



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Port of Kalama

For the period January 1, 2020 through December 31, 2021

Published October 17, 2022

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

October 17, 2022

Board of Commissioners
Port of Kalama
Kalama, Washington

Report on Financial Statements

Please find attached our report on the Port of Kalama's financial statements.

We are issuing this report in order to provide information on the Port'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*

Port of Kalama January 1, 2020 through December 31, 2021

Board of Commissioners
Port of Kalama
Kalama, 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 Port of Kalama, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Port's financial statements, and have issued our report thereon dated October 10, 2022.

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

October 10, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Port of Kalama January 1, 2020 through December 31, 2021

Board of Commissioners
Port of Kalama
Kalama, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of the Port of Kalama, as of and for the years ended December 31, 2021 and 2020, 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 Port 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 Port of Kalama, and its changes in cash and investments, for the years ended December 31, 2021 and 2020, 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 Port of Kalama, as of December 31, 2021 and 2020, or the changes in financial position or cash flows thereof for the years 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 Port, 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 Port 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 Port'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 Port'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 Port'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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Port'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 opinions, 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 October 10, 2022 on our consideration of the Port'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 Port'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 Port's internal control over financial reporting and compliance.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

October 10, 2022

FINANCIAL SECTION

Port of Kalama January 1, 2020 through December 31, 2021

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2021
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SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2021
Schedule of Liabilities – 2020

**Port of Kalama
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021**

Beginning Cash and Investments

| | | |
|-----------|--------------------------------|------------|
| 308 | Beginning Cash and Investments | 27,249,825 |
| 388 / 588 | Net Adjustments | - |

Revenues

| | | |
|-----------------|--------------------------------|------------|
| 310 | Taxes | - |
| 320 | Licenses and Permits | - |
| 330 | Intergovernmental Revenues | 1,164,180 |
| 340 | Charges for Goods and Services | 20,034,707 |
| 350 | Fines and Penalties | - |
| 360 | Miscellaneous Revenues | 61,306 |
| Total Revenues: | | 21,260,193 |

Expenditures

| | | |
|---|------------------------------|------------|
| 510 | General Government | - |
| 520 | Public Safety | - |
| 530 | Utilities | - |
| 540 | Transportation | 9,690,222 |
| 550 | Natural/Economic Environment | - |
| 560 | Social Services | - |
| 570 | Culture and Recreation | - |
| Total Expenditures: | | 9,690,222 |
| Excess (Deficiency) Revenues over Expenditures: | | 11,569,971 |

Other Increases in Fund Resources

| | | |
|--|--------------------------------|-----------|
| 391-393, 596 | Debt Proceeds | - |
| 397 | Transfers-In | - |
| 385 | Special or Extraordinary Items | 769,647 |
| 381, 382, 389, 395, 398 | Other Resources | 664,023 |
| Total Other Increases in Fund Resources: | | 1,433,670 |

Other Decreases in Fund Resources

| | | |
|--|--------------------------------|------------|
| 594-595 | Capital Expenditures | 7,632,113 |
| 591-593, 599 | Debt Service | 165,640 |
| 597 | Transfers-Out | - |
| 585 | Special or Extraordinary Items | 425,000 |
| 581, 582, 589 | Other Uses | 3,281,856 |
| Total Other Decreases in Fund Resources: | | 11,504,609 |

Increase (Decrease) in Cash and Investments: 1,499,032

Ending Cash and Investments

| | | |
|--|--------------|-------------------|
| 50821 | Nonspendable | - |
| 50831 | Restricted | 235,976 |
| 50841 | Committed | - |
| 50851 | Assigned | 28,512,881 |
| 50891 | Unassigned | - |
| Total Ending Cash and Investments | | 28,748,857 |

Port of Kalama
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

Beginning Cash and Investments

| | | |
|-----------|--------------------------------|------------|
| 308 | Beginning Cash and Investments | 23,820,541 |
| 388 / 588 | Net Adjustments | (167,482) |

Revenues

| | | |
|-----------------|--------------------------------|------------|
| 310 | Taxes | - |
| 320 | Licenses and Permits | - |
| 330 | Intergovernmental Revenues | - |
| 340 | Charges for Goods and Services | 16,274,531 |
| 350 | Fines and Penalties | - |
| 360 | Miscellaneous Revenues | 138,998 |
| Total Revenues: | | 16,413,529 |

Expenditures

| | | |
|---|------------------------------|-----------|
| 510 | General Government | - |
| 520 | Public Safety | - |
| 530 | Utilities | - |
| 540 | Transportation | 9,129,994 |
| 550 | Natural/Economic Environment | - |
| 560 | Social Services | - |
| 570 | Culture and Recreation | - |
| Total Expenditures: | | 9,129,994 |
| Excess (Deficiency) Revenues over Expenditures: | | 7,283,535 |

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 | 1,279,192 |
| Total Other Increases in Fund Resources: | | 1,279,192 |

Other Decreases in Fund Resources

| | | |
|--|--------------------------------|-----------|
| 594-595 | Capital Expenditures | 3,857,509 |
| 591-593, 599 | Debt Service | 176,722 |
| 597 | Transfers-Out | - |
| 585 | Special or Extraordinary Items | 401,023 |
| 581, 582, 589 | Other Uses | 530,707 |
| Total Other Decreases in Fund Resources: | | 4,965,961 |

Increase (Decrease) in Cash and Investments: 3,596,766

Ending Cash and Investments

| | | |
|--|--------------|-------------------|
| 50821 | Nonspendable | - |
| 50831 | Restricted | 2,842,627 |
| 50841 | Committed | - |
| 50851 | Assigned | 24,407,198 |
| 50891 | Unassigned | - |
| Total Ending Cash and Investments | | 27,249,825 |

Port of Kalama
Notes to the Financial Statements
For the year ended December 31, 2021

Note 1: Summary of Significant Accounting Policies

The Port of Kalama (Port) was created in 1920 and operates under the laws of the State of Washington applicable to a public port district as a municipal corporation under the provisions of Chapter 53 of the *Revised Code of Washington* (RCW). The Port is a special purpose local government that provides marine terminals, land and industrial development, tourism and public recreation facilities to the general public and is supported primarily through user charges.

The Port uses double-entry cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

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

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

A. Fund Accounting

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

The Port only has one fund. The fund is the primary operating fund of the Port. It accounts for all the Port's financial resources.

B. Basis of Accounting and Measurement Focus

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. 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.

C. Cash and Investments

See Note 2, *Deposits and Investments*.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$50,000 and an estimated useful life in excess of 5 years. The capital assets of the Port of Kalama are recorded as expenditures when purchased.

E. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation. Accrued vacation pay is payable upon an employee taking a vacation or upon resignation, retirement or death. Compensated absences are absences for which employees will be paid, such as vacation and sick leave. Vacation pay, which may be accumulated up to a maximum of 30 days, is payable upon resignation, retirement, or death. If certain requirements are met the port can pay out part of accrued vacation and sick time to an employee. Sick leave may accumulate up to a maximum of 120 days.

F. Long-Term Debt

See Note 4, *Long-Term Debt*.

G. Reserved 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 the Board. When expenditures that meet restrictions are incurred, the Port intends to use the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of the following:

| | | |
|--|----|-----------------------|
| Customer Deposits | \$ | 231,128 |
| Royalty to Department of Natural Resources | | <u>4,848</u> |
| Total | \$ | <u><u>235,976</u></u> |

Note 2: Deposits and Investments

As required by state law, deposits and investments of the Port's funds are obligations of the U.S. Government or deposits with Washington State banks and savings and loan institutions. The County is the treasurer for the Port and is responsible for the Port's investments.

At December 31, 2021, the Port had the following cash and investments:

| <u>Type of Deposits and Investment</u> | <u>Amount</u> |
|--|----------------------|
| LGIP | \$ 22,460,910 |
| Bank Deposits | 6,287,947 |
| Total | <u>\$ 28,748,857</u> |

It is the Port's policy to invest all temporary cash surpluses.

Investments in the State Local Government Investment Pool (LGIP)

The Port 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 Port 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 Port'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 Port's or its agent in the government's name.

Note 3: Property Taxes

The Cowlitz County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. The Port elected to remove itself from the tax levy rolls for 2021.

Note 4: Long-Term Debt

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the Port and summarizes the Port's debt transactions for year ended December 31, 2021.

The debt service requirement for private placement notes are as follows:

- The Port purchased property at 103 Kalama River Road as part of the long-term development of the east port. Part of the purchase agreement was a promissory note for \$150,000 to be paid in three equal annual installments. The first was on October 1, 2019. During 2021 the final payment was made on this purchase agreement and the note has been paid in full.
- The Washington ports of Vancouver, Longview and Kalama and Oregon's Port of Portland entered into an "Intergovernmental Agreement Among Lower Columbia River Ports for Columbia River Channel Deepening and Maintenance" with the U.S. Army Corps of Engineers for the Channel Improvement Project on June 21, 2004. The project Cooperation Agreement identifies disposal, mitigation and restoration sites needed for the Channel Improvement Project. The State of Washington appropriated \$27.7 million for the Washington sponsor's share of project costs. The Oregon-Washington Ports Agreement allocates costs of the Channel Improvement Project.

All costs incurred, with the exception for port-owned beneficial use sites will be shared 50/50 between the states. The Washington ports share of the costs is shared equally between the three Washington ports. At the completion of the Columbia River Channel Improvement Project a final accounting of the project will occur to ensure that the non-federal sponsors have equally contributed to the project, met their obligations to the U.S. Army Corps of Engineers, and equalization will occur between the State of Washington and Oregon. Having reached substation completion on December 31, 2021, the Port has an outstanding liability at December 31, 2021, of \$128,513 and will start amortization on the straight-line method over the next 20 years when the U.S. Army Corps of Engineers completes the project.

Note 5: Pension Plans

A. State Sponsored Pension Plans

Substantially all the Port of Kalama'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 and 2/3).

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

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

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

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

At June 30, 2021 (the measurement date of the plans), the Port's proportionate share of the collective net pension liabilities (assets) were as follows:

| | Employer Contributions | Allocation % | Liability (Asset) |
|----------|------------------------|--------------|-------------------|
| PERS 1 | \$ 86,799 | 0.011653% | \$142,310 |
| PERS 2/3 | 123,556 | 0.013043% | (1,299,293) |

The net pension liabilities are reported on the Schedule 09.

Note 6: Risk Management

The Port maintains insurance against most normal hazards through a commercial insurance broker for public officials, commercial, automobile, property loss, and general liability.

In comparison to prior years, there were no significant changes in the types and coverage of insurance policies purchased by the Port for 2021. Also, settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 7: OPEB Plans

Public Employees Benefits Board (PEBB)

The Port is a participating employer in the state's Public Employees Benefits Board (PEBB) program, a defined benefit plan administered by the Washington State Health Care Authority. The plan provides medical, dental, and life insurance benefits for public employees and retirees and their dependents on a pay-as-you-go basis. The plan provides OPEB benefits through both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by members over the age of 65 enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The implicit subsidy results from the inclusion of active and non-Medicare eligible retirees in the same pool when determining premiums. There is an implicit subsidy from active employees since the premiums paid by retirees are lower than they would have been if the retirees were insured separately.

At December 31, 2021, there are 26 active employees and 9 inactive employees or beneficiaries currently receiving benefits or entitled to but not yet receiving benefits. As of December 31, 2021, the Port's total OPEB liability was \$1,838,371 as calculated using the alternative measurement method.

The Port reported \$22,667 for OPEB expenses for the calendar year 2021.

Port Medical Savings Plan

In addition to the post-retirement benefits described above, in 2018 the Port established a one-time contribution upon retirement to employees' voluntary beneficiary association medical savings plan set up in compliance with the Internal Revenue Code, Section 502 (c) (9).

Any employee who is PERS eligible for retirement and has served as an employee of the Port of

Kalama for a minimum of 10 consecutive years, received a one-time lump sum payment made into their HRA VEBA account at the time of retirement equaling 20 times the current VEBA funding amount at the date of retirement. The benefit is reviewed annually for viability by the Port of Kalama's commissioners.

The plan is not funded and holds no assets accumulated in a trust. There was no expense recorded for this OPEB benefit in 2021.

Note 8: Other Disclosures

Construction Commitments

At December 31, 2021, the Port had the following construction commitments:

| Project | Contract Amount | Spent to Date | Remaining Commitment |
|------------------------|----------------------------|----------------------|---------------------------------|
| Small Cruise Ship Dock | \$ 3,636,206 | \$ 2,416,738 | \$ 1,219,468 |

Pollution Remediation

On December 31, 2018, the Port commissioners approved a settlement agreement with Ecolab, Inc. regarding its obligation to address 350 thinner which was released to the soil and shallow groundwater under the building it leased from the Port. The settlement was received during 2019 in the amount of \$196,000.

Contaminated soil and groundwater were removed under a Voluntary Clean Up action during 2021. Initial monitoring efforts in 2022 indicate that although the contaminated soil was effectively removed, and no hazardous constituent remains above its standard, the total amount of dissolved petroleum hydrocarbons in the shallow groundwater exceeds the Method A cleanup level. The site will continue to be monitored and assessed during 2022 to determine if this residual dissolved contamination will attenuate now that the source has been removed. If the dissolved hydrocarbon does not attenuate, the Port will need to determine if further actions are warranted or if this stable amount of residual contamination may remain as long as groundwater is not used, and protective measures are taken when excavating into the groundwater.

The remediation costs were offset by the \$196,000 received from Ecolab as a part of the Port's settlement, which represents a negotiated amount based on its share of liability.

In 2021, the Port has reported \$202,377 in expenditures. Funds were spent on legal fees, consulting, testing, and cleanup. Future annual costs may include, but are not limited to, consulting, additional removal of contaminated soil/groundwater, sampling and monitoring levels, and environmental legal fees. The plan is to demolish the building and evaluate closure options in 2023. As of December 31, 2021, there are no external requirements to clean up the trace amount of pollutants on site.

At a separate site identified as the Former Longview Fiber site, the Port proposed an independent action to jump-start biological activity to degrade contaminants through natural attenuation. The plan entails injecting acetic acid through an infiltration trench in order to lower the pH level and promote the biodegradation process. The Port will continue to monitor and assess pH levels to confirm that this neutralization has been effective. No clean-up action is required at this time.

Joint Venture

The Port entered in to an interlocal agreement with five other Ports for the purpose of creating Petrichor Broadband, LLC (the LLC), an organization for the provision of open access wholesale telecommunication facilities to unserved or underserved areas within the member communities. The LLC is governed by the Executive Council, a governing body comprised of the Executive Director of each LLC member, with the Port of Whitman County acting as Manager.

The Port's equity interest in the LLC was \$215,750 on December 31, 2021. Additional capital may be requested by the Manager, and then approved by the members, to reasonably meet the expenses of the LLC in the future. Net profit or net loss for any fiscal year of the LLC shall be allocated among the initial members in accordance with their respective percentage interests.

Complete financial statements for the LLC can be obtained from the administrative office of the Port of Whitman County at 302 N Mill St, Colfax, WA 99111.

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.

The offices of the Port reopened to the public after implementing COVID safety procedures. The revenues of the Port were minimally impacted. The terminal revenue was held steady or had a slight increase for the year ended December 31, 2021. The Port worked to accommodate two tenants with rent concessions to be paid back through future payments during the remaining terms of the leases.

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

Extraordinary Events

On April 13, 2020, a large vessel passed through the Port's marina area at a high speed causing a swell and suction of water which affected the marina resulting in an estimated \$1 million in damages to boats and docks. The Port reported the incident to the Coast Guard and also engaged maritime professionals to investigate. The Port worked with boat owners and insurance providers to address the damage. In 2021 the Port received \$769,647 in a judgement related to the incident. The Port reimbursed the insurance company \$425,000 as was required by contract.

Port of Kalama
Notes to the Financial Statements
For the year ended December 31, 2020

Note 1: Summary of Significant Accounting Policies

The Port of Kalama (Port) was created in 1920 and operates under the laws of the State of Washington applicable to a public port district as a municipal corporation under the provisions of Chapter 53 of the *Revised Code of Washington* (RCW). The Port is a special purpose local government that provides marine terminals, land and industrial development, tourism and public recreation facilities to the general public and is supported primarily through user charges.

The Port uses double-entry cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

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

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

A. Fund Accounting

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

The Port only has one fund. The fund is the primary operating fund of the Port. It accounts for all the Port's financial resources.

B. Basis of Accounting and Measurement Focus

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. 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.

C. Cash and Investments

See Note 2, *Deposits and Investments*.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$50,000 and an estimated useful life in excess of 5 years. The capital assets of the Port of Kalama are recorded as expenditures when purchased.

E. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation. Accrued vacation pay is payable upon an employee taking a vacation or upon resignation, retirement or death. Compensated absences are absences for which employees will be paid, such as vacation and sick leave. Vacation pay, which may be accumulated up to a maximum of 30 days, is payable upon resignation, retirement, or death. If certain requirements are met the port can pay out part of accrued vacation and sick time to an employee. Sick leave may accumulate up to a maximum of 120 days.

F. Long-Term Debt

See Note 4, *Long-Term Debt*.

G. Reserved 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 the Board. When expenditures that meet restrictions are incurred, the Port intends to use the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of the following:

| | | |
|--|----|------------------|
| Customer Deposits | \$ | 2,777,468 |
| Royalty to Department of Natural Resources | | 65,159 |
| Total | \$ | <u>2,842,627</u> |

Note 2: Deposits and Investments

As required by state law, deposits and investments of the Port's funds are obligations of the U.S. Government or deposits with Washington State banks and savings and loan institutions. The County is the treasurer for the Port and is responsible for the Port's investments.

At December 31, 2020, the Port had the following cash and investments:

| <u>Type of Deposits and Investment</u> | <u>Amount</u> |
|--|----------------------|
| LGIP | \$ 23,638,670 |
| Bank Deposits | 3,611,155 |
| Total | <u>\$ 27,249,825</u> |

It is the Port's policy to invest all temporary cash surpluses.

Investments in the State Local Government Investment Pool (LGIP)

The Port 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 Port 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 Port'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 Port's or its agent in the government's name.

Note 3: Property Taxes

The Cowlitz County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. The Port elected to remove itself from the tax levy rolls for 2020.

Note 4: Long-Term Debt

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the Port and summarizes the Port's debt transactions for year ended December 31, 2020.

The debt service requirement for private placement notes are as follows:

| | Principal | Interest | Total |
|------|-----------|----------|-----------|
| 2021 | \$ 50,000 | \$ - | \$ 50,000 |
| | \$ 50,000 | \$ - | \$ 50,000 |

- The Port purchased property at 103 Kalama River Road as part of the long-term development of the east port. Part of the purchase agreement was a promissory note for \$150,000 to be paid in three equal annual installments. The first was on October 1, 2019. At December 31, 2020, \$50,000 remained owing on this purchase agreement.
- The Washington ports of Vancouver, Longview and Kalama and Oregon's Port of Portland entered into an "Intergovernmental Agreement Among Lower Columbia River Ports for Columbia River Channel Deepening and Maintenance" with the U.S. Army Corps of Engineers for the Channel Improvement Project on June 21, 2004. The project Cooperation Agreement identifies disposal, mitigation and restoration sites needed for the Channel Improvement Project. The State of Washington appropriated \$27.7 million for the Washington sponsor's share of project costs. The Oregon-Washington Ports Agreement allocates costs of the Channel Improvement Project.

All costs incurred, with the exception for port-owned beneficial use sites will be shared 50/50 between the states. The Washington ports share of the costs is shared equally between the three Washington ports. At the completion of the Columbia River Channel Improvement Project a final accounting of the project will occur to ensure that the non-federal sponsors have equally contributed to the project, met their obligations to the U.S. Army Corps of Engineers, and equalization will occur between the State of Washington and Oregon. Having reached substation completion on December 31, 2020, the Port has an outstanding liability at December 31, 2020, of \$244,153 and will start amortization on the straight-line method over the next 20 years when the U.S. Army Corps of Engineers completes the project.

Note 5: Pension Plans

A. State Sponsored Pension Plans

Substantially all the Port of Kalama'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 and 2/3).

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

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

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

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

At June 30, 2020 (the measurement date of the plans), the Port's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

| | Employer Contributions | Allocation % | Liability |
|----------|------------------------|--------------|-----------|
| PERS 1 | \$ 82,119 | 0.011331% | \$400,045 |
| PERS 2/3 | 113,941 | 0.012368% | 158,183 |

Note 6: Risk Management

The Port maintains insurance against most normal hazards through a commercial insurance broker for public officials, commercial, automobile, property loss, and general liability.

In comparison to prior years, there were no significant changes in the types and coverage of insurance policies purchased by the Port for 2020. Also, settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 7: OPEB Plans

Public Employees Benefits Board (PEBB)

The Port is a participating employer in the state's Public Employees Benefits Board (PEBB) program, a defined benefit plan administered by the Washington State Health Care Authority. The plan provides medical, dental, and life insurance benefits for public employees and retirees and their dependents on a pay-as-you-go basis. The plan provides OPEB benefits through both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by members over the age of 65 enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The implicit subsidy results from the inclusion of active and non-Medicare eligible retirees in the same pool when determining premiums. There is an implicit subsidy from active employees since the premiums paid by retirees are lower than they would have been if the retirees were insured separately.

At December 31, 2020, there are 20 active employees and 8 inactive employees or beneficiaries currently receiving benefits or entitled to but not yet receiving benefits. As of December 31, 2020, the Port's total OPEB liability was \$1,668,435 as calculated using the alternative measurement method.

The Port reported \$19,213 for OPEB expenses for the calendar year 2020.

Port Medical Savings Plan

In addition to the post-retirement benefits described above, in 2018 the Port established a one-time contribution upon retirement to employees' voluntary beneficiary association medical savings plan set up in compliance with the Internal Revenue Code, Section 502 (c) (9).

Any employee who is PERS eligible for retirement and has served as an employee of the Port of Kalama for a minimum of 10 consecutive years, received a one-time lump sum payment made into

their HRA VEBA account at the time of retirement equaling 20 times the current VEBA funding amount at the date of retirement. The benefit is reviewed annually for viability by the Port of Kalama's commissioners.

The plan is not funded and holds no assets accumulated in a trust. There was an expense of \$88,688 recorded for this OPEB benefit in 2020.

Note 8: Other Disclosures

Construction Commitments

At December 31, 2020, the Port had the following construction commitments:

| Project | Contract Amount | Spent to Date | Remaining Commitment |
|---------------------------------------|----------------------------|----------------------|---------------------------------|
| Marina Repairs from wake incident | \$ 740,412 | \$ 449,420 | \$ 290,992 |
| Visitor Dock & Central Access Project | 2,804,488 | 2,403,778 | \$ 400,710 |

Pollution Remediation

On December 31, 2018, the Port commissioners approved a settlement agreement with Ecolab, Inc. regarding a pollution remediation obligation. The settlement was received during 2019 in the amount of \$196,000.

The pollution remediation obligation at issue is the result of State law (The Model Toxics Control Act or MTCA, RCW 70.105D). The MTCA establishes that anyone who owns or operates a facility where hazardous substances, as broadly defined in MTCA, have come to be located is jointly and severally liable for the costs to remediate the hazardous substances to acceptable levels. One default groundwater cleanup level (MTCA Method A for TPHG) is still exceeded in certain shallow wells beneath the former Ecolab building.

The Port has been advised that the most effective way to assure that acceptable levels are achieved is to remove the contaminated soil source area beneath the building. The amount of the liability is uncertain since the costs will depend on how much contamination is found beneath the concrete floor of an existing building. During 2018, the Port best estimate was that \$196,000 will be the cleanup cost. This is still the most current estimate. This exceeds the estimate of a consultant based on existing data from the few borings that were installed years ago through the concrete floor, however, it includes a contingency for the inherent uncertainties involved in excavating an area only characterized with limited data points. If contamination has more recently attenuated, the cleanup costs may be substantially less than that amount. If the zone of contamination extends beyond the borings where it was detected, if new contaminants or sources are encountered, or if the groundwater requires substantial removal and treatment, that amount may be exceeded.

The remediation costs will be offset by the \$196,000 received from Ecolab as a part of the Port's settlement, which represents a negotiated amount. This amount is expected to be sufficient to pay the increased costs (beyond the costs of demolition in the absence of contamination) associated with remediating the contamination. The \$196,000 may be augmented by additional recovery if unexpected contaminants are discovered beneath the building as a result of the operations of prior tenants, according to the terms of the settlement.

The Port proposed an independent action to jump-start biological activity to degrade the contaminants through natural attenuation, and the Washington Department of Ecology agreed to the approach. The plan entails injecting acetic acid through an infiltration trench in order to lower the pH level and promote the biodegradation process. The Port continues to monitor and assess pH levels.

In 2020, the Port has reported \$62,967 in expenditures. Funds were spent on legal fees, consulting and testing. Future annual costs of injecting acetic acid, monitoring pH levels, and environmental legal fees are

expected to decrease and are therefore considered immaterial. The plan is to demolish the building in the summer of 2021. At that point the full extent of the contamination will become known.

Joint Venture

The Port entered in to an interlocal agreement with five other Ports for the purpose of creating Petrichor Broadband, LLC (the LLC), an organization for the provision of open access wholesale telecommunication facilities to unserved or underserved areas within the member communities. The LLC is governed by the Executive Council, a governing body comprised of the Executive Director of each LLC member, with the Port of Whitman County acting as Manager.

The Port's equity interest in the LLC was \$215,750 on December 31, 2020. Additional capital may be requested by the Manager, and then approved by the members, to reasonably meet the expenses of the LLC in the future. Net profit or net loss for any fiscal year of the LLC shall be allocated among the initial members in accordance with their respective percentage interests.

Complete financial statements for the LLC can be obtained from the administrative office of the Port of Whitman County at 302 N Mill St, Colfax, WA 99111.

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.

The offices of the Port were closed to the public due to safety precautions implemented in response to the COVID-19 pandemic. A significant portion of the staff at the Port transitioned to flex-schedules and working remotely. The revenues of the Port were minimally impacted. The terminal revenue was held steady or had a slight increase for the year ended December 31, 2020. The Port worked to accommodate three tenants with rent concessions to be paid back through future payments during the remaining terms of the leases.

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

Extraordinary Events

On April 13, 2020, a large vessel passed through the Port's marina area at a high speed causing a swell and suction of water which affected the marina resulting in an estimated \$1 million in damages to boats and docks. The Port reported the incident to the Coast Guard and also engaged maritime professionals to investigate. The Port worked with boat owners and insurance providers to address the damage. As of December 31, 2020, the Port had received more in insurance recovery than was expensed. The claim is still open and some minor additional expenses are expected to be incurred in 2021.

Prior Period Adjustment

The Port converted from accrual basis to cash basis in 2019 and warrants payable in 2019 were incorrectly treated as accounts payable rather than as checks outstanding. This amount of \$167,482 is reported as a prior period adjustment in 2020.

**Port of Kalama
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 | | | | | | |
| 263.61 | Wilkinson Note | 10/15/2021 | 50,000 | - | 50,000 | - |
| 263.81 | Port of Portland | 12/31/2038 | 244,153 | - | 115,640 | 128,513 |
| Total General Obligation Debt/Liabilities: | | | 294,153 | - | 165,640 | 128,513 |
| Revenue and Other (non G.O.) Debt/Liabilities | | | | | | |
| 264.40 | OPEB | | 1,668,435 | 169,936 | - | 1,838,371 |
| 264.30 | Pension Liability | | 558,228 | - | 415,918 | 142,310 |
| 259.12 | Outstanding Balance Compensated Absences | | 176,751 | 48,656 | - | 225,407 |
| 263.93 | Pollution Remediation | | 196,000 | - | 196,000 | - |
| Total Revenue and Other (non G.O.) Debt/Liabilities: | | | 2,599,414 | 218,592 | 611,918 | 2,206,088 |
| Total Liabilities: | | | 2,893,567 | 218,592 | 777,558 | 2,334,601 |

**Port of Kalama
Schedule of Liabilities
For the Year Ended December 31, 2020**

| ID. No. | Description | Due Date | Beginning Balance | Additions | Reductions | Ending Balance |
|---|--|-----------------|------------------------------|------------------|-------------------|-----------------------|
| General Obligation Debt/Liabilities | | | | | | |
| 263.61 | Wilkinson Note | 10/15/2021 | 100,000 | - | 50,000 | 50,000 |
| 263.81 | Port of Portland | 12/31/2038 | 370,875 | - | 126,722 | 244,153 |
| Total General Obligation Debt/Liabilities: | | | 470,875 | - | 176,722 | 294,153 |
| Revenue and Other (non G.O.) Debt/Liabilities | | | | | | |
| 264.40 | OPEB | | 1,208,131 | 460,304 | - | 1,668,435 |
| 264.30 | Pension Liability | | 569,339 | - | 11,111 | 558,228 |
| 259.12 | Outstanding Balance Compensated Absences | | 97,836 | 78,915 | - | 176,751 |
| 263.93 | Pollution Remediation | | 196,000 | - | - | 196,000 |
| Total Revenue and Other (non G.O.) Debt/Liabilities: | | | 2,071,306 | 539,219 | 11,111 | 2,599,414 |
| Total Liabilities: | | | 2,542,181 | 539,219 | 187,833 | 2,893,567 |

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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