



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Tenino

Thurston County

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

Published April 20, 2017

Report No. 1018892





Office of the Washington State Auditor
Pat McCarthy

April 20, 2017

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,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2015-001 The City's internal controls over financial statement preparation were inadequate to ensure accurate and complete reporting.

Background

City Council members, state and federal agencies, and the public rely on the information included in the financial statements and reports to make decisions. It is the responsibility of the City to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls that adversely affect the City's ability to produce financial statements.

Description of Condition

The City does not have formal policies that establish the controls and processes for ensuring the financial statements are accurate and complete. Our audit identified the following deficiencies in internal controls that, when taken together, represent a material weakness:

- The City did not retain all source documents used to prepare the financial statements, schedules and notes.
- The City lacked controls to ensure information entered into the general ledger was accurate and supported.
- The City lacked a review process to ensure amounts reported on the financial statements agreed to the supporting general ledger.
- City staff responsible for reporting amounts in the financial statements and compiling the footnotes lacked the technical knowledge to ensure they were prepared in accordance with the *Budgeting, Accounting and Reporting System* (BARS) Manual.

Cause of Condition

The City experienced turnover in the Clerk-Treasurer position at the beginning of the financial statement preparation process. Due to the timing of this transition, the City was unable to adequately train the new Clerk-Treasurer before the financial statement preparation process to ensure accurate accounting records and financial statements.

Effect of Condition

During our review of the financial statements, accompanying financial schedules and note disclosures, we identified the following errors:

- The City could not provide support for \$2,508,660 of long-term debt reported as the year-end debt balance on the Schedule of Liabilities and \$8,872,453 reported as total long-term debt obligation in the notes to the financial statements.
- The City reported expenditures of \$453,003 for Sewer/Reclaimed Water Utilities and \$1,438 for Golf Courses during 2015. However, the City was not able to find these accounts in the general ledger.
- The City did not have support for journal entries totaling \$112,601. The City explained that \$86,421 was related to an interfund loan and the remaining \$26,180 lacked any support.
- The City could not explain differences between revenues and expenditures recorded on the bank statements and the general ledger. This resulted in a likely under-reporting of \$58,685 in revenues and likely under-reporting of \$69,283 in expenditures.
- The City could not explain \$9,870 of ending cash balance that was recorded in the general ledger but not supported by bank statements.
- The City did not prepare the required Schedule of Expenditures of State Financial Assistance.
- We also noted a number of less significant errors and omissions related to the financial statements and the notes to the financial statements.

Recommendation

We recommend the City:

- Retain all source documents used to prepare the financial statements, schedules and notes
- Establish controls to ensure information entered into the general ledger is accurate and supported
- Implement controls to ensure amounts reported on the financial statements agree to the supporting general ledger

Adequately train staff responsible for financial reporting to ensure financial statement footnotes and schedules are prepared in accordance with BARS Manual guidance

City's Response

While it would be difficult for any municipality to say that they are grateful for such findings, we are, nevertheless, grateful for the professional way the audit was conducted; for the opportunity to be able to provide this response; and, most importantly, for the opportunity to correct these deficiencies.

Keeping in mind that these findings are pertain to conditions as they existed in 2015, the City has also experienced a 100% turnover in Management: Mayor, Police Chief, Clerk/Treasurer, and Director of Public Works. The Mayor began his term in January of 2016 and that term began without a Police Chief. By the end of April 2016, the then-serving Clerk/Treasurer quit and the Director of Public Works retired. By May 15, 2016, these losses had been replaced. However, as the new management team began to work, other (and quite frankly, more serious) issues needed their full attention. Thankfully, those issues have largely been overcome and now the team is focused on correcting the deficiencies noted in the 2015 audit findings.

Inadequate Internal Controls Over Financial Statement Preparation:

Note: *This finding could be addressed as a single deficiency, the result of poor recordkeeping. However, an analysis of the effects of the condition reveals three general conditions that, when combined, result in the finding of inadequate internal controls. Therefore, we address those three general conditions.*

1. Records retention. Beginning on the very day he assumed his duties, the new Clerk/Treasurer has been working to bring the City's record keeping system in line with the various Retention Schedules published by the State Archivist. As of this writing, the City has transferred over 30 boxes of records to the State Archives and continues to transfer, archive, or destroy records in accordance with the applicable Retention Schedule for the record in question. Indeed, some of the documents requested by the Auditor for the 2015 audit were discovered because of this process. The Clerk/Treasurer has produced a Records Management Policy that received approval by the State Archivist and has trained other City staff members on this policy. The City now has a functional recordkeeping system that ensures all Public Records are maintained in accordance with the appropriate Retention Schedule.

2. *Technical Expertise.* The new Clerk/Treasurer does not possess an accounting background. Therefore, he has aggressively sought training both regarding the Budget Accounting and Reporting System (BARS) and the City's accounting software. Unfortunately, the timing of such courses has precluded attendance at some of these opportunities, while the City's budget has precluded others. The City's accounting software vendor has provided a substantial amount of individualized training since May 15, 2016, and the Clerk/Treasurer has participated in several "webinars" and conferences that have vastly improved his ability to effectively supervise the operations and maintenance of the City's accounting system.

3. *Internal Controls.* When published, the City's updated Financial Policies will include a section/chapter devoted to Internal Controls, some of which will address the accuracy of the General Ledger and financial reports.

Auditor's Remarks

We appreciate City's dedication to strengthening internal controls and improving financial reporting. We appreciate the proactive steps management is taking to ensure financial transparency and accurate reporting. We thank the City's management and staff for their cooperation and assistance during the audit. We will follow up on these issues during the next audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines material weaknesses and significant deficiencies in its *Codification of Statements on Auditing Standards*, Section 265 as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. 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.

RCW 43.09.200 Local government accounting – Uniform system of accounting, states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

Budget Accounting and Reporting System (BARS) Manual - Part 3, Accounting, Chapter 1, Accounting Principles and General Procedures, Section B, Internal Control, states:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

**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, 2015 through December 31, 2015**

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, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated April 4, 2017.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2015-001 to be material weaknesses.

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*.

CITY'S RESPONSE TO FINDINGS

The City's response to the findings identified in our audit 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.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

Pat McCarthy
State Auditor
Olympia, WA

April 4, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Tenino Thurston County January 1, 2015 through December 31, 2015

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, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 15.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the 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 by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Tenino, for the year ended December 31, 2015, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the 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, 2015, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

April 4, 2017

FINANCIAL SECTION

**City of Tenino
Thurston County
January 1, 2015 through December 31, 2015**

FINANCIAL STATEMENTS

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

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2015

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

		Total for All Funds (Memo Only)	001 General Government Fund #001	301 Energy Efficiency Grant
Beginning Cash and Investments				
30810	Reserved	-	-	-
30880	Unreserved	2,214,600	77,250	740
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	787,592	760,144	-
320	Licenses and Permits	53,093	53,093	-
330	Intergovernmental Revenues	100,934	100,934	-
340	Charges for Goods and Services	1,424,846	44,803	-
350	Fines and Penalties	50,500	25,504	-
360	Miscellaneous Revenues	57,657	49,290	-
Total Operating Revenues:		2,474,622	1,033,769	-
Operating Expenditures				
510	General Government	236,439	236,439	-
520	Public Safety	487,315	487,315	-
530	Utilities	671,279	2,861	-
540	Transportation	57,149	57,149	-
550	Natural and Economic Environment	35,459	35,459	-
560	Social Services	26	26	-
570	Culture and Recreation	156,313	156,313	-
598	Miscellaneous Expenses	-	-	-
Total Operating Expenditures:		1,643,981	975,563	-
Net Operating Increase (Decrease):		830,642	58,207	-
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	186,500	122,242	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	45,350	45,350	-
Total Nonoperating Revenues:		231,851	167,592	-
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	149,663	63,242	-
591-593	Debt Service	577,417	726	-
594-595	Capital Expenditures	81,801	37,538	-
597	Transfers-Out	45,350	-	-
Total Nonoperating Expenditures:		854,231	101,506	-
Net Increase (Decrease) in Cash and Investments:		208,261	124,293	-
Ending Cash and Investments				
5081000	Reserved	-	-	-
5088000	Unreserved	2,422,860	201,541	740
Total Ending Cash and Investments		2,422,860	201,541	740

The accompanying notes are an integral part of this statement.

310 Municipal Capital Imp Fund 310	401 Water Fund	402 Stormwater Fund	410 Sewer Fund
-	-	-	-
149,514	1,329,276	54,163	603,657
-	-	-	-
27,448	-	-	-
-	-	-	-
-	-	-	-
-	347,694	-	1,032,349
-	24,996	-	-
247	3,069	111	4,939
<u>27,695</u>	<u>375,758</u>	<u>111</u>	<u>1,037,289</u>
-	-	-	-
-	-	-	-
-	215,416	-	453,003
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	215,416	-	453,003
<u>27,695</u>	<u>160,342</u>	<u>111</u>	<u>584,286</u>
47,758	16,501	-	-
-	-	-	-
-	-	-	-
<u>47,758</u>	<u>16,501</u>	<u>-</u>	<u>-</u>
-	86,421	-	-
-	6,545	-	570,145
8,146	34,621	1,337	159
45,350	-	-	-
<u>53,496</u>	<u>127,588</u>	<u>1,337</u>	<u>570,304</u>
21,957	49,256	(1,226)	13,982
-	-	-	-
171,471	1,378,532	52,937	617,639
<u>171,471</u>	<u>1,378,532</u>	<u>52,937</u>	<u>617,639</u>

The accompanying notes are an integral part of this statement.

City of Tenino
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

		Total for All Funds (Memo Only)	631 Municipal Court Trust Fund #631
308	Beginning Cash and Investments	13,432	13,432
388 & 588	Prior Period Adjustments, Net	-	-
310-360	Revenues	-	-
380-390	Other Increases and Financing Sources	25,009	25,009
510-570	Expenditures	-	-
580-590	Other Decreases and Financing Uses	25,009	25,009
	Net Increase (Decrease) in Cash and Investments:	-	(0)
508	Ending Cash and Investments	13,432	13,432

The accompanying notes are an integral part of this statement.

City of Tenino
Notes to the Financial Statements
For the year ended December 31, 2015

Note 1 - Summary of Significant Accounting Policies

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 local government and provides public safety, water, sewer and utility services

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

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

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund

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

Capital Projects Funds

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

PROPRIETARY FUND TYPES:

Enterprise Funds

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

FIDUCIARY FUND TYPES:

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

Agency Funds

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

B. Basis of Accounting and Measurement Focus

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

In accordance with state law, the city also recognizes expenditures paid during 20 days after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

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

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

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

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
001 - General Government Fund #001			
General Government Fund #001	885,434.20	946,070.17	-60,635.97
Quarry Pool Fund #002	30,919.05	33,922.76	-3,003.71
City Street Fund #101	135,205.57	94,687.36	40,518.21
Contingency Fund #109			
Community Development Fund 110	25.98	25.98	
Total 001 - General Government Fund #001	1,051,584.80	1,074,706.27	-23,121.47
301 - Energy Efficiency Grant			
310 - Municipal Capital Imp Fund 310	87,496.48	53,495.99	34,000.49
401 - Water Fund			
Water Fund	222,132.95	301,836.57	-79,703.62

Water Capital Imp Fund #420	89,659.10	41,166.57	48,492.53
Total 401 - Water Fund	311,792.05	343,003.14	-31,211.09
402 - Stormwater Fund	12,837.00	1,337.00	11,500.00
410 - Sewer Fund			
Sewer Reserve Fund #403	105,024.00	105,024.00	
Sewer Fund	891,514.21	918,123.99	-26,609.78
Sewer Construction Fund	168,000.00	158.68	167,841.32
Total 410 - Sewer Fund	1,164,538.21	1,023,306.67	141,231.54
631 - Municipal Court Trust Fund #631	54,000.00	25,009.17	28,990.83

Budgeted amounts are authorized to be transferred between departments within any fund/object classes within departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the city's legislative body.

D. Cash and Investments

See Note 3, *Deposits and Investments*.

E. Capital Assets

The City has no formal policy. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to 120 days during the year, and is payable upon separation or retirement. Sick leave may be accumulated up to 400 hours. Upon separation or retirement employees do not receive payment for unused sick leave. Payments are recognized as expenditures when paid.

G. Long-Term Debt

See note 4, *Debt Service Requirements*.

H. Other Financing Sources or Uses

The City's other financing sources or uses consist of interfund loans authorized by Tenino City Council.

I. 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-insurance, 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-insurance losses and jointly purchase insurance and administrative services. As of December 31, 2015, 94 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, police liability, public officials' liability, employee fidelity and faithful performance, and equipment breakdown insurance coverage. Equipment breakdown is included with the property insurance carrier and fidelity (crime) coverage is a stand-alone policy with 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 is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by Berkley Public Entity for the additional \$750,000. For the \$9 million in excess coverage limits, an excess liability policy is purchased from Staff Indemnity & Liability Company. The excess property coverage is purchased through Lexington Insurance Company using the Pool's broker, Arthur J. Gallagher Risk Management Services. In 2015, AWC RMSA carried 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 - 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 county. 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 2015 was \$4.083986007557 per \$1,000 on an assessed valuation of \$100,960,550 for a total regular levy of \$265,835.00.

Note 3 – Deposits and Investments

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

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

Investments are reported fair value. Investments by type at December 31, 2015 are as follows:

<u>Type of Investment</u>	City's own investments	Investments held by (city/ county/ district) as an agent for other local governments, individuals or private organizations.	Total
L.G.I.P.	\$ 311,999.89		\$ 311,999.89
Timberland MMA	\$1,216,340.20		\$1,216,340.20
Total	\$1,528,340.09		\$1,528,340.09

Note 4 – Debt Service Requirements

Debt Service

The accompanying Schedule of 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, 2015.

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

	<u>Revenue Bonds</u>	<u>Total</u>
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>\$8,872,453</u>	<u>\$8,872,453</u>

Note 5 - Interfund Loans

The following table displays interfund loan activity during 2015:

<u>Borrowing Fund</u>	<u>Lending Fund</u>	<u>Balance 1/1/2015</u>	<u>New Loans</u>	<u>Repayments</u>	<u>Balance 12/31/2015</u>
001	310	\$36,667		\$36,667	\$ 0
001	401		\$84,072.52	\$16,521.72	\$67,550.80
	TOTALS	<u>\$36,667</u>	<u>\$84,072.52</u>	<u>\$53,188.72</u>	<u>\$67,550.80</u>

Note 6 – Pension Plans

A. State Sponsored Pension Plans

Substantially all City's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans PERS2 and LEOFF2.

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

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

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

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

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

	Allocation %	Liability (Asset)
PERS 1 UAAL	0.002784 %	\$145,629
PERS 2/3	0.003596%	\$128,487
LEOFF 2	0.004281%	\$(44,000)

LEOFF Plan 2

The city also participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

Note 7- Other Disclosures

City of Tenino has inter-local agreements with the following entities in 2015:

- The City contracts for fire and EMS services 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 for Library service in Tenino.
- Thurston County Public Works provides technical and staffing assistance for equipment maintenance and public works projects.

In November of 2015 a new Mayor was elected and took office as soon as the election was validated, filling the position vacated by the old Mayor who was appointed after the resignation of the former Mayor in 2013.

City of Tenino
Schedule of Liabilities
For the Year Ended December 31, 2015

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		20,504	1,530	-	22,034
264.30	Net Pension Liability		-	274,116	-	274,116
263.62	DWSRF Water Corrosion Control	12/31/2031	104,722	-	6,545	98,177
263.62	DOC PWB PRE 119 Sewer System Design	12/31/2024	592,696	-	53,882	538,814
263.62	DOC PWB PRE 119 Sewer System Construction	12/31/2024	4,646,710	-	387,226	4,259,484
263.62	USDA-RD Bond	12/31/2052	2,447,946	-	37,463	2,410,483
Total Revenue and Other (non G.O.) Debt/Liabilities:			7,812,578	275,646	485,116	7,603,108
Total Liabilities:			7,812,578	275,646	485,116	7,603,108

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov