



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

# **Financial Statements Audit Report**

## **Spokane County Library District**

**For the period January 1, 2017 through December 31, 2018**

**Published June 24, 2019**

**Report No. 1024038**





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

June 24, 2019

Board of Trustees  
Spokane County Library District  
Spokane, Washington

**Report on Financial Statements**

Please find attached our report on the Spokane County Library District'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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**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**

**Spokane County Library District  
January 1, 2017 through December 31, 2018**

Board of Trustees  
Spokane County Library District  
Spokane, 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 Spokane County Library District, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 20, 2019.

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 opinions 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.

## 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 black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

May 20, 2019

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## Spokane County Library District January 1, 2017 through December 31, 2018

Board of Trustees  
Spokane County Library District  
Spokane, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Spokane County Library District, for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 10.

#### 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 opinions 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 Spokane County Library District 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 Spokane County Library District, for the years ended December 31, 2018 and 2017, 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 Spokane County Library District, as of December 31, 2018 and 2017, 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 conducted for the purpose of forming opinions on the financial statements taken as a whole. The 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 May 20, 2019 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

May 20, 2019

## **FINANCIAL SECTION**

### **Spokane County Library District January 1, 2017 through December 31, 2018**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2018  
Fund Resources and Uses Arising from Cash Transactions – 2017  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2018  
Notes to Financial Statements – 2018  
Notes to Financial Statements – 2017

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2018  
Schedule of Liabilities – 2017

**Spokane County Library District**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2018**

		<b>Total for All Funds (Memo Only)</b>	<b>001 General</b>	<b>301 CapProj</b>
<b>Beginning Cash and Investments</b>				
30810	Reserved	-	-	-
30880	Unreserved	6,380,640	5,179,622	1,201,018
388 / 588	Prior Period Adjustments, Net	-	-	-
<b>Revenues</b>				
310	Taxes	11,495,883	11,495,883	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	391,077	391,077	-
340	Charges for Goods and Services	10,269	10,269	-
350	Fines and Penalties	166,904	166,904	-
360	Miscellaneous Revenues	276,622	254,607	22,015
Total Revenues:		12,340,755	12,318,740	22,015
<b>Expenditures</b>				
570	Culture and Recreation	11,860,101	11,860,101	-
Total Expenditures:		11,860,101	11,860,101	-
Excess (Deficiency) Revenues over Expenditures:		480,654	458,639	22,015
<b>Other Increases in Fund Resources</b>				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	400,000	-	400,000
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 395, 398	Other Resources	-	-	-
Total Other Increases in Fund Resources:		400,000	-	400,000
<b>Other Decreases in Fund Resources</b>				
594-595	Capital Expenditures	229,340	215,277	14,063
591-593, 599	Debt Service	-	-	-
597	Transfers-Out	400,000	400,000	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
Total Other Decreases in Fund Resources:		629,340	615,277	14,063
<b>Increase (Decrease) in Cash and Investments:</b>		<b>251,314</b>	<b>(156,638)</b>	<b>407,952</b>
<b>Ending Cash and Investments</b>				
5081000	Reserved	-	-	-
5088000	Unreserved	6,631,954	5,022,984	1,608,970
<b>Total Ending Cash and Investments</b>		<b>6,631,954</b>	<b>5,022,984</b>	<b>1,608,970</b>

*The accompanying notes are an integral part of this statement.*

**Spokane County Library District**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2017**

		<b>Total for All Funds (Memo Only)</b>	<b>001 General</b>	<b>301 CapProj</b>
<b>Beginning Cash and Investments</b>				
30810	Reserved	-	-	-
30880	Unreserved	6,242,944	4,575,836	1,667,108
388 / 588	Prior Period Adjustments, Net	-	-	-
<b>Revenues</b>				
310	Taxes	11,313,839	11,313,839	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	345,447	345,447	-
340	Charges for Goods and Services	10,479	10,479	-
350	Fines and Penalties	202,667	202,667	-
360	Miscellaneous Revenues	308,255	296,520	11,735
Total Revenues:		12,180,687	12,168,952	11,735
<b>Expenditures</b>				
570	Culture and Recreation	11,419,530	11,419,530	-
Total Expenditures:		11,419,530	11,419,530	-
Excess (Deficiency) Revenues over Expenditures:		761,157	749,422	11,735
<b>Other Increases in Fund Resources</b>				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	-	-	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 395, 398	Other Resources	6,534	6,534	-
Total Other Increases in Fund Resources:		6,534	6,534	-
<b>Other Decreases in Fund Resources</b>				
594-595	Capital Expenditures	629,995	152,170	477,825
591-593, 599	Debt Service	-	-	-
597	Transfers-Out	-	-	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
Total Other Decreases in Fund Resources:		629,995	152,170	477,825
<b>Increase (Decrease) in Cash and Investments:</b>		<b>137,696</b>	<b>603,786</b>	<b>(466,090)</b>
<b>Ending Cash and Investments</b>				
5081000	Reserved	-	-	-
5088000	Unreserved	6,380,640	5,179,622	1,201,018
<b>Total Ending Cash and Investments</b>		<b>6,380,640</b>	<b>5,179,622</b>	<b>1,201,018</b>

*The accompanying notes are an integral part of this statement.*

**Spokane County Library District**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2018**

	<b>Agency</b>	
308	Beginning Cash and Investments	-
388 & 588	Prior Period Adjustment, Net	-
310-390	Additions	16,349
510-590	Deductions	4,700
	Net Increase (Decrease) in Cash and Investments:	11,649
508	Ending Cash and Investments	11,649

*The accompanying notes are an integral part of this statement.*

**Spokane County Library District**  
**Notes to Financial Statements**  
**January 1, 2018 through December 31, 2018**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Spokane County Library District (District) is a special purpose district that provides library services to the general public and is supported primarily through property taxes. The Spokane County Library District was incorporated in 1942. The District operates under the laws of the State of Washington applicable to Library Districts, Chapter 27.12 RCW. The Spokane County Library District Board of Trustees, which governs the District, is composed of five county residents appointed by the Spokane County Board of Commissioners.

The District reports financial activity using the revenue and expenditure classifications, statements and schedules 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. This 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.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the District are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprise 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, except for fiduciary funds, which are presented by fund types. The total column is presented as “memo only” because any interfund activities are not eliminated. 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 Projects Fund – This fund accounts for financial resources that are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets

## FIDUCIARY FUND TYPES:

Custodial Fund - This fund is used to account for assets that the District holds on behalf of others in a custodial capacity.

### B. Basis of Accounting and Measurement Focus

The 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.

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

### C. Cash and Investments

See Note 3, Deposits and Investments.

### D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Capital assets are recorded as capital expenditures when purchased.

### E. Compensated Absences

Vacation leave may be accumulated up to 240 hours for benefited employees, and is payable upon separation or retirement. As of December 31, 2018, accumulated vacation potentially subject to pay-off was \$401,342.

Sick leave may be accumulated up to a maximum balance of 960 accrued hours and may be partially payable upon separation or retirement based on the following. Employees with 15 years of service or more will be given compensation for 50% of accrued sick leave balances (up to a total of 480 hours). Employees with at least 3 but no more than 15 years of service will be given compensation for 33.3% of accrued sick leave balances (up to a total of 320 hours). There is no compensation for accrued sick leave for employees with less than three years' service. As of December 31, 2018, accumulated sick leave potentially subject to pay-off was \$304,456.

The combined potential payments as of December 31, 2018, are \$705,798. Payments are recognized as expenditures when paid.

## **NOTE 2 - BUDGET COMPLIANCE**

### **A. Budgets**

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

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follows:

Fund	Final Appropriated		Variance
	Amounts	Actual Expenditures	
<b>General Fund</b>	12,831,300	12,475,378	355,922
<b>Capital Projects Fund</b>	19,000	14,063	4,937

Budget amounts are authorized to be transferred between departments within any fund; however any revisions that alter the total expenditures of a fund must be approved by the District's Board of Trustees.

## **NOTE 3 - DEPOSITS AND INVESTMENTS**

It is the District's policy to invest all temporary cash surpluses. The interest on these surpluses are prorated to the various funds where the surplus funds originated.

All District's deposits are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are held by Spokane County in the District's name. The Spokane County Treasurer is the District's Treasurer. All of the District's investments with Spokane County are held in the Spokane County Investment Pool (SCIP) in the District's name.

Investments are recorded at original cost. Investments by type as of December 31, 2018, are as follows:

Deposits and Investments By Fund and Type		Amount
<b>General Fund</b>		
Spokane County Investment Pool (SCIP)		5,013,204
U.S. Bank		8,820
Petty Cash		960
Total General Fund Deposits and Investments		5,022,984
<b>Capital Projects Fund</b>		
Spokane County Investment Pool (SCIP)		1,607,970
U.S. Bank		1,000
Total Capital Projects Fund Deposits and Investments		1,608,970
<b>Custodial Fund</b>		
Spokane County Investment Pool (SCIP)		11,649



#### **NOTE 4 - PROPERTY TAXES**

The Spokane County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed at 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 the tax is levied.

The District's 2018 regular levy rate was \$0.454089 per \$1,000 of assessed valuation on \$25,666,326,609 for a total regular levy of \$11,654,803

#### **NOTE 5 - PENSION PLANS**

##### **A. State Sponsored Pension Plans**

Substantially all Spokane County Library District full-time and qualifying part-time employees participate in the Public Employee Retirement System (PERS), Plan 1, Plan 2, or Plan 3. These plans are administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing multiple-employer public employee defined benefit retirement plans.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

DRS, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

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

The CAFR may also be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

At June 30, 2018 (the measurement date of the plans), the District's proportionate share of the collective net pension liabilities, as reported on the Schedule 9, was as follows:

	Employer Contributions	Allocation Percentage	Net Pension Liability
PERS 1	6,027	0.000902%	40,284
PERS 1 UAAL	283,604	0.042429%	1,894,894
PERS 2 and 3	420,228	0.054461%	929,873
			2,865,051

## **NOTE 6 – HEALTH & WELFARE**

The District is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, the Interlocal Cooperation Act, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW. The AWC Trust HCP was formed on January 1, 2014, when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2018, 257 cities, towns and non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities such as the District are also eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2018, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1.0 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care

Program policies, Chapter 48.62 RCW and Chapter 200-110 WAC

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the Washington State Auditor's office (State Auditor) under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board (GASB). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in this report. Year-end financial reporting is done on an accrual basis and submitted to the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

## **NOTE 7 – RISK MANAGEMENT**

The District's uses a combination of purchased commercial insurance, participation in risk pools and self-insurance to manage risk.

The District maintains individually purchased commercial insurance policies primarily through Berkley North Pacific and Philadelphia Insurance to insure property and liability risks, including but not limited to, commercial property, general liability, commercial auto, director and officer's liability, employment practices liability, and cyber liability. Property insurance coverage for 2018 is full replacement costs of all real and personal property with a \$2,500 deductible. General liability limits for 2018 are \$1,000,000 per occurrence, \$2,000,000 annual aggregate plus an \$8,000,000 umbrella. There have been no claims in excess of insurance coverage for 2018.

Health and welfare coverages are provided through a risk pool which is further explained and disclosed in Note 6.

The District self-insures its unemployment compensation obligations through a reimbursable account administered by the Washington State Employment Security Department, and pays the full cost of all unemployment claims, if any, when incurred. The District paid claims totaling \$17,312 during 2018.

Workers compensation obligations are insured through participation in the Washington State Fund insurance pool administered by the Washington State Department of Labor and Industries.

## **NOTE 8 – OTHER DISCLOSURES**

A. In September 2012, the District entered into an interlocal agreement with the City of Spokane Valley (City) for the purpose of acquiring an 8.4 acre parcel of land that will, in the future, be developed as a District Library and City Park. In the agreement the District agreed to purchase between 2.50 and 3.50 acres of this parcel at a cost that is proportional to the amount of land they held, relative to the purchase price. The agreement further provides that the City will hold title to the entire 8.4 acre parcel until a site development plan is completed and the specific land configuration can be determined for each party.

In October 2012, the City purchased the 8.4 acre parcel of land at a cost of approximately \$2,500,000 and the District gave the City approximately \$744,047 for its initial 2.5 acre share. Additionally, there was approximately \$29,762 paid for real estate commissions in conjunction with the District's acquiring this property, for a total amount paid of \$773,809. In early 2014, the District purchased an additional 0.32 acres for \$97,367.

The interlocal agreement also provides that if the District has not secured voter approval of a construction bond for the library building and ancillary improvements that the City of Spokane Valley will re-purchase the land at the same \$841,414 price paid by the District. As of December 31, 2018, the District has not yet secured such voter approval.

In October 2017, the interlocal agreement was amended, allowing the District until October 2022, with the possibility of a two year extension to October 2024, to obtain the aforementioned voter approval of the construction bond for the library facility.

- B. In 2014 the District entered into an agreement with newly created Friends of Spokane County Library District (Friends). The Friends is a non-profit, 501(c)(3) organization whose mission is to raise funds and public awareness in the community to support the services and programs of the District. The District has agreed to provide certain professional staff and services in an amount not to exceed 15% of the total operating costs of the communications department of the District. The District has also agreed to provide space, clerical support and surplus library materials, with the proceeds of the sale of these surplus materials going to the Friends. The Friends has agreed to use all assets and earnings exclusively for District purposes and to maintain its stated mission for the lifetime of the agreement.
- C. In 2003, the District entered into an interlocal agreement with Moran Prairie Library Capital Facility Area (MPLCFA) regarding the acquisition, operation and ownership of the Moran Prairie Library. Legal title to this library facility transferred to the District immediately upon completion. The District also agreed to provide all necessary administrative support to MPLCFA without charge for the duration of this agreement, which will remain in effect pursuant to RCW 27.15.060 until all general obligation bonds or other obligations of MPLCFA have been discharged or assumed by any other governmental entity. General obligation bond debt in existence as of December 31, 2018, is currently scheduled to be discharged in full in 2023.
- D. The Custodial Fund is used to account for the activities of Inland Northwest Council of Libraries (INCOL). INCOL is a consortium of governmental and private non-profit library entities from Eastern Washington and North Idaho whose mission is to provide shared cost educational programs for members. The District is a member of INCOL. In February of 2018, the District agreed to perform the fiscal agent duties of INCOL and established a custodial fund on behalf of such funds.

**Spokane County Library District**  
**Notes to Financial Statements**  
**January 1, 2017 through December 31, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Spokane County Library District is a special purpose district that provides library services to the general public and is supported primarily through property taxes. The Spokane County Library District was incorporated in 1942. The District operates under the laws of the State of Washington applicable to Library Districts, Chapter 27.12 RCW. The Spokane County Library District Board of Trustees, which governs the District, is composed of five county residents appointed by the Spokane County Board of Commissioners.

The District reports financial activity using the revenue and expenditure classifications, statements and schedules 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. This 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.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

The accounts of the Spokane County Library District are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with single-entry accounts, which comprise its cash, investments, revenues and expenditures, as appropriated. The District’s resources are allocated to, and accounted for in individual funds depending on their intended purposes. The following are the funds used by the District.

General Fund - This fund is the primary operating fund of the District. It accounts for all financial resources and transactions except those required to be accounted for in another fund.

Capital Projects Fund – This fund is used to account for and report financial resources that are for the acquisition, construction of capital facilities, or other capital assets

B. Basis of Accounting and Measurement Focus

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized 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 expenses. Inventory, including collection materials, is expensed when purchased.

C. Budgets

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

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follows:

Fund	Final Appropriated		Variance
	Amounts	Actual Expenditures	
<b>General Fund</b>	12,170,639	11,571,700	598,939
<b>Capital Projects Fund</b>	500,000	477,825	22,175

Budget amounts are authorized to be transferred between departments within any fund; however any revisions that alter the total expenditures of a fund must be approved by the District's Board of Trustees.

D. Cash and Investments

See Note 2, Deposits and Investments.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Capital assets are recorded as capital expenditures when purchased.

#### F. Compensated Absences

Vacation leave may be accumulated up to 240 hours for benefited employees, and is payable upon separation or retirement. As of December 31, 2017, accumulated vacation potentially subject to pay-off was \$418,879.

Sick leave may be accumulated up to a maximum balance of 960 accrued hours and may be partially payable upon separation or retirement based on the following. Employees with 15 years of service or more will be given compensation for 50% of accrued sick leave balances (up to a total of 480 hours). Employees with at least 3 but no more than 15 years of service will be given compensation for 33.3% of accrued sick leave balances (up to a total of 320 hours). There is no compensation for accrued sick leave for employees with less than three years' service. As of December 31, 2017, accumulated sick leave potentially subject to pay-off was \$288,454.

The combined potential payments as of December 31, 2017, are \$707,333.

#### **NOTE 2 - DEPOSITS AND INVESTMENTS**

It is the District's policy to invest all temporary cash surpluses. The interest on these surpluses are prorated to the various funds where the surplus funds originated.

All District's deposits are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are held by Spokane County in the District's name. The Spokane County Treasurer is the District's Treasurer. All of the District's investments with Spokane County are held in the Spokane County Investment Pool (SCIP) in the District's name.

Investments are recorded at original cost. Investments by type as of December 31, 2017, are as follows:

Deposits and Investments By Fund and Type	Amount
<b>General Fund</b>	
<b>Spokane County Investment Pool (SCIP)</b>	5,192,611
<b>U.S. Bank</b>	(13,929)
<b>Petty Cash</b>	940
<b>Total General Fund Deposits and Investments</b>	5,179,622
<b>Capital Projects Fund</b>	
<b>Spokane County Investment Pool (SCIP)</b>	1,185,955
<b>U.S. Bank</b>	15,063
<b>Total Capital Projects Fund Deposits and Investments</b>	1,201,018



### **NOTE 3 - PROPERTY TAXES**

The Spokane County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed at 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 the tax is levied.

The District's 2017 regular levy rate was \$0.476192 per \$1,000 of assessed valuation on \$23,877,059,798 for a total regular levy of \$11,370,076.

### **NOTE 4 - PENSION PLANS**

#### **A. State Sponsored Pension Plans**

Substantially all Spokane County Library District full-time and qualifying part-time employees participate in the Public Employee Retirement System (PERS), Plan 1, Plan 2, or Plan 3. These plans are administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

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

The CAFR may also be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

At June 30, 2017 (the measurement date of the plans), the District's proportionate share of the collective net pension liabilities, as reported on the Schedule 9, was as follows:

	Employer Contributions	Allocation Percentage	Net Pension Liability
PERS 1	4,827	0.000802%	38,056
PERS 1 UAAL	265,192	0.044086%	2,091,915
PERS 2 and 3	346,363	0.056708%	1,970,332
			4,100,303



## **NOTE 5 – HEALTH & WELFARE**

The District is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, the Interlocal Cooperation Act, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2017, 261 cities, towns and non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities such as the District are also eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2017, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1.0 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care

Program policies, Chapter 48.62 RCW and Chapter 200-110 WAC

The accounting records of the Trust HCP are maintained in accordance with the methods prescribed by the Washington State Auditor's office (State Auditor) under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board (GASB). Year-end financial reporting is done on an accrual basis and submitted to the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

## **NOTE 6 – RISK MANAGEMENT**

The District's uses a combination of purchased commercial insurance, participation in risk pools and self-insurance to manage risk.

The District maintains individually purchased commercial insurance policies primarily through Berkley North Pacific and Philadelphia Insurance and to insure property and liability risks. This coverage primarily extends to commercial property, general liability, commercial auto, directors and officers liability, employment practices liability, and cyber liability. Property insurance coverage for 2017 is full replacement costs of all real and personal property with a \$2,500 deductible. General liability limits for 2017 are \$1,000,000 per occurrence, \$2,000,000 annual aggregate plus an \$8,000,000 umbrella. There have been no claims in excess of insurance coverage for 2017.

Health and welfare coverages are provided through a risk pool which is further explained and disclosed in Note 5.

The District self-insures its unemployment compensation obligations through a reimbursable account administered by the Washington State Employment Security Department, and pays the full cost of all unemployment claims, if any, when incurred. The District paid claims totaling \$3,966 during 2017.

Workers compensation obligations are insured through participation in the Washington State Fund insurance pool administered by the Washington State Department of Labor and Industries.

## **NOTE 7 – OTHER DISCLOSURES**

A. In September 2012, the District entered into an interlocal agreement with the City of Spokane Valley (City) for the purpose of acquiring an 8.4 acre parcel of land that will, in the future, be developed as a District Library and City Park. In the agreement the District agreed to purchase between 2.50 and 3.50 acres of this parcel at a cost that is proportional to the amount of land they held, relative to the purchase price. The agreement further provides that the City will hold title to the entire 8.4 acre parcel until a site development plan is completed and the specific land configuration can be determined for each party.

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**Spokane County Library District  
Schedule of Liabilities  
For the Year Ended December 31, 2018**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences	1/1/2019	707,333	-	1,535	705,798
264.30	Net Pension Liability	1/1/2019	4,100,303	-	1,235,252	2,865,051
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>4,807,636</b>	<b>-</b>	<b>1,236,787</b>	<b>3,570,849</b>
<b>Total Liabilities:</b>			<b>4,807,636</b>	<b>-</b>	<b>1,236,787</b>	<b>3,570,849</b>

**Spokane County Library District  
Schedule of Liabilities  
For the Year Ended December 31, 2017**

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<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
264.30	Participating portion of State Pension fund liabilities		5,396,676	-	1,296,373	4,100,303
259.12	Accrued Vacation and Vested Sick		713,260	-	5,927	707,333
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>6,109,936</b>	<b>-</b>	<b>1,302,300</b>	<b>4,807,636</b>
<b>Total Liabilities:</b>			<b>6,109,936</b>	<b>-</b>	<b>1,302,300</b>	<b>4,807,636</b>

## 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	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>