



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

City of Centralia

For the period January 1, 2022 through December 31, 2022

Published August 29, 2024

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

August 29, 2024

City Council
City of Centralia
Centralia, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Centralia's financial statements and compliance with federal laws and regulations.

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Centralia January 1, 2022 through December 31, 2022

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Centralia are summarized below in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the City’s financial statements in accordance with its regulatory basis of accounting. Separately, we issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared using a basis of accounting other than GAAP.

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City’s compliance with requirements applicable to each of its major federal programs.

We reported findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>ALN</u>	<u>Program or Cluster Title</u>
20.205	Highway Planning and Construction Cluster - Highway Planning and Construction
21.027	COVID-19 – Coronavirus State and Fiscal Local Recovery Funds

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

See Finding 2022-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See Finding 2022-002.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Centralia January 1, 2022 through December 31, 2022

2022-001 The City did not have adequate internal controls ensuring accurate reporting of its financial statements and compliance with timely annual report submissions.

Background

State and federal agencies, the City Council and the public rely on information included in the financial statements and reports to make decisions. Management is responsible for designing and following internal controls that provide reasonable assurance its financial reporting is reliable and the financial statements, schedules and notes to the financial statements are accurate.

The City prepares its financial statements in accordance with the cash-basis accounting method prescribed in the State Auditor's Office's *Budgeting, Accounting and Reporting System* (BARS Manual).

State law (RCW 43.09.230) requires the City to submit an annual financial report to the State Auditor's Office within 150 days after the end of its fiscal year, with accurate, summarized financial information and supporting schedules.

Our audit found deficiencies in internal controls over financial reporting that hindered the City's ability to produce reliable financial statements. *Government Auditing Standards* requires the State Auditor's Office to communicate material weaknesses as a finding.

Description of Condition

We identified the following deficiencies in the City's internal controls over financial reporting that, when taken together, represent a material weakness:

- The City did not have internal controls in place to submit the required annual reports to our Office within 150 days after fiscal year-end for 2022.
- The City did not have a process in place to ensure it properly recorded and reflected all year-end adjustments in the financial statements it submitted for audit.

- The City's internal controls were not sufficient to ensure it performed a thorough and meaningful secondary review of the annual report before submitting it for audit.

We reported these issues as a finding in the prior audit.

Cause of Condition

The City experienced significant turnover in key accounting and finance positions over the past several years. As a result, staff members were unable to dedicate sufficient time and resources to ensure timely filing of financial reports. Additionally, due to this turnover, no staff members were available to perform a thorough and meaningful secondary review when the City filed the annual reports.

Effect of Condition

The City filed its 2022 annual report 196 days late. Delays in the availability of complete financial reports prevent City officials, the public and other interested parties from obtaining timely information. Such delays and inaccuracies also hinder public transparency and our Office's efforts to compile statistical and financial information that the Legislature and others use. Further, the City's failure to submit reports on time impeded our Office's ability to audit the government in a timely manner, as state law requires.

Additionally, our audit found the following errors. The City:

- Overstated total revenues and other increases by \$988,475
- Overstated total expenses and other decreases by \$5,924,747
- Understated total ending cash and investments by \$1,863,906
- Overstated total liabilities by \$4,208,863

We also identified less significant errors that we communicated to management during the audit. The City corrected the financial statements because of our audit.

Recommendation

We recommend the City establish internal controls to ensure timely financial reporting in accordance with state law. Further, we recommend the City strengthen its internal controls over financial reporting and dedicate time and resources to ensure staff accurately record year-end adjustments to the financial statements. Lastly, we recommend that staff familiar with applicable reporting requirements

perform an independent and appropriately detailed review of the financial statements, notes and supplemental schedules to ensure their accuracy.

City's Response

We appreciate the opportunity to respond to the audit finding regarding deficiencies in controls over our process for preparing financial statements. We take this matter seriously and are committed to addressing the issues raised. As noted in your report, the deficiencies primarily stem from the significant loss of staff in 2022 and early 2023. The 40 years of institutional experience lost included the staff responsible for preparing the city financial statements. The extended recruitment of staff and onboarding of new staff and bringing them up to speed caused the delayed submission of the financial statements. The city has filled all the positions that were vacant and have added an additional FTE in the city accountant position in early 2023. Current staff who will prepare the financial statements have all attended SAO BARS Training and annual report training offered by MRSC. The additional FTE will ensure timely review and submission of the financial statements, allowing the finance director to be the independent detailed review of the financial statements, notes and schedules. Due to the extended time required for the completion of the 2021 and 2022 audit process the 2023 statements will be delayed.

Auditor's Remarks

We appreciate the steps the City is taking to resolve this issue. We will review the corrective action taken during our next audit.

Applicable Laws and Regulations

RCW 43.09.230, Local government accounting – Annual reports – Comparative statistics.

Government Auditing Standards, July 2018 Revision, paragraphs 6.40 and 6.41 establish reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud, and noncompliance with provisions of laws, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

RCW 43.09.200 Local government accounting – Uniform system of accounting, requires the State Auditor to prescribe the system of accounting and reporting for all local governments.

Budgeting, Accounting and Reporting System (BARS Manual), 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

City of Centralia January 1, 2022 through December 31, 2022

2022-002 The City did not have adequate internal controls for ensuring compliance with federal suspension and debarment requirements.

Assistance Listing Number and Title:	21.027 – COVID-19 State and Local Fiscal Recovery Funds
Federal Grantor Name:	U.S. Department of the Treasury
Federal Award/Contract Number:	1505-0271
Pass-through Entity Name:	N/A
Pass-through Award/Contract Number:	N/A
Known Questioned Cost Amount:	\$0
Prior Year Audit Finding:	N/A

Background

The objective of the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) program is to respond to the COVID-19 pandemic's negative effects on public health and the economy, provide premium pay to essential workers during the pandemic, provide government services to the extent COVID-19 caused a reduction in revenues collected, and make necessary investments in water, sewer or broadband infrastructure. In 2022, the City spent \$406,007 of program funds.

Federal regulations require recipients to establish and maintain internal controls that ensure compliance with program requirements. These controls include understanding program requirements and monitoring the effectiveness of established controls.

Federal regulations prohibit recipients from contracting with or purchasing from parties suspended or debarred from doing business with the federal government. Whenever the City enters into contracts or purchases goods or services that it expects to equal or exceed \$25,000, paid all or in part with federal funds, it must verify the contractors have not been suspended, debarred or otherwise excluded.

The City may verify this by collecting a written certification from the contractor, adding a clause or condition into the contract that states the contractor is not suspended or debarred, or checking for exclusion records in the U.S. General Services Administration's System for Award Management at sam.gov. The City must verify this before entering into the contract and keep documentation demonstrating compliance with this federal requirement. Federal regulations also prohibit recipients from contracting with parties suspended or debarred from doing business with the federal government.

Description of Condition

During the fiscal year 2022, the City paid \$338,559 to two contractors with monies from Coronavirus State and Local Fiscal Recovery Funds. The City did not have controls in place to verify and maintain documentation demonstrating that all parties receiving \$25,000 or more in federal funds were not suspended or debarred before entering into new contracts with them. The City did not obtain a written certification, include a clause in the contract or check sam.gov to verify that both contractors were not suspended or debarred.

We consider this deficiency in internal controls to be a material weakness that led to material noncompliance.

Cause of Condition

The City did not clearly assign responsibility to ensure this requirement was met. City officials originally indicated this was handled at the department level; however, the departments responsible for these purchases were unaware of the requirement.

Effect of Condition

The City did not obtain written certifications, insert a clause into the contracts or check sam.gov to verify both contractors were not suspended or debarred.

Without this verification, the City increases its risk of providing federal funds to contractors that are excluded from participating in federal programs. Any payments the City made to an ineligible party would be unallowable and the federal grantor could potentially recover them.

The City subsequently verified the contractors were not suspended or debarred. Therefore, we are not questioning costs for these payments.

Recommendation

We recommend the City develop internal controls to ensure contractors it pays \$25,000 or more, all or in part with federal funds, are not suspended or debarred before entering into new contracts with them.

City's Response

The City concurs with this finding. The city will provide training to all managers about requirements of federal projects and require that verification of the suspension and debarment search when federal funds are being spent are sent to the finance department for retention. As noted by the finding, all contractors/vendors were not suspended.

Auditor's Remarks

We appreciate the steps the City is taking to resolve this issue. We will review the corrective action taken during our next audit.

Applicable Laws and Regulations

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

Title 2 CFR Part 200, Uniform Guidance, section 303, Internal controls, describes the requirements for auditees to maintain internal controls over federal programs and comply with federal program requirements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, Compliance Audits, paragraph 11.

Title 2 CFR Part 180, OMB *Guidelines on Agencies on Governmentwide Debarment and Suspension (Nonprocurement)*, establishes nonprocurement debarment and suspension regulations implementing Executive Orders 12549 and 12689.



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Centralia January 1, 2022 through December 31, 2022

This schedule presents the status of findings reported in prior audit periods.

Audit Period: January 1, 2021 – December 31, 2021	Report Ref. No.: 1034690	Finding Ref. No.: 2021-001
Finding Caption: The City did not have adequate internal controls ensuring accurate reporting of its financial statements and compliance with timely annual report submissions.		
Background: Our audit found deficiencies in internal controls over financial reporting that affected the City's ability to produce reliable financial statements. Government Auditing Standards requires the State Auditor's Office to communicate material weaknesses as a finding. We identified the following deficiencies in the City's internal controls over financial reporting that, when taken together, represent a material weakness: <ul style="list-style-type: none"> • The City did not have a process in place to submit the required annual reports to our Office within 150 days of fiscal year end for 2021. The City filed its 2021 annual report 493 days late. • The City did not have a process in place to ensure it properly records and reflects all year-end adjustments in the financial statements when submitted for audit. • The City's internal controls were not robust enough to ensure it performed a thorough and meaningful secondary review of the annual report prior to submission for audit. 		
Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between;"> <div> <input type="checkbox"/> Fully Corrected </div> <div> <input checked="" type="checkbox"/> Partially Corrected </div> <div> <input type="checkbox"/> Not Corrected </div> <div> <input type="checkbox"/> Finding is considered no longer valid </div> </div>		

Corrective Action Taken:

As noted our response to the audit finding, the deficiencies primarily stem the significant loss of staff in 2022 and early 2023. The 40 years of institutional experience lost included the staff responsible for preparing the city financial statements. The extended recruitment of staff and onboarding of new staff and bringing them up to speed caused the delayed submission of the financial statements. The city has filled all the positions that were vacant and have added an additional FTE in the city accountant position in early 2023.

Current staff who will prepare the financial statements have all attended SAO BARS Training and annual report training offered by MRSC. The additional FTE will ensure timely review and submission of the financial statements, allowing the finance director to be the independent detailed review of the financial statements, notes and schedules. Due to the release of the 2021 audit and the 2022 audit the corrective action is still underway.

INDEPENDENT AUDITOR'S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

City of Centralia January 1, 2022 through December 31, 2022

City Council
City of Centralia
Centralia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Centralia, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated August 22, 2024.

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

REPORT ON 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) as a basis for designing 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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

However, we identified certain deficiencies in internal control, as described in the accompanying Schedule of Audit Findings and Responses as Finding 2022-001, that we consider to be material weaknesses.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

CITY'S RESPONSE TO FINDINGS

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

August 22, 2024

INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

City of Centralia
January 1, 2022 through December 31, 2022

City Council
City of Centralia
Centralia, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the compliance of the City of Centralia, with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2022. The City's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on

compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

Performing an audit in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed; and

- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2022-002. Our opinion on each major federal program is not modified with respect to these matters.

City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the noncompliance findings identified in our compliance audit described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified.

However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2022- 002, that we consider to be a material weakness.

City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

August 22, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

City of Centralia January 1, 2022 through December 31, 2022

City Council
City of Centralia
Centralia, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of the City of Centralia, as of and for the year ended December 31, 2022, and the related notes to the financial statements, as listed in the financial section of our report.

Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)

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

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the cash and investments of the City of Centralia, and its changes in cash and investments, for the year ended December 31, 2022, on the basis of accounting described in Note 1.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion, they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Centralia, as of December 31, 2022, or the changes in financial position or cash flows thereof for the year then ended, because of the significance of the matter discussed below.

Basis for Unmodified and Adverse Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit unmodified and adverse opinions.

Matter Giving Rise to Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. As described in Note 1 of the financial statements, the financial statements are prepared by the City in accordance with state law using accounting practices prescribed by the BARS Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of state law and the BARS Manual described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and

Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule of Liabilities is also presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and

certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2024 on our consideration of the City's internal control over financial reporting and on the 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 the effectiveness of the City's 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, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly legible.

Pat McCarthy, State Auditor

Olympia, WA

August 22, 2024

FINANCIAL SECTION

City of Centralia January 1, 2022 through December 31, 2022

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2022
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2022
Notes to Financial Statements – 2022

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2022
Schedule of Expenditures of Federal Awards – 2022
Notes to the Schedule of Expenditures of Federal Awards – 2022

City of Centralia
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022

		Total for All Funds (Memo Only)	001 General	101 Streets	109 Stadium
Beginning Cash and Investments					
308	Beginning Cash and Investments	51,007,956	6,802,602	2,438	290,371
388 / 588	Net Adjustments	52,195	52,195	-	-
Revenues					
310	Taxes	12,005,350	9,594,709	423,924	202,766
320	Licenses and Permits	878,935	684,454	185,174	-
330	Intergovernmental Revenues	11,622,822	791,472	1,947,333	-
340	Charges for Goods and Services	47,185,930	1,233,917	750	-
350	Fines and Penalties	595,317	186,189	-	-
360	Miscellaneous Revenues	2,176,472	582,648	280,476	5,413
Total Revenues:		74,464,826	13,073,389	2,837,657	208,179
Expenditures					
510	General Government	4,438,517	3,737,214	-	-
520	Public Safety	7,861,481	7,257,913	-	-
530	Utilities	33,380,343	117,724	-	-
540	Transportation	2,362,945	12,719	1,161,363	-
550	Natural/Economic Environment	279,148	278,848	-	300
560	Social Services	5,420	5,420	-	-
570	Culture and Recreation	1,152,314	1,152,314	-	-
Total Expenditures:		49,480,168	12,562,152	1,161,363	300
Excess (Deficiency) Revenues over Expenditures:		24,984,658	511,237	1,676,294	207,879
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	713,149	5,000	314,323	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	297,583	5,926	-	-
Total Other Increases in Fund Resources:		1,010,732	10,926	314,323	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	13,104,880	296,563	1,710,722	-
591-593, 599	Debt Service	4,397,153	18,180	-	79,200
597	Transfers-Out	713,149	18,801	96,791	66,101
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	188,620	82,000	-	-
Total Other Decreases in Fund Resources:		18,403,802	415,544	1,807,513	145,301
Increase (Decrease) in Cash and Investments:		7,591,588	106,619	183,104	62,578
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	41,806,776	254,961	-	352,949
50841	Committed	9,287,142	3,111,172	-	-
50851	Assigned	4,704,759	742,245	185,542	-
50891	Unassigned	2,853,038	2,853,038	-	-
Total Ending Cash and Investments		58,651,715	6,961,416	185,542	352,949

The accompanying notes are an integral part of this statement.

City of Centralia
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022

		111 Confiscations/Seizures	113 Equitable Sharing Program	120 American Rescue Plan Act (ARPA)	140 Transportation Benefit District
Beginning Cash and Investments					
308	Beginning Cash and Investments	349,445	69,183	2,420,233	1,511,597
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	-	995,249
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	2,479,160	-
340	Charges for Goods and Services	35,735	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	128,257	16,706	51,494	24,262
Total Revenues:		163,992	16,706	2,530,654	1,019,511
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	197,561	-	406,007	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	315,504
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		197,561	-	406,007	315,504
Excess (Deficiency) Revenues over Expenditures:		(33,569)	16,706	2,124,647	704,007
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	15,834	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	15,834	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	393	279,385
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	15,834	-	-	314,323
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		15,834	-	393	593,708
Increase (Decrease) in Cash and Investments:		(49,403)	32,540	2,124,254	110,299
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	300,042	101,723	-	-
50841	Committed	-	-	4,544,487	1,621,896
50851	Assigned	-	-	-	-
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		300,042	101,723	4,544,487	1,621,896

The accompanying notes are an integral part of this statement.

City of Centralia
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022

		145 24/7 Sobriety Program	201 Debt Service	202 2019 Debt Service	302 Capital Projects
Beginning Cash and Investments					
308	Beginning Cash and Investments	9,461	258	2,246	3,398,705
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	-	788,702
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	7,450	-	376,260
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	126	219	1,245	44,982
Total Revenues:		126	7,669	1,245	1,209,944
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	12,913
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	12,913
Excess (Deficiency) Revenues over Expenditures:		126	7,669	1,245	1,197,031
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	110,592	267,400	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	110,592	267,400	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	624,234
591-593, 599	Debt Service	-	118,492	267,400	-
597	Transfers-Out	-	-	-	201,299
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	118,492	267,400	825,533
Increase (Decrease) in Cash and Investments:		126	(231)	1,245	371,498
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	27	3,491	3,770,203
50841	Committed	9,587	-	-	-
50851	Assigned	-	-	-	-
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		9,587	27	3,491	3,770,203

The accompanying notes are an integral part of this statement.

City of Centralia
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022

		303 Energy Efficiency Capital Projects	304 Flood Capital Projects	305 2019 Streetscape/Fox Restoration	401 Electric
Beginning Cash and Investments					
308	Beginning Cash and Investments	144,864	(158,785)	1,614,213	11,389,573
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	3,407
330	Intergovernmental Revenues	-	2,471,095	-	493,122
340	Charges for Goods and Services	-	-	-	27,546,887
350	Fines and Penalties	-	-	-	262,965
360	Miscellaneous Revenues	1,923	-	9,036	607,564
Total Revenues:		1,923	2,471,095	9,036	28,913,945
Expenditures					
510	General Government	170	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	23,675,332
540	Transportation	-	-	300	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		170	-	300	23,675,332
Excess (Deficiency) Revenues over Expenditures:		1,753	2,471,095	8,736	5,238,613
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	80,783
Total Other Increases in Fund Resources:		-	-	-	80,783
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	689,599	1,124,420	2,729,145
591-593, 599	Debt Service	-	-	-	1,632,854
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	81,196
Total Other Decreases in Fund Resources:		-	689,599	1,124,420	4,443,195
Increase (Decrease) in Cash and Investments:		1,753	1,781,496	(1,115,684)	876,201
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	-	-	12,265,773
50841	Committed	-	-	-	-
50851	Assigned	146,617	1,622,711	498,529	-
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		146,617	1,622,711	498,529	12,265,773

The accompanying notes are an integral part of this statement.

City of Centralia
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022

		402 Water	403 Wastewater	405 Storm & Surface Water	501 Equipment Rental & Revolving
Beginning Cash and Investments					
308	Beginning Cash and Investments	9,439,684	10,548,904	1,623,631	940,049
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	4,700	1,200	-
330	Intergovernmental Revenues	-	2,914,573	142,357	-
340	Charges for Goods and Services	6,157,353	9,700,299	1,003,702	722,224
350	Fines and Penalties	52,794	84,364	9,005	-
360	Miscellaneous Revenues	228,591	171,204	(908)	13,427
Total Revenues:		6,438,738	12,875,140	1,155,356	735,651
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	3,829,084	5,005,115	753,088	-
540	Transportation	-	-	-	860,146
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		3,829,084	5,005,115	753,088	860,146
Excess (Deficiency) Revenues over Expenditures:		2,609,654	7,870,025	402,268	(124,495)
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	208,931	1,943	-
Total Other Increases in Fund Resources:		-	208,931	1,943	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	569,520	4,065,910	1,005,529	9,460
591-593, 599	Debt Service	283,225	1,993,272	4,530	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	3,815	21,609	-	-
Total Other Decreases in Fund Resources:		856,560	6,080,791	1,010,059	9,460
Increase (Decrease) in Cash and Investments:		1,753,094	1,998,165	(605,848)	(133,955)
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	11,192,758	12,547,068	1,017,781	-
50841	Committed	-	-	-	-
50851	Assigned	-	-	-	806,094
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		11,192,758	12,547,068	1,017,781	806,094

The accompanying notes are an integral part of this statement.

City of Centralia
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022

		502 Information Services
		<hr/>
Beginning Cash and Investments		
308	Beginning Cash and Investments	609,284
388 / 588	Net Adjustments	-
Revenues		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	785,063
350	Fines and Penalties	-
360	Miscellaneous Revenues	9,807
Total Revenues:		<hr/> 794,870
Expenditures		
510	General Government	701,133
520	Public Safety	-
530	Utilities	-
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		<hr/> 701,133
Excess (Deficiency) Revenues over Expenditures:		<hr/> 93,737
Other Increases in Fund Resources		
391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		<hr/> -
Other Decreases in Fund Resources		
594-595	Capital Expenditures	-
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		<hr/> -
Increase (Decrease) in Cash and Investments:		<hr/> 93,737
Ending Cash and Investments		
50821	Nonspendable	-
50831	Restricted	-
50841	Committed	-
50851	Assigned	703,021
50891	Unassigned	-
Total Ending Cash and Investments		<hr/> 703,021

The accompanying notes are an integral part of this statement.

City of Centralia
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022

		Total for All Funds (Memo Only)	Pension/OPEB Trust Fund	Private-Purpose Trust	Custodial
308	Beginning Cash and Investments	1,485,874	982,499	-	503,375
388 & 588	Net Adjustments	-	-	-	-
310-390	Additions	531,924	39,411	184,280	308,233
510-590	Deductions	364,058	53,931	-	310,127
	Net Increase (Decrease) in Cash and Investments:	167,866	(14,520)	184,280	(1,894)
508	Ending Cash and Investments	1,653,740	967,979	184,280	501,481

The accompanying notes are an integral part of this statement.

CITY OF CENTRALIA
NOTES TO CASH FINANCIAL STATEMENTS
DECEMBER 31ST, 2022

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Centralia was incorporated January 27th, 1886, and operated under the laws of the State of Washington applicable to a third class city operating under second class laws as a commission form of government through March 31st, 1986. Effective April 1st, 1986, the form of government was changed and the City began operating under the laws of a non-charter code city, council-manager plan. The City Council is composed of seven members elected to four-year terms.

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

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

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements (see *Note 10, Component Unit(s), Joint Ventures, and Related Parties*).
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.

- Ending balances for proprietary and fiduciary funds are presented using classifications that are different from the ending net position classifications in GAAP.

A. Fund Accounting

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

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

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

Debt Service Funds

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

Capital Projects Funds

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

Permanent Funds

These funds account for financial resources that are legally restricted to the

extent that only earnings, and not principal, may be used for purposes that support programs for the benefit of the government or its citizenry.

PROPRIETARY FUND TYPES:

Enterprise Funds

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

Internal Service Funds

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

FIDUCIARY FUND TYPES:

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

Pension (and Other Employee Benefit) Trust Funds

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

Investment Trust Funds

These funds are used to report fiduciary activities from the external portion of investment pools and individual investment accounts that are held in trust.

Private-Purpose Trust Funds

These funds report all trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Custodial Funds

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

B. Basis of Accounting and Measurement Focus

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

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

C. Cash and Investments

See Note 3-Deposits and Investments

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

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

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

F. Long-Term Debt

See Note 6 - *Long-Term Debt*

G. Restricted and Committed Portion of Ending Cash and Investments

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

Restrictions and Committed Portion of Ending Cash and Investments consist of:

FUND	DESCRIPTION	RESTRICTED	COMMITTED	2022 TOTAL
GENERAL FUND				
001	Distressed Counties Reinvestment	\$ 128,881.27		\$ 128,881
001	HUD reinvestment	40,038		40,038
001	Municipal Court	74,793		74,793
001	HUB City Sign Maintenance	5,953		5,953
001	Mural Maintenance	5,146		5,146
001	Parks Rental Deposit	150		150
001	Vacation, Sick & Excess Comp		411,172	411,172
001	Base Line Reserve - 7.5%		900,000	900,000
001	Operating Reserve - 7.5%		900,000	900,000
001	Capital Improvement Reserve - 7.5%		900,000	900,000
TOTAL GENERAL FUND		254,961	3,111,172	3,366,133
OTHER FUNDS				
		233,397	3,604,267	
109	Stadium	352,949		352,949
111	Confiscation/Seizures	300,042		300,042
113	Equitable Sharing Program (ESAC)	101,723		101,723
120	American Rescue Plan Act (ARPA)		4,544,487	4,544,487
140	Transportation Benefit District (TBD)		1,621,896	1,621,896
145	24/7 Sobriety Program		9,587	9,587
201	Debt Service	27		27
202	2019 Debt Service	3,491		3,491
302	Capital Projects	3,770,203		3,770,203
611	Firemens Pension	967,979		967,979
620	Holloway-Sticklin	184,280		184,280
635	Custodial	501,481	-	501,481
TOTAL OTHER FUNDS		6,182,174	6,175,970	12,358,144
GRAND TOTAL (UTILITY FUNDS EXCLUDED)		\$ 6,437,136	\$ 9,287,141	\$ 15,724,277

Within the Utility funds, and in accordance with bond resolutions and certain related agreements, separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific used, including bond reserves, debt service, deposits, and power purchases.

Restricted/committed resources currently include the following:

H. Accounting and Reporting Changes

Effective December 31, 2022, the City adopted a new standard issued by the Governmental Accounting Standards Board (GASB). GASB Statement No. 87 *Leases* establishes a single model for lease accounting based on the principle that leases are financings of the right to use an asset. This statement applies to contracts that convey the right to use a non-financial asset in an exchange or exchange-like transaction for a term exceeding 12 months. Examples of non-financial assets including buildings, land, and equipment. Lessees are required to recognize a lease liability and lessors are required to recognize a lease receivable and a deferred inflow of resources.”

Note 2 – Budget Compliance

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

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

The appropriated and actual expenditures for the legally adopted budgets were as follow:

Fund	Fund Name	2022 Adopted Budget	2022 Final Appropriation	2022 Actual Expenditures	2022 Variance
001	General Fund	12,149,198	13,101,622	12,562,152	539,470
101	Street	1,095,145	2,888,864	1,161,363	1,727,501
109	Stadium	171,282	171,282	300	170,982
111	Confiscations/Seizures	100,000	170,000	197,561	(27,561)
113	Equitable Sharing Program (ESAC)	-	-	-	-
120	American Rescue Plan Act (ARPA)	-	4,884,217	406,007	4,478,210
140	Transportation Benefit District (TBD)	660,000	775,000	315,504	459,496
145	24/7 Sobriety Program	40,000	-	-	-
201	Debt Service	127,246	127,534	-	127,534
202	2019 Bond Debt Service	267,400	267,400	-	267,400
302	Capital Projects	260,000	3,732,364	12,913	3,719,451
303	Cap Proj-Energy Efficiency	15,000	15,000	170	14,830
304	Flood Capital Projects	-	660,000	-	660,000
305	2019 Streetscape/Fox Restoration	-	1,588,799	300	1,588,499
401	Light	28,839,660	31,333,526	23,675,332	7,658,194
402	Water	5,699,170	7,581,100	3,829,084	3,752,016
403	Wastewater	8,873,279	17,821,253	5,005,115	12,816,138
405	Storm & Surface Water	992,981	1,082,175	753,088	329,087
501	Equipment Rental	660,511	739,652	860,146	(120,494)
502	Information Services	769,212	789,638	701,133	88,505
611	Firemen's Pension	43,000	56,000	53,931	2,069
	Totals	60,763,084	87,785,426	49,480,168	38,249,258

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

Note 3 – Deposits and Investments

Investments are reported at original cost. Investments by type at December 31, 2022 are as follows:

NOTE 3 - DEPOSITS & INVESTMENTS				
2022				
Type of Investment	City's Own Investments	Investments held by City as an Agent		Total
Firemen's Pension		\$ 968,541.31	\$	968,541.31
Local Govt Invest Pool	\$ 34,564,028.57		\$	34,564,028.57
US Govt Securities	\$ 27,703,352.33		\$	27,703,352.33
Total	\$ 62,267,380.90	\$ 968,541.31	\$	63,235,922.21

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

Investments in the State Local Government Investment Pool (LGIP)

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

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

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

Custodial Credit Risk

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

The City deposits and certificates of deposit are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

All investments are insured, registered or held by the (city/county/district) or its agent in the government's name.

Note 4 – Property Tax

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

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

The City's regular levy for the year 2022 was \$0.580796062428 per \$1,000 on an assessed valuation of \$1,820,601,513 for a total regular levy of \$1,057,398.19.

Note 5 – Interfund Loans

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

Interfund loan activity during 2022:

Borrowing Fund	Lending Fund	Balance 01/01/22	New Loans	Repayments	Balance 12/31/22
General	Wastewater	\$ 656,000	\$ -	\$ 82,000	\$ 574,000
Flood Capital Projects	General	\$ 314,357	\$ -	\$ -	\$ 314,357
Totals		<u>\$ 970,357</u>	<u>\$ -</u>	<u>\$ 82,000</u>	<u>\$ 888,357</u>

Note 6 – Long-Term Debt

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the City of Centralia and summarizes the City's debt transactions for year ended December 31, 2022.

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

Year	Principal	Interest	Total
2023	3,696,715	576,422	4,273,137
2024	3,602,339	493,729	4,096,068
2025	1,810,277	412,243	2,222,520
2026	1,894,744	328,426	2,223,170
2027	998,967	242,347	1,241,313
2028-2032	4,041,985	584,821	4,626,806
2033-2037	1,195,000	148,800	1,343,800
2038-2042	260,000	7,800	267,800
Total	\$ 17,500,026	\$ 2,794,588	\$ 20,294,613

Debt Refunding

On March 17, 2021 the City refunded 2010 Electric System Revenue Bonds to take advantage of reduced interest rates on the market. The City anticipates realizing over \$1,400,000 in debt service savings over the remaining term of the bonds, which will retire in 2030.

On March 18, 2021 the City refunded 2010 General Obligation Debt to take advantage of reduced interest rates on the market. The City anticipates realizing over \$95,000 in lower debt service costs over the remaining term of the bonds, which will retire in 2030.

NOTE 7 – OPEB PLANS

A. PEBB

The City is a participating employer in the state's Public Employees Benefits Board (PEBB) program, a defined benefit plan, administered by the Washington State Health Care Authority. The plan provides medical, dental and life insurance benefits for public employees and retirees and their dependents on a pay-as-you-go basis. The plan provides OPEB benefits through both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by members over the age of 65 enrolled in Medicare Parts A and B. PEBB

determines the amount of the explicit subsidy annually. The implicit subsidy results from the inclusion of active and non-Medicare eligible retirees in the same pool when determining premiums. There is an implicit subsidy from active employees since the premiums paid by retirees are lower than they would have been if the retirees were insured separately. The City had 37 active plan members and three retired plan members as of June 30, 2022 (measurement date). There were three retired plan members as of December 31, 2022. The City's total OPEB (PEBB) liability as of December 31, 2022, was \$1,614,468 as calculated using the alternative measurement method. The City contributed \$81,252 to the plan for the year ended December 31, 2022.

B. LEOFF 1

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

Employer contributions are partially financed with the new LEOFF1/OPEB Trust Fund (Fund 116) established by the City Council to pay and begin funding the LEOFF1/OPEB liability. As of December 31, 2022, the fund had a balance of \$722,576. Annual transfers from the general fund will be made to cover anticipated expenditures and increase funding of the OPEB liability. Expenditures for post-retirement health care benefits are recognized in the budget as retirees report claims. There is no provision for estimated claims incurred but not yet reported to the City.

During 2022, 22 retirees received benefits and \$238,281 was paid out for those benefits (medical insurance premiums and excess medical claims).

As of December 31, 2022, the City's OPEB liability was \$8,233,396.00 as calculated using the alternative measurement method.

Note 8 – Pension Plans

A. State Sponsored Pension Plans

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

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

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report 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
PO Box 48380
Olympia, WA 98504-8380

The DRS comprehensive annual financial report may be downloaded from the DRS website at www.drs.wa.gov.

LEOFF Plan 1

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

LEOFF Plan 2

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

At June 30, 2022 (the measurement date of the plans), the City's proportionate share of the collective net pension liabilities (schedule 09), was as follows:

	Employer Contribution	Allocation %	Liability (Asset)
PERS 1	\$388,011	0.063311%	\$1,762,811
PERS 2/3	\$661,138	0.082270%	(3,051,199)
LEOFF 1	0	0.046036%	(1,320,595)
LEOFF 2	\$162,014	0.078256%	(2,126,762)

B. Local Government Pension Plans

The city is the administrator of a pension retirement system called the Firemen's Pension System. The system is shown as a trust fund in the financial statements of the City. As of December 31, 2021, by Milliman, Inc. to determine the funding requirements. As of that date, the actuarial present value of future benefits was \$525,000; the market value of assets held by the Fund was \$984,065.

The total balance in the Firemen's Pension Fund available to pay pension benefits as of December 31, 2022 is \$967,980.

C. Non-Governmental Plans

The City provides pensions to certain employees through a cost-sharing, multiple-employer defined benefit pension plan subject to the requirements of the GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plan*.

Union Sponsored Pension Plan

Under collective bargaining agreements (CBA's) between the City and the International Brotherhood of Teamsters Local Union #252 ("the Union"), the City provides pension benefits to approximately thirty (30) full-time and qualifying part-time employees. The City and the Union have agreed to be bound by the provisions of the Agreement and Declaration of Trust of the Western Conference of Teamsters Pension Trust Fund and agree that the Trustees of that Trust shall act as Trustees on their behalf.

Western Conference of Teamsters Pension Plan

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

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

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

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

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

Contributions

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

Estimated contribution rates by employee group (expressed as an amount per hour worked) to be in effect at the conclusion of bargaining unit negotiations are:

Teamsters Clerical			
Year	Employer	Employee	Total
2021	0.15	1.5	1.65
2022	0.15	1.5	1.65
2023	0.15	1.5	1.65
Teamsters Streets & Parks Maintenance			
Year	Employer	Employee	Total
2021	0.15	2.6	2.75
2022	0.15	2.6	2.75
2023	0.15	2.6	2.75

The City's required contributions to the Plan for 2022 were \$8,519.

NOTE 9 – Risk Management

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

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 166 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, prior wrongful acts, and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sub-limits. The Board of Directors determines the limits and terms of coverage annually.

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

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

A. Chehalis - Centralia Airport

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

B. Lewis County Event Center and Sports Complex

On March 22, 2010, the City, along with Lewis County Public Facilities District, Centralia School District and Lewis County Event Center LLC, agreed to finance, construct and operate the Lewis County Event Center and Sports Complex (the "Project"). The Project, to be completed in phases, consists of an event center, parking, turf for the football/soccer field and new track facilities, six tennis courts, a multi-use field, four baseball/softball fields, trails and a zip line. The Project will be a "regional center" under RCW 36.100.030 and RCW 35.57.020 and serve the entire State of Washington and other parts of the Pacific Northwest and western Canada for sports and other events.

C. Centralia Landfill

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

On May 1, 1990, Centralia, Chehalis, Morton, Mossyrock, Pe Ell, Vader, and Lewis County entered into an interlocal agreement regarding closure of the Centralia Landfill. Under the agreement, the local governments formed the Centralia Landfill Closure Group (CLCG) and agreed to take all action reasonably necessary to comply with certain environmental laws governing remediation and closure of the Landfill, and to share the costs of such compliance, to the extent such costs are not covered by amounts in the Landfill Closure Trust Fund or recovery from insurance claims. The agreement allocated

responsibility for those costs among the signing local governments. The City's allocation of liability is for 35.08% of the costs and fees associated with litigation related to landfill remediation and closure. Parties to the agreement could opt out once the shared costs reached \$13 million.

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

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

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

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

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

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

requesting acceptance and review of the monitoring plans submitted in June of 1999 along with proposed amendments to the plans.

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

A multi-layer cover system was designed to eliminate infiltration of precipitation into the landfill and direct clean surface runoff into a wetland mitigation area south of the Landfill.

In addition to the cover, a permanent gas collection system was installed beneath the cover and a permanent gas flare system was installed adjacent to the Landfill entrance facilities for gas treatment. Perimeter fencing was completed around the Landfill to enclose all of the Final Cover Area and much of the Closed North End Landfill. Three environmental covenants were recorded for the site to prohibit activities that would result in the release of contaminants.

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

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

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

NOTE 11 – 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.

Precautionary measures taken in response to the COVID-19 pandemic declaration had a financial and operational impact on the City of Centralia. In addition, the situation continues to evolve. The financial impacts to the City are indeterminable; however,

various aid packages are becoming available to offset the economic hardship. The City continues to operate all major functions and meet its public mandates.

American Rescue Plan (ARPA)

The American Rescue Plan Act (ARPA) was signed into law on March 11, 2021. ARPA established the Coronavirus State Fiscal Relief Fund and Coronavirus Local Fiscal Recovery Fund, which together make up the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) program. The intent of this program is to provide support to state, local, territorial, and tribal governments in response to the economic and public health impacts of COVID-19, and in their efforts, to contain impacts on their communities, residents, and businesses.

The City received a first round Non-entitlement unit of local government (NEU) from the Coronavirus Local Fiscal Recovery Fund in the amount of \$2,479,160 in 2021. An additional \$2,476,160 was received in 2022.

NOTE 12 – ENVIRONMENTAL & CERTAIN ASSET RETIREMENT LIABILITIES

The City has 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 City 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 City does not have any recorded ARO's as of December 31, 2022.

Centralia Landfill

See Note 10, Part C, for information on the Centralia landfill.

NOTE 13 - OTHER DISCLOSURES

A. Accounting and Reporting Changes

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

Fund 106	Repair and Demolition
Fund 108	Park Improvement
Fund 114	Indoor Pool
Fund 115	Depot Fund
Fund 116	LEOFF 1/OPEB Trust Fund
Fund 124	Borst Park Construction Fund
Fund 125	Borst Home
Fund 130	Washington Lawn Cemetery

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

B. Subsequent Events

January 2022 Storm

In January 2022 there was a wind and flood event which was declared a disaster area by President Biden as a federally declared disaster area. The City of Centralia Yelm Hydro-project canal lining was damaged by high-water cracking the canal liner. The hydro-project generation was shut down because of the damaged canal from January 6, 2022 until repairs and testing can be completed. Startup is anticipated in early 2023. FEMA Funds and Electric Fund resources are paying for the repairs.

C. Significant Commitments

1) Distressed Counties Fund Loan, 2010

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

The City began repayment of the \$300,000, 2.00 percent per annum, twenty year loan in December 2010. The City's General Fund will repay the loan with increased electric utility taxes due to Millard's operations.

2) Centralia School District Contract, 2013

On May 15, 2013, the City of Centralia entered into an agreement with the Centralia School District #401 to share the cost of HVAC modernization improvements at the Community Indoor Swimming Pool. The City agreed to provide the School District \$20,769.03 per year for ten years beginning September 15, 2013, as its share of the bonded debt issued by the School District. The City's obligation is included in the Schedule of Liabilities (Schedule 09). As of December 31, 2022, the City's remaining obligation is \$10,385.

City of Centralia
Schedule of Liabilities
For the Year Ended December 31, 2022

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	2013 LTGO BOND (QECB)	8/1/2023	220,000	-	110,000	110,000
251.11	2019 LTGO BOND (STREETSCAPE/FOX)	12/1/2038	3,475,000	-	145,000	3,330,000
251.11	2021 LTGO REFUNDING BOND (SPORTS COMPLEX)	12/1/2030	605,000	-	55,000	550,000
Total General Obligation Debt/Liabilities:			4,300,000	-	310,000	3,990,000
Revenue and Other (non G.O.) Debt/Liabilities						
252.11	2021 ELECTRIC REFUNDING BOND (BUILD AMERICA)	12/1/2030	4,800,000	-	435,000	4,365,000
252.11	2021 EDECTRIC REFUNDING BOND	12/1/2030	4,115,000	-	750,000	3,365,000
259.12	COMPENSATED ABSENCES (GOVERNMENTAL FUNDS)		1,038,415	-	65,232	973,183
259.12	COMPENSATED ABSENCES (PROPRIETARY FUNDS)		1,062,790	-	113,586	949,204
264.30	PENSION PERS 1 LIABILITIES (GOVERNMENTAL FUNDS)		267,726	315,306	-	583,032
264.30	PENSION LIABILITIES (PROPRIETARY FUNDS)		520,202	659,577	-	1,179,779
264.40	OPEB LIABILITIES (LEOFF 1)		11,268,498	-	3,035,102	8,233,396
264.40	OPEB LIABILITIES (ALL FUNDS)		1,701,729	-	87,261	1,614,468
263.84	SRF 2002 HAM HILL WATER	10/1/2023	65,709	-	32,855	32,854
263.84	SRF 2005 WWTP LOAN A	11/1/2024	5,078,437	-	1,692,812	3,385,625
263.84	SRF 2005 PORT NORTH EXT	10/1/2024	347,032	-	115,677	231,355
263.84	SRF 2006 WWTP LOAN B	8/31/2026	151,782	-	30,356	121,426
263.84	SRF 2013 DOE I&I REDUCTION	12/31/2032	1,896,248	-	151,677	1,744,571
263.88	PWTF 2002 MAPLE/HANSEN	6/1/2022	8,300	-	8,300	-
263.88	PWTF 2002 COOKS HILL WATER	6/1/2022	128,115	-	128,115	-
263.88	PWTF 2004 COOKS HILL SEWER	6/1/2024	188,813	-	62,938	125,875
263.92	2010 DISTRESSED COUNTIES LOAN (MILLARD)	12/1/2029	133,034	-	15,482	117,552
263.92	2013 CENTRALIA SCHOOL DISTRICT (HVAC -INDOOR POOL)	6/1/2023	46,731	-	25,961	20,770
Total Revenue and Other (non G.O.) Debt/Liabilities:			32,818,561	974,883	6,750,354	27,043,090
Total Liabilities:			37,118,561	974,883	7,060,354	31,033,090

City of Centralia
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
OFFICE ON VIOLENCE AGAINST WOMEN, JUSTICE, DEPARTMENT OF (via WA State Dept of Commerce)	Violence Against Women Formula Grants	16.588	F19-31103-054	11,531	-	11,531	-	1,2,3
OFFICE ON VIOLENCE AGAINST WOMEN, JUSTICE, DEPARTMENT OF	Violence Against Women Formula Grants	16.588		-	674	674	-	1,2,3
Total ALN 16.588:				11,531	674	12,205	-	
CRIMINAL DIVISION, JUSTICE, DEPARTMENT OF	Equitable Sharing Program	16.922		-	85,928	85,928	-	1,2,3
Highway Planning and Construction Cluster								
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	LA-9175	1,309,185	-	1,309,185	-	1,2,3
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	LA-9937	27,155	-	27,155	-	1,2,3
Total Highway Planning and Construction Cluster:				1,336,340	-	1,336,340	-	
Highway Safety Cluster								
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	State and Community Highway Safety	20.600		-	3,659	3,659	-	1,2,3
Total Highway Safety Cluster:				-	3,659	3,659	-	

The accompanying notes are an integral part of this schedule.

City of Centralia
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE	COVID 19 - CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS	21.027		-	406,007	406,007	37,500	1,2,3
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		-	493,122	493,122	-	1,2,3
Total Federal Awards Expended:				1,347,871	989,390	2,337,261	37,500	

CITY OF CENTRALIA**Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022****Note 1 – Basis of Accounting**

This Schedule is prepared on the same basis of accounting as the City's financial statements. The City reports on the cash basis of accounting for all funds.

Note 2 – Federal Indirect Cost Rate

The City has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3 – Program Cost

The amounts shown as current year expenditures represent only the federal award portion of the program costs. Entire program costs, including the City's portion, are more than shown. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.



CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

City of Centralia
January 1, 2022 through December 31, 2022

This schedule presents the corrective action planned by the City for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Finding ref number: 2022-001	Finding caption: The City did not have adequate internal controls ensuring accurate reporting of its financial statements and compliance with timely annual report submissions.
Name, address, and telephone of City contact person: Bret Brodersen, Finance Director 118 W Maple St. Centralia, WA 98531 (360) 330-7659	
Corrective action the auditee plans to take in response to the finding: <i>The City of Centralia experienced significant staff turnover resulting in sixty percent of staff and losing 40 years of combined institutional experience in the 2022 early 2023 time period. The extended recruitment of staff and onboarding of new staff and bringing them up to speed caused the delayed submission of the financial statements. The city has filled all the positions that were vacant and have added an additional FTE in the city accountant position in early 2023. Current staff who will prepare the financial statements have all attended SAO BARS Training and annual report training offered by MRSC. The additional FTE added will ensure timely review and submission of the financial statements in the future. The 2023 statements are delayed due to the extended time required to complete the 2021 and 2022 audit process. The city anticipates timely completion and review of 2024 financial statements.</i>	
Anticipated date to complete the corrective action: May 2025	

Finding ref number: 2022-002	Finding caption: The City did not have adequate internal controls for ensuring compliance with federal suspension and debarment requirements.
Name, address, and telephone of City contact person: Bret Brodersen, Finance Director 118 W Maple St. Centralia, WA 98531 (360) 330-7659	
Corrective action the auditee plans to take in response to the finding: <i>The City concurs with this finding. The city will provide training to all managers about requirements of federal projects and require that verification of the suspension and debarment search when federal funds are being spent are sent to the finance department for retention. As noted by the finding, all contractors/vendors were not suspended.</i>	
Anticipated date to complete the corrective action: July 2024	

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.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

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