



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

South Whatcom Fire Authority

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

Published January 19, 2023

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

January 19, 2023

Board of Commissioners
South Whatcom Fire Authority
Bellingham, Washington

Report on Financial Statements

Please find attached our report on South Whatcom Fire Authority's financial statements.

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

South Whatcom Fire Authority January 1, 2020 through December 31, 2021

Board of Commissioners
South Whatcom Fire Authority
Bellingham, 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 South Whatcom Fire Authority, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Authority's financial statements, and have issued our report thereon dated January 12, 2023.

We issued unmodified opinions on the fair presentation of the Authority's financial statements in accordance with its regulatory basis of accounting. We issued adverse opinions 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 Authority 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 Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Authority'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 Authority'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 Authority'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

January 12, 2023

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

South Whatcom Fire Authority January 1, 2020 through December 31, 2021

Board of Commissioners
South Whatcom Fire Authority
Bellingham, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of South Whatcom Fire Authority, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, as listed in the financial section of our report.

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

As described in Note 1, the Authority 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 South Whatcom Fire Authority, 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 South Whatcom Fire Authority, 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 Authority, 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 Authority 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 Authority'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 Authority'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 Authority'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 Authority's financial statements. The Schedules of Liabilities are 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 January 12, 2023 on our consideration of the Authority'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 Authority'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 Authority's internal control over financial reporting and compliance.

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

Pat McCarthy, State Auditor

Olympia, WA

January 12, 2023

**South Whatcom Fire Authority
January 1, 2020 through December 31, 2021**

FINANCIAL STATEMENTS

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South Whatcom Fire Authority
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

		<u>Total for All Funds (Memo Only)</u>	<u>001 General Fund</u>	<u>200 Debt Service Fund</u>	<u>300 Capital Improvement Fund</u>
Beginning Cash and Investments					
308	Beginning Cash and Investments	3,532,789	3,435,026	94,605	3,158
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	2,968,608	2,741,330	227,277	1
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	239,331	239,331	-	-
340	Charges for Goods and Services	136,338	136,338	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	51,743	50,242	1,294	207
Total Revenues:		<u>3,396,020</u>	<u>3,167,241</u>	<u>228,571</u>	<u>208</u>
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	3,009,839	3,009,839	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		<u>3,009,839</u>	<u>3,009,839</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) Revenues over Expenditures:		386,181	157,402	228,571	208
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	241,000	-	-	241,000
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		<u>241,000</u>	<u>-</u>	<u>-</u>	<u>241,000</u>
Other Decreases in Fund Resources					
594-595	Capital Expenditures	221,174	-	-	221,174
591-593, 599	Debt Service	228,700	-	228,700	-
597	Transfers-Out	241,000	241,000	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		<u>690,874</u>	<u>241,000</u>	<u>228,700</u>	<u>221,174</u>
Increase (Decrease) in Cash and Investments:		<u>(63,693)</u>	<u>(83,598)</u>	<u>(129)</u>	<u>20,034</u>
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	94,475	-	94,475	-
50841	Committed	-	-	-	-
50851	Assigned	23,192	-	-	23,192
50891	Unassigned	3,351,422	3,351,422	-	-
Total Ending Cash and Investments		<u>3,469,089</u>	<u>3,351,422</u>	<u>94,475</u>	<u>23,192</u>

The accompanying notes are an integral part of this statement.

South Whatcom Fire Authority
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

		<u>Total for All Funds (Memo Only)</u>	<u>001 General Fund</u>	<u>200 Debit Service Fund</u>	<u>300 Capital Improvement Fund</u>
Beginning Cash and Investments					
308	Beginning Cash and Investments	3,318,750	3,189,056	93,605	36,089
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	2,928,197	2,700,675	227,520	2
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	443,641	443,641	-	-
340	Charges for Goods and Services	151,916	151,916	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	61,474	58,597	2,430	447
Total Revenues:		<u>3,585,228</u>	<u>3,354,829</u>	<u>229,950</u>	<u>449</u>
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	2,684,966	2,684,966	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		<u>2,684,966</u>	<u>2,684,966</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) Revenues over Expenditures:		900,262	669,863	229,950	449
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	423,900	-	-	423,900
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		<u>423,900</u>	<u>-</u>	<u>-</u>	<u>423,900</u>
Other Decreases in Fund Resources					
594-595	Capital Expenditures	420,880	-	-	420,880
591-593, 599	Debt Service	265,349	-	228,950	36,399
597	Transfers-Out	423,900	423,900	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		<u>1,110,129</u>	<u>423,900</u>	<u>228,950</u>	<u>457,279</u>
Increase (Decrease) in Cash and Investments:		<u>214,033</u>	<u>245,963</u>	<u>1,000</u>	<u>(32,930)</u>
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	94,605	-	94,605	-
50841	Committed	-	-	-	-
50851	Assigned	3,158	-	-	3,158
50891	Unassigned	3,435,026	3,435,026	-	-
Total Ending Cash and Investments		<u>3,532,789</u>	<u>3,435,026</u>	<u>94,605</u>	<u>3,158</u>

The accompanying notes are an integral part of this statement.

South Whatcom Fire Authority

Notes to the Financial Statements

For the year ended December 31, 2021

Note 1 - Summary of Significant Accounting Policies

The South Whatcom Fire Authority was incorporated on January 1, 2009 and operates under the laws of the State of Washington applicable to a Municipal Subdivision. The South Whatcom Fire Authority is a general purpose government and provides Fire Protection Services, Emergency Medical Services, Basic Life Support Transports and Special Rescue (Water and Rope).

The South Whatcom Fire Authority 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 notes to 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 following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund

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

On January 12, 2011, the Board of Commissioners adopted a Fiscal Policy by motion to set a reserved balance at a level equal to at least contractual liabilities and 8.3% (1 month) of the total General Fund budgeted revenue (excluding the beginning fund balance and any significant onetime revenue).

Revenue Funds

These funds are set aside for future expenditures and/or needs according to the South Whatcom Fire Authority's long-term plan. The Reserve fund does not meet the Special Revenue Fund definition and is included with the Expense Fund balance. The Authority recognizes this fund as a managerial fund identified as a Revenue Fund.

General Obligation Bond Funds

The General Obligation Bond Fund is used for collection of excess levy taxes. South Whatcom Fire Authority voters at the April 26, 2016 Special Election, approved authorization for the Authority to acquire and equip three fire engines. They are to be financed by the issuance of not more than \$1,960,000.00 of general obligation bonds maturing within 10 ½ years to be repaid by an annual levy of excess property taxes. This annual levy of taxes will be collected and put into this fund for the sole purpose of making annual principal and interest payments until its final maturity date.

Capital Projects Funds

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

B. Basis of Accounting and Measurement Focus

The accounting records of the South Whatcom Fire Authority are maintained in accordance with the methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The Authority used the Budgeting, Accounting, and Reporting System for Fire Districts in the State of Washington.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received, and expenditures are recognized when paid.

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

C. Cash and Investments

See Note 4 - *Deposits and Investments*.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000.00 and an estimated useful life in excess of 2 years. The capital assets and inventory of South Whatcom Fire Authority are recorded as capital expenditures when purchased.

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

E. Compensated Absences

Any non-exempt employee who leaves the Fire Authority in good standing after a minimum of ten (10) consecutive years of service may be eligible for a cash-out of a portion of their sick leave bank. The cash-out may be calculated as the employee's final hourly rate multiplied by a portion of the employee's final sick leave hour balance. The portion is the sum of the following: 20% of any banked hours from 180 hours to 360 hours, 30% of any banked hours from 360 hours to 720 hours and 40% of hours banked over 720. Total accumulation shall not exceed 960 hours. For employees of the collective bargaining unit the following applies—20% of any banked hours from 464 hours to 644 hours, 30% of any banked hours from 645 hours to 1004 hours and 40% of hours banked over 1004. Total accumulation shall not exceed 1144 hours. The final sick leave balance for the purpose of calculating sick leave cash-out pay is the employee's sick leave balance twelve (12) months prior to the termination date less any sick time used in the final year of service. Vacation/Holiday is to be used in full each year. The Fire Chief and Assistant Chief are contracted employees and follow the terms of their contracts. The Authority's estimated liability for leave termination benefits on December 31, 2021 was \$55,432.

F. Long-Term Debt

See Note 5 – Long-term Debt (*Formerly Debt Service Requirements*).

G. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by resolution of the Board of Commissioners. When expenditures that meet restrictions are incurred, the authority intends to use the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of a general obligation bond fund with the ending balance of \$94,475.

Note 2 - Budget Compliance

The South Whatcom Fire Authority adopts annual appropriated budgets for General (Expense), Capital and Debt Service Funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end. The UTGO debt is paid based on a payment schedule broken out with principal and interest payments due twice each year.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

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

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	\$3,119,046.36	\$3,009,843.11	\$109,203.25
UTGO Fund	\$228,700.00	\$228,700.00	\$0.00
LOCAL Loan/LTGO Fund	\$0.00	\$0.00	\$0.00
Capital Fund	\$232,900.00	\$221,173.29	\$11,726.71

Budgeted amounts are authorized to be transferred between departments within any fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the South Whatcom Fire Authority's legislative body.

Budget Variances

The General Fund variances are detected in several areas of the budget. Tuition, travel, lodging, meals and mileage were under expensed due to many cancellations of conferences due to the ongoing pandemic and to the under use of the tuition reimbursement program. Vehicle repairs and parts, portable equipment repairs and facility maintenance repair funds were other budget items which were not fully expensed.

The Capital Improvement Fund variances are largely the result of supply delays due to the ongoing COVID-19 pandemic.

Budget Disclosures

The authority had material transfers between the general fund and the capital fund in the amount of \$241,000 to fund capital improvement purchases per authorization from the legislative body.

The Capital Fund budget was amended in March 2021 to include the purchase of EMS equipment. The budget was increased by \$92,400.

The UTGO Fund budget was amended in November 2021 for additional fees assessed by the Whatcom County Treasurer's office. The budget was increased by \$600.

Note 3 – COVID-19 Pandemic

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures include limitations on business operations, public events, gatherings, travel, and in-person interactions.

The authority has seen minimal negative impact due to the Pandemic. Our collection of property tax revenue has remained stable. There have been some costs to set up remote access and work from home options for administrative staff as well as some costs directly related to conducting virtual public meetings.

We have no obligations that are in jeopardy due to the pandemic such as lease space unused or rents not collected, no reduction in collection rates of property taxes, and no impacts to revenues from patient transports.

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

Note 4 – Deposits and Investments

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

Type of deposit or investment	Deposits and investments held by the County	Total
Whatcom County Expense Cash	(\$39,612)	(\$39,612)
Whatcom County Expense Investment	\$2,833,188	\$2,833,188
Whatcom County Reserve Cash	\$78	\$78
Whatcom County Reserve Investment	\$557,768	\$557,768
Whatcom County UTGO Bond Cash	\$3,864	\$3,864
Whatcom County UTGO Bond Investment	\$90,611	\$90,611
WC Capital Improvement Cash	\$14,729	\$14,729
WC Capital Improvement Investment	\$8,463	\$8,463
Total	\$3,469,089	\$3,469,089

It is South Whatcom Fire Authority’s policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

Investments in Whatcom County Investment Pool

The authority is a voluntary participant in the Whatcom 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 authority reports its investment in the pool at amortized cost, which is the same as the value of the pool per share. The WCIP does not impose liquidity fees and explains its deposit and withdrawal procedures in its Operating Terms and Conditions document available on the Whatcom County Treasurer website.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the authority 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 authority’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 South Whatcom Fire Authority or its agent in the government’s name.

Note 5 – Long-Term Debt *(formerly Debt Service Requirements)*

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of South Whatcom Fire Authority and summarizes the authority’s debt transactions for year ended December 31, 2021.

The debt service requirements for the general obligation bond are as follows:

Year	Principal	Interest	Total Debt
2022	\$200,000	\$32,400	\$232,400
2023	\$205,000	\$26,400	\$231,400
2024	\$215,000	\$20,250	\$235,250
2025	\$225,000	\$13,800	\$238,800
2026	\$235,000	\$7,050	\$242,050
TOTALS	\$1,080,000	\$99,900	\$1,179,900

Note 6 – OPEB Plans

The authority contributes \$75.00 monthly for all employees to the Washington State Council of Firefighters (WSCFF) Employee Benefit trust for MERP. The total amount paid on behalf of the employees for 2021 is \$12,150.00.

Note 7 – Pension Plans

A. State Sponsored Pension Plans

Substantially all the South Whatcom Fire Authority’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 LEOFF II, PERS 2/3 and DCP.

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.

The South Whatcom Fire Authority also participates in the Volunteer Fire Fighters’ and Reserve Officers’ Relief and Pension Fund (VFFRPF) administered by the State Board for Volunteer Fire Fighters and Reserve Officers. Detailed information about the plan is included in the State of Washington CAFR available from the Office of Financial Management website at www.ofm.wa.gov.

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

Plan	Employer Contributions	Allocation %	Liability (Asset)
PERS 1 UAAL	\$10,956	.001471%	\$17,964
PERS 2/3	\$17,905	.001890%	(\$188,272)
LEOFF 2	\$65,576	.032896%	(\$1,910,736)
VFFRPF	\$1470	.760000%	(\$166,293)

LEOFF Plan 2

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

C. Defined Contribution Pension Plans

South Whatcom Fire Authority participates in a defined contribution plan through the WA State Department of Retirement Systems. For full time administrative personnel, the authority shall match employee contributions up to 6.2% of the gross annual salary. For full time represented fire personnel, the authority shall match employee contributions up to 6.2% of the gross annual salary less \$75.00 per month. The authority paid employees \$52,238.00 which they contributed to their WA State Deferred Compensation Plans in 2021.

Note 8 – Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed throughout the month with the authority receiving accounting reports of monthly tax collections within fifteen days of the end of the monthly accounting period.

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

The Authority's regular levy for the year 2021 was \$1.058448185 per \$1,000 on an assessed valuation of \$2,588,950,426 for a total regular levy of \$2,740,269.

The Authority's voter approval general obligation bond for the year 2021 was \$0.089214146 per \$1,000 on an assessed valuation of \$2,555,986,830 for the total general obligation bond levy of \$228,100.

Note 9 – Risk Management

Policy holders pay an annual premium to VFIS, in lieu of a membership assessment. VFIS is responsible for payment of all covered causes of loss against the South Whatcom Fire Authority above the stated deductible, if any. Portable equipment and real and personal property are covered at either actual cash value, replacement cost, or guaranteed replacement cost. VFIS does provides general, automobile, and management liability on an "occurrence" and/or "claims-made" basis, subject to a "follow form" umbrella, if elected. The most common sub-limit of liability starts at \$1M, while aggregate limits may reach as high as \$14M.

South Whatcom Fire Authority is self-insured or classified as a reimbursable account with the State of Washington for unemployment compensation. The authority paid \$771.81 unemployment claims in 2021.

South Whatcom Fire Authority

Notes to the Financial Statements

For the year ended December 31, 2020

Note 1 - Summary of Significant Accounting Policies

The South Whatcom Fire Authority was incorporated on January 1, 2009 and operates under the laws of the State of Washington applicable to a Municipal Subdivision. The South Whatcom Fire Authority is a general purpose government and provides Fire Protection Services, Emergency Medical Services, Basic Life Support Transports and Special Rescue (Water and Rope).

The South Whatcom Fire Authority 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 notes to 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 following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund

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

On January 12, 2011, the Board of Commissioners adopted a Fiscal Policy by motion to set a reserved balance at a level equal to at least contractual liabilities and 8.3% (1 month) of the total General Fund budgeted revenue (excluding the beginning fund balance and any significant onetime revenue).

Revenue Funds

These funds are set aside for future expenditures and/or needs according to the South Whatcom Fire Authority's long-term plan. The Reserve fund does not meet the Special Revenue Fund definition and is included with the Expense Fund balance. The Authority recognizes this fund as a managerial fund identified as a Revenue Fund.

General Obligation Bond Funds

The General Obligation Bond Fund is used for collection of excess levy taxes. South Whatcom Fire Authority voters at the April 26, 2016 Special Election, approved authorization for the Authority to acquire and equip three fire engines. They are to be financed by the issuance of not more than \$1,960,000.00 of general obligation bonds maturing within 10 ½ years to be repaid by an annual levy of excess property taxes. This annual levy of taxes will be collected and put into this fund for the sole purpose of making annual principal and interest payments until its final maturity date.

Capital Projects Funds

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

B. Basis of Accounting and Measurement Focus

The accounting records of the South Whatcom Fire Authority are maintained in accordance with the methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The Authority used the Budgeting, Accounting, and Reporting System for Fire Districts in the State of Washington.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received, and expenditures are recognized when paid.

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

C. Cash and Investments

See Note 4 - *Deposits and Investments*.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000.00 and an estimated useful life in excess of 2 years. The capital assets and inventory of South Whatcom Fire Authority are recorded as capital expenditures when purchased.

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

E. Compensated Absences

Any non-exempt employee who leaves the Fire Authority in good standing after a minimum of ten (10) consecutive years of service may be eligible for a cash-out of a portion of their sick leave bank. The cash-out may be calculated as the employee's final hourly rate multiplied by a portion of the employee's final sick leave hour balance. The portion is the sum of the following: 20% of any banked hours from 180 hours to 360 hours, 30% of any banked hours from 360 hours to 720 hours and 40% of hours banked over 720. Total accumulation shall not exceed 960 hours. For employees of the collective bargaining unit the following applies—20% of any banked hours from 464 hours to 644 hours, 30% of any banked hours from 645 hours to 1004 hours and 40% of hours banked over 1004. Total accumulation shall not exceed 1144 hours. The final sick leave balance for the purpose of calculating sick leave cash-out pay is the employee's sick leave balance twelve (12) months prior to the termination date less any sick time used in the final year of service. Vacation/Holiday is to be used in full each year. The Fire Chief and Assistant Chief are contracted employees and follow the terms of their contract. The Authority's estimated liability for leave termination benefits on December 31, 2020 was \$53,379.

F. Long-Term Debt

See Note 5 – Long-term *Debt (Formerly Debt Service Requirements)*.

G. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by resolution of the Board of Commissioners. When expenditures that meet restrictions are incurred, the authority intends to use the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of a general obligation bond fund with the ending balance of \$94,604.65.

Note 2 - Budget Compliance

The South Whatcom Fire Authority adopts annual appropriated budgets for General (Expense), Capital and Debt Service Funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end. The LOCAL/LTGO and UTGO debt is paid based on a payment schedule broken out with principal and interest payments due twice each year.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

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

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	\$3,356,830.98	\$3,108,860.66	\$247,970.32
UTGO Fund	\$229,225.00	\$228,950.00	\$275.00
LOCAL Loan/LTGO Fund	\$36,400.00	\$36,399.49	\$0.51
Capital Fund	\$459,486.61	\$457,280.06	\$2,206.55

Budgeted amounts are authorized to be transferred between departments within any fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the South Whatcom Fire Authority's legislative body.

Budget Variances

The General Fund variances are detected in several areas of the budget largely due to the COVID-19 pandemic. The authority had reduced personnel costs which also lowered benefit expenses. Professional services and trainings were cancelled or postponed. There were lower utility costs and with less travel and decreased pricing, fuel costs were not expensed.

Note 3 – COVID-19 Pandemic

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

The authority has seen minimal negative impact due to the Pandemic. Our collection of property tax revenue has remained stable. There have been some costs to set up remote access and work from home options for administrative staff as well as some costs directly related to conducting virtual public meetings.

We have no obligations that are in jeopardy due to the pandemic such as lease space unused or rents not collected, no reduction in collection rates of property taxes, and no impacts to revenues from patient transports.

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

Note 4 – Deposits and Investments

Investments are reported at amortized cost. Deposits and investments by type at December 31, 2020 are as follows:

Type of deposit or investment	Deposits and investments held by the County	Total
Whatcom County Expense Cash	(\$ 67,514.34)	(\$ 67,514.34)
Whatcom County Expense Investment	\$ 2,949,379.98	\$ 2,949,379.98
Whatcom County Reserve Cash	\$ 78.03	\$ 78.03
Whatcom County Reserve Investment	\$ 553,081.47	\$ 553,081.47
Whatcom County UTGO Bond Cash	\$ 3,205.14	\$ 3,205.14
Whatcom County UTGO Bond Investment	\$ 91,399.51	\$ 91,399.51
WC Capital Improvement Cash	(\$ 1,098.68)	(\$ 1,098.68)
WC Capital Improvement Investment	\$ 4,256.35	\$ 4,256.35
Total	\$ 3,532,787.46	\$ 3,532,787.46

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

Investments in Whatcom County Investment Pool

The authority is a voluntary participant in the Whatcom 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 authority reports its investment in the pool at amortized cost, which is the same as the value of the pool per share. The WCIP does not impose liquidity fees and explains its deposit and withdrawal procedures in its Operating Terms and Conditions document available on the Whatcom County Treasurer website.

Custodial Credit Risk

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

Note 5 – Long-Term Debt *(formerly Debt Service Requirements)*

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of South Whatcom Fire Authority and summarizes the authority's debt transactions for year ended December 31, 2020.

The debt service requirements for the general obligation bond is as follows:

Year		Principal	Interest	Total Debt
2021		\$190,000	\$38,100	\$228,100
2022		\$200,000	\$32,400	\$232,400
2023		\$205,000	\$26,400	\$231,400
2024		\$215,000	\$20,250	\$235,250
2025		\$225,000	\$13,800	\$238,800
2026-	2030	\$235,000	\$7,050	\$242,050
TOTALS		\$1,270,000	\$138,000	\$1,408,000

Note 6 – OPEB Plans

The authority contributes \$75.00 monthly for all employees to the Washington State Council of Firefighters (WSCFF) Employee Benefit trust for MERP. The total amount paid on behalf of the employees for 2020 is \$9,525.00.

Note 7 – Pension Plans

A. State Sponsored Pension Plans

Substantially all the South Whatcom Fire Authority’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 LEOFF II, PERS 2/3 and DCP.

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:

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The South Whatcom Fire Authority also participates in the Volunteer Fire Fighters’ and Reserve Officers’ Relief and Pension Fund (VFFRPF) administered by the State Board for Volunteer Fire Fighters and Reserve

Officers. Detailed information about the plan is included in the State of Washington CAFR available from the Office of Financial Management website at www.ofm.wa.gov.

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

Plan	Employer Contributions	Allocation %	Liability (Asset)
PERS 1 UAAL	\$12,080	.001667%	\$ 58,854
PERS 2/3	\$19,894	.002159%	\$ 27,612
LEOFF 2	\$53,587	.027394%	\$(558,798)
VFFRPF	\$ 1,290	.660000%	\$(234,026)

LEOFF Plan 2

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

C. Defined Contribution Pension Plans

South Whatcom Fire Authority participates in a defined contribution plan through the WA State Department of Retirement Systems. For full time administrative personnel, the authority shall match employee contributions up to 6.2% of the gross annual salary. For full time fire personnel, the authority shall match employee contributions up to 6.2% of the gross annual salary less \$75.00 per month. The authority paid employees \$40,819.00 which they contributed to their WA State Deferred Compensation Plans in 2020.

Note 8 – Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed throughout the month with the authority receiving accounting reports of monthly tax collections within fifteen days of the end of the monthly accounting period.

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

The Authority’s regular levy for the year 2020 was \$1.088393303 per \$1,000 on an assessed valuation of \$2,488,390,963.00 for a total regular levy of \$2,708,348.06.

The Authority’s voter approval general obligation bond for the year 2020 was \$0.09300616 per \$1,000 on an assessed valuation of \$2,458,439,255.00 for the total general obligation bond levy of \$228,650.00.

Note 9 – Risk Management

VFIS is responsible for payment of all covered causes of loss against the South Whatcom Fire Authority above the stated deductible, if any. Portable equipment and real and personal property are covered at either actual cash value, replacement cost, or guaranteed replacement cost. VFIS provides general, automobile, and management liability on an “occurrence” and/or “claims-made” basis, subject to a “follow form” umbrella, if elected. The most common sub-limit of liability starts at \$1M, while aggregate limits may reach as high as \$14M.

South Whatcom Fire Authority is self-insured or classified as a reimbursable account with the State of Washington for unemployment compensation. The authority paid \$1,342.75 for 4 unemployment claims in 2020.

**South Whatcom Fire Authority
Schedule of Liabilities
For the Year Ended December 31, 2021**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.12	3 Fire Engines	12/1/2026	1,270,000	-	190,000	1,080,000
	Total General Obligation Debt/Liabilities:		1,270,000	-	190,000	1,080,000
Revenue and Other (non G.O.) Debt/Liabilities						
264.30	Pension Liabilities	12/31/2021	86,466	-	68,502	17,964
259.12	Compensated Absences		53,379	2,053	-	55,432
	Total Revenue and Other (non G.O.) Debt/Liabilities:		139,845	2,053	68,502	73,396
	Total Liabilities:		1,409,845	2,053	258,502	1,153,396

**South Whatcom Fire Authority
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						
263.96	Samish Way House	12/1/2020	35,000	-	35,000	-
251.12	3 Fire Engines	12/1/2026	1,455,000	-	185,000	1,270,000
	Total General Obligation Debt/Liabilities:		1,490,000	-	220,000	1,270,000
Revenue and Other (non G.O.) Debt/Liabilities						
264.30	Pension Liabilities	12/31/2020	123,672	-	37,206	86,466
259.12	Compensated Absences		57,952	-	4,573	53,379
	Total Revenue and Other (non G.O.) Debt/Liabilities:		181,624	-	41,779	139,845
	Total Liabilities:		1,671,624	-	261,779	1,409,845

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.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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