



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Snoqualmie Pass Utility District

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

Published December 22, 2022

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

December 22, 2022

Board of Commissioners
Snoqualmie Pass Utility District
Snoqualmie Pass, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Snoqualmie Pass Utility District's financial statements and compliance with federal laws and regulations.

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Snoqualmie Pass Utility District January 1, 2021 through December 31, 2021

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the Snoqualmie Pass Utility District are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the District’s financial statements in accordance with its regulatory basis of accounting. Separately, 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 using a basis of accounting other than GAAP.

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

We reported findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

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

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The District did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

See Finding 2021-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See Finding 2021-002.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Snoqualmie Pass Utility District January 1, 2021 through December 31, 2021

2020-001 The District did not have adequate internal controls over financial statement preparation to ensure accurate reporting.

Background

State and federal agencies, District management and the public rely on the information included in financial statements and reports to make decisions. District management is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance the District's financial statements, notes and required schedules are reliable and prepared and presented fairly in accordance with the *Budgeting, Accounting and Reporting System (BARS) Manual*.

Our audit identified deficiencies in the District's internal controls that hindered its ability to produce accurate financial statements. *Government Auditing Standards* requires the State Auditor's Office to communicate material weaknesses in internal controls, defined in the Applicable Laws and Regulations section below, as a finding.

Description of Condition

We identified the following deficiencies in internal controls over the District's process for preparing its financial statements. When taken together, they represent a material weakness:

- The District did not adequately research accounting requirements in order to properly classify revenues, expenditures and restricted net position.
- The District did not record all revenue and expense transactions related to a capital project with interim financing in its general ledger.
- The District did not reconcile the general ledger to the County Treasurer.
- Although the District had procedures for reviewing the financial statements, the review was not detailed enough to detect and correct misstatements.

Cause of Condition

In 2021, the District switched to a new accounting software and received interim financing for a capital project. District staff was not familiar with how to record the related revenue and expense transactions within the new general ledger.

Additionally, the District did not devote the necessary time to research the appropriate accounting treatment for the classification of revenues, expenses and ending cash and investments on the financial statements.

Effect of Condition

The District's financial information contained errors that management did not detect. During our audit of the financial statements, we found the following errors.

- The District incorrectly classified the following accounts:
 - Debt proceeds of \$4,889,560 as miscellaneous revenues
 - Capital expenditures of about \$1,214,519 as utility expenditures
 - Unrestricted cash and investments of \$141,141 as restricted
- The District did not report revenues totaling \$4,928,919 and expenditures totaling \$3,284,992 in its general ledger. These transactions were, however, reported on the financial statements.

We also identified other immaterial errors in the statements, notes and Schedule of Liabilities. The District corrected these errors.

Recommendation

We recommend the District:

- Establish an effective technical review process for the financial statements, notes and schedules to ensure they are accurate, supported, classified and reported in accordance with the BARS Manual
- Record all transactions in the general ledger and reconcile it to the County Treasurer at least monthly

District's Response

The District is committed to reconciling the errors and improving the internal controls. The District is working with our certified public accountant to update the annual reports and resubmit in a timely fashion.

Auditor's Remarks

We thank the District for its cooperation and assistance during the audit, and acknowledge its commitment to improving the condition described. We will review the status of this issue during our next audit.

Applicable Laws and Regulations

Government Auditing Standards, July 2018 Revision, paragraphs 6.40 and 6.41 establish reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

RCW 43.09.200 Local government accounting – Uniform system of accounting, requires the state auditor to prescribe the system of accounting and reporting for all local governments.

Budgeting, Accounting and Reporting System (BARS) Manual, 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Snoqualmie Pass Utility District January 1, 2021 through December 31, 2021

2021-002 The District's internal controls were inadequate for ensuring compliance with federal procurement policy requirements.

CFDA Number and Title:	10.760 – Water and Waste Disposal Systems for Rural Communities
Federal Grantor Name:	U.S. Department of Agriculture
Federal Award/Contract Number:	USDA RD BAN
Pass-through Entity Name:	N/A
Pass-through Award/Contract Number:	N/A
Questioned Cost Amount:	\$0

Description of Condition

During fiscal year 2021, the District spent \$4,889,560 through the Water and Waste Disposal Systems for Rural Communities program. This program is designed to assist rural communities in obtaining safe drinking water and adequate waste facilities, which are prerequisites for economic growth. The District used this funding to build a wastewater treatment plant.

Federal regulations require recipients to establish and maintain internal controls that ensure compliance with program requirements. These controls include understanding program requirements and monitoring the effectiveness of established controls.

Federal regulations also require recipients to follow their own documented procedures, which must conform to the Uniform Guidance procurement standards found in 2 CFR § 200.318-327. The procedures must reflect the most restrictive of applicable federal requirements, state laws or local policies. When using federal funds to procure goods and services, governments must apply the more restrictive requirements by obtaining quotes or following a competitive procurement process, depending on the estimated cost of the procurement activity.

Although the District had a written procurement policy at the time of procurement, it did not conform to the most restrictive methods and thresholds for procuring public works projects. Additionally, the District's policy did not include other required procedures for procuring transactions, such as piggybacking and contract cost and price analysis.

Additionally, federal regulations require recipients to maintain written standards of conduct covering conflicts of interest and governing the actions of employees involved in selecting, awarding, or administering contracts procured with federal funds. The District's written conflict of interest policy did not conform to federal regulations because it did not include disciplinary actions for violating such standards.

We consider these deficiencies in internal controls to be a material weakness that led to material noncompliance.

The issue was not reported as a finding in the prior audit.

Cause of Condition

The District created its procurement and standards of conduct policies in March 2021, but staff and management did not fully understand the required elements that must be included in the policy to comply with federal regulations.

Effect of Condition

Although the District's policies did not conform to Uniform Guidance, our testing found the District complied with federal requirements for competitive solicitation of the public works contractor. However, without updated written procurement and standards of conduct procedures, the District is at greater risk of noncompliance with the most restrictive procedures and standards of conduct requirements when procuring contractors with federal funds.

Recommendation

We recommend the District update and follow its written procurement and standards of conduct policies to conform to federal regulations.

District's Response

The District recognized that the internal controls did not meet federal requirements. The language in the Purchasing Policy has been updated to meet the

federal guidelines. The updated purchasing policy was updated by the commissioners at the October 24, 2022 board meeting.

Auditor's Remarks

We thank the District for its cooperation and assistance during the audit, and acknowledge its commitment to improving the condition described. We will review the status of this issue during our next audit.

Applicable Laws and Regulations

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

Title 2 CFR Part 200, Uniform Guidance, section 303, Internal controls, describes the requirements for auditees to maintain internal controls over federal programs and comply with federal program requirements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, Compliance Audits, paragraph 11.

Title 2 CFR Part 200, Uniform Guidance, section 318, General procurement standards, establishes requirements for written procedures.

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*

Snoqualmie Pass Utility District January 1, 2021 through December 31, 2021

Board of Commissioners
Snoqualmie Pass Utility District
Snoqualmie Pass, 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 Snoqualmie Pass Utility District, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated December 19, 2022.

We issued an unmodified opinion on the fair presentation of the District'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 District 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 District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, as described in the accompanying Schedule of Audit Findings and Responses as Finding 2021-001 to be material weaknesses.

REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District'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*.

DISTRICT'S RESPONSE TO FINDINGS

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying Schedule of Audit Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control

and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

Pat McCarthy, State Auditor

Olympia, WA

December 19, 2022

INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

Snoqualmie Pass Utility District January 1, 2021 through December 31, 2021

Board of Commissioners
Snoqualmie Pass Utility District
Snoqualmie Pass, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the compliance of the Snoqualmie Pass Utility District, with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2021. The District's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District 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 opinion on

compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. 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, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, 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 District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed; and

- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2021-002. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

District's Response to Findings

The District's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify deficiencies in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal*

control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2021-002 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

District's Response to Findings

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy, State Auditor

Olympia, WA

December 19, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Snoqualmie Pass Utility District January 1, 2021 through December 31, 2021

Board of Commissioners
Snoqualmie Pass Utility District
Snoqualmie Pass, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of the Snoqualmie Pass Utility District, 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 District 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 Snoqualmie Pass Utility District, 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 Snoqualmie Pass Utility District, 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.

Matters of Emphasis

As discussed in Note 9 to the 2021 financial statements the full extent of the COVID-19 pandemic's direct or indirect financial impacts on the District is unknown. Our opinion is not modified with respect to this matter.

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 District, 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 District 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 District'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 District'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 District'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 an opinion on the financial statements that collectively comprise the District's financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule of Liabilities is also

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2022 on our consideration of the District'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 District'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 District's internal control over financial reporting and compliance.

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

Pat McCarthy, State Auditor

Olympia, WA

December 19, 2022

FINANCIAL SECTION

Snoqualmie Pass Utility District January 1, 2021 through December 31, 2021

FINANCIAL STATEMENTS

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

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2021
Schedule of Expenditures of Federal Awards – 2021
Notes to the Schedule of Expenditures of Federal Awards – 2021

Snoqualmie Pass Utility District
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

Beginning Cash and Investments

308	Beginning Cash and Investments	1,995,314
388 / 588	Net Adjustments	-

Revenues

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	23,506
340	Charges for Goods and Services	2,095,923
350	Fines and Penalties	-
360	Miscellaneous Revenues	332,221
Total Revenues:		<u>2,451,650</u>

Expenditures

510	General Government	-
520	Public Safety	-
530	Utilities	1,871,998
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		<u>1,871,998</u>
Excess (Deficiency) Revenues over Expenditures:		<u>579,652</u>

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	4,889,560
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	7,548
Total Other Increases in Fund Resources:		<u>4,897,108</u>

Other Decreases in Fund Resources

594-595	Capital Expenditures	5,300,601
591-593, 599	Debt Service	18,852
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		<u>5,319,453</u>

Increase (Decrease) in Cash and Investments: **157,307**

Ending Cash and Investments

50821	Nonspendable	-
50831	Restricted	-
50841	Committed	-
50851	Assigned	2,152,627
50891	Unassigned	-
Total Ending Cash and Investments		<u>2,152,627</u>

The accompanying notes are an integral part of this statement.

SNOQUALMIE PASS UTILITY DISTRICT

For the Year Ended December 31, 2021

These notes are an integral part of the company financial statements

Note 1 - Summary of Significant Accounting Policies

a. The Snoqualmie Pass Utility District the operates under the laws of the state of Washington applicable to a quasi-municipal entity. The district provides water & sewer to Snoqualmie Pass Resort / Alpental ski area.

b. The district 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 (see note to the financial statements).
- Government-wide statements, as defined in GAAP, are not presented.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

c. Fund Accounting

The following fund type is used:

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.

d. 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.

e. Cash and Investments

See Note 4 - Deposits and Investments.

f. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5000 and an estimated useful life in excess of 1 years. Capital assets and inventory are recorded as capital expenditures when purchased.

g. Compensated Absences

Vacation leave may be accumulated two times the employee accrual amount and is payable upon separation or retirement. Sick leave may be accumulated

indefinitely or up to 300 hours. Upon separation or retirement employees do receive payment for 25 % unused sick leave. Payments are recognized as expenditures when paid.

h. Long-Term Debt

See Notes 5 - Long Term Debt.

I. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by district. When expenditures that meet restrictions are incurred, the district intends to use reserved resources first before using unreserved amounts. As of the balance sheet date, there was no restricted cash and investments.

Note 2 - Water and Sewer charges

The District collects charges from customers on a monthly basis, a flat base fee plus a metered fee are used for the calculation of charges.

Note 3 – Contingent Liabilities and Litigation

In the opinion of management, the District's insurance policies and/or self-insurance reserves are adequate to pay all known or pending claims.

Note 4 – Deposits and Investments

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

<u>Type of Investment :</u>	<u>Held by District</u>	<u>Held by County</u>	<u>Total</u>
Bank deposits	\$210,000	\$0	\$210,000
Investment pool	0	0	0
U.S. Government	0	1,942,627	1,942,627
Total	<u>\$210,000.</u>	<u>\$1,942,627</u>	<u>\$2,152,627</u>

It is the district'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 district 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.

Investments in county investment pool: The district is a voluntary participant in the county investment pool, an external investment pool operated by the County Treasurer. The pool is not rated or registered with the SEC. Rather, oversight is

provided by the County Finance Committee in accordance with RCW 36.48.070. The district reports its investment in the pool at original cost. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals/disclose any liquidity fees or redemption gates.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the district 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 district'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 district or its agent in the government's name.

Note 5 - Long Term Debt

At December 31, 2021 the District reported a net pension liability of \$ \$34,940 and a vacation / sick pay accrual of \$69,561.

The district has a Muni BQ note at Cashmere Valley Bank with a interest rate of 1.77%. The note has a limit of 6,630,000.00 with a maturity date of 06/01/24. The current balance at 12/31/21 is 4,889,560.00. The note will be funded by the NSDA when construction of phase 1 waste water plant begins.

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

	Beginning Balance 1/1/21	Add	Delete	End. Balance 12/31/21
Payable	\$0	\$4,889,560		4,889,560
Net Pension Liability	\$135,167		\$100,227	\$34,940
OPEB Liability	\$237,863	\$33,668		\$271,531
Compensated Absences	\$58,802	\$10,759		\$69,561
Debt Total	\$431,832	\$4,933,987	\$100,227	\$5,265,542

Note 6 – Pension Plans

Substantially all district 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, 2 AND 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

The District's PERS plan contributions were \$14,493 to PERS Plan 1 and \$29,001 to PERS plan 2/3 for the year ended December 31, 2021.

At June 30, 2021, the District's proportionate share of the collective net pension assets and liabilities, as reported on Schedule 9 was as follows:

	Employer Contributions	Allocation %	Liability
PERS 1	\$17,493	0.002861%	\$34,940

	Employer Contributions	Allocation %	Asset
PERS 2/3	\$29,001	0.003680%	(\$366,587)

NOTE 7: Risk Management

The Snoqualmie Pass Utility District is a member of the Water and Sewer Risk Management Pool (Pool). 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-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 68 members. The Pool's fiscal year is November 1st through October 31st.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management and loss prevention. The Pool provides the following forms of group purchased insurance coverage for its members: Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess Liability, Crime; Public Officials Liability; Identity Fraud Reimbursement Program; Deadly Weapon/Active Shooter

Response Program; and bonds of various types. Most coverages are on an “occurrence” basis.

Members make an annual contribution to fund the Pool. The Pool purchases insurance policies from unrelated underwriters as follows:

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/GROUP	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000 - \$25,000 and See (C) below	\$25,000	\$1,000,000,000
Flood	See (A) below	See (A) below	\$50,000,000
Earthquake	See (B) below	See (B) below	\$110,000,000 (\$75,000,000 shared by all members, \$25,000,000 dedicated to Alderwood, \$5,000,000 dedicated to Sammamish Plateau, and \$5,000,000 dedicated to Cascade Water Alliance)
Terrorism	\$1,000 - \$25,000	\$25,000 Primary layer	\$700,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000-\$25,000	\$25,000	\$15,000,000
Liability:			
Commercial General Liability	\$1,000 - \$25,000	\$200,000, subject to \$150,000 Corridor Deductible	\$15,000,000
Auto Liability	\$1,000 - \$25,000	Same as above	\$15,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	Same as above	\$15,000,000
Employment Practices	\$1,000 - \$25,000	Same as above	\$15,000,000
Other:			
Cyber Liability	\$100,000	N/A	\$2,000,000
Deadly Weapon/Active Shooter	\$10,000	N/A	\$500,000
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$25,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$0	\$25,000
A. \$100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; \$250,000 member deductible per occurrence, in Flood Zones A&V.			
B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Member deductible for Cyber liability is \$100,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period			

Pool members are responsible for a deductible on each coverage and the Pool is responsible for the remainder of the self-insured retention listed in the table above

except where noted as follows. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for earthquake and flood claims). Each member is also responsible for the full deductible applicable to the Cyber Liability, and that part of a Boiler & Machinery deductible, which exceeds \$25,000.

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2019, written notice must be in possession of the Pool by April 30, 2019). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

The Pool is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and performs claims adjustment in consultation with Arcadia Claims Services and Adjusters Northwest.

The Pool is governed by a Board of Directors, which is comprised of one designated representative from each participating member. An Executive Committee is elected at the annual meeting and is responsible for overseeing the business affairs of the Pool and providing policy direction to the Pool's Executive Director.

Note 8 – Other Post-Employment Benefits

The district offers retirees the option to continue their health care plans as a postemployment benefit. The retirees have the ability to choose from Kaiser Permanente or Uniform Medical as the two medical plans that the district offers through Washington State Health Care Authority. No assets are accumulated in trust authority under which to pay OPEB Benefits as they come due. The actuarial valuation date and measurement date were as of June 30, 2021. This is a pay as you go plan. As of December 31, 2021, the District's total OPEB liability was \$271,531 as calculated using the alternative measurement method. The

district contributed \$126,847.88 to the plan for the year ended December 31, 2021.

Employees covered by benefit terms: At December 31, 2021, the following employees were covered by benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	0
Active employees	5
Total	6

Note 9 – Covid-19 Pandemic

A. 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 virus known as COVID-19. The pandemic extended through the duration of 2021. The District implemented precautionary measures to slow the spread of the virus, which included having employees work remotely when appropriate, provided personal protection equipment (PPE) to the staff and limiting public access to the office.

The District is classified as essential employment. In an effort to protect the employees and the public, the District provided personal protection equipment (PPE) to the employees, which is a non-material cost.

Note 10 – Related Party Transactions

The District jointly owns a shop with Kittitas County. In 2014, the District entered into an agreement with Kittitas County to build the green shop, a 4,000 sq ft building known as the Snoqualmie Pass Utility District Hyak Joint Maintenance Facility. Each member has a 50% co-tenancy and bylaws are in place that state how the facility shall be managed.

Snoqualmie Pass Utility District
Schedule of Liabilities
For the Year Ended December 31, 2021

<u>ID. No.</u>	<u>Description</u>	<u>Due Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
General Obligation Debt/Liabilities						
263.61	Note payable Cashmere valley Bank	6/1/2024	-	4,889,560	-	4,889,560
Total General Obligation Debt/Liabilities:			-	4,889,560	-	4,889,560
Revenue and Other (non G.O.) Debt/Liabilities						
264.30	Pension		135,167	-	100,227	34,940
259.12	Compensated Absenses		58,802	10,759	-	69,561
264.40	OPEB		237,863	33,668	-	271,531
Total Revenue and Other (non G.O.) Debt/Liabilities:			431,832	44,427	100,227	376,032
Total Liabilities:			431,832	4,933,987	100,227	5,265,592

Snoqualmie Pass Utility District
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2021

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
RURAL UTILITIES SERVICE, AGRICULTURE, DEPARTMENT OF	Water and Waste Disposal Systems for Rural Communities	10.760	USDA RD BAN	-	4,889,560	4,889,560	-	1,2,3,
Total Federal Awards Expended:				-	4,889,560	4,889,560	-	

The accompanying notes are an integral part of this schedule.

Snoqualmie Pass Utility District

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2021

Note 1 – Basis of Accounting

This Schedule is prepared on the same basis of accounting as the district's financial statements. The district's uses the cash basis of accounting.

Note 2 – Federal De Minimis Indirect Cost Rate

The district has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3 – Federal Loans

(a) The district was approved by the USDA Rural Utilities Service to receive a loan totaling \$5,630,000.00 to build a sewer treatment plant. Interim loan financing was received for the construction period. The amount listed for this loan includes the beginning of the period loan balance plus proceeds used during the year. The interim loan balance owing at the end of the period is \$4,889,860.00.

The current year loans are reported on the district's Schedule of Liabilities.



CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Snoqualmie Pass Utility District January 1, 2021 through December 31, 2021

This schedule presents the corrective action planned by the District for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Finding ref number: 2021-001	Finding caption: The District did not have adequate internal controls over financial statement preparation to ensure accurate reporting
Name, address, and telephone of District contact person: Tom Hastings, MBA, General Manager P.O. BOX 131 932 Hyak Drive Snoqualmie Pass, WA 98068 425.434.6633 direct Email: thastings@snopass.org	
Corrective action the auditee plans to take in response to the finding: <i>The District is working with our certified public accountant on making corrections to the 2021 annual report and expect to have an updated report submitted by Dec 19, 2022. District staff are working together with the accountant to improve our internal controls to ensure more accurate reporting. This will include staying informed about state and federal laws on reporting and staff will work with accountant on a monthly reconciliation of finances to ensure accuracy and compliance.</i>	
Anticipated date to complete the corrective action: December 19, 2022	

Finding ref number: 2021-002	Finding caption: The District's internal controls were inadequate for ensuring compliance with federal procurement policy requirements.
Name, address, and telephone of District contact person: Tom Hastings, MBA, General Manager P.O. BOX 131 932 Hyak Drive Snoqualmie Pass, WA 98068 425.434.6633 direct Email: thastings@snopass.org	
Corrective action the auditee plans to take in response to the finding: <i>The District is working on improving the language to meet federal standards. The District will be working with legal counsel to edit the language in the District's Procurement and Purchasing Policy to ensure the more restrictive federal standards are met. Once the District's Procurement and Purchasing Policy is updated the GM will present it to the Commissioners for an updated adoption no later than the October 24th.</i>	
Anticipated date to complete the corrective action: October 25, 2022	

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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.

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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.

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