



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

**Financial Statements Audit Report**  
**City of Centralia**

**For the period January 1, 2017 through December 31, 2017**

**Published February 4, 2019**

**Report No. 1023122**





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

February 4, 2019

Mayor and City Council  
City of Centralia  
Centralia, Washington

**Report on Financial Statements**

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

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

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  
January 1, 2017 through December 31, 2017**

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 City of Centralia, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated January 15, 2019.

We issued an unmodified opinion on the fair presentation of the City's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the City using accounting practices prescribed by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

Pat McCarthy

State Auditor

Olympia, WA

January 15, 2019

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Centralia January 1, 2017 through December 31, 2017

Mayor and City Council  
City of Centralia  
Centralia, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Centralia, for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 11.

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

Our responsibility is to express 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.

### **Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)**

As described in Note 1, the City of Centralia has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Centralia, for the year ended December 31, 2017, on the basis of accounting described in Note 1.

### **Basis for Adverse Opinion on U.S. GAAP**

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the City used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.



## **Adverse Opinion on U.S. GAAP**

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Centralia, as of December 31, 2017, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

## **Other Matters**

### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2019 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

January 15, 2019

## **FINANCIAL SECTION**

### **City of Centralia January 1, 2017 through December 31, 2017**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2017  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2017  
Notes to Financial Statements – 2017

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2017

**City of Centralia**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2017**

		<b>Total for All Funds (Memo Only)</b>	<b>001 General</b>	<b>101 Streets</b>	<b>109 Stadium</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	12,462,072	762,303	176,215	424,159
30880	Unreserved	21,777,158	3,415,430	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	9,141,791	7,577,490	294,014	197,295
320	Licenses and Permits	686,107	501,824	178,324	-
330	Intergovernmental Revenues	1,523,335	805,940	381,956	-
340	Charges for Goods and Services	41,571,407	1,198,698	12,381	-
350	Fines and Penalties	574,514	204,833	-	-
360	Miscellaneous Revenues	2,694,307	333,316	297,505	3,908
Total Revenues:		56,191,461	10,622,100	1,164,180	201,204
<b>Expenditures</b>					
510	General Government	2,202,442	2,202,102	-	-
520	Public Safety	6,113,376	5,994,685	-	-
530	Utilities	28,555,155	23,267	-	-
540	Transportation	2,170,722	3,741	1,234,827	-
550	Natural and Economic Environment	439,392	323,626	-	115,765
560	Social Services	9,462	9,462	-	-
570	Culture and Recreation	1,241,037	1,241,037	-	-
Total Expenditures:		40,731,586	9,797,921	1,234,827	115,765
Excess (Deficiency) Revenues over Expenditures:		15,459,875	824,180	(70,647)	85,438
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	422,805	-	209,036	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	518,320	320,213	240	532
381, 395, 398	Other Resources	193,602	40,217	58	-
Total Other Increases in Fund Resources:		1,134,728	360,430	209,334	532
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	7,111,091	354,385	128,742	-
591-593, 599	Debt Service	5,637,103	18,180	-	94,058
597	Transfers-Out	422,805	229,098	93,019	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	680,598	208,893	0	5
581	Other Uses	82,000	82,000	-	-
Total Other Decreases in Fund Resources:		13,933,596	892,555	221,762	94,063
<b>Increase (Decrease) in Cash and Investments:</b>		<b>2,661,006</b>	<b>292,056</b>	<b>(83,075)</b>	<b>(8,093)</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	13,747,103	1,217,129	93,140	416,066
5088000	Unreserved	23,153,132	3,252,657	-	-
<b>Total Ending Cash and Investments</b>		<b>36,900,235</b>	<b>4,469,786</b>	<b>93,140</b>	<b>416,066</b>

The accompanying notes are an integral part of this statement.

**City of Centralia**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2017**

		<b>111 Confiscations/Seizures</b>	<b>131 Landfill Closure</b>	<b>140 Transportation Benefit District</b>	<b>145 24/7 Sobriety Program</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	71,132	308,528	61,953	-
30880	Unreserved	-	-	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	-	688,293	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	-	-	23,734
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	209,536	2,157	2,744	237
Total Revenues:		209,536	2,157	691,037	23,971
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	101,970	-	-	16,720
530	Utilities	-	17,389	-	-
540	Transportation	-	-	355,284	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		101,970	17,389	355,284	16,720
Excess (Deficiency) Revenues over Expenditures:		107,566	(15,232)	335,753	7,251
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	19,698
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	141,673	378	119	3,638
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		141,673	378	119	23,336
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	13,939	5,681	150,774	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	-	100,688	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	141,565	287,993	3	1,095
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		155,504	293,673	251,466	1,095
<b>Increase (Decrease) in Cash and Investments:</b>		<b>93,735</b>	<b>(308,527)</b>	<b>84,406</b>	<b>29,492</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	164,866	-	146,359	29,492
5088000	Unreserved	-	-	-	-
<b>Total Ending Cash and Investments</b>		<b>164,866</b>	<b>-</b>	<b>146,359</b>	<b>29,492</b>

**City of Centralia**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2017**

		<b>201 Debt Service</b>	<b>302 Capital Projects</b>	<b>303 Energy Efficiency Capital Projects</b>	<b>304 Flood Capital Projects</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	821,542	136,484	-
30880	Unreserved	-	-	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	384,699	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	25,743	-	-	133,647
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	170	7,760	1,146	301
Total Revenues:		25,913	392,459	1,146	133,949
<b>Expenditures</b>					
510	General Government	-	-	340	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	340	-
Excess (Deficiency) Revenues over Expenditures:		25,913	392,459	806	133,948
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	114,071	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	1,016	169	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		114,071	1,016	169	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	27,936	-	74,947
591-593, 599	Debt Service	139,722	151,815	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	11	1	0
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		139,722	179,761	1	74,947
<b>Increase (Decrease) in Cash and Investments:</b>		<b>262</b>	<b>213,714</b>	<b>974</b>	<b>59,001</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	262	1,035,255	137,458	59,002
5088000	Unreserved	-	-	-	-
<b>Total Ending Cash and Investments</b>		<b>262</b>	<b>1,035,255</b>	<b>137,458</b>	<b>59,002</b>

**City of Centralia**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2017**

		<b>401 Electric</b>	<b>402 Water</b>	<b>403 Wastewater</b>	<b>405 Storm &amp; Surface Water</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	3,183,672	2,779,342	3,149,960	2,714
30880	Unreserved	8,784,347	4,202,554	4,959,449	415,378
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	-	-	-
320	Licenses and Permits	1,400	-	3,335	1,225
330	Intergovernmental Revenues	161,258	-	-	14,791
340	Charges for Goods and Services	25,390,655	5,162,410	8,238,038	897,831
350	Fines and Penalties	223,402	55,715	80,163	10,402
360	Miscellaneous Revenues	1,052,031	344,499	376,477	56,623
Total Revenues:		26,828,746	5,562,624	8,698,013	980,871
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	19,049,531	3,538,909	5,373,990	552,069
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		19,049,531	3,538,909	5,373,990	552,069
Excess (Deficiency) Revenues over Expenditures:		7,779,215	2,023,715	3,324,023	428,803
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	17,519	2,880	29,162	7
381, 395, 398	Other Resources	51,182	4,075	94,575	3,495
Total Other Increases in Fund Resources:		68,700	6,955	123,737	3,502
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	3,405,723	1,363,238	1,380,566	194,470
591-593, 599	Debt Service	2,684,046	466,114	2,078,645	4,523
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	15,897	24,132	988	7
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		6,105,666	1,853,484	3,460,199	199,000
<b>Increase (Decrease) in Cash and Investments:</b>		<b>1,742,250</b>	<b>177,186</b>	<b>(12,439)</b>	<b>233,305</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	3,193,086	3,058,423	3,462,115	3,619
5088000	Unreserved	10,517,183	4,100,660	4,634,855	647,777
<b>Total Ending Cash and Investments</b>		<b>13,710,269</b>	<b>7,159,083</b>	<b>8,096,970</b>	<b>651,396</b>

**City of Centralia**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2017**

		<b>501 Equipment Rental &amp; Revolving</b>
		<hr/>
<b>Beginning Cash and Investments</b>		
30810	Reserved	584,067
30880	Unreserved	-
388 / 588	Prior Period Adjustments, Net	-
<b>Revenues</b>		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	647,660
350	Fines and Penalties	-
360	Miscellaneous Revenues	5,897
Total Revenues:		<hr/> 653,556
<b>Expenditures</b>		
510	General Government	-
520	Public Safety	-
530	Utilities	-
540	Transportation	576,870
550	Natural and Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		<hr/> 576,870
Excess (Deficiency) Revenues over Expenditures:		<hr/> 76,687
<b>Other Increases in Fund Resources</b>		
391-393, 596	Debt Proceeds	-
397	Transfers-In	80,000
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	776
381, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		<hr/> 80,776
<b>Other Decreases in Fund Resources</b>		
594-595	Capital Expenditures	10,691
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	7
581	Other Uses	-
Total Other Decreases in Fund Resources:		<hr/> 10,698
<b>Increase (Decrease) in Cash and Investments:</b>		<hr/> <b>146,765</b>
<b>Ending Cash and Investments</b>		
5081000	Reserved	730,831
5088000	Unreserved	-
<b>Total Ending Cash and Investments</b>		<hr/> <b>730,831</b>



**City of Centralia**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2017**

		<b>Pension Trust</b>
308	Beginning Cash and Investments	938,525
388 & 588	Prior Period Adjustment, Net	-
310-390	Additions	30,889
510-590	Deductions	35,289
	Net Increase (Decrease) in Cash and Investments:	(4,400)
508	Ending Cash and Investments	934,124

*The accompanying notes are an integral part of this statement.*

**CITY OF CENTRALIA**  
**NOTES TO CASH FINANCIAL STATEMENTS**  
**December 31, 2017**

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

The City of Centralia was incorporated January 27, 1886, and operated 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 through March 31, 1986. 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 City of Centralia is a general-purpose local government and provides public safety, street improvement and maintenance, parks and recreation, planning and zoning, judicial administration, and general administration services. In addition, the City also owns and operates four utilities - electric, water, wastewater and storm & surface water.

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

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

**A. Fund Accounting**

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

**GOVERNMENTAL FUND TYPES:**

**General Fund**

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

**Special Revenue Funds**

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

#### Debt Service Fund

This fund accounts for the financial resources that are restricted, committed or assigned to expenditures for principal, interest and related costs on general long term debt.

#### Capital Projects Funds

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

### **PROPRIETARY FUND TYPES:**

#### Enterprise Funds

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

#### Internal Service Fund

This fund accounts for operations that provide goods or services to other department or funds of the government on a cost reimbursement basis.

### **FIDUCIARY FUND TYPES:**

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

#### Pension Trust Fund

This fund accounts for activities of the Firemen's Pension Fund, which accumulates resources for pension benefit payments to qualified retired firefighters and qualified widows.

#### Agency Funds

These funds are used to account for assets that the City holds for others in a custodial capacity. The City has two Agency Funds- Payroll Clearing Fund and Claims Clearing Fund.

## **B. Basis of Accounting and Measurement Focus**

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

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

## **C. Budgets**

The City adopts annual appropriated budgets at the fund level for the general, debt, special revenue, capital projects, enterprise, internal service and pension trust funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level.

Annual appropriations for these funds lapse at the fiscal year end. Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets by fund were as follows:

<b>Fund</b>	<b>Fund Name</b>	<b>2017 Adopted Budget</b>	<b>2017 Final Appropriation</b>	<b>2017 Actual Expenditures</b>	<b>2017 Variance</b>
001	General Fund	10,572,327	11,377,840	10,481,584	896,256
101	Street	1,488,386	1,547,386	1,456,589	90,797
109	Stadium	191,060	241,060	209,823	31,237
111	Confiscations/Seizures	145,000	145,000	115,909	29,091
131	Landfill Closure	-	352,000	23,069	328,931
140	Transportation Benefit District (TBD)	650,000	650,000	606,746	43,254
145	24/7 Sobriety Program	-	47,000	16,720	30,280
201	Debt Service	139,722	139,722	139,722	-
302	Capital Projects	200,400	200,400	179,751	20,649
303	Cap Proj-Energy Efficiency	15,000	15,000	340	14,660
304	Flood Capital Projects	1,035,000	1,035,000	74,947	960,053
401	Light	27,273,270	27,355,270	25,139,299	2,215,971
402	Water	6,181,313	6,229,751	5,368,261	861,490
403	Wastewater	9,580,086	9,621,206	8,833,201	788,005
405	Storm & Surface Water	903,400	906,900	751,062	155,838
501	Equipment Rental	544,715	546,215	587,561	(41,346)
611	Firemen's Pension	34,000	35,100	35,279	(179)
	<b>Totals</b>	<b>58,953,679</b>	<b>60,444,850</b>	<b>54,019,864</b>	<b>6,424,986</b>

Budgeted amounts are authorized to be transferred between departments within any fund and object classes within departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council. The City Council approved budget amendments to add over \$1.5 million to the adopted budget.

#### **D. Cash and Investments**

See Note 2 - Deposits & Investments

#### **E. Capital Assets**

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 5 years. The capital assets of the City of Centralia are recorded as expenditures when purchased.

#### **F. Compensated Absences**

Vacation leave may be accumulated up to 30 days (240 hours) and is payable upon separation, retirement or death (subject to union or employment agreements that may allow for more liberal accumulation and payment).

Sick leave may be accumulated up to 960 hours. Upon separation, retirement or death, employees receive payment for unused sick leave to a maximum of 360 hours (subject to union or employment agreements that may allow for more liberal accumulation and payment). Payments are recognized as expenditures when paid.

## **G. Long-Term Debt**

See Note 5 - Debt Service Requirements

## **H. Other Financing Sources or Uses**

The City's *Other Financing Sources or Uses* consist of proceeds from long-term debt, disposition of capital assets, and transfers-in from other funds.

## **I. Risk Management**

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 161 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 \$21 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$25 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 issues 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.

## **J. Health & Welfare**

The City of Centralia 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, 2017, 261 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: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington 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 2017, 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 Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. 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.

#### **K. Reserved Portion of Ending Cash and Investments**

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established (assigned) by the City Council. When expenditures that meet restrictions are incurred, the City intends to use reserved resources first before using unreserved amounts. In relation to the internal commitments, the City Council by ordinance or resolution may establish, modify or rescind such commitment.

Reservations of Ending Cash and Investments consist of:

##### **General Fund (001) Restricted:**

Distressed counties reinvestment	\$ 113,101
HUD reinvestment	35,136
Municipal court	4,666
HUB City sign maintenance	5,224
Mural maintenance	4,516
Seizures – pending disposition	104,798
Total Restricted Fund Balance	<u>\$ 267,441</u>

##### **General Fund (001) Assigned:**

Vacation, sick, excess compensation	\$ 175,456
LEOFF I	241,936
Depot maintenance	27,418
Mellen Street Training Facility	19,207
Development Services	70,370
Splash Pad retainage	6,479
Repair & Demolition (managerial Fund 106)	31,303
Park Improvement (managerial Fund 108)	14,606
Indoor Pool (managerial Fund 114)	212,679
Borst Construction (managerial Fund 124)	144,026
Borst Home (managerial Fund 125)	3,828
Washington Lawn Cemetery (managerial Fund 130)	2,380
Total Assigned Fund Balance	<u>\$ 949,688</u>

<b>General Fund (001) Reserved</b>	<b>1,217,129</b>
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<b>General Fund (001) Unreserved</b>	<b><u>3,252,657</u></b>
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<b>Total General Fund Balance</b>	<b><u>\$4,469,786</u></b>
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Beginning and Ending Cash and Investments balances in managerial funds noted above are included in the General Fund and considered reserved for the purposes of those funds.

Balances in the qualifying Special Revenue Funds are displayed as reserved. Internal Service Fund and Pension Trust balances are reserved.

Utility Fund balances are either Reserved or Unreserved or a combination thereof.

Within the Utility funds, and in accordance with bond resolutions and certain related agreements, separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses, including construction, bond reserves, debt service and deposits. Restricted resources currently include the following:

Light (401) Restricted

Bond Reserves	\$ 2,508,422
Debt Service	222,888
Customer Deposits	461,776
<b>Total Light</b>	<b>\$ 3,193,086</b>

Water (402) Restricted

Capital Projects	\$ 2,825,697
Bond Reserves	112,896
Debt Service	107,755
Customer Deposits	12,075
<b>Total Water</b>	<b>\$ 3,058,423</b>

Wastewater (403) Restricted

Capital Projects	\$ 1,521,237
Loan Reserves	1,940,878
<b>Total Wastewater</b>	<b>\$ 3,462,115</b>

Storm Water (405) Restricted

Loan Reserves	\$ 3,619
<b>Total Storm Water</b>	<b>\$ 3,619</b>

**NOTE 2 – DEPOSITS & INVESTMENTS**

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

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

Investments are reported at original cost. Investments by type at December 31, 2017 are as follows:

Type of Investment	City's Own Investments	Investments held by City as an Agent	Total
LGIP	\$22,303,595	-	\$22,303,595
U.S. Govt Securities	16,444,769	-	16,444,769
<b>Total</b>	<b>\$38,748,364</b>	<b>-</b>	<b>\$38,748,364</b>

For financial reporting purposes, the City considers the LGIP balance to be cash.

**NOTE 3 - PROPERTY TAX**

The Lewis County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed after the end of each month.



Property tax revenues are recognized when cash is received by the City. Delinquent taxes are considered fully collectible because a lien affixes to the property after taxes are levied.

The City's regular levy for 2017 was \$.627916618770 per \$1,000 on an assessed valuation of \$1,091,717,928 for a total regular levy of \$685,508.

#### **NOTE 4 – 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 will be 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 2017:

<b>Borrowing Fund</b>	<b>Lending Fund</b>	<b>Balance 1/1/17</b>	<b>New Loans</b>	<b>Repayments</b>	<b>Balance 12/31/17</b>
General	Wastewater	\$1,066,000	\$ -	\$82,000	\$ 984,000
Flood Capital Project	General	60,907	-	-	60,907
<b>Totals</b>		<b>\$1,126,907</b>	<b>\$ -</b>	<b>\$82,000</b>	<b>\$1,044,907</b>

#### **NOTE 5 – DEBT SERVICE REQUIREMENTS**

##### Debt Service

The accompanying Schedule of Liabilities (Schedule 09) provides more details of the outstanding debt and liabilities of the City of Centralia and summarizes the City's debt transactions for the year ended December 31, 2017.

The debt service requirements for general obligation bonds, revenue bonds and other debt (which includes State Revolving Fund Loans, Public Works Trust Fund Loans, Distressed County Loan and Centralia School District Loan) including both principal and interest, are as follows:

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 4,714,924.55	\$ 919,474.44	\$ 5,634,398.99
2019	4,682,873.29	839,044.22	5,521,917.51
2020	4,388,587.63	756,878.00	5,145,465.63
2021	4,401,233.84	684,840.92	5,086,074.76
2022	4,145,429.28	609,608.62	4,755,037.90
2023-2027	13,397,056.77	1,944,021.59	15,341,078.36
2028-2032	3,736,984.94	391,939.85	4,128,924.79
<b>Total</b>	<b>\$ 39,467,090.30</b>	<b>\$ 6,145,807.64</b>	<b>\$ 45,612,897.94</b>

\*Does not include compensated absences or pension liability.

## Debt Refunding

On December 3, 2015, the City issued \$9,684,433 of Electric System Revenue Refunding Bonds, 2015 to advance refund \$9,590,000 of existing Electric System Revenue and Refunding Bonds, 2007.

The advance refunding was undertaken to reduce total debt service payments over the next eleven (11) years by \$1,220,715, and obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,069,130.

Funds totaling \$9,947,173, were transferred to the refunding trustee at closing and held in an irrevocable escrow account. Available cash and investments are expected to meet all debt service requirements on the advance refunded bonds. The refunded bonds constitute a contingent liability of the Electric Fund but are excluded from the financial statements.

## **NOTE 6 - PENSION PLANS**

### **A. State Sponsored Pension Plans**

Substantially all City full-time and qualifying part-time employees participate in either the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2 or the Public Employees' Retirement System (PERS) Plans 1, 2 and 3 administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Contributions to the systems of both employee and employer are based upon gross wages covered by plan benefits.

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

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

Department of Retirement Systems  
Communications Unit  
PO Box 48380  
Olympia, WA 98504-8380

Also, the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

At June 30, 2017 (the measurement date of the plans), the City's proportionate share of the collective net pension liabilities, as reported on the Schedule of Liabilities (Schedule 09), was as follows:

	<b>Employer Contribution</b>	<b>Allocation %</b>	<b>Liability (Asset)</b>
<b>PERS 1</b>	\$427,934	.070987%	3,368,389
<b>PERS 2/3</b>	538,623	.087864%	3,052,854
<b>LEOFF 1</b>	-	.044906%	(681,323)
<b>LEOFF 2</b>	137,448	.086390%	(1,198,813)

### **LEOFF Plan 1**

The City participates in LEOFF Plan 1. The LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding the

remaining liability will require new legislation. Starting on July 1, 2000, employers and employees contribute zero percent.

#### LEOFF Plan 2

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

### **B. Local Government Pension Plans**

The City is the administrator of a pension retirement system called the Firemen's Pension System. The system is shown as a trust fund in the financial statements of the City. As of December 31, 2017, membership consisted of 9 individuals.

The most recent actuarial review of the system was done by Milliman, Inc. to determine the funding requirements as of December 31, 2016. As of that date, the actuarial present value of future benefits was \$795,503; the market value of assets held by the Fund was \$941,530.

The total balance in the Firemen's Pension Fund available to pay pension benefits as of December 31, 2017 is \$934,124.

### **C. Non-Governmental Plans**

The City provides 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 City provides pension benefits to approximately twenty-seven (27) 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 Teamsters 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 <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 City. 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:

<b>Teamsters Clerical</b>			
Year	Employer	Employee	Total
2016	\$ .10	\$1.50	\$1.60
2017	.10	1.50	1.60

<b>Teamsters Streets &amp; Parks Maintenance</b>			
Year	Employer	Employee	Total
2016	\$2.65	0.00	\$2.65
2017	2.75	0.00	2.75

The City's required contributions to the Plan were \$7,610 for 2017.

#### **NOTE 7 - JOINT VENTURES**

##### **A. Chehalis - Centralia Airport**

In August of 2004, the City decided to conclude its participation in the Joint Operating Agreement for the Chehalis-Centralia Airport. The two board positions filled by the City have been eliminated. The City will receive a proportional share of any property or assets acquired while the City was an acting party to the agreement if the Airport is sold. Financial statements for the Chehalis-Centralia Airport can be obtained from its administrator at Airport, PO Box 1344, Chehalis, WA 98532.

##### **B. Lewis County Event Center and Sports Complex**

On March 22, 2010, the City, along with Lewis County Public Facilities District, Centralia School District and Lewis County Event Center LLC, agreed to finance, construct and operate the Lewis County Event Center and Sports Complex (the "Project"). The Project, to be completed in phases, consists of an event center, parking, turf for the football/soccer field and new track facilities, six tennis courts, a multi-use field,

four baseball/softball fields, trails and a zip line. The Project will be a “regional center” under RCW 36.100.030 and RCW 35.57.020 and serve the entire State of Washington and other parts of the Pacific Northwest and western Canada for sports and other events.

#### **NOTE 8 - POSTRETIREMENT BENEFITS OTHER THAN PENSION BENEFITS**

The City has a commitment to pay for post-employment benefits for employees that belong to LEOFF 1 in accordance with the Washington Law Enforcement Officers and Fire Fighters Retirement System (LEOFF) Act (RCW 41.26). These benefits include 100% of the unpaid portion of validated claims for medical and hospitalization costs incurred by pre-Medicare and post-Medicare retirees, health insurance premiums and the premium for a Medicare supplement for each retiree eligible for Medicare.

Employer contributions are financed on a pay-as-you-go basis. Expenditures for postretirement health care benefits are recognized as retirees report claims in the Fire and Police budgets. There is no provision for estimated claims incurred but not yet reported to the City.

During 2017, 24 retirees received benefits and \$235,108 was paid out for those benefits (medical insurance premiums and excess medical claims).

#### **NOTE 9 - CLOSURE AND POST CLOSURE CARE**

##### **A. Governing Laws, Background and Funding**

On August 28, 1990, the Centralia Landfill was listed on the Washington State Hazardous Sites List pursuant to Chapter 70.105D RCW, the Model Toxics Control Act, and WAC 173-340-330, and on August 30, 1990, the Landfill was added to the Federal National Priorities List (NPL) pursuant to 42 U.S.C. Section 9605 of the Comprehensive Environment Response, Compensation, and Liability Act (CERCLA or Superfund). As a result of these listings, it was necessary for the Landfill to be remediated pursuant to the requirements of these laws.

On May 1, 1990, Centralia, Chehalis, Morton, Mossyrock, Pe Ell, Vader, and Lewis County entered into an interlocal agreement regarding closure of the Centralia Landfill. Under the agreement, the local governments formed the Centralia Landfill Closure Group (CLCG) and agreed to take all action reasonably necessary to comply with certain environmental laws governing remediation and closure of the Landfill, and to share the costs of such compliance, to the extent such costs are not covered by amounts in the Landfill Closure Trust Fund or recovery from insurance claims. The agreement allocated responsibility for those costs among the signing local governments. The City's allocation of liability is for 35.08% of the costs and fees associated with litigation related to landfill remediation and closure. Parties to the agreement could opt out once the shared costs reached \$13 million.

The City reached a settlement of \$2.7 million in its claim against its insurers regarding the insurers' duty to defend and indemnify the City for remediation of the Landfill under the City's property and comprehensive general liability insurance policies.

In addition to the members of the CLCG, the Washington Department of Ecology (DOE) has identified at least four other potentially liable parties (PLP) who are responsible for assisting in remediating the Landfill. The CLCG negotiated with one of the PLPs to obtain a contribution for cleanup costs.

As local government PLPs in an economically disadvantaged county, the City and other members of the CLCG are eligible to receive up to 75% grant funding for remedial action costs under the DOE remedial action grants program. The City obtained a \$1.94 million grant under this program to conduct an estimated \$2.66 million interim action at the Landfill. This interim action, which was undertaken pursuant to a consent decree entered into between the members of the CLCG and the DOE, was intended to separate storm

water from leachate, limit public access to the Landfill, and provide temporary cover over closed portions of the Landfill.

In April 1992, the DOE negotiated with the CLCG members and two other PLPs to develop a scope of ecology work and consent decree for a remedial investigation and feasibility study (RI/FS) at the Landfill. The DOE issued a first phase grant award beginning in January 1993, for RI/FS work.

In April of 1994, the Landfill closed pursuant to agreements and a final cover was installed in the summer of 1994. In August, the CLCG received a Local Government grant of \$8.7 million from the Lewis County Sanitation District and a \$5 million grant from the DOE to fund the final cover and provide funds for remediation and closure.

The \$8.7 million grant from the Lewis County Sanitation District was returned to them in April 1997 because construction activities at the landfill did not require that support. Remedial investigation leading to feasibility reports have been delivered to the DOE for their review and issuance of a cleanup action plan. The DOE has reviewed the CLCG's feasibility study and issued a draft Cleanup Action Plan (CAP). The draft CAP was available for public review and comment in September 2000. A second public hearing on the proposed consent decree was held in March of 2001. The order entering the CAP Consent Decree was filed with the United States District Court Western District of Washington at Seattle and signed on May 22, 2001. The Consent Decree stipulated the draft monitoring plans for the landfill needed to be submitted to the DOE within 45 days of the effective date of the Consent Decree. The CLCG had submitted the draft monitoring plans to the DOE in May of 1999; however, changes to the draft monitoring plans were made in late summer of 1999. A letter was submitted to the DOE on June 12, 2001 requesting acceptance and review of the monitoring plans submitted in June of 1999 along with proposed amendments to the plans.

In July 2002, the CLCG received funding approval for a 75% grant through the DOE to purchase two parcels of land to the north of the landfill, construct a fence, and complete the wetland mitigation report. The CLCG completed all of the projects with the exception of the property purchase of one parcel of land known as the Christian School property. The Christian School board members chose not to accept the CLCG's offer to purchase a portion of their property where the old landfill, which was closed in 1958, lies.

A multi-layer cover system was designed to eliminate infiltration of precipitation into the landfill and direct clean surface runoff into a wetland mitigation area south of the Landfill. In addition to the cover, a permanent gas collection system was installed beneath the cover and a permanent gas flare system was installed adjacent to the Landfill entrance facilities for gas treatment. Perimeter fencing was completed around the Landfill to enclose all of the Final Cover Area and much of the Closed North End Landfill. Three environmental covenants were recorded for the site to prohibit activities that would result in the release of contaminants.

As required by WAC 173-340-420(2), DOE conducted a 5-year review of the site and held a public comment period for the Periodic Review Draft Report in October 2010. DOE reviews cleanups at least every five years to ensure they protect human health and the environment.

After reviewing this site, DOE has determined that the cleanup actions completed at the site are protective of human health and the environment. DOE will conduct another periodic review in 5 years.

## **B. Funding Status**

The Landfill Closure Fund, which is reflected as a special revenue fund of the City, was established to account for the revenues and expenditures of the closure and post closure care.

In order to maintain sufficient funds to satisfy the purposes of the Landfill Closure Agreement and fund the Landfill Closure Operating Trust Fund, the CLCG contacted the Solid Waste Disposal District No. 1 of Lewis County pursuant to Section 7.3 of the Second Amended Interlocal Agreement Regarding Centralia Landfill Closure and Section 3.B of the Interlocal Agreement Regarding Lewis County Solid Waste Disposal



District and Flow Control. Actual revenue requirements for year 2017 were \$352,000 funded by available reserves and the Disposal District. At year-end 2017, the reserves amount to \$0.

### **C. Other**

The amended Interlocal Agreement regarding the Centralia Landfill Closure terminated on August 31, 2016. In 2017, responsibility for operating the closed landfill was transferred from the City to the Lewis County Solid Waste Disposal District. Future reporting will be provided by the Lewis County Solid Waste Disposal District.

## **NOTE 10 - OTHER DISCLOSURES**

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

- 1) Beginning with Fiscal Year 2011, the City is reporting all funds on a cash basis. It also plans to separately issue GAAP financial statements for the four utility funds.
- 2) The 2011 implementation of GASB 54 resulted in identification of several previously reported special revenue funds which now do not meet the constraints imposed on revenue sources. The City continues to budget for these funds for managerial purposes. The following were rolled into the General Fund for financial reports:

Fund 106	Repair and Demolition
Fund 108	Park Improvement
Fund 114	Indoor Pool
Fund 124	Borst Park Construction Fund
Fund 125	Borst Home
Fund 130	Washington Lawn Cemetery

Fund 104 Paths and Trails was combined for reporting with Fund 101 Streets; its major revenue sources are gas tax and transfers from the Street Fund.

Landfill Closure and Landfill Operation Trust funds (Fund 131 and Fund 132) are combined and displayed as one special revenue fund for reporting purposes.

### **B. Subsequent Events**

There are no known subsequent events.

### **C. Other Commitments**

#### **1) Distressed Counties Fund Loan, 2010**

The City in partnership with the Lewis County EDC was successful in attracting Millard Refrigeration Services (Millard) to locate within the City's Urban Growth Area. In the effort to attract Millard to Centralia, the City applied for and was the recipient of Lewis County's Distressed Counties Fund (.09 funds) collected under the authority of RCW 82.14.370. A total of \$600,000 (grant for \$300,000 and loan for \$300,000) was awarded and earmarked for the design and construction of utility infrastructure at Millard's.

The City began repayment of the \$300,000, 2.00 percent per annum, twenty year loan in December 2010. The City's General Fund will repay the loan with increased electric utility taxes due to Millard's operations. Should Millard cease business during any year prior to April 13, 2016, Millard has agreed

to reimburse the City for the \$300,000 loan portion as follows: year 1 = \$300,000; year 2 = \$250,000; year 3 = \$200,000; year 4 = \$150,000; year 5 = \$100,000; and year 6 = \$50,000.

## **2) Centralia School District Contract, 2013**

On May 15, 2013, the City of Centralia entered into an agreement with the Centralia School District #401 to share the cost of HVAC modernization improvements at the Community Indoor Swimming Pool. The City agreed to provide the School District \$20,769.03 per year for ten years beginning September 15, 2013, as its share of the bonded debt issued by the School District. The City's obligation of \$207,690 is included in the Schedule of Liabilities (Schedule 09).

## **3) Construction Commitments**

The City has active construction projects as of December 31, 2017. At year end, the City's projects and commitments with contractors are as follows:

Project	Spent To Date	Remaining Commitment	Funding Source
Hydroplant Office Building	\$ 279,632	\$ 14,501	Light Revenues
Salzer Substation Power Transformer	-	860,429	Light Revenues
Emergency Yelm Transmission Repair	279,420	13,577	Light Revenues
Borst Ave Safety Improvements Project	26,875	11,967	Street Revenues
Washington & Main Traffic Signal Upgrade	-	30,000	Street Revenues
2017 Asphalt Paving Project	537,638	56,127	Street Revenues
Van Wormer RR Bore & Water Main Install	151,038	13,524	Water Revenues
2017 Water/Wastewater Tree Removal Project	-	11,496	Water Revenues
East Locust Sanitary Sewer & Water Main Pipe Burst	400,346	478,019	Wastewater Revenues
	<u>\$1,674,949</u>	<u>\$1,489,640</u>	



**City of Centralia**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2017**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>General Obligation Debt/Liabilities</b>						
251.11	2010 LTGO Bond (Sports Complex)	12/1/2030	940,000	-	55,000	885,000
251.11	2013 LTGO Refunding Bond (Streetscape)	5/1/2021	718,674	-	138,961	579,713
251.11	2013 LTGO Bond (QECB)	8/1/2023	770,000	-	110,000	660,000
263.98	Pension Liabilities (Governmental Funds)		2,452,900	-	534,538	1,918,362
263.98	Pension Liabilities (Proprietary Funds)		5,772,477	4,502,882	5,772,477	4,502,882
<b>Total General Obligation Debt/Liabilities:</b>			<b>10,654,051</b>	<b>4,502,882</b>	<b>6,610,976</b>	<b>8,545,957</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
252.11	2007 Electric Revenue Bond	12/1/2017	865,000	-	865,000	-
252.11	2007 Electric Refunding Bond	12/1/2019	1,585,000	-	510,000	1,075,000
252.11	2010 Electric Revenue Bond (Build America)	12/1/2030	9,420,000	-	425,000	8,995,000
252.11	2013 Water Revenue/Refunding Bond	5/1/2021	640,101	-	159,127	480,974
252.11	2015 Electric Revenue/Refunding Bond	12/1/2026	9,621,717	-	62,960	9,558,757
263.82	2010 Distressed Counties Loan (Millard)	12/1/2029	205,943	-	14,004	191,939
263.82	2013 Centralia School District (HAVAC-Indoor Pool)	6/1/2023	134,999	-	20,769	114,230
259.12	Compensated Absences (Governmental Funds)		913,577	23,590	21,355	915,813
259.12	Compensated Absences (Proprietary Funds)		937,740	88,153	29,256	996,637
263.82	PWTF 2002 Maple/Hansen	6/1/2022	49,804	-	8,301	41,504
263.82	PWTF 2002 Cooks Hill Water	6/1/2022	768,695	-	128,116	640,579
263.82	PWTF 2002 Swanson Heights	6/1/2021	207,337	-	41,467	165,869
263.82	PWTF 2004 Cooks Hill Sewer	6/1/2024	503,500	-	62,938	440,563
263.82	SRF 1997 Basin 4 Ph II	9/10/2018	83,496	-	41,748	41,748
263.82	SRF 2002 Ham Hill Water	10/1/2023	229,983	-	32,855	197,129
263.82	SRF 2005 WWTP Loan A	11/1/2024	13,542,497	-	1,692,812	11,849,685
263.82	SRF 2005 Port North Ext	10/1/2024	925,417	-	115,677	809,740
263.82	SRF 2006 WWTP Loan B	8/31/2026	303,562	-	30,356	273,206
263.82	SRF 2013 DOE I&I Reduction	12/31/2032	2,600,327	-	133,872	2,466,456
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>43,538,696</b>	<b>111,744</b>	<b>4,395,612</b>	<b>39,254,827</b>

**City of Centralia  
Schedule of Liabilities  
For the Year Ended December 31, 2017**

<u>ID. No.</u>	<u>Description</u>	<u>Due Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
		<b>Total Liabilities:</b>	<b>54,192,747</b>	<b>4,614,626</b>	<b>11,006,588</b>	<b>47,800,785</b>

## 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>