



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Yelm

For the period January 1, 2021 through December 31, 2021

Published September 29, 2022

Report No. 1031169



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

September 29, 2022

Mayor and City Council
City of Yelm
Yelm, Washington

Report on Financial Statements

Please find attached our report on the City of Yelm's financial statements.

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

City of Yelm January 1, 2021 through December 31, 2021

Mayor and City Council
City of Yelm
Yelm, 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 City of Yelm, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 21, 2022.

We issued an unmodified opinion on the fair presentation of the City'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 City using accounting practices prescribed by state law and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City'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 style with a large, stylized "P" and "M".

Pat McCarthy, State Auditor

Olympia, WA

September 21, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

City of Yelm January 1, 2021 through December 31, 2021

Mayor and City Council
City of Yelm
Yelm, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of the City of Yelm, as of and for the year ended December 31, 2021, and the related notes to the financial statements, as listed in the table of contents.

Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City has prepared these financial statements to meet the financial reporting requirements of state law and 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 accompanying financial statements referred to above present fairly, in all material respects, the cash and investments of the City of Yelm, and its changes in cash and investments, for the year ended December 31, 2021, on the basis of accounting described in Note 1.

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 City of Yelm, as of December 31, 2021, or the changes in financial position or cash flows thereof for the year then ended, because of the significance of the matter discussed below.

Basis for Unmodified and Adverse Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit unmodified and adverse opinions.

Matter Giving Rise to 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. As described in Note 1 of the financial statements, the financial statements are prepared by the City in accordance with state law using accounting practices prescribed by the BARS manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of state law and the BARS manual 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and

Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United

States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2022 on our consideration of the City's internal control over financial reporting and on the 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 the effectiveness of the City's 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 City's internal control over financial reporting and compliance.

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

Pat McCarthy, State Auditor

Olympia, WA

September 21, 2022

FINANCIAL SECTION

City of Yelm January 1, 2021 through December 31, 2021

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2021
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2021
Notes to Financial Statements – 2021

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2021

City of Yelm
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

		Total for All Funds (Memo Only)	001 General Fund	101 Municipal Street Fund	102 Arterial Streets Fund
Beginning Cash and Investments					
308	Beginning Cash and Investments	20,945,029	2,093,905	100,318	56,100
388 / 588	Net Adjustments	72,195	72,195	-	-
Revenues					
310	Taxes	7,490,431	6,533,863	-	-
320	Licenses and Permits	351,271	351,271	-	-
330	Intergovernmental Revenues	2,647,524	1,624,293	119,426	78,356
340	Charges for Goods and Services	9,220,077	565,623	-	-
350	Fines and Penalties	59,640	59,640	-	-
360	Miscellaneous Revenues	65,650	14,782	(1,348)	(807)
Total Revenues:		19,834,593	9,149,472	118,078	77,549
Expenditures					
510	General Government	2,695,358	2,212,000	-	-
520	Public Safety	2,770,502	2,770,502	-	-
530	Utilities	4,766,468	36,358	-	-
540	Transportation	461,689	-	460,383	-
550	Natural/Economic Environment	761,119	736,345	-	-
560	Social Services	16,019	16,019	-	-
570	Culture and Recreation	638,693	638,693	-	-
Total Expenditures:		12,109,848	6,409,917	460,383	-
Excess (Deficiency) Revenues over Expenditures:		7,724,745	2,739,555	(342,305)	77,549
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	903,312	-	361,450	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		903,312	-	361,450	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	4,747,858	-	-	-
591-593, 599	Debt Service	1,944,034	-	-	-
597	Transfers-Out	903,312	878,612	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	27,932	27,932	-	-
Total Other Decreases in Fund Resources:		7,623,136	906,544	-	-
Increase (Decrease) in Cash and Investments:		1,004,921	1,833,011	19,145	77,549
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	3,032,972	40,097	-	133,649
50841	Committed	3,165,427	1,320,187	-	-
50851	Assigned	13,186,641	942	119,463	-
50891	Unassigned	2,637,108	2,637,108	-	-
Total Ending Cash and Investments		22,022,148	3,998,334	119,463	133,649

The accompanying notes are an integral part of this statement.

City of Yelm
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

		107 Tourism Promotion	120 Transportation Facility Charge	200 LTGO Bond Redemption	202 Killion Road LID
Beginning Cash and Investments					
308	Beginning Cash and Investments	324,763	(44,300)	(23,134)	592,974
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	29,244	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	94,988	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	(3,749)	38	25	138,082
Total Revenues:		25,495	95,026	25	138,082
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	1,306
550	Natural/Economic Environment	24,774	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		24,774	-	-	1,306
Excess (Deficiency) Revenues over Expenditures:		721	95,026	25	136,776
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	517,162	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	517,162	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	468,223	431,080
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	-	468,223	431,080
Increase (Decrease) in Cash and Investments:		721	95,026	48,964	(294,304)
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	325,484	50,726	-	298,670
50841	Committed	-	-	-	-
50851	Assigned	-	-	25,830	-
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		325,484	50,726	25,830	298,670

City of Yelm
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

		302 Municipal Building Fund	316 Road & Street Construction	400 Stormwater Utility Fund	401 Municipal Water Utility Fund
Beginning Cash and Investments					
308	Beginning Cash and Investments	374,184	115,486	323,904	10,434,040
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	463,662	463,662	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	774,798	50,651	-
340	Charges for Goods and Services	-	-	437,704	3,773,158
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	1,665	25,799	(3,168)	(59,918)
Total Revenues:		465,327	1,264,259	485,187	3,713,240
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	259,574	1,872,651
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	259,574	1,872,651
Excess (Deficiency) Revenues over Expenditures:		465,327	1,264,259	225,613	1,840,589
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	407,669	272,308	-	1,707,282
591-593, 599	Debt Service	-	-	-	774,604
597	Transfers-Out	-	-	-	24,700
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		407,669	272,308	-	2,506,586
Increase (Decrease) in Cash and Investments:		57,658	991,951	225,613	(665,997)
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	431,842	1,107,437	-	93,107
50841	Committed	-	-	-	105,564
50851	Assigned	-	-	549,517	9,570,151
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		431,842	1,107,437	549,517	9,768,822

The accompanying notes are an integral part of this statement.

City of Yelm
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

		412 Sewer Utility Fund	501 IT Equipment Rental & Repair	502 Equipment Rental & Repair
Beginning Cash and Investments				
308	Beginning Cash and Investments	4,790,397	364,827	1,441,565
388 / 588	Net Adjustments	-	-	-
Revenues				
310	Taxes	-	-	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	-	-	-
340	Charges for Goods and Services	3,686,420	458,325	203,859
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	(26,203)	(3,584)	(15,964)
Total Revenues:		3,660,217	454,741	187,895
Expenditures				
510	General Government	-	483,358	-
520	Public Safety	-	-	-
530	Utilities	2,597,885	-	-
540	Transportation	-	-	-
550	Natural/Economic Environment	-	-	-
560	Social Services	-	-	-
570	Culture and Recreation	-	-	-
Total Expenditures:		2,597,885	483,358	-
Excess (Deficiency) Revenues over Expenditures:		1,062,332	(28,617)	187,895
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	-	-	24,700
385	Special or Extraordinary Items	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-
Total Other Increases in Fund Resources:		-	-	24,700
Other Decreases in Fund Resources				
594-595	Capital Expenditures	2,109,904	45,946	204,749
591-593, 599	Debt Service	270,127	-	-
597	Transfers-Out	-	-	-
585	Special or Extraordinary Items	-	-	-
581, 582, 589	Other Uses	-	-	-
Total Other Decreases in Fund Resources:		2,380,031	45,946	204,749
Increase (Decrease) in Cash and Investments:		(1,317,699)	(74,563)	7,846
Ending Cash and Investments				
50821	Nonspendable	-	-	-
50831	Restricted	551,960	-	-
50841	Committed	-	290,265	1,449,411
50851	Assigned	2,920,738	-	-
50891	Unassigned	-	-	-
Total Ending Cash and Investments		3,472,698	290,265	1,449,411

The accompanying notes are an integral part of this statement.

City of Yelm
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

		Custodial
308	Beginning Cash and Investments	-
388 & 588	Net Adjustments	-
310-390	Additions	55,364
510-590	Deductions	53,945
	Net Increase (Decrease) in Cash and Investments:	1,419
508	Ending Cash and Investments	1,419

The accompanying notes are an integral part of this statement.

City of Yelm
Notes to the Financial Statements
For the year ended December 31, 2021

Note 1 - Summary of Significant Accounting Policies

The City of Yelm was incorporated on December 24, 1924. In December of 1989, the Municipality of Yelm became a Non-charter Code City with a mayor-council form of government and operates under the laws of the State of Washington applicable to an optional code city. The City of Yelm is a general-purpose local government and provides public safety, street improvements, library services, parks, water, sewer and stormwater services, and general administrative services.

The city reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

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

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

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

City of Yelm
Notes to the Financial Statements
For the year ended December 31, 2021

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

PROPRIETARY FUND TYPES:

Enterprise Funds

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

Internal Service Funds

These funds account for operations that provide goods or services to other departments or funds of the government on a cost reimbursement basis.

FIDUCIARY FUND TYPES:

Custodial Funds

These funds are used to account assets that the government holds on behalf of others in a custodial capacity.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

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

C. Cash and Investments

See Note 4- *Deposits and Investments*.

City of Yelm
Notes to the Financial Statements
For the year ended December 31, 2021

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and are long lived assets. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation leave may be accumulated up to 30 days (240 hours) and is payable upon separation or retirement. Sick leave may be accumulated indefinitely. Upon separation or retirement employees receive payment for 25% of unused sick leave, not to exceed one month's salary. Payments are recognized as expenditures when paid. As of December 31, 2021 the City's total compensated absences liability was \$529,050.

F. Long-Term Debt

See Note 6 – *Debt Service Requirements*.

G. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by City Council through ordinance. When expenditures that meet restrictions are incurred, the city intends to use the most restricted resources first.

Restrictions of Ending Cash and Investments consist of \$3,032,972. These funds are restricted for debt, revenues sources restricted through RCW, customer deposits and retainage held. Commitments of Ending Cash and Investments consist of \$3,165,427. These funds are committed to support reserves, debt redemption, equipment rental and repair funding, and capital purchases.

Note 2 - Budget Compliance

The City of Yelm adopts biennial appropriated budgets for all funds, at the fund level. The budget constitutes the legal authority for expenditures at that level. Biennial appropriations for these funds lapse at the fiscal year end and are adopted on the same basis of accounting as used for financial reporting.

Budgeted amounts are authorized to be transferred between departments within any fund/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 City of Yelm legislative body.

Some of these managerial funds are rolled up for financial reporting purposes, See Note 11 for details on managerial funds rolled for reporting purposes. Intrafund transfers, or transfers within the same fund, are also included in the total adopted budgets for managerial control but have been excluded from actual expenditures. The large variance between budget and actual is due to fiscal year 2021 being the first of the two biennial budget years.

City of Yelm
Notes to the Financial Statements
For the year ended December 31, 2021

The appropriated and actual expenditures for the 2021-2022 legally adopted biennial budget were as follows:

Fund/Department	Original Adopted Budget	Final Adjusted Budget	Actual Expenditures	Variance
001 - General Fund	14,832,953	18,223,830	7,316,461	10,907,369
119 - Deposits and Retainage	-	-	-	-
104 - Cumulative Reserve	-	-	-	-
109 - YPD School Resource	107,000	107,000	-	107,000
105 - Parks Reserve	-	-	-	-
430 - Rail Line Fund	-	-	-	-
Total Rolled General Fund	14,939,953	18,330,830	7,316,461	11,014,369
101 - Municipal Street Fund	1,064,686	1,102,494	460,383	642,111
102 - Arterial Streets Fund	230,000	220,000	-	220,000
107 - Tourism Promotion	160,000	125,600	24,774	100,826
120 - Transportation Facility Charge	16,972	16,972	-	16,972
200 - LTGO Bond Redemption	932,968	957,773	468,223	489,551
202 - Killion Road LID	877,857	2,057,585	432,386	1,625,199
302 - Municipal Building Fund	635,000	930,000	407,669	522,331
316 - Road & Street Construction	2,772,000	2,721,000	272,308	2,448,692
400 - Stormwater Utility Fund	788,891	803,002	259,574	543,428
401 - Municipal Water Utility Fund	10,044,065	10,108,669	1,897,350	8,211,319
402 - Utility Consumer Deposits	10,000	10,000	-	10,000
404 - Water Capital Improvements	7,479,518	8,098,793	1,707,281	6,391,512
405 - Water Revenue Debt Redemption	1,550,203	1,550,203	774,604	775,599
406 - Water Debt Service Reserve	-	0	-	-
Total Rolled Water Utility Fund	19,083,786	19,767,665	4,379,235	15,388,430
412 - Sewer Utility Fund	8,362,024	8,477,088	2,597,884	5,879,204
203 - Sewer Revenue Bonds	341,052	341,052	173,026	168,026
204 - Sewer Debt Sewer Reserve	-	0	-	-
413 - Sewer/Reuse Capital Reserve	28,560,000	22,795,000	2,109,905	20,685,095
415 - Sewer Bond Refi & Reserve	194,201	194,201	97,101	97,100
Total Rolled Sewer Utility Fund	37,457,277	31,807,341	4,977,915	26,829,426
501 - IT Equipment Rental & Repair	940,752	1,031,392	529,303	502,089
502 - Equipment Rental & Repair	316,326	383,789	204,749	179,040
630 - Yelm Fiduciary Fund	-	0	53,945	(53,945)
Total	\$ 80,216,468	\$ 80,255,443	\$ 19,786,923	\$ 60,468,520

City of Yelm
Notes to the Financial Statements
For the year ended December 31, 2021

The city issued Ordinance 1081, authorizing the transfer of actual Court Custodial Activities to Fiduciary Fund 630; however, the City overlooked transferring the related budget from the General Fund to Fund 630.

Fund/Department	Appropriated Amounts	Actual Expenses	Variance	Variance Reason
630 - Yelm Fiduciary Fund	-	53,945	(53,945)	Ord 1081 moved actuals but not budget to this fund, corrected in 2022
Total	\$ -	\$ 53,945	\$ (53,945)	

Note 3 – COVID-19 Pandemic

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

Due to location of Yelm, and the stability of the area's two largest employers (Fort Lewis-McCord and State government) impacts on the City's tax revenue were comparatively minimal; however, uncertainty remains around the ultimate financial impacts on these businesses that support the City. To minimize impacts on Yelm residents, businesses, and community organizations the City passed most of the CARES funding received through to them. The City utilized a small amount of this funding on technology updates to support remote work opportunities and provide PPE to staff in adherence with state mandates issued. The ongoing and long-term financial impacts of the pandemic cannot be estimated at this time. The City will continue to monitor revenue and expenditures closely and adjust operations accordingly.

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

Note 4 – Deposits and Investments

Investments are reported at fair value. Deposits and investments by type at December 31, 2021 are as follows:

City of Yelm
Notes to the Financial Statements
For the year ended December 31, 2021

Type	City of Yelm's Cash & Investments	Fiduciary Cash & Investments	Total
CASH - Bank Accounts / Cash Drawers	2,888,355	1,419	2,889,774
LGIP - Investment	3,471,813	-	3,471,813
TVI - Investment	15,661,980	-	15,661,980
Total \$	22,022,148 \$	1,419 \$	\$22,023,567

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

Investments in the State Local Government Investment Pool (LGIP)

The city is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the city would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The city's deposits and certificates of deposit are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

All investments are insured, registered or held by the city or its agent in the government's name.

Note 5 - Interfund Loans

The following table displays interfund loan activity during 2021:

City of Yelm
Notes to the Financial Statements
For the year ended December 31, 2021

Borrowing Fund	Lending Fund	Balance as of January, 2021	New Loans	Debt Service Payments	Balance as of December 31, 2021
202	120	429,601	-	-	429,601
202	302	85,027	-	-	85,027

The City plans to have both loans paid off in 2022 with assessments received by the Killion Road LID Fund 202.

Note 6 – Joint Ventures

Law Enforcement Records Management Systems (LERMS)

The LERMS is a joint venture providing accurate and timely criminal justice data sharing to the cities of Lacey, Olympia, Tenino, Tumwater, and Yelm. The goal of this joint venture is to share public safety information, increase operational efficiency via a reduction in data entry, and ease the process of accessing information. These goals will improve officer and citizen safety, facilitate coordination and information sharing to both internal and external agencies, and improve data quality and timeliness of data accessibility. It is governed through an interlocal agreement by the LERMS Consortium, which is a five-member board composed of each City's Chief of Police (or their designee).

An equity interest exists for the cities of Lacey, Olympia, Tenino, Tumwater, and Yelm. As of December 31, 2021, the City of Yelm has a 5% share of the equity. Net Assets as of December 31, 2021, were \$239,189.

An ongoing financial interest exists for the cities of Lacey, Olympia, Tenino, Tumwater, and Yelm. The agreement specifies a funding formula that annually assesses member cities based on current year population as determined by the Thurston Regional Planning Council (unless otherwise adjusted by the Consortium). All property is jointly owned. Parties will be reimbursed based on their contribution upon sale of property upon the dissolution of LERMS. Any member may withdraw from the agreement at the end of any calendar year, providing a notice to the Consortium no less than six months prior to the date of withdrawal. Withdrawal of a party will not terminate the agreement of the remaining parties.

Note 7 – Long-Term Debt *(formerly Debt Service Requirements)*

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the city and summarizes the city's debt transactions for year ended December 31, 2021.

The debt service requirements for general obligation bonds, revenue bonds and other debt are as follows:

City of Yelm
Notes to the Financial Statements
For the year ended December 31, 2021

Total Debt Service						
Year	Governmental		Business Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	908,479	129,583	552,682	335,406	1,461,162	464,990
2023	828,204	101,737	390,883	318,343	1,219,087	420,080
2024	904,697	74,551	409,188	303,438	1,313,885	377,989
2025	473,277	44,052	422,602	287,824	895,879	331,876
2026	432,000	31,868	436,127	271,699	868,127	303,566
2027-2031	615,000	61,103	2,467,696	1,094,034	3,082,696	1,155,137
2032-2036	-	-	2,909,864	651,366	2,909,864	651,366
2037-2041	-	-	2,516,574	182,851	2,516,574	182,851
Total	4,161,658	442,894	10,105,616	3,444,961	14,267,274	3,887,854

The City paid off the loan for the Killion Road LID #2 in February of 2022.

Note 8 – Pension Plans

A. State Sponsored Pension Plans

Substantially all the city's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans PERS 1, PERS 2/3, and LEOFF2.

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

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

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

City of Yelm
Notes to the Financial Statements
For the year ended December 31, 2021

At June 30, 2021 (the measurement date of the plans), the city's proportionate share of the collective net pension liabilities, as reported on the Schedule of Liabilities, was as follows:

	Employer Contribution	Allocation %	Liability (Asset)
PERS1	\$ 154,608	0.020755%	253,467
PERS2/3	\$ 248,964	0.026282%	(2,618,110)
LEOFF 2	77,906	0.039081%	(2,269,986)

LEOFF Plan 2

The city 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 mandated by the state constitution and could be changed by statute.

Note 9 - Property Tax

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

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

The city's regular levy for the year 2021 was \$1.271 per \$1,000 on an assessed valuation of \$1,225,883,801 for a total regular levy of \$1,559,023.

Note 10 – Risk Management

The City of Yelm 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

City of Yelm
Notes to the Financial Statements
For the year ended December 31, 2021

municipalities in the State of Washington joined by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2021, 105 entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages, with the exception of pollution liability, 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, pollution liability, cyber liability, and equipment breakdown insurance coverage. Equipment breakdown is included with the property insurance carrier. Pollution, and cyber liability coverages are stand-alone policies, which the AWC RMSA procures for its members. The AWC RMSA allows members with airports to group purchase airport liability coverage, and members with drones to group purchase property and 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. All members in the AWC RMSA have \$15 million in both per occurrence and aggregate liability limits. For the first \$1 million in liability limits, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by National League of Cities Mutual Insurance Company (NLC MIC) for the additional \$750,000. The \$9 million in excess liability coverage limits is provided through an excess liability policy purchased from Argonaut Insurance Company. The \$5 million in excess liability coverage limits above the first layer of excess coverage is purchased from Hallmark Specialty Insurance Company. Since AWC RMSA is a cooperative program, there is joint liability among the participating members. The reinsurance coverage is purchased through NLC MIC and excess property coverage is purchased through AIG Specialty Insurance Company, and CHUBB in 2021, AWC RMSA carried a retention of \$200,000, NLC MIC reinsures up to \$3 million, AIG Specialty Insurance Company provides excess insurance up to \$50 million, and CHUBB provides limits up to \$250 million. All commercial policies have been purchased through the Pool's Broker of Record, Aon.

Members contract to remain in the AWC RMSA pool for a minimum of one year 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 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.

In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors, which is comprised of elected officials of participating members.

Note 11 – Health and Welfare

The City of Yelm is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or

City of Yelm
Notes to the Financial Statements
For the year ended December 31, 2021

join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2021, 262 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members.

In April 2020, the Board of Trustees adopted a large employer policy, requiring newly enrolling groups with 600 or more employees to submit medical claims experience data in order to receive a quote for medical coverage. Outside of this, the AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members.

The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2020, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an individual stop loss (ISL) of \$1.5 million through Commencement Bay Risk Management, and Kaiser ISL at \$1 million with Companion Life through Intermediary Insurance Services. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC Trust HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the AWC Trust HCP a minimum of 60 days prior to termination. A

City of Yelm
Notes to the Financial Statements
For the year ended December 31, 2021

participating employer's termination will not obligate that member to past debts, or further contributions to the AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust HCP account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

Note 12 – Managerial Funds

Managerial Funds that are used for City purposes were rolled up to main funds as noted below:

Reporting Fund	Managerial Fund	Reporting Fund	Managerial Fund	Reporting Fund	Managerial Fund
001		401		412	
	104		402		203
	105		404		204
	119		405		413
			406		415

Note 13 - Significant Commitments

The City passed Resolution 621 committing to purchase 640 acres of land owned by the Killion Road LID in the amount of \$2,194,320, which is the amount owed to clear title to the property. General Fund reserves are the planned funding source, and the purchase will occur over a two year period beginning in fiscal year 2022.

City of Yelm
Notes to the Financial Statements
For the year ended December 31, 2021

Note 14 - Prior Period Adjustments

In 2019 the City implemented a new Financial System and a balancing entry of \$39,024 was entered in the general ledger to balance the new BIAS system with the old Incode system. During the 2021 preparation of the financial statements, the City cleared the balancing entry, which created a prior period adjustment in the software. Additional corrections to remove \$33,170 of duplicate transactions posted through the payroll process during financial system transition were also removed in fiscal year 2021.

City of Yelm
Schedule of Liabilities
For the Year Ended December 31, 2021

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	2018 Public Safety Refunding	12/1/2026	1,804,000	-	281,000	1,523,000
251.11	2012 2000 PW Refi/Library	12/1/2031	1,245,000	-	100,000	1,145,000
263.83	1994 DOE SRL-SWR Bond Refi	10/25/2022	190,602	-	94,587	96,015
263.87	2004 DWSRF - PWTF Well #1	10/23/2023	26,042	-	8,669	17,373
263.83	2006 DOE SRL-Reclaimed Water	11/28/2025	248,870	-	48,293	200,577
Total General Obligation Debt/Liabilities:			3,514,514	-	532,549	2,981,965
Revenue and Other (non G.O.) Debt/Liabilities						
252.11	1999 Sewer Rev Bonds	12/1/2039	2,435,200	-	94,648	2,340,552
252.11	2013 Water Rev Refunding Bonds	12/1/2022	335,000	-	165,000	170,000
252.11	2020 Water Rev Bonds	12/1/2040	7,870,000	-	275,000	7,595,000
259.12	Compensated Absences	12/30/1899	557,313	-	28,263	529,050
264.30	Net Pension Liability	12/30/1899	1,035,942	-	782,475	253,467
Total Revenue and Other (non G.O.) Debt/Liabilities:			12,233,455	-	1,345,386	10,888,069
Assessment Debt/Liabilities (with commitments)						
253.11	2018 LID 2 - Killion Rd	9/1/2026	1,546,501	-	366,772	1,179,729
Total Assessment Debt/Liabilities (with commitments):			1,546,501	-	366,772	1,179,729
Total Liabilities:			17,294,470	-	2,244,707	15,049,763

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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