

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

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, and sewer utility services

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

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- 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, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

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

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Funds

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

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PROPRIETARY FUND TYPES:

Enterprise Funds

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

FIDUCIARY FUND TYPES:

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

Custodial Funds

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

B. Basis of Accounting and Measurement Focus

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

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

C. 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 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 at their fair market value. Investments by type at December 31, 2018 are as follows:

Type of Investment	The City's own investments	Investments held by the City as an agent for other local governments, individuals, or private organizations.	Total
Local Government Investment Pool	\$323,558.22		\$323,558.22
Timberland Savings Account	\$1,229,088.06		\$1,229,088.06
<i>Totals</i>	\$ 1,552,646	\$ -	\$ 1,552,646

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D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$1,000.00 and an estimated useful life in excess of three (3) years. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation leave may be accumulated up to 120 hours and is payable upon separation or retirement. Sick leave under the Washington Paid Sick Leave law may be accumulated up to 40 hours per year and such sick leave will remain available to any employee who, after separation for any reason, returns to the City's employ within 12 months. The City has its own sick leave program and sick leave under the City's program may be accumulated up to 720 hours. Upon separation or retirement employees do not receive payment for unused sick leave. The City authorizes Compensatory Time in lieu of overtime, when an employee agrees to accept Comp Time ILO overtime. The City only allows 40 hours of accrued Comp Time. Comp time is paid upon separation or retirement. Payments are recognized as expenditures when paid. At the conclusion of 2018, the total Compensated Absence liability of the City was \$34,414.00.

Employee Name	Position	Status	Accrual Type	Ending Balance	Hourly Rate	Factor	Cost	Social Security	Medicare	PERS	LEOFF	Total Cost
Barnes, Veronica A	Court/Admin Clerk		Comp Time	\$12.75	\$22.54	1	\$287.39	\$17.82	\$4.17	\$36.87		\$346.25
Barnes, Veronica A	Court/Admin Clerk		Vacation	\$106.62	\$22.54	1	\$2,403.21	\$149.00	\$34.85			\$2,587.06
Millard, John C	Clerk/Treasurer		Vacation	\$114.42	\$28.98	1	\$3,315.89	\$205.59	\$48.08			\$3,569.56
Nelson, Denise C	Admin/Utility Clerk		Vacation	\$179.50	\$22.54	1	\$4,045.93	\$250.85	\$58.67			\$4,355.44
Klumper, Craig S	Police Officer		Vacation	\$27.99	\$21.61	1	\$604.86	\$37.50	\$8.77			\$651.13
Rodriguez, Maria	Police Clerk		Vacation	\$123.61	\$20.41	1	\$2,522.88	\$156.42	\$36.58			\$2,715.88
Swain, Robert	Chief of Police		Vacation	\$40.00	\$27.61	1	\$1,104.40	\$68.47	\$16.01			\$1,188.89
White, Jonathan H	Police Officer		Vacation	\$121.31	\$21.61	1	\$2,621.51	\$162.53	\$38.01			\$2,822.06
Baker, Tyler J	Maintenance Worker		Comp Time	\$40.00	\$20.33	1	\$813.20	\$50.42	\$11.79	\$104.33		\$979.74
Baker, Tyler J	Maintenance Worker		Vacation	\$106.02	\$20.33	1	\$2,155.39	\$133.63	\$31.25			\$2,320.28
Burnham, Jack W	Maintenance Helper		Comp Time	\$40.00	\$12.90	1	\$516.00	\$31.99	\$7.48	\$66.20		\$621.68
Burnham, Jack W	Maintenance Helper		Vacation	\$52.00	\$12.90	1	\$670.80	\$41.59	\$9.73			\$722.12
Cannon, Troy LK	Director of Public W		Vacation	\$130.76	\$27.61	1	\$3,610.28	\$223.84	\$52.35			\$3,886.47
Gibbs, Brent L	Maintenance Worker		Comp Time	\$40.00	\$20.33	1	\$813.20	\$50.42	\$11.79	\$104.33		\$979.74
Gibbs, Brent L	Maintenance Worker		Vacation	\$91.19	\$20.33	1	\$1,853.89	\$114.94	\$26.88			\$1,995.71
Plaja, Jason M	Maintenance Worker		Comp Time	\$40.00	\$21.86	1	\$874.40	\$54.21	\$12.68	\$112.19		\$1,053.48
Plaja, Jason M	Maintenance Worker		Vacation	\$153.75	\$21.86	1	\$3,360.98	\$208.38	\$48.73			\$3,618.09
Total												\$34,413.56

F. Debt Service Requirements.

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 the year ended December 31, 2018.

The debt service requirements for USDA-RD Bonds, Sewer Construction and Pre-Constructions Loans, and Drinking Water State Revolving Fund Loans are as follows:

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Year	Principal	Interest	Total Debt Service
2019	481,259.12	20,634.63	501,893.75
2020	481,289.11	17,591.90	498,881.01
2021	481,289.12	14,526.07	495,815.19
2022	464,455.82	11,436.49	475,892.31
2023	447,652.56	8,552.74	456,205.30
2024-2028	1,302,166.26	12,425.01	1,314,591.27
2029-2033	13,090.20		13,090.00
<i>Totals</i>	3,671,202.19	85,166.84	3,756,368.83

G. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the Tenino City Council. When expenditures that meet restrictions are incurred, the city intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of: Sewer Reserve Fund (Fund 422)

Fund Name	Amount Reserved	Reason for Restriction
Sewer Reserve Fund	\$100,000	Bond Covenant, Ordinance 812, Bond Ordinance, March 27, 2012

H. Budget Compliance

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.

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	1,073,996.63	1,062,700.64	11,295.99
Quarry Pool Fund #002	37,805.00	39,873.31	-2,068.31
City Street Fund #101	122,683.00	131,951.48	-9,268.48
Total 001 - General Government Fund #001	1,234,484.63	1,234,525.43	-40.8
310 - Municipal Capital Imp Fund 310	1,035,609.65	264,101.45	771,508.20

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401 - Water Fund	227,271.00	197,959.03	29,311.97
402 - Water Capital Imp Fund	160,576.00	42,637.96	117,938.04
403 - Stormwater Fund	28,286.00	1,337.80	26,948.20
410 - Sewer Fund	672,021.50	1,037,161.40	-365,139.90
421 - Sewer Capital Improvement Fund	21,667.00	10,551.44	11,115.56
422 - Sewer Reserve Fund	614,202.00	565,711.87	48,490.13
601 - SWWAIP Trust Fund	75,000.00	39,349.27	35,650.73
631 - Municipal Court Trust Fund #631	42,238.00	73,404.30	-31,166.30

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

Ordinance 888, adopted by the City Council on July 10, 2018, directed the establishment of the Southwest Washington Agriculture & Innovation Park (SWWAIP) Trust Fund (Fund #601) for the purpose of receiving and disbursing funds dedicated to the initial planning efforts for the SWWAIP. The City anticipates this fund will remain in existence until such time as the park has been developed to the point where the City will no longer be needed as an intermediary to facilitate the planning and development efforts of the park.

Ordinance 895, adopted by the City Council on December 11, 2018, directed the Clerk/Treasurer to transfer funds from the General Fund (Fund 001) to the Quarry Pool Fund (Fund 002), the Street Fund (Fund 101), and the Contingency Fund (Fund 109) as part of the Fiscal Year Closeout. The ordinance also directed the Clerk/Treasurer to transfer \$100,000.00 from the Sewer Fund (Fund 410) to the Sewer Reserve Fund (Fund 422) in order to satisfy the reserve requirements of the City's USDA-RD bond agreement as published in Ordinance 812 on February 20, 2012.

While the above table shows several accounts that had negative balances on December 31, 2018, it must be remembered that these amounts refer to the budget as planned and actually executed, and does not reflect monies being held by the City's chosen financial institutions.

I. 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 at Fair Market Value. Investments by type at December 31, 2018 are as follows:

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J. Property Taxes

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed at 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 2018 was:

Levy Type	Per \$1000	Assessed Valuation	Amount
Regular	2.426390983	117342699	\$284,719.27

K. Interfund Loans

The following table displays interfund loan activity during 2018:

From	To	Beginning Balance	Additions	Reductions	Ending Balance
General Fund	Water Fund	\$21,292.32		\$21,292.32	\$0.00

L. Debt Service Requirements

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, 2018.

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

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2021	481,289.12	14,526.07	495,815.19
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2023	447,652.56	8,552.74	456,205.30
2024-2028	1,302,166.26	12,425.01	1,314,591.27
2029-2033	13,090.20		13,090.00
<i>Totals</i>	3,671,202.19	85,166.84	3,756,368.83

M. OPEB Plans

The City has one (1) LEOFF 1 retiree for whom it is responsible. The City paid \$7,576.08 in Medical Plan benefits on the retiree’s behalf in 2018.

N. Pension Plans

State Sponsored Pension Plans

Substantially all of Tenino’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

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

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

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

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

At June 30, 2018 (the measurement date of the plans), the city’s proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

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Plan Type	Employer Contributions	Plan Liability / Asset	Allocation Percentage	NPL	NPA
PERS 1	17506.32	4,466,034,000	0.00261900%	116,965	
PERS 1 UAAL		4,466,034,000		-	
PERS 2/3	25813.83	1,707,411,000	0.00334500%	57,113	
LEOFF 1		(1,815,502,000)	0.00119800%		(21,750)
LEOFF 2	9844.18	(2,030,218,000)	0.00567700%		(115,255)
			<i>Totals</i>	\$ 174,078	\$ (137,005)

LEOFF Plan 1

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

LEOFF Plan 2

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

O. 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,

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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.

P. Other Disclosures

Prior year beginning/ending balance discrepancies. In comparing ending balances of the 2017 Schedule 1 to the beginning balances of the 2018 Schedule 1, there are apparent discrepancies. This is due to the fact that the City reorganized its chart of accounts to group all the water funds and all the sewer funds together.

Fund 402 was the Stormwater Fund, but is now the Water Capital Improvement Fund

Fund 403 was the Sewer Reserve Fund, but is now the Stormwater Fund

Fund 420 was closed.

Fund 421 was the Sewer Construction Fund, but is now the Sewer Capital Improvement Fund.

Fund 422 did not exist in 2017 and was created to contain the Sewer Reserve Fund.

2017 Funds		2018 Funds	
401	Water Fund	401	Water Fund
402	Stormwater Fund	402	Water Capital Improvement Fund
403	Sewer Reserve Fund	403	Stormwater Fund
410	Sewer Fund	410	Sewer Fund
420	Water Capital Improvement Fund	421	Sewer Capital Improvement Fund
421	Sewer Construction Fund	422	Sewer Reserve Fund