



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**
City of Winlock

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

Published September 26, 2019

Report No. 1024547





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

September 26, 2019

Mayor and City Council
City of Winlock
Winlock, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Winlock January 1, 2018 through December 31, 2018

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Winlock 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 City’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 no deficiencies that we consider to be material weaknesses.

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

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 deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City'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>CFDA No.</u>	<u>Program or Cluster Title</u>
20.205	Highway Planning and Construction Cluster – 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 City 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

See finding 2018-001.

**SCHEDULE OF FEDERAL AWARD FINDINGS
AND QUESTIONED COSTS**

City of Winlock

January 1, 2018 through December 31, 2018

2018-001 The City did not have adequate internal controls in place to ensure compliance with federal Davis-Bacon Act (prevailing wage) requirements.

CFDA Number and Title:	20.205 Highway Planning and Construction
Federal Grantor Name:	Department of Transportation, Federal Highway Administration
Federal Award/Contract Number:	N/A
Pass-through Entity Name:	Washington State Department of Transportation
Pass-through Award/Contract Number:	FRS-21AF(001) BHOS-1455(003)
Questioned Cost Amount:	\$0

Background

During fiscal year 2018, the City spent \$1,647,002 in federal Highway Planning and Construction funds for two ongoing construction projects.

The Davis-Bacon Act (Act) requires that all laborers and mechanics employed by contractors or subcontractors to work on construction projects financed with more than \$2,000 of federal funds be paid wages not less than those established for the locality of the project (prevailing wage rates) by the U.S. Department of Labor. The Act includes a requirement for the contractor or subcontractor to submit to the City weekly, for each week in which any contract work was performed, a copy of its payroll and a signed “Statement of Compliance” (weekly certified payroll). The City’s contracted project engineer may collect the weekly certified payrolls during the project, but it is ultimately the City’s responsibility to ensure compliance and maintain the documents in accordance with records retention requirements.

Description of Condition

The City did not have an adequate process in place to ensure its contracted project engineer collected all weekly certified payroll reports from each of its subcontractors performing work on its federal-grant-funded projects.

We consider this deficiency in internal controls to be a material weakness. This issue was not reported as a finding in the prior audit.

Cause of Condition

City staff relied on the contracted project engineer to collect timely certified payroll reports, and were not aware of the level of monitoring they needed to perform regarding oversight of the project engineer.

Effect of Condition and Questioned Costs

The City did not detect that 50 of the 263 weekly certified payroll reports required for subcontractors were not collected.

Without adequate internal controls, the City cannot demonstrate workers were paid prevailing wages as required by the Act. The City could be liable for paying additional wages if prevailing wages were not paid.

Recommendation

We recommend the City strengthen internal controls to ensure compliance with the Act's requirements, including implementing effective monitoring processes over its contracted project engineer to ensure weekly certified payrolls from subcontractors are collected and reviewed.

City's Response

The City has been short staffed for many years. The City relied on an external project manager to assure that all of the Davis Bacon Act (prevailing wage) requirements were being followed in a timely manner. The City intends to insure further oversight of all external project managers in the future to assure compliance, and provide adequate staffing to do so.

Auditor's Remarks

We thank the City for its cooperation throughout the audit and the steps it is taking to address these concerns. We will review the status of the City's corrective action 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, establishes the requirements to establish and maintain effective internal control over federal awards.

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.

Title 29 CFR, Section 3.3 – *Weekly statement with respect to payment of wages*, and Section 3.4 – *Submission of weekly statements and the preservation and inspection of weekly payroll records*, establishes requirements for contractor or subcontractor submission of weekly certified payroll reports.

**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**

**City of Winlock
January 1, 2018 through December 31, 2018**

Mayor and City Council
City of Winlock
Winlock, 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 City of Winlock, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 19, 2019.

We issued an unmodified opinion on the fair presentation of the City'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 City 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 City'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's

internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 City'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 City's financial statements are free from material misstatement, we performed tests of the City'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 City'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 City'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 style with a large initial "P" and "M".

Pat McCarthy

State Auditor

Olympia, WA

September 19, 2019

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

**City of Winlock
January 1, 2018 through December 31, 2018**

Mayor and City Council
City of Winlock
Winlock, Washington

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

We have audited the compliance of the City of Winlock, 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 City's major federal programs for the year ended December 31, 2018. The City'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 City'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 City'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 City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City 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, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with those requirements which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2018-001. Our opinion on each major federal program is not modified with respect to these matters.

City's Response to Findings

The City's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City 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 City'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 City'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 over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2018-001 to be a material weakness.

City's Response to Findings

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The City's response was not subjected to the 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

September 19, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Winlock January 1, 2018 through December 31, 2018

Mayor and City Council
City of Winlock
Winlock, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Winlock, for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 19.

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 opinions 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 City'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 City'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 City of Winlock 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 cash and investments of the City of Winlock, and its changes in cash and investments, for the year ended December 31, 2018, 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 City 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 City of Winlock, as of December 31, 2018, 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 conducted for the purpose of forming an opinion on the financial statements taken as a whole. The 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 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, 2019 on our consideration of the City'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 City's internal control over financial reporting and compliance.



Pat McCarthy
State Auditor
Olympia, WA

September 19, 2019

FINANCIAL SECTION

City of Winlock January 1, 2018 through December 31, 2018

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2018
Notes to Financial Statements – 2018

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2018
Schedule of Expenditures of Federal Awards – 2018
Notes to the Schedule of Expenditures of Federal Awards – 2018

City of Winlock
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		Total for All Funds (Memo Only)	001 Current Fund	310 Muni Cap Imp Fund	401 Water Sewer Fund	402 Storm Drainage Fund
Beginning Cash and Investments						
30810	Reserved	687,536	8,235	50,824	548,997	79,479
30880	Unreserved	387,475	387,475	-	-	-
388 / 588	Prior Period Adjustments, Net	681	-	-	681	-
Revenues						
310	Taxes	542,827	520,225	22,602	-	-
320	Licenses and Permits	3,018	3,018	-	-	-
330	Intergovernmental Revenues	6,028,814	2,094,797	-	3,934,018	-
340	Charges for Goods and Services	1,239,949	28,140	-	1,189,197	22,612
350	Fines and Penalties	22,133	22,133	-	-	-
360	Miscellaneous Revenues	36,099	21,504	2,941	10,322	1,331
Total Revenues:		<u>7,872,839</u>	<u>2,689,816</u>	<u>25,543</u>	<u>5,133,537</u>	<u>23,943</u>
Expenditures						
510	General Government	326,767	326,767	-	-	-
520	Public Safety	289,572	289,572	-	-	-
530	Utilities	502,144	-	-	500,498	1,646
540	Transportation	215,155	215,155	-	-	-
550	Natural and Economic Environment	14,190	14,190	-	-	-
560	Social Services	736	736	-	-	-
570	Culture and Recreation	27,556	27,556	-	-	-
Total Expenditures:		<u>1,376,120</u>	<u>873,975</u>	<u>-</u>	<u>500,498</u>	<u>1,646</u>
Excess (Deficiency) Revenues over Expenditures:		6,496,720	1,815,840	25,543	4,633,039	22,297
Other Increases in Fund Resources						
391-393, 596	Debt Proceeds	-	-	-	-	-
397	Transfers-In	41,821	41,821	-	-	-
385	Special or Extraordinary Items	-	-	-	-	-
386 / 389	Custodial Activities	137,166	48,422	-	88,744	-
381, 395, 398	Other Resources	44,317	7,853	14,200	22,264	-
Total Other Increases in Fund Resources:		<u>223,305</u>	<u>98,097</u>	<u>14,200</u>	<u>111,008</u>	<u>-</u>
Other Decreases in Fund Resources						
594-595	Capital Expenditures	5,985,360	1,963,973	-	4,021,387	-
591-593, 599	Debt Service	547,346	1,970	-	545,375	-
597	Transfers-Out	41,821	-	39,321	2,500	-
585	Special or Extraordinary Items	-	-	-	-	-
586 / 589	Custodial Activities	140,677	55,984	-	84,693	-
581	Other Uses	14,200	14,200	-	-	-
Total Other Decreases in Fund Resources:		<u>6,729,404</u>	<u>2,036,127</u>	<u>39,321</u>	<u>4,653,955</u>	<u>-</u>
Increase (Decrease) in Cash and Investments:		(9,379)	(122,191)	422	90,092	22,297
Ending Cash and Investments						
5081000	Reserved	789,800	(2,144)	51,246	638,922	101,776
5088000	Unreserved	275,664	275,664	-	-	-
Total Ending Cash and Investments		<u>1,065,464</u>	<u>273,520</u>	<u>51,246</u>	<u>638,922</u>	<u>101,776</u>

The accompanying notes are an integral part of this statement.

City of Winlock
Notes to Financial Statements
For the year ended December 31, 2018

Note 1 - Summary of Significant Accounting Policies

The City of Winlock was incorporated on February 28, 1883 and operates under the laws of the State of Washington applicable to a Non-Charter Code City. The City of Winlock is a general-purpose local government and provides public safety, street improvements, parks, recreation, water and sewer utilities, and general administration.

The City of Winlock 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. This Current Expense Fund includes the following managerial funds. Managerial funds are funds which do not have restricted or committed revenue sources. The inter-fund activity between the Current Expense Fund and the managerial funds is eliminated from the financial statements.

The following funds were consolidated with the Current Expense Fund:

001 Current Expense Fund
101 City Street Fund
102 Bridge Project Fund

103 Park Fund
104 Library Fund
111 General Building Reserve Fund
120 Reserve Fund/Contingency 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.

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.

Permanent Funds

These funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support programs for the benefit of the government or its citizenry.

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 City of Winlock also recognizes expenditures paid during twenty (20) days after the close of the fiscal year for claims incurred during the previous period.

C. Cash and Investments

See Note 3, *Deposits and Investments*.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than Five Thousand and 00/100 Dollars \$5,000.00 and an estimated useful life in excess of one (1) year. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation leave may be accumulated up to thirty (30) days, two hundred forty (240) hours and is payable upon separation or retirement. Sick leave may be accumulated indefinitely. Upon separation or retirement employees do not receive payment for unused sick leave. Payments are recognized as expenditures when paid.

Compensatory time off in lieu of pay for overtime work may be accumulated at a rate of one and one-half times the actual hours of overtime worked and up to a maximum of eighty (80) hours. All unused compensatory time off must be used in the year that it has accrued. All unused compensatory time off shall be cashed out on November 30 of each year. Compensatory time accrued after November 30 of a calendar year may be carried over to the following year. Compensatory time must be taken prior to accumulated vacation leave.

F. Long-Term Debt

See Note 6, *Debt Service Requirements*.

G. 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 the Winlock City Council. When expenditures that meet restrictions are incurred, the City of Winlock intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of Special Revenue Funds that account for revenue designated to finance particular activities of the City Debt Service Funds which account for resources to pay for principle, interest and related costs of long term debt, Capital Project Funds which account for acquisition or construction of capital projects, Enterprise Funds which account for the operations that provide goods and services to the general public and are supported primarily through user charges.

Note 2– Budget Compliance

A. Budgets

The City of Winlock 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 follow:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:			
001 – Current Fund	\$ 785,693	\$ 683,736	\$ 101,957
101-City Street Fund	\$ 858,014	\$ 285,493	\$ 572,521
102 – Bridge Project Fund	\$ 2,970,000	\$ 1,911,857	\$1,058,143
103- Park Fund	\$ 48,510	\$ 16,950	\$ 31,560
104 – Library Fund	\$ 13,453	\$ 12,066	\$ 1,387
111- Gen. Bldg. Res. Fund	\$ 6,260	\$ 3,118	\$ 3,142
120- Contingency Fund	\$ 248,802	\$ 83,100	\$ 165,702
Total General Funds	\$ 4,930,732	\$ 2,996,320	\$1,934,412
310 – Muni Cap Imp Fund			
	\$ 98,141	\$ 39,321	\$ 58,820
Water Sewer Funds:			
401 – Water Sewer Fund	\$ 1,146,872	\$ 1,125,522	\$ 21,350
404 -W/S Contingency Fund	\$ 90,000	\$ 0	\$ 90,000
407–W/S Redemption Fund	\$ 617,204	\$ 595,175	\$ 22,029
408-W/S Reserve Fund	\$ 169,136	\$ 0	\$ 169,136
410-W/S Cap. Imp. Fund	\$ 106,572	\$ 35,572	\$ 71,000
416-Water Project Fund	\$ 884,000	\$ 198,013	\$ 685,987
417-Sewer Project Fund	\$ 4,615,117	\$ 3,798,255	\$ 816,862
420- Consumer Dep. Fund	\$ 108,785	\$ 34,893	\$ 73,892
Total Water Sewer Funds	\$ 7,737,686	\$ 5,787,430	\$ 1,950,256
402-Storm Drain Fund			
	\$ 106,500	\$ 1,646	\$ 104,854
699-Petty Cash			
	\$ 100	\$ 0	\$ 100
Total All Funds	\$12,873,159	\$8,824,717	\$ 4,048,442

- (1) The Budget does not reflect the consolidation of managerial funds contained in the Financial Statements.
- (2) The Budget reflects the inter-fund transfers eliminated with the consolidation in the Financial Statements.
- (3) Budgeted amounts are authorized to be transferred between; however, any revisions that alter salary ranges, hours, or other conditions of employment must be approved by the City of Winlock’s legislative body.

Note 3 – Deposits and Investments

It is the City of Winlock’s policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

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 City of Winlock or its agent in the government’s name.

Investments are reported at original cost. Investments by type at December 31, 2018 are as follows:

<u>Type of Investment</u>	City of Winlock's own investments
L.G.I.P.	\$894,075.19
Umqua Bank CD	<u>\$139,858.24</u>
Total	\$1,033,933.43

Note 4 - 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 City of Winlock. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The City of Winlock's regular levy for the year 2018 was \$1.785643662950 per \$1,000 on an assessed valuation of \$76,270,430 for a total regular levy of \$136,191.81.

Note 5 - Interfund Loans

The following table displays interfund loan activity during 2018:

Borrowing Fund	Lending Fund	Balance 1/1/2017	New Loans	Repayments	Balance 12/31/2018
101-Street	310-Cap Imp	\$ 14,200	\$ -0-	\$ 14,200	\$ -0-

Note 6 – Debt Service Requirements

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City of Winlock and summarizes the the City of Winlock's debt transactions for year ended December 31, 2018.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	432,362.26	112,413.78	544,776.04
2020	435,258.95	108,917.65	544,176.60
2021	438,284.81	105,292.34	543,577.15
2022	441,445.79	101,531.92	542,977.71
2023	444,748.09	97,633.19	542,381.28
2024-2028	2,160,775.82	426,619.92	2,587,395.74
2029-2033	437,260.82	329,398.18	766,659.00
2034-2038	385,230.08	234,999.03	620,229.11
2039-2043	421,035.49	154,844.51	575,880.00
2043-2048	<u>512,079.84</u>	<u>59,486.56</u>	<u>571,566.40</u>
TOTALS	\$6,108,481.95	\$1,731,137.08	\$7,839,619.03

Note 7 – Pension Plans

A. State Sponsored Pension Plans

Substantially all the City of Winlock’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 PERS 2.

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, 2018 (the measurement date of the plans), the (city/county/district’s) proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1 UALL	13,181.00	0.001972%	\$88,070.00
PERS 2/3	19,628.00	0.002544%	\$43,437.00
LEOFF 2	685.53	0.000395%	(\$8,019.00)

LEOFF Plan 2

The City of Winlock 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 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 8 – Risk Management

The City of Winlock is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of 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 program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. **As of December 1, 2018, there are 207 members in the program.**

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property; including Automobile Comprehensive and Collision, Equipment Breakdown, and Crime Protection and Liability; including General, Automobile, and Wrongful Acts, which are included to fit member's various needs.

The program acquires liability insurance through their administrator, Clear Risk Solutions, which is subject to a per-occurrence self-insured retention (SIR) of \$100,000, with the exception of Wrongful Acts and Law Enforcement Liability, which have a self-insured retention of \$25,000. Members are responsible for a \$1,000 to \$10,000 deductible for each claim, while the program is responsible for the \$100,000 retention. Since the program is a cooperative program, there is a joint liability among the participating members toward the sharing of the \$100,000 of the self-insured retention, in addition to the deductible. The program also purchases a Stop Loss Policy as another layer of protection to its membership, **with an attachment point of \$1,922,394.**

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible. Privacy and Network Liability coverage is offered with a \$10,000 member deductible and \$40,000 self-insured retention for systems using encryption and \$50,000 member deductible and \$50,000 self-insured retention for those without encryption.

Equipment Breakdown insurance is subject to a per-occurrence deductible of \$2,500, which may vary per member, with the exception of Pumps & Motors, which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps & Motors, which is \$15,000 and is covered by CIAW. Members contract to remain in the program for a minimum of one year, and must give notice before December 1 to terminate participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three (3) geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, underwriting, claims adjustment, and loss prevention for the program. Fees paid to the third-party administrator under this arrangement for the year ending **December 1, 2018 were \$2,809,430.40.**

Note 9 - Unemployment Compensation

The City is self insured for claims regarding unemployment insurance. Resources have not been set aside for unemployment claims at this time; however, there are adequate funds in both restricted and non-restricted contingency funds. There were no claims for unemployment in 2018.

**City of Winlock
Schedule of Liabilities
For the Year Ended December 31, 2018**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.98	Compensated Absences	12/31/2018	8,084	9,483	-	17,567
Total General Obligation Debt/Liabilities:			8,084	9,483	-	17,567
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences	12/31/2018	11,295	933	-	12,228
252.11	1988 Bond - Water 91-04	10/27/2028	131,936	-	9,323	122,613
252.11	1994 Bond - Sewer 92-06	9/30/2034	328,275	-	13,218	315,057
252.11	1996 Bond - Sewer 92-08	5/9/2036	107,860	-	3,880	103,980
252.11	2008 Bond - Sewer 92-09	10/1/2048	2,003,433	-	32,873	1,970,560
263.82	2005 PWTF Loan - Sewer PW05-691-130	7/1/2025	239,776	-	29,972	209,804
263.82	2005 DOE Loan - Sewer L030018	6/30/2025	54,041	-	6,859	47,182
263.82	2008 DOE Loan L070006	10/31/2028	3,672,077	-	333,825	3,338,252
264.30	Net Pension Liability per 2018 PEFI	12/31/2018	188,369	-	56,862	131,507
Total Revenue and Other (non G.O.) Debt/Liabilities:			6,737,062	933	486,812	6,251,183
Total Liabilities:			6,745,146	10,416	486,812	6,268,750

City of Winlock
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via Community Development Block Grant / State's Program and Non-Entitlement Grants in Hawaii)	Community Development Block Grants/State's program and Non- Entitlement Grants in Hawaii	14.228	15-62210-034	2,802	-	2,802	-	1,2,3
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via Community Development Block Grant / State's Program and Non-Entitlement Grants in Hawaii)	Community Development Block Grants/State's program and Non- Entitlement Grants in Hawaii	14.228	16-62210-039	52,520	-	52,520	-	1,2,3
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via Community Development Block Grant / State's Program and Non-Entitlement Grants in Hawaii)	Community Development Block Grants/State's program and Non- Entitlement Grants in Hawaii	14.228	14-65400-043	1,200	-	1,200	-	1,2,3
Total CFDA 14.228:				56,522	-	56,522	-	
Highway Planning and Construction Cluster								
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Highway Planning and Construction)	Highway Planning and Construction	20.205	FRS-21AF(001)	1,594,342	-	1,594,342	-	1,2,3
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Highway Planning and Construction)	Highway Planning and Construction	20.205	BHOS-1455(003)	52,660	-	52,660	-	1,2,3
Total Highway Planning and Construction Cluster:				1,647,002	-	1,647,002	-	

FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via Disaster Grants - Public Assistance (Presidentially Declared Disasters))	97.036	PW273	5,037	-	5,037	-	1,2,3
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via Disaster Grants - Public Assistance (Presidentially Declared Disasters))	97.036	PW266	15,541	-	15,541	-	1,2,3
			<u>20,578</u>	-	<u>20,578</u>	-	
			<u>1,724,102</u>	-	<u>1,724,102</u>	-	

Total CFDA 97.036:

Total Federal Awards Expended:

CITY OF WINLOCK

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2018

Note 1 – Basis of Accounting

This Schedule is prepared on the same basis of accounting as the City of Winlock's financial statements. The City of Winlock uses the single-entry cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

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 City of Winlock'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 3 – Indirect Cost Rate

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



City of Winlock

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(360) 785-3811/fax (360-785-4378
wincity@toledotel.com

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

This schedule presents the corrective action planned by the City 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).

Finding ref number: 2018-001	Finding caption: The City did not have adequate internal controls in place to ensure compliance with federal Davis-Bacon Act (prevailing wage) requirements.
Name, address, and telephone of the City contact person: Theda Curry, Clerk/ Treasurer 323 N.E. First Street Winlock, WA 98596 (360) 785-3811	
Corrective action the auditee plans to take in response to the finding: <i>The City has been under staffed for several years. The City intends to provide adequate staffing to oversee that the external project managers are following up with the contractors and sub-contractors regarding compliance with the federal Davis Bacon Act (prevailing wage) requirements and doing so in a timely manner.</i>	
Anticipated date to complete the corrective action: Immediate	

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.

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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.

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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