



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Jefferson County Rural Library District

For the period January 1, 2019 through December 31, 2019

Published April 5, 2021

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

April 5, 2021

Board of Trustees
Jefferson County Rural Library District
Port Hadlock, Washington

Report on Financial Statements

Please find attached our report on the Jefferson County Rural 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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TABLE OF CONTENTS

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.....	4
Independent Auditor's Report on the Financial Statements	7
Financial Section.....	11
About the State Auditor's Office.....	21

INDEPENDENT AUDITOR'S REPORT

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*

Jefferson County Rural Library District January 1, 2019 through December 31, 2019

Board of Trustees
Jefferson County Rural Library District
Port Hadlock, 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 Jefferson County Rural Library District, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated March 29, 2021.

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 state law 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.

As discussed in Note 7 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

March 29, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Jefferson County Rural Library District January 1, 2019 through December 31, 2019

Board of Trustees
Jefferson County Rural Library District
Port Hadlock, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Jefferson County Rural Library District, for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 11.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the Jefferson County Rural Library District has prepared these financial statements to meet the financial reporting requirements of state law 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 Jefferson County Rural Library District, and its changes in cash and investments, for the year ended December 31, 2019, 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 Jefferson County Rural Library District, as of December 31, 2019, or the changes in financial position or cash flows thereof for the year then ended, due to the

significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Matters of Emphasis

As discussed in Note 7 to the financial statements, the full extent of the COVID-19 pandemic’s direct or indirect financial impact on the District is unknown. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2021 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.

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

March 29, 2021

FINANCIAL SECTION

Jefferson County Rural Library District January 1, 2019 through December 31, 2019

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2019
Notes to Financial Statements – 2019

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2019

Jefferson County Rural Library District
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

		Total for All Funds (Memo Only)	001 General	301 Capital
Beginning Cash and Investments				
30810	Reserved	-	-	-
30880	Unreserved	3,326,875	1,316,174	2,010,701
388 / 588	Net Adjustments	757	757	-
Revenues				
310	Taxes	1,757,044	1,757,044	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	110,383	110,383	-
340	Charges for Goods and Services	34,794	34,794	-
350	Fines and Penalties	2,529	2,529	-
360	Miscellaneous Revenues	127,606	96,695	30,911
Total Revenues:		2,032,356	2,001,445	30,911
Expenditures				
570	Culture and Recreation	1,883,822	1,883,822	-
Total Expenditures:		1,883,822	1,883,822	-
Excess (Deficiency) Revenues over Expenditures:		148,534	117,623	30,911
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	106,000	-	106,000
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 382, 395, 398	Other Resources	97,272	97,272	-
Total Other Increases in Fund Resources:		203,272	97,272	106,000
Other Decreases in Fund Resources				
594-595	Capital Expenditures	38,673	38,673	-
591-593, 599	Debt Service	-	-	-
597	Transfers-Out	106,000	106,000	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
581, 582	Other Uses	-	-	-
Total Other Decreases in Fund Resources:		144,673	144,673	-
Increase (Decrease) in Cash and Investments:		207,133	70,222	136,911
Ending Cash and Investments				
5081000	Reserved	-	-	-
5088000	Unreserved	3,534,768	1,387,156	2,147,612
Total Ending Cash and Investments		3,534,768	1,387,156	2,147,612

**Jefferson County Rural Library District
Notes to the Financial Statements
For Fiscal Year Ending December 31, 2019**

Note 1 - Summary of Significant Accounting Policies

The Jefferson County Rural Library District was incorporated in 1979 and operates under the laws of the state of Washington applicable to a library district. The Jefferson County Rural Library District is a special purpose local government and provides library services to the general public.

The Jefferson County Rural Library 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 presented using classifications that are similar to the ending balance classification 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, 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 government. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Capital Projects Funds

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 Jefferson County Rural Library 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. Collection Materials

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

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 (1) year. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to 360 hours for full-time employees and 120 hours for part-time employees and is payable upon separation or retirement. Sick leave may be accumulated up to 1920 hours. Upon separation or retirement employees receive payment for 20% of unused sick leave (maximum accrual calculated at 1000 hours). Payments are recognized as expenditures when paid.

G. Long-Term Debt

The District has no liabilities subject to debt service requirements.

H. Reserved Portion of Ending Cash and Investments

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

Reservations of Ending Cash and Investments consist of:

Internal restrictions: Since 1987, the Jefferson County Library's Board of Trustees have managed Operating and Capital Reserve Funds through policies passed and amended by the Board. In January 2017, the current Operations and Capital Reserve Fund structure was approved and includes:

Operations Reserve

In accordance with sound financial practice, the Board will maintain an Operating Reserve Fund for unforeseen expenditures. Some of these funds may be used to pay for operating expenses prior to the collection of property taxes. Operating Reserve Funds are invested in short-term securities (i.e. Washington State Investment Pool) by the Treasurer of Jefferson County. Interest from these investments is deposited in the Library General Fund.

Capital Reserve

The Library District also holds a Capital Reserve Fund for future development. The Capital Reserve fund is divided into separate accounts to build up reserves for expenditures such as replacement of library vehicles, enhancement and upgrading of library technology, and future library building and development needs. These funds are invested in Certificates of Deposit and in the Washington State Investment Pool. Monthly interest on the Capital Reserve Fund is divided among the Library's specified reserve accounts: Vehicle contingency fund, Technology contingency fund, Operating emergency contingency fund, Shortfall reserve fund, Building needs and/or improvements fund, Building replacement fund, Special Operating Reserve, and Sewer Build-Out/Septic Fund.

Note 2 – Budget Compliance

A. Budgets

The Jefferson County Rural Library District adopts annual appropriated budgets for General and Capital funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. 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	Actual Expenditures	Variance
General Fund:	\$2,009,666	\$1,922,090	\$87,576
Capital Fund:	\$	\$	\$

Note 3 – Deposits and Investments

It is the Jefferson County Rural Library District's policy to invest cash surpluses. The interest on these investments is prorated to the various funds.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are insured, registered, or held by the Jefferson County Treasurer or its agent in the government's name.

Investments are reported at original cost. Investments by type at December 31, 2019 are as follows:

<u>Type of Investment</u>	District's own investments	Investments held by district as an agent for other local governments, individuals or private organizations.	Total
L.G.I.P.	\$986,302	\$ _____	\$986,302_
U.S. Government Securities	\$592,437_	_____	\$592,437_
Other: CDs	\$1,100,000	_____	\$1,100,000
Total	\$2,678,739_	_____	\$2,678,739

Note 4 - Property Tax

The county treasurer acts as an agent to collect property tax 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 Jefferson County Treasurer. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The Jefferson County Rural Library District's regular levy for the year 2019 was \$.4503953792 per \$1,000 on an assessed valuation of \$3,898,760,447 for a total regular levy of \$1,755,983.69.

Note 5 – Pension Plans

State Sponsored Pension Plans

Substantially all Jefferson County Rural Library District's full-time and qualifying part-time employees participate in the following statewide retirement systems 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, 2019 (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	\$3,259	0.000454%	\$17,458
PERS UAAL	\$42,706	0.005956%	\$229,029
PERS 2/3	\$62,841	0.007694%	\$74,735
TOTAL	\$108,806		\$321,222

Note 6 - Other Disclosures

A. Self-Insurance

The Jefferson County Rural Library District retains the risk of payment of unemployment insurance for terminated or laid-off employees. The district made no payments in unemployment insurance in fiscal year 2019.

B. Insurance Pool Membership

Jefferson County Rural Library District is a member of Cities Insurance Association of Washington (CIAW), a public entity risk program that provides comprehensive property and liability coverage in conjunction with the highest quality risk management services. Founded in 1988 with 32 cities, the CIAW has since expanded to include special purpose districts among its membership. Over the course of its 20-year history, the program has steadily grown to over 200 members. The District's current policy with CIAW runs from December 2019 through November 2020.

Primary Coverage	Limit	Deductible
Real and Personal Property	\$100,000,000	\$1,000
Earthquake	\$15,000,000	\$50,000
Flood	\$15,000,000	\$25,000
Auto	\$10,000,000	\$1,000
General Liability	\$20,000,000	\$1,000
Directors and Officers	\$10,000,000	\$1,000
Crime	\$1,000,000	\$1,000
Equipment Breakdown	\$100,000,000	\$2,500
Privacy, Network, and Data Breach	\$1,000,000	\$10,000

Note 7 – COVID-19 Pandemic

In February 2020, the Governor of the state of Washington declared a state of emergency in

response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

At this time, little financial impact is expected to the Jefferson County Rural Library District revenues since the district is primarily funded by property taxes and the housing market and home ownership are stable in our region. Expenditure impacts include increased expenses for cleaning/sanitizing, protective equipment (PPE), and HVAC improvements. Thus far, the majority of increased expenses have been offset by state and federal grants through COVID relief and FEMA funding. All library staff have been retained and no furloughs or layoffs are expected, as staff are working remotely serving their community through virtual services.

The length of time these measures will continue to be in place, and the full extent of the financial impact on the Jefferson County Rural Library District is unknown at this time.

**Jefferson County Rural Library District
Schedule of Liabilities
For the Year Ended December 31, 2019**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
264.30	Net Pension Liability		413,378	-	92,156	321,222
259.12	Compensated Absences		35,350	-	8,160	27,190
Total Revenue and Other (non G.O.) Debt/Liabilities:			448,728	-	100,316	348,412
Total Liabilities:			448,728	-	100,316	348,412

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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- Toll-free Citizen Hotline:
(866) 902-3900
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webmaster@sao.wa.gov