



Office of the Washington State Auditor
Pat McCarthy

Federal Program Audit Report

Scatchet Head Water District

For the period January 1, 2025 through December 31, 2025

Published August 6, 2026

Report No. 1040240



Scan to see another great way
we're helping advance
#GoodGovernment



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

August 6, 2026

Board of Commissioners
Scatchet Head Water District
Coupeville, Washington

**Report on Water and Waste Disposal Systems for Rural
Communities – 10.760**

Please find attached our report on the Scatchet Head Water District's compliance with requirements applicable to its Water and Waste Disposal Systems for Rural Communities program in accordance with Title 2 *U.S Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

We are issuing this report in order to provide information on specific financial activities of the District.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

TABLE OF CONTENTS

Schedule of Findings and Questioned Costs.....	4
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance	6
Independent Auditor's Report on the Schedule of Expenditures of Federal Awards	9
Financial Section.....	13
About the State Auditor's Office.....	16

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Scatchet Head Water District January 1, 2025 through December 31, 2025

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Schedule of Expenditures of Federal Awards

We issued an unmodified opinion on the fair presentation of the District’s Schedule of Expenditures of Federal Awards in accordance with its regulatory basis of accounting. Separately, we issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the Schedule of Expenditures of Federal Awards is prepared using a basis of accounting other than GAAP.

Internal Control over Financial Reporting:

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

We noted no instances of noncompliance that were material to the Schedule of Expenditures of Federal Awards of the District.

Federal Awards

Internal Control over Major Programs:

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

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

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

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

<u>ALN</u>	<u>Program or Cluster Title</u>
10.760	Water and Waste Disposal Systems for Rural Communities

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$1,000,000.

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

INDEPENDENT AUDITOR'S REPORT

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

Scatchet Head Water District January 1, 2025 through December 31, 2025

Board of Commissioners
Scatchet Head Water District
Coupeville, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the compliance of the Scatchet Head Water District, with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2025. The District's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2025.

Basis for Opinion on Each Major Federal Program

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

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

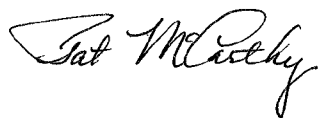
A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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

Purpose of this Report

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



Pat McCarthy, State Auditor

Olympia, WA

July 30, 2026

INDEPENDENT AUDITOR'S REPORT

Report on the Schedule of Expenditures of Federal Awards

Scatchet Head Water District January 1, 2025 through December 31, 2025

Board of Commissioners
Scatchet Head Water District
Coupeville, Washington

REPORT ON THE AUDIT OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Adverse and Unmodified Opinions

Opinion on Regulatory Basis of Accounting (BARS Manual)

We have audited the accompanying Schedule of Expenditures of Federal Awards for the Water and Waste Disposal Systems for Rural Communities program of the Scatchet Head Water District, for the year ended December 31, 2025, and the related notes (the schedule).

In our opinion, the accompanying Schedule of Expenditures of Federal Awards presents fairly, in all material respects, the expenditures of federal awards under the Water and Waste Disposal Systems for Rural Communities program of the Scatchet Head Water District for the year ended December 31, 2025, on the basis of accounting described in Note 1.

As described in Note 1 to the schedule, the Scatchet Head Water District has prepared this financial statement to meet the financial reporting requirements of state law using accounting practices prescribed by the BARS manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP).

Adverse Opinion on U.S. GAAP

The financial statement referred to above is not intended to, and in our opinion does not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the expenditures of federal awards under the Water and Waste Disposal Systems for Rural Communities program of the Scatchet Head Water District for the year ended December 31, 2025, due to the significance of the matter discussed below.

Basis for Adverse Opinion on U.S. GAAP

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

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance with the compliance requirements referred to above.

Matter Giving Rise to Adverse Opinion on U.S. Generally Accepted Accounting Principles

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. The effects on the financial statements of the variances between GAAP and the accounting practices the District used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the schedule is presented fairly, in all material respects, in accordance with GAAP.

Responsibilities of Management for the Schedule

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of Washington law and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Schedule

Our objectives are to obtain reasonable assurance about whether the schedule as a whole is free from material misstatement. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material, if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the schedule.

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

- Exercise professional judgment and maintain professional skepticism;
- Identify and assess the risks of material misstatement of the schedule, 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 schedule;
- Obtain an understanding of the internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the schedule; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2026 on our consideration of the Scatchet Head Water District'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 opinions 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 District's internal control over financial reporting and compliance.

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

Pat McCarthy, State Auditor

Olympia, WA

July 30, 2026

FINANCIAL SECTION

Scatchet Head Water District January 1, 2025 through December 31, 2025

FINANCIAL STATEMENTS

Schedule of Expenditures of Federal Awards – 2025

Notes to Schedule of Expenditures of Federal Awards – 2025

Scatchet Head Water District
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2025

	Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
					From Pass- Through Awards	From Direct Awards	Total		
	RURAL UTILITIES SERVICE, AGRICULTURE, DEPARTMENT OF	Water and Waste Disposal Systems for Rural Communities	10.760		-	1,712,444	1,712,444	-	
					-	1,712,444	1,712,444	-	
					Total Federal Awards Expended:				
					-	1,712,444	1,712,444	-	

The accompanying notes are an integral part of this schedule.

Scatchet Head Water District

Notes to the Schedule of Expenditures of Federal Awards

for the Year Ended December 31, 2025

The order of the required notes corresponds to the Federal Audit Clearinghouse Data Collection Form (SF-SAC). Please follow the same order for the required Notes. After Notes 1-2, disclose other notes as applicable to the government circumstances in sequential order.

Note 1 – Basis of Accounting

BARS Cash

This Schedule is prepared on the same cash basis of accounting as the Scatchet Head Water District financial statements and in accordance with requirements contained in Uniform Guidance.

Note 2 – Federal Indirect Cost Rate

The Scatchet Head Water District elected not to use the de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3 – Federal Loans

(a) The Scatchet Head Water District was approved by the USDA Rural Utilities Service to receive a loan totaling \$2,500,000.00 to update the water system. Interim loan financing was received for the construction period. The amount listed for this loan includes the beginning of the period loan balance plus proceeds used during the year. The balance at the end of the period is \$1,712,443.68.

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.

Stay connected at sao.wa.gov

- [Find your audit team](#)
- [Request public records](#)
- Search BARS Manuals ([GAAP](#) and [cash](#)), and find [reporting templates](#)
- Learn about our [training workshops](#) and [on-demand videos](#)
- Discover [which governments serve you](#) — enter an address on our map
- Explore public financial data with the [Financial Intelligence Tool](#)

Other ways to stay in touch

- Main telephone:
(564) 999-0950
- Toll-free Citizen Hotline:
(866) 902-3900
- Email:
webmaster@sao.wa.gov