



Washington State Auditor's Office

Government that works for citizens

Financial Statements and Federal Single Audit Report

Town of Winthrop

Okanogan County

For the period January 1, 2015 through December 31, 2015

Published September 29, 2016

Report No. 1017586





Washington State Auditor's Office

September 29, 2016

Mayor and Town Council
Town of Winthrop
Winthrop, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Town of Winthrop's financial statements and compliance with federal laws and regulations.

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Town of Winthrop
Okanogan County
January 1, 2015 through December 31, 2015**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

We issued an unmodified opinion on the fair presentation of the Town’s financial statements in accordance with its regulatory basis of accounting. Separately, we issued an adverse opinion on the fair presentation of all funds with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared using a basis of accounting other than GAAP.

Internal Control over Financial Reporting:

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

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

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 Town'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>CFDA No.</u> | <u>Program or Cluster Title</u> |
|-----------------|-----------------------------------|
| 20.205 | Highway Planning and Construction |

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

The Town 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 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**

**Town of Winthrop
Okanogan County
January 1, 2015 through December 31, 2015**

Mayor and Town Council
Town of Winthrop
Winthrop, 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 Town of Winthrop, Okanogan County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Town's financial statements, and have issued our report thereon dated September 19, 2016.

We issued an unmodified opinion on the fair presentation of the Town's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the Town using accounting practices prescribed by Washington State statutes 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Town'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 Town's

internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 Town'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

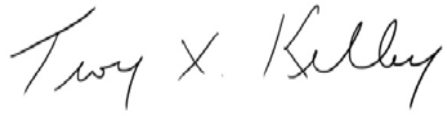
As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of the Town's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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 Town'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 Town'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 "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

September 19, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**Town of Winthrop
Okanogan County
January 1, 2015 through December 31, 2015**

Mayor and Town Council
Town of Winthrop
Winthrop, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of the Town of Winthrop, Okanogan County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended December 31, 2015. The Town's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal

program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Town's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town 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, 2015.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

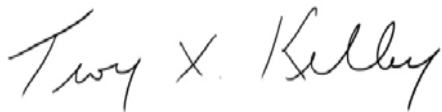
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

September 19, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Town of Winthrop Okanogan County January 1, 2015 through December 31, 2015

Mayor and Town Council
Town of Winthrop
Winthrop, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Town of Winthrop, Okanogan County, Washington, for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Town's financial statements, as listed on page 15.

Management's Responsibility 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 Washington State statutes 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 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.

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 Town'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 Town'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 opinions.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the Town of Winthrop has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using 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 financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Town of Winthrop, for the year ended December 31, 2015, on the basis of accounting described in Note 1.

Basis for 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. The effects on the financial statements of the variances between GAAP and the accounting practices the Town 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 financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Town of Winthrop, as of December 31, 2015, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

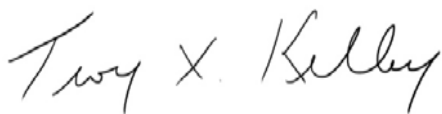
Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The accompanying Schedule of Liabilities is also presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2016 on our consideration of the Town'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 Town's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

September 19, 2016

FINANCIAL SECTION

**Town of Winthrop
Okanogan County
January 1, 2015 through December 31, 2015**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2015
Notes to Financial Statements – 2015

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2015
Schedule of Expenditures of Federal Awards – 2015
Notes to the Schedule of Expenditures of Federal Awards – 2015

Town of Winthrop
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

| | | Total for All Funds (Memo Only) | 001 Current Expense | 101 Street | 103 Parking Mitigation Fee Fund |
|---|-------------------------------------|--|--------------------------------|-------------------|--|
| Beginning Cash and Investments | | | | | |
| 30810 | Reserved | 623,235 | - | - | 6,000 |
| 30880 | Unreserved | 707,264 | 101,895 | 54,997 | - |
| 388 & 588 | Prior Period Adjustments, Net | - | - | - | - |
| Operating Revenues | | | | | |
| 310 | Taxes | 1,024,289 | 603,103 | 115,731 | - |
| 320 | Licenses and Permits | 33,723 | 33,723 | - | - |
| 330 | Intergovernmental Revenues | 1,279,835 | 389,038 | 865,400 | - |
| 340 | Charges for Goods and Services | 494,364 | 17,662 | - | - |
| 350 | Fines and Penalties | 5,250 | 1,441 | - | - |
| 360 | Miscellaneous Revenues | 328,538 | 327,173 | 1,226 | - |
| Total Operating Revenues: | | 3,165,999 | 1,372,140 | 982,358 | - |
| Operating Expenditures | | | | | |
| 510 | General Government | 164,113 | 164,113 | - | - |
| 520 | Public Safety | 334,818 | 328,379 | 1,288 | - |
| 530 | Utilities | 303,728 | - | - | - |
| 540 | Transportation | 111,648 | - | 111,648 | - |
| 550 | Natural and Economic Environment | 163,870 | 37,833 | 1,867 | - |
| 560 | Social Services | 1,100 | 1,100 | - | - |
| 570 | Culture and Recreation | 75,944 | 15,290 | - | - |
| 598 | Miscellaneous Expenses | - | - | - | - |
| Total Operating Expenditures: | | 1,155,222 | 546,715 | 114,802 | - |
| Net Operating Increase (Decrease): | | 2,010,778 | 825,425 | 867,555 | - |
| Nonoperating Revenues | | | | | |
| 370-380, 395 & 398 | Other Financing Sources | 361,226 | 11,353 | 329,872 | - |
| 391-393 | Debt Proceeds | - | - | - | - |
| 397 | Transfers-In | 6,000 | - | 6,000 | - |
| Total Nonoperating Revenues: | | 367,226 | 11,353 | 335,872 | - |
| Nonoperating Expenditures | | | | | |
| 580, 596 & 599 | Other Financing Uses | 222,072 | 22,072 | - | - |
| 591-593 | Debt Service | 70,248 | 76 | - | - |
| 594-595 | Capital Expenditures | 2,301,850 | 852,263 | 1,203,350 | - |
| 597 | Transfers-Out | 6,000 | - | 2,000 | - |
| Total Nonoperating Expenditures: | | 2,600,170 | 874,411 | 1,205,350 | - |
| Net Increase (Decrease) in Cash and Investments: | | (222,166) | (37,633) | (1,923) | - |
| Ending Cash and Investments | | | | | |
| 5081000 | Reserved | 808,853 | - | - | 6,000 |
| 5088000 | Unreserved | 299,479 | 64,262 | 53,075 | - |
| Total Ending Cash and Investments | | 1,108,332 | 64,262 | 53,075 | 6,000 |

The accompanying notes are an integral part of this statement.

| 104 Stadium | 113 Parking Improvement Fund | 201 Sewer Debt Reserve | 205 Fire Truck G/O Bond | 401 Water | 402 Sewer |
|-----------------------|---|-----------------------------------|------------------------------------|-----------------------|-----------------------|
| - | - | 7 | 11,491 | 235,646 | 370,091 |
| 248,925 | 19,145 | - | - | 148,585 | 133,717 |
| - | - | - | - | - | - |
| 251,691 | 1,677 | - | 52,085 | - | - |
| - | - | - | - | - | - |
| 422 | - | - | - | 23,711 | 1,265 |
| - | - | - | - | 269,127 | 207,576 |
| - | - | - | - | 1,912 | 1,897 |
| 0 | - | - | - | 30 | 108 |
| <u>252,113</u> | <u>1,677</u> | <u>-</u> | <u>52,085</u> | <u>294,780</u> | <u>210,846</u> |
| - | - | - | - | - | - |
| - | - | - | - | 2,576 | 2,576 |
| - | - | - | - | 142,486 | 161,242 |
| - | - | - | - | - | - |
| 116,703 | - | - | - | 3,734 | 3,734 |
| - | - | - | - | - | - |
| 60,655 | - | - | - | - | - |
| - | - | - | - | - | - |
| <u>177,357</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>148,795</u> | <u>167,552</u> |
| <u>74,755</u> | <u>1,677</u> | <u>-</u> | <u>52,085</u> | <u>145,984</u> | <u>43,294</u> |
| - | - | - | - | - | 20,000 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>20,000</u> |
| - | - | - | - | - | 200,000 |
| 2,204 | - | - | 49,271 | 18,697 | - |
| 75,000 | - | - | - | 133,625 | 37,612 |
| - | - | - | - | 2,000 | 2,000 |
| <u>77,204</u> | <u>-</u> | <u>-</u> | <u>49,271</u> | <u>154,322</u> | <u>239,612</u> |
| (2,449) | 1,677 | - | 2,814 | (8,338) | (176,318) |
| 246,474 | - | 7 | 14,305 | 280,455 | 261,612 |
| 3 | 20,822 | - | - | 95,438 | 65,878 |
| <u>246,477</u> | <u>20,822</u> | <u>7</u> | <u>14,305</u> | <u>375,894</u> | <u>327,490</u> |

The accompanying notes are an integral part of this statement.

Town of Winthrop
Notes to the Financial Statements
For the year ended December 31, 2015

Note 1 - Summary of Significant Accounting Policies

The Town of Winthrop was incorporated on March 12, 1924 and operates under the laws of the state of Washington applicable to a town with a Mayor-Council form of government. The Town of Winthrop is a general purpose local government and provides public safety, fire prevention, street improvements, parks and recreation and general administration services. In addition, the Town of Winthrop operates a water system and sewer system.

The Town of Winthrop 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.
- 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 not presented using the classifications defined 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. 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.

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the government.

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

PROPRIETARY FUND TYPES:

Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

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

C. Budgets

The Town of Winthrop adopts annual appropriated budgets for all 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.

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 were as follow:

| FUND | FINAL APPROPRIATED AMOUNT | ACTUAL EXPENDITURES | VARIANCE |
|------------------------------|---------------------------------|------------------------|----------------|
| Current Expense | \$2,479,005.00 | \$1,421,126.00 | \$1,057,879.00 |
| Streets | \$1,643,925.00 | \$1,320,152.47 | \$323,772.53 |
| Parking Mitigation | \$6,000.00 | \$0.00 | \$6,000.00 |
| Stadium | \$88,270.00 | \$74,858.53 | \$13,411.47 |
| Vehicle Replacement | \$14,000.00 | \$0.00 | \$14,000.00 |
| Parking Improvement | \$20,000.00 | \$0.00 | \$20,000.00 |
| Hotel/Motel 3% | \$200,800.00 | \$179,702.68 | \$21,097.32 |
| Pedestrian Transportation | \$7,670.00 | \$0.00 | \$7,670.00 |
| Fire Truck G/O Bond | \$49,270.00 | \$49,271.00 | (\$1.00) |
| Water | \$2,009,240.00 | \$303,009.13 | \$1,706,230.87 |
| Sewer | \$328,150.00 | \$188,525.96 | \$139,624.04 |

| | | | |
|--------------------|-----------------------|-----------------------|-----------------------|
| Water SDF | \$70,000.00 | \$108.19 | \$69,891.81 |
| Sewer SDF | \$50,000.00 | \$0.00 | \$50,000.00 |
| Sewer Cumulative | \$228,000.00 | \$218,637.45 | \$9,362.55 |
| Water Cumulative | \$100,000.00 | \$0.00 | \$100,000.00 |
| Grand Total | \$7,294,330.00 | \$3,755,391.41 | \$3,538,938.59 |

Budgeted amounts are authorized to be transferred between departments within any fund/object classes within departments; 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 Town of Winthrop's legislative body.

D. Cash and Investments

See Note 3, Deposits and Investments.

E. Capital Assets

Capital assets are long-lived assets of the Town of Winthrop. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to 240 days and is payable upon separation or retirement. Sick leave may be accumulated 480 hours. Upon separation or retirement employees who have worked for at least three years will be paid for any unused sick leave at a rate of three to one. Payments are recognized as expenditures when paid.

G. Long-Term Debt

See Note 4, Debt Service Requirements.

H. Other Financing Sources or Uses

Other government's other Financing Sources or Uses consist of inter-fund loan repayments, transfers from funds and capital outlays.

I. Risk Management

The Town of Winthrop is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure

certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2015, 261 cities/towns/non-city entities participate in the AWC Trust HCP. The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Group Health, Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW.

The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

J. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by ordinance or resolution of the Winthrop Town Council. When expenditures that meet restrictions are incurred,

the Town of Winthrop intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments for 2015 consist of \$808,853.32. The internally committed portion of ending cash and investment reservations are as follows: \$130,144 reserved for the cost to expand the capacities of the water system, \$148,837 reserved for the cost to expand the capacities of the sewer system, \$150,311 reserved to pay for the cost of capital improvements for the water system, \$112,775 reserved to pay for the cost of capital improvements for the sewer system, \$7 for sewer debt reserve, \$6,000 reserved to fund and maintain parking facilities used to mitigate the loss of off-street parking for a use or development and \$14,305 reserved to pay for a voted general obligation bond used to purchase a fire truck. The externally committed portion of the ending cash and investment reservations in the amount of \$246,474 are for lodging tax revenues collected that must be used in accordance with RCW 67.28.1816.

Note 2 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after the end of each month.

Property tax revenues are recognized when cash is received by the Town of Winthrop. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The Town of Winthrop's regular levy for the year 2015 was \$1.694 per \$1,000 on an assessed valuation of \$99,264,682 for a total regular levy of \$168,227.

The Town of Winthrop's general obligation bond levy for the year 2015 was \$.524 per \$1000 on an assessed valuation of \$98,549,082 for a total bond levy of \$51,735.

The Town of Winthrop's special levy for emergency medical services for the year 2015 was \$.50 per \$1000 on an assessed valuation of \$99,264,682 for a total special levy of \$49,632.

Note 3 – Deposits and Investments

It is the Town of Winthrop's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the Current Expense Fund.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the Town of Winthrop or its agent in the government's name.

Investments are reported at original cost. Investments by type at December 31, 2015 are as follows:

| | |
|-----------------------------|----------------------|
| NCNB Savings – Surplus Cash | \$ 219,148.01 |
| NCNB Savings – Utilities | \$ 232,474.84 |
| TOTAL | \$ 451,622.85 |

Note 4 – Debt Service Requirements

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the Town of Winthrop and summarizes the Town's debt transactions for year ended December 31, 2015.

The debt service requirements, which includes debt and interest, for general obligation bonds, revenue bonds and other debt are as follows:

| YEAR | GENERAL OBLIGATION BONDS | REVENUE BONDS | OTHER DEBT | TOTAL DEBT |
|---------------|---|--------------------------|---------------------|----------------------|
| 2016 | \$ 49,271.00 | \$ 18,360.32 | \$ 2,193.50 | \$ 69,824.82 |
| 2017 | \$ 49,271.00 | \$ 17,855.00 | \$ 2,173.00 | \$ 69,299.00 |
| 2018 | \$ 49,271.13 | \$ 17,349.66 | \$ 2,152.50 | \$ 68,773.29 |
| 2019 | \$ - | \$ - | \$ 2,132.00 | \$ 2,132.00 |
| 2020 | \$ - | \$ 38,802.18 | \$ 2,111.50 | \$ 2,111.50 |
| 2021-2025 | \$ - | \$ - | \$ 4,161.50 | \$ 4,161.50 |
| TOTALS | \$ 147,813.13 | \$ 92,367.16 | \$ 14,924.00 | \$ 255,104.29 |

Note 5 - Interfund Loans

The following table displays interfund loan activity during 2015:

| Borrowing Fund | Lending Fund | Balance 01/01/2015 | New Loans | Re-Payment | Balance 12/31/2015 |
|-----------------------|---------------------|-------------------------------|----------------------|---------------------|-------------------------------|
| Current Expense | Sewer SDF | \$ 50,412.50 | \$ - | \$ 20,000.00 | \$ 30,412.50 |
| Streets | Sewer Cumulative | \$ 35,000.00 | \$ - | \$ - | \$ 35,000.00 |
| Streets | Sewer Cumulative | \$ - | \$ 200,000.00 | \$ - | \$ 200,000.00 |
| | TOTALS | \$ 85,412.50 | \$ 200,000.00 | \$ 20,000.00 | \$ 265,412.50 |

Note 6 – Pension Plans

A. State Sponsored Pension Plans

Substantially all Town of Winthrop 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 Public Employee's Retirement System (PERS) and Laws Enforcement Officers and Firefighters Retirement System (LEOFF) retirement plans.

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

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

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

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

At June 30, 2015 (the measurement date of the plans), the Town of Winthrop's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

| | Allocation % | Liability (Asset) |
|-------------|--------------|-------------------|
| PERS 1 | .000017% | \$ 889 |
| PERS 1 UUAL | .002318% | \$ 121,253 |
| PERS 2/3 | .002992% | \$ 106,906 |
| LEOFF 2 | .003832% | \$ -39,385 |

LEOFF Plan 2

The Town of Winthrop 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.

Town of Winthrop
Schedule of Liabilities
For the Year Ended December 31, 2015

| ID. No. | Description | Due Date | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|-----------------|--------------------------|------------------|-------------------|-----------------------|
| General Obligation Debt/Liabilities | | | | | | |
| 251.12 | Fire Truck G/O Bond | 12/1/2018 | 182,072 | - | 43,118 | 138,954 |
| 263.61 | Barn Improvement Loan | 6/1/2022 | 15,375 | - | 2,050 | 13,325 |
| Total General Obligation Debt/Liabilities: | | | 197,447 | - | 45,168 | 152,279 |
| Revenue and Other (non G.O.) Debt/Liabilities | | | | | | |
| 263.82 | PWTFL | 7/1/2018 | 67,378 | - | 16,844 | 50,534 |
| 263.82 | Drinking Water State Revolving Loan (DWSRF) | 10/1/2037 | 16,815 | 21,603 | - | 38,418 |
| 259.12 | 2015 Employee Year End Balances | | 39,623 | 6,468 | - | 46,091 |
| 264.30 | Net Pension Liability | | - | 229,048 | - | 229,048 |
| Total Revenue and Other (non G.O.) Debt/Liabilities: | | | 123,816 | 257,119 | 16,844 | 364,091 |
| Total Liabilities: | | | 321,263 | 257,119 | 62,012 | 516,370 |

Town of Winthrop
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2015

| Federal Agency (Pass-Through Agency) Highway Planning and Construction Cluster | Federal Program Cluster | CFDA Number | Other Award Number | Expenditures | | | Note |
|--|--------------------------------------|----------------|-----------------------|---------------------------------|-----------------------|----------------|-------|
| | | | | From Pass- Through Awards | From Direct Awards | Total | |
| Federal Highway Administration (fhwa), Department Of Transportation (via Washington Department of Transportation) | Highway Planning and Construction | 20.205 | STPR-K241(002) | 783,212 | - | 783,212 | 1,2,3 |
| Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation) | Highway Planning and Construction | 20.205 | TAP-9924(001) | 7,481 | - | 7,481 | 1,2,3 |
| Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation) | Highway Planning and Construction | 20.205 | STPR-1465(002) | 39,085 | - | 39,085 | 1,2,3 |
| Total Highway Planning and Construction Cluster: | | | | 829,778 | - | 829,778 | |
| Total Federal Awards Expended: | | | | 829,778 | - | 829,778 | |

The accompanying notes are an integral part of this schedule.

Town of Winthrop

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2015

Note 1 – Basis of Accounting

This schedule is prepared on the same basis of accounting as the Town of Winthrop's financial statements. The Town of Winthrop uses the single entry cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

Note 2 – Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the Town of Winthrop's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Indirect Cost Rate

The Town of Winthrop has not elected to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

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 | PublicRecords@sao.wa.gov |
| Main telephone | (360) 902-0370 |
| Toll-free Citizen Hotline | (866) 902-3900 |
| Website | www.sao.wa.gov |