



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

**Whatcom County Rural Library
District**

(Whatcom County Library System)

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

Published June 27, 2019

Report No. 1024089





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

June 27, 2019

Board of Trustees
Whatcom County Library System
Bellingham, Washington

Report on Financial Statements

Please find attached our report on the Whatcom County Library System's financial statements.

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

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

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**

**Whatcom County Library System
January 1, 2017 through December 31, 2018**

Board of Trustees
Whatcom County Library System
Bellingham, 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 Whatcom County Library System, 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 June 11, 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.

In addition, we noted certain matters that we have reported to the management of the District in a separate letter dated June 11, 2019.

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

June 11, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Whatcom County Library System January 1, 2017 through December 31, 2018

Board of Trustees
Whatcom County Library System
Bellingham, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Whatcom County Library System, 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 Whatcom County Library System 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 Whatcom County Library System, 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 Whatcom County Library System, 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 REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 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

June 11, 2019

FINANCIAL SECTION

Whatcom County Library System 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

Notes to Financial Statements – 2018

Notes to Financial Statements – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2018

Schedule of Liabilities – 2017

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

		Total for All Funds (Memo Only)	001 General	300 Capital
Beginning Cash and Investments				
30810	Reserved	-	-	-
30880	Unreserved	10,812,625	9,830,299	982,326
388 / 588	Prior Period Adjustments, Net	-	-	-
Revenues				
310	Taxes	8,536,221	8,536,221	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	298,339	294,689	3,650
340	Charges for Goods and Services	39,875	39,875	-
350	Fines and Penalties	60,802	60,802	-
360	Miscellaneous Revenues	231,662	186,840	44,822
Total Revenues:		9,166,899	9,118,427	48,473
Expenditures				
570	Culture and Recreation	8,442,400	8,442,400	-
Total Expenditures:		8,442,400	8,442,400	-
Excess (Deficiency) Revenues over Expenditures:		724,499	676,027	48,472
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	468,391	-	468,391
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 395, 398	Other Resources	5,435	5,435	-
Total Other Increases in Fund Resources:		473,826	5,435	468,391
Other Decreases in Fund Resources				
594-595	Capital Expenditures	319,034	-	319,034
591-593, 599	Debt Service	-	-	-
597	Transfers-Out	468,391	468,391	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
Total Other Decreases in Fund Resources:		787,425	468,391	319,034
Increase (Decrease) in Cash and Investments:		410,900	213,071	197,829
Ending Cash and Investments				
5081000	Reserved	-	-	-
5088000	Unreserved	11,223,525	10,043,370	1,180,155
Total Ending Cash and Investments		11,223,525	10,043,370	1,180,155

The accompanying notes are an integral part of this statement.

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

		Total for All Funds (Memo Only)	001 General	300 Capital
Beginning Cash and Investments				
30810	Reserved	-	-	-
30880	Unreserved	11,119,520	9,367,830	1,751,689
388 / 588	Prior Period Adjustments, Net	(54)	(54)	-
Revenues				
310	Taxes	8,185,344	8,185,344	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	160,353	160,353	-
340	Charges for Goods and Services	35,655	35,655	-
350	Fines and Penalties	70,732	70,732	-
360	Miscellaneous Revenues	185,387	171,432	13,955
Total Revenues:		8,637,470	8,623,515	13,955
Expenditures				
570	Culture and Recreation	8,009,617	8,009,617	-
Total Expenditures:		8,009,617	8,009,617	-
Excess (Deficiency) Revenues over Expenditures:		627,853	613,899	13,955
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	151,376	-	151,376
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	790	-	790
381, 395, 398	Other Resources	-	-	-
Total Other Increases in Fund Resources:		152,166	-	152,166
Other Decreases in Fund Resources				
594-595	Capital Expenditures	934,694	-	934,694
591-593, 599	Debt Service	-	-	-
597	Transfers-Out	151,376	151,376	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	790	-	790
Total Other Decreases in Fund Resources:		1,086,860	151,376	935,484
Increase (Decrease) in Cash and Investments:		(306,841)	462,523	(769,363)
Ending Cash and Investments				
5081000	Reserved	-	-	-
5088000	Unreserved	10,812,624	9,830,298	982,326
Total Ending Cash and Investments		10,812,624	9,830,298	982,326

The accompanying notes are an integral part of this statement.

**WHATCOM COUNTY RURAL LIBRARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2018**

Note 1 – Summary of Significant Accounting Policies

Whatcom County Rural Library District was incorporated in 1944 and operates under the laws of the State of Washington applicable to a rural library district. The District is a special purpose local government and provides library services to the general public.

The District reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual 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 comprises its cash and investments, revenues and expenditures. The government'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 Fund

These funds account 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 and Measurement Focus

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 period.

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 or a group of identical assets purchased together whose total cost is more than \$5,000, and an estimated useful life in excess of one year. The capital assets of the District are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation leave may be accumulated up to 240 hours at year-end, and is payable upon separation or retirement. Effective 1/1/18 there is no cap on sick leave accrual; it was previously capped at 960 hours. Only 960 hours may be accumulated at year-end. Upon separation or retirement employees do not receive payment for unused sick leave. Payments are recognized as expenditures when paid.

F. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as reserved when they are subject to restrictions on use imposed by external parties or due to internal commitments established by Resolution of the District's Board of Trustees. When expenditures that meet restrictions are incurred, the District intends to use reserved resources first before using unreserved amounts.

The District's primary source of revenue, property tax collections, is received primarily in the second and fourth quarters. Given the variability in the timing of the receipt of these and operating other revenues, the District designates a portion of its unreserved funds, minimum of thirty-three and one-third percent (33.33%) of budgeted operating expenditures, as unreserved-assigned Beginning and Ending Cash and Investments to ensure adequate cash flows and to avoid short-term borrowing to fund operating activities. In October 2017 the District's Board of Trustees assigned additional unreserved funds for future projects, unanticipated operating expenditures, and facilities maintenance needs. As of December 31, 2018 the unreserved-assigned Ending Cash and Investments in the General Fund was \$8,991,779. The remaining unreserved-unassigned balance was \$1,051,591, for a total of \$10,043,370 in unreserved funds. The reserved balance was \$0.00.

The District's Beginning and Ending Cash and Investments in its Capital Fund are unreserved but assigned to be used for the acquisition or improvement of the real and personal property of the District. This is an internal assignment resulting from the purposing of the fund through a resolution of the District's Board of Trustees. As of December 31, 2018, the unreserved-assigned fund balance in the Capital Fund was \$1,180,155. The reserved balance was \$0.00.

Note 2 – Budget ComplianceBudgets

The District adopts annual appropriated budgets for its General and Capital funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal 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/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:	\$9,629,593	\$8,910,791	\$718,802
Capital Fund:	\$651,597	\$319,034	\$332,563

Budgeted 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 Whatcom County Rural Library District's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the General and Capital Funds.

All investments are held by the Whatcom County Treasurer as the District's agent in the District's name.

Investments by fund at December 31, 2018, are as follows:

<u>Investment</u>	<u>Balance</u>
General Fund	\$9,695,526
Capital Fund	\$1,134,539
Total	\$10,830,065

Note 4 – Property Tax

The Whatcom County Treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed daily.

Property tax revenues are recognized when cash is received by Whatcom County Rural Library District. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied. The Whatcom County Rural Library District's regular levy for the year 2018 was \$0.4727651854 per \$1,000 on an assessed valuation of \$17,942,416,133 for a total regular levy of \$8,482,549.69.

Note 5 – Pension Plans

Substantially all of Whatcom County Rural Library District's full-time and qualifying part-time employees participate in the statewide Public Employee's Retirement System (PERS), administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution 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, 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 98540-8380

The DRS CAFR may be downloaded from the DRS website at 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 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$187,969	.028122%	\$1,255,938
PERS 2/3	\$276,222	.035798%	\$611,219

Note 6 – Risk Management

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

The District maintains individually purchased commercial insurance policies through Philadelphia Insurance Companies and American Bankers Insurance Company of Florida to insure property and liability risks. This coverage primarily extends to commercial property, general liability, automobile, cyber, directors and officers liability, and employment practices liability.

Health and welfare insurance benefits are provided to eligible employees through premiums paid to Cigna Healthcare, VSP Vision Care, and Lincoln National Life Insurance Co. Benefits provided include medical, dental, vision, prescription drug, and long-term disability insurance.

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 benefits drawn by former employees. For the five-year period from 2014 through 2018, the District incurred total expenses of \$1,738 for unemployment compensation.

Workers' compensation obligations are insured through participation in the Washington State Fund insurance pool administered by the Washington State Department of Labor and Industries. Premiums are paid by a combination of employer and employee contributions, and benefits include medical treatment for workers who are injured in the course of their employment or develop an occupational disease as a result of their work activities.

Note 7 - Other Disclosures

A. Self-Insurance

The Whatcom County Rural Library District reimburses Washington State Employment Security Department for all unemployment benefits paid to former employees. This assumed self-insurance risk resulted in \$0 in liability for unemployment compensation for the 2018 fiscal year, and a total of \$1,738 for the five-year period from 2014 through 2018.

B. Property Ownership

On April 17, 2018 the District assumed ownership of the building housing a District-operated library in the Maple Falls area of unincorporated Whatcom County. Previously the District owned the land on which the building is situated, while the Friends of the North Fork Community Library owned the building. The building was gifted by the Friends to the District at no cost.

C. Capital Commitments

On July 31, 2018 the District entered into a Memorandum of Understanding with Innovative Interfaces Incorporated and Bellingham Public Library. Through this MOU, the Library District is committed to contributing up to \$125,868 (plus applicable sales tax) toward a new integrated library system and the first year of annual maintenance costs. The District's portion of the migration payment and annual fees are expected to be paid in 2019.

On August 1, 2018 the District entered into a contract to purchase a new Bookmobile from Trivan, Inc. The purchase price of \$275,013 is expected to be paid in 2019.

**WHATCOM COUNTY RURAL LIBRARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

Note 1 - Summary of Significant Accounting Policies

Whatcom County Rural Library District was incorporated in 1944 and operates under the laws of the state of Washington applicable to a rural library district. The District is a special purpose local government and provides library services to the general public.

The District reports financial activity in accordance with the *Cash Basis Budgeting, Accounting, and Reporting System* (BARS) Manual 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 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 government'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 Fund

These funds account 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 and Measurement Focus

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 period.

C. Budgets

The District adopts annual appropriated budgets for its General and Capital funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal 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 follow:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:	\$8,913,558	\$8,161,047	\$752,511
Capital Fund:	\$1,221,837	\$935,484	\$286,353

Budgeted 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 or a group of identical assets purchased together whose total cost is more than \$5,000, and an estimated useful life in excess of one year. The capital assets of the District are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to 240 hours at year-end, and is payable upon separation or retirement. Sick leave may be accumulated up to 960 hours through 12/31/17. Effective 1/1/18 there will be no cap on sick leave accrual, however, only 960 hours may be accumulated at year-end. Upon separation or retirement employees do not receive payment for unused sick leave. Payments are recognized as expenditures when paid.

G. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as reserved when they are subject to restrictions on use imposed by external parties or due to internal commitments established by Resolution of the District's Board of Trustees. When expenditures that meet restrictions are incurred, the District intends to use reserved resources first before using unreserved amounts.

The District's primary source of revenue, property tax collections, is received primarily in the second and fourth quarters. Given the variability in the timing of the receipt of these and operating other revenues, the District designates a portion of its unreserved funds, minimum of thirty-three and one-third percent (33.33%) of budgeted operating expenditures, as unreserved-assigned Beginning and Ending Cash and Investments to ensure adequate cash flows and to avoid short-term borrowing to fund operating activities. On October 17, 2017 the District's Board of Trustees assigned additional unreserved funds for future projects, unanticipated operating expenditures, and facilities maintenance needs. As of December 31, 2017 the unreserved-assigned Ending Cash and Investments in the General Fund was \$9,237,182. The remaining unreserved-unassigned balance was \$593,116, for a total of \$9,830,298 in unreserved funds. The reserved balance was \$0.00.

The District's Beginning and Ending Cash and Investments in its Capital Fund are unreserved but assigned to be used for the acquisition or improvement of the real and personal property of the District. This is an internal assignment resulting from the purposing of the fund through a resolution of the District's Board of Trustees. As of December 31, 2017, the unreserved-assigned fund balance restricted for the Capital Fund was \$982,326. The reserved balance was \$0.00.

Note 2 - Deposits and Investments

It is the Whatcom County Rural Library District's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the General and Capital Funds.

All investments are held by the Whatcom County Treasurer as the District's agent in the District's name.

Investments by fund at December 31, 2017, are as follows:

<u>Investment</u>	<u>Balance</u>
General Fund	\$9,705,961
Capital Fund	<u>\$984,074</u>
Total	\$10,690,035

Note 3 - Property Tax

The Whatcom County Treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed daily.

Property tax revenues are recognized when cash is received by Whatcom County Rural Library District. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied. The Whatcom County Rural Library District's regular levy for the year 2017 was \$0.4872582765 per \$1,000 on an assessed valuation of \$16,805,813,661 for a total regular levy of \$8,188,771.80.

Note 4 - Pension Plans

Substantially all of Whatcom County Rural Library District's full-time and qualifying part-time employees participate in the statewide Public Employee's Retirement System (PERS), administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution 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, 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 98540-8380

Also, the DRS CAFR may be downloaded from the DRS website at 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 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$179,866	0.029902%	\$1,418,873
PERS 2/3	\$223,019	0.036513%	\$1,268,652

Note 5 - Risk Management

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

The District maintains individually purchased commercial insurance policies through Philadelphia Insurance Companies and Mount Vernon Fire Insurance Company to insure property and liability risks. This coverage primarily extends to commercial property, general liability, automobile, cyber, directors and officers liability, and employment practices liability.

Health and welfare insurance benefits are provided to eligible employees through premiums paid to Kaiser Permanente (formerly Group Health of Washington), Delta Dental Service, and Lincoln National Life Insurance Co. Benefits provided include medical, dental, vision, prescription drug, and long-term disability insurance. Starting in 2018, medical, dental, and vision benefits are provided through Cigna Healthcare and VSP Vision Care.

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 benefits drawn by former employees. For the five-year period from 2013 through 2017, the District incurred total expenses of \$1,738 for unemployment compensation.

Workers' compensation obligations are insured through participation in the Washington State Fund insurance pool administered by the Washington State Department of Labor and Industries. Premiums are paid by a combination of employer and employee contributions, and benefits include medical treatment for workers who are injured in the course of their employment or develop an occupational disease as a result of their work activities.

Note 6 - Other Disclosures

A. Self-Insurance

The Whatcom County Rural Library District reimburses Washington State Employment Security Department for all unemployment benefits paid to former employees. This assumed self-insurance risk resulted in \$0 in liability for unemployment compensation for the 2017 fiscal year, and a total of \$1,738 for the five-year period from 2013 through 2017.

B. Real Estate Purchase

On April 28, 2017 the District purchased land in the amount of \$675,000 for the site of a future library branch in the Birch Bay area of unincorporated Whatcom County.

C. Capital Commitment

On September 25, 2017, Whatcom County Rural Library District entered into a Memorandum of Understanding with the Friends of the Point Roberts Library (a 501C3 non-profit organization) and Point Roberts Park and Recreation District No. 1 (a junior taxing district) in support of a new library construction project in Point Roberts, WA. Through this MOU, the Library District is committed to contributing up to \$182,242.50 of construction costs in 2018. The Park and Recreation District is the owner of the facility and is the lead agency overseeing the construction project. The Library District's contribution will be paid to the Park and Recreation District.

Note 7 - Subsequent Events

On April 17, 2018 the District assumed ownership of the building housing a District-operated library in the Maple Falls area of unincorporated Whatcom County. Previously the District owned the land on which the building is situated, while the Friends of the North Fork Community Library owned the building. The building was gifted by the Friends to the District at no cost.

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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		220,606	358,354	337,035	241,925
264.30	Net Pension Liability		2,687,525	464,192	1,284,560	1,867,157
Total Revenue and Other (non G.O.) Debt/Liabilities:			2,908,131	822,546	1,621,595	2,109,082
Total Liabilities:			2,908,131	822,546	1,621,595	2,109,082

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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.98	Compensated Absences		221,628	337,525	338,546	220,606
263.98	Net Pension Liability		3,372,974	402,884	1,088,333	2,687,525
Total General Obligation Debt/Liabilities:			3,594,602	740,409	1,426,879	2,908,131
Total Liabilities:			3,594,602	740,409	1,426,879	2,908,131

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