial Statements – 2015
Notes to Financial Statements – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2015
Schedule of Liabilities – 2014

Kitsap Rural Library District
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

		Total for All Funds (Memo Only)	001 General	300 Capital
Beginning Cash and Investments				
30810	Reserved	-	-	-
30880	Unreserved	4,367,767	3,850,136	517,631
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	10,686,691	10,686,691	-
330	Intergovernmental Revenues	29,774	29,774	-
340	Charges for Goods and Services	71,407	71,407	-
350	Fines and Penalties	241,320	241,320	-
360	Miscellaneous Revenues	647,751	644,950	2,801
Total Operating Revenues:		11,676,943	11,674,142	2,801
Operating Expenditures				
570	Culture and Recreation	10,770,322	10,770,322	-
Total Operating Expenditures:		10,770,322	10,770,322	-
Net Operating Increase (Decrease):		906,621	903,820	2,801
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	26,214	26,214	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	500,000	500,000	-
Total Nonoperating Revenues:		526,214	526,214	-
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	-	-	-
591-593	Debt Service	-	-	-
594-595	Capital Expenditures	1,431,247	1,431,247	-
597	Transfers-Out	500,000	-	500,000
Total Nonoperating Expenditures:		1,931,247	1,431,247	500,000
Net Increase (Decrease) in Cash and Investments:		(498,412)	(1,213)	(497,199)
Ending Cash and Investments				
5081000	Reserved	-	-	-
5088000	Unreserved	3,869,355	3,848,923	20,432
Total Ending Cash and Investments		3,869,355	3,848,923	20,432

The accompanying notes are an integral part of this statement.

Kitsap Rural Library District
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

		Total for All Funds (Memo Only)	001 General	300 Capital
Beginning Cash and Investments				
30810	Reserved	-	-	-
30880	Unreserved	4,263,294	3,748,293	515,001
388 & 588	Prior Period Adjustments, Net	22,130	22,130	-
Operating Revenues				
310	Taxes	10,500,873	10,500,873	-
330	Intergovernmental Revenues	16,701	16,701	-
340	Charges for Goods and Services	67,711	67,711	-
350	Fines and Penalties	255,723	255,723	-
360	Miscellaneous Revenues	355,953	353,323	2,630
Total Operating Revenues:		11,196,962	11,194,332	2,630
Operating Expenditures				
570	Culture and Recreation	10,652,790	10,652,790	-
Total Operating Expenditures:		10,652,790	10,652,790	-
Net Operating Increase (Decrease):		544,172	541,542	2,630
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	9,803	9,803	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	-	-	-
Total Nonoperating Revenues:		9,803	9,803	-
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	-	-	-
591-593	Debt Service	-	-	-
594-595	Capital Expenditures	471,631	471,631	-
597	Transfers-Out	-	-	-
Total Nonoperating Expenditures:		471,631	471,631	-
Net Increase (Decrease) in Cash and Investments:		82,344	79,714	2,630
Ending Cash and Investments				
5081000	Reserved	-	-	-
5088000	Unreserved	4,367,767	3,850,136	517,631
Total Ending Cash and Investments		4,367,767	3,850,136	517,631

The accompanying notes are an integral part of this statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Kitsap County Rural Library District (District) 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 August 1, 1955 and operates under Chapter 27.12 RCW, the laws of the State of Washington applicable to a library district.

The District reports financial activity in accordance with the Cash Basis Budgeting, Accounting and Reporting Systems (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. The manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented
- All funds are presented, rather than a focus on major funds.
- The Schedule of Liabilities is required to be presented with the financial statements as supplementary information
- Ending balances are not presented using the classifications as defined by GAAP.

a. **Fund Accounting**

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The District's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund

This fund is the primary operating fund of the District. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Capital Project Fund

This fund accounts for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets

b. Basis of Accounting

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

In accordance with state law the District also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous year.

c. Budgets

The District adopts annual appropriated budgets for General and Capital Funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Appropriations for these funds lapse at the fiscal year end.

The appropriated and actual expenditures for the legally adopted budget for 2015 are as follows:

Fund	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	\$12,529,150	\$12,201,569	\$327,581
Capital Fund	0	0	0

d. Collection Materials

Collection materials (books, magazines, videos, audios, etc.) are recorded as a supply under Library Services – Organization of Materials.

e. Capital Assets

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

f. Compensated Absences

Vacation pay may be accumulated up to thirty days and is payable upon separation or retirement. Sick leave may accumulate to a maximum of nine hundred sixty hours and can only be used for paid time off for the illness of the employee or a dependent. Upon separation or retirement union represented employees receive payment for unused sick leave at the rate of twenty percent for hours between four hundred eighty and nine hundred sixty. Upon separation or retirement non-represented employees receive payment in form of a transfer of applicable funds to their Health Reimbursement Account (HRA) for unused sick leave at the rate of twenty percent for hours between four hundred eighty and nine hundred sixty.

NOTE 2 – INVESTMENTS

It is the District's policy to invest cash surpluses. District's investments are held by the Kitsap County Investment Pool with the Kitsap County Treasurer as its agent in the

District's name. The District's deposits (and certificates of deposit) are covered to the extent specified by federal and state laws and regulations by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. Investments by type at December 31, 2015 were as follows:

<u>Type of Investment</u>	<u>Balance</u>
Kitsap County Pool (96970)	\$839,249
Kitsap County Pool (96971)	2,935,641
Kitsap County Pool (96972)	20,432
Total	<u>\$,3,795,322</u>

NOTE 3 – LONG-TERM DEBT

As of December 31, 2015, the District had no debt.

NOTE 4 – PENSION PLANS

Substantially all of the Kitsap County Rural Library District's full-time and qualifying part-time employees participate in the Public Employees Retirement System 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 (DRS) annual financial report. A copy of this report may be obtained at:

Department of Retirement Systems
Communications Unit
P. O. Box 48380
Olympia, WA 98504-8380

Also, the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

At June 30, 2015, the District's proportionate share of the collective net pension liabilities, as reported on Schedule 9 was as follows:

	Allocation %	Liabilities (Asset)
PERS 1	0.049494	\$2,588,996
PERS 2/3	0.063635	\$2,273,715
Totals		\$4,862,711

NOTE 5 – INSURANCE

The District's primary insurance holder is the Philadelphia Insurance Company (PIC). The current policy is in effect from September 1, 2015 to August 31, 2016. As of Dec. 31, 2015, the

District had no claims against the current policy. The District plans to renew its policy for the ensuring year. The coverage limits and deductibles are described below.

Primary Coverage:	Limit	Deductible
Building (blanket limit)	\$10,662,400	\$5,000
Contents (blanket limit)	\$13,138,699	\$5,000
Flood	\$5,000,000	\$25,000
Earthquake	\$2,000,000	5%
Money & Securities	\$25,000	\$1,000
General Liability	\$1,000,000	
Directors and Officers Liability	\$10,000,000	\$1,000
Employment Practices Liability	\$10,000,000	\$5,000
Uninsured Motorists	\$1,000,000	
Umbrella Policy: (liability)	\$10,000,000	\$10,000
Additional Coverage:	Limit	
Identity Theft Expense	\$50,000	
Terrorism Travel Reimbursement	\$50,000	
Emergency Real Estate Consulting Fee	\$50,000	
Temporary Meeting Space Reimbursement	\$25,000	
Workplace Violence Counseling	\$50,000	
Kidnap Expense	\$50,000	
Key Individual Replacement Expense	\$50,000	
Image Restoration and Counseling	\$50,000	
Donation Assurance	\$50,000	
Business Travel	\$50,000	
Conference Cancellation	\$25,000	
Fund-Raising Event Blackout	\$25,000	
Political Unrest	\$25,000	
Crisis Management	\$25,000	

The District self-insures for unemployment compensation. To meet, these potential obligations the District budgeted \$15,000 in 2015. Actual claims were \$3,017.

NOTE 6 – PROPERTY TAX

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after the end of each month.

Property tax revenues are recognized when cash is received by the District. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The District's regular levy for the year 2015 was \$0.390126 per \$1,000 on an assessed valuation of \$27,160,214,037 for a total levy of \$10,595,929.

NOTE 7 – RELATED PARTIES

The Kitsap Regional Library Foundation is a 501(c)(3) corporation whose sole purpose is to seek donations for the purposes of supporting District programs not covered by public funds. The District provides staffing and related office expenses for Foundation purposes. In 2015, the Foundation contributed \$566,208 to the District. District staffing and related office expenses were \$185,144.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Kitsap County Rural Library District (District) 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 August 1, 1955 and operates under Chapter 27.12 RCW, the laws of the State of Washington applicable to a library district.

The District reports financial activity in accordance with the Cash Basis Budgeting, Accounting and Reporting Systems (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. The manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented
- All funds are presented, rather than a focus on major funds.
- The Schedule of Liabilities is required to be presented with the financial statements as supplementary information
- Ending balances are not presented using the classifications as defined by GAAP.

a. **Fund Accounting**

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The District's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund

This fund is the primary operating fund of the District. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Capital Project Fund

This fund accounts for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets

b. Basis of Accounting

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

In accordance with state law the District also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous year.

c. Budgets

The District adopts annual appropriated budgets for General and Capital Funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Appropriations for these funds lapse at the fiscal year end.

The appropriated and actual expenditures for the legally adopted budget for 2014 are as follows:

Fund	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	\$11,211,998	\$11,124,434	\$87,564
Capital Fund	0	0	0

d. Collection Materials

Collection materials (books, magazines, videos, audios, etc.) are recorded as a supply under Library Services – Organization of Materials.

e. Capital Assets

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

f. Compensated Absences

Vacation pay may be accumulated up to thirty days and is payable upon separation or retirement. Sick leave may accumulate to a maximum of nine hundred sixty hours and can only be used for paid time off for the illness of the employee or a dependent. Upon separation or retirement union represented employees receive payment for unused sick leave at the rate of twenty percent for hours between four hundred eighty and nine hundred sixty. Upon separation or retirement non-represented employees receive payment in form of a transfer of applicable funds to their Health Reimbursement Account (HRA) for unused sick leave at the rate of twenty percent for hours between four hundred eighty and nine hundred sixty.

NOTE 2 – INVESTMENTS

It is the District's policy to invest cash surpluses. District's investments are held by the Kitsap County Investment Pool with the Kitsap County Treasurer as its agent in the District's name. The District's deposits (and certificates of deposit) are covered to the

extent specified by federal and state laws and regulations by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. Investments by type at December 31, 2014 were as follows:

<u>Type of Investment</u>	<u>Balance</u>
Kitsap County Pool (96970)	\$918,035
Kitsap County Pool (96971)	2,825,344
Kitsap County Pool (96972)	<u>517,631</u>
Total	<u>\$4,261,010</u>

NOTE 3 – LONG-TERM DEBT

As of December 31, 2014, the District had no debt.

NOTE 4 – PENSION PLANS

Substantially all of the Kitsap County Rural Library District's full-time and qualifying part-time employees participate in the Public Employees Retirement System 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
P. O. Box 48380
Olympia, WA 98504-8380

NOTE 5 – INSURANCE

The District's primary insurance holder is the Philadelphia Insurance Company (PIC). The current policy is in effect from September 1, 2014 to August 31, 2015. As of Dec. 31, 2014, the District had no claims against the current policy. The District plans to renew its policy for the ensuing year. The coverage limits and deductibles are described below.

Primary Coverage:	Limit	Deductible
Building (blanket limit)	\$10,662,400	\$1,000
Contents (blanket limit)	\$13,138,699	\$1,000
Flood	\$5,000,000	\$25,000
Earthquake	\$2,000,000	\$25,000
Money & Securities	\$25,000	\$1,000
General Liability	\$1,000,000	
Directors and Officers Liability	\$10,000,000	\$1,000
Employment Practices Liability	\$10,000,000	\$5,000
Uninsured Motorists	\$1,000,000	

Umbrella Policy: (liability)	\$10,000,000	\$10,000
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Additional Coverage:	Limit
Identity Theft Expense	\$50,000
Terrorism Travel Reimbursement	\$50,000
Emergency Real Estate Consulting Fee	\$50,000
Temporary Meeting Space Reimbursement	\$25,000
Workplace Violence Counseling	\$50,000
Kidnap Expense	\$50,000
Key Individual Replacement Expense	\$50,000
Image Restoration and Counseling	\$50,000
Donation Assurance	\$50,000
Business Travel	\$50,000
Conference Cancellation	\$25,000
Fund-Raising Event Blackout	\$25,000
Political Unrest	\$25,000
Crisis Management	\$25,000

The District self-insures for unemployment compensation. To meet, these potential obligations the District budgeted \$5,000 in 2014. Actual claims were \$934.

NOTE 6 – PROPERTY TAX

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after the end of each month.

Property tax revenues are recognized when cash is received by the District. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The District's regular levy for the year 2014 was \$0.402083 per \$1,000 on an assessed valuation of \$25,910,905,304 for a total levy of \$10,418,347.

NOTE 7 – RELATED PARTIES

The Kitsap Regional Library Foundation is a 501(c)(3) corporation whose sole purpose is to seek donations for the purposes of supporting District programs not covered by public funds. The District provides staffing and related office expenses for Foundation purposes. In 2014, the Foundation contributed \$242,460 to the District. District staffing and related office expenses were \$183,735.

Kitsap Rural Library District
Schedule of Liabilities
For the Year Ended December 31, 2015

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		469,077	-	29,225	439,852
264.30	Pension Liability		-	4,862,711	-	4,862,711
	Total Revenue and Other (non G.O.) Debt/Liabilities:		469,077	4,862,711	29,225	5,302,563
	Total Liabilities:		469,077	4,862,711	29,225	5,302,563

**Kitsap Rural Library District
Schedule of Liabilities
For the Year Ended December 31, 2014**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
259.11	Vacation and Sick Leave Payout		436,727	32,350	-	469,077
	Total General Obligation Debt/Liabilities:		436,727	32,350	-	469,077
	Total Liabilities:		436,727	32,350	-	469,077

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	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov