



Office of the Washington State Auditor  
Pat McCarthy

# Financial Statements and Federal Single Audit Report

## Town of Twisp

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

*Published July 15, 2024*

Report No. 1035142



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

July 15, 2024

Mayor and Town Council  
Town of Twisp  
Twisp, Washington

**Report on Financial Statements and Federal Single Audit**

Please find attached our report on the Town of Twisp'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 activities and condition.

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](mailto:webmaster@sao.wa.gov).*

## TABLE OF CONTENTS

Schedule of Findings and Questioned Costs.....	4
Schedule of Audit Findings and Responses.....	6
Schedule of Federal Award Findings and Questioned Costs.....	10
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 <i>Government Auditing Standards</i> .....	13
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance .....	16
Independent Auditor's Report on the Financial Statements.....	20
Financial Section.....	24
Corrective Action Plan for Findings Reported Under Uniform Guidance .....	43
About the State Auditor's Office.....	45

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### **Town of Twisp** **January 1, 2020 through December 31, 2020**

#### **SECTION I – SUMMARY OF AUDITOR’S RESULTS**

The results of our audit of the Town of Twisp 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 with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared using a basis of accounting other than GAAP.

##### **Internal Control over Financial Reporting:**

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

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

#### **Federal Awards**

##### **Internal Control over Major Programs:**

- *Significant Deficiencies:* We identified 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 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 \$750,000.

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

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

See Finding 2020-001.

## **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

See Finding 2020-002.

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **Town of Twisp January 1, 2020 through December 31, 2020**

#### **2020-001 The Town did not have adequate internal controls to ensure accurate reporting of its financial statements.**

##### ***Background***

The Town prepares its financial statements in accordance with the cash-basis accounting method prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS Manual).

State and federal agencies, Town elected officials and the public rely on information included in financial statements to make decisions. Town management is responsible for designing and following internal controls that provide reasonable assurance the Town's financial statements, notes and required schedules are reliable and presented fairly in accordance with the BARS Manual.

Local governments that spend federal funds must prepare a Schedule of Expenditures of Federal Awards (SEFA) as part of their annual financial report. Federal regulations require grantees to identify on the SEFA all federal money they spent. Under Uniform Guidance, governments that spend \$750,000 or more in federal grant awards in a year are required to obtain a federal single audit. Further, governments must submit audit results to the Federal Audit Clearinghouse within 30 calendar days after issuance of the audit report or within nine months after the audit period, whichever is earlier.

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

##### ***Description of Condition***

Town management was not familiar with federal loan and grant proceeds financial reporting requirements and did not evaluate reporting guidance, such as the BARS Manual, to determine the proper reporting criteria and requirements. We consider

this deficiency in internal controls over accounting and financial reporting to be a material weakness.

### *Cause of Condition*

During the audit period, the Town received substantial proceeds from loan and grant sources to finance its water and sewer system improvement projects. The Town was not accustomed to receiving such financial assistance, and Town management and staff did not dedicate the necessary resources for adequate research on accounting requirements to correctly report this financial activity.

### *Effect of Condition*

As a result of this internal control weakness, the Town:

- Underreported on the SEFA current year grant expenditures and loan balances for the Water and Waste Disposal Systems for Rural Communities program (ALN 10.760) by \$2,168,707. As a result, the Town did not obtain a federal single audit for 2020 in time to submit the results to the Federal Audit Clearinghouse by September 30, 2021.
- Omitted from its Schedule of Liabilities a loan with an ending balance of \$1.4 million.
- Omitted from its Schedule of Liabilities a separate loan with a beginning balance of \$94,000, proceeds received of \$133,000, amounts forgiven of \$102,000, and an ending, unforgivable balance of \$103,000. The Town also omitted the \$102,000 forgiven amount from intergovernmental revenues on its Fund Resources and Uses Arising from Cash Transactions.
- Incorrectly reported intergovernmental revenues resulting from grant reimbursements of \$686,000 as debt proceeds on its statement of Fund Resources and Uses Arising from Cash Transaction, and incorrectly reported debt proceeds of \$110,000 as intergovernmental revenues on the same statement.

The Town corrected these errors.

We also identified other immaterial errors in the statements, notes and schedules, which the Town also corrected.

### *Recommendation*

We recommend the Town establish and follow effective internal controls over financial statement preparation, including:

- Reporting all expenditures and outstanding loan balances in accordance with current federal requirements on the SEFA
- Adequately researching accounting requirements to properly classify and report transactions, especially infrequent ones
- Establishing an effective technical review process for the financial statements, notes and schedules to ensure they are accurate, supported, classified and reported in accordance with the BARS Manual

### ***Town's Response***

*The Town of Twisp agrees with the findings as presented and has committed to adopting policy as recommended by the State Auditor's office in accordance with the BARS Manual, implementing internal controls for federal expenditures and annual reporting. As this audit occurred in the 2023-2024 fiscal year, it will not be possible to have these changes in place in advance of the 2023 annual reporting deadline, however staff and management will implement these best practices in lieu of adopted policy.*

### ***Auditor's Remarks***

We appreciate the Town's commitment to resolving the issues noted and will follow up during the next audit.

### ***Applicable Laws and Regulations***

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

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

*Budgeting, Accounting and Reporting System* (BARS Manual), 4.14.5, Expenditures of Federal Awards (Schedule 16), requires governments that expend over \$750,000 or more in federal grant awards in a year, must arrange a federal single audit in accordance with the Uniform Guidance, 2 CFR 200, Subpart F-Audit Requirements.

*Government Auditing Standards*, July 2018 Revision, paragraphs 6.40 and 6.41 establish reporting requirements related to significant deficiencies or material



weaknesses in internal control, instances of fraud, and noncompliance with provisions of laws, regulations, contracts, or grant agreements.

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

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 501, Audit requirements. 2 CFR Part 200.502 — Basis for determining Federal awards expended (B); Since the Federal Government is at risk for loans until the debt is repaid, the following guidelines must be used to calculate the value of federal awards expended under loan programs: Value of new loans made or received during the audit period; plus beginning of the audit period balance of loans from previous years for which Federal Government imposes continuing compliance requirements; plus any interest subsidy, cash, or administrative cost allowance received.

## SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### Town of Twisp January 1, 2020 through December 31, 2020

#### **2020-002    The Town did not have adequate internal controls for ensuring compliance with federal procurement requirements.**

<b>Assistance Listing Number and Title:</b>	10.760 – Waste and Water Disposal Systems for Rural Communities
<b>Federal Grantor Name:</b>	U.S. Department of Agriculture
<b>Federal Award/Contract Number:</b>	N/A
<b>Pass-through Entity Name:</b>	N/A
<b>Pass-through Award/Contract Number:</b>	N/A
<b>Known Questioned Cost Amount:</b>	\$0
<b>Prior Year Audit Finding:</b>	N/A

#### ***Description of Condition***

During fiscal year 2020, the Town spent \$2,168,707 in loan and grant funds from the Water and Waste Disposal Systems for Rural Communities program. The objective of this program is to assist rural communities in obtaining safe drinking water and adequate waste disposal facilities. The Town used these funds primarily for a water line project.

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

Federal regulations for procurements standards in 2 CFR § 200.318 require award recipients to have written standards of conduct that cover conflicts of interest and expectations for their employees who are involved in selecting, awarding, and administering contracts and purchases.

Our audit found the Town's internal controls were ineffective for ensuring compliance with federal procurement requirements. Specifically, the Town did not establish written standards of conduct covering these required elements:

- Officers, employees, and agents may not participate in selecting, awarding, or administering a contract supported by a federal award if they have a real or apparent conflict of interest.
- Officers, employees, and agents may neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or parties to subcontracts.
- Disciplinary actions for violating these standards

We consider this deficiency in internal controls to be a significant deficiency.

### *Cause of Condition*

The Town has not received a federal grant compliance audit recently, and staff and management did not know about the requirement to have written standards of conduct covering the selection and administration of contracts involving federal funds.

### *Effect of Condition*

Without written standards of conduct, the Town is at a greater risk of noncompliance with these requirements when using federal funds to procure contractors. Although the Town did not have policies in place, we verified that no one involved with selecting and administering the contract had a real or apparent conflict of interest for the contract.

### *Recommendation*

We recommend the Town develop written standards of conduct policies that conform with Uniform Guidance.

### *Town's Response*

*The Town of Twisp agrees with the findings as presented and has committed to adopting policy as recommended by the State Auditor's office in accordance with the BARS Manual, implementing internal controls for federal expenditures and annual reporting. As this audit occurred in the 2023-2024 fiscal year, it will not be possible to have these changes in place in advance of the 2023 annual reporting*

*deadline, however staff and management will implement these best practices in lieu of adopted policy.*

### ***Auditor's Remarks***

We appreciate the Town's commitment to resolving the issues noted and will follow up during the next audit.

### ***Applicable Laws and Regulations***

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

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

Title 2 CFR Part 200, Uniform Guidance, section 318, General Procurement Standards, establishes requirements for written standards of conduct.

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

## INDEPENDENT AUDITOR'S REPORT

### Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

#### **Town of Twisp January 1, 2020 through December 31, 2020**

Mayor and Town Council  
Town of Twisp  
Twisp, 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 Twisp, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Town's financial statements, and have issued our report thereon dated May 21, 2024.

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 state law and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) Manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

However, we identified certain deficiencies in internal control, as described in the accompanying Schedule of Audit Findings and Responses as Finding 2020-001 that we consider to be material weaknesses.

## **REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

## **TOWN'S RESPONSE TO FINDINGS**

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

## **PURPOSE OF THIS REPORT**

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

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 "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

May 21, 2024

## 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

#### **Town of Twisp January 1, 2020 through December 31, 2020**

Mayor and Town Council  
Town of Twisp  
Twisp, Washington

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

#### **Opinion on Each Major Federal Program**

We have audited the compliance of the Town of Twisp, 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 Town's major federal programs for the year ended December 31, 2020. The Town'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 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, 2020.

#### **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 Town 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 Town'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 Town'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 Town'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 Town'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 Town'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 Town'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 Town'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. However, we identified certain deficiencies in internal control over compliance, described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2020-002 that we consider to be a significant deficiency.

### Town's Response to Findings

*Government Auditing Standards* requires the auditor to perform limited procedures on the Town's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The Town's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## Purpose of this Report

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

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

Pat McCarthy, State Auditor

Olympia, WA

May 21, 2024

# INDEPENDENT AUDITOR'S REPORT

## Report on the Audit of the Financial Statements

### **Town of Twisp January 1, 2020 through December 31, 2020**

Mayor and Town Council  
Town of Twisp  
Twisp, Washington

## **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

### **Unmodified and Adverse Opinions**

We have audited the financial statements of the Town of Twisp, as of and for the year ended December 31, 2020, and the related notes to the financial statements, as listed in the financial section of our report.

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

As described in Note 1, the Town has prepared these financial statements to meet the financial reporting requirements of state law and accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) Manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the cash and investments of the Town of Twisp, and its changes in cash and investments, for the year ended December 31, 2020, on the basis of accounting described in Note 1.

### **Adverse Opinion on U.S. GAAP**

The financial statements referred to above were not intended to, and in our opinion, they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Town of Twisp, as of December 31, 2020, or the changes in financial position or cash flows thereof for the year then ended, because of the significance of the matter discussed below.

## **Basis for Unmodified and Adverse Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit unmodified and adverse opinions.

## **Matter Giving Rise to Adverse Opinion on U.S. GAAP**

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. As described in Note 1 of the financial statements, the financial statements are prepared by the Town in accordance with state law using accounting practices prescribed by the BARS Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

## **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of state law and the BARS Manual described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and

*Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town's financial statements. 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 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 as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2024 on our consideration of the Town's internal control over financial reporting and on the tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

May 21, 2024

## **FINANCIAL SECTION**

### **Town of Twisp January 1, 2020 through December 31, 2020**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2020  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2020  
Notes to the Financial Statements – 2020

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

Schedule of Liabilities – 2020  
Schedule of Expenditures of Federal Awards – 2020  
Notes to the Schedule of Expenditures of Federal Awards – 2020



**Town of Twisp**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2020**

		<b>Total for All Funds (Memo Only)</b>	<b>001 General Fund</b>	<b>101 Street Fund</b>	<b>103 Tourism 2%</b>
<b>Beginning Cash and Investments</b>					
308	Beginning Cash and Investments	1,047,823	(126,363)	67,153	50,784
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	943,219	727,687	151,200	38,407
320	Licenses and Permits	52,381	52,356	-	-
330	Intergovernmental Revenues	1,169,907	337,375	19,388	-
340	Charges for Goods and Services	994,342	8,977	-	-
350	Fines and Penalties	6,423	6,423	-	-
360	Miscellaneous Revenues	81,033	24,135	1,814	10
Total Revenues:		3,247,305	1,156,953	172,402	38,417
<b>Expenditures</b>					
510	General Government	174,278	174,278	-	-
520	Public Safety	518,100	518,100	-	-
530	Utilities	579,990	-	-	-
540	Transportation	125,062	15,663	109,399	-
550	Natural/Economic Environment	65,373	40,373	-	-
560	Social Services	38,115	38,115	-	-
570	Culture and Recreation	89,947	51,980	-	37,967
Total Expenditures:		1,590,865	838,509	109,399	37,967
Excess (Deficiency) Revenues over Expenditures:		1,656,440	318,444	63,003	450
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	993,802	-	-	-
397	Transfers-In	232,552	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	15,800	15,239	58	-
Total Other Increases in Fund Resources:		1,242,154	15,239	58	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	1,894,928	136,390	35,231	-
591-593, 599	Debt Service	230,894	6,222	-	-
597	Transfers-Out	232,552	12,936	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	63,926	16,604	193	-
Total Other Decreases in Fund Resources:		2,422,300	172,152	35,424	-
<b>Increase (Decrease) in Cash and Investments:</b>		<b>476,294</b>	<b>161,531</b>	<b>27,637</b>	<b>450</b>
<b>Ending Cash and Investments</b>					
50821	Nonspendable	-	-	-	-
50831	Restricted	445,919	848	94,790	51,233
50841	Committed	-	-	-	-
50851	Assigned	1,211,852	167,975	-	-
50891	Unassigned	(133,653)	(133,653)	-	-
<b>Total Ending Cash and Investments</b>		<b>1,524,118</b>	<b>35,170</b>	<b>94,790</b>	<b>51,233</b>

The accompanying notes are an integral part of this statement.

**Town of Twisp**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2020**

		<b>224 Debt Service-Firehall PD Vehicles</b>	<b>301 Old Cap Projects Fund</b>	<b>302 STP</b>	<b>303 RCO - Trails Project</b>
<b>Beginning Cash and Investments</b>					
308	Beginning Cash and Investments	1,172	(1,125)	(43,973)	(13,773)
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	-	-	-	-
Total Revenues:		-	-	-	-
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	-
Excess (Deficiency) Revenues over Expenditures:		-	-	-	-
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	12,936	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		12,936	-	-	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	12,936	-	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		12,936	-	-	-
<b>Increase (Decrease) in Cash and Investments:</b>		-	-	-	-
<b>Ending Cash and Investments</b>					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	(1,125)	(43,973)	(13,773)
50841	Committed	-	-	-	-
50851	Assigned	1,172	-	-	-
50891	Unassigned	-	-	-	-
<b>Total Ending Cash and Investments</b>		<b>1,172</b>	<b>(1,125)</b>	<b>(43,973)</b>	<b>(13,773)</b>

The accompanying notes are an integral part of this statement.

**Town of Twisp**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2020**

		<b>309 Civic Building</b>	<b>310 REET Fund</b>	<b>401 Water Fund</b>	<b>404 Sewer Fund</b>
<b>Beginning Cash and Investments</b>					
308	Beginning Cash and Investments	257,341	117,458	489,813	249,336
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	25,925	-	-
320	Licenses and Permits	-	-	-	25
330	Intergovernmental Revenues	-	-	685,940	102,204
340	Charges for Goods and Services	-	-	499,139	486,226
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	-	-	27,537	27,537
Total Revenues:		-	25,925	1,212,616	615,992
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	271,374	308,616
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	271,374	308,616
Excess (Deficiency) Revenues over Expenditures:		-	25,925	941,242	307,376
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	883,682	110,120
397	Transfers-In	200,686	-	18,930	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	503
Total Other Increases in Fund Resources:		200,686	-	902,612	110,623
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	62,668	-	1,551,448	27,922
591-593, 599	Debt Service	-	-	107,851	103,885
597	Transfers-Out	-	105,262	47,712	66,642
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	23,188	23,941
Total Other Decreases in Fund Resources:		62,668	105,262	1,730,199	222,390
<b>Increase (Decrease) in Cash and Investments:</b>		<b>138,018</b>	<b>(79,337)</b>	<b>113,655</b>	<b>195,609</b>
<b>Ending Cash and Investments</b>					
50821	Nonspendable	-	-	-	-
50831	Restricted	395,359	38,121	5,708	-
50841	Committed	-	-	-	-
50851	Assigned	-	-	597,760	444,945
50891	Unassigned	-	-	-	-
<b>Total Ending Cash and Investments</b>		<b>395,359</b>	<b>38,121</b>	<b>603,468</b>	<b>444,945</b>

**Town of Twisp**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2020**

		<b>405 Chipper - ECGY Grant</b>	<b>406 CWSRF - WWTP Facility Plan</b>	<b>407 Collection System Improvements</b>
<b>Beginning Cash and Investments</b>				
308	Beginning Cash and Investments	-	-	-
388 / 588	Net Adjustments	-	-	-
<b>Revenues</b>				
310	Taxes	-	-	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	25,000	-	-
340	Charges for Goods and Services	-	-	-
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	-	-	-
Total Revenues:		25,000	-	-
<b>Expenditures</b>				
510	General Government	-	-	-
520	Public Safety	-	-	-
530	Utilities	-	-	-
540	Transportation	-	-	-
550	Natural/Economic Environment	25,000	-	-
560	Social Services	-	-	-
570	Culture and Recreation	-	-	-
Total Expenditures:		25,000	-	-
Excess (Deficiency) Revenues over Expenditures:		-	-	-
<b>Other Increases in Fund Resources</b>				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	-	-	-
385	Special or Extraordinary Items	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-
Total Other Increases in Fund Resources:		-	-	-
<b>Other Decreases in Fund Resources</b>				
594-595	Capital Expenditures	-	42,996	38,273
591-593, 599	Debt Service	-	-	-
597	Transfers-Out	-	-	-
585	Special or Extraordinary Items	-	-	-
581, 582, 589	Other Uses	-	-	-
Total Other Decreases in Fund Resources:		-	42,996	38,273
<b>Increase (Decrease) in Cash and Investments:</b>		-	<b>(42,996)</b>	<b>(38,273)</b>
<b>Ending Cash and Investments</b>				
50821	Nonspendable	-	-	-
50831	Restricted	-	(42,996)	(38,273)
50841	Committed	-	-	-
50851	Assigned	-	-	-
50891	Unassigned	-	-	-
<b>Total Ending Cash and Investments</b>		-	<b>(42,996)</b>	<b>(38,273)</b>

The accompanying notes are an integral part of this statement.

**Town of Twisp**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2020**

		<b>Custodial</b>
308	Beginning Cash and Investments	19,634
388 & 588	Net Adjustments	-
310-390	Additions	10,669
510-590	Deductions	-
	Net Increase (Decrease) in Cash and Investments:	10,669
508	Ending Cash and Investments	30,303

*The accompanying notes are an integral part of this statement.*

**Town of Twisp**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2020**

**Note 1 - Summary of Significant Accounting Policies**

The Town of Twisp was incorporated on August 9, 1909 and operates under the laws of the state of Washington applicable to a Town. The Town is a general purpose local government and provides public safety, fire prevention services, street improvements, parks and recreation, general administrative services and town-owned water and sewer utilities.

The city reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements (see *Notes to the Financial Statements*).
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are presented using classifications that are similar to the ending balance classification in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund types are used:

**GOVERNMENTAL FUND TYPES:**

General Fund

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

Special Revenue Funds

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

**Town of Twisp**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2020**

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.

Capital Projects Funds

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

**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.

**FIDUCIARY FUND TYPES:**

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others.

Custodial Funds

These funds are used to account assets that the government holds on behalf of others in a custodial capacity.

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 city also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Cash and Investments

See Note 4 - *Deposits and Investments*.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 years. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation leave may be accumulated up to 8 days and is payable upon separation or retirement for up to forty (40) hours. Sick leave may be accumulated up to 720 hours. Upon separation or retirement employees do not receive payment for unused sick leave. Payments are recognized as expenditures when paid. Total cost of Compensated Absences as of 12/31/20 is \$30,694.05.

F. Long-Term Debt

See Note 5 – *Long-Term Debt*.

**Town of Twisp**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2020**

**G. Restricted and Committed Portion of Ending Cash and Investments**

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

Fund Name	Portion of Ending Balance Restricted	Portion of Ending Balance Committed	Combined	Reason for Restriction or Commitment
001 - General Fund	848	0	848	External Restrictions
101 - Street Fund	94,790		94,790	External Restrictions
103 - Tourism 2%	51,233		51,233	External Restrictions
224 - Debt Service-Firehall PD Vehicles USDA			0	External Restrictions
301 - Old Cap Projects	-1,125		-1,125	External Restrictions
302 - STP	-43,973		-43,973	External Restrictions
303 - RCO - Trails Project	-13,773		-13,773	External Restrictions
309 - Civic Building	395,359		395,359	External Restrictions
310 - REET Fund	38,121		38,121	External Restrictions
401 - Water Fund	5,708		5,708	External Restrictions
406 - CWSRF - WWTP Facility Plan	-42,996		-42,996	External Restrictions
407 - Collection System Improvements	-38,273		-38,273	External Restrictions
<i>Totals</i>	445,919	0	445,919	

**Note 2 - Budget Compliance**

The Town adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund level (except the general (current expense) fund, where budget is adopted at the department 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 follows:



**Town of Twisp**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2020**

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance	Explanation of Variances
001 - General Fund				
General Fund	925,341.61	864,040.43	61,301.18	Unrealized rent and audit costs
Complete Streets		(34.55)	34.55	Old Project Closeout
Canyon Street Project	65,299.00	31,464.67	33,834.33	Old Project Closeout
Canyon Street Bus Stop	80,000.00	92,982.63	(12,982.63)	Project Delayed
Sports Complex	42,609.00	381.85	42,227.15	Project Delayed
WSDOT Aviation - South Taxiway	16,529.00	14,476.74	2,052.26	Project Delayed
WSDOT - North End SR 20 Ped/Bike Path	-	7,347.64	(7,347.64)	New Project
Total 001 - General Fund	1,801,676.28	1,010,659.41	791,016.87	
101 - Street Fund	148,545.28	144,822.51	3,722.77	N/A
103 - Tourism 2%	35,750.00	37,967.04	(2,217.04)	Increased Revenues/Expense
224 - Debt Service-Firehall PD Vehicles USDA	14,108.41	12,936.00	1,172.41	N/A
309 - Civic Building	62,668.00	62,667.73	0.27	Project Delayed
310 - REET Fund	105,261.61	105,261.61		N/A
401 - Water Fund				
Debt Service-Water/Sewer Fund	87,113.00	87,111.65	1.35	
Water Fund	936,885.00	545,917.75	390,967.25	Water Improvements Project
USDA Reserve Fund				
USDA Waterline Improvements - Phase 1 - 3	1,274,175.00	1,320,828.99	(46,653.99)	Ongoing Project
Water Fund Reserve - Capital Upgrade/Improv	47,711.95	47,711.95	-	
Total 401 - Water Fund	2,345,884.95	2,001,570.34	344,314.61	
404 - Sewer Fund				
Sewer Fund	423,160.25	366,425.17	56,735.08	
Sewer Fund Reserve - Capital Upgrade/Improv	47,711.95	62,377.65	(14,665.70)	
Total 404 - Sewer Fund	470,872.20	428,802.82	42,069.38	
405 - Chipper - ECGY Grant	25,000.00	25,000.00	-	
406 - CWSRF - WWTP Facility Plan	40,000.00	42,996.16	(2,996.16)	ongoing project
407 - Collection System Improvements	40,000.00	38,273.19	1,726.81	ongoing project
630 - Wagner Pool-Private Purpose Trust Fund	15,000.00		15,000.00	

In the audit that took place in 2021 for the annual reports of years 2018 and 2019 the Town and Audit staff identified mistakes in the Town's budget amendment process related to the tracking of resources and beginning balances accounted into allocated budgets. These created budget variances from the software the town uses to the annual report. These mistakes were repeated in 2020 due to not being aware of them until the audit in 2021. Because a budget for a previous year cannot be amended, these mistakes remain. Procedures have been updated to ensure these mistakes do not happen in subsequent years.

### Note 3 – COVID-19 Pandemic

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

On March 18th 2020 the Town Council issued an emergency proclamation via the Mayor's office to declare the emergency, prioritize public health and safety, and acknowledge the need for additional

**Town of Twisp**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2020**

assistance from State and or Federal agencies to deal with the emergency. Social distancing and health and safety protocols were put into place on Town property and for town staff.

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

**Note 4 – Deposits and Investments**

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

Type of Deposit or Investment	(City/Town/District)'s own deposits & investments	Deposits & investments held by the (City,Town/District) as custodian for other local governments, individuals, or private organizations.	Combined
US Government Securities		30,303	30,303
Bank Deposits	1,524,118		1,524,118
			0
<i>Totals</i>	1,524,118	30,303	1,554,421

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

All investments are insured, registered or held by the city or its agent in the government's name.

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

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

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

**Town of Twisp**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2020**

<b>Year</b>	<b>Debt Service Requirements Principal + Interest Combined</b>
<b>2021</b>	<b>283,154</b>
<b>2022</b>	<b>295,400</b>
<b>2023</b>	<b>294,972</b>
<b>2024</b>	<b>294,972</b>
<b>2025</b>	<b>594,972</b>
<b>2026-2030</b>	<b>1,343,122</b>
<b>2031-2035</b>	<b>1,255,299</b>
<b>2036-2040</b>	<b>1,218,417</b>
<b>2041-2045</b>	<b>1,115,680</b>
<b>2046-2050</b>	<b>1,059,336</b>
<b>2051-2055</b>	<b>878,120</b>
<b>2056-2060</b>	<b>838,764</b>
<b>2061</b>	<b>155,946</b>

**Note 6 – Pension Plans**

A. State Sponsored Pension Plans

Substantially all the city’s full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans (list only applicable 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

**Town of Twisp**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2020**

Also, the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

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

Plan Type	Employer Contributions	Allocation Percentage	Plan Liability / Asset	NPL	NPA
PERS 1 UAAL	17440.45	0.002406%	3,530,540,000	84,960	
PERS 2/3	29019.01	0.003150%	1,278,943,000	40,287	
LEOFF 2	9539.64	0.004877%	(2,039,854,000)		(99,476)
		<i>Totals</i>		\$ 125,247	\$ (99,476)

**LEOFF Plan 1**

The city also participates in LEOFF Plan 1. The LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. Starting on July 1, 2000, employers and employees contribute zero percent.

**LEOFF Plan 2**

The city 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.

**Note 7 - 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 Town. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The city's regular levy for the year 2020 was \$1,930 per \$1,000 on an assessed valuation of \$19,972,887 for a total regular levy of \$199,728.87.

**Note 8 – Risk Management**

The Town of Twisp is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of

**Town of Twisp**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2020**

insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989, when 32 municipalities in the State of Washington joined by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2020, 103 municipalities/entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages, with the exception of pollution liability, are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, pollution liability, cyber liability, and equipment breakdown insurance coverage. Equipment breakdown is included with the property insurance carrier and fidelity (crime), pollution liability, and cyber liability coverages are stand-alone policies, which the AWC RMSA procures for its members. The AWC RMSA also allows members with airports to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$15 million in both per occurrence and aggregate liability limits. For the first \$1 million in liability limits, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by National League of Cities Mutual Insurance Company (NLC MIC) for the additional \$750,000. The \$9 million in excess liability coverage limits is provided through an excess liability policy purchased from Argonaut Insurance Company. The \$5 million in excess liability coverage limits above the first layer of excess coverage is purchased from Hallmark Specialty Insurance Company. Since AWC RMSA is a cooperative program, there is joint liability among the participating members. The reinsurance coverage is purchased through NLC MIC and excess property coverage is purchased through Lexington Insurance Company and CHUBB in 2020, AWC RMSA carried a retention of \$200,000, NLC MIC reinsures up to \$3 million, Lexington provides excess insurance up to \$50 million, and limits up to \$250 million. All commercial policies have been purchased through the Pool's Broker of Record, Aon.

Members contract to remain in the AWC RMSA pool for a minimum of one year and must give a one-year notice before terminating participation. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were signatory to the Interlocal Governmental Agreement.

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors, which is comprised of elected officials of participating members.

**Town of Twisp**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2020**

**Note 9 – Health & Welfare**

The Town of Twisp 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, 2020, 262 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. In April 2020, the Board of Trustees adopted a large employer policy, requiring newly enrolling groups with 600 or more employees to submit medical claims experience data in order to receive a quote for medical coverage. Outside of this, 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, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and 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. In 2020, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an individual stop loss (ISL) of \$1.5 million through Commencement Bay Risk Management, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims. Participating employers contract to remain in the AWC Trust 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 AWC Trust 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 AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust HCP account. 2 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

**Town of Twisp**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2020**

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 AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. 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

**Town of Twisp  
Schedule of Liabilities  
For the Year Ended December 31, 2020**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>General Obligation Debt/Liabilities</b>						
251.11	Notes Payable - Pool Loan	10/1/2020	768	-	768	-
251.11	Notes Payable - Town Hall Roof	12/1/2021	13,838	-	6,740	7,098
251.11	Notes Payable - Lawn Mower	4/14/2020	3,380	-	1,460	1,920
251.11	Notes Payable - LTGO Bond - Water System Improvements	12/1/2027	-	275,000	-	275,000
263.81	USDA Waterlines - Interim Loan	12/31/2060	809,605	608,681	-	1,418,286
<b>Total General Obligation Debt/Liabilities:</b>			<b>827,591</b>	<b>883,681</b>	<b>8,968</b>	<b>1,702,304</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
263.82	Loans & Other pmts to other governments - PD Vehicle	5/1/2021	6,516	-	4,613	1,903
263.82	Loans & Other pmts to other governments - DOE/OCR	11/1/2040	231,840	-	11,040	220,800
263.82	Loans & Other pmts to other governments - Fire Hall	6/29/2038	99,623	-	3,791	95,832
263.82	Loans & Other pmts to other governments - Hilltop Booster Station	12/22/2049	763,471	-	12,980	750,491
263.82	Loans & Other pmts to other governments - Sewer Upgrades	12/1/2021	25,831	-	17,221	8,610
263.82	Loans & Other pmts to other governments - Sewer Upgrades	12/1/2021	3,416	-	1,708	1,708
263.82	SR20 Waterlines	6/7/2057	499,055	-	8,449	490,606
264.30	Net Pension Liability	12/31/2020	184,723	-	59,492	125,231
259.12	Compensated Absences	12/31/2020	22,890	7,804	-	30,694
263.84	GSP - WQC-2017-TwisPW-00151 - Forgivable	12/30/2040	47,144	55,060	102,204	-
263.84	GSP - WQC-2017-TwisPW-00151	12/31/2040	47,044	58,299	2,460	102,883
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>1,931,553</b>	<b>121,163</b>	<b>223,958</b>	<b>1,828,758</b>
<b>Total Liabilities:</b>			<b>2,759,144</b>	<b>1,004,844</b>	<b>232,926</b>	<b>3,531,062</b>



**Town of Twisp**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2020**

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	-	-	38,273	38,273	-	
RURAL UTILITIES SERVICE, AGRICULTURE, DEPARTMENT OF	Water and Waste Disposal Systems for Rural Communities	10.760	-	-	809,605	809,605	-	
RURAL UTILITIES SERVICE, AGRICULTURE, DEPARTMENT OF	Water and Waste Disposal Systems for Rural Communities	10.760	-	-	1,320,829	1,320,829	-	
<b>Total ALN 10.760:</b>				-	<b>2,168,707</b>	<b>2,168,707</b>	-	
<b>Highway Planning and Construction Cluster</b>								
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WSDOT)	Highway Planning and Construction	20.205	STPR-0020 (202)	92,983	-	92,983	-	
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WSDOT)	Highway Planning and Construction	20.205	HLP	7,348	-	7,348	-	
<b>Total Highway Planning and Construction Cluster:</b>				<b>100,331</b>	<b>-</b>	<b>100,331</b>	<b>-</b>	
<b>Total Federal Awards Expended:</b>				<b>100,331</b>	<b>2,168,707</b>	<b>2,269,038</b>	<b>-</b>	

Town of Twisp

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2020

Note 1 – Basis of Accounting Cash

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

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the Town of Twisp's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the 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 2 – Federal Indirect Cost Rate

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



# Town of Twisp

• 118 S. Glover Street • Box 278 • Twisp, WA 98856 • 509-997-4081 •

## CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

**Town of Twisp**  
**January 1, 2020 through December 31, 2020**

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

<b>Finding ref number:</b> 2020-001	<b>Finding caption:</b> The Town did not have adequate internal controls to ensure accurate reporting of its financial statements.
<b>Name, address, and telephone of Town contact person:</b> Randy Kilmer, Clerk Treasurer P.O. Box 278 Twisp, WA 98856 (509) 997-4081	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The Town of Twisp agrees with the findings as presented and has committed to adopting policy as recommended by the State Auditor's office in accordance with the BARS manual, implementing internal controls for federal expenditures and annual reporting. As this audit occurred in the 2023/24 fiscal year, it will not be possible to have these changes in place at the time of this audit.</i>	
<b>Anticipated date to complete the corrective action:</b> No later than 12/31/24	

<b>Finding ref number:</b> 2020-002	<b>Finding caption:</b> The Town did not have adequate internal controls for ensuring compliance with federal procurement requirements.
<b>Name, address, and telephone of Town contact person:</b> Randy Kilmer, Clerk Treasurer P.O. Box 278 Twisp, WA 98856 (509) 997-4081	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The Town of Twisp agrees with the findings as presented and has committed to adopting policy as recommended by the State Auditor's office in accordance with the BARS manual, implementing internal controls for federal expenditures and annual reporting. As this audit occurred in the 2023-2024 fiscal year, it will not be possible to have these changes in place at the time of this audit.</i>	
<b>Anticipated date to complete the corrective action:</b> No later than 12/31/24	

## 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.

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