



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

## **Financial Statements Audit Report**

# **Town of Springdale**

**Stevens County**

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

**Published October 19, 2017**

**Report No. 1019656**





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

October 19, 2017

Mayor and Town Council  
Town of Springdale  
Springdale, Washington

**Report on Financial Statements**

Please find attached our report on the Town of Springdale's financial statements.

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

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## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

**Town of Springdale  
Stevens County  
January 1, 2015 through December 31, 2015**

**2015-001    The Town continued to lack adequate internal controls that ensure accurate and complete financial reporting.**

***Background***

The Town is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls that adversely affected the Town's ability to produce reliable financial statements.

During the last six audits, we have communicated concerns to the Mayor and Town Council about the Town's internal controls over financial operations and reporting.

***Description of Condition***

During the current audit, we identified the following deficiencies in internal controls that, when taken together, represent a material weakness in financial reporting:

- The Town lacked procedures to ensure monthly bank reconciliations were performed for all bank accounts and that cash held in financial institutions was accurately reflected in the accounting records. During our audit, we determined the Clerk/Treasurer was not performing a complete monthly reconciliation of the Town's bank accounts. She was able to agree fiscal year 2015 deposits and withdrawals from the bank statements to general ledger activity but could not identify transactions recorded in the general ledger that were reconciling items to the bank accounts.
- The Town did not have controls in place to ensure that financial activity recorded in its accounting records was complete and accurate.
- The Town did not have controls in place to ensure its annual financial reports were prepared in accordance with the current *Budgeting, Accounting and Reporting Systems (BARS) Manual*.
- The Town lacked an effective review process to ensure amounts reported on the financial statements agreed to underlying accounting records.

### *Cause of Condition*

Although the Town is required to prepare and submit an annual financial report each year, it does not have personnel with the technical knowledge and experience to ensure the financial statement, notes and supplemental schedule portions of the report are complete and accurate.

### *Effect of Condition*

Town staff did not detect errors in the annual financial report. During our audit of the Town's financial statements, notes and required schedules, we found the following errors:

#### Financial Statements

- The Town reported \$65,479 in ending cash and investments in its financial statements and \$63,375 as the reconciled amount held in its bank accounts. The Town was unable to explain the \$2,104 variance. In addition, total beginning cash and investments was \$37,366 less than the prior audited ending cash and investments balance. The Town was also unable to explain this variance. This error was not corrected by the Town.
- The Town did not use the appropriate BARS coding when recording debt proceeds, which caused operating revenues to be overstated and non-operating revenues to be understated, both by \$199,632.
- Sewer Fund reserved fund balance was understated, and unreserved fund balance was overstated, both by \$41,176.
- The Town did not use the appropriate BARS coding when recording debt service payments from the Sewer Fund, which caused operating expenditures to be overstated and non-operating expenditures to be understated, both by \$41,176.

Except as noted above, the Town corrected these errors in the financial statements.

#### Notes to the Financial Statements

- Debt service repayment requirements were not presented as five years individually and then in five year increments as the BARS Manual requires.
- The Town exceeded its budgeted appropriations in the Water Fund by \$35,466 and did not disclose the cause in the notes.
- An explanation of the Sewer Fund's deficit unreserved fund balance of (\$18,535) was not disclosed.

- The net pension liability of \$64,879 was not disclosed, and the pension note did not include all disclosures required by the BARS Manual.

The Town corrected these errors in the notes to the financial statements.

#### Schedule of Liabilities

- Net pension liability of \$64,879 was not reported.
- The beginning balance of the Drinking Water – State Revolving Fund Loan was understated by \$737,990 because it included the net amount of additional loan proceeds and a loan forgiveness reduction, which should have been presented separately on the schedule.

The Town corrected these errors in the Schedule of Liabilities.

### ***Recommendations***

We continue to recommend the Town strengthen internal controls and dedicate the resources necessary to ensure it can:

- Complete timely reconciliations of all bank accounts on a monthly basis
- Prepare complete and accurate financial records
- Prepare financial statements, footnotes and schedules in compliance with the most current BARS Manual guidance
- Conduct a knowledgeable and detailed review of the Town's financial activities, financial statements, supporting schedules and notes to ensure they are complete and accurate

### ***Town's Response***

*The Town reported \$65,479 in ending cash and investments in its financial statements and \$63,375 as the reconciled amount held in its bank accounts. The Town was unable to explain the \$2,104 variance. In addition, total beginning cash and investments was \$37,366 less than the prior audited ending cash and investments balance. The Town was also unable to explain this variance. This error was not corrected by the Town.*

*Response - The 2015 bank statements were reconciled monthly. It is documented on each bank statement.*

*The Town did not have controls in place to ensure that financial activity recorded in its accounting records was complete and accurate.*

Response – The Town will implement financial controls to assure accounting records are complete and accurate. This will be accomplished no later than December 31, 2017.

The Town did not have controls in place to ensure annual financial reports were prepared in accordance with the BARS Manual.

Response – It was suggested by the Audit Team that the Town requested assistance in partnering with another Town to review financial records and reports for accuracy. That process is being currently being pursued by the Assistant Director of Local Audit.

The Town lacked an effective review process to ensure amounts reported on the financial statements agreed to underlying accounting records.

Response – The Auditor in charge specifically stated during the audit that there would no finding for the amount of \$2104, since it was well within acceptable variances.

Total beginning cash and investments was \$37,366 less than the prior audited ending cash and investments balance.

Response - Please see the documentation for the amount of \$37,366.

The Town did not use the appropriate BARS coding when recording debt proceeds, which caused operating revenues to be overstated and non-operating revenues to be understated, both \$199,632.

Response – This should not be a finding since the Town hired a specialist who worked for the town's accounting software provider, who set up those two accounts with GDBG and DWSRF. She was hired on your office's recommendation. Then part way through the training, they left the company for another job and neither the specialist nor the accounting software provider completed the training and updating they were contracted to do!

The Town did not use the appropriate BARS coding when recording debt service payments from the Sewer Fund.

Response – This finding is not accurate. The Town Clerk transferred funds between accounts for payments. Notes were made by her in the BARS system documenting the purpose. Since the Office of the Auditor does not recognize transfers as legitimate financial transactions, the Town now writes checks to itself to implement these payments. Again, the Town is at the mercy of the individual auditor's interpretation annually.

### Notes to the Financial Statements

*Debt service repayment requirements were not presented as five years individually and then in five year increments as the BARS Manual requires.*

Response – *Accept the finding. This was a mistake and proper action will be taken in the future.*

*An explanation of the Sewer Fund's deficit unreserved fund balance of (\$18,535) was not disclosed.*

Response – *USDA allowed the Town to borrow \$18,535, and it was clearly disclosed in the notes. Town Council action officially approving the transaction is in the approved Council minutes.*

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

We have been reporting concerns regarding the Town's financial statement preparation since 2011 and have issued findings in the last four audits. Throughout this audit, we provided several opportunities to the Clerk Treasurer to discuss the discrepancies identified in the financial statements and explain the variances with the bank statements. We strongly encourage the Town to implement financial controls to ensure accounting records are complete and accurate, while providing better oversight of the Clerk Treasurer and the safeguarding of public funds. We reaffirm our finding and will review the status of this issue during our next audit.

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

*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 over financial reporting 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 over financial reporting, 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. A reasonably possibility exists when the likelihood of an event occurring is either reasonably possible or probably as defined as follows:

**Reasonably possible.** The chance of the future event or events occurring is more than remote but less than likely.

**Probable.** The future event or events are likely to occur.

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

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 Internal Control; Internal Control*, states in part:

Purpose and Definition of Internal Controls

3.1.3.10 Internal control is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in standards adopted by the American Institute of Certified Public Accountants and by the Federal Office of Management and Budget as follows:

3.1.3.20 Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

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.

### Controls over Financial Reporting

3.1.3.140 This objective refers to fair presentation of financial statements and required schedules in all material respects in accordance with the stated basis of accounting.

3.1.3.150 In meeting this objective, the government should have controls that accomplish the following key functions:

- Identification of financial events – Controls should ensure financial events and transactions are properly identified and recorded.
- Properly applying accounting standards – Controls should ensure correct criteria and methodology is applied when accounting for financial events. When the correct method of accounting for or reporting a transaction is unclear, the government should seek clarification by performing research, contracting for accounting assistance, or communicating with the State Auditor’s Office or standard setting bodies.
- Correctly accounting for all financial events – Controls should ensure that:
  - Only valid transactions are recorded and reported.
  - All transactions occurred during the period are recorded and reported.
  - Transactions are recorded and reported at properly valued and calculated amounts.
  - Recorded and reported transactions accurately reflect legal rights and obligations.
  - Transactions are recorded and reported in the account and fund to which they apply.
  - Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records. Controls should also ensure correct presentation of statements and schedules.

3.1.3.160 Controls and processes should generate adequate documentation to demonstrate achievement of objectives. This is not only important for audit, oversight and public records purposes, but also to enable effective monitoring of controls over financial reporting by management.

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

**Town of Springdale  
Stevens County  
January 1, 2015 through December 31, 2015**

**2015-002    The Town has not effectively managed its operations, resulting in a decline in its financial condition.**

***Background***

During the past three audits, we communicated financial concerns to the Town. The Town continues to report a deficit cash balance in the Current Expense Fund and did not establish a formal financial plan to address cash flow issues as recommended. Additionally, as indicated in finding 2015-001, the Town did not have adequate internal controls over financial accounting and reporting to effectively monitor its financial operations.

***Description of Condition***

The Town's cash and investments continued to be insufficient to support its operations. As reported in finding 2015-001, we were unable to accurately determine the Town's current cash position because the Town was unable to identify the cause for the \$2,104 difference between the Ending Cash and Investments of \$65,479 reported in the financial statements and the reconciled amount according to statements from its financial institutions of \$63,375.

According to the Town financial reports:

	Total cash and investments
December 31, 2012	\$ 41,883
December 31, 2013	\$113,090
December 31, 2014	\$167,763
December 31, 2015	\$ 65,479
December 31, 2016	\$ 73,297

Of the amounts reported for December 31, 2015, and December 31, 2016, \$41,176 is reported each year as reserved for future debt service and is not available for other purposes.

According to the best financial information available from the Town, the Current Expense and Street funds ended with the following cash balance (deficit):

	Current Expense	Street Fund
December 31, 2012	(\$50,671)	(\$4,845)
December 31, 2013	(\$42,031)	(\$450)
December 31, 2014	(\$11,290)	\$23,445
December 31, 2015	(\$1,559)	(\$656)
December 31, 2016	\$35,366	(\$364)

When funds have deficit cash balances, these funds have informally borrowed money from other funds to continue operations. This informal borrowing results in unauthorized interfund loans.

The Town had debt obligations of \$1,583,031 as of December 31, 2015. The Town is required to pay approximately \$80,000 each year through 2033 to meet loan repayment requirements.

As of December 31, 2015, and December 31, 2016, the Sewer Fund had unreserved cash balance deficits of \$18,535 and \$26,010, respectively. These deficit unreserved cash balances mean the Sewer Fund is operating on reserve funds legally required to be set aside for future debt payments.

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

The Mayor and Town Council have not put appropriate practices in place to effectively monitor the Town's operations and financial condition.

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

The Town has had to borrow from restricted funds to meet its cash needs for the Current Expense and Street funds. If the Town's financial condition continues to decline, it may be at risk of not being able to meet its debt obligations or maintain services at current levels.

### ***Recommendations***

We recommend the Mayor and Town Council:

- Develop a formal financial plan to address cash flow issues and monitor and evaluate actual results against targets identified in the plan to ensure the Town's financial condition improves. The plan should be revised if expected improvements are not achieved
- Ensure they receive accurate and timely financial information to allow them to effectively monitor cash flow and make informed decisions
- Discontinue the practice of allowing funds to operate with a cash deficit, which results in unauthorized interfund loans

### ***Town's Response***

*The Town of Springdale is working diligently to correct the lack of oversight as well as maintaining great steps in improving all fund balances with the exception of the Street Fund due to lack of revenue that requires that the General Fund transfer monies over quarterly. Council Members and Oversight Committees' will partake in training when available to improve the understanding to the overall condition of the Town's Finances. All reports prior to filing by the Clerk Treasurer's Office have and will be reviewed prior to submittal.*

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

We appreciate the steps the Town is taking to resolve this issue. We will review the condition during the next audit.

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### Town of Springdale Stevens County January 1, 2015 through December 31, 2015

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the Town of Springdale. The State Auditor's Office has reviewed the status as presented by the Town.

<b>Audit Period:</b> January 1, 2014 through December 31, 2014	<b>Report Ref. No:</b> 1015100	<b>Finding Ref. No:</b> 2014-001
<b>Finding Caption:</b> The Town continues to lack adequate internal controls that ensure accurate and complete financial reporting.		
<b>Background:</b> Town management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls that represent a material weakness in financial reporting and adversely affected the Town's ability to produce reliable financial statements, notes and required schedules. The past five audits identified control deficiencies in the financial statement preparation process that were reported to management.  The Town lacked procedures to ensure monthly bank reconciliations were performed and, as a result, it could not identify reconciling items between the general ledger and the bank accounts. The Town's financial activity recorded in its accounting records was not complete or accurate and the annual financial reports were not prepared in accordance with the current <i>Budgeting, Accounting and Reporting Systems</i> (BARS) Manual. In addition, there was not an effective review process to ensure amounts reported in the financial statements agreed to underlying account records. As a result of these control deficiencies, a significant number of misstatements were identified in the financial statements, notes and schedules that were not identified by management prior to the audit.		
<b>Status of Corrective Action:</b> <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="text-align: center;"> <input checked="" type="checkbox"/> Fully Corrected         </div> <div style="text-align: center;"> <input type="checkbox"/> Partially Corrected         </div> <div style="text-align: center;"> <input checked="" type="checkbox"/> Not Corrected         </div> <div style="text-align: center;"> <input type="checkbox"/> Finding is considered no longer valid         </div> </div>		
<b>Corrective Action Taken:</b> <i>The Town of Springdale is working diligently to correct the lack of oversight as well as maintaining great steps in improving all fund balances with the exception of the Street Fund due to lack of revenue that requires that the General Fund transfer monies over quarterly.</i>		



*Council Members and Oversight Committees' will partake in training when available to improve the understanding to the overall condition of the Town's Finances. All reports prior to filing by the Clerk Treasurer's Office have and will be reviewed prior to submittal.*

<b>Audit Period:</b> January 1, 2014 through December 31, 2014	<b>Report Ref. No.:</b> 1015100	<b>Finding Ref. No.:</b> 2014-002
<b>Finding Caption:</b> The Town has not effectively managed its operations, resulting in a decline in its financial condition.		
<b>Background:</b> The past two audits communicated financial concerns to the Town and its cash and investments continued to be insufficient to support its operations. The Town continues to report a deficit cash balance in the Current Expense Fund and it did not establish a formal financial plan to address cash flow issues, as recommended. Funds with deficit cash balances have informally borrowed money from other funds in order to continue operations. This informal borrowing results in unauthorized interfund loans. Also, as indicated in finding 2014-001, the Town does not have adequate internal controls over financial accounting and reporting to effectively monitor its operations.		
<b>Status of Corrective Action:</b> <input type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input checked="" type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
<b>Corrective Action Taken:</b> <i>The Town of Springdale is working diligently to correct the lack of oversight as well as maintaining great steps in improving all fund balances with the exception of the Street Fund due to lack of revenue that requires that the General Fund transfer monies over quarterly. Council Members and Oversight Committees' will partake in training when available to improve the understanding to the overall condition of the Town's Finances. All reports prior to filing by the Clerk Treasurer's Office have and will be reviewed prior to submittal.</i>		

**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**

**Town of Springdale  
Stevens County  
January 1, 2015 through December 31, 2015**

Mayor and Town Council  
Town of Springdale  
Springdale, 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 Town of Springdale, Stevens County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Town's financial statements, and have issued our report thereon dated August 2, 2017. Our report includes information about the status of the Town's financial condition. This information is more fully described in Finding 2015-002 in the Schedule of Audit Findings and Responses. The Town's response to the finding was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

We issued an unmodified opinion on the fair presentation of the Town'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 Town 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 audit of the financial statements, we considered the Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

*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 Town'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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2015-001 to be material weaknesses.

## COMPLIANCE AND OTHER MATTERS

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

## TOWN'S RESPONSE TO FINDINGS

The Town's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The Town'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 Town'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 Town'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

August 2, 2017

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Town of Springdale Stevens County January 1, 2015 through December 31, 2015**

Mayor and Town Council  
Town of Springdale  
Springdale, Washington

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

We have audited the accompanying financial statements of the Town of Springdale, Stevens County, Washington, for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Town's financial statements, as listed on page 25.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Town of Springdale, for the year ended December 31, 2015, 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 Town 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 Town of Springdale, as of December 31, 2015, or the changes

in financial position or cash flows 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 Regarding Fiscal Sustainability**

As discussed in Note 5 to the financial statements and described in Finding 2015-002 in the Schedule of Audit Findings and Responses, the Town’s financial position continues to decline. The Town has had to borrow from restricted funds in order to pay for operations and to address cash flow shortages. The Town’s cash flow constraints are expected to continue in the near future. As a result, there exists uncertainty about the Town’s ability to maintain services at present levels under these conditions. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### ***Supplementary and Other Information***

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying 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.

#### ***Town’s Response to Finding***

The Town’s response to the finding identified above is described in the accompanying Schedule of Audit Findings and Responses. The Town’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.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2017 on our consideration of the Town'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 Town's internal control over financial reporting and compliance.

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

Pat McCarthy

State Auditor

Olympia, WA

August 2, 2017



## **FINANCIAL SECTION**

**Town of Springdale  
Stevens County  
January 1, 2015 through December 31, 2015**

### **FINANCIAL STATEMENTS**

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

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2015

**Town of Springdale**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2015**

		<b>Total for All Funds (Memo Only)</b>	<b>001 Current Expense</b>	<b>101 Town Streets</b>	<b>401 Water</b>	<b>411 Sewer</b>
<b>Beginning Cash and Investments</b>						
30810	Reserved	41,176	-	-	-	41,176
30880	Unreserved	89,264	-18,416	22,837	89,974	(5,131)
388 & 588	Prior Period Adjustments, Net		-	-	-	-
<b>Operating Revenues</b>						
310	Taxes	93,117	93,117	-	-	-
320	Licenses and Permits	9,715	9,715	-	-	-
330	Intergovernmental Revenues	89,805	12,595	6,006	71,204	-
340	Charges for Goods and Services	215,134	1,910	-	102,058	111,166
350	Fines and Penalties	3,448	2,235	-	1,116	97
360	Miscellaneous Revenues	27,826	14,647	38	4,738	8,403
Total Operating Revenues:		439,045	134,219	6,044	179,116	119,666
<b>Operating Expenditures</b>						
510	General Government	41,846	41,846	-	-	-
520	Public Safety	65,843	65,843	-	-	-
530	Utilities	203,133	-	-	109,530	93,603
540	Transportation	11,133	-	11,133	-	-
550	Natural and Economic Environment	452	452	-	-	-
560	Social Services		-	-	-	-
570	Culture and Recreation	5,060	5,060	-	-	-
598	Miscellaneous Expenses		-	-	-	-
Total Operating Expenditures:		327,467	113,201	11,133	109,530	93,603
Net Operating Increase (Decrease):		111,578	21,018	-5,089	69,586	26,063
<b>Nonoperating Revenues</b>						
370-380, 395 & 398	Other Financing Sources	9,008	3,248	-	4,051	1,709
391-393	Debt Proceeds	199,632	-	-	199,632	-
397	Transfers-In	7,370	-	7,370	-	-
Total Nonoperating Revenues:		216,010	3,248	7,370	203,683	1,709
<b>Nonoperating Expenditures</b>						
580, 596 & 599	Other Financing Uses	60	39	-	21	
591-593	Debt Service	88,659	-	-	47,483	41,176
594-595	Capital Expenditures	296,610	-	25,774	270,837	-
597	Transfers-Out	7,370	7,370	-	-	-
Total Nonoperating Expenditures:		392,699	7,409	25,774	318,341	41,176
<b>Net Increase (Decrease) in Cash and Investments:</b>		<b>-65,111</b>	<b>16,857</b>	<b>-23,493</b>	<b>-45,072</b>	<b>-13,404</b>
<b>Ending Cash and Investments</b>						
5081000	Reserved	41,176	-	-	-	41,176
5088000	Unreserved	24,152	(1,559)	(656)	44,902	(18,535)
<b>Total Ending Cash and Investments</b>		<b>65,328</b>	<b>-1,559</b>	<b>-656</b>	<b>44,902</b>	<b>22,641</b>

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

**Town of Springdale**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2015**

		<b>Total for All Funds (Memo Only)</b>	<b>631 Agency Funds</b>
308	Beginning Cash and Investments	(43)	(43)
388 & 588	Prior Period Adjustments, Net	-	-
310-360	Revenues	303	303
380-390	Other Increases and Financing Sources	2,738	2,738
510-570	Expenditures	-	-
580-590	Other Decreases and Financing Uses	2,847	2,847
	Net Increase (Decrease) in Cash and Investments:	194	194
508	Ending Cash and Investments	151	151

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

## Notes to the Financial Statements

### Note 1 - Summary of Significant Accounting Policies

The Town of Springdale reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using classifications defines in GAAP.

The Town of Springdale was incorporated on February 9, 1903 and operates under the laws of the state of Washington applicable to a City. The Town of Springdale is a general purpose government and provides Public Safety, Water Sewer and Computer Center. The Town of Springdale uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

#### A. Fund Accounting

The accounts of the Town of Springdale are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The Town of Springdale's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the Town of Springdale:

#### GOVERNMENTAL FUND TYPES:

##### General (Current Expense) Fund

This fund is the primary operating fund of the Town of Springdale. It accounts for all financial resources except those required or elected to be accounted for in another fund.

##### Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the Town of Springdale.

#### PROPRIETARY FUND TYPES:

##### Enterprise Funds

These funds account for operations that provide goods or services to the general public and are

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supported primarily through user charges.

FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by the Town of Springdale in a trustee capacity or as an agent on behalf of others.

Agency Funds

These funds are used to account assets that Town of Springdale holds for others in an agency capacity.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

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

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

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

C. Budgets

RCW 35.33 requires towns to adopt an annual budget of receipts and expenditures and limit actual expenditure activity within these appropriated amounts. Additionally, Budgeting, Accounting and Reporting Standards manual requires a comparative analysis between final appropriated amounts and actual expenditures be disclosed in the annual report. The Town adopted budgeted for both revenue and expenditures during fiscal year 2015.

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

Fund	Final Appropriated Amounts	Actual Expenditures	Variance
001-General	\$130,056.11	\$120,732.68	\$9,323.43
101-Town Street	\$9,662.24	\$11,132.87	(\$1,470.63)
2014 TIB retainage	\$22,837.13	\$25,773.80	(\$2,936.67)
401-Water	\$121,547.66	\$157,013.71	(\$35,466.10)
403 Drinking Water Capital Facility/CDBG	\$0	270,836.51	(\$270,836.51)
411-Sewer -CDBG	\$119,789.83	\$134,779.36	(\$14,989.53)
	\$541,500.00	\$0	\$541,500.00

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Fund 403 expenditures were funded entirely by a grant and loan. Although expenditures may exceed budget, they did not exceed approved funding through the Washington State Department of Commerce.

Fund 401 expenditures included \$47,483 mandatory debt service on the Drinking Water State Revolving Fund loan that was not budgeted for.

D. Cash

It is the Town of Springdale's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various funds.

E. Deposits

The Town of Springdale deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation.

F. Capital Assets

The Town does not have a formal Capital threshold policy at this time.

G. Compensated Absences

Vacation leave may not be accumulated from year to year unless circumstances prevent the employee from using it. The employee may buy out this after a year of accumulation. The Mayor must approve carryover of vacation. The Town of Springdale has a Personnel Policy (Resolution 97-5) breaks down by year of employment for Vacation days as follows:

1 year employment: 40 hours vacation  
2-5 years of employment: 80 hours vacation  
5-10 years of employment: 120 hours vacation  
10+ years of employment: 160 hours vacation

Sick leave may be accumulated for one year. Employees may buy out unused sick leave after one year. Town of Springdale Personnel Policy (Resolution 97-5) states 5 hours per month.

Holiday paid days off per Town of Springdale Personnel Policy (Resolution 97-5) lists the Federal Holidays with one Floating Holiday.

H. Long-Term Debt See Note 3, *Debt Service Requirements*.

I. Other Financing Sources or Uses

The Town of Springdale "*Other Financing Sources or Uses*" consist of operating transfers.

J. Risk Management

The Town of Springdale is a member of the Cities Insurance Association of Washington. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool 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 pool 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. Since its inception over a hundred cities have joined the pool.

The pool allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims administration, etc. The pool provides the following forms of group purchase insurance coverage for its members: Property, Liability, Vehicle Liability, Other Mobile Equipment, Boiler and Machinery, Bonds of various types, Excess Liability and Public Official Liability.

The pool acquires liability insurance from unrelated underwriters that are subject to a per-occurrence deductible of \$100,000. Members are responsible for the first \$1,000 of the deductible amount of each claim, while the pool is responsible for the remaining \$99,000. Insurance carriers cover insured losses over \$100,000 to the limits of each policy. Since the pool is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$99,000 portion of the deductible. A stop loss policy in the amount of \$500,000 is purchased to negate any liability for members for excessive losses.

Property insurance is subject to a per-occurrence deductible of \$2,500. Members are responsible for the first \$1,000 of the deductible amount of each claim, while the Pool is responsible for the remaining \$1,500.

Boiler and machinery insurance is subject to a per-occurrence deductible of \$2,500. Members are responsible for the deductible amount of each claim.

Each new member now pays the pool an admittance fee. This amount covers the member's share of unrestricted reserves. Members contract to remain in the pool for a minimum of one year, and must give notice before December 31 before terminating participation the following September 1. The Interlocal Governmental Agreement is renewed automatically each year. Even after termination, a member is still responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Governmental Agreement.

The pool is fully funded by its member participants. Members file Claims with Association of Washington Cities., which has been contracted to perform pool administration, claims adjustment and administration, and loss prevention for the pool.

A board of directors that is comprised of one designated representative from each participating member governs the pool. A Management Committee of eleven members is selected by the membership from seven areas of the state on a staggered term basis and is responsible for conducting the business affairs of the Pool. The management Committee has contracted with Canfield & Associates, Inc. to perform day to day administration of the Pool. The Pool has no employees.

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K. Reserved Fund Balance

Town of Springdale has Reserved Fund Balance for Sewer fund to cover the loan requirements for repayments of loans with USDA Rural Development. These reserved fund balance was as follows as of December 31, 2015:

Fund Number	Fund Name	Reserved Fund Balance
411	Sewer	\$ 41,176.00

**Note 2 - Property Tax**

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after the end of each month.

Property tax revenues are recognized when cash is received by Town of Springdale. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The Town's regular levy for the year 2015 was \$1.8951200 per thousand on an assessed value of \$10,681,934 for a total regular levy of \$ 20,243.55.

**Note 3 – Debt Service Requirements**

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the Town and summarizes the Town's debt transactions for the year ended December 31, 2015.

The debt service requirements for revenue bonds and other debt, including both debt and interest, are as follows:

	Revenue Bonds (Sewer)	Other Debt (Water)	Total Debt
2016	\$41,176	\$40,318	\$81,494
2017	\$41,176	\$40,005	\$81,181
2018	\$41,176	\$39,693	\$80,869
2019	\$41,176	\$39,380	\$80,556
2020	\$41,176	\$39,068	\$80,244
2021-2025	\$205,880	\$190,650	\$396,530
2026-2030	\$205,880	\$185,836	\$391,716
2031-2035	\$205,880	\$175,023	\$380,903
2036-2040	\$95,470	\$167,209	\$262,679
2041-2045	\$95,470	\$128,142	\$223,612
2046-2050	\$95,470	\$0	\$95,470
2051	\$19,094	\$0	\$19,094
Totals	\$1,129,024	\$1,045,323	\$2,174,347



#### **Note 4 - Pension Plans**

##### **A. State Sponsored Pension Plans(1)**

Substantially all Town of Springdale's full-time and qualifying part-time employees participate in 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 PERS 2 and LEOFF2.

The State Legislature establishes, and amends, laws pertaining to 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](http://www.drs.wa.gov).

At June 30, 2015, the Town of Springdale proportionate share of the collective net pension liabilities AS REPORTED ON Schedule 09, as follows:

	Allocation %	Liability (Asset)
PERS 1	.000659	\$34,472
PERS 2/3	.000851	\$30,407
LEOFF2	.001239	(12,734)
TOTAL AMOUNT OF LIABILITY		\$64,879

##### **LEOFF Plan 2**

The Town of Springdale also participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not a mandated by the state constitution and could be changed by statute.

#### **Note 5 - Other Disclosures**

A. The General Fund had some expenditure that was not anticipated in the Marshal Department; equipment replacement. Schedule 01 shows the General Fund balance for year end 2015 as -\$1,558.56 which is lower of the beginning balance for 2015 of -\$18,416.29. However revenue decline within the Town tax base has increased in 2015 and future as the Gas Station is being rebuilt and a new business have opened up. Expenditures are being closely monitored by all department heads, Mayor and Council for both the General Fund and Street Fund. Street Fund at year end of 2015 shows a -\$656.12 balance this too has been greatly lowered as 2013 beginning balance had a -\$6,379.47 balance. General Fund had to transfer \$7,370 to cover expenditures as rolling up Street Fund to the General Fund is not allowed by Washington State Auditors or RCW's. The Street Fund only receives revenues from Gas Tax the General Fund transfers due to Street Lights that the Town cannot remove due to Public Safety. All Departments are resolved in making positive changes in both Revenue and Expenditures for both funds; there is a raise freeze as well as potential hours being cut to resolve these issues.

B. The General Fund also is supporting a Community Computer Center that has had very low income and high expenditures. The Mayor and Council choose not to close the only avenue the community has to free

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internet service at this time. We are actively looking for potential revenue sources from the County, grants and renters.

C. The Town had active federal grant/loan projects with Community Development Block Grant (CDBG) and Drinking Water – State Revolving Fund (DWSRF). The CDBG grant is for 960,000 and was awarded to the Town for construction related to water well and transmission lines. The DWSRF Loan is a 50% forgivable loan in the amount of 1,900,000. This loan was awarded for upgrades to the Town's water system. Both of these projects were completed in 2015.

D. The Sewer Fund shows a deficit unreserved balance of (\$18,535) at year-end. This was due to several 2015 events, including:

- Several accounts had liens placed on them and were unpaid.
- Customers were no longer charged sewer reserve fees.
- Lift station failures

**Town of Springdale**  
**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>						
263.82	Sewer Loan- USDA	6/11/2051	310,628	0	4,585	306,043
263.82	Sewer Loan-USDA	11/15/2015	84,593	0	2,808	81,785
263.82	Sewer Loan USDA	10/11/2035	167,868	0	4,955	162,913
263.82	Sewer Loan USDA	10/11/2035	129,754	0	3,832	125,922
263.82	Water Loan DWSRF	10/1/2044	1,675,612	199,632	968,876	906,368
264.30	Pension Liabilities		0	64,879		64,879
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>2,368,455</b>	<b>264,511</b>	<b>985,056</b>	<b>1,647,910</b>
<b>Total Liabilities:</b>			<b>2,368,455</b>	<b>264,511</b>	<b>985,056</b>	<b>1,647,910</b>

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