



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

## **Financial Statements and Federal Single Audit Report**

### **Town of Cathlamet**

**Wahkiakum County**

**For the period January 1, 2013 through December 31, 2013**

**Published September 25, 2014**

**Report No. 1012689**





**Washington State Auditor**  
**Troy Kelley**

September 25, 2014

Mayor and Town Council  
Town of Cathlamet  
Cathlamet, Washington

**Report on Financial Statements and Federal Single Audit**

Please find attached our report on the Town of Cathlamet's financial statements and compliance with federal laws and regulations.

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

Sincerely,

TROY KELLEY  
STATE AUDITOR

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Wahkiakum County  
January 1, 2013 through December 31, 2013**

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# Federal Summary

## Town of Cathlamet Wahkiakum County January 1, 2013 through December 31, 2013

The results of our audit of the Town of Cathlamet are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

### ***FINANCIAL STATEMENTS***

An unmodified opinion was issued on the financial statements.

#### ***Internal Control Over Financial Reporting:***

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the Town.

### ***FEDERAL AWARDS***

#### ***Internal Control Over Major Programs:***

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the Town's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

***Identification of Major Programs:***

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
10.760	Water and Waste Disposal Systems for Rural Communities

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The Town did not qualify as a low-risk auditee under OMB Circular A-133.

# **Schedule of Audit Findings and Responses**

## **Town of Cathlamet Wahkiakum County January 1, 2013 through December 31, 2013**

### **1. The Town's internal controls over accounting and financial statement preparation are inadequate to ensure accurate reporting.**

#### **Background**

It is the responsibility of the Town to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. The prior audit identified weaknesses in the financial statement preparation process that were reported as a significant deficiency. For the current audit, we continued to identify deficiencies in internal controls that adversely affected the Town's ability to produce reliable financial statements.

#### **Description of Condition**

We identified the following deficiencies in internal controls that when taken together, represent a material weakness:

- The Town did not research how to appropriately record non-routine transactions and lacked the technical knowledge to ensure transactions were recorded accurately in the accounting system. Specifically, the Town did not record a bond refunding and did not use guidance from the Budget, Accounting and Reporting System (BARS) manual to ensure financial reporting was accurate.
- The Clerk-Treasurer prepares journal entries and reconciles bank statements. There is no oversight or review of the journal entries or bank reconciliation by a person independent and knowledgeable to ensure accuracy and completeness.
- The Town has assigned responsibility for preparing all portions of the financial statements to the Clerk-Treasurer. No independent review process was in place to ensure financial statements were complete and accurate.

#### **Cause of Condition**

The Town has not dedicated sufficient resources, including training for staff and oversight, to ensure accurate and complete financial reporting of Town operations.

## **Effect of Condition**

The Town's financial information contained significant misstatements that were not detected by management. We identified the following errors in the financial statements we received for audit:

### **Financial statements –**

- The Town issued a \$4.986 million revenue bond to pay off an existing note which was not recorded in their accounting system.
- The Town's financial information provided for audit was incomplete and contained mathematical errors.
- The Town erroneously recorded a \$67,000 expenditure in their accounting system at year end. This transaction was a bank error and should not have been recorded.
- The Town is not accurately accounting for the amount of change funds being used in Town operations.

### **Schedule of Liabilities –**

- The Town did not record all compensated leave balances, nor did they include the associated employer costs when calculating their compensated absence liability, resulting in an understatement of \$4,630.
- The ending balance for the 2009 Water Revenue Bond was overstated by \$212,493.

## **Recommendation**

We recommend the Town establish internal controls procedures and dedicate the resources to make sure financial reports are complete and accurate. The Town should ensure:

- Staff responsible for preparing and reviewing the financial statements is knowledgeable of reporting requirements and follow BARS manual guidance or seek technical guidance when recording non-routine transactions.
- Bank statements and journal entries are reviewed by a knowledgeable person for accuracy and completeness.
- Someone knowledgeable of the BARS manual perform a thorough and independent review of the financial statements.

## **Town's Response**

- 1. The Town acknowledges the confusion that can accompany non-routine transactions associated with major projects. The Town will seek guidance in the recording of future transactions of this type.*
- 2. Bank Statements and financial statements will be reviewed monthly by a designee of the Mayor of the Town of Cathlamet and a report of this activity will be provided to Council at its regularly scheduled meeting.*
- 3. Change funds for the Library, pool and the Town Hall have been formally established with prescribed balances and procedures have been adopted for daily reconciliations. Independent verification of these processes will be provided by Town hall staff.*

## **Auditor's Remarks**

We appreciate the Town's commitment to resolve this finding and thank the Town for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

## **Applicable Laws and Regulations**

*Government Auditing Standards*, July 2007 Revision - Section 5.11 provides that auditors should report material weaknesses and significant deficiencies in internal control.

The American Institute of Certified Public Accountants, Statement on Auditing Standards No. 115 defines significant deficiencies and material weaknesses as follows:

- a. Significant deficiency: 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.
- b. Material weakness: A material weakness is a deficiency, or 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.

RCW 43.09.200 states:

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.



The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction, all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

*Budget Accounting and Reporting System (BARS) manual - Part 3 Accounting Chapter 1, Accounting Principles and General Procedures, Section B, Internal Control, states in part:*

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

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.

# Schedule of Prior Federal Audit Findings

## Town of Cathlamet Wahkiakum County January 1, 2013 through December 31, 2013

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

<b>Audit Period:</b> January 1, 2012 – December 31, 2012	<b>Report Ref. No.:</b> 1010610	<b>Finding Ref. No.:</b> 1	<b>CFDA Number(s):</b> 10.760
<b>Federal Program Name and Granting Agency:</b> Water and Waste Disposal Systems for Rural Communities, U.S. Department of Agriculture		<b>Pass-Through Agency Name:</b> NA	
<b>Finding Caption:</b> The Town's internal controls were not adequate to ensure compliance with suspension and debarment requirements.			
<b>Background:</b> The Town paid \$92,334 of its grant funding to one vendor for engineering and project management services. The Town was not aware of federal suspension and debarment requirements and thus the Town did not verify the status of this vendor.			
<b>Status of Corrective Action: (check one)</b> <input checked="checked" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid			
<b>Corrective Action Taken:</b> <i>The Town omitted undertaking a formal check of its engineering firm to determine whether this firm had been debarred from doing business with the federal government. The Town was aware of the requirement to verify vendors, but it was not aware that vendors already under contract needed to be verified as well. The Town now makes a formal check for all federal contractors, all subaward recipients, and vendor contractors receiving \$25,000 or more to assure they are not suspended or disbarred. Another corrective action that was taken was informing the town attorney that all federal contracts drawn up need to have a statement from the contractor stating that it has not been suspended or disbarred.</i>			

## **Status of Prior Audit Findings**

### **Town of Cathlamet Wahkiakum County January 1, 2013 through December 31, 2013**

The status of findings contained in the prior years' audit reports of the Town of Cathlamet is provided below:

- 1. The Town does not have adequate internal controls over accounting and financial statement preparation to ensure accurate reporting.**

Report No. 1010610, dated September 30, 2013

#### **Background**

The Town's internal controls were not sufficient to ensure accurate financial reporting. We found that the Town lacks an adequate financial statement preparation process to properly report financial activity, which resulted in errors on the statements, including the Schedule of Expenditures of Federal Awards (SEFA) and the Schedule of Liabilities.

#### **Status**

The Town has not adequately implemented internal controls to ensure financial activity is accurately reported in the financial statements. We are reporting similar concerns in our current audit report – see Finding 1. We will review the Town's corrective action in the next audit.

# **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 Cathlamet  
Wahkiakum County  
January 1, 2013 through December 31, 2013**

Mayor and Town Council  
Town of Cathlamet  
Cathlamet, 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 Cathlamet, Wahkiakum County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Town's financial statements, and have issued our report thereon dated September 18, 2014.

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 or permitted 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 1 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 cursive script that reads "Troy X. Kelley".

**TROY KELLEY**  
STATE AUDITOR

September 18, 2014

# **Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

**Town of Cathlamet  
Wahkiakum County  
January 1, 2013 through December 31, 2013**

Mayor and Town Council  
Town of Cathlamet  
Cathlamet, Washington

## ***REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM***

We have audited the compliance of the Town of Cathlamet, Wahkiakum County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The Town's major federal programs are identified in the accompanying Federal Summary.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Town's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Town's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

### ***REPORT ON INTERNAL CONTROL OVER COMPLIANCE***

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

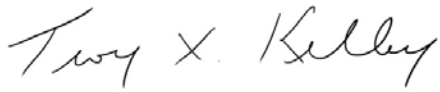
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***PURPOSE OF THIS REPORT***

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report 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 cursive script that reads "Troy X. Kelley".

**TROY KELLEY**  
STATE AUDITOR

September 18, 2014

# **Independent Auditor's Report on Financial Statements**

## **Town of Cathlamet Wahkiakum County January 1, 2013 through December 31, 2013**

Mayor and Town Council  
Town of Cathlamet  
Cathlamet, Washington

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

We have audited the accompanying financial statements of the Town of Cathlamet, Wahkiakum County, Washington, for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Town's financial statements, as listed on page 21.

#### ***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 Cathlamet has prepared these financial statements using accounting practices prescribed or permitted by Washington State statutes and 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 Cathlamet, for the year ended December 31, 2013, 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 Cathlamet, as of December 31, 2013, 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.

### ***Other Matters***

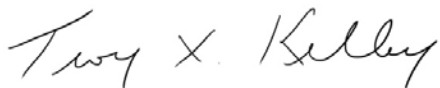
#### ***Supplementary and Other Information***

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of Liabilities is also 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 September 18, 2014 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.



**TROY KELLEY**  
STATE AUDITOR

September 18, 2014

## **Financial Section**

**Town of Cathlamet  
Wahkiakum County  
January 1, 2013 through December 31, 2013**

### ***FINANCIAL STATEMENTS***

Fund Resources and Uses Arising from Cash Transactions – 2013  
Notes to Financial Statements – 2013

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

Schedule of Liabilities – 2013  
Schedule of Expenditures of Federal Awards – 2013  
Notes to the Schedule of Expenditures of Federal Awards – 2013

## FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds*	001 Current Expense	109 Emergency Medical Services Cumulative Reserve	401 Water And Sewer
<b>Beginning Cash and Investments</b>					
30810	Beg Fund Bal-Reserved	103,956	31,552	0	72,404
30880	Beg Fund Bal-Unreserved	378,429	232,055	22,078	124,296
38800/58800	Prior Period Adjustments, net	0	0	0	0
<b>Operating Revenues</b>					
310	Taxes	309,518	309,518	0	0
320	Licenses & Permits	27,640	27,640	0	0
330	Intergovernmental Revenues	1,863,915	517,382	36,067	1,310,465
340	Charges for Goods and Services	966,916	16,490	86,379	864,046
350	Fines & Penalties	268	268	0	0
360	Miscellaneous Revenues	30,628	26,658	3,785	185
<b>Total Operating Revenues:</b>		<b>3,198,885</b>	<b>897,957</b>	<b>126,232</b>	<b>2,174,696</b>
<b>Operating Expenditures</b>					
510	General Government	161,177	161,177	0	0
520	Public Safety	219,069	102,934	116,134	0
530	Utilities	525,336	0	0	525,336
540	Transportation	24,274	24,274	0	0
550	Natural and Economic Environment	2,283	2,283	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	106,972	106,972	0	0
598	Intergovernmental Payments	0	0	0	0
<b>Total Operating Expenditures:</b>		<b>1,039,110</b>	<b>397,640</b>	<b>116,134</b>	<b>525,336</b>
<b>Net Operating Increase (Decrease):</b>		<b>2,159,775</b>	<b>500,317</b>	<b>10,097</b>	<b>1,649,360</b>
<b>Nonoperating Revenues</b>					
370, 380, 395, 398	Other Financing Sources	38,352	9,780	0	28,572
391-393	Debt Proceeds	8,248,770	0	0	8,248,770
397	Transfers-In	0	0	0	0
<b>Total Nonoperating Revenues:</b>		<b>8,287,122</b>	<b>9,780</b>		<b>8,277,342</b>
<b>Nonoperating Expenditures</b>					
580, 596, 599	Other Financing Uses	18,909	1,085	13,419	4,405
591-593	Debt Service	5,576,494	2,218	0	5,574,276
594-595	Capital Expenditures	4,346,702	473,305	0	3,873,398
597	Transfers-Out	0	0	0	0
<b>Total Nonoperating Expenditures:</b>		<b>9,942,105</b>	<b>476,608</b>	<b>13,419</b>	<b>9,452,079</b>
<b>Increase (Decrease) in Cash and Investments</b>		<b>504,791</b>	<b>33,488</b>	<b>-3,322</b>	<b>474,623</b>
<b>Ending Cash and Investments</b>					
50810	End Fund Bal-Reserved	279,755	18,357	18,756	242,641
50880	End Fund Balance-Unreserved	707,421	278,738	0	428,682

The accompanying notes are an integral part of this Statement.

**TOWN OF CATHLAMET**  
**NOTES TO FINANCIAL STATEMENTS**  
**JANUARY 1, 2013 THROUGH DECEMBER 31, 2013**

**NOTE 1 - SUMMARY OF ACCOUNTING POLICIES**

The Town of Cathlamet reports financial activity using the revenues 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.

The Town of Cathlamet was incorporated on February 4, 1907 and operates under the laws of the State of Washington applicable to a fourth class town. The Town of Cathlamet is a general purpose government and provides public safety, fire prevention, street improvement, parks and recreation, general administrative services and city owned water and sewer utilities. The Town of Cathlamet uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

a. Fund Accounting

The accounts of the town 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's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are fund types used by the town:

**GOVERNMENTAL FUND TYPES**

General (Current Expense) Fund (001)

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

Special Revenue Funds (100-199)

These funds account for revenues that are legally restricted or designated to finance particular activities of the town.

Capital Project Funds (300 – 399)

These funds account for financial resources which are designated for the acquisition or construction of general government capital projects.

## PROPRIETARY FUND TYPES:

### Enterprise Funds (400-499)

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

#### 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 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

Annual appropriated budgets are adopted for all funds. The financial statements include budgetary comparisons for those funds.

Annual appropriated budgets are adopted at the fund level (*except the general (current expense) fund, where budgets are adopted at the department level*). The budgets constitute the legal authority for expenditures at that level. Annual appropriations for all funds lapse at the fiscal period end.



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

<b>Fund</b>	<b>Final Appropriated Amounts</b>	<b>Actual Expenditures</b>	<b>Variance</b>
GENERAL GOVERNMENT SERVICES	756,915.00	671,053.39	85,861.61
LAW ENFORCEMENT	66,000.00	63,987.96	2,012.04
FIRE DEPARTMENT	48,134.64	47,047.13	1,087.51
LIBRARY	28,410.00	29,588.77	(1,178.77)
SWIMMING POOL	95,970.00	64,761.22	31,208.78
PARKS	15,240.00	13,611.76	1,628.24
STREETS	203,367.00	60,034.24	143,332.76
<b>TOTAL GENERAL FUND</b>	<b>1,214,036.64</b>	<b>950,084.47</b>	<b>263,952.17</b>
<b>EMERGENCY MEDICAL SERVICES</b>	<b>136,000.00</b>	<b>129,553.42</b>	<b>6,446.58</b>
<b>WATER &amp; SEWER DEPARTMENT</b>	<b>7,195,997.37</b>	<b>5,181,895.53</b>	<b>2,014,098.86</b>
<b>TOTAL ALL FUNDS</b>	<b>8,546,034.03</b>	<b>6,261,533.42</b>	<b>2,284,500.61</b>

Mayor is authorized to transfer budgeted amounts between (departments within any/object classes within departments); however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the town's legislative body.

d. Cash

It is the town's policy to invest all temporary cash surpluses. The amount is included in the net 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. The town had two major projects during the year that required the town to draw from investment funds to increase cash flow to cover the interim financing period. It is the intention of the town to reinvest the surplus funds upon the completion of the projects and receipt of the grant and loan revenues which is expected in 2014.

e. Deposits

The town deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation (FDIC), and/or the Washington Public Deposit Protection Commission (WPDPC).

f. Investments See Note No. 3

g. Derivatives And Similar Transactions

The town does not invest in these transaction types.

h. Capital Assets

Capital assets are long-lived assets of the town and are recorded as expenditures when purchased.

i. Compensated Absences

Vacation leave may be accumulated up to 25 days and is payable upon separation or retirement.

The Town's estimated liability for vacation leave termination benefits on December 31, 2013 was \$16,559.05.

Sick leave may accumulate up to 720 hours. Upon separation or retirement employees receive payment for 10 % of unused sick leave.

The Town's estimated liability for sick leave termination benefits on December 31, 2013 was \$1,632.79.

The Town's estimated compensatory time termination benefits on December 31, 2013 was \$8,982.75.

The Town's total compensatory absences liability total as of December 31, 2013 is \$27,174.59.

j. Long-Term Debt      See Note No. 6, Debt Service Requirements

k. Other Financing Sources Or Uses

The town's "Other Financing Sources or Uses" consist of transfers-in and out between funds and insurance recoveries.

l. Risk Management

The Town of Cathlamet is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). 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 AWC RMSA was formed on January 1, 1989 when 32 municipalities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2010, 85 municipalities/entities participate in the RMSA Pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, and boiler and machinery insurance coverage. Boiler and machinery is included with the property reinsurance carrier and employee fidelity coverage is a stand-alone policy that the AWC RMSA arranges for its members. The AWC RMSA also allows members to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. AWC RMSA, itself, pays out of its own funds all claims up to \$250,000 for liability and \$50,000 for property, and thereafter purchases excess liability insurance through ACE Insurance Company up to \$1 million, and CV Starr, from \$1 million to \$10 million. The excess property coverage is purchased through Allianz with limits up to \$250 million, using the Pool's broker, Arthur J. Gallagher Risk Management Services. AWC RMSA is a cooperative program; the members of the AWC RMSA are jointly liable.

Members contract to remain in the RMSA Pool a minimum of three years and must give a one-year notice before terminating participation. 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 signatory to the Interlocal Governmental Agreement.

The Interlocal Governmental Agreement was revised in 2009 and approved by membership in 2010. In accordance with WAC 82.60.02023, the Pool elected its first Board of Directors, comprised of elected officials that are members of AWC RMSA, elected at large.

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

The specific financials of the AWC RMSA can be obtained from the AWC RMSA Annual Report on file with the Town of Cathlamet.

m. Reserved Fund Balance

\$15,303.17 Monies are derived from the Hotel / Motel tax revenue and the use of such are reserved per statute.

\$3,054.31 Monies are derived from donations for the library and the fire department. These funds are reserved by council the use of those departments.

\$18,756.40 Monies are derived from service fees and funding from Wahkiakum County Levy funding dedicated to Emergency Services.

\$242,641.15 Monies are derived from service fees, and various loans/grants and are reserved for the use of the town water and sewer utilities. These funds are reserved by funding agreement.

#### NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.

There have been no expenditures exceeding legal appropriations in any of the funds of the town. One department in the General Fund did exceed its 2013 appropriations in an amount of (1,178.77). The council was aware of the possibility the fund could exceed its budget due to a lengthy remodel and relocation of the library.

Due to uncontrollable circumstances, the Town of Cathlamet has employees who have exceeded compensatory limits. The Finance Committee has been apprised of this and understands the unavoidable nature of the overage. The Council is looking into what changes can be made to avoid similar situations in the future. This was an issue in the previous year, but for different departments/employees.

#### NOTE 3 – INVESTMENTS 2013

The town's investments are insured, registered or held by the town or its agent in the town's name.

Investments by type at December 31, 2013 are as follows:

Type of Investment	Town's own investments	Investments held by town as an agent for other governments, individuals or private organizations	<u>Total</u>
L.G.I.P.	\$ 233,232	\$	\$ 233,232
TOTAL	\$ 233,232	\$	\$ 233,232

The town had two major projects during the year that required the town to draw from investment funds to increase cash flow to cover the interim financing period. It is the intention of the town to reinvest the surplus funds upon completion of the projects and the receipt of the grant and loan revenues which is expected in 2014.

#### NOTE 4 – PROPERTY TAX

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

The town's regular levy for the year 2013 was \$1.62237 per \$1,000 on an assessed valuation of \$43,771,162 for a total regular levy of \$71,013.01.

#### NOTE 5 – INTERFUND LOANS AND ADVANCES

The following table displays Interfund loan activity during 2013:

Borrowing Fund	Lending Fund	Balance 1/1/2013	New Loans	Repayments	Balance 12/31/2013
109	107	18,437		(9,419)	9,018
	Totals	18,437	\$	( 9,419)	9,018

#### NOTE 6 – LONG-TERM DEBT

The accompanying schedule of Long-Term 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, 2013.

The debt service requirements for general obligation bonds and revenue bonds including both principle and interest are as follows:

	Annual debt Service				
		General			
		Obligation	Revenue	Other	Total
		Bonds	Bonds	Debt	Debt
	2013		392,269	120,376	512,645
	2014		307,227	119,439	426,666
	2015		318,502	118,501	437,003
	2016		306,702	117,563	424,265
	2017		307,902	22,830	330,732
2018	2022		1,524,535	114,152	1,638,687
2023	2027		1,357,473	114,152	1,471,625
2028	2032		1,309,460	-	1,309,460
2033	2037		1,166,234	-	1,166,234
2038	2042		1,106,510	-	1,106,510
2043	2047		1,106,510	-	1,106,510
2048	2052		1,106,510		1,106,510
2053	2057		109,257		109,257
	TOTALS	\$ -	\$10,419,091	\$ 727,013	\$ 11,146,104

## NOTE 7 – PENSION PLANS

Substantially all town full-time and qualifying part-time employees participate in PERS 2 or PERS 3 administered by the Washington State Department of Retirement Systems, 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 the town's financial statements. Contributions to the system by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems  
Communications Unit  
PO Box 48380  
Olympia, WA 98504-8380

## NOTE 8 – OTHER DISCLOSURES

Councilmember Walter Wright owns a business that is a vendor of the Town of Cathlamet. Whenever Mr. Wright is on the voucher review committee, an alternate councilmember reviews and authorizes any claims that are payable to his business.

The Town of Cathlamet has Interlocal Agreements with Wahkiakum County for the following services:

1. Building Inspector;
2. Law Enforcement.

Due to uncontrollable circumstances, the Town of Cathlamet has employees who have exceeded compensatory limits. The Finance Committee has been apprised of this and understands the unavoidable nature of the overage. The Council is looking into what changes can be made to avoid similar situations in the future. This was discussed as part of the town's previous audit. One employee that had excess hours for 2012 has reduced those hours in is now under the threshold. The public works department has been strained due to the construction and completion of the new Waste Water Treatment Facility. The Town intends to hire additional personnel which will alleviate the compensatory time accumulated. The town intends to make changes during the current year that will prevent this from being a continuing issue.

In 2011, the Town Council authorized an interfund loan from fund 107 to fund 109. This loan was to enable the Cathlamet Fire Department First Aid Division to purchase mandatory replacement ambulance cots. The council authorized this loan to allow the Town to replace the cots at a more reasonable debt service cost.

The Town of Cathlamet issued an anticipation note (non-revolving line of credit) on July 19, 2012 with the maximum principal amount of \$4,986,000 for interim financing for the Waste Water Treatment Facility Project. In 2013, the Town used the remaining \$2,679,840 of this

anticipation note. This anticipation note was then paid off when the Town issued a water and sewer revenue bond (2013A Bond) in the amount of \$4,986,000 on June 28, 2013.

On June 28, 2013, the Town of Cathlamet issued a water and sewer revenue bond (2013B Bond) with the maximum principal amount of \$362,000.

The Town was approved by the USDA Community Facilities program to receive a loan in the amount of \$144,000 to assist with the funding of the renovation of the old Fire Hall/Town Hall/Library building into a new Library / Community Center facility. The Project went to bid in 2013 and is substantially complete. Council decided to decline the loan in favor of using town funds in an effort to reduce the town's debt service costs. Council passed a resolution July 21, 2014 declining USDA funds for this project.

**Town of Cathlamet**

## Schedule of Liabilities

For the year ended December 31, 2013

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2013	Additions	Reductions	Ending Balance December 31, 2013
<b>General Obligations</b>							
	263.81	USDA Loan - 135 Columbia Street	8/2/2027	24,616		1,215	23,401
	259.11	Compensated Absences	12/31/2053	13,082	14,092	0	27,174
		<b>Total General Obligations:</b>		<b>37,698</b>	<b>14,092</b>	<b>1,215</b>	<b>50,575</b>
<b>Revenue Obligations</b>							
	252.11	1982 Sewer Rev Bond	2/1/2022	166,000	0	14,000	152,000
	252.11	1999 Water Rev Bond	1/28/2039	624,278	0	12,638	611,640
	252.11	2009 Water Rev Bond	8/1/2049	473,106	0	218,903	254,203
	263.82	1996 WWTF Water Imp	7/1/2016	375,177	0	93,795	281,382
	263.82	2004 Wasterwater Facility Upgrade	11/30/2027	284,199	0	24,754	259,445
	263.82	USDA Loan WWTF	6/30/2053	2,306,160	2,679,840	34,604	4,951,397
	263.82	USDA Subsequent WWTF loan	6/30/2053	0	362,000	2,513	359,488
		<b>Total Revenue Obligations:</b>		<b>4,228,920</b>	<b>3,041,840</b>	<b>401,206</b>	<b>6,869,554</b>
		<b>Total Liabilities:</b>		<b>4,266,618</b>	<b>3,055,932</b>	<b>402,421</b>	<b>6,920,129</b>

The accompanying notes to the financial statements are an integral part of this schedule



# **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended December 31, 2013**

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award Number	Expenditures			Footnote Ref
				From Pass-Through Awards	From Direct Awards	Total Amount	
Rural Utilities Service, Department Of Agriculture/	Water and Waste Disposal Systems for Rural Communities	10.760	8		3,961,620	3,961,620	1,2,3
Federal Highway Administration (fhwa), Department Of Transportation/Dept of Transportation	Highway Planning and Construction	20.205	STPE-350(003)	7,670		7,670	1,2
<b>Total Federal Awards Expended:</b>				<b>7,670</b>	<b>3,961,620</b>	<b>3,969,290</b>	

The accompanying notes to the Schedule of Expenditures are an integral part of this schedule

Town of Cathlamet

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2013**

Note 1 is required for all entities. Disclose other notes only if applicable to your circumstances.

**NOTE 1 - BASIS OF ACCOUNTING**

This schedule is prepared on the same basis of accounting as the Town of Cathlamet's financial statements. The Town uses the cash basis of accounting.

**NOTE 2 - PROGRAM COSTS**

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the Town's portion, are more than shown.

**NOTE 3 - FEDERAL LOANS**

(a) The Town of Cathlamet was approved by the USDA Rural Utilities Service to receive a loan totaling \$4,986,000 and \$2,497,000 grant to build a sewer treatment plant. The town has secured interim financing for the loan. Interim financing was paid off in 2013 with a bond. The draw down on the loan through December 31, 2013 is reflected on the schedule 16. At this time, the loan funding has been exhausted and the Town is now using the grant portion of this loan/grant agreement.

(b) The Town of Cathlamet was approved by the USDA Rural Utilities Service to receive a subsequent \$362,000 loan/\$288,000 grant combination totaling \$650,000 to assist with building a sewer treatment plant. The loan funding was spent in 2013. The grant portion remains to be spent.

# Corrective Action Plan for Findings Reported Under OMB Circular A-133

## Town of Cathlamet Wahkiakum County January 1, 2013 through December 31, 2013

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the Town of Cathlamet.

<b>Finding ref number:</b> 1	<b>Finding caption:</b> The Town's internal controls over accounting and financial statement preparation are inadequate to ensure accurate reporting.
<b>Name, address, and telephone of auditee contact person:</b> Tina Schubert, Clerk/Treasurer P.O. Box 68 Cathlamet, WA 98612	
<b>Corrective action the auditee plans to take in response to the finding:</b>  <i>1. The Town acknowledges the confusion that can accompany non-routine transactions associated with major projects. The Town will seek guidance in the recording of future transactions of this type.</i>  <i>2. Bank Statements and financial statements will be reviewed monthly by a designee of the Mayor of the Town of Cathlamet and a report of this activity will be provided to Council at its regularly scheduled meeting.</i>  <i>3. Change funds for the Library, pool and the Town Hall have been formally established with prescribed balances and procedures have been adopted for daily reconciliations. Independent verification of these processes will be provided by Town hall staff.</i>	
<b>Anticipated date to complete the corrective action:</b> immediately	

## 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.

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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.

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Contact information for the State Auditor's Office	
<b>Deputy Director for Communications</b>	Thomas Shapley <a href="mailto:Thomas.Shapley@sao.wa.gov">Thomas.Shapley@sao.wa.gov</a> (360) 902-0367
<b>Public Records requests</b>	(360) 725-5617
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
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