



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Timberland Regional Library

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

Published December 12, 2019

Report No. 1025232





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

December 12, 2019

Board of Trustees
Timberland Regional Library
Tumwater, Washington

Report on Financial Statements

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

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

Sincerely,

A handwritten signature in dark ink, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy
State Auditor
Olympia, WA

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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**

**Timberland Regional Library
January 1, 2017 through December 31, 2018**

Board of Trustees
Timberland Regional Library
Tumwater, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Timberland Regional Library, 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 November 27, 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 November 27, 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*. However, we noted certain matters that we have reported to the management of the District in a separate letter dated November 27, 2019.

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

November 27, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Timberland Regional Library January 1, 2017 through December 31, 2018

Board of Trustees
Timberland Regional Library
Tumwater, Washington

REPORT ON THE FINANCIAL STATEMENTS

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and investments of the Timberland Regional Library, and its changes in cash and investments, 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 Timberland Regional Library, 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 November 27, 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

November 27, 2019

FINANCIAL SECTION

Timberland Regional Library January 1, 2017 through December 31, 2018

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2018

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Schedule of Liabilities – 2018

Schedule of Liabilities – 2017

Timberland Regional Library
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		Total for All Funds (Memo Only)	000 General	301 Building Fund
Beginning Cash and Investments				
30810	Reserved	1,450,199	1,450,199	-
30880	Unreserved	13,394,421	11,266,576	2,127,845
388 / 588	Prior Period Adjustments, Net	-	-	-
Revenues				
310	Taxes	20,981,848	20,981,848	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	1,255,693	1,255,693	-
340	Charges for Goods and Services	43,406	43,406	-
350	Fines and Penalties	268,112	268,112	-
360	Miscellaneous Revenues	496,104	467,432	28,673
Total Revenues:		23,045,163	23,016,491	28,673
Expenditures				
570	Culture and Recreation	21,673,974	21,661,438	12,536
Total Expenditures:		21,673,974	21,661,438	12,536
Excess (Deficiency) Revenues over Expenditures:		1,371,189	1,355,053	16,137
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	158,146	-	158,146
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 395, 398	Other Resources	994,392	994,392	-
Total Other Increases in Fund Resources:		1,152,538	994,392	158,146
Other Decreases in Fund Resources				
594-595	Capital Expenditures	622,722	228,467	394,254
591-593, 599	Debt Service	-	-	-
597	Transfers-Out	158,146	158,146	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
Total Other Decreases in Fund Resources:		780,868	386,613	394,254
Increase (Decrease) in Cash and Investments:		1,742,859	1,962,832	(219,971)
Ending Cash and Investments				
5081000	Reserved	2,080,239	2,080,239	-
5088000	Unreserved	14,507,241	12,599,367	1,907,873
Total Ending Cash and Investments		16,587,480	14,679,606	1,907,873

The accompanying notes are an integral part of this statement.

Timberland Regional Library
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		Total for All Funds (Memo Only)	000 General	301 Building Fund
Beginning Cash and Investments				
30810	Reserved	1,655,171	1,655,171	-
30880	Unreserved	12,583,916	10,053,540	2,530,376
388 / 588	Prior Period Adjustments, Net	-	-	-
Revenues				
310	Taxes	20,559,535	20,559,535	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	926,462	926,462	-
340	Charges for Goods and Services	52,388	52,388	-
350	Fines and Penalties	290,603	290,603	-
360	Miscellaneous Revenues	268,179	242,723	25,456
Total Revenues:		22,097,167	22,071,711	25,456
Expenditures				
570	Culture and Recreation	21,850,925	21,784,140	66,785
Total Expenditures:		21,850,925	21,784,140	66,785
Excess (Deficiency) Revenues over Expenditures:		246,242	287,571	(41,329)
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	159,000	159,000	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 395, 398	Other Resources	834,395	834,395	-
Total Other Increases in Fund Resources:		993,395	993,395	-
Other Decreases in Fund Resources				
594-595	Capital Expenditures	475,105	272,902	202,202
591-593, 599	Debt Service	-	-	-
597	Transfers-Out	159,000	-	159,000
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
Total Other Decreases in Fund Resources:		634,105	272,902	361,202
Increase (Decrease) in Cash and Investments:		605,532	1,008,064	(402,531)
Ending Cash and Investments				
5081000	Reserved	1,450,199	1,450,199	-
5088000	Unreserved	13,394,421	11,266,576	2,127,845
Total Ending Cash and Investments		14,844,620	12,716,775	2,127,845

The accompanying notes are an integral part of this statement.

TIMBERLAND REGIONAL LIBRARY
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Timberland Regional Library 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 (Current Expense) 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

These funds account for financial resources that 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.

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 one year. Capital assets and inventory are recorded as capital expenditures when purchased.

e. Compensated Absences

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

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

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

f. Long-Term Debt

See Note 4, *Debt Service Requirements*.

g. Risk Management

See Note 6, *Risk Management*.

h. Reserved Portion of Ending Cash and Investments

The Timberland Regional Library district has established an Unemployment Compensation Fund restricted to unemployment compensation payments. The District is self-insured and therefore only reimburses the State of Washington Employment Security Department for actual benefits paid to former Timberland Regional Library employees. Restricted resources for unemployment compensation payments at December 31, 2018 include the following:

	<u>2018</u>
Unemployment Compensation Fund	\$100,000

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

	<u>2018</u>
Gift Fund	\$1,836,503

NOTE 2 – BUDGETS

Timberland Regional Library adopts annual appropriated budgets for five 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	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	\$ 22,901,760	\$ 21,850,843	\$ 1,050,917
Building Fund	\$ 559,200	\$ 406,790	\$ 152,410
Automated Circulation Fund	\$ 180,000	\$ 163,655	\$ 16,345
Unemployment Fund	\$ 10,000	\$ 7,997	\$ 2,003
Gift Fund	\$ 345,220	\$ 25,557	\$ 319,663

Budgeted amounts are authorized to be transferred between object classes within departments; however, any revisions that alter the total expenditures of a fund, or that affect conditions of employment must be approved by the Timberland Regional Library Board of Trustees.

NOTE 3 - DEPOSITS AND INVESTMENTS

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

It is the policy of the library to invest all temporary cash surpluses through the Thurston County Treasurer. The interest on these investments is pro-rated to the various funds. Beginning in 1989, the library authorized the Thurston County Treasurer to include its investments in the Thurston County's pooled investment program. Therefore all investments are treated by the library as cash and cash equivalents with the Treasurer. Interest earned from the pooled investment program is pro-rated to the various funds.

All investments of the library's funds are obligations of the Thurston County Investment Pool with the Thurston County Treasurer and are reported at full face value without regard to current market values in the investment pool. Earnings distributions, including any realized transactions in the pool, are distributed monthly, calculated on the average daily balance of the District's cash balances. The Thurston County Treasurer, by law, is the Treasurer of most local governments and districts within Thurston County, including schools and fire.

As of December 31, 2018, the library had \$16,763,441.85 invested in the Thurston County Investment Pool. This amount is included in the ending invested in the Thurston County Investment Pool. This amount is prorated and included in the ending investments of the various funds.

NOTE 4 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Long-Term Liabilities (09) provides a listing of the outstanding debt of the District and summarizes the District's debt transactions for year ended December 31, 2017.

NOTE 5 - PENSION PLAN

Substantially all of the Timberland Regional Library District's full-time and qualifying part-time employees participate in the following retirement systems administered by the Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans Public Employees' Retirement System (PERS).

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
PO Box 48380
Olympia, WA 98504-8380

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

At June 30, 2018 (the measurement date of the plans) the Timberland Regional Library District's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1	0.096981%	\$ 4,331,204
PERS 2/3	0.119724%	\$ 2,044,181

NOTE 6 - RISK MANAGEMENT

The library maintains insurance against most normal hazards except for unemployment insurance where it has elected to become self-insured. The district pays the Washington State Employment Security Department only for actual claims filed through the department. Actual expenditures for unemployment claims for the year ended December 31, 2018 were for \$7,997. Over the previous five years, total annual claims were as follows:

2013	\$ 2,204
2014	\$ 25,231
2015	\$ 649
2016	\$ 4,439
2017	\$ 8,170

Timberland Regional Library is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2018, there are 207 members in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property, including Automobile Comprehensive and Collision, Equipment Breakdown, and Crime Protection; and Liability, including General, Automobile, and Wrongful Acts, which are included to fit members' various needs.

The program acquires liability insurance through their Administrator, Clear Risk Solutions, which is subject to a per-occurrence self-insured retention of \$100,000, with the exception of Wrongful Acts and Law Enforcement Liability, which have a self-insured retention of \$25,000. The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of \$1,922,394.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible.

Privacy and Network Liability coverage is offered with a \$10,000 member deductible and \$40,000 self-insured retention for systems using encryption and \$50,000 member deductible and \$50,000 self-insured retention for those without encryption.

Equipment Breakdown insurance is subject to a per-occurrence deductible of \$2,500, which may vary per member, with the exception of Pumps & Motors, which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps & Motors which is \$15,000 and is covered by the CIAW.

Members contract to remain in the program for a minimum of one year, and must give notice before December 1, to terminate participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, claims adjustment and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending December 1, 2018, were \$2,809,430.40.

NOTE 7 – PROPERTY TAX

The District's counties treasurers act as the agents to collect property tax levied for all taxing authorities. Thurston County collections are distributed at the end of each month. Grays Harbor, Lewis County, Mason County, and Pacific County property tax collections are distributed the month following collection.

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 tax after tax is levied.

The District's regular levy for the year 2018 was \$0.38215 per \$1,000 on an assessed valuation of \$54,906,136,388 for a total regular levy of \$20,982,464.60.

TIMBERLAND REGIONAL LIBRARY
Notes to Financial Statements
For the Year Ended December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Timberland Regional Library 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 (Current Expense) 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

These funds account for financial resources that 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.

c. Budgets

Timberland Regional Library adopts annual appropriated budgets for five 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	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	\$ 22,712,083	\$ 21,947,313	\$ 764,770
Building Fund	\$ 778,085	\$ 427,987	\$ 350,098
Automated Circulation Fund	\$ 385,700	\$ 25,802	\$ 359,898
Unemployment Fund	\$ 10,000	\$ 8,170	\$ 1,830
Gift Fund	\$ 183,785	\$ 75,757	\$ 108,028

Budgeted amounts are authorized to be transferred between object classes within departments; however, any revisions that alter the total expenditures of a fund, or that affect conditions of employment must be approved by the Timberland Regional Library Board of Trustees.

d. Cash and Investments

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

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 one year. Capital assets and inventory are recorded as capital expenditures when purchased.

f. Compensated Absences

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

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

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

g. Long-Term Debt

See Note 3, *Debt Service Requirements*.

h. Risk Management

See Note 5, *Risk Management*.

i. Reserved Portion of Ending Cash and Investments

The Timberland Regional Library district has established an Unemployment Compensation Fund restricted to unemployment compensation payments. The District is self-insured and therefore only reimburses the State of Washington Employment Security Department for actual benefits paid to former Timberland Regional Library employees. Restricted Resources for unemployment compensation payments at December 31, 2017 include the following:

	<u>2017</u>
Unemployment Compensation Fund	\$100,000

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

	<u>2017</u>
Gift Fund	\$1,450,199

NOTE 2 - DEPOSITS AND INVESTMENTS

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

It is the policy of the library to invest all temporary cash surpluses through the Thurston County Treasurer. The interest on these investments is pro-rated to the various funds. Beginning in 1989, the library authorized the Thurston County Treasurer to include its investments in the Thurston County's pooled investment program. Therefore all investments are treated by the library as cash and cash equivalents with the Treasurer. Interest earned from the pooled investment program is pro-rated to the various funds.

All investments of the library's funds are obligations of the Thurston County Investment Pool with the Thurston County Treasurer and are reported at full face value without regard to current market values in the investment pool. Earnings distributions, including any realized transactions in the pool, are distributed monthly, calculated on the average daily balance of the District's cash balances. The Thurston County Treasurer, by law, is the Treasurer of most local governments and districts within Thurston County, including schools and fire.

As of December 31, 2017, the library had \$14,833,904 invested in the Thurston County Investment Pool. This amount is included in the ending invested in the Thurston County Investment Pool. This amount is prorated and included in the ending investments of the various funds.

NOTE 3 – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Long-Term Liabilities (09) provides a listing of the outstanding debt of the District and summarizes the District's debt transactions for year ended December 31, 2017.

NOTE 4 - PENSION PLAN

Substantially all of the Timberland Regional Library District's full-time and qualifying part-time employees participate in the following retirement systems administered by the Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans Public Employees' Retirement System (PERS).

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
 PO Box 48380
 Olympia, WA 98504-8380

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

At June 30, 2017 (the measurement date of the plans) the Timberland Regional Library District's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1	0.091453%	\$ 4,339,516
PERS 2/3	0.111895%	\$ 3,887,816

NOTE 5 - RISK MANAGEMENT

The library maintains insurance against most normal hazards except for unemployment insurance where it has elected to become self-insured. The district pays the Washington State Employment Security Department only for actual claims filed through the department. Actual expenditures for unemployment claims for the year ended December 31, 2017 were for \$8,170. Over the previous five years, total annual claims were as follows:

2012	\$ 19,977
2013	\$ 2,204
2014	\$ 25,231
2015	\$ 649
2016	\$ 4,439

Timberland Regional Library is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly

purchase insurance and administrative services. As of December 1, 2017, there are 201 members in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property, including Automobile Comprehensive and Collision, Equipment Breakdown, and Crime Protection; and Liability, including General, Automobile, and Wrongful Acts, which are included to fit members' various needs.

The program acquires liability insurance through their Administrator, Clear Risk Solutions, which is subject to a per-occurrence self-insured retention of \$100,000, with the exception of Wrongful Acts and Law Enforcement Liability, which have a self-insured retention of \$25,000. The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of \$1,784,067.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible.

Privacy and Network Liability coverage is offered with a \$10,000 member deductible and \$40,000 self-insured retention for systems using encryption and \$50,000 member deductible and \$50,000 self-insured retention for those without encryption.

Equipment Breakdown insurance is subject to a per-occurrence deductible of \$2,500, which may vary per member, with the exception of Pumps & Motors, which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps & Motors which is \$15,000 and is covered by the CIAW.

Members contract to remain in the program for a minimum of one year, and must give notice before December 1, to terminate participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, claims adjustment and loss

prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending December 1, 2017, were \$1,501,903.83.

NOTE 6 – PROPERTY TAX

The District's counties treasurers act as the agents to collect property tax levied for all taxing authorities. Thurston County collections are distributed at the end of each month. Grays Harbor, Lewis County, Mason County, and Pacific County property tax collections are distributed the month following collection.

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 tax after tax is levied.

The District's regular levy for the year 2017 was \$0.39926 per \$1,000 on an assessed valuation of \$51,447,517,986 for a total regular levy of \$20,541,018.

**Timberland Regional Library
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						
264.30	Net Pension Liability	12/31/2018	8,227,333	-	1,851,947	6,375,386
259.12	Compensated Absences		729,791	775,708	1,070,301	435,198
Total Revenue and Other (non G.O.) Debt/Liabilities:			8,957,124	775,708	2,922,248	6,810,584
Total Liabilities:			8,957,124	775,708	2,922,248	6,810,584

**Timberland Regional Library
Schedule of Liabilities
For the Year Ended December 31, 2017**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
264.30	NET PENSION LIABILITY		10,680,813	-	2,453,480	8,227,333
259.12	Compensated Absences		623,156	808,439	701,804	729,791
Total Revenue and Other (non G.O.) Debt/Liabilities:			11,303,969	808,439	3,155,284	8,957,124
Total Liabilities:			11,303,969	808,439	3,155,284	8,957,124

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