



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements Audit Report

City of Winlock

Lewis County

For the period January 1, 2012 through December 31, 2013

Published October 23, 2014

Report No. 1012810





Washington State Auditor
Troy Kelley

October 23, 2014

Mayor and Town Council
City of Winlock
Winlock, Washington

Report on Financial Statements

Please find attached our report on the City of Winlock's financial statements.

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

Sincerely,

TROY KELLEY
STATE AUDITOR

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Lewis County
January 1, 2012 through December 31, 2013**

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

**City of Winlock
Lewis County
January 1, 2012 through December 31, 2013**

Mayor and Town 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, Lewis County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated October 14, 2014.

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 or permitted 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 audits 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 opinion 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.

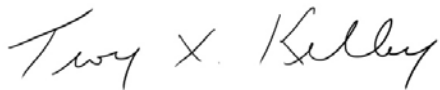
COMPLIANCE AND OTHER MATTERS

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.



TROY KELLEY
STATE AUDITOR

October 14, 2014

Independent Auditor's Report on Financial Statements

City of Winlock Lewis County January 1, 2012 through December 31, 2013

Mayor and Town Council
City of Winlock
Winlock, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Winlock, Lewis County, Washington, for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 using accounting practices prescribed or permitted by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Winlock, for the years ended December 31, 2013 and 2012, 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, 2013 and 2012, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

Other Matters

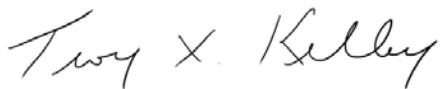
Supplementary and Other Information

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Liabilities are 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 October 14, 2014 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.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR

October 14, 2014

Financial Section

**City of Winlock
Lewis County
January 1, 2012 through December 31, 2013**

FINANCIAL STATEMENTS

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SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2013
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FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds*	001 Current	310 Muni Cap Improve	401 Water Sewer
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	369,050	0	59,793	270,987
30880	Beg Fund Bal-Unreserved	177,580	177,580	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	516,023	509,678	6,345	0
320	Licenses & Permits	2,565	2,565	0	0
330	Intergovernmental Revenues	100,338	86,406	0	13,931
340	Charges for Goods and Services	970,653	23,758	0	928,072
350	Fines & Penalties	19,664	19,664	0	0
360	Miscellaneous Revenues	11,427	8,981	62	412
Total Operating Revenues:		1,620,668	651,052	6,407	942,415
Operating Expenditures					
510	General Government	181,689	181,689	0	0
520	Public Safety	260,761	260,761	0	0
530	Utilities	380,385	0	0	369,574
540	Transportation	139,833	139,833	0	0
550	Natural and Economic Environment	4,267	4,267	0	0
560	Social Services	625	625	0	0
570	Culture And Recreation	40,188	40,188	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		1,007,748	627,363		369,574
Net Operating Increase (Decrease):		612,920	23,689	6,407	572,841
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	100,131	28,975	0	71,156
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	29,437	7,500	0	21,937
Total Nonoperating Revenues:		129,568	36,475		93,093
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	94,840	27,550	0	67,291
591-593	Debt Service	548,373	0	0	548,373
594-595	Capital Expenditures	28,096	7,824	0	20,272
597	Transfers-Out	27,500	20,000	5,000	2,500
Total Nonoperating Expenditures:		698,809	55,374	5,000	638,436
Increase (Decrease) in Cash and Investments		43,679	4,790	1,407	27,498
Ending Cash and Investments					
50810	End Fund Bal-Reserved	407,939	0	61,200	298,486
50880	End Fund Balance-Unreserved	182,372	182,372	0	0

The accompanying notes are an integral part of this Statement.

BARS Code		402 Storm Drain
Beginning Cash and Investments		
30810	Beg Fund Bal-Reserved	38,269
30880	Beg Fund Bal-Unreserved	0
38800/58800	Prior Period Adjustments, net	0
Operating Revenues		
310	Taxes	0
320	Licenses & Permits	0
330	Intergovernmental Revenues	0
340	Charges for Goods and Services	18,823
350	Fines & Penalties	0
360	Miscellaneous Revenues	1,971
Total Operating Revenues:		20,794
Operating Expenditures		
510	General Government	0
520	Public Safety	0
530	Utilities	10,811
540	Transportation	0
550	Natural and Economic Environment	0
560	Social Services	0
570	Culture And Recreation	0
598	Intergovernmental Payments	0
Total Operating Expenditures:		10,811
Net Operating Increase (Decrease):		9,983
Nonoperating Revenues		
370, 380, 395, 398	Other Financing Sources	0
391-393	Debt Proceeds	0
397	Transfers-In	0
Total Nonoperating Revenues:		
Nonoperating Expenditures		
580, 596, 599	Other Financing Uses	0
591-593	Debt Service	0
594-595	Capital Expenditures	0
597	Transfers-Out	0
Total Nonoperating Expenditures:		
Increase (Decrease) in Cash and Investments		9,983
Ending Cash and Investments		
50810	End Fund Bal-Reserved	48,253
50880	End Fund Balance-Unreserved	0

The accompanying notes are an integral part of this Statement.

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS Code		Total for All funds*	001 Current	310 Muni Cap Improve	401 Water Sewer
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	391,899	0	55,091	307,588
30880	Beg Fund Bal-Unreserved	273,004	273,004	0	0
38800/58800	Prior Period Adjustments, net	2,500	2,500	0	0
Operating Revenues					
310	Taxes	451,393	441,761	9,632	0
320	Licenses & Permits	2,279	2,279	0	0
330	Intergovernmental Revenues	265,468	162,763	0	102,705
340	Charges for Goods and Services	947,544	17,980	0	912,448
350	Fines & Penalties	23,975	23,975	0	0
360	Miscellaneous Revenues	28,265	27,543	70	608
Total Operating Revenues:		1,718,924	676,301	9,702	1,015,761
Operating Expenditures					
510	General Government	197,833	197,833	0	0
520	Public Safety	298,124	298,124	0	0
530	Utilities And Environment	530,048	452	0	518,422
540	Transportation	97,819	97,819	0	0
550	Economic Environment	4,632	4,632	0	0
560	Mental & Physical Health	319	319	0	0
570	Culture And Recreation	66,572	66,572	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		1,195,347	665,751		518,422
Net Operating Increase (Decrease):		523,577	10,550	9,702	497,339
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	68,548	14,975	0	50,511
391-393	Debt Proceeds	49,800	0	0	49,800
397	Transfers-In	110,500	7,500	0	103,000
Total Nonoperating Revenues:		228,848	22,475		203,311
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	32,320	20,990	0	11,330
591-593	Debt Service	598,792	20	0	598,772
594-595	Capital Expenditures	131,586	6,941	0	124,645
597	Transfers-Out	110,500	103,000	5,000	2,500
Total Nonoperating Expenditures:		873,198	130,951	5,000	737,247
Increase (Decrease) in Cash and Investments		-120,773	-97,926	4,702	-36,597
Ending Cash and Investments					
50810	End Fund Bal-Reserved	369,050	0	59,793	270,988
50880	End Fund Balance-Unreserved	177,579	177,579	0	0

The accompanying notes are an integral part of this Statement.

BARS Code		402 Storm Drain
Beginning Cash and Investments		
30810	Beg Fund Bal-Reserved	29,220
30880	Beg Fund Bal-Unreserved	0
38800/58800	Prior Period Adjustments, net	0
Operating Revenues		
310	Taxes	0
320	Licenses & Permits	0
330	Intergovernmental Revenues	0
340	Charges for Goods and Services	17,116
350	Fines & Penalties	0
360	Miscellaneous Revenues	44
Total Operating Revenues:		17,160
Operating Expenditures		
510	General Government	0
520	Public Safety	0
530	Utilities And Environment	11,174
540	Transportation	0
550	Economic Environment	0
560	Mental & Physical Health	0
570	Culture And Recreation	0
598	Intergovernmental Payments	0
Total Operating Expenditures:		11,174
Net Operating Increase (Decrease):		5,986
Nonoperating Revenues		
370, 380, 395, 398	Other Financing Sources	3,062
391-393	Debt Proceeds	0
397	Transfers-In	0
Total Nonoperating Revenues:		3,062
Nonoperating Expenditures		
580, 596, 599	Other Financing Uses	0
591-593	Debt Service	0
594-595	Capital Expenditures	0
597	Transfers-Out	0
Total Nonoperating Expenditures:		
Increase (Decrease) in Cash and Investments		9,048
Ending Cash and Investments		
50810	End Fund Bal-Reserved	38,269
50880	End Fund Balance-Unreserved	0

The accompanying notes are an integral part of this Statement.

CITY OF WINLOCK
Notes to Financial Statements
January 1, 2013 through December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Winlock reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the Cash Basis Budgeting, Accounting and Reporting System (BARS) Manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State Law, Chapter 43.09 RCW.

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, with a Mayor-Council form of government. The City is a general-purpose government and provides public safety, street improvements, park and recreation, and general administration. In addition the City owns and operates a water/sewer system. The City uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

A. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The City's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

This Current Expense Fund includes the following six managerial funds. Managerial funds are funds which do not have restricted or committed revenue sources. The Interfund 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 – Street 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 City.

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related cost 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.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

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.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

C. Budgets

The City 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:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	478,409	471,161	7,248
Street Fund	162,717	147,150	15,567
Park Fund	14,282	8,401	5,881
Library Fund	37,184	36,022	1,162
General Building Res.	3,096	0	3,096
Contingency Fund	144,975	20,000	124,975
Muni Capital Improvement Fund	59,574	5,000	54,574
Water Sewer Fund	1,008,746	382,827	50,044
Storm Drain Fund	58,420	10,811	47,609
Water Sewer Redemption Fund	616,856	598,173	18,683
Water Sewer Reserve Fund	294,540	0	294,540
Water Sewer Capital Improvement Fund	34,160	0	27,674
Sewer Project Fund	217,667	12,015	205,652
Consumer Deposit Fund	84,000	14,995	69,005
TOTALS	\$3,214,626	\$2,288,916	\$925,710

(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 funds; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City's legislative body.

D. Cash

It is the City's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various funds.

E. Deposits

The City's deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation.

F. Investments

See Note 3

G. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000.00 and an estimated useful life in excess of one year. The capital assets of the City are recorded as expenditures when purchased.

H. Compensated Absences

Vacation leave may be accumulated up to 30 days (or 240 hours) and is payable upon separation or retirement.

Sick leave may accumulate indefinitely. Upon separation or retirement, employees do not receive payment for unused sick leave.

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

Compensatory time must be taken prior to accumulated vacation leave.

I. Debt Service Requirements

See Note 6

J. Other Financing Sources or Uses

The City's "Other Financing Sources or Uses" consist of operating transfers-in and operating transfers-out.

K. Risk Management

The City of Winlock is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 R CW 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 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 R CW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989 when 32 municipalities 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 31, 2013, 91 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 coverage's 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, and boiler and machinery insurance coverage. Boiler and machinery is included with the property reinsurance carrier and employee fidelity coverage is a stand-alone policy that the AWC RMSA arranges for its members. The AWC RMSA also allows members 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. AWC RMSA, itself, pays out of its own funds all claims up to \$250,000 for liability and \$50,000 for property, and thereafter purchases excess liability insurance through ACE Insurance Company up to \$1 million, and CV Starr, from \$1 million to \$10 million. The excess property coverage is purchased through Lexington with limits up to \$250 million, using the Pool's broker, Arthur J. Gallagher Risk Management Services. Since AWC RMSA is a cooperative program, there is a joint liability among the participating members.

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.

L. Other Self Insurance Funds

The City is self-insured for claims regarding unemployment insurance. Resources have not been set aside for unemployment claims at this time.

M. Reserved Fund Balances

Reserved Fund Balances consist of Special Revenue Funds that account for revenues 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, and Enterprise Funds which account for operations that provide goods or services to the general public and are supported primarily through user charges.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions. There have been no expenditures exceeding legal appropriations in any of the funds of the City.

NOTE 3 – INVESTMENTS

The City of Winlock's investments are either insured, registered or held by the City or its agent in the City's name.

Investment by type at December 31, 2013 are as follows:

<u>Type of Investment</u>	<u>Balance</u>
L.G.I.P.	\$ 431,190.79
Timberland Bank CD	\$ <u>139,817.74</u>
TOTAL	\$ 571,008.53

NOTE 4 – PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes 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's regular levy for the year 2013 was \$2.201987871340 per \$1,000 on an assessed valuation of \$72,743,239.00 for a total regular levy of \$160,179.73.

NOTE 5 – INTERFUND LOANS AND ADVANCES

The following table displays interfund loan activity during 2013:

<u>Borrowing Fund</u>	<u>Lending Fund</u>	<u>Balance 1/1/13</u>	<u>New Loans</u>	<u>Repayments</u>	<u>Balance 12/31/13</u>
Park (103)	Water/Sewer Capital Improvement (410)	\$1,937.00		\$1,937.00	0
TOTALS		\$1,937.00		\$1,937.00	0

To install a new septic system and Winolequa Park Ordinance No. 961

NOTE 6 – DEBT SERVICE REQUIREMENTS

The accompanying schedule of Long-Term Debt (09) provides a listing of the outstanding debt of the City of Winlock and summarizes the City's debt transactions for 2013. The debt service payment for the fiscal year being reported and future payment requirements including interest, are as follows:

	<u>General Obligation Bonds</u>	<u>Revenue Bonds</u>	<u>Other Debt</u>	<u>Total Debt</u>
2013	0	548,372.68	0	548,372.68
2014	0	547,773.22	0	547,773.22
2015	0	547,173.79	0	547,173.79
2016	0	546,574.35	0	546,574.35
2017	0	545,974.91	0	545,974.91
2018	0	545,375.46	0	545,375.46
2019-2023	0	2,717,885.80	0	2,717,885.80
2024-2028	0	2,587,742.31	0	2,587,742.31
2029-2033	0	766,660.00	0	766,660.00
2034-2038	0	626,226.64	0	626,226.64
2039-2043	0	575,880.00	0	575,880.00
2044-2048	0	571,591.99	0	571,591.99
TOTALS	\$ 0	\$11,127,231.08	\$ 0	\$11,127,231.08

NOTE 7 – PENSION PLANS

Substantially all City of Winlock's full-time and qualifying part-time employees participate in PERS II or LEOFF II administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the City's financial statements.

Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98504-8380

CITY OF WINLOCK
Notes to Financial Statements
January 1, 2012 through December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Winlock reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the Cash Basis Budgeting, Accounting and Reporting System (BARS) Manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State Law, Chapter 43.09 RCW.

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, with a Mayor-Council form of government. The City is a general-purpose government and provides public safety, street improvements, park and recreation, and general administration. In addition the City owns and operates a water/sewer system. The City uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

a. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The City's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

This Current Expense Fund includes the following six managerial funds. Managerial funds are funds which do not have restricted or committed revenue sources. The Interfund 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 – Street 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 City.

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related cost 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.

b. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

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.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

c. Budgets

The City 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:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	574,637	545,405	29,232
Street Fund	124,078	107,868	16,210
Park Fund	24,920	22,454	2,466
Library Fund	57,917	57,274	643
General Building Res.	3,089	0	3,089
Contingency Fund	287,977	142,300	145,677
Muni Capital Improvement Fund	61,560	5,000	56,560
Water Sewer Fund	1,138,963	1,109,282	29,681
Storm Drain Fund	44,813	11,173	33,640
Water Sewer Redemption Fund	617,322	648,772	(31,450)
Water Sewer Reserve Fund	225,126	0	225,126
Water Sewer Capital Improvement Fund	84,048	41,113	42,935
Sewer Project Fund	343,250	104,816	238,434
Consumer Deposit Fund	75,000	11,330	63,670
TOTALS	\$3,662,700	\$2,806,787	\$855,913

- (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 funds; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City's legislative body.

d. Cash

It is the City's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various funds.

e. Deposits

The City's deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation.

f. Investments

See Note 3

g. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000.00 and an estimated useful life in excess of one year. The capital assets of the City are recorded as expenditures when purchased.

h. Compensated Absences

Vacation leave may be accumulated up to 30 days (or 240 hours) and is payable upon separation or retirement.

Sick leave may accumulate indefinitely. Upon separation or retirement, employees do not receive payment for unused sick leave.

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

i. Debt Service Requirements

See Note 6

j. Other Financing Sources or Uses

The City's "Other Financing Sources or Uses" consist of operating transfers-in and operating transfers-out.

k. Risk Management

The City of Winlock 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 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 together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2012, 91 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 coverage's 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, and boiler and machinery insurance coverage. Boiler and machinery is included with the property reinsurance carrier and employee fidelity coverage is a stand-alone policy that the AWC RMSA arranges for its members. The AWC RMSA also allows members 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. AWC RMSA, itself, pays out of its own funds all claims up to \$250,000 for liability and \$50,000 for property, and thereafter purchases excess liability insurance through ACE Insurance Company up to \$1 million, and CV Starr, from \$1 million to \$10 million. The excess property coverage is purchased through Lexington with limits up to \$250 million, using the Pool's broker, Arthur J. Gallagher Risk Management Services. Since AWC RMSA is a cooperative program, there is a joint liability among the participating members.

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.

1. Other Self Insurance Funds

The City is self-insured for claims regarding unemployment insurance. Resources have not been set aside for unemployment claims at this time.

m. Reserved Fund Balances

Reserved Fund Balances consist of Special Revenue Funds that account for revenues 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, and Enterprise Funds which account for operations that provide goods or services to the general public and are supported primarily through user charges.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions. There have been no expenditures exceeding legal appropriations in any of the funds of the City.

NOTE 3 – INVESTMENTS

The City of Winlock's investments are either insured, registered or held by the City or its agent in the City's name.

Investment by type at December 31, 2012 are as follows:

<u>Type of Investment</u>	<u>Balance</u>
L.G.I.P.	\$ 355,599.48
Timberland Bank CD	\$ <u>139,817.74</u>
TOTAL	\$ 495,417.22

NOTE 4 – PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes 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's regular levy for the year 2012 was \$2.114493460437 per \$1,000 on an assessed valuation of \$74,158,087 for a total regular levy of \$156,806.79

NOTE 5 – INTERFUND LOANS AND ADVANCES

The following table displays interfund loan activity during 2012:

<u>Borrowing Fund</u>	<u>Lending Fund</u>	<u>Balance 1/1/12</u>	<u>New Loans</u>	<u>Repayments</u>	<u>Balance 12/31/12</u>
Park (103)	Water/Sewer Capital Improvement (410)	\$5,274.00		\$3,336.00	\$1,938.00

To install a new septic system and Winolequa Park Ordinance No. 961

TOTALS	\$5,274.00	\$3,336.00	\$1,938.00
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NOTE 6 – DEBT SERVICE REQUIREMENTS

The accompanying schedule of Long-Term Debt (09) provides a listing of the outstanding debt of the City of Winlock and summarizes the City's debt transactions for 2012. The debt service payment for the fiscal year being reported and future payment requirements including interest, are as follows:

	<u>General Obligation Bonds</u>	<u>Revenue Bonds</u>	<u>Other Debt</u>	<u>Total Debt</u>
2012	0	548,972.10	0	548,972.10
2013	0	548,372.68	0	548,372.68
2014	0	547,773.22	0	547,773.22
2015	0	547,173.79	0	547,173.79
2016	0	546,574.35	0	546,574.35
2017	0	545,974.91	0	545,974.91
2018	0	545,375.46	0	545,375.46
2019-2023	0	2,717,885.80	0	2,717,885.80
2024-2028	0	2,587,742.31	0	2,587,742.31
2029-2033	0	766,660.00	0	766,660.00
2034-2038	0	626,226.64	0	626,226.64
2039-2043	0	575,880.00	0	575,880.00
2044-2048	0	571,591.99	0	571,591.99
TOTALS	\$ 0	\$11,676,203.18	\$ 0	\$11,676,203.18

NOTE 7 – PENSION PLANS

Substantially all City of Winlock's full-time and qualifying part-time employees participate in PERS II or LEOFF II administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the City's financial statements.

Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98504-8380

NOTE 8 - OTHER DISCLOSURES

Prior year adjustment to beginning fund balance in the General Fund was for net proceeds of the Winlock Municipal Court that had not been accounted for in previous years. (2011 year end checking account balance.)

\$103,000.00 from the General Fund was transferred to the Water Sewer Fund for emergency expenditures related to maintenance of the Waste Water Treatment Plant without requirement for repayment.

City of Winlock

Schedule of Liabilities

For the year ended December 31, 2013

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2013	Additions	Reductions	Ending Balance December 31, 2013
General Obligations							
	259.11	General Compensated Absenses		29,555		345	29,210
Total General Obligations:				29,555		345	29,210
Revenue Obligations							
	252.11	1988 Bond 91-04	10/27/2028	172,230		7,283	164,947
	252.11	1994 Bonds 92-06	9/1/2034	385,405		10,326	375,079
	252.11	1996 Bond 92-08	5/1/1936	124,870		3,106	121,764
	252.11	2008 Bond 92-09	12/31/1948	2,149,092		26,803	2,122,289
	263.82	2005 PW Loan 08-691-130	10/1/2025	389,636		29,972	359,664
	263.82	2005 DOE Loan L030018	10/1/2025	86,837		6,364	80,473
	263.82	2008 DOE Loan L070006	12/31/2027	5,341,203		333,825	5,007,378
	259.12	Proprietary Compensated Absenses		6,506		3,852	2,654
Total Revenue Obligations:				8,655,779		421,531	8,234,248
Total Liabilities:				8,685,334		421,876	8,263,458

MCAG NO. 0502

City of Winlock

Schedule 09

Schedule of Liabilities

For the year ended December 31, 2012

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2012	Additions	Reductions	Ending Balance December 31, 2012
General Obligations							
	259.11	General Compensated Absences		25,297	4,257		29,555
Total General Obligations:				25,297	4,257		29,555
Revenue Obligations							
	252.11	1988 Bond Water 91-04	10/27/2028	179,162		6,932	172,230
	252.11	1994 Bond Sewer 92-06	9/1/2034	395,234		9,829	385,405
	252.11	1996 Bond Sewer 92-08	5/1/2036	127,841		2,971	124,870
	252.11	2008 Bond Sewer 92-09	12/31/2024	2,174,822		25,730	2,149,092
	263.82	2005 PW Loan Sewer Plant PW08-691-130	7/1/2025	419,608		29,972	389,636
	263.82	2005 DOE Loan Sewer Plant LO30018	10/1/2048	93,107		6,269	86,837
	263.82	2008 DOE Loan Sewer Plant LO70006	12/31/2027	5,675,028		333,825	5,341,203
	259.12	Proprietary Compensated Absences		11,450		4,944	6,506
Total Revenue Obligations:				9,076,251	420,472		8,655,779

MCAG NO. 0502

City of Winlock
Schedule of Liabilities
For the year ended December 31, 2012

Schedule 09

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2012	Additions	Reductions	Ending Balance December 31, 2012
Total Liabilities:				9,101,548	4,257	420,472	8,685,333

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
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