



Office of the Washington State Auditor  
Pat McCarthy

# Financial Statements Audit Report

## City of Centralia

For the period January 1, 2019 through December 31, 2019

*Published April 1, 2021*

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

April 1, 2021

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,

Pat McCarthy  
State Auditor  
Olympia, WA

***Americans with Disabilities***

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## INDEPENDENT AUDITOR'S REPORT

### 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, 2019 through December 31, 2019**

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, 2019, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated March 23, 2021.

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 state law 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.

As discussed in Note 11 to the 2019 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the City is unknown.

## 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 that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

March 23, 2021

# INDEPENDENT AUDITOR'S REPORT

## Report on the Financial Statements

### **City of Centralia January 1, 2019 through December 31, 2019**

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, 2019, and the related notes to the financial statements, which collectively comprise the City's 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 the financial reporting provisions of state law 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 state law 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 cash and investments of the City of Centralia, and its changes in cash and investments, for the year ended December 31, 2019, 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, 2019, or the changes in financial position or cash flows thereof 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.



## **Matter of Emphasis**

As discussed in Note 11 to the 2019 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the City is unknown. Our opinion is not modified with respect to this matter.

## **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 March 23, 2021 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy  
State Auditor  
Olympia, WA

March 23, 2021

## **FINANCIAL SECTION**

### **City of Centralia January 1, 2019 through December 31, 2019**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2019  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2019  
Notes to Financial Statements – 2019

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

Schedule of Liabilities – 2019

**City of Centralia**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2019**

		<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	16,446,483	2,272,008	165,280	403,764
30880	Unreserved	22,872,863	3,359,024	-	-
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	10,979,736	8,870,832	423,948	198,291
320	Licenses and Permits	894,540	723,285	164,609	-
330	Intergovernmental Revenues	1,271,251	518,613	432,732	-
340	Charges for Goods and Services	46,712,970	1,613,400	175,220	-
350	Fines and Penalties	565,044	194,154	-	-
360	Miscellaneous Revenues	5,640,244	833,810	293,038	708,863
Total Revenues:		66,063,785	12,754,094	1,489,547	907,154
<b>Expenditures</b>					
510	General Government	3,176,668	2,663,439	-	-
520	Public Safety	6,696,725	6,467,467	-	-
530	Utilities	31,108,950	97,130	-	-
540	Transportation	2,415,918	4,042	1,323,286	-
550	Natural and Economic Environment	370,585	253,285	-	117,300
560	Social Services	4,650	4,650	-	-
570	Culture and Recreation	1,241,216	1,241,216	-	-
Total Expenditures:		45,014,712	10,731,229	1,323,286	117,300
Excess (Deficiency) Revenues over Expenditures:		21,049,073	2,022,865	166,261	789,854
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	4,078,436	-	-	-
397	Transfers-In	294,309	5,000	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	932,899	475,009	209	611
381, 382, 395, 398	Other Resources	1,713,854	15,514	480	-
Total Other Increases in Fund Resources:		7,019,498	495,523	689	611
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	10,700,474	397,709	155,125	-
591-593, 599	Debt Service	5,671,612	18,180	-	96,022
597	Transfers-Out	294,308	32,451	97,528	40,622
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	879,805	529,556	202	464
581, 582	Other Uses	947,400	247,400	-	700,000
Total Other Decreases in Fund Resources:		18,493,599	1,225,296	252,855	837,108
<b>Increase (Decrease) in Cash and Investments:</b>		<b>9,574,972</b>	<b>1,293,092</b>	<b>(85,905)</b>	<b>(46,643)</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	24,981,622	5,398,366	79,376	357,120
5088000	Unreserved	23,912,703	1,525,761	-	-
<b>Total Ending Cash and Investments</b>		<b>48,894,325</b>	<b>6,924,127</b>	<b>79,376</b>	<b>357,120</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, 2019**

		<b>111 Confiscations/Seizures</b>	<b>140 Transportation Benefit District</b>	<b>145 24/7 Sobriety Program</b>	<b>201 Debt Service</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	161,913	716,956	30,833	144
30880	Unreserved	-	-	-	-
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	997,649	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	18,526
340	Charges for Goods and Services	15,385	-	17,638	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	210,923	23,562	885	499
Total Revenues:		226,308	1,021,211	18,523	19,025
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	213,556	-	15,702	-
530	Utilities	-	-	-	-
540	Transportation	-	321,039	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		213,556	321,039	15,702	-
Excess (Deficiency) Revenues over Expenditures:		12,752	700,172	2,821	19,025
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	112,480
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	341,859	1,257	4,446	35
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		341,859	1,257	4,446	112,515
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	39,667	317,250	6,752	-
591-593, 599	Debt Service	-	-	-	131,230
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	268,684	1,119	4,437	35
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		308,351	318,369	11,189	131,265
<b>Increase (Decrease) in Cash and Investments:</b>		<b>46,260</b>	<b>383,060</b>	<b>(3,922)</b>	<b>275</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	208,173	1,100,017	26,910	418
5088000	Unreserved	-	-	-	-
<b>Total Ending Cash and Investments</b>		<b>208,173</b>	<b>1,100,017</b>	<b>26,910</b>	<b>418</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, 2019**

		<b>202 2019 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	-	1,408,536	139,582	-
30880	Unreserved	-	-	-	-
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	489,016	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	121,000
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	898	31,152	2,900	121
Total Revenues:		898	520,168	2,900	121,121
<b>Expenditures</b>					
510	General Government	-	-	170	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	170	-
Excess (Deficiency) Revenues over Expenditures:		898	520,168	2,730	121,121
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	164,329	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	19	1,941	190	309
381, 382, 395, 398	Other Resources	-	-	-	165,000
Total Other Increases in Fund Resources:		164,348	1,941	190	165,309
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	4,264	-	216,825
591-593, 599	Debt Service	164,329	152,378	-	1,172
597	Transfers-Out	-	123,707	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	26	1,596	151	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		164,355	281,945	151	217,997
<b>Increase (Decrease) in Cash and Investments:</b>		<b>891</b>	<b>240,164</b>	<b>2,769</b>	<b>68,433</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	892	1,648,698	142,351	68,435
5088000	Unreserved	-	-	-	-
<b>Total Ending Cash and Investments</b>		<b>892</b>	<b>1,648,698</b>	<b>142,351</b>	<b>68,435</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, 2019**

		<b>305 2019 Streetscape/Fox Restoration</b>	<b>401 Electric</b>	<b>402 Water</b>	<b>403 Wastewater</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	3,193,502	3,288,297	3,770,589
30880	Unreserved	-	9,801,499	4,137,348	4,586,496
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	1,050	-	4,246
330	Intergovernmental Revenues	-	152,215	-	-
340	Charges for Goods and Services	-	28,092,500	5,532,115	8,678,593
350	Fines and Penalties	-	231,939	52,881	77,945
360	Miscellaneous Revenues	42,029	2,477,009	435,633	530,208
Total Revenues:		42,029	30,954,713	6,020,629	9,290,992
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	21,688,136	3,736,433	4,947,415
540	Transportation	126,079	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		126,079	21,688,136	3,736,433	4,947,415
Excess (Deficiency) Revenues over Expenditures:		(84,050)	9,266,577	2,284,196	4,343,577
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	4,078,436	-	-	-
397	Transfers-In	-	12,500	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	943	35,503	16,236	51,450
381, 382, 395, 398	Other Resources	-	717,936	4,787	807,499
Total Other Increases in Fund Resources:		4,079,379	765,939	21,023	858,949
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	1,000,000	5,155,458	849,851	2,395,866
591-593, 599	Debt Service	-	2,670,863	398,472	2,034,442
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	1,179	30,487	13,949	25,535
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		1,001,179	7,856,808	1,262,272	4,455,843
<b>Increase (Decrease) in Cash and Investments:</b>		<b>2,994,150</b>	<b>2,175,708</b>	<b>1,042,947</b>	<b>746,683</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	2,994,150	3,976,788	3,576,460	4,113,509
5088000	Unreserved	-	11,193,920	4,892,132	4,990,259
<b>Total Ending Cash and Investments</b>		<b>2,994,150</b>	<b>15,170,708</b>	<b>8,468,592</b>	<b>9,103,768</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, 2019**

		<b>405 Storm &amp; Surface Water</b>	<b>501 Equipment Rental &amp; Revolving</b>	<b>502 Information Services</b>
<b>Beginning Cash and Investments</b>				
30810	Reserved	4,523	708,371	182,185
30880	Unreserved	988,496	-	-
388 / 588	Net Adjustments	-	-	-
<b>Revenues</b>				
310	Taxes	-	-	-
320	Licenses and Permits	1,350	-	-
330	Intergovernmental Revenues	28,165	-	-
340	Charges for Goods and Services	976,272	793,407	818,440
350	Fines and Penalties	8,125	-	-
360	Miscellaneous Revenues	24,902	17,349	6,463
Total Revenues:		1,038,814	810,756	824,903
<b>Expenditures</b>				
510	General Government	-	-	513,059
520	Public Safety	-	-	-
530	Utilities	639,836	-	-
540	Transportation	-	641,472	-
550	Natural and Economic Environment	-	-	-
560	Social Services	-	-	-
570	Culture and Recreation	-	-	-
Total Expenditures:		639,836	641,472	513,059
Excess (Deficiency) Revenues over Expenditures:		398,978	169,284	311,844
<b>Other Increases in Fund Resources</b>				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	-	-	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	1,471	1,058	353
381, 382, 395, 398	Other Resources	2,638	-	-
Total Other Increases in Fund Resources:		4,109	1,058	353
<b>Other Decreases in Fund Resources</b>				
594-595	Capital Expenditures	75,201	1,334	85,172
591-593, 599	Debt Service	4,524	-	-
597	Transfers-Out	-	-	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	1,229	866	290
581, 582	Other Uses	-	-	-
Total Other Decreases in Fund Resources:		80,954	2,200	85,462
<b>Increase (Decrease) in Cash and Investments:</b>		<b>322,133</b>	<b>168,142</b>	<b>226,735</b>
<b>Ending Cash and Investments</b>				
5081000	Reserved	4,523	876,515	408,921
5088000	Unreserved	1,310,631	-	-
<b>Total Ending Cash and Investments</b>		<b>1,315,154</b>	<b>876,515</b>	<b>408,921</b>

The accompanying notes are an integral part of this statement.

**City of Centralia**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2019**

		<b>Pension/OPEB Trust Fund</b>
308	Beginning Cash and Investments	950,446
388 & 588	Net Adjustments	-
310-390	Additions	43,450
510-590	Deductions	36,739
	Net Increase (Decrease) in Cash and Investments:	6,711
508	Ending Cash and Investments	957,158

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



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**CITY OF CENTRALIA**  
**NOTES TO CASH FINANCIAL STATEMENTS**  
**December 31, 2019**

**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 (Schedule 9)* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

**A. Fund Accounting**

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues, and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund types are used:

**GOVERNMENTAL FUND TYPES:**

General Fund

This fund is the primary operating fund of the 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.

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#### Debt Service Funds

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

#### Capital Projects Funds

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

### **PROPRIETARY FUND TYPES:**

#### Enterprise Funds

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

#### Internal Service Funds

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

### **FIDUCIARY FUND TYPES:**

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

#### Pension (and Other Employee Benefit) Trust Fund

This fund account is used to report fiduciary activities for pension and OPEB plans administered through trust. The Firemen's Pension Fund accumulates resources for pension benefit payments to qualified retired firefighters and qualified widows.

#### Custodial Funds

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

## **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. Cash and Investments**

See Note 3 - Deposits and Investments

## **D. 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 and inventory are recorded as expenditures when purchased.

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**E. 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.

**F. Long-Term Debt**

See Note 6 - Debt Service Requirements

**G. Reserved Portion of Ending Cash and Investments**

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the 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	\$ 119,306
HUD reinvestment	37,063
Municipal court	45,301
HUB City sign maintenance	5,511
Mural maintenance	4,764
Seizures – pending disposition	190,398
Total Restricted Fund Balance	<u>\$ 402,343</u>

**General Fund (001) Assigned:**

Vacation, sick, excess compensation	\$ 380,623
LEOFF I	525,197
Mellen Street Training Facility	7,291
Development Services	949,896
Base Line – 7.5%	856,834
Operating – 7.5%	856,834
Capital Improvements – 7.5%	856,834
Repair & Demolition (managerial Fund 106)	40,416
Park Improvement (managerial Fund 108)	17,199
Indoor Pool (managerial Fund 114)	240,990
Depot Fund (managerial Fund 115)	66,820
Borst Construction (managerial Fund 124)	187,277
Borst Home (managerial Fund 125)	3,859
Washington Lawn Cemetery (managerial Fund 130)	5,953
Total Assigned Fund Balance	<u>\$ 4,996,023</u>

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<b>General Fund (001) Reserved</b>	<b>5,398,366</b>
<b>General Fund (001) Unreserved</b>	<b><u>1,525,761</u></b>
<b>Total General Fund Balance</b>	<b><u>\$ 6,924,127</u></b>

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

Power Purchases	\$ 214,384
Bond/Loan Reserves	2,093,281
Debt Service	191,915
Deposits	<u>1,477,207</u>
<b>Total Light</b>	<b><u>\$ 3,976,787</u></b>

Water (402) Restricted

Capital Projects	\$ 3,379,619
Bond/Loan Reserves	112,896
Debt Service	73,425
Deposits	<u>10,520</u>
<b>Total Water</b>	<b><u>\$ 3,576,460</u></b>

Wastewater (403) Restricted

Capital Projects	\$ 2,196,480
Bond/Loan Reserves	<u>1,917,029</u>
<b>Total Wastewater</b>	<b><u>\$ 4,113,509</u></b>

Storm Water (405) Restricted

Bond/Loan Reserves	\$ 4,523
<b>Total Storm Water</b>	<b><u>\$ 4,523</u></b>

**NOTE 2 – BUDGET COMPLIANCE**

The City adopts biennial appropriated budgets for the general, debt, special revenue, capital projects, enterprise, internal service and pension trust funds. These budgets are appropriated at the fund level except the general (current expense) fund, where budget is adopted at the department level. The budget constitutes the legal authority for expenditures at that level. Biennial appropriations for these funds lapse at the fiscal year end.

Biennial 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>2019 Adopted Budget</b>	<b>2019 Final Appropriation</b>	<b>2019 Actual Expenditures</b>	<b>2019 Variance</b>
001	General Fund	11,595,798	12,735,709	11,426,571	1,309,138
101	Street	1,334,744	1,553,544	1,575,936	(22,392)
109	Stadium	330,060	330,060	953,944	(623,884)
111	Confiscations/Seizures	96,328	261,998	253,223	8,775
140	Transportation Benefit District (TBD)	912,000	912,000	638,289	273,711
145	24/7 Sobriety Program	47,000	47,000	22,454	24,546
201	Debt Service	131,230	131,265	131,230	35
202	2019 Bond Debt Service	-	171,271	164,329	6,942
302	Capital Projects	306,401	306,401	280,349	26,052
303	Cap Proj-Energy Efficiency	15,000	15,000	170	14,830
304	Flood Capital Projects	-	350,000	217,996	132,004
305	2019 Streetscape/Fox Restoration	-	1,200,000	1,126,079	73,921
401	Light	31,630,406	31,916,741	29,514,458	2,402,283
402	Water	5,950,569	5,970,735	4,984,756	985,979
403	Wastewater	10,318,592	11,196,169	9,377,722	1,818,447
405	Storm & Surface Water	986,116	1,103,951	719,560	384,391
501	Equipment Rental	641,147	692,622	642,805	49,817
502	Information Services	726,296	726,646	598,231	128,415
611	Firemen's Pension	42,372	42,372	35,708	6,664
	<b>Totals</b>	<b>65,064,059</b>	<b>69,663,484</b>	<b>62,663,810</b>	<b>6,999,674</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 2019 variance for the stadium fund (fund 109) is a result of a 2018 City Council authorization to issue an interfund loan for \$700,000 between the stadium fund and the city light fund (fund 401) for the Fox Theatre. Repayment of the loan was to occur in 2019 when the general obligation debt was issued. The \$700,000 loan repayment plus interest was not included during the budget amendment process. The bond proceed expenditure to the stadium fund was included in the 2019 streetscape/fox restoration fund (fund 305). A correction to the biennial budget will occur in the first budget amendment of 2020.

### **NOTE 3 – DEPOSITS AND INVESTMENTS**

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

Investments are reported at original cost. Investments by type at December 31, 2019 are as follows:

<b>Type of Investment</b>	<b>City's Own Investments</b>	<b>Investments held by City as an Agent</b>	<b>Total</b>
Firemens Pension	\$ -	\$957,158	\$ 957,158
Local Govt Invest Pool	33,287,622	-	33,287,622
US Govt Securities	18,050,379	-	18,050,379
<b>Total</b>	<b>\$51,338,001</b>	<b>\$957,158</b>	<b>\$52,295,159</b>

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**Investments in the State Local Government Investment Pool**

The City is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and is not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, WA 98504-0200, online at [www.tre.wa.gov](http://www.tre.wa.gov).

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

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the City would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party.

All City deposits are covered by the Federal Deposit Insurance Corporation (FDIC) and/or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

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

**NOTE 4 - PROPERTY TAX**

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

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

The City's regular levy for 2019 was \$0.611196771967 per \$1,000 on an assessed valuation of \$1,168,662,275 for a total regular levy of \$714,283.

**NOTE 5 – 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.

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Interfund loan activity during 2019:

<b>Borrowing Fund</b>	<b>Lending Fund</b>	<b>Balance 1/1/19</b>	<b>New Loans</b>	<b>Repayments</b>	<b>Balance 12/31/19</b>
General	Wastewater	\$ 902,000	\$ -	\$ 82,000	\$ 820,000
Flood Capital Project	General	69,357	165,000	-	234,357
Stadium Fund	Light	700,000	-	700,000	-
<b>Totals</b>		<b>\$1,671,357</b>	<b>\$ 165,000</b>	<b>\$782,000</b>	<b>\$1,054,357</b>

## **NOTE 6 – 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, 2019.

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>
2020	\$ 4,518,587.63	\$ 892,778.00	\$ 5,411,365.63
2021	4,541,233.84	814,240.92	5,355,474.76
2022	4,290,429.28	732,008.62	5,022,437.90
2023	4,212,990.68	651,276.71	4,864,267.39
2024	4,117,676.74	569,417.42	4,687,094.16
2025-2029	8,513,544.94	1,675,860.06	10,189,405.00
2030-2034	2,619,829.35	331,007.25	2,950,836.60
2035-2039	1,000,000.00	76,050.00	1,076,050.00
<b>Total</b>	<b>\$ 33,814,292.46</b>	<b>\$ 5,742,638.98</b>	<b>\$ 39,556,931.44</b>

\*Does not include compensated absences, pension, or OPEB 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.

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## **NOTE 7 – OPEB PLANS**

### **A. PEBB**

The City is a participating employer in the state's Public Employees Benefits Board (PEBB) program, a defined benefit plan, administered by the Washington State Health Care Authority. The plan provides medical, dental and life insurance benefits for public employees and retirees and their dependents on a pay-as-you-go basis. The plan provides OPEB benefits through both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by members over the age of 65 enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The implicit subsidy results from the inclusion of active and non-Medicare eligible retirees in the same pool when determining premiums. There is an implicit subsidy from active employees since the premiums paid by retirees are lower than they would have been if the retirees were insured separately. The City had 34 active plan members and no retired plan members as of June 30, 2019 (measurement date). There were two retired plan members as of December 31, 2019. The City's total OPEB (PEBB) liability as of December 31, 2019, was \$1,349,609 as calculated using the alternative measurement method. The City contributed \$68,544 to the plan for the year ended December 31, 2019.

### **B. LEOFF 1**

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 2019, 23 retirees received benefits and \$205,648 was paid out for those benefits (medical insurance premiums and excess medical claims).

An actuarial review of the plan was completed on January 1, 2019, by Milliman, Inc. to determine funding requirements. As of that date, the actuarial present value of future benefits was \$8,110,000. This amount represents a liability and therefore is included on Schedule 9.

## **NOTE 8 - 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



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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, 2019 (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:

	Employer Contribution	Allocation %	Liability (Asset)
<b>PERS 1</b>	\$476,724	.066301%	2,549,509
<b>PERS 2/3</b>	700,638	.085657%	832,021
<b>LEOFF 1</b>	-	.044564%	(880,857)
<b>LEOFF 2</b>	151,563	.079270%	(1,836,443)

**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, 2019, membership consisted of 9 individuals.

The most recent actuarial review of the system was done on January 1, 2019, by Milliman, Inc. to determine the funding requirements. As of that date, the actuarial present value of future benefits was \$564,000; the market value of assets held by the Fund was \$949,000.

The total balance in the Firemen's Pension Fund available to pay pension benefits as of December 31, 2019, is \$957,158.

**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](#).

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### **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-nine (29) 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, 2021.

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
2017	\$.10	\$1.50	\$1.60
2018	.15	1.50	1.65
2019	.15	1.50	1.65

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Teamsters Streets & Parks Maintenance			
Year	Employer	Employee	Total
2017	\$.15	2.60	\$2.75
2018	.15	2.60	2.75
2019	.15	2.60	2.75

The City's required contributions to the Plan for 2019 were \$8,603.

#### **NOTE 9 – 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 163 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 sub-limits. 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, reinsurance 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.

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## **NOTE 10 – COMPONENT UNIT(S), JOINT VENTURES, AND RELATED PARTIES**

### **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.

### **C. Centralia Landfill**

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.

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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.

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 11 - 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 separately issues GAAP financial statements for the four utility funds.

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- 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 are rolled into the General Fund for financial reporting:

Fund 106	Repair and Demolition
Fund 108	Park Improvement
Fund 114	Indoor Pool
Fund 115	Depot Fund
Fund 124	Borst Park Construction Fund
Fund 125	Borst Home
Fund 130	Washington Lawn Cemetery

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

## **B. Subsequent Events**

### **1) COVID-19**

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless leaving for an essential function.

The length of time these measures will be in place and the full extent of the financial impact on the City is unknown at this time. The City Council is being updated on the situation regularly and is aware of impactful revenue losses in 2020. City management is exploring options to address the situation.

## **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). As of December 31, 2019, the City's remaining obligation is \$72,692.

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### 3) Construction Commitments

The City has active construction projects as of December 31, 2019. At year end, the City's projects and commitments with contractors are as follows:

Project	Spent To Date	Remaining Commitment	Funding Source
Memorial Plaza Playground Resurfacing	\$ -	\$ 40,706	General Fund Revenues
2019 Tree Removal	54,710	2,653	Street Fund Revenues
2019 Sidewalk Access Ramp	81,785	20,505	Street Fund Revenues
2019 Asphalt Patch Program	100,767	5,304	TBD Reserve Funds
Salzer Transmission Line	806,624	94,842	Light Capital Reserves
Salzer Substation Construction	-	2,327,187	Light Capital Reserves
Storage Building Construction	52,196	2,529	Water Revenues
Seminary Hill Reservoir Access Ladders	14,434	12,400	Water Revenues
Harrison Ave Cure in Place Pipe Replacement	70,472	3,414	Wastewater Revenues
Railroad Ave Sanitary Sewer	288,407	13,973	Wastewater Revenues
Roof Replacement Project	14,127	199,757	Wastewater Revenues
	<u>\$1,483,522</u>	<u>\$2,723,270</u>	



**City of Centralia**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2019**

<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	830,000	-	55,000	775,000
251.11	2013 LTGO Refunding Bond (Streetscape)	5/1/2021	440,081	-	145,101	294,980
251.11	2013 LTGO Bond (QECB)	8/1/2023	550,000	-	110,000	440,000
251.11	2019 LTGO Bond (Streetscape/Fox)	12/1/2038	-	3,825,000	80,000	3,745,000
<b>Total General Obligation Debt/Liabilities:</b>			<b>1,820,081</b>	<b>3,825,000</b>	<b>390,101</b>	<b>5,254,980</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
252.11	2007 Electric Refunding Bond	12/1/2019	550,000	-	550,000	-
252.11	2010 Electric Revenue Bond (Build America)	12/1/2030	8,560,000	-	445,000	8,115,000
252.11	2013 Water Rev/Ref Bond	5/1/2021	321,724	-	102,763	218,961
252.11	2015 Electric Rev/Ref Bond	12/1/2026	8,594,298	-	986,413	7,607,885
263.92	2010 Distressed Counties Loan (Millard)	12/1/2029	177,651	-	14,578	163,073
263.92	2013 Centralia School District (HVAC -Indoor Pool)	6/1/2023	93,461	-	20,769	72,692
259.12	Compensated Absences (Governmental)		963,383	68,846	9,254	1,022,975
259.12	Compensated Absences (Proprietary)		936,426	51,235	20,185	967,476
264.30	Pension Liabilities (Governmental)		1,399,790	373,746	656,853	1,116,683
264.30	Pension Liabilities (Proprietary)		3,043,877	2,264,848	3,043,877	2,264,848
264.40	OPEB Liabilities (LEOFF 1)		-	8,110,000	-	8,110,000
264.40	OPEB Liabilities (All Funds)		-	1,349,609	-	1,349,609
263.88	PWTF 2002 Maple/Hansen	6/1/2022	33,203	-	8,301	24,902
263.88	PWTF 2002 Cooks Hill Water	6/1/2022	512,463	-	128,116	384,347
263.88	PWTF 2002 Swanson Heights	6/1/2021	124,402	-	41,467	82,935
263.88	PWTF 2004 Cooks Hill Sewer	6/1/2024	377,626	-	62,938	314,688
263.84	SRF 2002 Ham Hill Water	10/1/2023	164,274	-	32,855	131,419
263.84	SRF 2005 WWTP Loan A	11/1/2024	10,156,873	-	1,692,812	8,464,061
263.84	SRF 2005 Port North Ext	10/1/2024	694,063	-	115,677	578,386
263.84	SRF 2006 WWTP Loan B	8/31/2026	242,850	-	30,356	212,494
263.84	SRF 2013 DOE I&I Reduction	12/31/2032	2,329,199	-	140,728	2,188,471
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>39,275,563</b>	<b>12,218,284</b>	<b>8,102,942</b>	<b>43,390,905</b>
<b>Total Liabilities:</b>			<b>41,095,644</b>	<b>16,043,284</b>	<b>8,493,043</b>	<b>48,645,885</b>



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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

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