



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Centralia

Utility Funds

For the period January 1, 2020 through December 31, 2020

Published February 3, 2022

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

February 3, 2022

Mayor and City Council
City of Centralia
Centralia, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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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 Utility Funds January 1, 2020 through December 31, 2020

Mayor and City Council
City of Centralia
Centralia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Electric, Water, Wastewater, and Storm & Surface Water utility funds of the City of Centralia, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 19, 2022.

The financial statements of the City's Electric, Water, Wastewater, and Storm & Surface Water utility funds are intended to present the financial position, changes in financial position, and cash flows that are attributable to the transactions of those utility proprietary funds. They do not purport to, and do not, present fairly, the financial position of the City of Centralia, Washington, as of December 31, 2020, the changes in the financial position or cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 14 to the 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

January 19, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

City of Centralia Utility Funds January 1, 2020 through December 31, 2020

Mayor and City Council
City of Centralia
Centralia, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Electric, Water, Wastewater, and Storm & Surface Water utility funds of the City of Centralia, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such

opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric, Water, Wastewater, and Storm & Surface Water utility funds of the City of Centralia, as of December 31, 2020, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1B, the financial statements of the City's Electric, Water, Wastewater, and Storm & Surface Water utility funds are intended to present the financial position, changes in financial position, and cash flows that is attributable to the transactions of those utility proprietary funds. They do not purport to, and do not, present fairly, the financial position of the City of Centralia, Washington, as of December 31, 2020, the changes in its financial position or cash flows for the year then ended in conformity with accounting principles accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 14 to the 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

Required Supplementary Information

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

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2022 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 fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

January 19, 2022

FINANCIAL SECTION

City of Centralia Utility Funds January 1, 2020 through December 31, 2020

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2020

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2020

Statement of Revenues, Expenses and Changes in Net Position – 2020

Statement of Cash Flows – 2020

Notes to Financial Statements – 2020

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3 – 2020

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2020

Schedule of Employer's Required Contributions – Western Conference of Teamsters
Pension Plan Trust – 2020

Schedule of Changes in Total OPEB Liability and Related Ratios – PEBB – 2020

Notes to Required Supplementary Information – 2020

CITY OF CENTRALIA UTILITIES

Management's Discussion & Analysis

December 31, 2020

This management discussion and analysis is a narrative overview of the financial activity of the four utility funds (Electric, Water, Wastewater and Storm & Surface Water) of the City of Centralia (the Utilities) for the fiscal year ending December 31, 2020. The information contained herein is intended to be read in conjunction with the financial statements and the notes to the financial statements that follow.

USING THIS REPORT

The Utility Funds, or Enterprise Funds, of the City of Centralia are the focus of this report, which presents financial information in the form of Fund Financial Statements.

BACKGROUND OF REPORTING ENTITY

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

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

Water Utility - The Water Utility serves all of the City and limited outlying areas. Water is supplied from groundwater sources within the City. The Water Utility owns and operates two well fields that contain five active wells, two inactive wells, five reservoirs, two pressure tanks, seven booster pump stations, and 135 miles of distribution and transmission pipes.

Wastewater Utility - The Wastewater Utility serves most of the City and limited outlying areas. The Wastewater Utility owns and operates a treatment plant, 25 pump stations, 70 miles of gravity sewer, and 19 miles of force main.

Storm & Surface Water Utility - The Storm & Surface Water Utility, established in 2005, serves most of the City. Services are provided utilizing 1,800 catch basins, 22 miles of gravity storm sewer pipe and numerous ditches and culverts as authorized by its National Pollution Discharge Elimination System (NPDES) permit issued by the Washington Department of Ecology (DOE) under the authority of the U.S. Environmental Protection Agency (EPA).

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the Utilities exceeded liabilities and deferred inflows at the end of 2020 by \$153.9 million (net position).
- Net investment in capital assets of the Utilities at year-end accounted for 77.5% of net position, or \$119.2 million.
- Unrestricted net position of \$24.2 million at December 31, 2020 may be used to meet the ongoing obligations to utility customers and creditors.
- During 2020, total net position increased by \$7.2 million, or 4.9%.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Fund Financial Statements

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

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

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

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

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

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

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

FUND FINANCIAL SUMMARY AND ANALYSIS

Statement of Net Position

As discussed previously, net position over time may serve as a useful indicator of financial position. The Utilities' assets exceeded liabilities by \$153.9 million as of December 31, 2020.

	Summary Statement of Net Position (in thousands)									
	Electric		Water		Wastewater		Stormwater		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Current Assets	\$ 16,950	\$ 18,804	\$ 6,926	\$ 5,912	\$ 6,968	\$ 6,158	\$ 1,500	\$ 1,452	\$ 32,343	\$ 32,326
Other Assets	2,181	2,308	3,836	3,493	5,313	5,008	5	5	11,335	10,812
Capital Assets	70,622	67,959	20,319	20,493	49,910	50,279	2,475	2,103	143,325	140,834
Total Assets	89,753	89,071	31,081	29,898	62,191	61,444	3,979	3,559	187,003	183,973
Total Deferred Outflows of Resources	557	520	131	119	130	121	23	20	840	779
Current Liabilities	5,762	5,497	624	698	2,267	2,336	134	46	8,787	8,578
Non-Current Liabilities	14,762	16,219	1,332	1,679	8,104	10,025	181	166	24,378	28,090
Total Liabilities	20,524	21,717	1,956	2,377	10,372	12,362	314	213	33,166	36,668
Total Deferred Inflows of Resources	448	800	147	278	152	288	24	43	771	1,410
Net Position										
Net Investment in Capital Assets	56,732	52,419	19,393	19,185	40,649	39,041	2,428	2,053	119,202	112,698
Restricted	2,181	2,308	3,836	3,493	4,519	4,114	5	5	10,541	9,918
Unrestricted	10,424	12,347	5,881	4,685	6,628	5,761	1,231	1,265	24,163	24,058
Total Net Position	\$ 69,337	\$ 67,074	\$ 29,110	\$ 27,362	\$ 51,796	\$ 48,915	\$ 3,663	\$ 3,323	\$ 153,907	\$ 146,674

Note: Values may not tie due to rounding.

The largest portion of Net Position, approximately \$119.2 million, represents the Utilities' investment in Capital Assets (i.e., property, plant and equipment) used in business type activities, net of outstanding amounts borrowed to finance those investments. The Utilities use these assets to provide services to the utility ratepayers, and as such, these assets are not available for future spending.

Total Net Position for the Utilities increased by \$7.2 million during 2020 (which is shown net of prior period adjustments - See Note 13B.1. for more information). Of this increase, \$0.6 million represents additional Restricted Net Position due mainly to additional Water and Wastewater Capital Facility Charges (CFC's) collected from customers to connect newly constructed homes and businesses to both utility systems. These charges are used to fund utility projects that increase water and wastewater plant capacity.

The Net Investment in Capital Assets component of Net Position increased by \$6.5 million. This increase represents a combination of additional utility plant infrastructure placed into service, increased capital spending, depreciation expense taken, and a decrease in outstanding long-term debt as scheduled principal payments of bonds and loans were made during 2020.

Unrestricted Net Position can be used to finance day-to-day utility operations without the constraints established by debt covenants or other legal restrictions. This component of Net Position showed a net increase of \$0.1 million, effectively remaining flat during 2020. The electric utility shows a decrease of approximately \$1.9 million in Unrestricted Net Position due to increases in capital spending due to the construction of a new substation combined with lower sales of electricity due to the COVID-19 Pandemic. This decrease was offset by increases of Unrestricted Net Position in the Water and Wastewater utilities of \$1.2 million and \$0.9 million, respectively, due mainly to increases in utility sales partially due to a rate increase effective January 1, 2020 and to the effects of the COVID-19 Pandemic. See Note 13B.4. for more information on the COVID-19 Pandemic.

Summary of Changes in Net Position (in thousands)				
	Net Investment in Capital Assets	Restricted	Unrestricted	Total
Net Position - Beginning	\$ 112,698	\$ 9,918	\$ 24,058	\$ 146,674
Increases	10,242	623	(1,957)	8,908
(Decreases)	(3,738)	-	2,063	(1,675)
Net Position - Ending	\$ 119,202	\$ 10,541	\$ 24,163	\$ 153,907

Note: Values may not tie due to rounding.

At the end of 2020, positive balances in all Utility Funds were reported in all categories of Net Position, which indicates an improving financial position for the Utility Funds individually and as a whole.

Statement of Revenues, Expenses and Changes in Net Position

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

	Summary Statement of Revenues, Expenses, and Changes in Net Position (in thousands)									
	Electric		Water		Wastewater		Stormwater		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Operating Revenue										
Utility Sales and Services	\$ 25,420	\$ 26,188	\$ 5,762	\$ 5,596	\$ 8,814	\$ 8,791	\$ 1,020	\$ 978	\$ 41,016	\$ 41,553
Other Operating Revenue	560	984	25	52	43	44	1	1	629	1,081
Total Operating Revenue	25,979	27,172	5,787	5,648	8,857	8,835	1,021	979	41,645	42,634
Non-Operating Revenues										
Intergovernmental Revenue	154	152	1	-	3	-	56	28	214	180
Investment Earnings	267	454	150	205	166	232	23	31	605	922
Gains (Losses) on Capital Asset Disposal	(197)	(216)	4	(4)	10	383	-	(11)	(183)	151
Total Non-Operating Revenues	225	390	155	201	178	614	78	48	636	1,253
Total Revenues	26,204	27,562	5,942	5,849	9,036	9,449	1,099	1,027	42,282	43,887
Expenses										
Total Operating Expenses	23,665	22,517	4,475	4,312	6,485	6,595	758	696	35,383	34,119
Total Non-Operating Expenses	648	712	18	22	56	61	1	1	723	797
Total Expenses	24,313	23,229	4,492	4,334	6,542	6,656	759	697	36,106	34,916
Excess (Deficiency) Before Contributions & Transfers	1,891	4,333	1,450	1,515	2,494	2,793	340	330	6,176	8,971
Capital Contributions	372	1,116	298	1,092	375	956	-	-	1,045	3,164
Transfers	-	16	-	-	-	-	-	-	-	16
Special item - negotiated payment	-	-	-	-	(3)	(11)	-	-	(3)	(11)
Changes in Net Position	2,264	5,465	1,747	2,607	2,866	3,738	340	330	7,217	12,140
Net Position - Beginning	67,074	61,618	27,362	24,759	48,915	45,180	3,323	2,993	146,674	134,550
Prior Period Adjustments	-	(9)	-	(3)	15	(3)	-	-	15	(15)
Net Position - Ending	\$ 69,337	\$ 67,074	\$ 29,110	\$ 27,362	\$ 51,796	\$ 48,915	\$ 3,663	\$ 3,323	\$ 153,907	\$ 146,675

Note: Values may not tie due to rounding.

Operating Revenues and Expenses represent the primary activities of each Utility Fund in fulfilling its mission to customers.

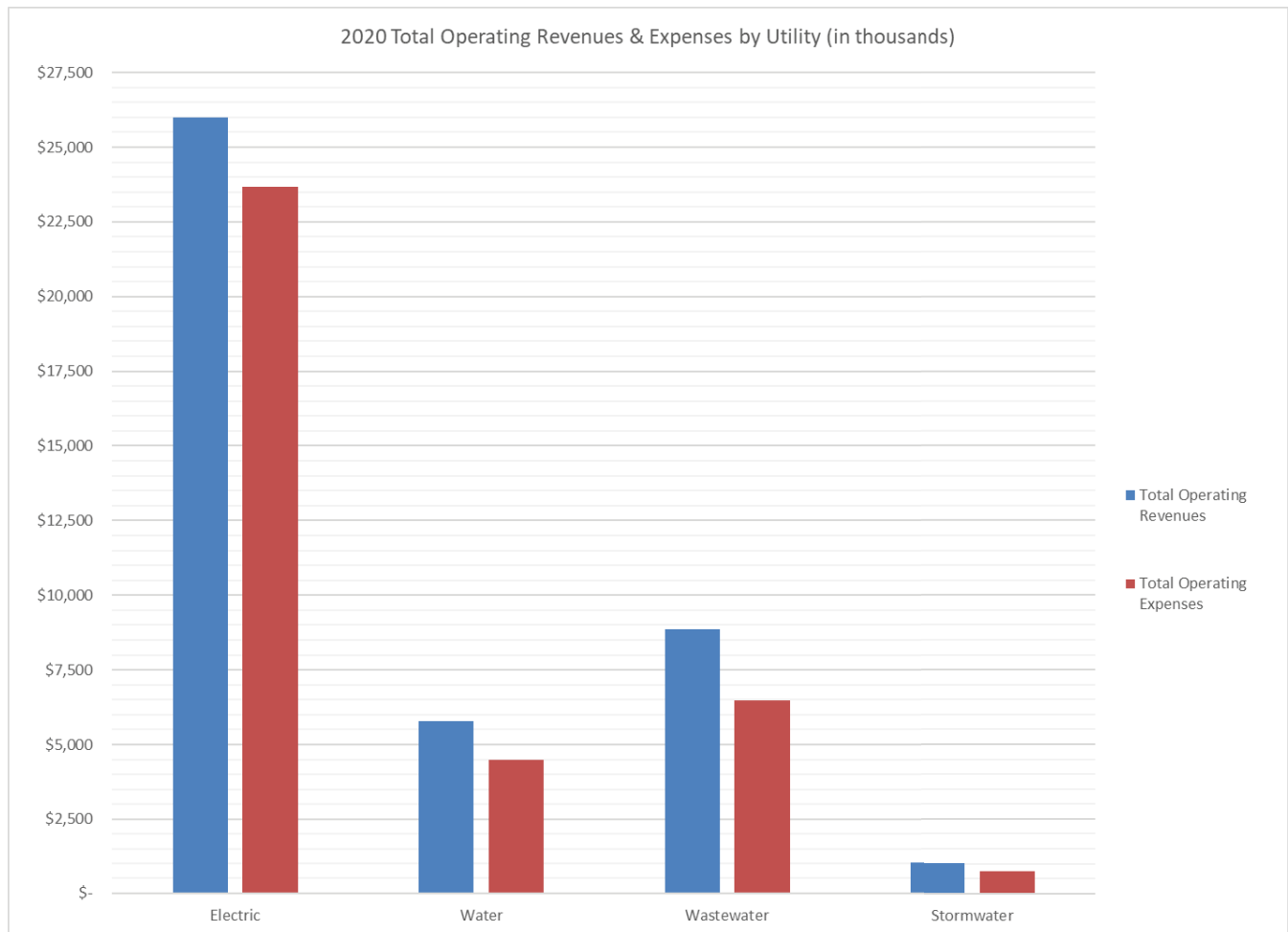
The majority of Operating Revenue is attributed to Utility Rate Revenues, which are shown in the Financial Statements as Utilities Sales and Services. These are the main source of Revenue for the Utility Funds of the City, as required by state law. Utility rate revenues decreased by a net of \$0.5 million, or 1.3% during the year, for which 2020 rate increases in the Water, Wastewater, and Stormwater utilities were offset mainly by the effects of the COVID-19 Pandemic. Other influences on Utility sales and services revenues are customer growth, conservation, the economy, and weather conditions.

Utility rate increases during 2020 were as follows:

- Electric rates remained unchanged during 2020, previously having been raised by an average of 4.8% in March 2018.
- Water, Wastewater, and Stormwater rates increased by 2.1% across the board, effective January 1, 2020.

A component of Non-Operating Revenues, Investment earnings decreased by 34.3%, or \$0.3 million due to bond calls and reinvestment in government securities with lower interest rates and decreased earnings on the City's investment in the Local Government Investment Pool (LGIP). Investment earnings are allocated to each fund based on individual fund cash and investment balances at each month end.

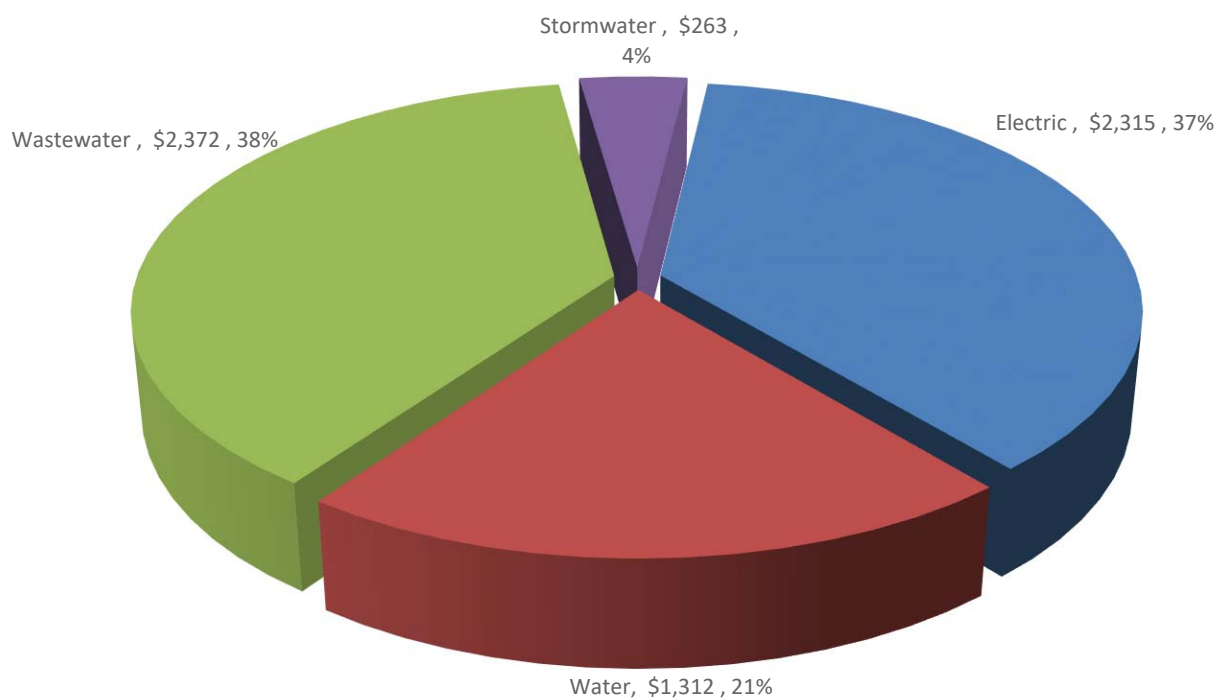
Capital Contributions represent assessments to customers to connect to existing utility plant so that newly constructed homes and commercial buildings can receive utility services. During 2020, capital contributions decreased by \$2.1 million or 67.0%. This decrease was mainly due to fewer and less costly new service requests received by all the Utilities during 2020.



Operating Expenses include general operations, administrative, plant maintenance, customer service, depreciation and taxes. In addition, the Electric Utility purchases wholesale power and transmission services through contracts with the Bonneville Power Administration (BPA) and power market providers. **See Note 13B.2.** for more information regarding the BPA power contract and the Electric Utility's power supply.

Total Operating Expenses increased by a net of \$1.3 million or 3.7%. Increases in purchased power/transmission of \$0.6 million or 6.5%, maintenance costs of \$0.2 million or 11.2%, administration costs of \$0.4 million or 8.5%, and depreciation and amortization costs of \$0.2 million or 4.0% contributed to the net increase in Total Operating Expenses. The increase in maintenance costs was due to increased tree trimming activities to continue to catch up from delays in this program several years ago, and tree removal from the Yelm Hydroelectric canal bank. Purchased power and transmission costs increased due to one full year of the BPA region-wide combined wholesale power and transmission rate increase of 6.9% that was effective October 1, 2019 and will be in place through September 30, 2021, in addition to a full year of additional market-based power purchases to provide for several new large industrial customers added to the electric system. Additional administration costs were incurred mainly due to increased conservation activities resulting in higher rebates issued to electric customers, additional costs of interfund information services, and additional OPEB expenses in 2020. Increases in depreciation and amortization expense resulted from additions to capital assets placed in service during the year.

2020 Net Operating Income by Utility (in thousands)



Net Operating Income is the difference between Operating Revenues and Operating Expenses, which represents the amount that the core activities of the Utility Funds contribute towards the Changes in Net Position. The Utility Funds had collective Total Net Operating Income of \$6.3 million and reflects a decrease of approximately \$2.3 million over the prior year. Net Operating Income increased for the Wastewater utility and decreased for the Electric, Water and Stormwater utilities.

Collectively and individually, the Utility Funds had positive Changes in Net Position for 2020 increasing Total Net Position. This is an indication of improving financial position for the Utility Funds.

CAPITAL ASSET ACTIVITIES

The City of Centralia is committed to investing in existing utility plant infrastructure and Capital Assets of the Utility Funds in order to provide a high level of reliable service to its customers. As of December 31, 2020, the Utility Funds' investment in Capital Assets, including Construction in Progress, amounted to \$143.3 million, net of accumulated depreciation.

	Capital Asset Summary by Asset Type, Net of Depreciation (in thousands)									
	Electric		Water		Wastewater		Stormwater		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Land	\$ 2,026	\$ 1,993	\$ 447	\$ 447	\$ 1,264	\$ 1,264	\$ -	\$ -	\$ 3,737	\$ 3,704
Buildings	5,659	5,834	3,103	3,208	29,601	30,521	1,392	1,396	39,754	40,959
Infrastructure	7,947	8,244	15,151	15,093	14,017	13,761	479	492	37,595	37,590
Equipment	45,241	44,746	1,581	1,677	2,144	2,390	150	175	49,116	48,988
Intangible Assets	2,139	2,260	-	-	-	-	-	-	2,139	2,260
Construction in Progress	7,610	4,882	37	69	2,883	2,342	453	40	10,983	7,333
Total Capital Assets	\$ 70,622	\$ 67,959	\$ 20,319	\$ 20,494	\$ 49,910	\$ 50,278	\$ 2,475	\$ 2,103	\$ 143,325	\$ 140,834

Note: Values may not tie due to rounding.

Major Capital Asset events during 2020 include the following:

- Completion of the Salzer Valley Road electric transmission line with distribution line underbuilt for \$1.8 million.
- Completion of the Salzer Valley Road water main replacement for \$0.1 million.
- Completion of the Caveness/Borst/Johnson Road sanitary sewer main replacement for \$0.6 million.
- Completion of the Railroad Avenue/Main/Pine Street sanitary sewer main replacement for \$0.3 million.

Capital Assets are affected by various additions and deletions, and depreciation. Additions come from the purchase and/or construction of capital assets, current construction in progress expenditures, or from customer-constructed utility plant donations to the Utilities. Deletions are from the sale, retirement, or loss (accident or damage) of capital assets.

Summary of 2020 Capital Asset Additions and Deletions (in thousands)					
	Electric	Water	Wastewater	Stormwater	Total
Beginning Balance, net	\$ 67,959	\$ 20,494	\$ 50,278	\$ 2,103	\$ 140,834
Additions	7,913	864	2,439	483	11,699
Deletions, net	(2,524)	(238)	(913)	(35)	(3,710)
Depreciation	(2,726)	(801)	(1,894)	(76)	(5,498)
Total Capital Assets	\$ 70,622	\$ 20,319	\$ 49,910	\$ 2,475	\$ 143,325

Note: Values may not tie due to rounding.

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

Capital Asset Summary by Utility Plant Function, Net of Depreciation (in thousands)									
	Electric		Water		Wastewater		Stormwater		Total
	2020	2019	2020	2019	2020	2019	2020	2019	2020 2019
Distribution	\$ 34,657	\$ 34,978	\$ 7,629	\$ 7,486	\$ -	\$ -	\$ -	\$ -	\$ 42,286 \$ 42,464
Collection	-	-	-	-	14,025	13,770	493	506	14,518 14,276
Pumping	-	-	218	229	5,479	5,673	-	-	5,697 5,902
Production	17,663	18,239	-	-	-	-	-	-	17,663 18,239
Source of Supply	-	-	3,044	3,126	-	-	-	-	3,044 3,126
Transmission	3,677	2,229	5,147	5,157	-	-	-	-	8,824 7,386
Treatment	-	-	1,753	1,789	23,716	24,421	1,278	1,276	26,747 27,486
General	4,876	5,371	2,491	2,637	3,807	4,073	250	281	11,424 12,362
Intangible	2,139	2,260	-	-	-	-	-	-	2,139 2,260
Construction in Progress	7,610	4,882	37	69	2,883	2,342	453	40	10,983 7,333
Total Capital Assets	\$ 70,622	\$ 67,959	\$ 20,319	\$ 20,494	\$ 49,910	\$ 50,278	\$ 2,475	\$ 2,103	\$ 143,325 \$ 140,834

Note: Values may not tie due to rounding.

Capital Construction in Progress

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

Major construction projects currently in progress include the following:

- Salzer Valley Road electric substation
- Aquifer early warning detection system and monitoring well
- Jefferson Street sanitary sewer refurbishment
- Phase I - wastewater treatment plant efficiency upgrades
- Jefferson Street storm sewer refurbishment

See Note 3 for additional information on Capital Assets.

LONG-TERM DEBT ACTIVITIES

The Utilities use Long-Term Debt as one resource to fund construction and acquisition of long-life utility plant assets. Past borrowings have included revenue bonds, and low-interest loans through the Washington State Public Works Trust Fund (PWTF) and the Washington State Revolving Fund (SRF). The overall decrease in Long-Term Debt is the result of \$4.0 million in debt principal payments made in 2020. No new debt was issued during the year.

	Summary of Debt Outstanding (in thousands)									
	Electric		Water		Wastewater		Stormwater		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Revenue Bonds (net)	\$ 14,041	\$ 15,717	\$ 110	\$ 219	\$ -	\$ -	\$ -	\$ -	\$ 14,151	\$ 15,936
WA State SRF Loans	-	-	561	710	8,951	10,815	47	50	9,559	11,575
WA State PWTF Loans	-	-	256	384	310	423	-	-	566	807
Total Debt Outstanding	\$ 14,041	\$ 15,717	\$ 927	\$ 1,313	\$ 9,261	\$ 11,238	\$ 47	\$ 50	\$ 24,276	\$ 28,318

Note: Values may not tie due to rounding.

Debt capacity for Enterprise Funds is dependent on a level of revenue that supports payment of all operating expenses and an assumed level of required debt coverage limits, beyond which results in the total amount of debt service the revenues can support, if any. An assumed level of outstanding debt is calculated based on the amount of debt service that can be supported using an assumed interest rate. For 2020, the Utilities calculated debt capacity using an assumed debt service coverage limit of 1.75 and an interest rate of 4.25%, calculated on an individual utility basis.

Total Debt Capacity by Utility Fund (in thousands)			
	Debt Limit	Current Debt	Remaining Capacity
Electric	\$ 71,930	\$ 14,041	\$ 57,889
Water	13,300	927	12,373
Wastewater	36,630	9,261	27,369
Stormwater	3,250	47	3,203
Totals	\$ 125,110	\$ 24,276	\$ 100,834

Note: Values may not tie due to rounding.

The Electric Utility has debt service coverage of 3.04 on outstanding revenue bonds and a credit rating of A+ was affirmed by Standard and Poor's on February 19, 2021. The Water Utility has debt service coverage of 25.57 on outstanding revenue bonds and 5.72 when considering all outstanding debt.

See Note 9 for additional information on Long-Term Debt activities.

COVID-19 PANDEMIC

See Note 13B.4. for information on the COVID-19 Pandemic.

SIGNIFICANT FUTURE IMPACTS

Utility Rates

Utility rate increases approved for 2021 are as follows:

- Water, Wastewater and Stormwater rate increases of 1.2% across the board, were effective January 1, 2021

Debt Refunding

See Note 13.C.2 for information on Debt Refunding in 2021.

REQUESTS FOR INFORMATION

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

CITY OF CENTRALIA UTILITIES
Statement of Net Position
December 31, 2020

	Electric	Water	Wastewater	Storm & Surface Water	Totals
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 5,985,771	\$ 2,606,948	\$ 2,371,506	\$ 880,875	\$ 11,845,100
Restricted current assets:					
Cash and cash equivalents					
Customer deposits	1,480,117	9,820	-	-	1,489,937
Debt service reserve	187,292	73,635	-	-	260,927
Total restricted current assets	1,667,409	83,455	-	-	1,750,864
Investments	5,313,789	3,526,605	3,723,398	478,409	13,042,201
Receivables:					
Customer accounts (net)	3,037,141	539,649	873,135	140,331	4,590,256
Inventories and prepaid services	945,839	168,889	-	-	1,114,728
Total Current Assets	16,949,949	6,925,546	6,968,039	1,499,615	32,343,149
Non-Current Assets					
Restricted non-current assets:					
Cash and cash equivalents					
Capital reserves	-	3,723,422	2,602,394	-	6,325,816
Revenue bond/loan reserves	2,093,281	112,896	1,917,029	4,523	4,127,729
Power purchases	87,820	-	-	-	87,820
Total restricted non-current assets	2,181,101	3,836,318	4,519,423	4,523	10,541,365
Other non-current assets:					
Non-current receivables	-	-	55,391	-	55,391
Interfund loans - General Fund	-	-	738,000	-	738,000
Total other non-current assets	-	-	793,391	-	793,391
Capital assets:					
Capital assets not being depreciated					
Land	2,025,649	447,074	1,264,206	106	3,737,035
Construction in progress	7,610,094	37,125	2,882,963	453,257	10,983,439
Capital assets being depreciated					
Buildings	5,658,579	3,103,058	29,601,122	1,391,690	39,754,449
Other improvements	7,947,015	15,151,194	14,017,410	479,457	37,595,076
Equipment	45,241,408	1,580,698	2,144,106	150,064	49,116,276
Intangible assets	2,139,106	-	-	-	2,139,106
Total capital assets (net)	70,621,851	20,319,149	49,909,807	2,474,574	143,325,381
Total Non-Current Assets	72,802,952	24,155,467	55,222,621	2,479,097	154,660,137
TOTAL ASSETS	89,752,901	31,081,013	62,190,660	3,978,712	187,003,286
DEFERRED OUTFLOWS OF RESOURCES					
Deferred losses on refunded debt	151,142	1,147	-	-	152,289
Other post-employment benefits	948	342	371	58	1,719
Pension	404,546	129,421	129,256	22,957	686,180
TOTAL DEFERRED OUTFLOWS OF RESOURCES	556,636	130,910	129,627	23,015	840,188
	\$ 90,309,537	\$ 31,211,923	\$ 62,320,287	\$ 4,001,727	\$ 187,843,474

CITY OF CENTRALIA UTILITIES
Statement of Net Position
December 31, 2020

	Electric	Water	Wastewater	Storm & Surface Water	Totals
LIABILITIES					
Current Liabilities					
Accounts payable	\$ 2,445,342	\$ 215,607	\$ 275,079	\$ 128,136	\$ 3,064,164
Unearned revenue	79,706	-	-	-	79,706
Payable from current restricted assets:					
Customer deposits	1,480,117	9,820	-	-	1,489,937
Bonds payable	139,587	73,272	-	-	212,859
Interest payable	47,705	363	-	-	48,068
Compensated absences payable	33,536	10,857	10,999	2,029	57,421
Other post-employment benefits liability	1,896	684	742	116	3,438
Bonds payable (net of discounts/premiums)	1,534,577	36,559	-	-	1,571,136
Intergovernmental loans payable	-	276,648	1,980,436	3,373	2,260,457
Total Current Liabilities	5,762,466	623,810	2,267,256	133,654	8,787,186
Non-Current Liabilities					
Compensated absences payable	637,186	206,286	208,974	38,553	1,090,999
Other post-employment benefits liability	469,077	168,972	183,685	28,659	850,393
Net pension liability	1,288,731	415,632	431,274	70,344	2,205,981
Bonds payable (net of discounts/premiums)	12,366,518	-	-	-	12,366,518
Intergovernmental loans payable	-	540,857	7,280,345	43,234	7,864,436
Total Non-Current Liabilities	14,761,512	1,331,747	8,104,278	180,790	24,378,327
TOTAL LIABILITIES	20,523,978	1,955,557	10,371,534	314,444	33,165,513
DEFERRED INFLOWS OF RESOURCES					
Pension	448,079	146,543	152,449	24,265	771,336
NET POSITION					
Net investment in capital assets	56,732,311	19,392,961	40,649,026	2,427,967	119,202,265
Restricted for:					
Capital projects	-	3,723,422	2,602,394	-	6,325,816
Power purchases	87,820	-	-	-	87,820
Revenue bond/loan reserves	2,093,281	112,896	1,917,029	4,523	4,127,729
Unrestricted	10,424,068	5,880,544	6,627,855	1,230,528	24,162,995
TOTAL NET POSITION	69,337,480	29,109,823	51,796,304	3,663,018	153,906,625
	\$ 90,309,537	\$ 31,211,923	\$ 62,320,287	\$ 4,001,727	\$ 187,843,474

CITY OF CENTRALIA UTILITIES
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2020

	Electric	Water	Wastewater	Storm & Surface Water	Totals
Operating Revenues					
Utility sales and service fees	\$ 25,419,829	\$ 5,761,624	\$ 8,814,274	\$ 1,020,027	\$ 41,015,754
Other revenue	559,645	25,498	43,223	947	629,313
Total Operating Revenues	25,979,474	5,787,122	8,857,497	1,020,974	41,645,067
Operating Expenses					
General operations	3,617,071	1,720,978	1,795,445	257,256	7,390,750
Purchased power/transmission	10,003,488	-	-	-	10,003,488
Maintenance	1,703,999	72,223	203,282	39,259	2,018,763
Customer services and marketing	339,661	237,859	215,240	14,644	807,404
Administration	2,819,100	818,441	961,605	253,547	4,852,693
Depreciation/amortization	2,726,390	800,834	1,894,252	76,314	5,497,790
Property, excise and B&O taxes	2,455,000	824,515	1,415,379	116,928	4,811,822
Total Operating Expenses	23,664,709	4,474,850	6,485,203	757,948	35,382,710
Operating Income	2,314,765	1,312,272	2,372,294	263,026	6,262,357
Non-Operating Revenues (Expenses)					
Intergovernmental revenue	154,482	1,353	2,555	55,886	214,276
Investment earnings	266,705	150,002	166,031	22,604	605,342
Interest expense and related charges	(647,954)	(17,509)	(56,344)	(1,233)	(723,040)
Gains (losses) on capital asset disposal	(196,638)	3,671	9,800	-	(183,167)
Total Non-Operating Revenues (Expenses)	(423,405)	137,517	122,042	77,257	(86,589)
Income (Loss) Before Contributions/Transfers/Special Items	1,891,360	1,449,789	2,494,336	340,283	6,175,768
Capital contributions	372,385	297,622	374,930	-	1,044,937
Special Item - Negotiated Payment	-	-	(3,217)	-	(3,217)
Changes in Net Position	2,263,745	1,747,411	2,866,049	340,283	7,217,488
Net Position - Beginning	67,073,735	27,362,412	48,915,443	3,322,735	146,674,325
Prior Period Adjustments	-	-	14,812	-	14,812
Net Position - Ending	\$ 69,337,480	\$ 29,109,823	\$ 51,796,304	\$ 3,663,018	\$ 153,906,625

CITY OF CENTRALIA UTILITIES
Statement of Cash Flows
For the Year Ended December 31, 2020

	Electric	Water	Wastewater	Storm & Surface Water	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 25,033,972	\$ 5,689,714	\$ 8,742,368	\$ 974,928	\$ 40,440,982
Cash paid to suppliers	(14,848,439)	(1,580,183)	(2,411,908)	(248,635)	(19,089,165)
Cash paid to employees	(4,935,414)	(1,780,719)	(1,727,833)	(314,798)	(8,758,764)
Cash paid to other funds for services	(1,062,802)	(445,586)	(600,582)	(111,181)	(2,220,151)
Cash received from other operating revenue	559,645	25,498	43,223	947	629,313
Net Cash Provided by Operating Activities	4,746,962	1,908,724	4,045,268	301,261	11,002,215
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:					
Grant proceeds	154,482	1,353	2,555	55,886	214,276
Transfers from other funds	15,750	-	-	-	15,750
Net Cash Provided by Non-Capital Financing Activities	170,232	1,353	2,555	55,886	230,026
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	(5,529,616)	(685,581)	(1,519,008)	(373,187)	(8,107,392)
Proceeds from sale of capital assets	23,475	3,671	9,800	-	36,946
Cash received for capital contributions	372,385	297,622	374,930	-	1,044,937
Payments of revenue bond principal	(1,676,994)	(109,053)	-	-	(1,786,047)
Payments of other long-term debt principal	-	(276,648)	(1,976,871)	(3,290)	(2,256,809)
Payments of interest on long-term debt	(625,989)	(14,197)	(59,561)	(1,233)	(700,980)
Net Cash (Used) by Capital and Related Financing Activities	(7,436,739)	(784,186)	(3,170,710)	(377,710)	(11,769,345)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Earnings on investments	542,295	(595,081)	(552,550)	(21,197)	(626,533)
Investment in government securities	3,661,582	2,430,084	2,565,688	329,659	8,987,013
Accrued interest on investment purchases	5,730	3,803	4,015	516	14,064
Redemptions of government securities	(3,429,772)	(2,276,238)	(2,403,258)	(308,788)	(8,418,056)
Cash received on notes and contracts receivable	-	-	100,703	-	100,703
Net Cash Provided (Used) by Investing Activities	779,835	(437,432)	(285,402)	190	57,191
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,739,710)	688,459	591,711	(20,373)	(479,913)
CASH AND CASH EQUIVALENTS - BEGINNING	11,573,991	5,838,262	6,299,218	905,771	24,617,242
CASH AND CASH EQUIVALENTS - ENDING	\$ 9,834,281	\$ 6,526,721	\$ 6,890,929	\$ 885,398	\$ 24,137,329
Unrestricted cash and cash equivalents	\$ 5,985,771	\$ 2,606,948	\$ 2,371,506	\$ 880,875	\$ 11,845,100
Restricted cash and cash equivalents	3,848,510	3,919,773	4,519,423	4,523	12,292,229
CASH AND CASH EQUIVALENTS - ENDING	\$ 9,834,281	\$ 6,526,721	\$ 6,890,929	\$ 885,398	\$ 24,137,329

CITY OF CENTRALIA UTILITIES
Statement of Cash Flows
For the Year Ended December 31, 2020

	Electric	Water	Wastewater	Storm & Surface Water	Totals
CASH PROVIDED BY OPERATING ACTIVITIES:					
Net operating income	\$ 2,314,765	\$ 1,312,272	\$ 2,372,294	\$ 263,026	\$ 6,262,357
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	2,726,390	800,834	1,894,252	76,314	5,497,790
(Increase) decrease in accounts receivable	(429,263)	(71,210)	(71,905)	(46,005)	(618,383)
(Increase) decrease in inventory	118,097	(10,151)	-	-	107,946
Increase (decrease) in accounts payable	(110,275)	(152,677)	(189,170)	(3,276)	(455,398)
Increase (decrease) in compensated absences	99,591	30,356	39,797	11,202	180,946
Increase (decrease) in customer deposits	2,910	(700)	-	-	2,210
Increase (decrease) in unearned revenues	24,747	-	-	-	24,747
Total adjustments	2,432,197	596,452	1,672,974	38,235	4,739,858
Net cash provided by operating activities	\$ 4,746,962	\$ 1,908,724	\$ 4,045,268	\$ 301,261	\$ 11,002,215

CITY OF CENTRALIA UTILITIES
Notes to Financial Statements
December 31, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

The accounting records of the Utilities are maintained and reported in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. This prescription allows the City to report the Utilities using GAAP, while reporting all City funds, including the Utilities, using the cash basis of accounting as outlined in the Budgeting, Accounting, and Reporting System (BARS) manual. **See Note 14, Section A. – Accounting and Reporting Changes.**

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

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

The financial statements contain information for the following Utility Funds:

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

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

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

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

C. Budgetary Information

1. Scope of Budget

The City adopts biennial budgets for the Utility Funds. These budgets are appropriated at the fund level and constitute the legal authority for expenditures at that level. Biennial appropriations for the funds lapse at the end of the second fiscal year of the biennium.

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

2. Amending the Budget

The City Manager is authorized to transfer budgeted amounts between departments within any fund, however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours or other condition of employment must be approved by the City Council.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

1. Cash and Cash Equivalents

It is the Utilities' policy to invest all temporary cash surpluses. At December 31, 2020, \$24,137,330 was held in short-term residual investments of surplus cash. This amount is classified on the Statement of Net Position as Cash and Cash Equivalents as both Current Assets and Non-Current Assets. The interest earned on these investments is prorated to the various funds.

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

2. Investments - See Note 2, Deposits and Investments

3. Receivables

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

4. Inventories

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

5. Restricted Assets and Liabilities

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

Restricted assets as of December 31, 2020 include the following:

	Electric	Water	Wastewater	Stormwater	Total
Bond/Loan Reserves	\$ 2,093,281	\$ 112,896	\$ 1,917,029	\$ 4,523	\$ 4,127,729
Capital Projects	-	3,723,422	2,602,394	-	6,325,816
Debt Service	187,292	73,635	-	-	260,927
Deposits	1,480,118	9,820	-	-	1,489,938
Power Purchases	87,820	-	-	-	87,820
	\$ 3,848,511	\$ 3,919,773	\$ 4,519,423	\$ 4,523	\$ 12,292,230

6. Capital Assets - See Note 3, Capital Assets, and Note 14, Other Disclosures

The Utilities define capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life of at least one (1) year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Property, plant and equipment is depreciated using the straight-line method, with initial depreciation recorded in the year of purchase or construction project closeout, beginning in the month following the asset addition date, over the following estimated useful lives:

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

7. Compensated Absences

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

City personnel policies and Utility union contracts allow for a maximum accumulation of 240 hours of vacation and 360 hours of sick leave for each employee. Outstanding vacation and sick leave is payable upon resignation, retirement or death.

8. Pensions

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

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

10. Asset Retirement Obligations

An asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement or decommissioning of a tangible capital asset.

See Note 13, Certain Asset Retirement Obligations, and Note 14, Section A.1. - Reporting Changes.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

A. Deposits

The Utilities' bank deposits at December 31, 2020 are entirely insured by Federal Depository Insurance Commission (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

At year-end, the Utilities' balances of deposits were as follows:

Deposits	
Cash on hand	\$ 4,100
Bank deposits	2,339,226
	\$ 2,343,326

B. Investments

As authorized by RCW 35A.40.050, all investments are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington or the State Treasurer's Local Government Investment Pool (LGIP). All investments are insured, registered or held by the City or its agent in the government's name.

The Utilities' investments are subject to the following risks:

Interest Rate Risk: Interest rate risk is the risk the Utilities may face should interest rate variances affect the fair value of investments. The Utilities' investment portfolio is designed with the objective of attaining a maximum rate of return throughout budgetary and economic cycles, taking into account the Utilities' investment risk constraints, the cash flow characteristics of the portfolio, and the fact that the Utilities utilize a passive investment program. The Utilities do not have a formal policy that addresses Interest Rate Risk.

As of December 31, 2020, the Utilities held investments with the following maturities:

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1 to 5
Debt Securities			
Federal Agricultural Mortgage Corporation	\$ 1,049,527	\$ -	\$ 1,049,527
Federal Farm Credit Bank	3,446,109	1,031,366	2,414,743
Federal Home Loan Bank	1,452,153	-	1,452,153
Federal Home Loan Mortgage Corporation	2,149,824	-	2,149,824
Federal National Mortgage Association	4,944,588	-	4,944,588
Total Debt Securities	\$ 13,042,201	\$ 1,031,366	\$ 12,010,835
Other Investments			
Local Government Investment Pool (LGIP)	21,794,004		
Total Investments	\$ 34,836,205		

Investments in Local Government Investment Pool (LGIP)

The Utilities is a participant in the Local Government Investment Pool, which was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually. Proposed changes to the policy are reviewed by the LGIP Advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost, which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASB 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available through the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, or online at <http://www.tre.wa.gov>.

Investments Measured at Fair Value

Investments are measured and reported at fair value using the valuation input hierarchy established by generally accounting principles as follows:

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

As of December 31, 2020, the Utilities had the following investments measured at fair value:

Investments Measured at Fair Value	12/31/2020	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
U.S. Government & Agencies	\$ 13,042,201	\$ -	\$ 13,042,201	\$ -
Investments Measured at Amortized Cost				
Local Government Investment Pool (LGIP)	21,794,004			
Total Investments	\$ 34,836,205			

C. Summary of Deposit and Investment Balances

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

Deposits and Investments	
LGIP investments	\$ 21,794,004
Bank deposits	2,339,226
Cash on hand	4,100
Investments in debt securities	13,042,201
	\$37,179,531
Statement of Net Position Presentation	
Current Assets	
Cash and cash equivalents	\$ 11,845,100
Restricted current assets:	
Cash and cash equivalents	
Customer deposits	1,489,938
Debt service reserve	260,927
Investments	13,042,201
	26,638,166
Non-Current Assets	
Restricted non-current assets:	
Cash and cash equivalents	
Capital Reserves	6,325,816
Revenue bond/loan reserves	4,127,729
Power purchases	87,820
	10,541,365
Total Deposits and Investments	\$37,179,531

NOTE 3 – CAPITAL ASSETS

A. Capital Asset Activity

TOTAL UTILITY FUNDS	Beginning Balance 1/1/2020	Increases	Decreases	Ending Balance 12/31/2020
Capital Assets not being depreciated:				
Land	\$ 3,704,274	\$ 32,761	\$ -	\$ 3,737,035
Construction In Progress	7,333,069	7,162,158	(3,511,788)	10,983,439
Total Capital Assets not being depreciated	11,037,343	7,194,919	(3,511,788)	14,720,474
Capital Assets being depreciated:				
Buildings	60,118,686	92,812	-	60,211,498
Other Improvements	73,128,157	1,470,410	-	74,598,567
Equipment	74,299,060	2,939,121	(374,958)	76,863,223
Intangible assets	4,862,082	-	-	4,862,082
Total Capital Assets being depreciated	212,407,985	4,502,343	(374,958)	216,535,370
Less Accumulated Depreciation for:				
Buildings	(19,160,210)	(1,296,839)	-	(20,457,049)
Other Improvements	(35,537,413)	(1,466,078)	-	(37,003,491)
Equipment	(25,311,171)	(2,614,086)	178,310	(27,746,947)
Intangible assets	(2,602,189)	(120,787)	-	(2,722,976)
Total Accumulated Depreciation	(82,610,983)	(5,497,790)	178,310	(87,930,463)
Total Capital Assets being depreciated, net	129,797,002	(995,447)	(196,648)	128,604,907
TOTAL UTILITY FUNDS - Capital Assets, Net	\$140,834,345	\$ 6,199,472	\$ (3,708,436)	\$143,325,381

ELECTRIC	Beginning Balance 1/1/2020	Increases	Decreases	Ending Balance 12/31/2020
Capital Assets not being depreciated:				
Land	\$ 1,993,120	\$ 32,529	\$ -	\$ 2,025,649
Construction In Progress	4,882,228	5,055,308	(2,327,442)	7,610,094
Total Capital Assets not being depreciated	6,875,348	5,087,837	(2,327,442)	9,635,743
Capital Assets being depreciated:				
Buildings	7,864,729	64,237	-	7,928,966
Other Improvements	14,773,662	-	-	14,773,662
Equipment	65,177,748	2,761,069	(328,558)	67,610,259
Intangible assets	4,862,082	-	-	4,862,082
Total Capital Assets being depreciated	92,678,221	2,825,306	(328,558)	95,174,969
Less Accumulated Depreciation for:				
Buildings	(2,031,214)	(239,173)	-	(2,270,387)
Other Improvements	(6,529,388)	(297,259)	-	(6,826,647)
Equipment	(20,431,590)	(2,069,171)	131,910	(22,368,851)
Intangible assets	(2,602,189)	(120,787)	-	(2,722,976)
Total Accumulated Depreciation	(31,594,381)	(2,726,390)	131,910	(34,188,861)
Total Capital Assets being depreciated, net	61,083,840	98,916	(196,648)	60,986,108
ELECTRIC - Capital Assets, Net	\$ 67,959,188	\$ 5,186,753	\$ (2,524,090)	\$ 70,621,851

WATER	Beginning Balance 1/1/2020	Increases	Decreases	Ending Balance 12/31/2020
Capital Assets not being depreciated:				
Land	\$ 446,958	\$ 116	\$ -	\$ 447,074
Construction In Progress	68,594	205,617	(237,086)	37,125
Total Capital Assets not being depreciated	515,552	205,733	(237,086)	484,199
Capital Assets being depreciated:				
Buildings	4,885,201	-	-	4,885,201
Other Improvements	25,205,920	553,355	-	25,759,275
Equipment	2,947,174	104,514	(5,000)	3,046,688
Total Capital Assets being depreciated	33,038,295	657,869	(5,000)	33,691,164
Less Accumulated Depreciation for:				
Buildings	(1,677,058)	(105,085)	-	(1,782,143)
Other Improvements	(10,113,102)	(494,979)	-	(10,608,081)
Equipment	(1,270,220)	(200,770)	5,000	(1,465,990)
Total Accumulated Depreciation	(13,060,380)	(800,834)	5,000	(13,856,214)
Total Capital Assets being depreciated, net	19,977,915	(142,965)	-	19,834,950
WATER - Capital Assets, Net	\$ 20,493,467	\$ 62,768	\$ (237,086)	\$ 20,319,149

	Beginning Balance 1/1/2020	Increases	Decreases	Ending Balance 12/31/2020
WASTEWATER				
Capital Assets not being depreciated:				
Land	\$ 1,264,090	\$ 116	\$ -	\$ 1,264,206
Construction In Progress	2,342,244	1,454,132	(913,413)	2,882,963
Total Capital Assets not being depreciated	3,606,334	1,454,248	(913,413)	4,147,169
Capital Assets being depreciated:				
Buildings	45,910,018	-	-	45,910,018
Other Improvements	32,541,130	911,783	-	33,452,913
Equipment	5,845,427	72,897	(41,400)	5,876,924
Total Capital Assets being depreciated	84,296,575	984,680	(41,400)	85,239,855
Less Accumulated Depreciation for:				
Buildings	(15,388,809)	(920,087)	-	(16,308,896)
Other Improvements	(18,779,888)	(655,615)	-	(19,435,503)
Equipment	(3,455,668)	(318,550)	41,400	(3,732,818)
Total Accumulated Depreciation	(37,624,365)	(1,894,252)	41,400	(39,477,217)
Total Capital Assets being depreciated, net	46,672,210	(909,572)	-	45,762,638
WASTEWATER - Capital Assets, Net	\$ 50,278,544	\$ 544,676	\$ (913,413)	\$ 49,909,807

	Beginning Balance 1/1/2020	Increases	Decreases	Ending Balance 12/31/2020
STORMWATER				
Capital Assets not being depreciated:				
Land	\$ 106	\$ -	\$ -	\$ 106
Construction In Progress	40,003	447,101	(33,847)	453,257
Total Capital Assets not being depreciated	40,109	447,101	(33,847)	453,363
Capital Assets being depreciated:				
Buildings	1,458,738	28,575	-	1,487,313
Other Improvements	607,445	5,272	-	612,717
Equipment	328,711	641	-	329,352
Total Capital Assets being depreciated	2,394,894	34,488	-	2,429,382
Less Accumulated Depreciation for:				
Buildings	(63,129)	(32,494)	-	(95,623)
Other Improvements	(115,035)	(18,225)	-	(133,260)
Equipment	(153,693)	(25,595)	-	(179,288)
Total Accumulated Depreciation	(331,857)	(76,314)	-	(408,171)
Total Capital Assets being depreciated, net	2,063,037	(41,826)	-	2,021,211
STORMWATER - Capital Assets, Net	\$ 2,103,146	\$ 405,275	\$ (33,847)	\$ 2,474,574

See Note 14, Other Disclosures.

B. Interest Capitalization

Interest incurred and charged to expense during 2020 is as follows:

Electric	Water	Wastewater	Stormwater	Total
\$ 647,954	\$ 17,509	\$ 56,344	\$ 1,233	\$ 723,040

C. Depreciation Expense

Depreciation expense during 2020 is as follows:

Electric	Water	Wastewater	Stormwater	Total
\$ 2,726,390	\$ 800,834	\$ 1,894,252	\$ 76,314	\$ 5,497,790

NOTE 4 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

A. Construction Commitments

The Utilities have active construction projects as of December 31, 2020. Significant commitments with contractors as of year-end are as follows:

Project	Spent to Date	Remaining Commitment	Funding Source
Salzer Substation Construction	\$ 2,168,795	\$ 360,187	Light Capital Reserves
Upgrade Forebay Stationary Trash Racks	161,206	28,083	Light Revenues
W Summa & Woodland Feeder Upgrade	-	116,352	Light Capital Reserves
Salzer Substation Wood Fence	-	18,610	Light Capital Reserves
Storage Building Construction	52,196	2,529	Water Revenues
Salzer Valley Main Replacement Phase I	-	108,514	Water Revenues
Harrison Ave Cured-In-Place Pipe (CIPP)	70,472	3,414	Wastewater Revenues
Roof Replacement Project	276,560	13,400	Wastewater Revenues
2020 Sanitary Sewer Pipe Burst Project	984,018	47,675	Wastewater Capital Reserves
Jefferson Stormwater Main Upgrade	352,181	74,993	Stormwater Capital Reserves
	\$ 4,065,428	\$ 773,757	

B. Other Commitments

Power Purchase Contracts – **See Note 14, Section B.2. – Power Purchase Contracts**

All significant encumbrances affected by the Utilities as of the end of 2020 have been disclosed.

NOTE 5 - PENSIONS - GOVERNMENTAL PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the [GASB Statement 68, Accounting and Financial Reporting for Pensions](#) for 2020:

Aggregate Pension Amounts - All Plans	
Pension liabilities	\$ 2,205,981
Deferred outflows of resources	686,179
Deferred inflows of resources	771,336
Pension expense/expenditures	37,283

State Sponsored Pension Plans

Substantially all the Utility Funds' full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

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

Or the DRS Comprehensive Annual Financial Report may be downloaded from the DRS website at <http://www.drs.wa.gov>.

Public Employees' Retirement System (PERS)

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

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee
January - August 2020:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.00%
September - December 2020:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	12.97%	6.00%

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

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

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2
January - August 2020:		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.86%	7.90%
September - December 2020:		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.97%	7.90%

The Utility Funds' actual PERS plan contributions were \$310,828 to PERS Plan 1 and \$513,176 to PERS Plan 2/3 for the year ended December 31, 2020.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2020 with a valuation date of June 30, 2019. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Experience Study* and the *2019 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2020. Plan liabilities were rolled forward from June 30, 2019, to June 30, 2020, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

Mortality rates were developed using the Society of Actuaries' Pub. H-2020 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

- OSA updated its demographic assumptions based on the results of its latest demographic experience study. See OSA's 2013-2018 Demographic Experience Study at <http://leg.wa.gov/osa>.
- OSA updated the Early Retirement Factors and Joint-and-Survivor factors used in its model to match the ones implemented by DRS on October 1, 2020. These factors are used to value benefits for members who elect to retire early and for survivors of members that die prior to retirement.
- The valuation includes liabilities and assets for Plan 3 members purchasing Total Allocation Portfolio annuities when determining contribution rates and funded status.
- OSA simplified its modeling of medical premium reimbursements for survivors of duty-related deaths in LEOFF 2.
- OSA changed its method of updating certain data items that change annually, including the public safety duty-related death lump sum and Washington state average wage. OSA set these values at 2018 and will project them into the future using assumptions until the next Demographic Experience Study in 2025. See <http://leg.wa.gov/osa> for more information on this method change.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2020, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of Net Pension Liability

The table below presents the Utilities' proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the Utilities' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.40%)	Current Discount Rate (7.40%)	1% Increase (8.40%)
PERS 1	\$ 1,880,404	\$ 1,501,253	\$ 1,170,594
PERS 2/3	4,385,006	704,728	(2,325,983)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2020, the Utilities reported its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	\$ 1,501,253
PERS 2/3	704,728
Total	\$ 2,205,981

At June 30, 2020, the Utilities' proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/19	Proportionate Share 6/30/20	Change in Proportion
PERS 1	0.044406%	0.042522%	-0.001884%
PERS 2/3	0.057370%	0.055102%	-0.002268%

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

The collective net pension liability was measured as of June 30, 2020, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2019, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2020, the Utilities recognized pension expense as follows:

	Pension Expense
PERS 1	\$ (3,807)
PERS 2/3	41,090
Total	\$ 37,283

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2020, the Utilities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	(8,358)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	158,404	-
TOTAL	\$ 158,404	\$ (8,358)

PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 252,282	\$ (88,319)
Net difference between projected and actual investment earnings on pension plan investments	-	(35,790)
Changes of assumptions	10,037	(481,390)
Changes in proportion and differences between contributions and proportionate share of contributions	5,893	(157,479)
Contributions subsequent to the measurement date	259,563	-
TOTAL	\$ 527,775	\$ (762,978)

ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 252,282	\$ (88,319)
Net difference between projected and actual investment earnings on pension plan investments	-	(44,148)
Changes of assumptions	10,037	(481,390)
Changes in proportion and differences between contributions and proportionate share of contributions	5,893	(157,479)
Contributions subsequent to the measurement date	417,967	-
TOTAL	\$ 686,179	\$ (771,336)

Deferred outflows of resources related to pensions resulting from the Utility Funds' contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

PLAN SUMMARY AMORTIZATION SCHEDULE FOR ALL DEFERRED (INFLOWS) AND OUTFLOWS		
Year	PERS 1	PERS 2/3
2021	\$ (37,931)	\$ (323,363)
2022	(1,193)	(100,842)
2023	11,574	(18,418)
2024	19,191	31,192
2025	-	(41,251)
Thereafter	-	(42,083)
	\$ (8,358)	\$ (494,766)

NOTE 6 - PENSIONS - NON-GOVERNMENTAL PLANS

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

Union Sponsored Pension Plan

Under collective bargaining agreements (CBA's) between the City and the International Brotherhood of Teamsters Local Union #252 ("the Union"), the Utilities provide pension benefits to approximately twenty-three (23) full-time and qualifying part-time employees. The City and the Union have agreed to be bound by the provisions of the Agreement and Declaration of Trust of the Western Conference of Teamster Pension Trust Fund and agree that the Trustees of that Trust shall act as Trustees on their behalf.

Western Conference of Teamsters Pension Plan

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

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

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

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

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

Contributions

Employer contributions to the Plan are determined pursuant to CBA’s between the City and the Union for two (2) employee groups that perform work for the Utilities. In addition, covered employees for each employee group may collectively elect to defer a portion of their wages as contributions to the Plan, which are incorporated as amendments to the CBA. Employer contribution rates are established and may be amended during collective bargaining negotiations and are based on hours worked by each covered employee within each bargaining unit employee group. CBA’s for both employee groups currently in effect expire December 31, 2021.

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

PENSION PLAN CONTRIBUTION RATES				
Year	Stormwater Operations Staff		Utilities Administrative & Customer Service Staff	
	Employer	Employee	Employer	Employee
2019	0.15	2.60	0.15	1.50
2020	0.15	2.60	0.15	1.50
2021	0.15	2.60	0.15	1.50

The Utility Funds’ required contributions to the Plan were \$2,912 for 2020.

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

Payables

Amounts due from the Utilities to the Plan at the end of the year were \$275, which were paid as required by the 10th of the month following the pay period month-end. The amounts due are attributed to wages earned during December 2020 and are considered required contributions under the Plan.

NOTE 7 - OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLANS

The following represents the aggregate OPEB amounts for all plans subject to the requirements of Governmental Accounting Standards Board (GASB) Statement No. 75, [*Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*](#), for the year 2020:

AGGREGATE OPEB AMOUNTS - ALL PLANS	
OPEB liabilities	\$ 853,831
Deferred outflows of resources	1,719
OPEB expense/expenditures	222,637

Public Employees Benefits Board (PEBB)

Plan Description

The Utility Funds are participants in Washington State's PEBB program, a multi-employer defined benefit plan, administered by the Washington State Health Care Authority. The plan provides medical, dental, and life insurance benefits for public employees, retirees, and their dependents. The PEBB is authorized to design plan benefits and determine the terms and conditions of employee and retiree participation and coverage and establishes eligibility criteria for both active employees and retirees. The PEBB OPEB plan is funded on a pay-as-you-go basis.

Benefits Provided

The benefits provided by the PEBB to pre-age 65 and post-age 65 retirees and spouses include both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by post-age 65 members enrolled in Medicare Parts A and B. The PEBB determines the amount of explicit subsidy annually. As of January 1, 2020, the explicit subsidy is the lesser of \$183 or 50% of the monthly premiums. The explicit subsidy is expected to remain at this level through 2022.

The implicit subsidy results from the inclusion of active employees and non-Medicare eligible retirees (pre-age 65) in the same cost pool when determining premiums. The implicit subsidy is the difference between the total cost of medical benefits provided and the premiums paid by each member. There is an implicit subsidy paid by active employees because the premiums paid by the retirees are lower than they would have been if the retirees were insured separately.

Employees Covered by Benefit Terms

As of the measurement date of June 30, 2020, employees covered by the plan were as follows:

PEBB OPEB PLAN - COVERED EMPLOYEES	
Inactive employees (retirees)	-
Active employees	19

The PEBB retiree OPEB plan is available to employees who elect, at the time they retire, to continue coverage and pay the administratively established premiums under the provisions of the State retirement system to which they belong. All Utilities OPEB plan member employees are covered under the State PERS retirement system.

Trust Asset Information

The PEBB plan is administered through a trust that does not meet the requirements of a qualifying trust under paragraph 4 of GASB 75. In order to meet the requirements of paragraph 4, the trust must only pay benefits for post-employment healthcare. The PEBB plan provides healthcare benefits to both active employees and retirees.

Contributions

Administrative costs as well as implicit and explicit subsidies are funded by required contributions from participating employers. The subsidies provide monetary assistance for medical benefits. The amount paid by the Utilities for OPEB as of the measurement date of June 30, 2020 was \$3,237.

Total OPEB Liability

The Utilities elected to use the Alternative Measurement Method (AMM) to calculate its 2020 OPEB liability in lieu of an actuarial valuation. Use of the AMM is permitted by GASB 75 for employers with OPEB plans that have fewer than one hundred total plan members. A specific AMM tool created by the Washington State Office of the State Actuary (OSA) was used by the Utilities for this purpose.

As of June 30, 2020, the Utilities' total PEBB Plan OPEB liability is \$853,831.

Assumptions and Other Inputs

The total PEBB OPEB plan liability was determined using the following assumptions and other inputs, unless otherwise specified. These assumptions and other inputs, unless stated otherwise, are consistent with the 2018 PEBB OPEB Actuarial Valuation Report published by the OSA:

PEBB OPEB PLAN - Methodology	
Actuarial valuation date	6/30/2020
Actuarial measurement date	6/30/2020
Actuarial cost method	Entry Age
Amortization method	Recognized Immediately
Asset valuation method	N/A (No Assets)

PEBB OPEB PLAN - Assumptions	
Discount rate:*	
Beginning of measurement year	3.50%
End of measurement year	2.21%
Projected salary changes	3.5% + Service-Based Increases
Healthcare trend rates**	Initial rate ~ 7%, trends down to ~ 5% in 2020
Mortality rates:	
Base mortality table	Healthy RP-2000
Age setback	1 year
Mortality improvements	100% scale BB
Projection period	Generational
Inflation rate	2.75%
Post-retirement participation %	65%
Percentage with spouse coverage	45%

*Source: Bond Buyer General Obligation 20-Bond Municipal Index

**Trend rate assumptions vary slightly by medical plan. For additional detail on the healthcare trend rates, please see OSA's 2018 PEBB OPEB Actuarial Valuation Report.

In addition, specific assumptions were made by the OSA in the development of the AMM online tool that vary from the underlying GASB 75 actuarial valuation that the OSA performed for the State of Washington. More information can be obtained from the OSA website at <http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx>.

Sensitivity of the Total OPEB Liability

The following table presents the Total OPEB Liability calculated using the current Discount Rate and the current Healthcare Cost Trend Rate, assuming a 1% increase and a 1% decrease to each of these current rates.

PEBB OPEB PLAN - Sensitivity Analysis				
TOTAL OPEB LIABILITY		1% Decrease	Current	1% Increase
Discount Rate - current rate 2.21%		\$ 1,039,631	\$ 853,831	\$ 708,949
Healthcare Cost Trend Rate - current rate ~5.0%		690,320	853,831	1,071,127

Changes in the Total OPEB Liability

PEBB OPEB PLAN - Changes in the Total OPEB Liability	
Total OPEB Liability at 6/30/2018	\$ 634,431
Service cost	36,286
Interest	23,419
Changes in experience data & assumption	162,932
Changes in benefit terms	-
Benefit payments	(3,237)
Other changes	-
Total OPEB Liability at 6/30/2019	\$ 853,831

Total OPEB Expense for 2020 is \$39,294.

Deferred Outflows of Resources of \$1,429 resulting from payments made subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended December 31, 2021.

NOTE 8 - RISK MANAGEMENT

Liability, Property, Automobile and Fidelity Insurance

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

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 162 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 \$400 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 other 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.

During the past three years, there have been no settlements that exceeded coverage limits.

NOTE 9 - LONG-TERM DEBT

The Electric and Water utilities issues revenue bonds to finance the acquisition and construction of Electric and Water utility plant assets. Bonded indebtedness has also been entered into in prior years to advance refund several revenue bonds. Revenue bonds are repaid from applicable utility revenues. The Water, Wastewater, and Stormwater utilities are also liable for loans entered into for the acquisition and construction of Water, Wastewater, and Stormwater utility plant assets. These loans are considered obligations of the applicable utilities and are being repaid with utility revenues.

As required by bond indentures and loan agreements, the Utilities have restricted assets of \$4,388,656 in sinking funds and loan reserves. The Utilities are in compliance with all bond covenants and loan agreements.

A. Public Placement and Direct Placement Revenue Bonds

The Electric and Water utilities have issued revenue bonds, two of which are Direct Placement issues, to finance the acquisition and construction of major utility infrastructure. The bonds are secured by their respective utility revenues, which are pledged resources for timely payment of bond principal and interest when due.

Significant events of default for Public Placement bonds issued include failure to make punctual payment of bond principal and/or interest or failure to purchase or redeem term bonds when due. Within 90 days of a delinquency, bond owners may select a trustee to act on their behalf within the terms listed in the bond ordinance. For Direct Placement bonds, the bond ordinances show no events of default. Interest continues to accrue on outstanding bonds in the event of any delinquency at the applicable interest rate until the bond is paid.

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

Revenue bonds currently outstanding are as follows:

Purpose	Issue Type	Maturity Range	Interest Rates	Original Amount	2020 Principal & Interest
Electric Construction Projects	Public Placement	10/7/10 to 12/1/30	5.54%	11,055,000	1,104,425
Electric Construction Projects - Refunding	Direct Placement	12/3/15 to 12/1/26	2.38%	9,684,433	1,198,558
Total Electric Revenue Bonds				20,739,433	2,302,983
Water Construction Projects - Refunding	Direct Placement	5/1/13 to 5/1/21	1.98%	1,128,964	112,309
Total Water Revenue Bonds				1,128,964	112,309
TOTAL ALL REVENUE BONDS				\$ 21,868,397	\$ 2,415,292

Public Placement revenue bond debt service payment requirements to maturity are as follows:

Year Ending December 31	Electric Revenue Bonds	
	Principal	Interest
2021	635,000	416,025
2022	655,000	382,986
2023	680,000	348,907
2024	705,000	313,526
2025	725,000	276,845
2026-2030	4,055,000	735,651
2031-2035	-	-
TOTALS	\$ 7,455,000	\$ 2,473,940

Direct Placement revenue bond debt service payment requirements to maturity are as follows:

Year Ending December 31	Electric Revenue Bonds		Water Revenue Bonds		Total Direct Placement Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	1,040,044	156,863	109,908	1,088	1,149,952	157,951
2022	1,061,447	132,110	-	-	1,061,447	132,110
2023	1,086,660	106,848	-	-	1,086,660	106,848
2024	1,110,338	81,207	-	-	1,110,338	81,207
2025	1,133,111	54,559	-	-	1,133,111	54,559
2026-2030	1,159,291	27,591	-	-	1,159,291	27,591
2031-2035	-	-	-	-	-	-
TOTALS	\$ 6,590,891	\$ 559,178	\$ 109,908	\$ 1,088	\$ 6,700,799	\$ 560,267

See **Note 14, Section C.2. - Subsequent Events** for information on the 2021 Electric Revenue Refunding Bond issued in March 2021.

B. Direct Borrowings from Washington State agencies

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

Significant events of default on Direct Borrowings include payment delinquencies in excess of 30 days or 60 days, depending on the specific loan agreement. Late payment penalties assessed on delinquencies amount to approximately 1% per month. In addition, lending agency boards may notify other creditors, the State of Washington, and the United States Government of delinquency or may accelerate repayment of all principal and interest as immediately due and payable, including reasonable legal fees, depending on specific loan terms.

Direct Borrowings from Washington State agencies currently outstanding are as follows:

Fund - Purpose - Loan Type	Maturity Range	Interest Rates	Original Amount	2020
				Principal & Interest
Water - Cooks Hill Water - PWTF	7/30/02 to 6/1/22	1%	\$ 2,316,356	\$ 131,959
Water - Ham Hill Water - SRF	7/30/04 to 10/1/23	1%	624,240	34,169
Water - Port North Ext - SRF	8/11/05 to 10/1/24	1%	2,197,866	121,461
Total Water Loans			5,138,462	287,589
Sewer - Swanson Heights - PWTF	4/18/02 to 6/1/21	2%	1,307,382	43,126
Sewer - Maple Hansen - PWTF	7/1/03 to 6/1/22	1%	280,098	8,550
Sewer - Cooks Hill Sewer - PWTF	7/4/04 to 6/1/24	1%	1,192,500	64,511
Sewer - Treatment Plant A - SRF	11/1/05 to 11/1/24	0%	33,009,836	1,692,812
Sewer - Treatment Plant B - SRF	8/31/06 to 8/31/26	0%	591,946	30,356
Sewer - I&I Reduction Proj - SRF	12/31/13 to 12/31/32	2.50%	3,003,050	193,860
Total Sewer Loans			39,384,812	2,033,215
Storm - I&I Reduction Proj - SRF	12/31/13 to 12/31/32	2.50%	70,067	4,523
Total Storm Loans			70,067	4,523
TOTAL ALL SRF & PWTF LOANS				\$ 44,593,341 \$ 2,325,327

Direct Borrowings from Washington State agencies debt service requirements to maturity are as follows:

Year Ending	Water Loans		Wastewater Loans		Stormwater Loans		Total Direct Borrowings from Washington State agencies	
December 31	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2021	276,648	8,175	1,980,436	51,552	3,373	1,150	2,260,457	60,877
2022	276,648	5,409	1,942,625	46,669	3,458	1,065	2,222,731	53,142
2023	148,532	2,642	1,938,072	42,523	3,546	977	2,090,150	46,143
2024	115,677	1,157	1,941,915	38,365	3,635	888	2,061,228	40,410
2025	-	-	190,106	34,110	3,727	796	193,833	34,906
2026-2030	-	-	891,785	107,873	20,099	2,517	911,884	110,390
2031-2032	-	-	375,841	11,880	8,769	277	384,610	12,157
TOTALS	\$ 817,505	\$ 17,383	\$ 9,260,781	\$ 332,972	\$ 46,607	\$ 7,670	\$ 10,124,893	\$ 358,025

NOTE 10 - CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2020, the following changes occurred in long-term liabilities:

	*Beginning Balances	Additions	Reductions	Ending Balances	Due Within One Year
Revenue bonds (net of discounts/premiums):					
Public Placement	\$ 8,115,000	\$ -	\$ (660,000)	\$ 7,455,000	\$ 635,000
Direct Placement	7,820,450	-	(1,124,937)	6,695,513	1,148,995
Direct Borrowings	12,381,701	-	(2,256,808)	10,124,893	2,260,457
Other post-employment benefits	634,431	222,637	(3,237)	853,831	3,438
Pensions	2,264,848	-	(58,867)	2,205,981	-
Compensated absences/ Excess compensation	967,476	182,609	(1,665)	1,148,420	57,421
Total long-term liabilities	\$ 32,183,906	\$ 405,246	\$ (4,105,514)	\$ 28,483,638	\$ 4,105,311

*Beginning balances have been restated for comparability.

NOTE 11 - CONTINGENCIES AND LITIGATION

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

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

NOTE 12 - INTERFUND LOANS

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

Interfund loan activity during 2020:

Borrowing Fund	Lending Fund	Balance 1/1/2020	New Loans	Repayments	Balance 12/31/2020
General	Wastewater	\$ 820,000	\$ -	\$ 82,000	\$ 738,000

NOTE 13 – CERTAIN ASSET RETIREMENT OBLIGATIONS

The Utilities have evaluated potential asset retirement obligations (ARO) associated with the retirement of tangible capital assets and has identified the following:

- Decommissioning of the Yelm Hydroelectric Generation Facility
- Decommissioning of the Water Resource Protection Wells
- Decommissioning of the Wastewater Treatment Facility

The Yelm Hydroelectric Generation Facility and the Wastewater Treatment Facility are expected to be operated and maintained into perpetuity. As the Utilities cannot estimate the timing or extent of the obligation associated with these assets, a reasonable estimate of the obligation cannot be made. As such, ARO liabilities have not been recorded for retirement activities associated with these assets. An ARO will be recorded if future events warrant any changes.

The retirement obligation liability for the Water Resource Protection Wells has been determined to be immaterial.

The Utilities do not have any recorded ARO's as of December 31, 2020.

NOTE 14 - OTHER DISCLOSURES

A. Accounting and Reporting Changes

1. Reporting Changes

- Financial Reporting** - Beginning with Fiscal Year 2011, the City is required to report all funds, including the Utilities, on a combined single basis and has chosen to do so on a cash basis. Prior to 2011 and for the prior four years, the City had issued two separate reports: one report for the Utilities prepared on a GAAP basis and another report for the governmental operations prepared on a cash basis. The City plans to continue recording transactions for the Utilities on a GAAP basis and make appropriate re-statements to report on the Cash Basis at each year-end. To comply with other external requirements, the City will also issue separate GAAP financial statements for the Utilities.
- Capital Asset Policy** - A citywide Capital Asset Policy was adopted by the City Council on July 9, 2019. The Utilities have implemented these policy changes effective beginning in 2018 for capital asset additions and related depreciation calculations. Existing capital asset records are undergoing a process of continuous improvement.
- GASB Implementation**

On May 8, 2020, the GASB issued [GASB Statement No. 95 – Postponement of the Effective Dates of Certain Authoritative Guidance](#). The intent of this guidance is to provide relief to governments and other stakeholders in light of the COVID-19 pandemic. Accordingly, the Utilities have delayed implementation of all new pronouncements with an original effective date in 2020 and delayed under GASB Statement 95.

In March 2018, the GASB issued [GASB Statement No. 88 – Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements](#). The objective of the Statement is to improve consistency in the information disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and provide financial statement users with additional essential information about debt. The Utilities have implemented GASB Statement 88 effective with the 2020 financial statements. Restatements of amounts from the prior year relating to this Statement and shown within these financial statements are for comparative purposes.

In November 2016, the GASB issued [GASB Statement No. 83 – Certain Asset Retirement Obligations](#). The object of this statement is to address accounting and financial reporting for asset retirements that carry legally enforceable remediation obligations. It establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources and requires additional disclosures in the notes to the financial statements. The Utilities have implemented GASB Statement 83 effective with the 2020 financial statements.

B. Other

1. Prior Period Adjustments

During 2020, it was discovered that a Wastewater Fund project that commenced in 2019 was being expensed when it should have been capitalized. To correct for this error, a prior period adjustment was booked in 2020 in the Wastewater Fund to increase Construction in Progress by \$14,812 and increase the Net Investment in Capital Assets component of Net Position by the same amount.

2. Power Purchase Contracts

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

Under the contract, the Utility is required to inform BPA how it plans to serve its load above the allocation amount (AHWM). The City has entered into a power purchase commitment agreement with Northwest Intergovernmental Energy Supply (NIES), a Northwest Requirements Utilities related organization, to supply power needs above the BPA Tier 1 amount using non-Federal sources through September 30, 2023.

In 2020, BPA and NIES provided 84.9% of the power supply, with the remainder produced by the Yelm Hydroelectric Project. Charges for the BPA purchased power and transmission were \$8,770,067 in 2020. Charges for non-Federal AHWM power purchases from NIES amounted to \$1,233,421 in 2020.

3. Special Item – Negotiated Payment

On April 20, 2016 a Sewer Utility Reimbursement Contract was entered into by the Horner Family Limited Partnership (Horner), the developer, and the City in recognition that existing and future adjacent property owners would be connecting to the new sewer system. Upon connection, said property owners would be required to pay their portion of the project's construction costs as outlined in the agreement. Additionally, Centralia Municipal Code (CMC) 15.10.100 requires affected property owners connect to the sewer within 60 days of certification of sewer project completion. Certification of project completion was obtained on July 27, 2016.

In the years since, the City has made several efforts to require the affected homeowners to connect to the new sewer system per the requirements of CMC 15.10.100 to no avail. Most of the affected properties are of fairly low value and, with an average cost to connect of approximately \$24,000 (which includes the City's capital facility charge), has caused a financial hardship for the homeowners.

Ordinance 2432 passed by the City Council on May 28, 2019, waives the capital facility charge for properties within the City's Critical Aquifer Area for the two-year period June 1, 2019 through May 31, 2021. In recognition of protecting the City's municipal water supply from contamination, this ordinance provides an incentive for homeowners to connect to nearby city sewer and retire existing septic systems within the affected area.

An Agreement to Pay Interest on the outstanding Sewer Utility Reimbursement Contract with Horner was negotiated and effective on October 8, 2019. The agreement requires the City to pay 3% interest on the outstanding portion of the reimbursement contract from October 24, 2016 to May 31, 2021 (payments to be made quarterly) in exchange for a two year forbearance on the collection of the reimbursement contract. In addition, on June 2, 2021 Horner is to be paid in full for any remaining sewer reimbursement fees due under the contract.

4. COVID-19 PANDEMIC

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 Utilities is unknown at this time.

C. Subsequent Events

1. American Rescue Plan Act

On March 11, 2021, President Biden signed the American Rescue Plan Act (ARPA). The City anticipates receiving a Non-entitlement unit of local government (NEU) funding from the Coronavirus Local Fiscal Recovery Fund to respond to the Coronavirus-19 pandemic. The first tranche of anticipated funding is expected by June 30, 2021.

2. Debt Refunding

On February 9, 2021, the City Council approved the issuance of a revenue refunding bond for the Electric Utility. On March 17, 2021 the City refunded both the 2010 Electric System Revenue Bonds and the 2015 Electric System Revenue Refunding Bonds to take advantage of reduced interest rates on the market. The Electric Fund anticipates realizing over \$1,400,000 in debt service savings over the remaining term of the bond, which matures in 2030.

REQUIRED SUPPLEMENTARY INFORMATION - STATE SPONSORED PENSION PLANS

City of Centralia - Utility Funds

Schedule of Proportionate Share of the Net Pension Liability

PERS Plan 1

As of June 30, 2020

Last 6 Fiscal Years*

	2015	2016	2017	2018	2019	2020
Employer's (entire City) proportion of the net pension liability	0.075450%	0.071207%	0.070987%	0.067145%	0.066301%	0.064568%
Employer's (entire City) proportionate share of the net pension liability	\$ 3,946,737	\$ 3,824,151	\$ 3,368,389	\$ 2,998,719	\$ 2,549,509	\$ 2,279,599
Utilities' proportion of entire City	70.897%	70.074%	70.004%	68.468%	66.977%	65.856%
Utilities' proportion of the net pension liability	0.053492%	0.049898%	0.049694%	0.045973%	0.044406%	0.042522%
Utilities' proportionate share of the net pension liability	\$ 2,798,111	\$ 2,679,735	\$ 2,358,008	\$ 2,053,163	\$ 1,707,585	\$ 1,501,253
Utilities' covered payroll	\$ 5,850,178	\$ 5,901,725	\$ 6,157,997	\$ 6,102,087	\$ 6,244,479	\$ 6,475,754
Utilities' proportionate share of the net pension liability as a percentage of covered payroll	47.83%	45.41%	38.29%	33.65%	27.35%	23.18%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%	61.24%	63.22%	67.12%	68.64%
Notes to Schedule:						
PERS Plan 1 has an unfunded actuarially accrued liability which receives contributions from PERS Plan 2/3 as required by RCW 41-45.060.						
*Until a full 10-year trend is compiled, the Utilities will present information only for those years for which information is available.						

REQUIRED SUPPLEMENTARY INFORMATION - STATE SPONSORED PENSION PLANS

City of Centralia - Utility Funds

Schedule of Proportionate Share of the Net Pension Liability

PERS Plan 2/3

As of June 30, 2020

Last 6 Fiscal Years*

	2015	2016	2017	2018	2019	2020
Employer's (entire City) proportion of the net pension liability	0.089115%	0.087414%	0.087864%	0.084628%	0.085657%	0.083671%
Employer's (entire City) proportionate share of the net pension liability	\$ 3,184,130	\$ 4,401,226	\$ 3,052,854	\$ 1,444,948	\$ 832,021	\$ 1,070,104
Utilities' proportion of entire City	69.949%	70.270%	70.258%	68.564%	66.977%	65.856%
Utilities' proportion of the net pension liability	0.062335%	0.061426%	0.061731%	0.058024%	0.057370%	0.055102%
Utilities' proportionate share of the net pension liability	\$ 2,227,255	\$ 3,092,742	\$ 2,144,874	\$ 990,714	\$ 557,263	\$ 704,728
Utilities' covered payroll	\$ 5,554,517	\$ 5,802,436	\$ 6,068,600	\$ 6,077,311	\$ 6,244,479	\$ 6,475,754
Utilities' proportionate share of the net pension liability as a percentage of covered payroll	40.10%	53.30%	35.34%	16.30%	8.92%	10.88%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%	90.97%	95.77%	97.77%	97.22%
Notes to Schedule:						
*Until a full 10-year trend is compiled, the Utilities will present information only for those years for which information is available.						

REQUIRED SUPPLEMENTARY INFORMATION - STATE SPONSORED PENSION PLANS

City of Centralia - Utility Funds
Schedule of Employer Contributions
PERS Plan 1
As of December 31, 2020
Last 6 Fiscal Years*

	2015	2016	2017	2018	2019	2020
Statutorily or contractually required contributions	\$ 268,032	\$ 292,659	\$ 310,760	\$ 304,267	\$ 320,057	\$ 310,828
Contributions in relation to the statutorily or contractually required contributions	(268,032)	(292,659)	(310,760)	(304,267)	(320,057)	(310,828)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 5,922,047	\$ 6,000,932	\$ 6,252,496	\$ 6,009,275	\$ 6,474,991	\$ 6,479,487
Contributions as a percentage of covered payroll	4.53%	4.88%	4.97%	5.06%	4.94%	4.80%
Notes to Schedule:						
*Until a full 10-year trend is compiled, the Utilities will present information only for those years for which information is available.						

City of Centralia - Utility Funds
Schedule of Employer Contributions
PERS Plan 2/3
As of December 31, 2020
Last 6 Fiscal Years*

	2015	2016	2017	2018	2019	2020
Statutorily or contractually required contributions	\$ 320,791	\$ 368,057	\$ 424,672	\$ 450,691	\$ 500,012	\$ 513,176
Contributions in relation to the statutorily or contractually required contributions	(320,791)	(368,057)	(424,672)	(450,691)	(500,012)	(513,176)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 5,692,328	\$ 5,902,240	\$ 6,187,464	\$ 6,009,275	\$ 6,474,991	\$ 6,479,487
Contributions as a percentage of covered payroll	5.64%	6.24%	6.86%	7.50%	7.72%	7.92%
Notes to Schedule:						
*Until a full 10-year trend is compiled, the Utilities will present information only for those years for which information is available.						

REQUIRED SUPPLEMENTARY INFORMATION -NON-GOVERNMENTAL PENSION PLANS

**City of Centralia - Utility Funds
Schedule of Employer's Required Contributions
Western Conference of Teamsters Pension Plan Trust
As of December 31, 2020
Last 5 Fiscal Years***

	Year		Contributions	
	2016	\$	2,353	
	2017		2,317	
	2018		3,563	
	2019		3,205	
	2020		2,912	
Notes to Schedule:				

*Until a full 10-year trend is compiled, the Utilities will present information only for those years for which information is available.

REQUIRED SUPPLEMENTARY INFORMATION -OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLANS

City of Centralia - Utility Funds Schedule of Changes in Total OPEB Liability and Related Ratios PEBB OPEB Plan Year Ended June 30, 2020 Last 3 Fiscal Years*			
	2018	2019	2020
Total OPEB Liability - beginning	\$ -	\$ 676,992	\$ 634,431
Service cost	676,992	33,523	36,286
Interest	-	27,434	23,419
Changes in experience data & assumptions	-	(100,251)	162,932
Changes in benefit terms	-	-	-
Benefit payments	-	(3,267)	(3,237)
Other changes	-	-	-
Total OPEB Liability - ending	\$ 676,992	\$ 634,431	\$ 853,831
Covered-employee payroll	644,851	1,389,961	1,484,936
Total OPEB liability as a % of covered payroll	104.98%	45.64%	57.50%
Notes to Schedule:			
No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.			
OPEB Plan membership began January 1, 2018.			
*Beginning with the current fiscal year, and until a full 10-year trend is compiled, the Utilities will present information for those years for which information is available on a forward-looking basis.			

CITY OF CENTRALIA UTILITIES
Notes to Required Supplementary Information
December 31, 2020

NOTE 1 - SIGNIFICANT FACTORS AFFECTING TRENDS

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

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the 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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