



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

**Financial Statements Audit Report**

**Housing Authority of the City of  
Sedro-Woolley**

**For the period January 1, 2018 through December 31, 2018**

**Published September 23, 2019**

**Report No. 1024689**





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

September 23, 2019

Board of Commissioners  
Housing Authority of the City of Sedro-Woolley  
Tukwila, Washington

**Report on Financial Statements**

Please find attached our report on the Housing Authority of the City of Sedro-Woolley's financial statements.

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

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy".

Pat McCarthy  
State Auditor  
Olympia, WA

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# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

## **Housing Authority of the City of Sedro-Woolley January 1, 2018 through December 31, 2018**

Board of Commissioners  
Housing Authority of the City of Sedro-Woolley  
Tukwila, 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 Housing Authority of the City of Sedro-Woolley, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Housing Authority's basic financial statements, and have issued our report thereon dated September 12, 2019.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the Housing Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Housing Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Housing 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 Housing 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 in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## COMPLIANCE AND OTHER MATTERS

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

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

## 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 Housing 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 Housing 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.



Pat McCarthy

State Auditor

Olympia, WA

September 12, 2019

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Housing Authority of the City of Sedro-Woolley January 1, 2018 through December 31, 2018**

Board of Commissioners  
Housing Authority of the City of Sedro-Woolley  
Tukwila, Washington

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

We have audited the accompanying financial statements of the Housing Authority of the City of Sedro-Woolley, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Housing Authority's basic financial statements as listed on page 9.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Housing Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Housing Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Authority of the City of Sedro-Woolley, as of December 31, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Housing Authority's basic financial statements. The accompanying Financial Data Schedule and HUD forms are supplementary information required by HUD. These schedules are not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements taken as a whole.

### **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2019 on our consideration of the Housing Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Housing Authority's internal control over financial reporting and compliance.



Pat McCarthy  
State Auditor  
Olympia, WA

September 12, 2019



## **FINANCIAL SECTION**

### **Housing Authority of the City of Sedro-Woolley January 1, 2018 through December 31, 2018**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2018

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2018

Statement of Revenues, Expenses and Changes in Net Position – 2018

Statement of Cash Flows – 2018

Notes to Financial Statements – 2018

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

Financial Data Schedule – 2018

Actual Modernization Cost Certificate – WA19P030501-14

Actual Modernization Cost Certificate – WA19P030501-15

# **Housing Authority of the City of Sedro-Woolley**

## **Management's Discussion and Analysis**

This first section of the annual financial report presents a discussion and analysis of the Housing Authority of the City of Sedro-Woolley's (SWHA) financial performance during the year ended December 31, 2018. It should be read in conjunction with the Authority's financial statements, which immediately follow this section.

Located in Skagit County, Washington, the city of Sedro-Woolley officially merged the neighboring towns of Sedro and Woolley when it incorporated over 100 years ago. With a local population of approximately 11,838, SWHA currently operates two public housing developments—Hillsview and Cedar Grove. These two developments total 80 units and serve a diversified population including senior, disabled and family households.

The King County Housing Authority (KCHA) has a long-standing contract to manage and assist the Sedro-Woolley Housing Authority. SWHA has its own Board of Commissioners, which is responsible for approving its operating and capital budgets and overseeing programs. SWHA is charged by KCHA for the direct operating expenses of the two public housing developments. In addition, KCHA also charges for administrative services provided. These indirect costs are allocated to SWHA using established allocation methods, generally based upon the number of units.

The financial statements included in this report are in conformance with Generally Accepted Accounting Principles for governments.

### **2018 Financial Highlights**

- Total assets of the Authority exceeded total liabilities at December 31, 2018 by \$2,218,461.
- Total revenues (operating and non-operating) for 2018 were \$776,469. Total expenses (operating and non-operating) were \$632,639. The change in net position was an increase of \$143,830.

## **Overview of the Financial Statements**

As required under the GASB 34 financial reporting standards, this annual report consist of two parts—the *basic financial statements*, and *required supplementary information*.

The following *basic financial statements* are included in this report:

- Statement of Net Position—reports the Authority's current financial resources (short-term expendable resources) with capital assets and long-term debt obligations.
- Statement of Revenues, Expenses and Changes in Net Position—reports the operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- Statement of Cash Flows—reports the Authority's cash flows from operating, investing, capital and non-capital activities.
- The statements identified above are followed by a section of required supplementary information that further explains and supports the information found in the financial statements.

## **Financial Analysis of the Authority**

### **Statement of Net Position:**

The *Statement of Net Position* presents the assets, liabilities, and net position of the Authority at the end of the year. The purpose of the statement is to provide a snapshot of the financial condition of the Authority at a certain point in time. Table A-1 presents the Authority's *Condensed Statement of Net Position* for 2018 and 2017. Supplementary information is provided in the accompanying notes that further explain and support the data presented in table A-1.

**Table A-1, Condensed Statement of Net Position**

<b>Assets:</b>	<b>2018</b>	<b>2017</b>
Current and other assets	\$ 376,171	\$ 318,840
Capital assets	1,941,852	1,845,490
Total Assets	2,318,023	2,164,330
<b>Liabilities:</b>		
Current and other liabilities	99,562	89,667
Long-term debt, net of current	-	32
Total Liabilities	99,562	89,699
<b>Net Position:</b>		
Net investment in capital assets	1,941,852	1,845,458
Unrestricted	276,609	229,173
Total Net Position	\$ 2,218,461	\$ 2,074,631

Current and other assets, excluding capital assets, for the year ended December 31, 2018 total \$376,171 and are comprised of \$321,401 in cash and cash equivalents and \$45,824 in accounts receivables, and \$8,946 in other assets. Cash and cash equivalents increased by \$14,544 from 2017.

Capital assets for the year ended December 31, 2018 are \$1.9 million. Included in this category are land and improvements, buildings and improvements, personal property, and construction-in-progress.

Total liabilities, excluding the non-current portion of long-term debt, totaled \$99,562 at December 31, 2018, an increase of \$9,895 from 2017. The increase is primarily due to contract retention related to the Hillsvie and Cedar Grove site upgrade project.

The Authority's current ratio reflects the relationship between current assets and current liabilities and is a measure of the Authority's ability to pay short-term obligations. At December 31, 2018, the Authority's current ratio was 3.78:1, an increase from the previous year's current ratio of 3.56:1. This means that for every dollar in current liabilities there is \$3.78 in current assets.

Total net position increased by \$143,830 during 2018. Net investment in capital assets increased by \$96,394, primarily due to site improvement work on sidewalks, patios, and parking lots and unit upgrades, while unrestricted net position increased by \$47,436. Unrestricted net position increased by 21% primarily due to increase in receivables and noncurrent assets.

#### **Statement of Revenues, Expenses and Changes in Net Position:**

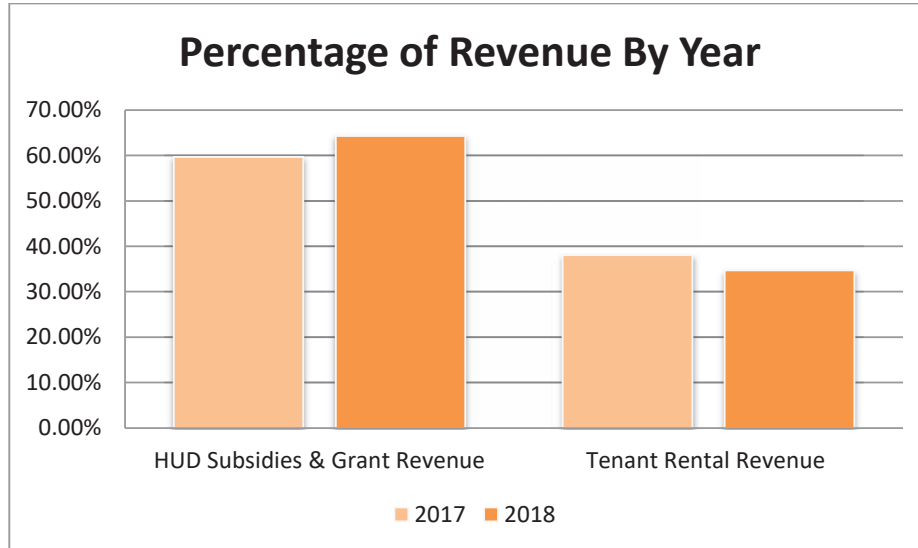
The purpose of the Statement of Revenues, Expenses and Changes in Net Position is to present the revenues earned by the Authority (both operating and non-operating) and the expenses incurred (operating and non-operating), and any other revenues, expenses, gains and losses received or spent by SWHA. Table A-2 represents the Authority's *Condensed Statement of Revenues, Expenses, and Changes in Net Position* for 2018 and 2017.

**Table A-2, Condensed Statement of Revenues, Expenses and Changes in Net Position**

	<b>2018</b>	<b>2017</b>
Operating Revenues	\$ 205,562	\$ 206,260
Net nonoperating revenues	<u>382,917</u>	<u>310,523</u>
Total Revenues	588,479	516,783
Operating expenses	632,639	598,279
Nonoperating expenses	<u>-</u>	<u>-</u>
Total Expenses	632,639	598,279
Excess or deficiency before contributions	(44,160)	(81,496)
Capital grant contributions	<u>187,990</u>	<u>56,426</u>
Change in Net Position	143,830	(25,070)
Beginning Net Position	<u>2,074,631</u>	<u>2,099,701</u>
Ending Net Position	<u>\$ 2,218,461</u>	<u>\$ 2,074,631</u>

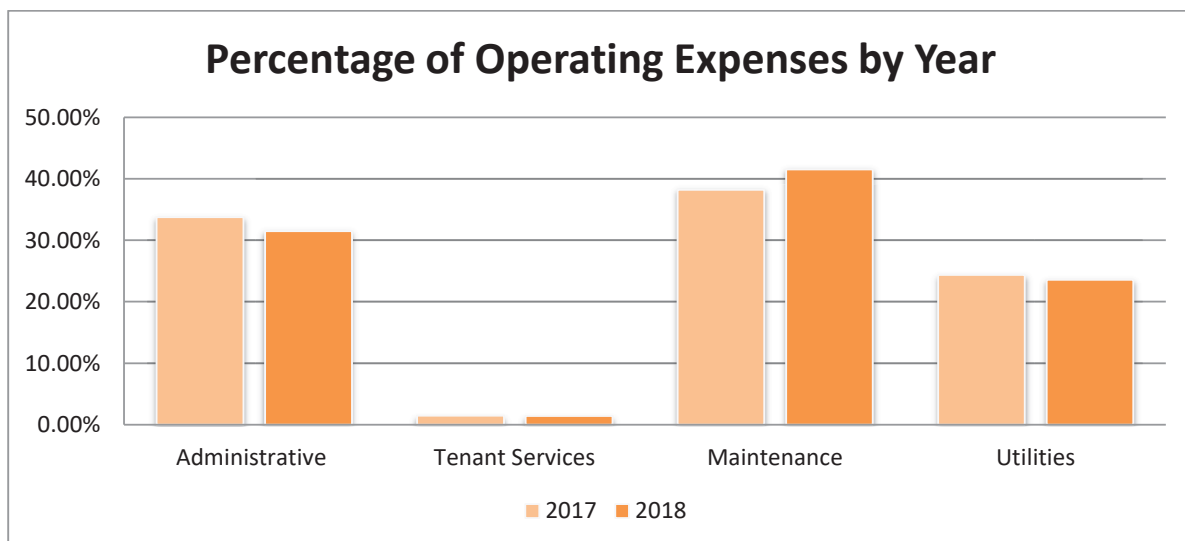
Revenues are classified as operating or non-operating. Table A-3 shows the sources of operating revenues for 2017 and 2018.

**Table A-3, Sources of Revenues for 2017 and 2018**



Operating expenses are amounts paid for providing housing to the Authority's tenants and administering the various programs. Total operating expenses (excluding depreciation), for 2018 were \$533,752. Costs included in operating expenses include: administrative, tenant services, maintenance, utilities, and other. Table A-4 illustrates the operating expense break down by category. Increase in operating expense was mainly due to increase in unit upgrade projects completed during the year.

**Table A-4, Operating Expenses for 2017 and 2018**



## Capital Assets

The Housing Authority of the City of Sedro-Woolley is committed to the ongoing rehabilitation and modernization of its housing inventory. Hillsvue and Cedar Grove were both built in 1971.

**Table A-5, Capital Assets for 2018 and 2017**

	<b>2018</b>	<b>2017</b>
Land	\$ 59,287	\$ 59,287
Buildings and Improvements	4,111,605	4,111,606
Construction-in-progress	197,531	2,281
	<u>4,368,423</u>	<u>4,173,173</u>
Total accumulated depreciation	<u>(2,426,571)</u>	<u>(2,327,683)</u>
Net Capital Assets	<u>\$ 1,941,852</u>	<u>\$ 1,845,490</u>

Information about the Authority's capital assets is further presented in the financial statements Note 4 – Capital Assets.

## Economic Factors Affecting the Authority's Future

The Authority receives the bulk of its operational funding from the United States Department of Housing and Urban Development (HUD) which, like all federal agencies, depends upon congressional appropriations. The current administration advocates severe funding cuts to programs administered by HUD; including completely defunding the Capital Fund Program. Much like the prior year, it is uncertain how much congress will appropriate.

## Contacting the Authority's Financial Management

This financial report is designed to provide our stakeholders with a general overview of the Housing Authority's finances and to demonstrate SWHA's accountability for its resources. Any questions about this report, or requests for additional information, should be directed to the Director of Finance of the King County Housing Authority.

**Housing Authority of The City of Sedro-Woolley**  
**Statement Of Net Position**  
As of December 31, 2018

**ASSETS:**

***Current Assets***

Cash and cash equivalents	\$ 312,401
Restricted cash and cash equivalents	9,000
Receivables, net	45,824
Other current assets	8,946
Total Current Assets	<u>376,171</u>

***Noncurrent Assets***

Land, Buildings, and Equipment, net	
Nondepreciable	256,818
Depreciable	<u>1,685,034</u>
Total Noncurrent Assets	<u>1,941,852</u>
Total Assets	<u>2,318,023</u>

**LIABILITIES:**

***Current Liabilities***

Accounts payable	68,607
Accrued compensated absences	7,626
Tenant security deposits	9,000
Prepaid tenant rent	3,571
Current portion of long term debt	-
Contract retentions	7,133
Other Current Liabilities	<u>3,625</u>
Total Current Liabilities	<u>99,562</u>

***Noncurrent Liabilities***

Long term debt, net of current	<u>-</u>
Total Noncurrent Liabilities	<u>-</u>
Total Liabilities	<u>99,562</u>

**NET POSITION:**

Net investment in capital assets	1,941,852
Restricted	-
Unrestricted	<u>276,609</u>
Total Net Position	<u>\$ 2,218,461</u>

The accompanying notes are an integral part of these financial statements.

**Housing Authority of The City of Sedro-Woolley**  
**Statement of Revenues, Expenses and Changes in Net Position**  
For the 12 Month Period Ending December 31, 2018

**UNAUDITED**

**Operating Revenues**

Tenant revenue	\$ 204,186
Other revenue	<u>1,376</u>
Total Operating Revenues	<u>205,562</u>

**Operating Expenses**

Administrative	168,029
Tenant services	7,556
Maintenance	221,778
Utilities	125,920
Depreciation	98,887
Other expenses	<u>10,469</u>
Total Operating Expenses	<u>632,639</u>
Operating Gain (Loss)	(427,077)

**Nonoperating Revenues (Expenses)**

HUD subsidies and grant revenue	378,351
Investment income	4,540
Gain (loss) on disposal of assets	<u>26</u>
Total Nonoperating Revenues (Expenses)	<u>382,917</u>

INCOME (LOSS) before contributions	(44,160)
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Capital grant contributions	<u>187,990</u>
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CHANGE IN NET POSITION	143,830
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Beginning Net Position	2,074,631
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Ending Net Position	<u><u>\$ 2,218,461</u></u>
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The accompanying notes are an integral part of these financial statements.



**Housing Authority of The City of Sedro-Woolley**  
**Statement of Cash Flows**  
For the 12 Month Period Ending December 31, 2018

**Cash Flows from Operating Activities:**

Receipts from tenants	\$ 201,077
Payments to employees	(99,934)
Payments to suppliers of goods and services	(426,835)
Other payments	1,376
Net cash provided by (used in) operating activities	<u>(324,316)</u>

**Cash Flows from Noncapital Financing Activities:**

Receipts from HUD	264,261
Net cash provided by noncapital financing activities	<u>264,261</u>

**Cash Flows from Capital and Related Financing Activities:**

Capital grant contributions	262,433
Purchases of capital assets	(195,251)
Other receipts (payments)	26
Net cash provided by capital and related financing activities	<u>67,176</u>

**Cash Flows from Investing Activities:**

Investment income	4,540
Other receipts (payments)	7,133
Net cash provided (used in) by investing activities	<u>11,673</u>

Net increase (decrease) in cash and cash equivalents	18,794
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Cash and cash equivalents -- beginning of the year	345,610
Cash and cash equivalents -- end of the year	<u>\$ 321,401</u>

**Reconciliation of operating income (loss) to net cash provided (used) by operating activities:**

Operating income (loss)	(427,077)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	98,887
Change in assets and liabilities:	
Receivables	(1,889)
Inventories and other	(757)
Accounts payable	7,767
Other current liabilities	(1,247)
Net cash provided by (used in) operating activities	<u>\$ (324,316)</u>

The accompanying notes are an integral part of these financial statements.

## **Note 1 – Reporting Entity and Summary of Significant Accounting Policies**

### **Reporting Entity**

#### **Primary Government**

The Housing Authority of the City of Sedro-Woolley (the “Authority”) was created as a municipal corporation under the provisions of the State Housing Authorities Law (RCW 35.82) and the Housing Cooperation Law (RCW 35.83) in response to the Federal Housing Act of 1937. The Act created the United States Housing Authority, empowering it to make loans and annual contributions to local public housing agencies to assist in the development, acquisition and administration of low rent projects. The programs authorized under the Act, as amended, are now administered by the Department of Housing and Urban Development (HUD).

The King County Housing Authority (KCHA) has a long-standing contract to manage and assist the Authority. The Authority has its own Board of Commissioners, which is responsible for approving its operating and capital budgets and overseeing programs. The Authority is charged by KCHA for the direct operating expenses of the two public housing developments. In addition, KCHA also charges a fee for administrative services provided.

The Authority has been granted a broad range of powers to provide housing assistance to low-income households. The nationally recognized definition of a low-income family is a household earning less than 80 percent of the area's median income, adjusted for family size. The Authority administers programs that serve housing needs.

### **Summary of Significant Accounting Policies**

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

#### **Basis of Accounting**

Accounting records are maintained according to the proprietary fund model that is similar to private business enterprises. The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

#### **Accounts Organized by Funds**

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues and expenditures. Each fund is, with limited exceptions, an independent fund and is restricted by contract or regulation from assisting or being assisted financially by any other fund.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

**Revenues and Expenses**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are tenant revenues. Operating expenses for proprietary funds include the cost of maintenance and repairs, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The basis for recognition of revenues and expenses is the accrual basis of accounting. Revenues are recorded when earned. Expenses are recorded when incurred. Revenue from operating subsidies and grants is classified as non-operating revenue. Revenue from capital grants is classified as capital grant contributions.

**Cash, Cash Equivalents and Investments**

Cash consists of Federal Depository Insurance Corporation (FDIC) insurable deposits with original maturities of less than three months. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash. Investments include deposits with original maturities exceeding three months, securities and other assets that are held primarily for the purpose of obtaining income or profit. Restricted cash and cash equivalents as of December 31, 2018 include \$9,000 of tenant security deposits.

**Receivables**

Receivables consist primarily of rents due from tenants. Annually, tenant receivables are analyzed and the allowance for doubtful accounts is appropriately adjusted. No allowances existed at December 31, 2018 other than the allowance for tenant accounts receivable.

**Capital Assets**

Capital assets are recorded at historical cost in the land, structures, and equipment accounts and at appraised fair market value at date of receipt if contributed. The Authority defines capital assets as tangible items with an initial individual cost of at least \$5,000 if the item is equipment and \$50,000 if the item is real property or a capital improvement. Capital assets are depreciated using the straight-line method with depreciation commencing in the acquisition year and ceasing in the disposal year. Capital project costs clearly associated with the acquisition, development, and construction of a real estate project, including indirect costs and interest, are capitalized as a cost of that project.

Depreciable lives for the capital asset categories follow:

Land	No depreciation
Buildings	20 – 40 years
Improvements	15 years
Equipment	3 – 10 years
Construction-in-process	No depreciation

Maintenance and repairs are charged to expense when incurred. Management reviews land, structures, and equipment for possible impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If there is an indication of impairment, management prepares an estimate of future cash flows expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value. Preparation of estimated expected future cash flows is inherently subjective and is based on management's best estimate of assumptions concerning expected future conditions.

### **Tax Liability**

The Authority is by law exempt from all federal, state, and local taxes and assessments.

### **Compensated Absences**

It is the Authority's policy to pay 100% of accumulated annual leave when an employee terminates employment from the Authority. As such, the value of annual leave earned but not used at year-end is accrued. Sick leave does not vest and is only paid to those separating from the Authority as retirees as defined by the state pension system. Because the amount of such payments is difficult to estimate, an accrual is made only when the actual payment amount is known.

## **Note 2 - Cash Deposits and Investments**

The Authority is restricted in its cash deposits and investments to those allowed by RCW 35.82.070(6). In general, deposits must be made with qualified financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC).

### **Insurance and Collateralization**

Deposits that are in excess of the \$250,000 insured amount must be continuously and fully (100%) secured. Collateral, comprised of identifiable U.S. Government securities as prescribed by HUD, are pledged or set aside to secure these deposits. The Public Deposit Protection Act in effect in the State of Washington set up a multiple financial institution collateral pool to insure public deposits. This protection is in the form of securities pledged as collateral to the Public Deposit Protection Commission (PDPC) by all qualified depositories. In 1994, the Authority received a waiver from HUD that enabled it to make deposits in excess of \$100,000 in a qualified public depository because HUD determined that there were "adequate safeguards against the loss of Public Housing Authority funds."

### **Interest Rate Risk**

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy limits the maximum maturity of an investment to not greater than three years. Exceptions may be made for collateralization of repurchase agreements using investments not exceeding 30 years, for the investment of reserve funds, which can be invested up to 30 years if matched to an anticipated future cash flow, and for "step-investments" that increase interest payments at pre-defined times.

### **Credit Risk**

The Department of Housing and Urban Development (HUD), Washington State law, and the Authority's investment policy all limit the instruments in which the Authority may invest. Not all Authority funds have the same restrictions. Following are some of the instruments in which any Authority funds, including Federal funds, may be invested:

- 1) Direct obligations of the Federal government backed by the full faith and credit of the United States
  - a) U.S. Treasury Bills.
  - b) U.S. Treasury Notes and Bonds.
- 2) Obligations of Federal government agencies, such as:
  - a) Government National Mortgage Association (GNMA) mortgage-backed securities.
  - b) GNMA participation securities.
  - c) Maritime Administration Bonds.
  - d) Small Business Administration Bonds.
- 3) Securities of Government Sponsored Agencies, such as:
  - a) Federal Home Loan Mortgage Corporation (FHLMC) notes and bonds.
  - b) Federal National Mortgage Association (FNMA) notes and bonds.
  - c) Federal Home Loan Bank (FHLB) notes and bonds.
  - d) Federal Farm Credit Bank (FFCB) notes and bonds.
  - e) Student Loan Marketing Association (SLMA) notes and bonds.
- 4) Demand and savings accounts.
- 5) Money Market Deposit accounts.
- 6) Certain mutual funds.

### **Concentration of Credit Risk**

The Authority diversifies its investments by security type and institution. SWHA follows the investment policy of KCHA which states: "With the exception of U.S. Treasury securities, investment agreements for trustee held funds, and authorized pools, no more than 15% of the Authority's total investment portfolio will be invested in a single security type or with a single financial institution.

### **Valuation and Classification**

Cash equivalents include deposits and investments that are readily convertible to cash. Instruments with an original maturity date of over 3 months are classified as investments. Cash and investments held for the future payment of long-term liabilities are classified as non-current assets. Cash and investments legally or contractually restricted as to use are classified as restricted.

Cash equivalents include an investment in the Washington State Local Government Investment Pool (the Pool). The Pool is not registered with the Securities and Exchange Commission (SEC), but adheres to SEC Rule 2(a)(7) of the Investment Company Act of 1940 that requires portfolio diversification, divestiture considerations and action if the market value of the portfolio deviates more than .5 percent from the amortized costs. Government pools that adhere to the SEC rule can report their investments at amortized costs if the remaining maturities of the debt securities are 90 days or less. As of December 31, 2018, the pool had an average days-to-maturity of 42 days and therefore is reported at cost. Government securities are reported at fair value. A summary of cash and investments at December 31, 2018 follows.

	Unrestricted	Restricted	Total
<b>Cash and Cash Equivalents:</b>			
Depository	\$ 5,000	\$ -	\$ 5,000
Local Government Investment Pool	307,401	9,000	316,401
Total Cash And Cash Equivalents	<u>\$ 312,401</u>	<u>\$ 9,000</u>	<u>\$321,401</u>

### **Note 3 – Capital Assets**

The components and capital activity of land, structures and equipment follow.

	<b>Beginning Balances</b>	<b>Additions and Transfers-in</b>	<b>Disposals and Transfers-out</b>	<b>Ending Balances</b>
<b>Nondepreciable:</b>				
Land	\$ 59,287	\$ -	\$ -	\$ 59,287
Construction-in-progress	2,281	204,981	(9,730)	197,531
Total Nondepreciable	61,568	204,981	(9,730)	256,818
<b>Depreciable:</b>				
Buildings and Improvements	4,111,605	-	-	4,111,605
Total Depreciable	4,111,605	-	-	4,111,605
<b>Total Capital Assets:</b>	4,173,172	204,981	(9,730)	4,368,423
Less: Accumulated depreciation	(2,327,683)	(98,887)	-	(2,426,571)
	<u>\$ 1,845,489</u>	<u>\$ 106,094</u>	<u>\$ (9,730)</u>	<u>\$ 1,941,852</u>

Capital assets additions were primarily due to site improvement projects.

### **Note 4 – Long Term Debt Obligations**

In 2006, the Authority assumed \$70,351 of long term debt for the purpose of installing energy conservation improvement equipment. The cost of the improvements will be recovered through subsidy from HUD.

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements/ Payments</b>	<b>Ending Balance</b>	<b>Reclass</b>	<b>Current Portion</b>
<b>Financing lease</b>	\$ 32	-	(32)	\$ -	\$ -	\$ -

## **Note 5 - Risk Management**

Sedro-Woolley Housing Authority (SWHA) has the responsibility to systematically and continuously identify potential exposure to losses in terms of frequency and severity probability, and to apply sound risk control and financing techniques to minimize the impact of those potential losses. KCHA Risk Management has implemented programs to protect the Housing Authority against accidental and criminal losses that would significantly affect personnel, property, or budget by using a combination of loss control programs, purchased commercial insurance, voluntary self-insurance, participation in a risk-sharing pool or group, and contractual risk transfer via indemnification agreements.

SWHA secures third-party liability insurance primarily through the Housing Authority Insurance Group (HAIG), a national housing authority risk-sharing pool. The General Liability policy limit is \$5,000,000 per occurrence and has a \$1,000 deductible. Automobile Liability insurance is carried through Philadelphia Insurance Company with \$5,000,000 in total limits provided through a combination of policies, one with a \$1,000,000 combined single limit, and another that provides excess liability of \$4,000,000, for a total of \$5,000,000 in auto liability coverage.

Property insurance, including Rental Income coverage, for Public Housing is placed through the Housing Authority Risk & Retention Pool (HARRP) on a replacement cost basis. The property insurance deductible is \$25,000 per loss. The Authority also has secured Fidelity coverage through HARRP for \$100,000 per occurrence for all employees, and \$500,000 for employees with greater exposure.

An Excess Liability policy of \$15,000,000 is provided over all of the above liability coverage except the Contractors Pollution, which brings total general and auto liability coverage to a limit of \$20,000,000. This coverage is placed with Lexington Insurance Company.

Public Officials Errors and Omissions and Employment Practices Liability is provided on all properties with a \$5,000,000 aggregate limit and a 50,000 self-insured retention for employment practices and other covered claims from Ironshore Specialty Insurance Company.

No active claims are anticipated to exceed the applicable limits of insurance secured from any of the listed providers. Settled claims have not exceeded coverage purchased during the past five years.

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**Housing Authority of the City of Sedro-Woolley**  
**Financial Data Schedule (FDS)**

**Statement of Net Position**

As of December 31, 2018

Line #	Account Description	Cedar Grove WA030000103	Hillview WA030000155	Total Authority
111	Cash - unrestricted	\$ 104,155	\$ 208,246	\$ 312,401
114	Cash - tenant security deposits	3,750	5,250	9,000
100	Total cash	107,905	213,496	321,401
121	AR - PHA projects	182	312	494
122	AR - HUD other projects	25,546	15,886	41,432
126	Accounts receivable- tenants	2,817	2,550	5,367
126.1	Allowance for doubtful accounts - tenants	(917)	(552)	(1,469)
120	Total receivables, net of allowances	27,628	18,196	45,824
142	Prepaid expenses and other assets	2,460	6,486	8,946
150	Total Current Assets	137,993	238,178	376,171
161	Land	-	59,287	59,287
162	Buildings	382,968	3,208,744	3,591,712
166	Accumulated depreciation	(371,029)	(2,055,542)	(2,426,571)
167	Work in progress	133,569	63,962	197,531
168	Infrastructure	383,139	136,754	519,893
160	Total capital assets, net of depreciation	528,647	1,413,205	1,941,852
180	Total Noncurrent Assets	528,647	1,413,205	1,941,852
190	Total Assets	666,640	1,651,383	2,318,023
200	Deferred Outflows of Resources	-	-	-
290	Total Assets and Deferred Outflows of Resources	\$ 666,640	\$ 1,651,383	\$ 2,318,023
312	Accounts payable < 90 days	\$ 16,807	\$ 51,800	\$ 68,607
321	Accrued wage/payroll taxes payable	918	2,707	3,625
322	Accrued compensated absences	1,947	5,679	7,626
341	Tenant security deposits	3,750	5,250	9,000
342	Unearned revenue	1,530	2,041	3,571
345	Other current liabilities	5,134	1,999	7,133
310	Total Current Liabilities	30,086	69,476	99,562
351	Long-term debt, net of current - capital projects	-	-	-
350	Total Noncurrent Liabilities	-	-	-
300	Total Liabilities	30,086	69,476	99,562
400	Deferred Inflows of Resources	-	-	-
508.4	Net Investment in Capital Assets	528,647	1,413,205	1,941,852
511.4	Restricted Net Position	-	-	-
512.4	Unrestricted Net Position	107,907	168,702	276,609
513	Total Equity - Net Assets/Position	636,554	1,581,907	2,218,461
600	Total Liabilities, Deferred Inflows of Resources, and Equity - Net Assets/Position	\$ 666,640	\$ 1,651,383	\$ 2,318,023



Housing Authority of the City of Sedro-Woolley  
Financial Data Schedule (FDS)  
Statement of Revenues, Expenses, and Changes in Net Position  
For the 12 Month Period Ending December 31, 2018

		Cedar Grove WA030000103		Hillsview WA030000155		Total Authority
		14.850 Public and Indian Housing	14.872 Public Housing Capital Fund	14.850 Public and Indian Housing	14.872 Public Housing Capital	
Line Item #	Account Description					
REVENUE:						
70300	Net tenant rental revenue	\$ 41,950	\$ -	\$ 156,476	\$ -	\$ 198,426
70400	Tenant revenue - other	1,701	-	4,060	-	5,760
70500	Total tenant revenue	43,650	-	160,535	-	204,186
70600	HUD PHA Operating Grants	117,630	35,295	186,278	39,148	378,351
70610	Capital Grants	-	128,435	-	59,555	187,990
70700	Total Fee Revenue	-	-	-	-	-
71500	Other Revenue	566	-	836	-	1,402
72000	Investment income - restricted	1,252	-	3,288	-	4,540
70000	TOTAL REVENUE	163,099	163,729	350,938	98,704	776,469
EXPENSES:						
Administrative						
91100	Administrative salaries	9,907	-	30,384	-	40,291
91200	Auditing fees	2,632	-	7,895	-	10,527
91300	Management fees	12,878	-	38,635	-	51,514
91310	Book-keeping Fee	-	-	-	-	-
91400	Advertising and Marketing	32	-	97	-	129
91500	Employee benefit contributions - administrative	4,099	-	12,061	-	16,160
91600	Office Expenses	498	-	1,514	-	2,012
91700	Legal expense	778	-	3,257	-	4,035
91800	Travel	397	-	1,190	-	1,587
91900	Other	13,342	-	15,784	-	29,126
91000	Total Operating - Administrative	44,564	-	110,817	-	155,381
92000	Asset Management Fee	2,400	-	7,200	-	9,600
Tenant services						
92400	Tenant services - other	-	-	-	-	-
92500	Total Tenant Services	1,823	-	5,733	-	7,556
Utilities						
93100	Water	12,777	-	9,554	-	22,332
93200	Electricity	2,096	-	14,893	-	16,989
93300	Gas	1,055	-	-	-	1,055
93600	Sewer	15,695	-	46,936	-	62,630
93800	Other utilities expense	10,176	-	12,738	-	22,914
93000	Total Utilities	41,799	-	84,121	-	125,920
Ordinary maintenance & operation						
94100	Ordinary maintenance and operations - labor	14,915	-	44,929	-	59,844
94200	Ordinary maintenance and operations - material and other	7,675	35,295	25,120	39,148	107,239
94300	Ordinary maintenance and operations - contracts	10,048	-	20,763	-	30,811
94500	Employee benefit contributions - ordinary maintenance	6,054	-	17,823	-	23,877
94000	Total Maintenance	38,692	35,295	108,635	39,148	221,769
General expenses						
96110	Property Insurance	1,500	-	2,568	-	4,068
96120	Liability Insurance	1,825	-	4,576	-	6,401
96130	Workmen's compensation	690	-	2,328	-	3,018
96100	Total Insurance Premiums	4,016	-	9,472	-	13,488
96200	Other General Expenses	-	-	-	-	-
96210	Compensated absences	(0)	-	39	-	39
96000	Total Other General Expenses	(0)	-	39	-	39
96720	Interest on notes payable (short and long term)	-	-	-	-	-
96700	Total interest expense and amortization cost	-	-	-	-	-
96900	TOTAL OPERATING EXPENSES	133,294	35,295	326,017	39,148	533,752
97000	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	29,806	-	24,921	59,555	242,717
97100	Extraordinary maintenance	-	-	-	-	-
97200	Casualty losses - non-capitalized	-	-	-	-	-
97300	Housing assistance payments	-	-	-	-	-
97350	HAP Portability-In	-	-	-	-	-
97400	Depreciation expense	27,858	-	71,029	-	98,887
90000	TOTAL EXPENSES	161,151	35,295	397,045	39,148	632,639
OTHER FINANCING SOURCES (USES)						
10010	Operating transfers in	-	-	-	-	-
10020	Operating transfers out	-	-	-	-	-
10100	TOTAL OTHER FINANCING SOURCES	-	-	-	-	-
EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES		\$ 1,948	\$ 128,435	\$ (46,107)	\$ 59,555	\$ 143,830
MEMO ACCT INFORMATION						
11020	Required annual debt principal payments	-	-	-	-	-
11030	Beginning of year equity	506,171	-	1,568,460	-	2,074,631
11040	Prior period adjustments and error corrections	-	-	-	-	-
11170	Administrative Fee Equity	-	-	-	-	-
11180	Housing Assistance Fee Equity	-	-	-	-	-
11190	Unit Months Available	240	-	720	-	960
11210	Number of unit months leased	236	-	712	-	948
11270	Excess cash	94,340	-	135,047	-	229,386
11620	Building Purchases	-	128,435	-	59,555	187,990
11630	Furniture and Equipment - dwelling purchases	-	-	-	-	-

# Actual Modernization Cost Certificate

U.S. Department of Housing  
and Urban Development  
Office of Public and Indian Housing

OMB Approval No. 2577-0157 (exp. 01/31/2017)

## Capital Fund Program (CFP)

Public reporting burden for this collection of information is estimated to average 2 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the Reports Management Officer, Paperwork Reduction Project (2577-0044 and 0157), Office of Information Technology, U.S. Department of Housing and Urban Development, Washington, D.C. 20410-3600. This agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless that collection displays a valid OMB control number.

Do not send this form to the above address.

This collection of information requires that each Housing Authority (HA) submit information to enable HUD to initiate the fiscal closeout process. The information will be used by HUD to determine whether the modernization grant is ready to be audited and closed out. The information is essential for audit verification and fiscal close out. Responses to the collection are required by regulation. The information requested does not lend itself to confidentiality.

PHA Name: HA COUNTY OF SEDRO-WOOLLEY	Modernization Project Number: WA19P030501-14
---	---

The PHA hereby certifies to the Department of Housing and Urban Development as follows:

1. That the total amount of Modernization Cost (herein called the "Actual Modernization Cost") of the Modernization Grant, is as shown below:

A. Funds Approved	\$ 119,772.00
B. Funds Disbursed	\$ 119,772.00
C. Funds Expended (Actual Modernization Cost)	\$ 119,772.00
D. Amount to be Recaptured (A-C)	\$
E. Excess of Funds Disbursed (B-C)	\$

2. That all modernization work in connection with the Modernization Grant has been completed;

3. That the entire Actual Modernization Cost or liabilities therefor incurred by the PHA have been fully paid;

4. That there are no undischarged mechanics', laborers', contractors', or material-men's liens against such modernization work on file in any public office where the same should be filed in order to be valid against such modernization work;

5. That the time in which such liens could be filed has expired; and

6. That for any years in which the grantee is subject to the audit requirements of the Single Audit Act, 31 U.S.C. § 7501 et seq., as amended, the grantee has or will perform an audit in compliance with said requirements.

7. Please mark one:

- ☐ A. This grant will be included in the PHA's next fiscal year audit per the requirements of the Single Audit Act.
- ☒ B. This grant will not be included in the PHA's next fiscal year audit per the requirements of the Single Audit Act.

I hereby certify that all the information stated herein, as well as any information provided in the accompaniment herewith, is true and accurate.

Warning: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802)

Name & Title of Authorized Signatory (type or print clearly):

Stephen J. Normap, Executive Director

Signature of Executive Director (or Authorized Designee):

X

Date:

6/12/18

For HUD Use Only

The Cost Certificate is approved for audit by **BARLAN STEWART**  
Approved by: Director, Office of Public Housing  
U.S. Department of Housing and Urban Development, Office of  
Administration  
Date: 2018-06-14 15:33:12 -0500

Date:

06/14/2018

The costs shown above agree with HUD verified costs (if box 7A or 7B is marked):

Approved: (Director, Office of Public Housing)

X

Date:

**Actual Modernization  
Cost Certificate**

U.S. Department of Housing  
and Urban Development  
Office of Public and Indian Housing

OMB Approval No. 2577-0157 (exp. 01/31/2017)

**Capital Fund Program (CFP)**

Public reporting burden for this collection of information is estimated to average 2 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the Reports Management Officer, Paperwork Reduction Project (2577-0044 and 0157), Office of Information Technology, U.S. Department of Housing and Urban Development, Washington, D.C. 20410-5000. This agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless that collection displays a valid OMB control number.

Do not send this form to the above address.

This collection of information requires that each Housing Authority (HA) submit information to enable HUD to initiate the fiscal closeout process. The information will be used by HUD to determine whether the modernization grant is ready to be audited and closed out. The information is essential for audit verification and fiscal close out. Responses to the collection are required by regulation. The information requested does not lend itself to confidentiality.

PHA Name:

HA CITY OF SEDRO-WOOLLEY

Modernization Project Number:

WA19P0030501-15

The PHA hereby certifies to the Department of Housing and Urban Development as follows:

1. That the total amount of Modernization Cost (herein called the "Actual Modernization Cost") of the Modernization Grant, is as shown below:

A. Funds Approved	\$ 121,798.00
B. Funds Disbursed	\$ 121,798.00
C. Funds Expended (Actual Modernization Cost)	\$ 121,798.00
D. Amount to be Recaptured (A-C)	\$
E. Excess of Funds Disbursed (B-C)	\$
2. That all modernization work in connection with the Modernization Grant has been completed.
3. That the entire Actual Modernization Cost or liabilities therefor incurred by the PHA have been fully paid;
4. That there are no undischarged mechanics', laborers', contractors', or material-men's liens against such modernization work on file in any public office where the same should be filed in order to be valid against such modernization work;
5. That the time in which such liens could be filed has expired; and
6. That for any years in which the grantee is subject to the audit requirements of the Single Audit Act, 31 U.S.C. § 7501 et seq., as amended, the grantee has or will perform an audit in compliance with said requirements.
7. Please mark one:  
☐ A. This grant will be included in the PHA's next fiscal year audit per the requirements of the Single Audit Act.  
☒ B. This grant will not be included in the PHA's next fiscal year audit per the requirements of the Single Audit Act.

I hereby certify that all the information stated herein, as well as any information provided in the accompaniment herewith, is true and accurate.

Warning: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012, 31 U.S.C. 3729, 3802)

Name & Title of Authorized Signatory (type or print clearly):

Stephen Norman, Executive Director

Signature of Executive Director (or Authorized Designee):

X

Date:

10/26/18

For HUD Use Only

The Cost Certificate is approved for audit (if box 7A is marked):

Approved for Audit (Director, Office of Public Housing)

X

Date:

10/26/18

The costs shown above agree with HUD verified costs (if box 7A or 7B is marked):

Approved: (Director, Office of Public Housing)

X

Date:

form HUD-63001 (10/96)  
ref Handbooks 7485 1 & 2

## ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>