



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

**Financial Statements Audit Report**

**City of Centralia**

**Lewis County**

**For the period January 1, 2016 through December 31, 2016**

**Published March 29, 2018**

**Report No. 1021013**





## Office of the Washington State Auditor

**Pat McCarthy**

March 29, 2018

Mayor and City Council  
City of Centralia  
Centralia, Washington

### **Report on Financial Statements**

Please find attached our report on the financial statements of the Electric, Water, Wastewater, and Storm & Surface Water utility funds of the City of Centralia.

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

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy  
State Auditor  
Olympia, WA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**City of Centralia  
Lewis County  
January 1, 2016 through December 31, 2016**

Mayor and City Council  
City of Centralia  
Centralia, 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 Electric, Water, Wastewater, and Storm & Surface Water funds of the City of Centralia, Lewis County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated March 20, 2018.

The financial statements of the City's Electric, Water, Wastewater, and Storm & Surface Water funds are intended to present the financial position, changes in financial position, and cash flows that are attributable to the transactions of those proprietary funds. They do not purport to, and do not, present fairly, the financial position of the City of Centralia, Washington, as of December 31, 2016, the changes in its financial position or cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**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 Electric, Water, Wastewater, and Storm & Surface Water fund'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 Electric, Water, Wastewater, and Storm & Surface Water funds 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.

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Pat McCarthy

State Auditor

Olympia, WA

March 20, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Centralia Lewis County January 1, 2016 through December 31, 2016

Mayor and City Council  
City of Centralia  
Centralia, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Electric, Water, Wastewater, and Storm & Surface Water funds of the City of Centralia, Lewis County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements as listed on page 10.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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

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

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric, Water, Wastewater, and Storm & Surface Water funds of the City of Centralia, as of December 31, 2016, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis**

As discussed in Note 1B, the financial statements of the City's Electric, Water, Wastewater, and Storm & Surface Water funds are intended to present the financial position, changes in financial position, and cash flows that is attributable to the transactions of those proprietary funds. They do not purport to, and do not, present fairly, the financial position of the City of Centralia, Washington, as of December 31, 2016, the changes in its financial position or cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for

consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Pat McCarthy  
State Auditor  
Olympia, WA

March 20, 2018

## **FINANCIAL SECTION**

**City of Centralia  
Lewis County  
January 1, 2016 through December 31, 2016**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2016

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2016

Statement of Revenues, Expenses and Changes in Fund Net Position – 2016

Statement of Cash Flows – Proprietary Funds – 2016

Notes to the Financial Statements – 2016

### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedules of Proportionate Share of the Net Pension Liability – PERS 1 – 2016

Schedules of Proportionate Share of the Net Pension Liability – PERS 2/3 – 2016

Schedules of Employer Contributions – PERS 1 – 2016

Schedules of Employer Contributions – PERS 2/3 – 2016

Schedules of Employer Contributions – WCTPPT – 2016

Notes to Required Supplementary Information – Pensions – 2016

**CITY OF CENTRALIA UTILITIES**  
**Management's Discussion & Analysis**  
**December 31, 2016**

This management discussion and analysis is a narrative overview of the financial activity of the four utility funds (Electric, Water, Wastewater and Storm & Surface Water) of the City of Centralia (the Utilities) for the fiscal year ending December 31, 2016. The information contained herein is intended to be read in conjunction with the financial statements and the notes to the financial statements that follow.

**USING THIS REPORT**

The Utility Funds, or Enterprise Funds, of the City of Centralia are the focus of this report, which presents financial information in the form of Fund Financial Statements, and will specifically include only the business type activities of the City.

**BACKGROUND OF REPORTING ENTITY**

A brief background of each of the four utility funds of the City of Centralia is provided below to assist readers of this report with an understanding of the utility funds individually and as a whole.

**Electric Utility** - The Electric Utility service territory consists of approximately 35 square miles, including all of the City and the immediate outlying area. Power supply is provided through a combination of purchases from the Bonneville Power Administration (BPA), non-Federal market purchases and power generated through the Yelm Hydroelectric Project, which it owns and operates. The Yelm Hydroelectric Project was built by the City in 1929, began operations in 1930 and was first licensed by the Federal Energy Regulatory Commission in 1997 for a period of 40 years, expiring in 2037. The Yelm Project has a maximum rated generating capacity of 12 megawatts (MW).

**Water Utility** - The Water Utility serves all of the City and limited outlying areas. Water is supplied from groundwater sources within the City. The Water Utility owns and operates two well fields that contain five wells, two inactive wells, five reservoirs, two pressure tanks, seven booster pump stations and 124 miles of distribution and transmission pipes.

**Wastewater Utility** - The Wastewater Utility serves most of the City and limited outlying areas. The Wastewater Utility owns and operates a treatment plant, 26 pump stations, 70 miles of gravity sewer and 14 miles of force main.

**Storm & Surface Water Utility** - In 2005, the City formed the Storm & Surface Water Utility and appointed a Citizens Advisory Committee to give advice and guidance on identifying specific storm & surface water problems and recommendations of priority problems and locations.

**FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of the Utilities exceeded liabilities and deferred inflows at the end of 2016 by \$121 million (net position).
- Net investment in capital assets of the Utilities at year-end accounted for 77.8% of net position, or \$94.1 million.
- Unrestricted net position of \$18.6 million at December 31, 2016 may be used to meet the ongoing obligations to utility rate payers and creditors.
- During 2016, net position increased by \$6.4 million, or 5.6%.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The basic Financial Statements are comprised of two components: 1) Fund Financial Statements (Enterprise Funds) and, 2) Notes to the Financial Statements. This report also contains Required Supplementary Information intended to furnish additional detail to support the basic financial statements themselves.

### Fund Financial Statements

A Fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Centralia, like other state and local governments, uses fund accounting for compliance with finance-related legal requirements. The City's funds fall into three categories: governmental funds, proprietary funds, and fiduciary funds.

Proprietary Funds account for a government's business type activities where all or part of the costs of activities are supported by user fees and charges that are paid directly by those who benefit from the activities. Within the Proprietary Fund category falls two types of funds: Enterprise Funds and Internal Service Funds. The City's Enterprise Funds include the four utility funds of the City of Centralia: Light, Water, Wastewater and Storm & Surface Water.

The Fund Financial Statements provide detailed information about each of the Utility Funds, as the City treats all utility funds as Major Funds.

**Statement of Net Position** - The Statement of Net Position presents each Utility's difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources as net position. Over time, changes in net position may serve as one indicator of whether the financial position of the Utilities is improving or deteriorating.

**Statement of Revenues, Expenses and Changes in Net Position** - This statement provides information regarding how each Utility's net position changed during the period. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Accordingly, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods.

**Statement of Cash Flows** - The Statement of Cash Flows presents information regarding the sources and uses of cash during the fiscal period separated into four categories: operating, non-capital financing, capital and related financing, and investing.

**Notes to the Financial Statements** - These are presented following the basic financial statements, and are considered an integral part of the Utilities' presentation of financial position, results of activities, and cash flows.

## FUND FINANCIAL SUMMARY AND ANALYSIS

### Statement of Net Position

As discussed previously, net position over time may serve as a useful indicator of financial position. The Utilities' assets exceeded liabilities by \$121 million as of December 31, 2016.



|                                      | Summary Statement of Net Position (in thousands) |           |           |           |            |           |            |          |            |            |
|--------------------------------------|--|-----------|-----------|-----------|------------|-----------|------------|----------|------------|------------|
|                                      | Electric   |           | Water     |           | Wastewater |           | Stormwater |          | Total      |            |
|                                      | 2016   | 2015      | 2016      | 2015      | 2016       | 2015      | 2016       | 2015     | 2016       | 2015       |
| Current Assets                       | \$ 13,672  | \$ 12,743 | \$ 5,083  | \$ 7,510  | \$ 6,028   | \$ 6,258  | \$ 549     | \$ 128   | \$ 25,332  | \$ 26,638  |
| Other Assets                         | 3,184  | 3,184     | 2,779     | 236       | 4,361      | 3,199     | 3          | 2        | 10,326     | 6,621      |
| Capital Assets                       | 63,590   | 63,779    | 19,240    | 18,898    | 50,241     | 51,443    | 2,070      | 2,015    | 135,140    | 136,134    |
| Total Assets                         | 80,445   | 79,706    | 27,103    | 26,643    | 60,629     | 60,900    | 2,622      | 2,145    | 170,798    | 169,393    |
| Total Deferred Outflows of Resources | 881  | 702       | 215       | 146       | 222        | 140       | 31         | 15       | 1,349      | 1,003      |
| Current Liabilities                  | 4,115  | 3,851     | 718       | 954       | 2,311      | 2,425     | 95         | 382      | 7,239      | 7,612      |
| Non-Current Liabilities              | 23,332   | 24,763    | 3,431     | 3,794     | 16,718     | 18,587    | 264        | 214      | 43,744     | 47,358     |
| Total Liabilities                    | 27,447   | 28,614    | 4,149     | 4,747     | 19,029     | 21,012    | 358        | 596      | 50,984     | 54,970     |
| Total Deferred Inflows of Resources  | 73   | 414       | 26        | 151       | 28         | 165       | 4          | 18       | 131        | 748        |
| Net Position                         |  |           |           |           |            |           |            |          |            |            |
| Net Investment in Capital Assets     | 42,359   | 40,787    | 16,692    | 15,918    | 33,010     | 32,206    | 2,010      | 1,953    | 94,071     | 90,864     |
| Restricted                           | 2,508  | 2,732     | 2,659     | 221       | 3,150      | 1,890     | 3          | 2        | 8,320      | 4,845      |
| Unrestricted                         | 8,938  | 7,860     | 3,793     | 5,752     | 5,634      | 5,766     | 278        | (408)    | 18,643     | 18,970     |
| Total Net Position                   | \$ 53,805  | \$ 51,379 | \$ 23,143 | \$ 21,891 | \$ 41,794  | \$ 39,862 | \$ 2,291   | \$ 1,546 | \$ 121,033 | \$ 114,679 |

The largest portion of Net Position, approximately \$94.1 million, represents the Utilities' investment in Capital Assets (i.e., property, plant and equipment) used in business type activities, net of outstanding amounts borrowed to finance those investments. The Utilities uses these assets to provide services to the utility rate payers, and as such these assets are not available for future spending.

Total Net Position for the Utilities increased by \$6.4 million during 2016 (which also includes a prior period adjustment in the Stormwater Fund of \$0.3 million - **See Note 12B.1.** for more information). Of this increase, \$3.7 million represents additional Restricted Net Position due mainly to the 2016 Centralia City Council approval to reclassify the Water and Wastewater Funds' Capital Facility Charges (CFC's) reserve cash to restrict these funds for the purpose of funding construction projects that increase water and wastewater utility plant capacity.

Another \$3.2 million increase in Net Position is attributed to the Net Investment in Capital Assets. This net increase mainly represents a combination of additional utility plant infrastructure placed into service, depreciation expense taken and a decrease in outstanding long-term debt as scheduled principal payments of bonds and loans were made during 2016.

| Summary of Change in Net Position (in thousands) |                                  |                 |                  |                   |
|--|----------------------------------|-----------------|------------------|-------------------|
|  | Net Investment in Capital Assets | Restricted      | Unrestricted     | Total             |
| Net Position - Beginning                         | \$ 90,864                        | \$ 4,845        | \$ 18,970        | \$ 114,679        |
| Increases  | 24,133                           | 3,807           | 1,764            | 29,704            |
| (Decreases)                                      | (20,926)                         | (332)           | (2,091)          | (23,350)          |
| <b>Net Position - Ending</b>                     | <b>\$ 94,071</b>                 | <b>\$ 8,320</b> | <b>\$ 18,643</b> | <b>\$ 121,033</b> |

Unrestricted Net Position can be used to finance day-to-day utility operations without the constraints established by debt covenants or other legal restrictions. This component of Net Position shows a net decrease of \$0.3 million during 2016 with the reclassification of Water and Wastewater CFC's as restricted resources netted against the increase in net position from 2016 operating activities.

At the end of 2016, positive balances in all Utility Funds were reported in all categories of Net Position, which indicates an improving financial position for the Utility Funds individually and as a whole.

## Statement of Revenues, Expenses and Changes in Net Position

The change in Net Position can be described in terms of Revenues and Expenses, which result from the activities of the Utilities during the year. All Revenues and Expenses of the Utility Funds are considered to be Program Revenues and Program Expenses of the City.

|   | Summary Statement of Revenues, Expenses, and Changes in Net Position (in thousands) |                  |                  |                  |                  |                  |                 |                 |                   |                   |
|---|---|------------------|------------------|------------------|------------------|------------------|-----------------|-----------------|-------------------|-------------------|
|   | Electric  |                  | Water            |                  | Wastewater       |                  | Stormwater      |                 | Total             |                   |
|   | 2016  | 2015             | 2016             | 2015             | 2016             | 2015             | 2016            | 2015            | 2016              | 2015              |
| Operating Revenue                               |   |                  |                  |                  |                  |                  |                 |                 |                   |                   |
| Utility Sales and Services                      | \$ 22,571   | \$ 21,857        | \$ 5,030         | \$ 5,094         | \$ 8,060         | \$ 8,018         | \$ 816          | \$ 649          | \$ 36,478         | \$ 35,618         |
| Other Operating Revenue                         | 682   | 630              | 27               | 26               | 50               | 31               | 1               | 0               | 759               | 686               |
| <b>Total Operating Revenue</b>                  | <b>23,253</b>   | <b>22,486</b>    | <b>5,057</b>     | <b>5,120</b>     | <b>8,110</b>     | <b>8,049</b>     | <b>817</b>      | <b>649</b>      | <b>37,237</b>     | <b>36,304</b>     |
| Non-Operating Revenues                          |   |                  |                  |                  |                  |                  |                 |                 |                   |                   |
| Intergovernmental Revenue                       | 165   | 182              | -                | 6                | -                | 12               | 12              | 314             | 177               | 514               |
| Investment Earnings                             | 66  | 21               | 29               | 11               | 37               | 15               | 2               | 0               | 134               | 47                |
| Gains (Losses) on Capital Asset                 | (269)   | (15)             | -                | 6                | 19               | -                | -               | -               | (250)             | (9)               |
| Other Non-Operating Revenues                    | -   | 13               | -                | -                | -                | -                | -               | -               | -                 | 13                |
| <b>Total Non-Operating Revenues</b>             | <b>(38)</b>   | <b>201</b>       | <b>29</b>        | <b>23</b>        | <b>56</b>        | <b>27</b>        | <b>14</b>       | <b>315</b>      | <b>61</b>         | <b>566</b>        |
| <b>Total Revenues</b>                           | <b>23,215</b>   | <b>22,687</b>    | <b>5,086</b>     | <b>5,143</b>     | <b>8,166</b>     | <b>8,076</b>     | <b>831</b>      | <b>964</b>      | <b>37,298</b>     | <b>36,870</b>     |
| Expenses  |   |                  |                  |                  |                  |                  |                 |                 |                   |                   |
| Total Operating Expenses                        | 20,070  | 18,916           | 3,946            | 3,880            | 6,287            | 6,045            | 577             | 478             | 30,879            | 29,319            |
| Total Non-Operating Expenses                    | 921   | 1,161            | 39               | 44               | 75               | 79               | 2               | 2               | 1,037             | 1,286             |
| <b>Total Expenses</b>                           | <b>20,990</b>   | <b>20,076</b>    | <b>3,985</b>     | <b>3,925</b>     | <b>6,361</b>     | <b>6,124</b>     | <b>579</b>      | <b>480</b>      | <b>31,916</b>     | <b>30,605</b>     |
| <b>Excess (Deficiency) Before Contributions</b> | <b>2,225</b>  | <b>2,611</b>     | <b>1,101</b>     | <b>1,218</b>     | <b>1,805</b>     | <b>1,952</b>     | <b>252</b>      | <b>484</b>      | <b>5,382</b>      | <b>6,265</b>      |
| Capital Contributions                           | 202   | 65               | 151              | 96               | 126              | 43               | 150             | 28              | 629               | 232               |
| <b>Change in Net Position</b>                   | <b>2,426</b>  | <b>2,675</b>     | <b>1,252</b>     | <b>1,314</b>     | <b>1,931</b>     | <b>1,996</b>     | <b>402</b>      | <b>512</b>      | <b>6,011</b>      | <b>6,497</b>      |
| Net Position - Beginning                        | 51,379  | 51,963           | 21,891           | 21,734           | 39,862           | 38,868           | 1,546           | 1,164           | 114,679           | 113,728           |
| Prior Period Adjustments                        | -   | (371)            | -                | (40)             | -                | 202              | 343             | (1)             | 343               | (210)             |
| Change in Accounting Principle-GASB 68          | -   | (2,888)          | -                | (1,116)          | -                | (1,204)          | -               | (128)           | -                 | (5,336)           |
| <b>Net Position - Ending</b>                    | <b>\$ 53,805</b>  | <b>\$ 51,379</b> | <b>\$ 23,143</b> | <b>\$ 21,891</b> | <b>\$ 41,794</b> | <b>\$ 39,862</b> | <b>\$ 2,291</b> | <b>\$ 1,546</b> | <b>\$ 121,033</b> | <b>\$ 114,679</b> |

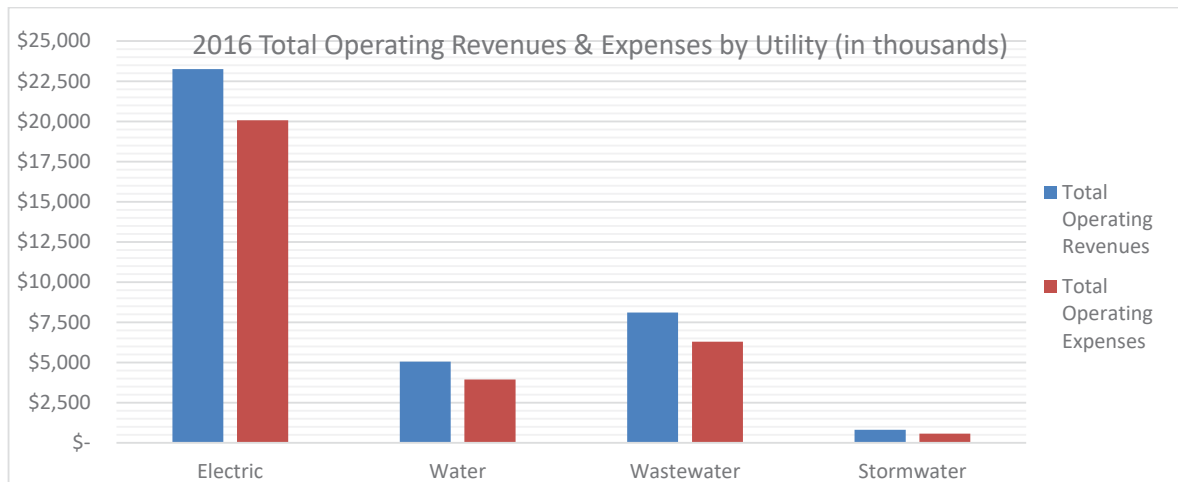
Utility Sales and Services are the main source of Revenue for the Utility Funds of the City, as required by state law. Utility rate revenues increased by a net of \$0.9 million, or 2.4% during the year, mainly due to rate increases. Other influences on Utility sales and services revenues can be weather, customer growth, conservation and economic conditions.

Utility rate increases during 2016 were as follows:

- Electric rates increased to provide an overall revenue increase of 4.8% effective August 1, 2016
- Water and Wastewater rates increased by 0.5% overall, effective January 1, 2016
- Stormwater rates increased by 12.5% overall, effective January 1, 2016

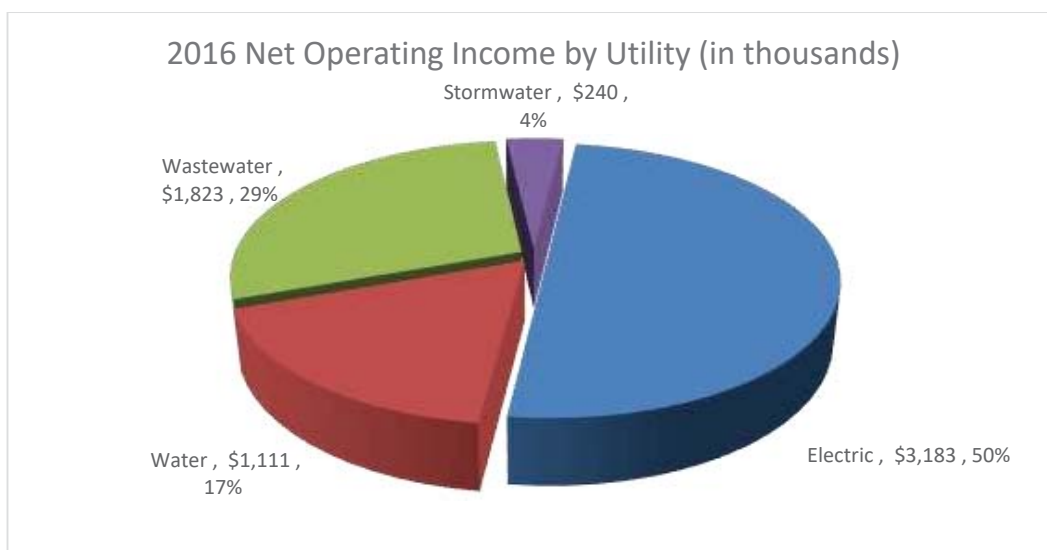
Investment earnings increased by 181.9%, or \$0.1 million mainly due to an increase in the gross earnings rate on the City's investment in the Local Government Investment Pool (LGIP). Investment earnings for the excess cash invested in the LGIP are allocated to each fund based on fund cash balances at each month end.

Capital Contributions represent assessments to customers to connect to existing utility plant so that newly constructed homes and commercial buildings can receive utility services. During 2016, increases in residential and commercial building activities were evidenced by a 171.4% increase in capital contributions received.



Operating Revenues and Expenses represent the primary activities of each Utility Fund. Operating Revenue includes Rate Revenues, which are shown in the Financial Statements as Utilities Sales and Services, as well as Other Operating Revenue that includes such items as facility and equipment rents and customer conservation program pass-through payments received from the Electric utility's power supplier, as well as permit inspection fees. Operating Expenses include general operations, administrative, plant maintenance, customer service, depreciation of capital assets and taxes. In addition, the Electric Utility purchases wholesale power and transmission services through contracts with the Bonneville Power Administration (BPA). **See Note 12B.2.** for more information regarding the BPA power contract and the Electric Utility's power supply.

Total Operating Expenses increased by 5.3%, or \$1.6 million. Increases in administrative and maintenance costs can be partially attributed to increases in labor and benefits due to collective bargaining agreement scheduled wage increases, cost of living adjustments approved for non-represented employees and increased costs of insurance benefits. A new position added June 2015 in the Stormwater Utility has been in place for a full year, also contributing to the increase in administrative and maintenance costs. Depreciation expense increased by 4.1%, or \$0.2 million, because of recently added capital assets placed in service. Lastly, the BPA region-wide rate increases that went into effect October 1, 2015 of 6% wholesale power and 4% transmission has been in place for the full year, adding \$0.2 million, or 2.7% to 2016 purchased power and transmission costs over 2015. Current BPA rates are in effect through September 30, 2017, concluding the two-year rate period. The next two-year rate period begins on October 1, 2017.



Net Operating Income is the difference between Operating Revenues and Operating Expenses, which represents the amount that the core activities of the Utility Funds contribute towards the Change in Net Position. The Utility Funds had collective Total Net Operating Income of \$6.4 million, which was 9%, or \$0.6 million less than 2015. Net Operating Income decreased in the Electric, Water and Wastewater Funds and increased in the Stormwater Fund.

Collectively and individually, the Utility Funds had positive Change in Net Position for 2016, which increased the balance of Total Net Position and is an indication of improving financial position for the Utility Funds.

## CAPITAL ASSET ACTIVITIES

The City of Centralia is committed to investing in existing utility plant infrastructure and Capital Assets of the Utility Funds in order to provide a high level of reliable service to its customers. As of December 31, 2016, the Utility Funds' investment in Capital Assets, including Construction in Progress amounted to \$135.1 million, net of accumulated depreciation.

| Capital Asset Summary by Asset Type, Net of Depreciation (in thousands) |                  |                  |                  |                  |                  |                  |                 |                 |                   |                   |
|---|------------------|------------------|------------------|------------------|------------------|------------------|-----------------|-----------------|-------------------|-------------------|
|   | Electric         |                  | Water            |                  | Wastewater       |                  | Stormwater      |                 | Total             |                   |
|   | 2016             | 2015             | 2016             | 2015             | 2016             | 2015             | 2016            | 2015            | 2016              | 2015              |
| Land  | \$ 2,414         | \$ 2,399         | \$ 446           | \$ 380           | \$ 1,616         | \$ 1,616         | \$ -            | \$ -            | \$ 4,476          | \$ 4,395          |
| Buildings   | 4,634            | 5,081            | 3,317            | 2,986            | 31,665           | 31,029           | 24              | 24              | 39,641            | 39,121            |
| Infrastructure  | 8,550            | 8,835            | 13,597           | 13,800           | 13,219           | 7,769            | 508             | 525             | 35,874            | 30,929            |
| Equipment   | 42,660           | 38,942           | 782              | 742              | 1,847            | 2,023            | 209             | 168             | 45,497            | 41,875            |
| Intangible Assets   | 2,622            | 2,743            | -                | -                | -                | -                | -               | -               | 2,622             | 2,743             |
| Construction in Progress  | 2,710            | 5,779            | 1,098            | 990              | 1,894            | 9,005            | 1,329           | 1,297           | 7,031             | 17,071            |
| <b>Total Capital Assets</b>   | <b>\$ 63,590</b> | <b>\$ 63,779</b> | <b>\$ 19,240</b> | <b>\$ 18,898</b> | <b>\$ 50,241</b> | <b>\$ 51,443</b> | <b>\$ 2,070</b> | <b>\$ 2,015</b> | <b>\$ 135,140</b> | <b>\$ 136,134</b> |

Major Capital Asset events during 2016 include the following:

- Construction completion and placement into service of the new May Street Substation on the Electric system for \$4.2 million
- Continuation of the Electric Pole Replacement program resulting in 129 additional utility pole replacements at a cost of \$0.6 million.
- Construction completion and placement into service both the 2009 Inflow & Infiltration (I&I) Reduction Project on the Wastewater collection system for \$5.9 million and the Composting Facility, an improvement to the Wastewater treatment system, for \$1.4 million.
- Decommissioning and removal of the Electric Utility's B Street Substation at a remaining undepreciated value of \$0.5 million.

Capital Assets are affected by various additions and deletions, and by depreciation. Additions come from the purchase and/or construction of capital assets, current construction in progress expenses, or from donations to the Utilities. Deletions are from the sale or loss (accident or damage) of a capital asset.

| Summary of 2016 Capital Asset Additions and Deletions (in thousands) |                  |                  |                  |                 |                   |
|--|------------------|------------------|------------------|-----------------|-------------------|
|  | Electric         | Water            | Wastewater       | Stormwater      | Total             |
| Beginning Balance, net   | \$ 63,779        | \$ 18,898        | \$ 51,443        | \$ 2,015        | \$ 136,134        |
| Additions  | 2,742            | 988              | 335              | 89              | 4,154             |
| Deletions, net   | (608)            | -                | (1)              | -               | (609)             |
| Depreciation   | (2,323)          | (645)            | (1,536)          | (34)            | (4,538)           |
| <b>Total Capital Assets</b>  | <b>\$ 63,590</b> | <b>\$ 19,240</b> | <b>\$ 50,241</b> | <b>\$ 2,070</b> | <b>\$ 135,140</b> |

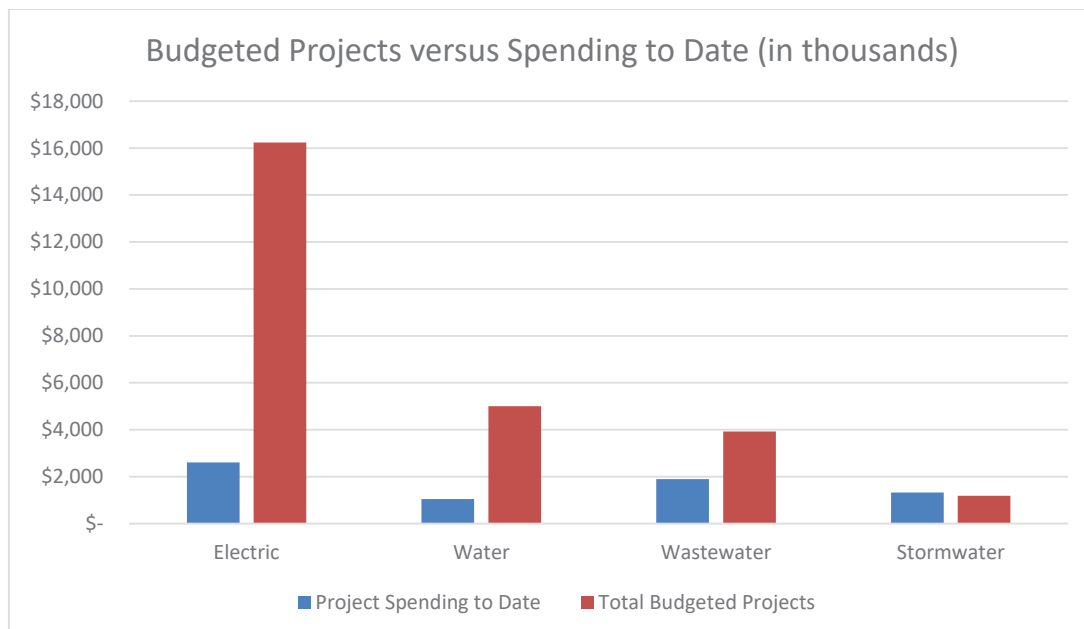
Ending Capital Asset balances, shown net of depreciation, in terms of utility plant function are as follows:

|                             | Capital Asset Summary by Utility Plant Function, Net of Depreciation (in thousands) |                  |                  |                  |                  |                  |                 |                 |                   |                   |
|-----------------------------|---|------------------|------------------|------------------|------------------|------------------|-----------------|-----------------|-------------------|-------------------|
|                             | Electric  |                  | Water            |                  | Wastewater       |                  | Stormwater      |                 | Total             |                   |
|                             | 2016  | 2015             | 2016             | 2015             | 2016             | 2015             | 2016            | 2015            | 2016              | 2015              |
| Distribution                | \$ 31,398   | \$ 27,550        | \$ 8,065         | \$ 8,210         | \$ -             | \$ -             | \$ -            | \$ -            | \$ 39,463         | \$ 35,760         |
| Collection                  | -   | -                | -                | -                | 13,231           | 7,782            | 524             | 541             | 13,755            | 8,324             |
| Pumping                     | -   | -                | 254              | 265              | 5,544            | 5,711            | -               | -               | 5,797             | 5,976             |
| Production                  | 19,897  | 20,558           | -                | -                | -                | -                | -               | -               | 19,897            | 20,558            |
| Source of Supply            | -   | -                | 2,914            | 2,921            | -                | -                | -               | -               | 2,914             | 2,921             |
| Transmission                | 1,955   | 1,940            | 3,318            | 3,311            | -                | -                | -               | -               | 5,273             | 5,251             |
| Treatment                   | -   | -                | 1,979            | 2,044            | 25,292           | 25,939           | -               | -               | 27,271            | 27,984            |
| General                     | 5,008   | 5,209            | 1,612            | 1,156            | 4,280            | 3,006            | 216             | 176             | 11,117            | 9,547             |
| Intangible                  | 2,622   | 2,743            | -                | -                | -                | -                | -               | -               | 2,622             | 2,743             |
| Construction in Progress    | 2,710   | 5,779            | 1,098            | 990              | 1,894            | 9,005            | 1,329           | 1,297           | 7,031             | 17,071            |
| <b>Total Capital Assets</b> | <b>\$ 63,590</b>  | <b>\$ 63,779</b> | <b>\$ 19,240</b> | <b>\$ 18,898</b> | <b>\$ 50,241</b> | <b>\$ 51,443</b> | <b>\$ 2,070</b> | <b>\$ 2,015</b> | <b>\$ 135,140</b> | <b>\$ 136,134</b> |

### Capital Construction Commitments

As previously noted, the City of Centralia is committed to investing in existing Utility Plan Infrastructure and Capital Assets to continue to provide high level, reliable utility services to its current and future customers. Capital improvement plans are designed to allow for proper management of construction projects and to provide lead time for decision making for funding projects. Capital Asset construction is provided for through a combination of construction fees, cash flow from revenues, and long-term revenue bonds and state loans.

The following graph shows the relationship between Construction Project Expenditures to Date versus Budgeted Projects.



Project Budgets total \$26.4 million, Project Spending to Date totals \$6.8 million, while 2016 Project Expenditures totaled \$3.3 million for the Utility Funds as a whole.

Major construction projects currently in progress include the Electric Utility's Salzer Valley Substation, the Water Utility's Supervisory Control and Data Acquisition (SCADA) System enhancements, Wastewater's new Decant Facility, and the Stormwater Utility's Regional Decant Facility project.

**See Note 3** for additional information on Capital Assets.

## LONG-TERM DEBT ACTIVITIES

The Utilities use Long-Term Debt as one resource to fund construction and acquisition of long-life utility plant assets. Past borrowings have included revenue bonds, and low-interest loans through the Washington State Public Works Trust Fund (P WTF) and the Washington State Revolving Fund (SRF). The overall decrease in Long-Term Debt is the result of \$3.9 million in debt principal payments made in 2016. No new debt was issued during the year.

|                               | Summary of Debt Outstanding (in thousands) |                  |                 |                 |                  |                  |              |              |                  |                  |
|-------------------------------|--|------------------|-----------------|-----------------|------------------|------------------|--------------|--------------|------------------|------------------|
|                               | Electric                                   |                  | Water           |                 | Wastewater       |                  | Stormwater   |              | Total            |                  |
|                               | 2016                                       | 2015             | 2016            | 2015            | 2016             | 2015             | 2016         | 2015         | 2016             | 2015             |
| Revenue Bonds                 | \$ 21,492                                  | \$ 23,274        | \$ 640          | \$ 799          | \$ -             | \$ -             | \$ -         | \$ -         | \$ 22,132        | \$ 24,073        |
| WA State SRF Loans            | -  | -                | 1,155           | 1,304           | 16,471           | 18,363           | 59           | 62           | 17,685           | 19,729           |
| WA State P WTF Loans          | -  | -                | 769             | 897             | 761              | 873              | -            | -            | 1,529            | 1,770            |
| <b>Total Debt Outstanding</b> | <b>\$ 21,492</b>                           | <b>\$ 23,274</b> | <b>\$ 2,564</b> | <b>\$ 2,999</b> | <b>\$ 17,231</b> | <b>\$ 19,236</b> | <b>\$ 59</b> | <b>\$ 62</b> | <b>\$ 41,346</b> | <b>\$ 45,573</b> |

Debt capacity for Enterprise Funds is dependent on a level of revenue that supports payment of all operating expenses and an assumed level of required debt coverage limits, beyond which results in the total amount of debt service the revenues can support, if any. An assumed level of outstanding debt is calculated based on the amount of debt service that can be supported using an assumed interest rate. For 2016, the Utilities calculate debt capacity using an assumed debt service coverage limit of 1.75 and an interest rate of 4.25%, calculated on an individual utility basis.

| Total Debt Capacity by Utility Fund (in thousands) |                  |                  |                    |
|--|------------------|------------------|--------------------|
|  | Debt Limit       | Current Debt     | Remaining Capacity |
| Electric   | \$ 40,440        | \$ 21,492        | \$ 18,948          |
| Water  | 14,640           | 2,564            | 12,076             |
| Wastewater   | 26,000           | 17,231           | 8,769              |
| Stormwater   | not calculated   | 59               | NA                 |
| <b>Totals</b>                                      | <b>\$ 81,080</b> | <b>\$ 41,346</b> | <b>\$ 39,793</b>   |

The Electric Utility has debt service coverage of 2.58 on outstanding revenue bonds and a credit rating of A+ was affirmed by Standard and Poor's on February 5, 2016. The Water Utility has debt service coverage of 13.41 on outstanding revenue bonds and 3.83 when considering all outstanding debt.

See Note 8 for additional information on Long-Term Debt activities.

## SIGNIFICANT FUTURE IMPACTS

### Utility Rates

Utility rate increases for 2017 are as follows:

- Electric rate increase to provide an overall revenue increase of 4.8% effective March 1, 2017
- Water and Wastewater rates increased by 1.7% overall, effective January 1, 2017
- Stormwater rates increased by 11.1% overall, effective January 1, 2017

## REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Centralia Utilities' finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Director, City of Centralia, PO Box 609, Centralia, WA 98531-0609.

**CITY OF CENTRALIA UTILITIES**  
**Statement of Net Position**  
**December 31, 2016**

|   | Electric             | Water                | Wastewater           | Storm & Surface<br>Water | Totals                |
|---|----------------------|----------------------|----------------------|--------------------------|-----------------------|
| <b>ASSETS</b>                               |                      |                      |                      |                          |                       |
| <b>Current Assets</b>                       |                      |                      |                      |                          |                       |
| Cash and cash equivalents                   | \$ 5,168,918         | \$ 1,663,743         | \$ 2,016,872         | \$ 280,945               | \$ 9,130,478          |
| Investments                                 | 5,227,622            | 2,780,787            | 3,233,758            | 177,533                  | 11,419,700            |
| Receivables:                                |                      |                      |                      |                          |                       |
| Customer accounts (net)                     | 2,407,885            | 485,525              | 766,502              | 88,835                   | 3,748,747             |
| Other current receivables                   | 273,295              | 8,935                | 10,411               | 2,176                    | 294,817               |
| Inventories                                 | 593,831              | 144,345              | -                    | -                        | 738,175               |
| <b>Total Current Assets</b>                 | <b>13,671,551</b>    | <b>5,083,335</b>     | <b>6,027,543</b>     | <b>549,489</b>           | <b>25,331,918</b>     |
| <b>Non-Current Assets</b>                   |                      |                      |                      |                          |                       |
| Restricted assets:                          |                      |                      |                      |                          |                       |
| Cash and cash equivalents                   |                      |                      |                      |                          |                       |
| Customer deposits                           | 451,632              | 12,620               | -                    | -                        | 464,252               |
| Capital facilities cash                     | -                    | 2,545,629            | 1,247,854            | -                        | 3,793,482             |
| Revenue bond/loan reserve cash              | 2,508,422            | 112,896              | 1,902,107            | 2,714                    | 4,526,139             |
| Revenue bond debt service cash              | 223,618              | 108,197              | -                    | -                        | 331,815               |
| <b>Total Restricted assets</b>              | <b>3,183,672</b>     | <b>2,779,342</b>     | <b>3,149,960</b>     | <b>2,714</b>             | <b>9,115,689</b>      |
| Other non-current assets:                   |                      |                      |                      |                          |                       |
| Non-current receivables                     | -                    | -                    | 144,671              | -                        | 144,671               |
| Interfund loans                             | -                    | -                    | 1,066,000            | -                        | 1,066,000             |
| <b>Total other non-current assets</b>       | <b>-</b>             | <b>-</b>             | <b>1,210,671</b>     | <b>-</b>                 | <b>1,210,671</b>      |
| Capital assets:                             |                      |                      |                      |                          |                       |
| Capital assets not being depreciated        |                      |                      |                      |                          |                       |
| Land  | 2,413,653            | 446,331              | 1,616,244            | -                        | 4,476,227             |
| Construction in progress                    | 2,709,783            | 1,097,938            | 1,894,148            | 1,329,030                | 7,030,899             |
| Capital assets being depreciated            |                      |                      |                      |                          |                       |
| Buildings                                   | 4,634,408            | 3,317,203            | 31,665,201           | 23,690                   | 39,640,502            |
| Other improvements                          | 8,549,827            | 13,596,923           | 13,218,632           | 508,226                  | 35,873,609            |
| Equipment                                   | 42,659,743           | 781,703              | 1,846,544            | 208,583                  | 45,496,574            |
| Intangible assets                           | 2,622,253            | -                    | -                    | -                        | 2,622,253             |
| <b>Total capital assets (net)</b>           | <b>63,589,667</b>    | <b>19,240,098</b>    | <b>50,240,770</b>    | <b>2,069,530</b>         | <b>135,140,064</b>    |
| <b>Total Non-Current Assets</b>             | <b>66,773,339</b>    | <b>22,019,440</b>    | <b>54,601,401</b>    | <b>2,072,244</b>         | <b>145,466,424</b>    |
| <b>TOTAL ASSETS</b>                         | <b>80,444,890</b>    | <b>27,102,775</b>    | <b>60,628,944</b>    | <b>2,621,733</b>         | <b>170,798,342</b>    |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>       |                      |                      |                      |                          |                       |
| Deferred losses on refunded debt            | 307,116              | 14,908               | -                    | -                        | 322,024               |
| Pension                                     | 573,456              | 200,282              | 221,746              | 31,470                   | 1,026,954             |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b> | <b>880,572</b>       | <b>215,190</b>       | <b>221,746</b>       | <b>31,470</b>            | <b>1,348,978</b>      |
|   | <b>\$ 81,325,462</b> | <b>\$ 27,317,965</b> | <b>\$ 60,850,690</b> | <b>\$ 2,653,203</b>      | <b>\$ 172,147,320</b> |

The notes to the financial statements are an integral part of this statement.

**CITY OF CENTRALIA UTILITIES**  
**Statement of Net Position**  
**December 31, 2016**

|                                      | Electric             | Water                | Wastewater           | Storm & Surface<br>Water | Totals                |
|--------------------------------------|----------------------|----------------------|----------------------|--------------------------|-----------------------|
| <b>LIABILITIES</b>                   |                      |                      |                      |                          |                       |
| <b>Current Liabilities</b>           |                      |                      |                      |                          |                       |
| Accounts payable                     | \$ 1,646,055         | \$ 258,053           | \$ 291,181           | \$ 90,343                | \$ 2,285,632          |
| Interfund loans                      | -                    | -                    | -                    | -                        | -                     |
| Unearned revenue                     | 61,646               | -                    | -                    | -                        | 61,646                |
| Payable from restricted assets:      |                      |                      |                      |                          |                       |
| Customer deposits                    | 451,632              | 12,620               | -                    | -                        | 464,252               |
| Bonds payable                        | 155,247              | 106,085              | -                    | -                        | 261,331               |
| Interest payable                     | 68,372               | 2,112                | -                    | -                        | 70,484                |
| Compensated absences payable         | 24,355               | 9,715                | 11,414               | 1,403                    | 46,887                |
| Bonds payable                        | 1,707,713            | 53,042               | -                    | -                        | 1,760,756             |
| Intergovernmental loans payable      | -                    | 276,648              | 2,008,441            | 3,052                    | 2,288,141             |
| <b>Total Current Liabilities</b>     | <b>4,115,019</b>     | <b>718,275</b>       | <b>2,311,037</b>     | <b>94,797</b>            | <b>7,239,128</b>      |
| <b>Non-Current Liabilities</b>       |                      |                      |                      |                          |                       |
| Compensated absences payable         | 462,745              | 184,581              | 216,873              | 26,654                   | 890,852               |
| Net pension liability                | 3,194,422            | 1,118,829            | 1,278,606            | 180,620                  | 5,772,477             |
| Bonds payable                        | 19,674,624           | 479,972              | -                    | -                        | 20,154,596            |
| Intergovernmental loans payable      | -                    | 1,647,448            | 15,222,794           | 56,235                   | 16,926,478            |
| <b>Total Non-Current Liabilities</b> | <b>23,331,791</b>    | <b>3,430,830</b>     | <b>16,718,273</b>    | <b>263,509</b>           | <b>43,744,403</b>     |
| <b>TOTAL LIABILITIES</b>             | <b>27,446,810</b>    | <b>4,149,105</b>     | <b>19,029,310</b>    | <b>358,307</b>           | <b>50,983,531</b>     |
| <b>DEFERRED INFLOWS OF RESOURCES</b> |                      |                      |                      |                          |                       |
| Pension                              | 73,253               | 25,589               | 27,798               | 4,134                    | 130,774               |
| <b>NET POSITION</b>                  |                      |                      |                      |                          |                       |
| Net investment in capital assets     | 42,359,198           | 16,691,811           | 33,009,534           | 2,010,242                | 94,070,786            |
| Restricted for:                      |                      |                      |                      |                          |                       |
| Capital projects                     | -                    | 2,545,629            | 1,247,854            | -                        | 3,793,482             |
| Revenue bond/loan reserves           | 2,508,422            | 112,896              | 1,902,107            | 2,714                    | 4,526,139             |
| Unrestricted                         | 8,937,779            | 3,792,935            | 5,634,088            | 277,806                  | 18,642,607            |
| <b>TOTAL NET POSITION</b>            | <b>53,805,399</b>    | <b>23,143,271</b>    | <b>41,793,583</b>    | <b>2,290,762</b>         | <b>121,033,015</b>    |
|                                      | <b>\$ 81,325,462</b> | <b>\$ 27,317,965</b> | <b>\$ 60,850,690</b> | <b>\$ 2,653,203</b>      | <b>\$ 172,147,320</b> |

The notes to the financial statements are an integral part of this statement.



**CITY OF CENTRALIA UTILITIES**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Year Ended December 31, 2016**

|  | Electric             | Water                | Wastewater           | Storm & Surface<br>Water | Totals                |
|--|----------------------|----------------------|----------------------|--------------------------|-----------------------|
| Operating Revenues:                            |                      |                      |                      |                          |                       |
| Utility sales and service fees                 | \$ 22,571,045        | \$ 5,030,453         | \$ 8,060,413         | \$ 816,225               | \$ 36,478,137         |
| Other revenue                                  | 681,974              | 26,648               | 49,596               | 902                      | 759,120               |
| <b>Total Operating Revenues</b>                | <b>23,253,019</b>    | <b>5,057,101</b>     | <b>8,110,009</b>     | <b>817,127</b>           | <b>37,237,256</b>     |
| Operating Expenses                             |                      |                      |                      |                          |                       |
| General operations                             | 3,169,260            | 1,455,893            | 1,987,788            | 152,275                  | 6,765,216             |
| Purchased power/transmission                   | 8,367,907            | -                    | -                    | -                        | 8,367,907             |
| Maintenance                                    | 914,990              | 155,843              | 236,627              | 36,335                   | 1,343,796             |
| Customer services and marketing                | 380,478              | 221,239              | 213,106              | 12,973                   | 827,795               |
| Administration                                 | 2,721,126            | 734,410              | 1,043,197            | 242,086                  | 4,740,820             |
| Depreciation/amortization                      | 2,322,852            | 645,132              | 1,536,308            | 33,902                   | 4,538,195             |
| Property, excise and B&O taxes                 | 2,193,159            | 733,241              | 1,269,560            | 99,701                   | 4,295,661             |
| <b>Total Operating Expenses</b>                | <b>20,069,772</b>    | <b>3,945,758</b>     | <b>6,286,587</b>     | <b>577,272</b>           | <b>30,879,389</b>     |
| <b>Operating Income</b>                        | <b>3,183,247</b>     | <b>1,111,343</b>     | <b>1,823,422</b>     | <b>239,855</b>           | <b>6,357,867</b>      |
| Non-Operating Revenues (Expenses)              |                      |                      |                      |                          |                       |
| Intergovernmental revenue                      | 165,234              | -                    | -                    | 11,813                   | 177,047               |
| Investment earnings                            | 65,988               | 29,168               | 36,742               | 1,880                    | 133,778               |
| Interest expense and related charges           | (920,695)            | (39,400)             | (74,657)             | (1,931)                  | (1,036,683)           |
| Gains (losses) on capital asset disposal       | (269,097)            | -                    | 19,208               | -                        | (249,888)             |
| <b>Total Non-Operating Revenues (Expenses)</b> | <b>(958,570)</b>     | <b>(10,232)</b>      | <b>(18,706)</b>      | <b>11,762</b>            | <b>(975,746)</b>      |
| <b>Income (Loss) Before Contributions</b>      | <b>2,224,677</b>     | <b>1,101,110</b>     | <b>1,804,716</b>     | <b>251,617</b>           | <b>5,382,121</b>      |
| Capital contributions                          | 201,746              | 150,923              | 126,486              | 150,000                  | 629,155               |
| <b>Change in Net Position</b>                  | <b>2,426,423</b>     | <b>1,252,034</b>     | <b>1,931,202</b>     | <b>401,617</b>           | <b>6,011,276</b>      |
| <b>Net Position - Beginning</b>                | <b>51,378,976</b>    | <b>21,891,237</b>    | <b>39,862,381</b>    | <b>1,546,417</b>         | <b>114,679,011</b>    |
| <b>Prior Period Adjustment</b>                 | <b>-</b>             | <b>-</b>             | <b>-</b>             | <b>342,728</b>           | <b>342,728</b>        |
| <b>Net Position - Ending</b>                   | <b>\$ 53,805,399</b> | <b>\$ 23,143,271</b> | <b>\$ 41,793,583</b> | <b>\$ 2,290,762</b>      | <b>\$ 121,033,015</b> |

The notes to the financial statements are an integral part of this statement.

**CITY OF CENTRALIA UTILITIES**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2016**

|   | Electric            | Water               | Wastewater          | Storm & Surface Water | Totals               |
|---|---------------------|---------------------|---------------------|-----------------------|----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                           |                     |                     |                     |                       |                      |
| Cash received from customers  | \$ 22,769,249       | \$ 5,003,321        | \$ 8,050,537        | \$ 808,101            | \$ 36,631,208        |
| Cash payments to suppliers  | (12,983,564)        | (1,592,285)         | (2,654,549)         | (190,118)             | (17,420,515)         |
| Cash payments to employees  | (4,088,816)         | (1,664,460)         | (1,893,008)         | (259,405)             | (7,905,689)          |
| Internal activity - payments to other funds                           | (570,291)           | (173,904)           | (278,204)           | (67,801)              | (1,090,200)          |
| Other operating receipts and payments                                 | 681,974             | 26,648              | 49,596              | 902                   | 759,120              |
| Net Cash Provided by Operating Activities                             | 5,808,552           | 1,599,320           | 3,274,372           | 291,679               | 10,973,923           |
| <b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>               |                     |                     |                     |                       |                      |
| Grant proceeds  | 165,234             | -                   | -                   | 11,813                | 177,047              |
| Transfers from other funds  | -                   | 225,219             | -                   | -                     | 225,219              |
| Transfers to other funds  | -                   | -                   | -                   | (175,000)             | (175,000)            |
| Net Cash Provided (Used) by Non-Capital Financing Activities          | 165,234             | 225,219             | -                   | (163,187)             | 227,267              |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>       |                     |                     |                     |                       |                      |
| Acquisition and construction of capital assets                        | (2,705,966)         | (1,212,735)         | (456,424)           | (204,305)             | (4,579,430)          |
| Proceeds from sale of capital assets                                  | 339,368             | -                   | 20,000              | -                     | 359,368              |
| Capital contributions   | 201,746             | 150,923             | 126,486             | 150,000               | 629,155              |
| Loan/Grant proceeds   | -                   | -                   | -                   | 420,378               | 420,378              |
| Principal paid on revenue bonds                                       | (1,782,716)         | (158,608)           | -                   | -                     | (1,941,324)          |
| Principal paid on other debt  | -                   | (276,648)           | (2,005,215)         | (2,977)               | (2,284,839)          |
| Interest paid on revenue bonds and other debt                         | (906,173)           | (36,252)            | (74,657)            | (1,931)               | (1,019,013)          |
| Net Cash Provided (Used) for Capital and Related Financing Activities | (4,853,741)         | (1,533,319)         | (2,389,810)         | 361,164               | (8,415,706)          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                           |                     |                     |                     |                       |                      |
| Cash receipts from interest earnings                                  | 65,988              | 29,168              | 36,742              | 1,880                 | 133,778              |
| Purchases of investments  | (5,227,622)         | (2,780,787)         | (3,233,758)         | (177,533)             | (11,419,700)         |
| Accrued interest on investment purchases                              | (16,780)            | (8,935)             | (10,411)            | (572)                 | (36,698)             |
| Payments of notes and contracts receivable                            | -                   | -                   | 98,761              | -                     | 98,761               |
| Net Cash Provided (Used) by Investing Activities                      | (5,178,414)         | (2,760,555)         | (3,108,665)         | (176,225)             | (11,223,859)         |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>           | <b>(4,058,369)</b>  | <b>(2,469,335)</b>  | <b>(2,224,102)</b>  | <b>313,431</b>        | <b>(8,438,375)</b>   |
| <b>CASH AND CASH EQUIVALENTS - BEGINNING</b>                          | <b>12,410,960</b>   | <b>6,912,420</b>    | <b>7,390,935</b>    | <b>(29,772)</b>       | <b>26,684,542</b>    |
| <b>CASH AND CASH EQUIVALENTS - ENDING</b>                             | <b>\$ 8,352,591</b> | <b>\$ 4,443,085</b> | <b>\$ 5,166,833</b> | <b>\$ 283,659</b>     | <b>\$ 18,246,167</b> |
| Unrestricted cash and cash equivalents                                | \$ 5,168,918        | \$ 1,663,743        | \$ 2,016,872        | \$ 280,945            | \$ 9,130,478         |
| Restricted cash and cash equivalents                                  | 3,183,672           | 2,779,342           | 3,149,960           | 2,714                 | 9,115,689            |
| <b>CASH AND CASH EQUIVALENTS - ENDING</b>                             | <b>\$ 8,352,591</b> | <b>\$ 4,443,085</b> | <b>\$ 5,166,833</b> | <b>\$ 283,659</b>     | <b>\$ 18,246,167</b> |

The notes to the financial statements are an integral part of this statement.

**CITY OF CENTRALIA UTILITIES**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2016**

|   | Electric            | Water               | Wastewater          | Storm & Surface<br>Water | Totals               |
|---|---------------------|---------------------|---------------------|--------------------------|----------------------|
| <b>RECONCILIATION OF OPERATING INCOME TO NET<br/>CASH PROVIDED BY OPERATING ACTIVITIES:</b> |                     |                     |                     |                          |                      |
| <b>Net operating income</b>   | <b>\$ 3,183,247</b> | <b>\$ 1,111,343</b> | <b>\$ 1,823,422</b> | <b>\$ 239,855</b>        | <b>\$ 6,357,867</b>  |
| Adjustments to reconcile net operating<br>income to net cash provided by operations:        |                     |                     |                     |                          |                      |
| Depreciation  | 2,322,852           | 645,132             | 1,536,308           | 33,902                   | 4,538,195            |
| (Increase) decrease in accounts receivable  | 194,397             | (25,483)            | (9,876)             | (8,124)                  | 150,915              |
| (Increase) decrease in inventory  | 63,440              | 3,192               | -                   | -                        | 66,632               |
| Increase (decrease) in accounts payable   | 61,966              | (138,428)           | (69,393)            | 33,268                   | (112,587)            |
| Increase (decrease) in compensated absences   | (21,157)            | 5,214               | (6,090)             | (7,222)                  | (29,255)             |
| Increase (decrease) in customer deposits  | (255)               | (1,650)             | -                   | -                        | (1,905)              |
| Increase (decrease) in unearned revenues  | 4,062               | -                   | -                   | -                        | 4,062                |
| Total adjustments   | 2,625,306           | 487,977             | 1,450,950           | 51,824                   | 4,616,056            |
| <b>Net cash provided by operating activities</b>  | <b>\$ 5,808,552</b> | <b>\$ 1,599,320</b> | <b>\$ 3,274,372</b> | <b>\$ 291,679</b>        | <b>\$ 10,973,923</b> |

Schedule of non-cash investing, capital or financing transactions:  
Nothing to report for 2016.

The notes to the financial statements are an integral part of this statement.

**CITY OF CENTRALIA UTILITIES**  
**Notes to Financial Statements**  
**December 31, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Utility Funds of the City of Centralia (the Utilities) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to utility funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies are described below.

**A. Reporting Entity**

The City of Centralia was incorporated on January 27, 1886, and operates under the laws of the State of Washington applicable to a third class city operating under second class laws as a commission form of government. Effective April 1, 1986, the form of government was changed and the City began operating under the laws of a non-charter code city, council-manager plan. The City Council is composed of seven members elected to four-year terms.

The financial information presented is for the Utility Funds of the City. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity of the Utilities. Component units are legally separate organizations for which the Utilities are financially accountable and other organizations for which the Utilities are not accountable but for which the nature and significance of their relationship with the Utilities are such that the exclusion would cause the Utilities' financial statements to be misleading or incomplete. Based upon this criterion, the Utilities have no component units.

Each Utility is financially independent of the others and is self-supported through user charges based on rates that are set by the City Council.

**B. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The accounting records of the Utilities are maintained and reported in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. This prescription allows the City to report the Utilities using GAAP, while reporting all City funds, including the Utilities, using the cash basis of accounting as outlined in the Budgeting, Accounting, and Reporting System (BARS) manual. **See Note 12, Section A. – Accounting and Reporting Changes.**

The Utilities' financial statements are reported using the economic resources measurement focus and full-accrual basis of accounting. The Utility Funds, as proprietary funds of the City, are operated in a manner similar to private enterprises. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the cash flows.

The Utility Funds distinguish operating revenue and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Fund's principal ongoing operations. The principal operating revenue of each Utility Fund is utility sales and service fees. Operating expenses for the Utility Funds include the cost of sales and services, administrative expenses, operations and maintenance costs, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The financial statements contain information for the following Utility Funds:

The **Electric Fund** operates and maintains the electrical system consisting of a hydroelectric generating plant, transmission system and distribution system.

The **Water Fund** operates and maintains the water system consisting of groundwater supply sources, transmission system, treatment and storage facilities and distribution system.

The **Wastewater Fund** operates and maintains the wastewater system consisting of a collection system and treatment system.

The **Storm and Surface Water Fund** was established in 2005 to pay for services related to managing storm and surface water.

## C. Budgetary Information

### 1. Scope of Budget

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

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

### 2. Amending the Budget

The City Manager is authorized to transfer budgeted amounts 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 condition of employment must be approved by the City Council.

## D. Assets, Liabilities, and Net Position

### 1. Cash and Cash Equivalents

It is the Utilities' policy to invest all temporary cash surpluses. At December 31, 2016, \$18,246,167 was held in short-term residual investments of surplus cash. This amount is classified on the Statement of Net Position as Cash and Cash Equivalents as both Current Assets and Non-Current Assets. The interest earned on these investments is prorated to the various funds.

For purposes of the Statement of Cash Flows, the Utilities considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents. **See Note 2, Deposits and Investments.**

### 2. Investments - See Note 2, Deposits and Investments

### 3. Receivables

Customer accounts receivable consist of amounts owed by private individuals, businesses and organizations for goods and services provided. Customer accounts receivable are written off when they are deemed to be uncollectible. The allowance for doubtful accounts is estimated based on each Utility's historical losses and a review of specific accounts. Other current receivables consist of authorized loans and grants for which expenditures have been made for which reimbursement has not yet been received.

#### 4. Inventories

Inventories are valued by the average cost method, which approximates market value. A perpetual inventory is maintained in which the cost is capitalized when inventory items are purchased and expensed or capitalized when items are used. A physical inventory is taken at least once each year.

#### 5. Restricted Assets and Liabilities

In accordance with bond resolutions and certain related agreements, separate restricted accounts have been established. The assets held in these accounts are restricted for specific uses, including reserves, capital construction, debt service and deposits. Related restricted liabilities are shown as *Payable from Restricted Assets*.

Restricted assets as of December 31, 2016 include the following:

|                    | Electric            | Water               | Wastewater          | Stormwater      | Total               |
|--------------------|---------------------|---------------------|---------------------|-----------------|---------------------|
| Capital Projects   | \$ -                | \$ 2,545,629        | \$ 1,247,854        | \$ -            | \$ 3,793,483        |
| Bond/Loan Reserves | 2,508,422           | 112,896             | 1,902,106           | 2,714           | 4,526,138           |
| Debt Service       | 223,619             | 108,197             | -                   | -               | 331,816             |
| Deposits           | 451,632             | 12,620              | -                   | -               | 464,252             |
|                    | <b>\$ 3,183,673</b> | <b>\$ 2,779,342</b> | <b>\$ 3,149,960</b> | <b>\$ 2,714</b> | <b>\$ 9,115,689</b> |

#### 6. Capital Assets - See Note 3, Capital Assets

The Utilities define capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life of at least five (5) years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. Costs for normal maintenance and repairs are not capitalized.

Property, plant and equipment is depreciated using the straight-line method, with initial depreciation recorded in the year after purchase or construction project close-out, over the following estimated useful lives:

| Asset Type         | Useful Life Range |
|--------------------|-------------------|
| Buildings          | 10 - 50 years     |
| Equipment          | 5 - 45 years      |
| Other Improvements | 7 - 50 years      |
| Intangible Assets  | 40 years          |

#### 7. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The Utilities' liability and expense for compensated absences are adjusted at year end.

City personnel policies and Utility union contracts allow a lump sum payment of up to 240 hours of accrued vacation upon resignation, retirement or death.

City personnel policies and Utility union contracts allow a lump sum payment of up to 360 hours of accrued sick leave upon resignation, retirement or death.

## 8. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. **See Note 5, Pensions - Governmental Plans.**

## 9. Long-Term Debt - See Note 8, Long-Term Debt

### **NOTE 2 - DEPOSITS AND INVESTMENTS**

The City maintains a cash and investment pool that is available for use by all funds. Cash and investments reported in the Utilities' Financial Statements are attributable only to the Utility Funds and are stated at fair value. Interest earned from pooled deposits and investments is allocated to each fund based on the ending cash balances held on a monthly basis.

A reconciliation of cash, cash equivalents (including pooled investments) and investments as shown in the Utilities' financial statements are as follows:

| <b>Bank Balance</b>         |                      |
|-----------------------------|----------------------|
| LGIP Investments            | \$ 16,708,610        |
| Bank balance of deposits    | 1,533,357            |
| Change funds & petty cash   | 4,200                |
| Investments                 | 11,419,700           |
|                             | <b>\$ 29,665,867</b> |
| <b>Financial Statements</b> |                      |
| Cash and Cash Equivalents   | \$ 18,246,167        |
| Investments                 | 11,419,700           |
|                             | <b>\$ 29,665,867</b> |

#### **A. Deposits**

The Utilities' bank balance of deposits at December 31, 2016 are entirely insured. The Federal Depository Insurance Commission (FDIC) insures deposits up to \$250,000 and the Washington Public Deposit Protection Commission (PDPC) insures amounts over \$250,000.

#### **B. Investments**

As authorized by RCW 35.39.030, all investments are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington or the State Treasurer's Local Government Investment Pool (LGIP). All investments are insured, registered or held by the City or its agent in the government's name. Investments are measured and reported at fair value using the valuation input hierarchy established by generally accounting principles as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities
- Level 2 - Quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other quoted prices that are not observable
- Level 3 - Unobservable inputs for an asset or liability

On November 22, 2016, the Centralia City Council approved a change to the City's Financial Policy to amend Section VIII. Cash Management and Investment Policies. The City's idle funds may now be invested in any of the securities identified as eligible investments as defined by RCW 35A.40.050. In December 2016, a safekeeping account was established with U.S. Bank and initial investments in various U.S. government securities were made prior to the end of 2016.

As of December 31, 2016, the Utilities had \$16,708,610 in the LGIP and the fair value of the position in the investment pool is the same as the cash value of pool shares. The LGIP is managed in a manner consistent with a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17CFR.270.2a-7). The State Treasurer created the LGIP Advisory Committee to provide advice on the operation of the pool. Of the twelve committee members, all of whom are active LGIP participants, eight members are appointed by participant associations, and four members are appointed by the State Treasurer. The LGIP is not rated by an outside agency.

The LGIP current price per share for purposes of distribution, redemption and repurchase is computed by the amortized cost method. The portfolio is managed to maintain a stable net asset value at \$1.00. There is a minimum transaction amount of \$5,000 for deposits and withdrawals and notification is required the day prior to a \$10 million deposit or withdrawal. Additional information on the LGIP can be found at <http://www.tre.wa.gov>.

As of December 31, 2016, authorized investments are as follows:

| Investment Type                                  | Diversification | Weighted<br>Average Maturity<br>(Years) | Valuation Method | Fair Value<br>(Level 1) |
|--|-----------------|---|------------------|-------------------------|
| U.S. Government & Agencies - FHLMC & FNMA        | 40.6%           | 2.15                                    | quoted price     | \$ 11,419,700           |
| WA State Local Government Investment Pool (LGIP) | 59.4%           | 0.08                                    | amortized cost   | 16,708,610              |
| <b>Total Investments</b>                         | <b>100.0%</b>   |   |                  | <b>\$ 28,128,310</b>    |
| Portfolio weighted average maturity              |                 | 0.92                                    |                  |                         |

**Custodial Credit Risk:** All security transactions including collateral for repurchase agreements are conducted on a delivery-versus-payment basis. Securities purchased are retained or delivered against payment and held in a custodial safekeeping account with a third party. The safekeeping agent(s) are designated by the Finance Director and all transactions are evidenced by safekeeping receipts. The Utilities does not have a specific Custodial Credit Risk policy.

**Credit Risk:** The Utilities invest in securities identified as eligible investments as defined by State law (RCW 35A.40.050) "Fiscal - Investment of Funds," as interpreted by the most current edition of the Office of the State Treasurer, State of Washington publication titled "Eligible Investments for Public Funds." The Utilities currently invest in securities issued by FHLMC and FNMA, which are both rated AA+ by Standard & Poor's. The Utilities do not have a specific Credit Risk policy.

**Concentration Risk:** Safety of the principal is the foremost objective of the Utilities' investment program. Investments are undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. At this time, all investments are in securities of U.S. government agencies and the State of Washington LGIP, which are not subject to concentration risk. The Utilities do not have a specific Concentration Risk policy.

**Interest Rate Risk:** The Utilities' investment portfolio is designed with the objective of attaining a maximum rate of return throughout budgetary and economic cycles, taking into account the Utilities' investment risk constraints, the cash flow characteristics of the portfolio and the fact the Utilities utilize a passive investment program. The Utilities do not have a specific Interest Rate Risk policy.



**NOTE 3 – CAPITAL ASSETS****A. Capital Asset Activity**

|  | Beginning<br>Balance<br>1/1/2016 | Increases            | Decreases              | Ending<br>Balance<br>12/31/2016 |
|--|----------------------------------|----------------------|------------------------|---------------------------------|
| <b>TOTAL UTILITY FUNDS</b>                       |                                  |                      |                        |                                 |
| Capital Assets not being depreciated:            |                                  |                      |                        |                                 |
| Land   | \$ 4,395,077                     | \$ 98,483            | \$ (17,333)            | \$ 4,476,227                    |
| Construction In Progress                         | 17,070,798                       | 3,275,347            | (13,315,247)           | 7,030,899                       |
| Total Capital Assets not being depreciated       | 21,465,875                       | 3,373,831            | (13,332,580)           | 11,507,126                      |
| Capital Assets being depreciated                 |                                  |                      |                        |                                 |
| Buildings  | 54,172,300                       | 1,953,853            | (828,950)              | 55,297,202                      |
| Other Improvements                               | 62,016,421                       | 6,124,993            | -                      | 68,141,414                      |
| Equipment  | 66,106,335                       | 6,016,160            | (2,179,066)            | 69,943,429                      |
| Intangible assets                                | 4,862,082                        | -                    | -                      | 4,862,082                       |
| Total Capital Assets being depreciated           | 187,157,137                      | 14,095,006           | (3,008,016)            | 198,244,127                     |
| Less Accumulated Depreciation for:               |                                  |                      |                        |                                 |
| Buildings  | (15,051,297)                     | (1,159,298)          | 553,894                | (15,656,701)                    |
| Other Improvements                               | (31,087,352)                     | (1,180,453)          | -                      | (32,267,805)                    |
| Equipment  | (24,231,397)                     | (2,077,657)          | 1,862,199              | (24,446,855)                    |
| Intangible assets                                | (2,119,042)                      | (120,787)            | -                      | (2,239,829)                     |
| Total Accumulated Depreciation                   | (72,489,087)                     | (4,538,195)          | 2,416,093              | (74,611,189)                    |
| Total Capital Assets being depreciated, net      | 114,668,050                      | 9,556,811            | (591,923)              | 123,632,938                     |
| <b>TOTAL UTILITY FUNDS - Capital Assets, Net</b> | <b>\$136,133,925</b>             | <b>\$ 12,930,642</b> | <b>\$ (13,924,503)</b> | <b>\$135,140,064</b>            |

|   | Beginning<br>Balance<br>1/1/2016 | Increases           | Decreases             | Ending<br>Balance<br>12/31/2016 |
|---|----------------------------------|---------------------|-----------------------|---------------------------------|
| <b>ELECTRIC</b>                             |                                  |                     |                       |                                 |
| Capital Assets not being depreciated:       |                                  |                     |                       |                                 |
| Land  | \$ 2,398,930                     | \$ 32,056           | \$ (17,333)           | \$ 2,413,653                    |
| Construction In Progress                    | 5,778,520                        | 2,326,692           | (5,395,429)           | 2,709,783                       |
| Total Capital Assets not being depreciated  | 8,177,450                        | 2,358,748           | (5,412,762)           | 5,123,435                       |
| Capital Assets being depreciated            |                                  |                     |                       |                                 |
| Buildings                                   | 7,006,024                        | 6,753               | (828,950)             | 6,183,826                       |
| Other Improvements                          | 14,514,699                       | -                   | -                     | 14,514,699                      |
| Equipment                                   | 59,102,604                       | 5,772,265           | (1,985,712)           | 62,889,157                      |
| Intangible assets                           | 4,862,082                        | -                   | -                     | 4,862,082                       |
| Total Capital Assets being depreciated      | 85,485,409                       | 5,779,017           | (2,814,662)           | 88,449,764                      |
| Less Accumulated Depreciation for:          |                                  |                     |                       |                                 |
| Buildings                                   | (1,924,634)                      | (178,679)           | 553,894               | (1,549,418)                     |
| Other Improvements                          | (5,679,606)                      | (285,266)           | -                     | (5,964,872)                     |
| Equipment                                   | (20,160,929)                     | (1,738,121)         | 1,669,637             | (20,229,413)                    |
| Intangible assets                           | (2,119,042)                      | (120,787)           | -                     | (2,239,829)                     |
| Total Accumulated Depreciation              | (29,884,211)                     | (2,322,852)         | 2,223,531             | (29,983,533)                    |
| Total Capital Assets being depreciated, net | 55,601,198                       | 3,456,165           | (591,131)             | 58,466,231                      |
| <b>ELECTRIC - Capital Assets, Net</b>       | <b>\$ 63,778,648</b>             | <b>\$ 5,814,913</b> | <b>\$ (6,003,894)</b> | <b>\$ 63,589,667</b>            |

| <b>WATER</b>                                | Beginning<br>Balance<br>1/1/2016 | Increases         | Decreases           | Ending<br>Balance<br>12/31/2016 |
|---|----------------------------------|-------------------|---------------------|---------------------------------|
| Capital Assets not being depreciated:       |                                  |                   |                     |                                 |
| Land  | \$ 379,904                       | \$ 66,427         | \$ -                | \$ 446,331                      |
| Construction In Progress                    | 989,954                          | 689,757           | (581,773)           | 1,097,938                       |
| Total Capital Assets not being depreciated  | 1,369,858                        | 756,184           | (581,773)           | 1,544,269                       |
| Capital Assets being depreciated            |                                  |                   |                     |                                 |
| Buildings                                   | 4,237,750                        | 432,395           | -                   | 4,670,145                       |
| Other Improvements                          | 22,654,336                       | 248,458           | -                   | 22,902,794                      |
| Equipment                                   | 1,622,588                        | 132,419           | (4,898)             | 1,750,108                       |
| Total Capital Assets being depreciated      | 28,514,673                       | 813,271           | (4,898)             | 29,323,047                      |
| Less Accumulated Depreciation for:          |                                  |                   |                     |                                 |
| Buildings                                   | (1,251,626)                      | (101,316)         | -                   | (1,352,942)                     |
| Other Improvements                          | (8,854,684)                      | (451,186)         | -                   | (9,305,871)                     |
| Equipment                                   | (880,674)                        | (92,630)          | 4,898               | (968,405)                       |
| Total Accumulated Depreciation              | (10,986,984)                     | (645,132)         | 4,898               | (11,627,218)                    |
| Total Capital Assets being depreciated, net | 17,527,689                       | 168,139           | -                   | 17,695,829                      |
| <b>WATER - Capital Assets, Net</b>          | <b>\$ 18,897,547</b>             | <b>\$ 924,324</b> | <b>\$ (581,773)</b> | <b>\$ 19,240,098</b>            |

| <b>WASTEWATER</b>                           | Beginning<br>Balance<br>1/1/2016 | Increases           | Decreases             | Ending<br>Balance<br>12/31/2016 |
|---|----------------------------------|---------------------|-----------------------|---------------------------------|
| Capital Assets not being depreciated:       |                                  |                     |                       |                                 |
| Land  | \$ 1,616,244                     | \$ -                | \$ -                  | \$ 1,616,244                    |
| Construction In Progress                    | 9,004,943                        | 227,250             | (7,338,045)           | 1,894,148                       |
| Total Capital Assets not being depreciated  | 10,621,186                       | 227,250             | (7,338,045)           | 3,510,392                       |
| Capital Assets being depreciated            |                                  |                     |                       |                                 |
| Buildings                                   | 42,902,046                       | 1,514,706           | -                     | 44,416,751                      |
| Other Improvements                          | 24,278,110                       | 5,876,535           | -                     | 30,154,645                      |
| Equipment                                   | 5,130,819                        | 54,620              | (188,456)             | 4,996,984                       |
| Total Capital Assets being depreciated      | 72,310,975                       | 7,445,861           | (188,456)             | 79,568,380                      |
| Less Accumulated Depreciation for:          |                                  |                     |                       |                                 |
| Buildings                                   | (11,872,909)                     | (878,641)           | -                     | (12,751,550)                    |
| Other Improvements                          | (16,509,092)                     | (426,921)           | -                     | (16,936,013)                    |
| Equipment                                   | (3,107,357)                      | (230,746)           | 187,664               | (3,150,440)                     |
| Total Accumulated Depreciation              | (31,489,358)                     | (1,536,308)         | 187,664               | (32,838,003)                    |
| Total Capital Assets being depreciated, net | 40,821,617                       | 5,909,553           | (792)                 | 46,730,378                      |
| <b>WASTEWATER - Capital Assets, Net</b>     | <b>\$ 51,442,803</b>             | <b>\$ 6,136,803</b> | <b>\$ (7,338,836)</b> | <b>\$ 50,240,770</b>            |

| <b>STORMWATER</b>                            | <b>Beginning<br/>Balance<br/>1/1/2016</b> | <b>Increases</b> | <b>Decreases</b> | <b>Ending<br/>Balance<br/>12/31/2016</b> |
|--|---|------------------|------------------|--|
| <b>Capital Assets not being depreciated:</b> |   |                  |                  |  |
| Construction In Progress                     | \$ 1,297,381                              | \$ 31,649        | \$ -             | \$ 1,329,030                             |
| Total Capital Assets not being depreciated   | 1,297,381                                 | 31,649           | -                | 1,329,030                                |
| <b>Capital Assets being depreciated</b>      |   |                  |                  |  |
| Buildings                                    | 26,480                                    | -                | -                | 26,480                                   |
| Other Improvements                           | 569,276                                   | -                | -                | 569,276                                  |
| Equipment                                    | 250,324                                   | 56,856           | -                | 307,181                                  |
| Total Capital Assets being depreciated       | 846,080                                   | 56,856           | -                | 902,937                                  |
| <b>Less Accumulated Depreciation for:</b>    |   |                  |                  |  |
| Buildings                                    | (2,128)                                   | (662)            | -                | (2,790)                                  |
| Other Improvements                           | (43,969)                                  | (17,080)         | -                | (61,049)                                 |
| Equipment                                    | (82,437)                                  | (16,160)         | -                | (98,597)                                 |
| Total Accumulated Depreciation               | (128,534)                                 | (33,902)         | -                | (162,436)                                |
| Total Capital Assets being depreciated, net  | 717,546                                   | 22,954           | -                | 740,500                                  |
| <b>STORMWATER - Capital Assets, Net</b>      | <b>\$ 2,014,927</b>                       | <b>\$ 54,602</b> | <b>\$ -</b>      | <b>\$ 2,069,530</b>                      |

#### B. Interest Capitalization

Interest cost incurred and charged to expense during 2016 is as follows:

| <b>Electric</b> | <b>Water</b> | <b>Wastewater</b> | <b>Stormwater</b> | <b>Total</b> |
|-----------------|--------------|-------------------|-------------------|--------------|
| \$ 899,135      | \$ 35,728    | \$ 74,657         | \$ 1,931          | \$ 1,011,451 |

#### C. Depreciation Expense

Depreciation expense during 2016 is as follows:

| <b>Electric</b> | <b>Water</b> | <b>Wastewater</b> | <b>Stormwater</b> | <b>Total</b> |
|-----------------|--------------|-------------------|-------------------|--------------|
| \$ 2,322,852    | \$ 645,132   | \$ 1,536,308      | \$ 33,902         | \$ 4,538,195 |

### NOTE 4 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

#### A. Construction Commitments

The Utilities have active construction projects as of December 31, 2016. Significant commitments with contractors as of year-end are as follows:

| <b>Project</b>                        | <b>Spent to<br/>Date</b> | <b>Remaining<br/>Commitment</b> | <b>Funding Source</b>          |
|---------------------------------------|--------------------------|---------------------------------|--------------------------------|
| Davis Hill Water Reservoir Repainting | \$ 265,696               | \$ 12,956                       | Water Revenues                 |
| Hydroplant House Demolition           | -                        | 24,987                          | Light Revenues                 |
| Hydroplant Office Building            | 90,100                   | 129,398                         | Light Revenues                 |
| Salzer Substation Feeder Getaway      | -                        | 174,694                         | Light Revenues                 |
| Stormwater Decant Facility            | 973,204                  | 47,243                          | Grant & Stormwater<br>Revenues |
| Summa Street Railroad Bore            | 310,728                  | 15,055                          | Light Revenues                 |
|                                       | <b>\$1,639,728</b>       | <b>\$ 404,333</b>               |                                |

## B. Other Commitments

Power Purchase Contracts – See Note 12, Section B.2. – Power Purchase Contracts.

All significant encumbrances affected by the Utilities as of the end of 2016 have been disclosed.

### **NOTE 5 - PENSIONS - GOVERNMENTAL PLANS**

The following table represents the aggregate pension amounts for all plans subject to the requirements of the [\*GASB Statement 68, Accounting and Financial Reporting for Pensions\*](#) for 2016:

| Aggregate Pension Amounts - All Plans |              |
|---------------------------------------|--------------|
| Pension liabilities                   | \$ 5,772,477 |
| Deferred outflows of resources        | 1,026,954    |
| Deferred inflows of resources         | 130,774      |
| Pension expense/expenditures          | 397,778      |

#### **State Sponsored Pension Plans**

Substantially all the Utility Funds' full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, 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 (DRS), 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

Or the DRS CAFR may be downloaded from the DRS website at <http://www.drs.wa.gov>.

#### **Public Employees' Retirement System (PERS)**

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

**PERS Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death

benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

### Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

| PERS Plan 1               |               |              |
|---------------------------|---------------|--------------|
| Actual Contribution Rates | Employer      | Employee     |
| PERS Plan 1               | 6.23%         | 6.00%        |
| PERS Plan 1 UAAL          | 4.77%         | 6.00%        |
| Administrative Fee        | 0.18%         |              |
| <b>Total</b>              | <b>11.18%</b> | <b>6.00%</b> |

**PERS Plan 2/3** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

**PERS Plan 3** defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

## Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

| PERS Plan 2/3             |               |              |
|---------------------------|---------------|--------------|
| Actual Contribution Rates | Employer 2/3  | Employee 2   |
| PERS Plan 2/3             | 6.23%         | 6.12%        |
| PERS Plan 1 UAAL          | 4.77%         |              |
| Administrative Fee        | 0.18%         |              |
| Employee PERS Plan 3      |               | varies       |
| <b>Total</b>              | <b>11.18%</b> | <b>6.12%</b> |

The Utility Funds' PERS plan contributions were \$292,659 to PERS Plan 1 and \$368,057 to PERS Plan 2/3 for the year ended December 31, 2016.

## **Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- For all systems, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.

## Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

## Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

## Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

| Asset Class     | Target allocation | % Long-Term Expected Real Rate of Return Arithmetic |
|-----------------|-------------------|---|
| Fixed Income    | 20%               | 1.7%  |
| Tangible Assets | 5%                | 4.4%  |
| Real Estate     | 15%               | 5.8%  |
| Global Equity   | 37%               | 6.6%  |
| Private Equity  | 23%               | 9.6%  |
|                 | 100%              |   |

## Sensitivity of Net Pension Liability

The table below presents the Utilities' proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Utilities' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

|          | 1% Decrease<br>(6.5%) | Current<br>Discount Rate<br>(7.5%) | 1% Increase<br>(8.5%) |
|----------|-----------------------|------------------------------------|-----------------------|
| PERS 1   | \$ 3,231,492          | \$ 2,679,735                       | \$ 2,204,916          |
| PERS 2/3 | 5,694,293             | 3,092,742                          | (1,609,950)           |

## Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

## Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the Utilities reported its proportionate share of the net pension liabilities as follows:

|              | Liability           |
|--------------|---------------------|
| PERS 1       | \$ 2,679,735        |
| PERS 2/3     | 3,092,742           |
| <b>Total</b> | <b>\$ 5,772,477</b> |

At June 30, the Utilities' proportionate share of the collective net pension liabilities was as follows:

|          | Proportionate Share 6/30/15 | Proportionate Share 6/30/16 | Change in Proportion |
|----------|-----------------------------|-----------------------------|----------------------|
| PERS 1   | 0.053492%                   | 0.049898%                   | -0.003594%           |
| PERS 2/3 | 0.062335%                   | 0.061426%                   | -0.000909%           |

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans.

The collective net pension liability was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

## Pension Expense

For the year ended December 31, 2016, the Utilities recognized pension expense as follows:

|              | Pension Expense   |
|--------------|-------------------|
| PERS 1       | \$ (49,888)       |
| PERS 2/3     | 447,666           |
| <b>Total</b> | <b>\$ 397,778</b> |



## Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the Utilities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| <b>PERS Plan 1</b>   | <b>Deferred<br/>Outflows of<br/>Resources</b> | <b>Deferred<br/>Inflows of<br/>Resources</b> |
|--|---|--|
| Differences between expected and actual experience   | \$ -  | \$ -   |
| Net difference between projected and actual investment earnings on pension plan investments          | 67,472  | -  |
| Changes of assumptions   | -   | -  |
| Changes in proportion and differences between contributions and proportionate share of contributions | -   | -  |
| Contributions subsequent to the measurement date   | 148,401                                       | -  |
| <b>TOTAL</b>   | <b>\$ 215,873</b>                             | <b>\$ -</b>                                  |

| <b>PERS Plan 2/3</b>   | <b>Deferred<br/>Outflows of<br/>Resources</b> | <b>Deferred<br/>Inflows of<br/>Resources</b> |
|--|---|--|
| Differences between expected and actual experience   | \$ 164,686                                    | \$ (102,096)                                 |
| Net difference between projected and actual investment earnings on pension plan investments          | 378,462                                       | -  |
| Changes of assumptions   | 31,966  | -  |
| Changes in proportion and differences between contributions and proportionate share of contributions | 49,204  | (28,678)                                     |
| Contributions subsequent to the measurement date   | 186,763                                       | -  |
| <b>TOTAL</b>   | <b>\$ 811,081</b>                             | <b>\$ (130,774)</b>                          |

| ALL PLANS  | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience   | \$ 164,686                           | \$ (102,096)                        |
| Net difference between projected and actual investment earnings on pension plan investments          | 445,934                              | -                                   |
| Changes of assumptions   | 31,966                               | -                                   |
| Changes in proportion and differences between contributions and proportionate share of contributions | 49,204                               | (28,678)                            |
| Contributions subsequent to the measurement date   | 335,164                              | -                                   |
| <b>TOTAL</b>   | <b>\$ 1,026,954</b>                  | <b>\$ (130,774)</b>                 |

Deferred outflows of resources related to pensions resulting from the Utility Funds' contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| PLAN SUMMARY AMORTIZATION<br>SCHEDULE FOR ALL DEFERRED (INFLOWS)<br>AND OUTFLOWS |                  |                   |  |
|--|------------------|-------------------|--|
| Year   | PERS 1           | PERS 2/3          |  |
| 2017   | \$ (16,613)      | \$ 13,676         |  |
| 2018   | (16,613)         | 13,676            |  |
| 2019   | 61,966           | 288,616           |  |
| 2020   | 38,732           | 177,576           |  |
| 2021   | -                | -                 |  |
| 2022   | -                | -                 |  |
|  | <b>\$ 67,472</b> | <b>\$ 493,544</b> |  |

#### **NOTE 6 - PENSIONS - NON-GOVERNMENTAL PLANS**

The Utility Funds provide pensions to certain employees through a cost-sharing, multiple-employer defined benefit pension plan subject to the requirements of the [GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans](#).

#### **Union Sponsored Pension Plan**

Under collective bargaining agreements (CBA's) between the City and the International Brotherhood of Teamsters Local Union #252 ("the Union"), the Utilities provide pension benefits to approximately twenty-three (23) full-time

and qualifying part-time employees. The City and the Union have agreed to be bound by the provisions of the Agreement and Declaration of Trust of the Western Conference of Teamster Pension Trust Fund and agree that the Trustees of that Trust shall act as Trustees on their behalf.

### Western Conference of Teamsters Pension Plan

The Western Conference of Teamsters Pension Plan ("the Plan") is a defined benefit pension plan that is administered by the Western Conference of Teamsters Pension Plan Trust. The Plan is a non-governmental, multiple-employer pension plan providing defined benefit pensions to eligible employees of both state and/or local government employers and employees of employers that are not state or local governmental employers. There is no predominant state or local governmental employer that has covered employees.

The Plan was established by the Western Conference of Teamsters Pension Plan Trust, Board of Trustees on April 26, 1955 to define the retirement, death and termination benefits to be provided by employer contributions to the Trust Fund, the conditions of eligibility for those benefits, the terms of payment, and other necessary or appropriate items. The Plan was initially determined by the Internal Revenue Service to be a "qualified plan" under section 401(a) of the Internal Revenue Code on May 5, 1955 and became effective May 15, 1955. Retirement benefits first became payable to eligible employees retiring effective June 1, 1957. The Plan has been amended from time to time since establishment.

The Western Conference of Teamsters Pension Plan Trust issues a publicly available annual audit report that includes financial statements and additional information for the Plan. The latest available annual audit report may be obtained by writing to:

**Western Conference of Teamsters Pension Trust**  
Northwest/Rocky Mountain Area Administrative Office  
2323 Eastlake Avenue East  
Seattle, WA 98102-3305

Or the latest annual audit report may be downloaded from the Plan website at <http://www.wctpension.org>.

### Contributions

Employer contributions to the Plan are determined pursuant to CBA's between the City and the Union for two (2) employee groups that perform work for the Utilities. In addition, covered employees for each employee group may collectively elect to defer a portion of their wages as contributions to the Plan, which are incorporated as amendments to the CBA. Employer contribution rates are established and may be amended during collective bargaining negotiations and are based on hours worked by each covered employee within each bargaining unit employee group. CBA's for both employee groups currently in effect expire December 31, 2017.

Required contribution rates by employee group (expressed as an amount per hour worked) currently in effect are:

| PENSION PLAN CONTRIBUTION RATES |                          |    |   |          |
|---------------------------------|--------------------------|----|---|----------|
| Year                            | Stormwater<br>Operations |    | Utilities<br>Administrative &<br>Customer Service Staff |          |
|                                 | Staff                    |    | Employer  | Employee |
|                                 | Employer                 |    | Employer  | Employee |
| 2016                            | \$ 2.65                  | \$ | 0.10  | \$ 1.50  |
| 2017                            | 2.75                     |    | 0.10  | 1.50     |

The Utility Funds' required contributions to the Plan were \$50,539 for 2016.

Under provisions of the Agreement and Declaration of Trust, Employer Withdrawal Liability Rules and Procedures of the Western Conference of Teamsters Pension Trust Fund supplement to the Plan, the City is subject to liability upon full or partial withdrawal from the Plan.

#### Payables

Amounts due from the Utilities to the Plan at the end of the year were \$4,016, which were paid as required by the 10<sup>th</sup> of the month following the pay period month end. The amounts due are attributed to December 2016 required contributions under the Plan.

#### **NOTE 7 - RISK MANAGEMENT**

##### **A. Liability, Property, Automobile and Fidelity Insurance**

The City of Centralia is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 168 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the Interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

In the past three years, there have been no settlements that exceeded coverage. In addition, insurance coverage amounts have remained unchanged from those in place during the prior year.

## **B. Health and Welfare**

The Utilities is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP).

Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2016, 258 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Group Health Cooperative/Group Health Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2016, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board (GASB). Year-end financial reporting is

done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

## **NOTE 8 - LONG-TERM DEBT**

The Electric and Water utilities have issued revenue bonds to finance the acquisition and construction of major utility infrastructure and are being repaid with Electric and Water utility revenues.

The Water, Wastewater and Stormwater utilities have acquired low-interest loans through the State Departments of Ecology and Commerce for approved public works projects and are being repaid with Water, Wastewater and Stormwater utility revenues. Loan programs include the Washington State Public Works Trust Fund (PWTF) and the Washington State Revolving Fund (SRF).

As required by bond indentures and loan agreements, the Utilities have restricted assets of \$4,857,955 in sinking funds and loan reserves. The Utilities are in compliance with all bond covenants and loan agreements.

### **A. Revenue Bonds**

Revenue bonds currently outstanding are as follows:

| <b>Purpose</b>                      | <b>Maturity Range</b> | <b>Interest Rates</b> | <b>Original Amount</b> | <b>2016 Principal &amp; Interest</b> |
|-------------------------------------|-----------------------|-----------------------|------------------------|--------------------------------------|
| Electric Construction Projects      |                       |                       |                        |                                      |
| - Refunding                         | 3/1/07 to 12/1/19     | 4.79%                 | \$ 4,530,000           | \$ 569,800                           |
| Electric Construction Projects      | 3/1/07 to 12/1/17     | 4.51%                 | 1,685,000              | 899,700                              |
| Electric Construction Projects      | 10/7/10 to 12/1/30    | 5.54%                 | 11,055,000             | 926,815                              |
| Electric Construction Projects      |                       |                       |                        |                                      |
| - Refunding                         | 12/3/15 to 12/1/26    | 2.38%                 | 9,684,433              | 292,574                              |
| <b>Total Electric Revenue Bonds</b> |                       |                       | <b>26,954,433</b>      | <b>2,688,889</b>                     |
| Water Construction Projects         |                       |                       |                        |                                      |
| - Refunding                         | 4/30/13 to 4/30/21    | 1.98%                 | 1,128,964              | 172,852                              |
| <b>Total Water Revenue Bonds</b>    |                       |                       | <b>1,128,964</b>       | <b>172,852</b>                       |
| <b>TOTAL ALL REVENUE BONDS</b>      |                       |                       | <b>\$ 28,083,397</b>   | <b>\$ 2,861,741</b>                  |

Revenue bond debt service payment requirements to maturity are as follows:

| <b>Year Ending December 31</b> | <b>Electric Revenue Bonds</b> |                     | <b>Water Revenue Bonds</b> |                  | <b>Total Revenue Bonds</b> |                     |
|--------------------------------|-------------------------------|---------------------|----------------------------|------------------|----------------------------|---------------------|
|                                | <b>Principal</b>              | <b>Interest</b>     | <b>Principal</b>           | <b>Interest</b>  | <b>Principal</b>           | <b>Interest</b>     |
| 2017                           | \$ 1,862,960                  | \$ 821,086          | \$ 159,127                 | \$ 11,099        | \$ 2,022,087               | \$ 832,185          |
| 2018                           | 1,924,459                     | 750,817             | 159,250                    | 7,947            | 2,083,709                  | 758,764             |
| 2019                           | 1,981,413                     | 689,450             | 102,763                    | 5,353            | 2,084,176                  | 694,803             |
| 2020                           | 1,676,994                     | 625,989             | 109,053                    | 3,256            | 1,786,047                  | 629,245             |
| 2021                           | 1,675,044                     | 572,889             | 109,908                    | 1,088            | 1,784,952                  | 573,977             |
| 2022-2026                      | 9,065,847                     | 1,963,703           | -                          | -                | 9,065,847                  | 1,963,703           |
| 2027-2030                      | 3,305,000                     | 496,527             | -                          | -                | 3,305,000                  | 496,527             |
| <b>TOTALS</b>                  | <b>\$ 21,491,717</b>          | <b>\$ 5,920,462</b> | <b>\$ 640,101</b>          | <b>\$ 28,742</b> | <b>\$ 22,131,818</b>       | <b>\$ 5,949,204</b> |

Outstanding bonds are reported as current and non-current liabilities and are shown in the Statement of Net Position net of premiums and/or discounts. Annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt discount in the Statement of Revenues, Expenses and Changes in Net Position. The Utilities are in compliance with Federal arbitrage regulations.

## B. Refunded Debt

On December 3, 2015, the Electric utility defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Utilities financial statements. At December 31, 2016, \$9,590,000 of bonds outstanding are considered defeased.

## C. State Loans

The SRF & PWTF loans payable currently outstanding are as follows:

| Fund - Purpose - Loan Type       | Maturity Range       | Interest Rates | Original Amount   | 2016                 |                     |
|----------------------------------|----------------------|----------------|-------------------|----------------------|---------------------|
|                                  |                      |                |                   | Principal &          | Interest            |
| Water - Cooks Hill Water - PWTF  | 7/30/02 to 6/1/22    | 1%             | \$ 2,316,356      | \$                   | 137,084             |
| Water - Ham Hill Water - SRF     | 7/30/04 to 10/1/23   | 1%             | 624,240           |                      | 35,483              |
| Water - Port North Ext - SRF     | 8/11/05 to 10/1/24   | 1%             | 2,197,866         |                      | 126,088             |
| <b>Total Water Loans</b>         |                      |                | <b>5,138,462</b>  |                      | <b>298,655</b>      |
| Sewer - Basin 4 Phase II - SRF   | 5/12/97 to 3/10/18   | 0%             | 814,088           |                      | 41,748              |
| Sewer - Swanson Heights - PWTF   | 4/18/02 to 6/1/21    | 2%             | 1,307,382         |                      | 46,443              |
| Sewer - Maple Hansen - PWTF      | 7/31/02 to 6/1/21    | 1%             | 280,098           |                      | 8,882               |
| Sewer - Cooks Hill Sewer - PWTF  | 7/4/04 to 6/1/24     | 1%             | 1,192,500         |                      | 65,770              |
| Sewer - Treatment Plant A - SRF  | 11/1/05 to 11/1/24   | 0%             | 33,009,836        |                      | 1,692,812           |
| Sewer - Treatment Plant B - SRF  | 8/31/06 to 8/31/26   | 0%             | 591,946           |                      | 30,356              |
| Sewer - I&I Reduction Proj - SRF | 12/31/13 to 12/31/32 | 2.50%          | 3,003,050         |                      | 193,860             |
| <b>Total Sewer Loans</b>         |                      |                | <b>40,198,900</b> |                      | <b>2,079,871</b>    |
| Storm - I&I Reduction Proj - SRF | 12/31/13 to 12/31/32 | 2.50%          | 70,067            |                      | 4,523               |
| <b>Total Storm Loans</b>         |                      |                | <b>70,067</b>     |                      | <b>4,523</b>        |
| <b>TOTAL ALL SRF LOANS</b>       |                      |                |                   | <b>\$ 45,407,429</b> | <b>\$ 2,383,049</b> |

SRF & PWTF loans payable debt service requirements to maturity are as follows:

| Year Ending<br>December 31 | Water Loans         |                  | Wastewater Loans     |                   | Stormwater Loans |                  | Total Loans          |                   |
|----------------------------|---------------------|------------------|----------------------|-------------------|------------------|------------------|----------------------|-------------------|
|                            | Principal           | Interest         | Principal            | Interest          | Principal        | Interest         | Principal            | Interest          |
| 2017                       | \$ 276,648          | \$ 19,241        | \$ 2,008,441         | \$ 70,203         | \$ 3,052         | \$ 1,471         | \$ 2,288,141         | \$ 90,915         |
| 2018                       | 276,648             | 16,474           | 2,011,749            | 65,668            | 3,129            | 1,394            | 2,291,527            | 83,536            |
| 2019                       | 276,648             | 13,708           | 1,973,393            | 61,049            | 3,209            | 1,315            | 2,253,250            | 76,072            |
| 2020                       | 276,648             | 10,942           | 1,976,871            | 56,344            | 3,290            | 1,233            | 2,256,808            | 68,519            |
| 2021                       | 276,648             | 8,175            | 1,980,436            | 51,552            | 3,373            | 1,150            | 2,260,457            | 60,877            |
| 2022-2026                  | 540,857             | 9,208            | 6,206,864            | 191,739           | 18,188           | 4,428            | 6,765,909            | 205,374           |
| 2027-2031                  | -                   | -                | 883,213              | 86,089            | 20,607           | 2,009            | 903,820              | 88,097            |
| 2032                       | -                   | -                | 190,267              | 3,594             | 4,439            | 84               | 194,706              | 3,677             |
| <b>TOTALS</b>              | <b>\$ 1,924,096</b> | <b>\$ 77,748</b> | <b>\$ 17,231,235</b> | <b>\$ 586,237</b> | <b>\$ 59,287</b> | <b>\$ 13,083</b> | <b>\$ 19,214,619</b> | <b>\$ 677,068</b> |

**NOTE 9 - CHANGES IN LONG-TERM LIABILITIES**

During the year ended December 31, 2016 the following changes occurred in long-term liabilities:

|  | Beginning<br>Balance | Additions         | Reductions            | Ending<br>Balance    | Due Within<br>One Year |
|--|----------------------|-------------------|-----------------------|----------------------|------------------------|
| Revenue bonds                                | \$ 24,140,204        | \$ -              | \$ (1,963,521)        | \$ 22,176,683        | \$ 2,022,087           |
| Loans  | 21,499,458           | -                 | (2,284,839)           | 19,214,619           | 2,288,141              |
| Pensions                                     | 5,025,366            | 747,111           |                       | 5,772,477            |                        |
| Compensated absences/<br>Excess compensation | 966,995              | 8,745             | (38,001)              | 937,739              | 46,887                 |
| <b>Total long-term liabilities</b>           | <b>\$ 51,632,023</b> | <b>\$ 755,856</b> | <b>\$ (4,286,361)</b> | <b>\$ 48,101,518</b> | <b>\$ 4,357,115</b>    |

**NOTE 10 - CONTINGENCIES AND LITIGATION**

The Utilities have recorded in their financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that the Utilities will have to make payment. In the opinion of management, the Utilities' insurance policies and/or reserves are adequate to pay all known pending claims.

The Utilities may participate in a number of Federal and/or State assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Utility management believes such disallowances, if any, to be immaterial.

**NOTE 11 - INTERFUND LOANS**

From 2004 to 2007, the Wastewater Fund paid \$1,640,000 to the General Fund for the purchase of a watershed protection intangible asset. Since 2005, the City and Washington State Auditor's Office (SAO) have had conflicting opinions regarding the valuation of and accounting for the watershed protection intangible asset. In January 2009, an agreement was reached between the City and SAO to resolve the past findings regarding the interfund payments. In August 2009, the City Council passed a resolution ratifying the agreement whereby the intangible asset was removed from the Wastewater Fund and \$1,640,000 is repaid to the Wastewater Fund by the General Fund via an interfund loan. The non-interest bearing interfund loan is for twenty years and the \$82,000 annual payment from the General Fund to the Wastewater Fund commenced in 2010.

Interfund loan activity during 2016:

| Borrowing<br>Fund      | Lending<br>Fund | Balance<br>1/1/2016 | New Loans | Repayments | Balance<br>12/31/2016 |
|------------------------|-----------------|---------------------|-----------|------------|-----------------------|
| General                | Wastewater      | \$ 1,148,000        | \$ -      | \$ 82,000  | \$ 1,066,000          |
| Flood Capital Projects | Water           | 50,219              | -         | 50,219     | -                     |
| Stormwater             | Water           | 175,000             | -         | 175,000    | -                     |



## **NOTE 12 - OTHER DISCLOSURES**

### **A. Accounting and Reporting Changes**

#### **1. Reporting Changes**

Beginning with Fiscal Year 2011, the City is required to report all funds, including the Utilities, on a combined single basis and has chosen to do so on a cash basis. Prior to 2011 and for the prior four years, the City had issued two separate reports: one report for the Utilities prepared on a GAAP basis and another report for the governmental operations prepared on a cash basis. The City plans to continue recording transactions for the Utilities on a GAAP basis and make appropriate re-statements to report on the Cash Basis at each year end. To comply with other external requirements, the City will also issue separate GAAP financial statements for the Utilities.

#### **2. Adoption of New GASB Pronouncements**

For the year ended December 31, 2016, the Utilities considered or implemented the following GASB pronouncements:

- a. GASB Statement No. 72, *Fair Value Measurement and Application* - This Statement is effective for financial reporting periods beginning after June 15, 2015 and addresses accounting and reporting issues related to fair value measurements. **See Note 2, Deposits and Investments** for Statement implementation.
- b. GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* - This Statement is effective for fiscal years beginning after December 15, 2015 and addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement 78 amended the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan; mainly those that are not-state or local governmental pension plans and that provide defined benefit pensions to employees of both state and local governments and to employees of employers that are not state or local governmental employers. This Statement established requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that meet the characteristics described above. **See Note 6, Pensions - Non-Governmental Plans** for Statement implementation.
- c. GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* - Effective for fiscal years beginning after December 15, 2015, this Statement establishes criteria for an external investment pool to qualify for reporting investments at amortized cost. **See Note 2, Deposits and Investments** for Statement implementation.

## **B. Other**

### **1. Prior Period Adjustments**

A prior period adjustment was made in the Stormwater Fund for \$342,728 to correct the beginning balance of Other Current Receivables. This amount represents a grant distribution request billed to the Washington State Department of Ecology for 2015 capital expenses for which the reimbursement was not received until 2016. If recorded and reported properly in 2015, this amount would have been shown as additions to Other Current Receivables and Non-Operating Revenue in the 2015 financial statements.

### **2. Power Purchase Contracts**

Power for sale to customers of the Electric Fund comes from a combination of purchases and the City-owned and operated Yelm Hydroelectric Project. The Electric Fund is a statutory preference customer of the Bonneville Power Administration (BPA), an agency of the United States Department of Energy. Under the current power purchase contract with BPA, which expires September 30, 2028, the Utility is allocated a fixed percentage of available low cost federal power (Tier 1) from BPA.

Under the contract, the Utility is required to inform BPA how the Utility plans to serve its load above the allocation amount (AHWM). The City has entered into a power purchase commitment agreement with Northwest Intergovernmental Energy Supply (NIES), a Northwest Requirements Utilities related organization, to supply power needs above the BPA Tier 1 amount using non-Federal sources through September 30, 2020.

In 2016, BPA and NIES provided 70.7% of the power supply, with the remainder produced by the Yelm Hydroelectric Project. Charges for the BPA purchased power and transmission were \$7,982,429 in 2016. Charges for non-Federal AHWM power purchases from NIES amounted to \$385,478 in 2016.

## **C. Subsequent Events**

Subsequent events have been considered for disclosure. Any such events that may have occurred are immaterial in nature and therefore have been omitted from disclosure or recording in the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION - STATE SPONSORED PENSION PLANS**

**City of Centralia - Utility Funds**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**PERS Plan 1**  
**As of June 30, 2016**  
**Last 2 Fiscal Years**

|   | <u>2015</u>  | <u>2016</u>  |
|---|--------------|--------------|
| <u>Employer's (entire City) proportion of the net pension liability</u>                               | 0.075450%    | 0.071207%    |
| <u>Employer's (entire City) proportionate share of the net pension liability</u>                      | \$ 3,946,737 | \$ 3,824,151 |
| <u>Utilities' proportion of entire City</u>   | 70.897%      | 70.074%      |
| <u>Utilities' proportion of the net pension liability</u>   | 0.053492%    | 0.049898%    |
| <u>Utilities' proportionate share of the net pension liability</u>                                    | \$ 2,798,111 | \$ 2,679,735 |
| <u>Utilities' covered payroll</u>   | \$ 5,850,178 | \$ 5,901,725 |
| <u>Utilities' proportionate share of the net pension liability as a percentage of covered payroll</u> | 47.83%       | 45.41%       |
| <u>Plan fiduciary net position as a percentage of the total pension liability</u>                     | 59.10%       | 57.03%       |

**REQUIRED SUPPLEMENTARY INFORMATION - STATE SPONSORED PENSION PLANS**

**City of Centralia - Utility Funds**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**PERS Plan 2/3**  
**As of June 30, 2016**  
**Last 2 Fiscal Years**

|   | <u>2015</u>  | <u>2016</u>  |
|---|--------------|--------------|
| <u>Employer's (entire City) proportion of the net pension liability</u>                               | 0.089115%    | 0.087414%    |
| <u>Employer's (entire City) proportionate share of the net pension liability</u>                      | \$ 3,184,130 | \$ 4,401,226 |
| <u>Utilities' proportion of entire City</u>   | 69.949%      | 70.270%      |
| <u>Utilities' proportion of the net pension liability</u>   | 0.062335%    | 0.061426%    |
| <u>Utilities' proportionate share of the net pension liability</u>                                    | \$ 2,227,255 | \$ 3,092,742 |
| <u>Utilities' covered payroll</u>   | \$ 5,554,517 | \$ 5,802,436 |
| <u>Utilities' proportionate share of the net pension liability as a percentage of covered payroll</u> | 40.10%       | 53.30%       |
| <u>Plan fiduciary net position as a percentage of the total pension liability</u>                     | 89.20%       | 85.82%       |

**REQUIRED SUPPLEMENTARY INFORMATION - STATE SPONSORED PENSION PLANS**

**City of Centralia - Utility Funds**  
**Schedule of Employer Contributions**  
**PERS Plan 1**  
**As of December 31, 2016**  
**Last 2 Fiscal Years**

|  | <u>2015</u>  | <u>2016</u>  |
|--|--------------|--------------|
| <u>Statutorily or contractually required contributions</u>                           | \$ 268,032   | \$ 292,659   |
| Contributions in relation to the statutorily or contractually required contributions | (268,032)    | (292,659)    |
| <u>Contribution deficiency (excess)</u>  | \$ -         | \$ -         |
| <u>Covered payroll</u>   | \$ 5,922,047 | \$ 6,000,932 |
| <u>Contributions as a percentage of covered payroll</u>                              | 4.53%        | 4.88%        |

**City of Centralia - Utility Funds**  
**Schedule of Employer Contributions**  
**PERS Plan 2/3**  
**As of December 31, 2016**  
**Last 2 Fiscal Years**

|  | <u>2015</u>  | <u>2016</u>  |
|--|--------------|--------------|
| <u>Statutorily or contractually required contributions</u>                           | \$ 320,791   | \$ 368,057   |
| Contributions in relation to the statutorily or contractually required contributions | (320,791)    | (368,057)    |
| <u>Contribution deficiency (excess)</u>  | \$ -         | \$ -         |
| <u>Covered payroll</u>   | \$ 5,692,328 | \$ 5,902,240 |
| <u>Contributions as a percentage of covered payroll</u>                              | 5.64%        | 6.24%        |

**REQUIRED SUPPLEMENTARY INFORMATION -NON-GOVERNMENTAL PENSION PLANS**

**City of Centralia - Utility Funds  
Schedule of Employer's Required Contributions  
Western Conference of Teamsters Pension Plan Trust  
As of December 31, 2016  
Current Fiscal Year**

| <b>Year</b> | <b>Contributions</b> |
|-------------|----------------------|
| 2016        | \$ 50,539            |

**CITY OF CENTRALIA UTILITIES**  
**Notes to Required Supplementary Information - Pensions**  
**December 31, 2016**

**NOTE 1 - INFORMATION PROVIDED**

GASB 68 was implemented for the year ended December 31, 2015. Until a full 10-year trend is compiled, the Utilities will present information only for those years for which information is available, which now includes 2016 and 2015.

GASB 78 was implemented for the year ended December 31, 2016. Beginning with the current fiscal year, and until a full 10-year trend is compiled, the Utilities will present information for those years for which information is available on a forward-looking basis.

PERS Plan 1 has an unfunded actuarially accrued liability which receives contributions from PERS Plan 2/3 as required by RCW 41-45.060.

**NOTE 2 - SIGNIFICANT FACTORS AFFECTING TRENDS**

Under both state-sponsored and non-governmental pension plans, the benefit terms, the number of employees covered under the benefit terms, required contribution rates and use of assumptions remained largely unchanged during the period(s) reported.

## 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                            | <a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a> |
| Main telephone                                     | (360) 902-0370   |
| Toll-free Citizen Hotline                          | (866) 902-3900   |
| Website  | <a href="http://www.sao.wa.gov">www.sao.wa.gov</a>                     |