



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

**Financial Statements Audit Report**  
**Southwest Snohomish County Public**  
**Safety Communication Agency**  
**(SNOCOM)**

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

**Published May 22, 2017**

**Report No. 1019044**





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

May 22, 2017

Board of Directors  
SNOCOM  
Mountlake Terrace, Washington

**Report on Financial Statements**

Please find attached our report on the SNOCOM's financial statements.

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

## TABLE OF CONTENTS

Schedule Of Audit Findings And Responses.....	4
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 .....	10
Independent Auditor’s Report On Financial Statements .....	13
Financial Section.....	16
About The State Auditor’s Office.....	34

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **SNOCOM Snohomish County January 1, 2014 through December 31, 2015**

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

#### ***Background***

In 2011, SNOCOM and the City of Mountlake Terrace entered into an interlocal agreement in which the City provides accounting services, including compliance with the BARS manual, for all of SNOCOM's activities, while SNOCOM retains the responsibility of reviewing the work of the City on its behalf. During the 2015 audit, both the Agency and the City experienced turnover within key operational positions.

Agency management, the Legislature, state and federal agencies, and bondholders rely on information included in financial statements and supplemental schedules to make decisions. Agency management is responsible for designing and implementing internal controls that provide reasonable assurance regarding the reliability of financial reporting.

We identified significant deficiencies in internal controls that could adversely affect the Agency's ability to produce reliable and accurate financial statements.

#### ***Description of Condition***

We identified the following deficiencies in internal controls that, when taken together, represent a significant deficiency. Specifically, we noted the Agency:

- Relied on the City of Mountlake Terrace to prepare its annual financial reports and notes to the financial statements, and Agency management did not adequately review the financial statements to ensure they were accurately prepared in accordance with the *Budgeting, Accounting and Reporting System* (BARS) Manual.
- Did not review the year-end journal entries needed to change from the accrual basis of accounting to the cash basis of accounting to ensure that the Agency's annual report followed the correct accounting basis.

- Did not reconcile receipted assessment revenue to monthly bank statements to ensure that all revenue receipted and reported on the financial statements existed.

### ***Cause of Condition***

Due to turnover, the Agency did not dedicate the necessary staff time or resources, including training, to ensure its financial reporting was accurate and complete. Additionally, because the Agency follows the cash basis of accounting and the City (acting as the Agency's fiscal agent) follows the accrual basis of accounting, the Agency and its fiscal agent had confusion about which methodology the Agency should follow.

### ***Effect of Condition***

We identified the following errors in the financial statements:

- The Agency did not properly report the ending fund balance in accordance with the BARS Manual, resulting in the misclassification of the ending reserve balance by \$3,194,425 and \$3,244,952 in fiscal years 2014 and 2015, respectively. The Agency corrected these errors.
- In fiscal years 2014 and 2015, the Agency over-reported expenditures by \$13,037 and \$43,130, respectively, for expenditures outside of the 20-day open period after year-end. The Agency chose to not correct these errors.
- The Agency did not review any of the 2014 or 2015 bank statement reconciliations prepared by the City to ensure that cash balances reported on the financial statements existed.

### ***Recommendations***

We recommend the Agency:

- Use the current accounting and reporting guidance provided in the State Auditor's Office *Budgeting, Accounting and Reporting Standards* (BARS) Manual when reviewing its financial statements.
- Design internal controls to segregate cash basis and accrual basis accounting to ensure that only expenditures accrued back to the reporting period are within 20 days of fiscal year-end, as required by the BARS Manual and Agency policy.
- Review monthly bank statement reconciliations to ensure the proper monitoring of cash positions and safeguarding of public resources.

## ***Agency's Response***

*Thank you for providing the opportunity for SNOCOM to respond to the 2015-01 Audit Finding. While SNOCOM does not believe the issues identified in the audit created a risk of misappropriation of agency funds, SNOCOM takes the issues noted seriously and have worked with the City of Mountlake Terrace to implement several changes to resolve the deficiencies discussed in the Audit Report. Specifically, SNOCOM and the City have or will take the following action:*

- SNOCOM will continue to work with the City to implement procedures to improve internal control over annual review of financial reports. The financial reports reviewed during this audit period were financially accurate in terms of reporting actual cash position but contained several inconsequential errors which have since been corrected or have otherwise been found to be immaterial. The immaterial errors were not corrected because of the impact to member agencies.*
- SNOCOM and the City have reviewed Agency policies with the State Auditor's office and have reminded staff of the terms of the 20 day fiscal "open period".*
- SNOCOM and the City have implemented a monthly cash reconciliation process which tracks revenues from receipt to deposit. While the City will continue preparing bank statement reconciliations for SNOCOM, going forward, this additional tightening of procedures provides even more safeguarding of public funds.*

*SNOCOM understands the importance of having adequate controls and internal review procedures in place. The deficiencies found in the audit are related to timing of prior year adjustments and report presentation errors but do not add up to a significant misstatement of funds. We are disappointed that the aggregation of the deficiencies has reached the level of an audit finding. Upon recognition of the deficiencies, we quickly implemented procedures, which addressed the concerns noted in the finding.*

## ***Auditor's Remarks***

We thank SNOCOM for its commitment to resolving the matters identified above. We will review the status of this issue during the next regularly scheduled audit.

## ***Applicable Laws and Regulations***

Interlocal Agreement between the City of Mountlake Terrace and Southwest Snohomish County Communications Agency for Financial Services Section 2

Services to be Provided by City and Section 7 Designation of Fiscal Agent states in part:

Section 2: Maintain accounting for all activities of SNOCOM in accordance with the requirements of the Washington State Auditor.

Section 7: For auditing and other statutory or regulatory purposes, the City of Mountlake Terrace shall not be considered the fiscal agent for SNOCOM. SNOCOM shall remain responsible for maintaining records and coordinating audits as required under Washington Law.

RCW 35A.33.150 - Unexpended Appropriations states:

All appropriations in any current operating fund shall lapse at the end of each fiscal year: PROVIDED, That this shall not prevent payments in the following year upon uncompleted programs or improvements in progress or on orders subsequently filled or claims subsequently billed for the purchase of material, equipment and supplies or for personal or contractual services not completed or furnished by the end of the fiscal year, all of which have been properly budgeted and contracted for prior to the close of such fiscal year but furnished or completed in due course thereafter.

All appropriations in a special fund authorized by ordinance or by state law to be used only for the purpose or purposes therein specified, including any cumulative reserve funds lawfully established in specific or general terms for any municipal purpose or purposes, or a contingency fund as authorized by RCW 35A.33.145, shall not lapse, but shall be carried forward from year to year until fully expended or the purpose has been accomplished or abandoned, without necessity of reappropriation.

The accounts for budgetary control for each fiscal year shall be kept open for twenty days after the close of such fiscal year for the purpose of paying and recording claims for indebtedness incurred during such fiscal year; any claim presented after the twentieth day following the close of the fiscal year shall be paid from appropriations lawfully provided for the ensuing period, including those made available by provisions of this section, and shall be recorded in the accounts for the ensuing fiscal year.

RCW 43.09.200 – Local Government Accounting – Uniform System of Accounting, states in part:

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

*Budgeting, Accounting and Reporting System (BARS) Manual; Accounting, Accounting Principles and General Procedures, Internal Control*, states:

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

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

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

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

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

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

Deficiency in internal control. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A deficiency in design exists



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

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

**Significant deficiency.** A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

*Budget Accounting and Reporting System (BARS) Manual - Part 3, Accounting, Chapter 1. Accounting Principles and Internal Control, states in part: (BARS 3.1.3.30)*

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management. Since management and the governing body are assumed to work in harmony, both parties are collectively referred to as "management" throughout the rest of this section.

**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**

**SNOCOM  
Snohomish County  
January 1, 2014 through December 31, 2015**

Board of Directors  
SNOCOM  
Mountlake Terrace, 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 SNOCOM, Snohomish County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Agency's financial statements, and have issued our report thereon dated May 1, 2017.

We issued an unmodified opinion on the fair presentation of the Agency'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 Agency 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 Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 Agency'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2015-001 that we consider to be significant deficiencies.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of the Agency'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*.

## **AGENCY'S RESPONSE TO FINDINGS**

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

## PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

Pat McCarthy  
State Auditor  
Olympia, WA

May 1, 2017

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **SNOCOM Snohomish County January 1, 2014 through December 31, 2015**

Board of Directors  
SNOCOM  
Mountlake Terrace, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the SNOCOM, Snohomish County, Washington, for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Agency's financial statements, as listed on page 16.

#### **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 Agency'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 Agency'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, SNOCOM 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 SNOCOM, for the years ended December 31, 2015 and 2014, on the basis of accounting described in Note 1.

### **Basis for Adverse Opinion on U.S. GAAP**

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the Agency 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 SNOCOM, as of December 31, 2015 and 2014, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

## Other Matters

### *Supplementary and Other Information*

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

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2017 on our consideration of the Agency'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 Agency's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

May 1, 2017

## **FINANCIAL SECTION**

### **SNOCOM Snohomish County January 1, 2014 through December 31, 2015**

#### **FINANCIAL STATEMENTS**

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

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

Schedule of Liabilities – 2015  
Schedule of Liabilities – 2014



**Southwest Snohomish County Public Safety Communication  
Agency  
Fund Resources and Uses Arising from Cash Transactions  
For the Year Ended December 31, 2015**

**Beginning Cash and Investments**

30810	Reserved	-
30880	Unreserved	3,975,978
388 & 588	Prior Period Adjustments, Net	-

**Operating Revenues**

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	1,842,390
340	Charges for Goods and Services	3,964,724
350	Fines and Penalties	-
360	Miscellaneous Revenues	41,952
Total Operating Revenues:		5,849,066

**Operating Expenditures**

520	Public Safety	4,967,777
598	Miscellaneous Expenses	-
Total Operating Expenditures:		4,967,777
Net Operating Increase (Decrease):		881,289

**Nonoperating Revenues**

370-380, 395 & 398	Other Financing Sources	-
391-393	Debt Proceeds	-
397	Transfers-In	-
Total Nonoperating Revenues:		-

**Nonoperating Expenditures**

580, 596 & 599	Other Financing Uses	-
591-593	Debt Service	-
594-595	Capital Expenditures	766,064
597	Transfers-Out	-
Total Nonoperating Expenditures:		766,064

**Net Increase (Decrease) in Cash and Investments:** **115,225**

**Ending Cash and Investments**

5081000	Reserved	-
5088000	Unreserved	4,091,202
<b>Total Ending Cash and Investments</b>		<b>4,091,202</b>

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

**Southwest Snohomish County Public Safety Communication  
Agency  
Fund Resources and Uses Arising from Cash Transactions  
For the Year Ended December 31, 2014**

**Beginning Cash and Investments**

30810	Reserved	-
30880	Unreserved	3,814,334
388 & 588	Prior Period Adjustments, Net	-

**Operating Revenues**

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	1,678,717
340	Charges for Goods and Services	3,821,073
350	Fines and Penalties	-
360	Miscellaneous Revenues	26,765
Total Operating Revenues:		<u>5,526,554</u>

**Operating Expenditures**

520	Public Safety	4,690,440
Total Operating Expenditures:		<u>4,690,440</u>
Net Operating Increase (Decrease):		836,114

**Nonoperating Revenues**

370-380, 395 & 398	Other Financing Sources	-
391-393	Debt Proceeds	-
397	Transfers-In	-
Total Nonoperating Revenues:		<u>-</u>

**Nonoperating Expenditures**

580, 596 & 599	Other Financing Uses	-
591-593	Debt Service	27,681
594-595	Capital Expenditures	646,790
597	Transfers-Out	-
Total Nonoperating Expenditures:		<u>674,471</u>

**Net Increase (Decrease) in Cash and Investments:** **161,643**

**Ending Cash and Investments**

5081000	Reserved	-
5088000	Unreserved	3,975,978
<b>Total Ending Cash and Investments</b>		<u><b>3,975,978</b></u>

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

**Snohomish County Public Safety Communications Center**  
**SNOCOM**  
**Notes to Financial Statement/Schedules**  
**2015**

**Note 1 – Summary of Significant Accounting Policies**

The Snohomish County Public Safety Communications Center (SNOCOM) was incorporated on January 1, 2014 and operates under the laws of the state of Washington applicable to a nonprofit corporation. SNOCOM is special purpose local government that provides Enhanced 9-1-1 services and consolidated law enforcement, fire and emergency medical dispatch to the citizens of Southwest Snohomish County. Member agencies that comprise the interlocal agency include the Cities of Brier, Edmonds, Lynnwood, Mill Creek, Mountlake Terrace, Mukilteo, Woodway, and Snohomish County Fire District 1.

SNOCOM 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 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 government. It accounts for all financial resources except those required or elected to be accounted for in another fund.

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.

**Snohomish County Public Safety Communications Center**  
**SNOCOM**  
**Notes to Financial Statement/Schedules**  
**2015**

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

c. Budgets

The Agency's budget procedures are mandated by the interlocal agency agreements. The Board of Directors shall consider and give tentative approval to the Agency's annual operating budget prior to October 1<sup>st</sup> of each year.

The Director is authorized to transfer budgeted amounts between fund/object classes, however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions or salary ranges must be approved by the Board of Directors.

The Board of Directors must approve any revisions that alter the total expenditures of the fund, or that affect the number of authorized employee positions. The funds that accumulate in the reserve accounts may be used only with the approval of the Board of Directors.

d. Cash

The City of Mountlake Terrace is the acting treasurer for SNOCOM. In this capacity, the City receives deposits and manages SNOCOM's investment portfolio on SNOCOM's behalf.

The Agency's resources are maintained through one general fund but are allocated to and accounted for with separate sub-funds depending on what they are to be spent for and how they are controlled.

**City of Mountlake Terrace Deposit Account**

All deposits by SNOCOM are made into the City of Mountlake Terrace US Bank account. This account is established by the City of Mountlake Terrace, and is supervised by the Mountlake Terrace Finance Director who has been established as SNOCOM's Treasurer.

Included in the General Fund are the following sub-funds that have been established by the SNOCOM Board:

- **CAD/RMS Replacement Reserve Fund**
- **Audit Reserve Fund**
- **Capital Reserve Fund**
- **General Reserve Fund**
- **E911 Tax Revenue Reserve Fund**
- **Employee Accrued Leave Reserve Fund**

It is SNOCOM's policy to invest all temporary cash surpluses. The amount is included in the net cash and investments shown on the statement of fund resources and uses arising from cash transactions. The interest on these investments is maintained in the individual sub-funds.

**Snohomish County Public Safety Communications Center**  
**SNOCOM**  
**Notes to Financial Statement/Schedules**  
**2015**

e. Deposits

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in multiple financial institution collateral pool administered by the Washington State Deposit Protection Commission (PDPC).

f. Capital Assets

Capital Assets are long-lived assets of SNOCOM and are recorded as expenditures when purchased.

g. Compensated Absences

Vacation leave may be accumulated up to 320 hours and is payable upon separation or retirement.

Sick leave may be accumulated indefinitely. Upon separation or retirement employees receive payment for a portion of unused sick leave.

Compensatory Time may be taken in lieu of overtime pay with the approval of Management. Compensatory Time may not accumulate more than 60 hours at a given time.

h. Long-Term Debt

In May 2009, SNOCOM entered into an Equipment Lease Purchase Agreement with Motorola. Principal and interest payments began in 2010, with the final payment made to Motorola in September, 2014.

The Motorola loan was a transfer of assets in which SNOCOM had 5 years in which to pay the loan.

See Note 4 for further information on investments in LGIP and Note 5 for Long-Term debt.

i. Risk Management

SNOCOM is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 179 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self-insured layer, and \$16 million per

**Snohomish County Public Safety Communications Center**  
**SNOCOM**  
**Notes to Financial Statement/Schedules**  
**2015**

occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

## **Note 2 – Joint Venture Information**

SNOCOM was established via an interlocal agreement between the Cities of Brier, Edmonds, Lynwood, Mill Creek, Mountlake Terrace, Mukilteo, Woodway and Fire District 1. Each member city and the Fire District provide voting members to the SNOCOM board of directors and has an equity interest in the joint venture. As of December 31, 2015, the equity interest of each member was as follows.

<b>2015 Equity Interest As of 12/31/2015 Member Agencies</b>	<b>Beginning Balance Net Equity Interest</b>	<b>Change in Equity O&amp;M for the Year Ended 12-31-2015</b>	<b>Ending Balance Net Equity Interest @ 12-31-2015</b>	<b>Percentage Share*</b>
Brier	\$ 119,279	\$ (12,908)	\$ 106,371	2.6%
Edmonds	954,235	11,288	965,523	23.6%
Fire District 1	556,637	3,858	560,495	13.7%
Lynnwood	1,033,754	54,505	1,088,259	26.6%
Mill Creek	397,598	27,887	425,485	10.4%
Mountlake Terrace	437,357	401	437,758	10.7%
Mukilteo	437,358	37,221	474,579	11.6%
Woodway	39,760	(7,030)	32,730	0.8%
<b>Total</b>	<b>\$ 3,975,978</b>	<b>\$ 115,222</b>	<b>\$ 4,091,200</b>	<b>100%</b>

## **Note 3 – Compliance and Accountability**

There have been no material violations of financial related legal or contractual provisions and there have been no expenditures exceeding legal appropriations in any of the funds of the Agency.

**Snohomish County Public Safety Communications Center**  
**SNOCOM**  
**Notes to Financial Statement/Schedules**  
**2015**

**Note 4 – Cash & Investments**

It is SNOCOM's policy to invest temporary cash surpluses. The interest on these investments is prorated to the various funds.

Investments are reported at original cost. As of December 31, 2015, the Agency had the following investments:

<b>Investment Type</b>	<b>Cost</b>
Federal National Mortgage Association	\$ 1,000,000
Federal Home Loan Bank	\$ 1,000,000
Federal Home Loan Mortgage Corporation	\$ 1,000,000
<b>Total Investments</b>	<b>\$ 3,000,000</b>

SNOCOM's investments are managed by the City of Mountlake Terrace.

**Note 5 – Long-Term Debt**

The Agency entered into an Equipment Lease/Purchase Agreement with Motorola in April of 2009. The purchase of the VRM equipment will be paid over a five (5) year period at a zero% interest rate. The final payment to Motorola was made in September, 2014.

*See also Schedule 9 for more additional information on long-term debt.*

**Note 6 – Federal Grants**

The Agency did not receive any indirect federal grants in 2015.

**Note 7 – Pension Plans**

**State Sponsored Pension Plans**

Substantially all SNOCOM'S full-time and qualifying part-time employees participate in PERS 1, 2 or 3 plans administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to SNOCOM's financial statements. Contributions to the system by both employee and employer are based upon gross wages covered by plan benefits.

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

**Snohomish County Public Safety Communications Center**  
**SNOCOM**  
**Notes to Financial Statement/Schedules**  
**2015**

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 98504-8380

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

At June 30, 2015 (the measurement date of the plans), SNOCOM's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation	Liability (Asset)
PERS 1	.027306%	\$1,428,358
PERS 2/3	.035271%	\$1,260,253

### **Other Retirement Systems**

SNOCOM does not participate in the Federal Social Security System. A substitute 457(b) deferred compensation Plan was set up under Internal Revenue Code requirements.

The plan is administered by ICMA-RC and SNOCOM and the participants are not required to contribute. Employees can contribute up to 3.5% of their base monthly wage and SNOCOM will match the individual employee's contribution up to 2.9% of their base monthly wage.



**Snohomish County Public Safety Communications Center**  
**SNOCOM**  
**Notes to Financial Statement/Schedules**  
**2014**

**Note 1 – Summary of Significant Accounting Policies**

The Snohomish County Public Safety Communications Center (SNOCOM) was incorporated on January 1, 2014 and operates under the laws of the state of Washington applicable to a nonprofit corporation. SNOCOM is special purpose local government that provides Enhanced 9-1-1 services and consolidated law enforcement, fire and emergency medical dispatch to the citizens of Southwest Snohomish County. Member agencies that comprise the interlocal agency include the Cities of Brier, Edmonds, Lynnwood, Mill Creek, Mountlake Terrace, Mukilteo, Woodway, and Snohomish County Fire District 1.

SNOCOM 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 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 government. It accounts for all financial resources except those required or elected to be accounted for in another fund.

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.

**Snohomish County Public Safety Communications Center**  
**SNOCOM**  
**Notes to Financial Statement/Schedules**  
**2014**

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

c. Budgets

The Agency's budget procedures are mandated by the interlocal agency agreements. The Board of Directors shall consider and give tentative approval to the Agency's annual operating budget prior to October 1<sup>st</sup> of each year.

The Director is authorized to transfer budgeted amounts between fund/object classes, however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions or salary ranges must be approved by the Board of Directors.

The Board of Directors must approve any revisions that alter the total expenditures of the fund, or that affect the number of authorized employee positions. The funds that accumulate in the reserve accounts may be used only with the approval of the Board of Directors.

d. Cash

The City of Mountlake Terrace is the official treasurer for SNOCOM. In this capacity, the City receives deposits and manages SNOCOM's investment portfolio on SNOCOM's behalf. The Agency's resources are maintained through one general fund but are allocated to and accounted for with separate sub-funds depending on what they are to be spent for and how they are controlled.

**City of Mountlake Terrace Deposit Account**

All deposits by SNOCOM are made into the City of Mountlake Terrace US Bank account. This account is established by the City of Mountlake Terrace, and is supervised by the Mountlake Terrace Finance Director who has been established as SNOCOM's Treasurer.

Included in the General Fund are the following sub-funds that have been established by the SNOCOM Board:

- **CAD/RMS Replacement Reserve Fund**
- **Audit Reserve Fund**
- **Capital Reserve Fund**
- **General Reserve Fund**
- **E911 Tax Revenue Reserve Fund**
- **Employee Accrued Leave Reserve Fund**

It is SNOCOM's policy to invest all temporary cash surpluses. The amount is included in the net cash and investments shown on the statement of fund resources and uses arising from cash transactions. The interest on these investments is maintained in the individual sub-funds.

**Snohomish County Public Safety Communications Center**  
**SNOCOM**  
**Notes to Financial Statement/Schedules**  
**2014**

e. Deposits

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in multiple financial institution collateral pool administered by the Washington State Deposit Protection Commission (PDPC).

f. Capital Assets

Capital Assets are long-lived assets of SNOCOM and are recorded as expenditures when purchased.

g. Compensated Absences

Vacation leave may be accumulated up to 320 hours and is payable upon separation or retirement.

Sick leave may be accumulated indefinitely. Upon separation or retirement employees receive payment for a portion of unused sick leave.

Compensatory Time may be taken in lieu of overtime pay with the approval of Management. Compensatory Time may not accumulate more than 60 hours at a given time.

h. Long-Term Debt

In May 2009, SNOCOM entered into an Equipment Lease Purchase Agreement with Motorola. Principal and interest payments began in 2010, with the final payment made to Motorola in September, 2014.

The Motorola loan was a transfer of assets in which SNOCOM had 5 years in which to pay the loan.

See Note 4 for further information on investments in LGIP and Note 5 for Long-Term debt.

i. Risk Management

SNOCOM is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 162 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

**Snohomish County Public Safety Communications Center**  
**SNOCOM**  
**Notes to Financial Statement/Schedules**  
**2014**

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self-insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sub-limits in the excess layers. The Board of Directors determines the limits and terms of coverage annually. For the years 2008 through 2013 the SNOCOM's insurance settlements have not exceeded its insurance coverage.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

## **Note 2 – Joint Venture Information**

SNOCOM was established via an interlocal agreement between the Cities of Brier, Edmonds, Lynwood, Mill Creek, Mountlake Terrace, Mukilteo, Woodway and Fire District 1. Each member city and the Fire District provide voting members to the SNOCOM board of directors and has an equity interest in the joint venture. As of December 31, 2014, the equity interest of each member was as follows.

**Snohomish County Public Safety Communications Center**  
**SNOCOM**  
**Notes to Financial Statement/Schedules**  
**2014**

<b>2014 Equity Interest As of 12/31/2014 Member Agencies</b>	<b>Beginning Balance Net Equity Interest</b>	<b>Change in Equity O&amp;M for the Year Ended 12-31-2014</b>	<b>Ending Balance Net Equity Interest @ 12-31-2014</b>	<b>Percentage Share*</b>
Brier	\$ 113,382	\$ 5,897	\$ 119,279	3%
Edmonds	907,057	47,178	954,235	24%
Fire District 1	529,117	27,520	556,637	14%
Lynnwood	1,020,439	13,315	1,033,754	26%
Mill Creek	302,352	95,246	397,598	10%
Mountlake Terrace	415,734	21,623	437,357	11%
Mukilteo	453,529	(16,171)	437,358	11%
Woodway	37,794	1,966	39,760	1%
<b>Total</b>	<b>\$ 3,779,404</b>	<b>\$ 196,574</b>	<b>\$ 3,975,978</b>	<b>100%</b>

### **Note 3 – Compliance and Accountability**

There have been no material violations of financial related legal or contractual provisions and there have been no expenditures exceeding legal appropriations in any of the funds of the Agency.

### **Note 4 – Cash & Investments**

It is SNOCOM's policy to invest temporary cash surpluses. The interest on these investments is prorated to the various funds.

Investments are reported at original cost. As of December 31, 2014, the Agency had the following investments:

<b>Investment Type</b>	<b>Cost</b>
Federal National Mortgage Association	\$ 1,000,000
Federal Home Loan Bank	\$ 2,000,000
	\$ -
<b>Total Investments</b>	<b>\$ 3,000,000</b>

SNOCOM's investments are managed by the City of Mountlake Terrace.

### **Note 5 – Long-Term Debt**

The Agency entered into an Equipment Lease/Purchase Agreement with Motorola in April of 2009. The purchase of the VRM equipment will be paid over a five (5) year period at a zero% interest rate. The final payment to Motorola was made in September, 2014.

As of December 31, 2014 the long-term debt for the Agency is as follows:

**Snohomish County Public Safety Communications Center**  
**SNOCOM**  
**Notes to Financial Statement/Schedules**  
**2014**

<b>Account Description</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Equipment Lease Purchase Agreement - Motorola	27,681	-	27,681	-	-
<b>Totals</b>	<b>27,681</b>	<b>-</b>	<b>27,681</b>	<b>-</b>	<b>-</b>

*See also Schedule 9 for more additional information on long-term debt.*

## **Note 6 – Federal Grants**

The Agency did not receive any indirect federal grants in 2014.

## **Note 7 – Pension Plans**

### **State Sponsored Pension Plans**

Substantially all SNOCOM'S full-time and qualifying part-time employees participate in PERS 1, 2 or 3 plans administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to SNOCOM's financial statements. Contributions to the system by both employee and employer are based upon gross wages covered by plan benefits.

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:

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Communications Unit  
P.O. Box 48380  
Olympia, WA 98504-8380

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

**Snohomish County Public Safety Communications Center  
SNOCOM  
Notes to Financial Statement/Schedules  
2014**

**Other Retirement Systems**

SNOCOM does not participate in the Federal Social Security System. A substitute 457(b) deferred compensation Plan was set up under Internal Revenue Code requirements.

The plan is administered by ICMA-RC and SNOCOM and the participants are not required to contribute. Employees can contribute up to 3.5% of their base monthly wage and SNOCOM will match the individual employee's contribution up to 2.9% of their base monthly wage.

**Southwest Snohomish County Public Safety Communication Agency**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2015**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences		313,580	76,547	-	390,127
264.30	Pension Liabilities		-	2,688,611	-	2,688,611
	<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>		<b>313,580</b>	<b>2,765,158</b>	<b>-</b>	<b>3,078,738</b>
	<b>Total Liabilities:</b>		<b>313,580</b>	<b>2,765,158</b>	<b>-</b>	<b>3,078,738</b>



**Southwest Snohomish County Public Safety Communication Agency**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2014**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
263.52	Lease Purchase Agreement, Issued 05/01/2009		27,681	-	27,681	-
259.12	Compensated Absences		313,905	78,151	78,476	313,580
	<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>		<b>341,586</b>	<b>78,151</b>	<b>106,157</b>	<b>313,580</b>
	<b>Total Liabilities:</b>		<b>341,586</b>	<b>78,151</b>	<b>106,157</b>	<b>313,580</b>

## ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>