



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements Audit Report

City of Tenino

Thurston County

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

Published February 12, 2015

Report No. 1013603





Washington State Auditor
Troy Kelley

February 12, 2105

Mayor and City Council
City of Tenino
Tenino, Washington

Report on Financial Statements

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

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

Schedule Of Audit Findings And Responses.....	4
Status Of Prior Audit Findings	7
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	9
Independent Auditor’s Report On Financial Statements	12
Financial Section.....	16
About The State Auditor’s Office.....	28

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Tenino Thurston County January 1, 2013 through December 31, 2013

2013-01 The City's financial condition puts it at risk of not being able to meet financial obligations and maintain current service levels.

Description of Condition

We have communicated financial condition concerns to the City in its past three audits. Our current audit found its financial condition issues continue to persist. The City's General Fund ending cash balance as of year-end:

Fiscal Year	General Fund
2009	\$ 195,664
2010	\$ 18,841
2011	\$ (26,920)
2012	\$ 44,283
2013	\$ 67,711

The City's unaudited General Fund balance was negative for three months in 2013, ranging from negative \$1,880 in November to negative \$39,736 in October. In December 2013 the General Fund borrowed \$55,000 from the Municipal Capital Improvement Fund to prevent the General Fund from going into the negative. As of October 31, 2014 the City's unaudited General Fund balance was \$6,122 and the balance owed on the inter-fund loan was \$14,722.

Over the last three years General Fund operating expenditures have exceeded operating revenue.

	2011	2012	2013
Operating Revenue	\$ 1,119,622.00	\$ 1,105,875.00	\$ 988,437.00
Operating Expenditures	\$ 1,193,314.00	\$ 1,110,060.00	\$ 993,569.00
Excess/(Deficit)	\$ (73,692.00)	\$ (4,185.00)	\$ (5,132.00)

Cause of Condition

The City's revenue has not kept up with expenditures.

In 2012, the City had four different Clerk-Treasurers and two in 2013, making it difficult for the Council to receive timely and accurate financial reports needed to effectively monitor the City's financial condition.

The City has not established a formal plan to address cash flow issues.

Effect of Condition

The City cannot be sure it can continue to provide services at current levels or meet its operating expenses.

The City is at risk for permanent diversion of funds and one fund benefitting another if inter-fund loans are used and not able to be repaid.

Recommendation

We continue to recommend the City:

- Establish a formal plan to address cash flow issues.
- Closely monitor and evaluate the financial activities to ensure the plan is being followed and the desired results achieved. It should revise the plan if expected improvements are not achieved.
- Take prompt action to manage operations within available resources.
- Ensure elected officials establish inter-fund loans when other funds are used to cover negative fund balances.

City's Response

The City has taken the following steps to maintain financial condition:

- a. *Business & Occupation Tax Collection.* *In 2013 the City Council passed a Business and Occupation Tax FY 2014. The total revenue FY 2014 was \$30,531.47. This is additional revenue for the General Fund.*
- b. *Interfund Loans.* *FY 2014 and 2015 the City has no scheduled interfund loans. The interfund loan taken in 2012 has an approximate pay off amount of \$14,722.00 which will be paid in full in 2015.*
- c. *Sufficient Revenue to Cover Debt Service.* *In 2013 the City contracted for a rate study to assist the Council in determining the amount of fee adjustments that will be needed to ensure the sewer utility will be self-funded to the extent of covering daily operations and maintenance, debt reduction and reserves for future needs. As a temporary stop gap action, the Council will put forward a rate adjustment in early 2014 while waiting for the results of the rate study. The rate study is yet to be complete but will be complete and addressed in early 2015.*

- d. Internal Controls-Approval required over \$500.00. FY 2014 and 2015 the City Council passed Resolutions requiring approval to spend over \$500.00 for expenses unrelated to payroll and emergency repairs needed to provide services to our citizens.

Auditor's Remarks

We appreciate the action the City is taking to address the concerns identified in the finding. We will follow up on the City's corrective action during our next audit.

STATUS OF PRIOR AUDIT FINDINGS

City of Tenino Thurston County January 1, 2013 through December 31, 2013

The status of findings contained in the prior years' audit reports of the City of Tenino is provided below:

1. The City should continue to improve its internal controls to ensure accurate and complete financial reporting.

Report No. 1011209, dated February 2, 2013

Background

During the current audit, we identified the following weaknesses in internal controls over financial reporting that, when taken together, represent a significant deficiency in controls:

- The City had turnover in the Clerk/Treasurer position, which is the employee in charge of monitoring accounting and financial reporting functions. The City has relied on a contractor to perform the financial reporting functions. However, the contract staff does not have enough detailed knowledge of the City's day-to-day operations to ensure complete accounting and reporting.
- The City lacked an effective review process to ensure amounts reported on the financial statements agreed to supporting records and were prepared in accordance with the *Budgeting, Accounting and Reporting Systems (BARS)* Manual.

The City filed its annual report 117 days after the deadline. The submitted report contained errors including:

- The funds were not properly rolled up. Funds 002, 101, 109 and 110 should be rolled up into the General Fund 001.
- The Trust Account was not reported, causing cash to be understated by \$6,967, revenues by \$48,453, and expenses by \$50,356.
- The long-term debt note did not tie to amortization schedules and was understated by \$1,008,422.
- The City reported \$2,538,000 from a U.S. Department of Agriculture loan that should not have been included. Once the Schedule of Expenditures of Federal Awards was corrected, a single audit was no longer required.

Status

The City took steps to improve controls over financial reporting and we consider this finding to be resolved.

2. The City's financial condition puts it at risk of not being able to meet financial obligations and maintain current service levels.

Report No. 1011209, dated February 2, 2013

Background

In 2013 the City's unaudited General Fund balances ranged from negative \$4,811 in January to negative \$31,041 in April. As of September 30, 2013, the City's unaudited General Fund balance was \$26,689.

As of September 30, 2013, the Water Reserve Fund has a negative cash balance of \$37,749 and the Sewer Fund has a negative cash balance of \$135,745.

As of December 31, 2012, the City owed approximately \$8,760,000 for water and wastewater facilities improvements. Over the next 15 years the City has scheduled debt service payments ranging from \$457,874 to \$583,285. The City's revenue may be insufficient to cover debt service payments.

The City does not track whether restricted funds are used to cover General Fund operating expenses. The General Fund, Street Fund, Quarry Fund and Community Development Fund experienced a negative cash balance a number of times throughout 2012 and 2013. The City does not track whether restricted funds are used to cover these funds' expenses when the funds go in the negative. This represents potential unauthorized interfund loans from the City's restricted funds. Additionally, the City does not have a cost allocation plan to support charges to the restricted utility funds.

The City cannot be sure it can continue to provide services at current levels or meet its operating expenses and debt payments.

Since the City does not track whether restricted funds are used to cover negative fund balances or have adequate supporting documentation for its cost allocations, it could make unauthorized inter-fund loans. The City is also at risk for permanent diversion of funds and one fund benefitting another if inter-fund loans are used and not able to be repaid.

Status

The City continued to have financial condition issues in the current audit; therefore, we repeated our recommendation in an audit finding.

**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 Tenino
Thurston County
January 1, 2013 through December 31, 2013**

Mayor and City Council
City of Tenino
Tenino, 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 Tenino, Thurston County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated January 26, 2015. Our report includes information about the status of the City's financial condition. This information is more fully described in Finding 2013-01 in the Schedule of Audit Findings and Responses. The City's response to the finding was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 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.

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

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

January 26, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Tenino Thurston County January 1, 2013 through December 31, 2013

Mayor and City Council
City of Tenino
Tenino, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Tenino, Thurston County, Washington, for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 16.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Tenino has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed 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 Tenino, for the year ended December 31, 2013, 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 Tenino, as of December 31, 2013, 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.

Matters of Emphasis Regarding Fiscal Sustainability

As discussed in Note 7 to the financial statements and described in Finding 1 in the Schedule of Audit Findings and Responses, the City’s financial position continues to decline. The City has had to borrow from restricted funds in order to pay for operations and to address cash flow shortages. The City’s cash flow constraints are expected to continue in the near future. As a result, there exists uncertainty about the City’s ability to maintain services at present levels under these conditions. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

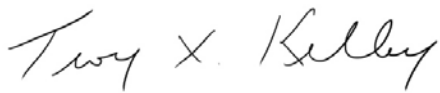
Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. 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.

City’s Response to Finding

The City’s response to the finding identified above is described in the accompanying Schedule of Audit Findings and Responses. The City’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2015 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.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

January 26, 2015

FINANCIAL SECTION

**City of Tenino
Thurston County
January 1, 2013 through December 31, 2013**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2013
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2013
Notes to Financial Statements – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2013

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds*	001 General Government Fund #001	201 Gen Obligation Fund	310 Municipal Capital Imp Fund 310
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	39,246	39,246	0	0
30880	Beg Fund Bal-Unreserved	2,006,737	21,901	125	134,616
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	742,114	717,990	0	24,124
320	Licenses & Permits	20,739	20,739	0	0
330	Intergovernmental Revenues	83,394	83,394	0	0
340	Charges for Goods and Services	1,270,390	90,525	0	0
350	Fines & Penalties	54,930	31,023	0	0
360	Miscellaneous Revenues	62,400	44,766	0	232
Total Operating Revenues:		2,233,967	988,437		24,356
Operating Expenditures					
510	General Government	237,055	237,055	0	0
520	Public Safety	540,833	540,833	0	0
530	Utilities	575,799	4,691	0	0
540	Transportation	58,303	58,303	0	0
550	Natural and Economic Environment	27,916	27,916	0	0
560	Social Services	13,526	13,526	0	0
570	Culture And Recreation	111,245	111,245	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		1,564,677	993,569		
Net Operating Increase (Decrease):		669,290	-5,132	0	24,356
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	89,915	33,794	0	56,121
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	672,293	105,016	0	0
Total Nonoperating Revenues:		762,208	138,810		56,121
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	57,566	57,566	0	0
591-593	Debt Service	583,331	46	0	0
594-595	Capital Expenditures	52,255	26,685	0	710
597	Transfers-Out	672,293	42,812	125	88,200
Total Nonoperating Expenditures:		1,365,445	127,109	125	88,910
Increase (Decrease) in Cash and Investments		66,053	6,569	-125	-8,433
Ending Cash and Investments					
50810	End Fund Bal-Reserved	0	0	0	0
50880	End Fund Balance-Unreserved	2,112,036	67,716	0	126,183

The accompanying notes are an integral part of this Statement.

BARS Code		401 Water Fund	402 Stormwater Fund	410 Sewer Fund	501 Equipment Replacement & Repair Fund
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	0	0	0
30880	Beg Fund Bal-Unreserved	1,041,881	54,121	702,959	51,134
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	0
340	Charges for Goods and Services	346,333	0	833,532	0
350	Fines & Penalties	5,648	0	18,259	0
360	Miscellaneous Revenues	2,689	103	14,587	23
Total Operating Revenues:		354,670	103	866,378	23
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities	194,557	613	375,938	0
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		194,557	613	375,938	
Net Operating Increase (Decrease):		160,113	-510	490,440	23
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	46,718	3,509	517,050	0
Total Nonoperating Revenues:		46,718	3,509	517,050	
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	6,545	0	576,740	0
594-595	Capital Expenditures	13,493	1,067	10,300	0
597	Transfers-Out	0	0	490,000	51,156
Total Nonoperating Expenditures:		20,038	1,067	1,077,040	51,156
Increase (Decrease) in Cash and Investments		186,793	1,932	-69,550	-51,133
Ending Cash and Investments					
50810	End Fund Bal-Reserved	0	0	0	0
50880	End Fund Balance-Unreserved	1,228,674	56,053	633,409	1

The accompanying notes are an integral part of this Statement.

FIDUCIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds	631 Municipal Court Trust Fund
308	Beginning Cash and Investments	6,976	6,976
388 and 588	Prior Period Adjustments, net	1,682	1,682
310-360	Revenues	0	0
380-390	Other Increases and Financing Sources	1,662	1,662
510-570	Expenditures	0	0
580-590	Other Decreases and Financing Uses	1,662	1,662
Increase (Decrease) in Cash and Investments		0	0
508	Ending Cash and Investments	8,658	8,658

The accompanying notes are an integral part of this Statement.

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The City of Tenino 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 Tenino was incorporated on July 19, 1906, and operates under the laws of the state of Washington applicable to a Non-Charter Code City. The City is a general purpose government and provides public safety, water, and sewer utility services. The City uses a single-entry cash basis of 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 fund is the primary operating fund of the City. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Special Revenue Funds

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

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.

Internal Service Funds

These funds account for operations that provide goods or services to other departments or funds of the City on a cost reimbursement basis.

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 8 funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follow:

<u>Fund/Department</u>	<u>Final Appropriated Amounts</u>	<u>Actual Expenses</u>	<u>Variance</u>
001 - General Government Fund			
General Government Fund	\$ 1,038,995	\$ 1,005,285	\$ 33,710
Quarry Pool Fund	\$ 1,500	\$ 16,884	\$ -15,384
City Street Fund	\$ 176,050	\$ 102,286	\$ 73,764
Contingency Fund	\$ 10,093	\$ 0	\$ 10,093
Community Development Fund	\$ 0	\$ 13,525	\$ -13,525
Total Fund 001	\$ 1,226,638	\$ 1,137,980	\$ 88,658
201 General Obligation Fund	\$	\$ 125	\$ -125
310 - Municipal Capital Imp Fund	\$ 144,700	\$ 88,910	\$ 55,790
401 - Utility Operations Fund			
Utility Operations Fund	\$ 778,050	\$ 194,560	\$ 583,490
403 Water Reserve Fund	\$ 14,525	\$ 105,024	\$ -90,499
420 Water Capital Imp Fund	\$ 1,152,353	\$ 20,038	\$ 1,132,315
Total Fund #401	\$ 1,944,928	\$ 319,622	\$ 1,625,306
402 – Stormwater Fund	\$ 53,600	\$ 1,680	\$ 51,920
410- Sewer Operations Fund	\$ 1,269,119	\$ 980,188	\$ 288,931
421 - Sewer Construction Fund	\$ 708,644	\$ 500,300	\$ 208,344
501 - Equipment Replacement Fund	\$ 0	\$ 51,157	\$ -51,157
631 – Municipal Court Trust Fund	\$ 0	\$ 64,390	\$ -64,390

Budgeted amounts are authorized to be transferred between departments within any fund; 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.

Fund 201 had revenue in the amount of \$125.11 which was also the 2012 fund balance. In 2013 that fund was closed out and the \$125.11 expended.

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 deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

F. Investments

See Note 2, *Investments*.

G. Capital Assets

No capitalization policy is currently in force in the City. The capital assets of the City are recorded as expenditures when purchased.

H. Compensated Absences

Vacation leave may be accumulated up to 30 days during the year, however, regular employees may not carry forward in excess of 80 hours of vacation leave at year end without written authorization; vacation leave is payable upon separation or retirement.

Sick leave, for regular employees, may be accumulated up to four hundred hours. Upon separation or retirement employees do not receive payment for unused sick leave.

I. Long-Term Debt

See Note 5, *Debt Service Requirements*.

J. Other Financing Sources or Uses

The City's *Other Financing Sources or Uses* consist of budgeted transfers between funds, and interfund loans authorized by Council.

K. Risk Management

The City of Tenino 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, 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 coverages 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 equipment breakdown insurance coverage. Equipment breakdown is included with the property reinsurance carrier and fidelity (crime) coverage is a stand-alone policy which the AWC RMSA procures for its members. The AWC RMSA also allows members with airports to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$10 million in both per occurrence and aggregate liability limits. For the first \$1 million, AWC RMSA pays out of its own funds all claims up to its Self-Insured Retention (SIR) of \$250,000 and, thereafter, purchases liability re-insurance through Berkley Public Entity of \$750,000. For the additional \$9 million in coverage limits, an excess liability policy is purchased from CV Starr. The excess property coverage is purchased through Lexington Insurance Company using the Pool's broker, Arthur J. Gallagher Risk Management Services. AWC RMSA has a retention of \$50,000 and limits up to \$250 million. Since AWC RMSA is a cooperative program, there is 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.

Note 2 - Investments

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

Investments are presented at fair market value.

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

Type of Investment	City's own investments	Investments held by City as an agent for other local governments, individual or private organizations.	Total
LGIP	\$ 311,177	\$	\$ 311,177
Timberland MMA	\$ 931,076		\$ 931,076
Total	\$1,242,253	\$	\$ 1,242,253

Note 3 - 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 City. 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 \$2.818027094032 per \$1,000 on an assessed valuation of \$89,688,029 for a total regular levy of \$252,743.30.

Note 4 - Interfund Loans

The following table displays interfund loan activity during 2013:

<u>Borrowing</u> <u>Fund</u>	<u>Lending</u> <u>Fund</u>	<u>Balance</u> <u>1/1/2013</u>	<u>New Loans</u>	<u>Repayments</u>	<u>Balance</u> <u>12/31/2013</u>
Fund 001	Fund 310	\$ 22,531	\$55,000	\$22,531	\$55,000
	TOTALS	\$ 22,531	\$55,000	\$22,531	\$55,000

Note 5 – Debt Service Requirements

The accompanying Schedule of Long-Term Liabilities (09) provides more details of the outstanding debt and liabilities of the City and summarizes the City's debt transactions for year ended December 31, 2013.

The debt service requirements for general obligation bonds and revenue bonds, including both principle and interest, are as follows:

	<u>General Obligation Bonds</u>	<u>Revenue Bonds</u>	<u>Other Debt</u>	<u>Total Debt</u>
2013		\$583,285		\$583,285
2014		\$581,079		\$581,079
2015		\$578,874		\$578,874
2016		\$576,668		\$576,668
2017		\$574,462		\$574,462
2018 - 2022		\$2,839,229		\$2,839,229
2023 - 2027		\$2,289,371		\$2,289,371
2028 - 2032		\$544,755		\$544,755
2033 - 2037		\$525,120		\$525,120
2038 - 2042		\$525,120		\$525,120
2043 - 2047		\$525,120		\$525,120
2048 - 2052		<u>\$472,608</u>		<u>\$472,608</u>
TOTALS	\$_____	<u>\$10,615,691</u>	\$_____	<u>\$10,615,691</u>

Note 6 - Pension Plans

Substantially all City's full-time and qualifying part-time employees participate in PERS and LEOFF, 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
PO Box 48380
Olympia, WA 98504-8380

Note 7 - Other Disclosures

City of Tenino has inter-local agreements with the following entities in 2013:

- The City contracts for fire and EMS with Thurston County Fire District No. 12.
- Thurston County Regional Planning provides planning service to the City.
- Timberline Regional Library is housed in a City-owned and maintained building and the City pays for all upkeep and utilities in return for library service in Tenino

- Thurston County Public Works provides technical and staffing assistance for equipment maintenance and public works projects.

In 2012, City declared the fire station building as surplus but not the city-owned equipment that is housed at the fire station. The station was sold to Thurston County Fire District No. 12, but the equipment continues to operate under a lease to the Fire District. In the event that the equipment is declared as surplus and sold the city is liable to reimburse FEMA the original FEMA grant amount of \$225,000. The reimbursement does not trigger in as long as the city is the registered owner. The equipment is leased using an operating lease format.

In 2013 the city has had the following changes in key staff positions: Mayor, three Council members, Clerk/Treasurer, and City Attorney.

The Clerk/Treasurer resigned on 5/15/2013, and the Mayor resigned on 5/31/2013. A new mayor was appointed June 25, 2013. A new Clerk/Treasurer was hired by the City in July of 2013.

Fund 403 was created in 2013 under Ordinance No. 828 to replace a section of ordinance No. 815 which contained a mathematical error in the computation of the amounts needed to be placed in reserve to satisfy the conditions of the USDA Loan.

In 2012, the SAO determined that the use of Fund 501 as an internal equipment replacement and repair fund had resulted in the improper subsidization of a governmental fund by a proprietary fund. The proprietary funds were reimbursed by the general fund in 2013 for these payments, and the use of fund 501 was discontinued. These amounts will be transferred back to their proper funds in 2013.

The Mayor, Council members, City management, and employees of the City of Tenino recognize the limitations of current and future financial resources, and have actively taken steps to constrain costs and improve revenues in 2014 and beyond. The City and its management will commit to keep costs within the financial resources of each fund, and will improve reporting and disclosure practices internally to facilitate good budget management.

The following funds were over-expended in Note 1, Section C:

	Expenses Budgeted	Actual Expenses	Variance	Actual Revenue	Actual Expenses	Variance
001 General Fund	989,948	1,005,285	(15,337)	1,056,965	1,005,285	51,680
002 Quarry Pool	1,500	16,884	(15,384)	19,761	16,884	2,877
110 Comm Dev Fund	12,722	13,525	(803)	13,792	13,525	267
201 GO Fund	-	125	(125)	125	125	-
310 Municipal Cap Imp Fund	5,000	88,910	(83,910)	215,094	88,910	126,184
403 Water Reserve Fund	52,512	105,024	(52,512)	147,300	105,024	42,276
631 Municipal Court Trust Fund	2,000	20,754	(18,754)	29,412	2,000	27,412

As you can see, the funds were not over-expended, however, due to time and staff availability the 2013 budget was not amended in a timely manner for year end totals.

City of Tenino

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	Compensated Absences		26,245	0	5,175	21,070
		Total General Obligations:		26,245	0	5,175	21,070
Revenue Obligations							
	263.62	DWSRF Water Corrosion Control	12/31/2031	117,812	0	6,545	111,267
	263.62	DOC PWB PRE 119 Sewer System Design	12/31/2024	700,460	0	53,882	646,578
	263.62	DOC PWB 044 Sewer System	12/31/2024	5,421,162	0	387,226	5,033,936
	263.82	USDA RD Bond	12/31/2052	2,520,481	0	36,082	2,484,399
		Total Revenue Obligations:		8,759,915	0	483,735	8,276,180
		Total Liabilities:		8,786,160	0	488,910	8,297,250

The accompanying notes to the financial statements are an integral part of this schedule

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.

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