



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Centralia

Lewis County

For the period January 1, 2015 through December 31, 2015

Published April 10, 2017

Report No. 1018868





Office of the Washington State Auditor
Pat McCarthy

April 10, 2017

Mayor and City Council
City of Centralia
Centralia, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**City of Centralia
Lewis County
January 1, 2015 through December 31, 2015**

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the City of Centralia. The State Auditor’s Office has reviewed the status as presented by the City.

Audit Period: 1/1/2013 – 12/31/2014	Report Ref. No: 1017292	Finding Ref. No: 2014-001
Finding Caption: The City’s internal controls over financial statement preparation are inadequate to ensure accurate accounting and financial reporting.		
Background: Our audit identified a material weakness in internal controls over financial reporting that affected the City’s ability to produce reliable financial statements. We identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a material weakness: <ul style="list-style-type: none"> • The City’s financial statement preparation controls do not provide adequate oversight and review of the financial statements, notes and schedules to ensure they were complete and accurately prepared. • Policies and procedures over recording and tracking capital assets are not adequate to ensure accurate financial reporting. The City has not provided sufficient training to those responsible for review and oversight of financial activity to ensure accurate and complete financial reporting. Further, due to staff turnover, there were errors identified in the City’s capital asset records by employees who assumed new roles related to financial reporting. Our audit identified numerous errors related to capital assets, long-term debt, net position balances, GASB 65 implementation, and financial statement presentation. We recommend the City establish the following internal controls to: <ul style="list-style-type: none"> • Provide adequate training for staff for financial accounting and reporting to ensure adequate internal controls are established and compliance with reporting requirements. • Complete an effective independent review of financial statements to ensure compliance with reporting requirements and accounting principles, and reduce the likelihood of misstatement. 		

- Establish policies and procedures to ensure capital asset records are maintained in a manner conducive to accurate financial reporting.

Status of Corrective Action: (check one)

Fully Corrected Partially Corrected Not Corrected Finding is considered no longer valid

Corrective Action Taken:

In early 2016, the city hired a new finance director and provided additional resources in the finance department. These additional resources will allow the city to provide independent review, ensure that staff is provided appropriate training and improve internal controls over financial reporting. The finance department is currently developing policies and procedures for capital asset records to ensure accurate financial reporting which will be presented to management for adoption this year.

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

**City of Centralia
Lewis County
January 1, 2015 through December 31, 2015**

Mayor and City Council
City of Centralia
Centralia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Electric, Water, Wastewater, and Storm & Surface Water funds of the City of Centralia, Lewis County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated April 5, 2017. As discussed in Notes 5 and 11 to the financial statements, during the year ended December 31, 2015, the City implemented Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

The financial statements of the City's Electric, Water, Wastewater, and Storm & Surface Water funds are intended to present the financial position, changes in financial position, and cash flows that are attributable to the transactions of those proprietary funds. They do not purport to, and do not, present fairly, the financial position of the City of Centralia, Washington, as of December 31, 2015, the changes in its financial position or cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 Electric, Water, Wastewater, and Storm & Surface Water fund's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

COMPLIANCE AND OTHER MATTERS

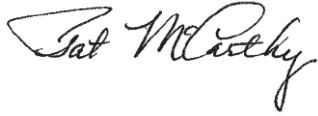
As part of obtaining reasonable assurance about whether the City's Electric, Water, Wastewater, and Storm & Surface Water funds financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements,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

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

PURPOSE OF THIS REPORT

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

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

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized initial "P".

Pat McCarthy

State Auditor

Olympia, WA

April 5, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Centralia Lewis County January 1, 2015 through December 31, 2015

Mayor and City Council
City of Centralia
Centralia, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Electric, Water, Wastewater, and Storm & Surface Water funds of the City of Centralia, Lewis County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements as listed on page 12.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric, Water, Wastewater, and Storm & Surface Water funds of the City of Centralia, as of December 31, 2015, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Notes 5 and 11 to the financial statements, in 2015, the City adopted new accounting guidance, Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

As discussed in Note 1B, the financial statements of the City's Electric, Water, Wastewater, and Storm & Surface Water funds are intended to present the financial position, changes in financial position, and cash flows that is attributable to the transactions of those proprietary funds. They do not purport to, and do not, present fairly, the financial position of the City of Centralia, Washington, as of December 31, 2015, the changes in its financial position or cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

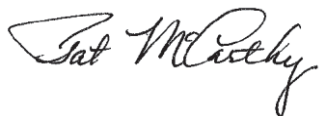
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 13 through 25 and pension plan information on pages 48 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or

historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy
State Auditor
Olympia, WA

April 5, 2017

FINANCIAL SECTION

**City of Centralia
Lewis County
January 1, 2015 through December 31, 2015**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015

Statement of Revenues, Expenses and Changes in Net Position – 2015

Statement of Cash Flows – 2015

Notes to Financial Statements – 2015

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability – PERS Plan 1 – 2015

Schedule of Proportionate Share of the Net Pension Liability – PERS Plan 2/3 – 2015

Schedule of Employer Contributions – PERS Plan 1 – 2015

Schedule of Employer Contributions – PERS Plan 2/3 – 2015

Management's Discussion & Analysis

This section provides an overview and analysis of key data presented in the basic financial statements for the year ended December 31, 2015. Information within this section should be used in conjunction with the basic financial statements and accompanying notes.

The City of Centralia operates four separate utilities; Electric, Water, Wastewater and Storm & Surface Water.

In accordance with requirements set forth by the Governmental Accounting Standard Board, the Utility financial statements employ the accrual basis of accounting in recognizing increases and decreases in economic resources. Accrual accounting recognizes all revenues earned and expenses incurred during the year, regardless of when cash is received or paid.

For each Utility, the basic financial statements for the year ended December 31, 2015 are comprised of:

Statement of Net Position: The Statement of Net Position presents each Utility's net position as the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position as shown on this statement can be separated into three categories: net investment in capital assets; restricted net position; and unrestricted net position.

Statement of Revenues, Expenses and Changes in Net Position: This statement reflects the transactions and events that have increased or decreased each Utility's total economic resources during the period. Revenues are presented net of allowances and are summarized by major source. Revenues and expenses are classified as operating or non-operating based on the nature of the transaction.

Statement of Cash Flows: The Statement of Cash Flows reflects the sources and uses of cash separated into four categories of activities: operating, noncapital financing, capital and related financing, and investing. The Utilities include cash equivalents within its definition of cash.

The notes to the financial statements, presented at the end of the basic financial statements, are considered an integral part of the Utility's presentation of financial position, results of operations, and changes in cash flows.

Electric Utility

The Electric Utility service territory consists of approximately 35 square miles, including all of the City and the immediate outlying area. Power supply is provided through a combination of purchases from the Bonneville Power Administration (BPA), non-Federal market purchases and power generated through its own Yelm Hydroelectric Project. Weather, customer growth, conservation and economic conditions are the primary influences on electricity sales. Generally, extreme temperatures result in higher sales to residential customers, who use electricity for heating and cooling, while moderate temperatures reduce sales. Conservation efforts have reduced electricity usage. The downturn in the economy has resulted in fewer connections of new single family residential customers.

Financial Summary and Analysis

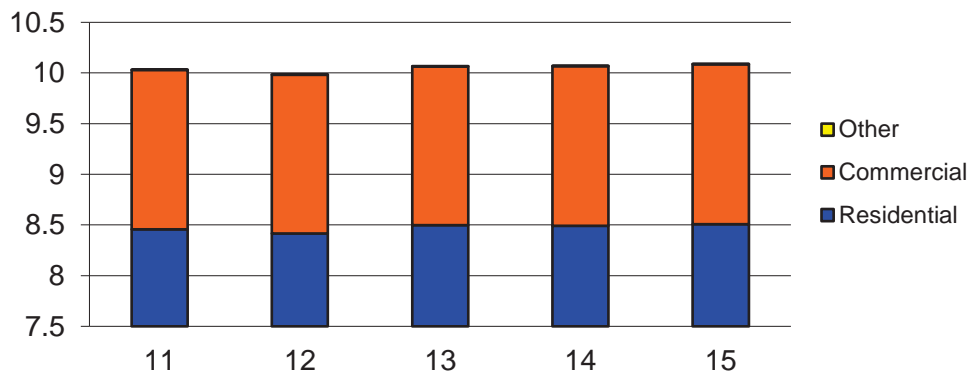
In 2015, the Electric Utility's operating revenues remained approximately the same and operating expenses decreased by \$507,389 or 2.61% resulting in an operating income increase of \$508,930 or 16.62%. Factors influencing these results include:

- Increases in electric rates were applied to decreased consumption of 245,099,003 kilowatt hours mainly due to a continuation of warmer winter weather and the continued impacts of conservation during 2015. Service revenues were up by \$187,578 or 0.87% which offset decreases in other operating revenue of \$186,037 or 22.81% mainly due to a decrease in conservation program proceeds received.
- Purchased power and transmission expenses decreased by \$515,546 or 5.95% mainly due to increased electric power generation from the Yelm Hydroelectric Plant.

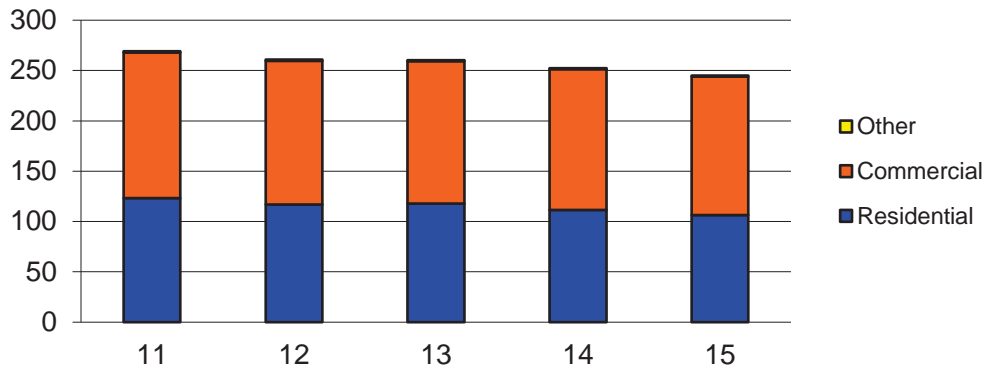
Electric Rates

Electric Utility rates were increased overall by 3.4% effective March 1, 2015. BPA implemented region-wide 9% wholesale power and 11% transmission rate increases for the period October 1, 2013 through September 30, 2015. In addition, BPA implemented region-wide 6% wholesale power and 4% transmission rate increases for the period October 1, 2015 through September 30, 2017.

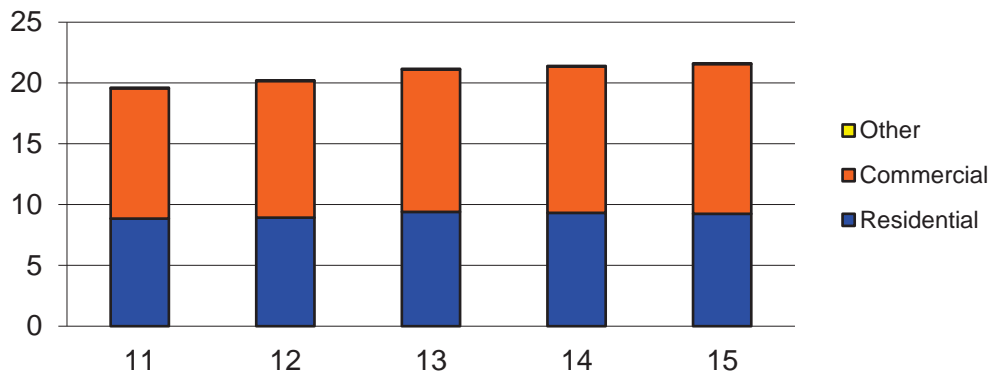
**Electric Customers
(by customer class in thousands)**



Electric Sales
(by customer class in millions of kilowatt-hours)



Electric Revenues
(by customer class in millions of dollars)



Selected Financial Data

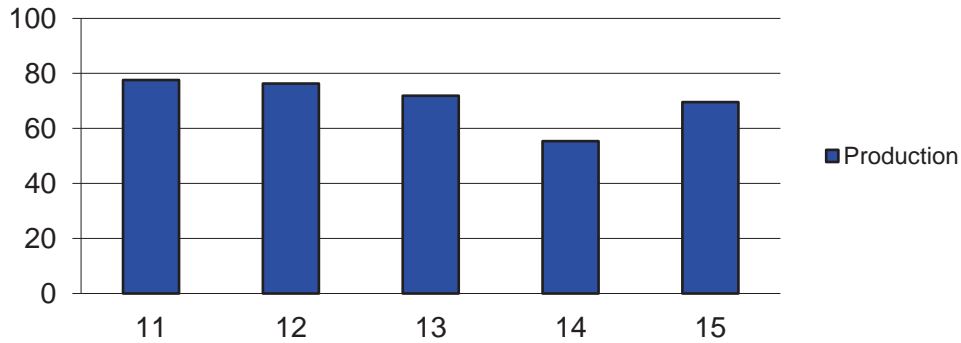
	2015		2014	
Operating Revenues	\$	22,486,452	\$	22,484,911
Operating Expenses		18,915,926		19,423,315
Net Operating Income		3,570,526		3,061,596
Other Revenues (Expenses) and Contributed Capital		(895,093)		(284,981)
Change in Net Position	\$	2,675,433	\$	2,776,616
Total Assets and Deferred Outflows	\$	80,407,267	\$	79,694,149
Total Liabilities and Deferred Inflows		29,028,291		27,731,545
Prior Period Adjustments		(370,990)		-
Change in Accounting Principle		(2,888,070)		-
Net Position				
Net Investment in Capital Assets		40,787,024		38,931,119
Restricted		2,732,392		3,487,299
Unrestricted		7,859,561		9,544,186

Power Supply

The Electric Utility power supply is provided through a full service customer contract with BPA as well as output from the Utility's Yelm Hydroelectric Project. In 2015, approximately 70.5% of the Utility's power supply was purchased from BPA under the contract that was effective October 1, 2011. In late 2008, the City signed a new long-term power contract with BPA that expires September 30, 2028. The new contract implemented a Tiered Rate Methodology, which allocates the amount of low cost federal power (Tier 1) the Utility, or any other preference customer, can receive from BPA. The Utility, by November 2009, was required to inform BPA how the Utility planned to serve load above the allocation amount (Tier 2) in fiscal years 2012, 2013 and 2014. The City, in October 2009, informed BPA that Tier 2 power would be provided by Northwest Intergovernmental Energy Supply (NIES), a Northwest Requirements Utilities related organization. In September 2012, the Utility was required to inform BPA how it planned to serve load above the allocation amount in fiscal years 2015 through 2019. Again, the City has chosen NIES to serve load above the low cost Tier 1 allocation amount. During 2015, approximately 2.7% of the City's total power supply was purchased through NIES. Charges for the BPA purchased power, market purchases through NIES and BPA transmission were \$8,147,412 for 2015.

The Utility's Yelm Hydroelectric Project was built in 1929 and first licensed in 1997 for a period of 40 years by the Federal Energy Regulatory Commission, with a maximum rated capacity of 12MW. During 2015, approximately 26.8% of the City's total power supply was generated by the Yelm Hydroelectric Plant.

**Yelm Plant Generating Output
(in millions of kilowatt-hours)**



Capital Asset, Liabilities and Long-Term Debt Activity

Total Electric Utility capital assets in service consisted of the following:

	2015	2014
Distribution	\$ 41,409,465	\$ 40,447,368
Production	30,404,119	30,324,942
Transmission	3,287,205	2,777,274
General	7,921,468	7,653,523
Intangible	4,862,082	4,862,082
Construction in Progress	5,778,520	5,426,052
Total Capital Assets	\$ 93,662,859	\$ 91,491,239

Capital construction is provided for through a combination of construction fees, cash flow from revenues and long-term revenue bonds. See NOTE 3 – CAPITAL ASSETS for additional information.

Total liabilities consisted of the following:

	2015	2014
Total Current Liabilities	\$ 3,851,389	\$ 3,913,352
Total Non-Current Liabilities	24,762,811	23,818,193
Total Liabilities	\$ 28,614,199	\$ 27,731,545

The Electric Utility debt service coverage on the outstanding revenue bonds for 2015 was 6.07. See NOTE 7 – LONG-TERM DEBT for additional information.

Water Utility

The Water Utility serves all of the City and limited outlying areas. Water is supplied from groundwater sources within the City. The Water Utility owns and operates two well fields that contain five wells, two inactive wells, five reservoirs, two pressure tanks, seven booster pump stations and 124 miles of distribution and transmission pipes. Weather, customer growth, conservation and economic conditions are the primary influences on water sales. Generally, warm, dry weather results in higher sales to residential customers,

while wet weather results in lower sales. Conservation efforts have reduced water consumption. The downturn in the economy has resulted in fewer connections of new single family residential customers.

Financial Summary and Analysis

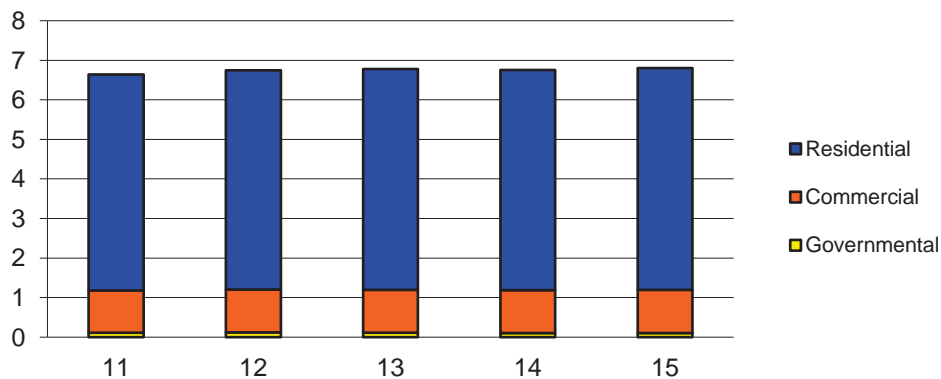
In 2015, the Water Utility’s operating revenues increased by \$240,616 or 4.93%. Operating expenses increased by \$129,024 or 3.44%. Operating income increased by \$111,592 or 9.89%. Factors influencing these results include:

- Water sales revenues increased by \$233,491 or 4.80% due to rate increases and increased water consumption during the warmer than usual spring and summer months despite relatively modest customer growth in 2015.
- General operations expenses increased by \$62,163 or 4.38% mainly due to increased supply costs.
- Increased water sales revenues resulted in increased taxes of \$31,943 or 4.50%.

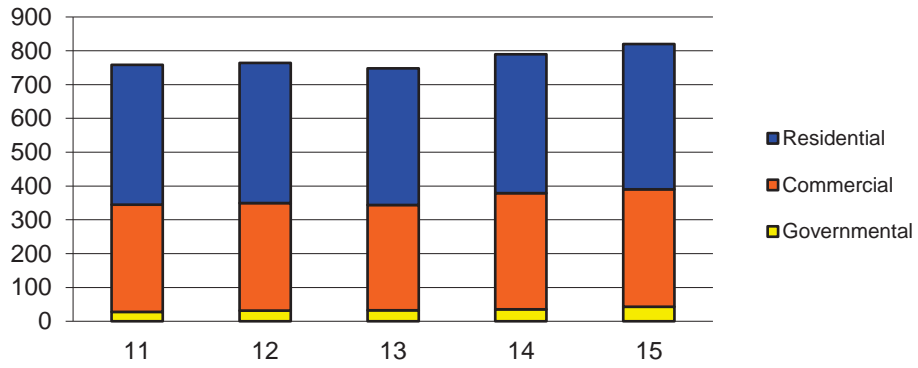
Water Rates

Water Utility rates were increased overall by 1.3% effective January 1, 2015.

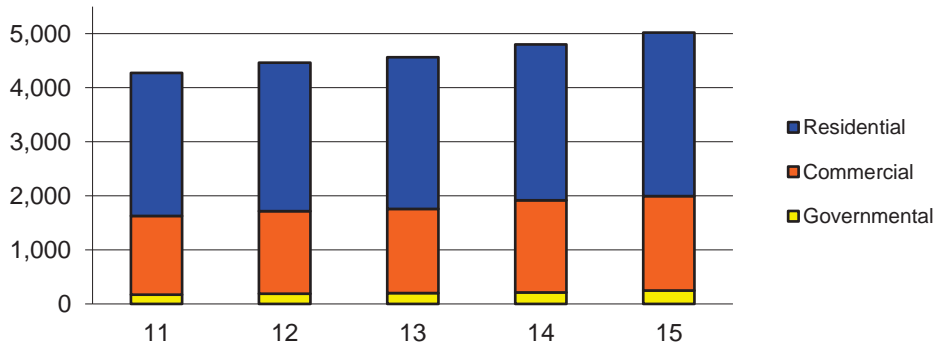
**Water Customers
(by customer class in thousands)**



**Water Sales
(by customer class in thousands of units)**



**Water Revenues
(by customer class in thousands of dollars)**



Selected Financial Data

	2015		2014	
Operating Revenues	\$	5,120,048	\$	4,879,432
Operating Expenses		3,880,362		3,751,338
Net Operating Income		1,239,685		1,128,094
Other Revenues (Expenses) and Contributed Capital		74,051		36,726
Change in Net Position	\$	1,313,736	\$	1,164,819
Total Assets and Deferred Outflows	\$	26,789,053	\$	25,681,266
Total Liabilities and Deferred Inflows		4,897,816		3,947,660
Prior Period Adjustments		(40,350)		-
Change in Accounting Principle		(1,115,755)		-
Net Position				
Net Investment in Capital Assets		15,917,676		14,730,416
Restricted		221,271		244,162
Unrestricted		5,752,290		6,759,028

Capital Asset, Liabilities and Long-Term Debt Activity

Total Water Utility capital assets in service consisted of the following:

	2015		2014	
Distribution	\$	14,091,597	\$	13,593,747
Pumping		549,790		549,790
Source of Supply		4,021,905		4,021,905
Transmission		5,308,043		4,973,907
Treatment		2,833,968		2,818,216
General		2,089,275		1,926,693
Construction in Progress		989,954		689,368
Total Capital Assets	\$	29,884,531	\$	28,573,626

Capital construction is provided for through a combination of construction fees, cash flow from revenues and long-term revenue bonds and state loans. See NOTE 3 – CAPITAL ASSETS for additional information.

Total liabilities consisted of the following:

	2015		2014	
Total Current Liabilities	\$	953,765	\$	728,035
Total Non-Current Liabilities		3,793,518		3,219,625
Total Liabilities	\$	4,747,282	\$	3,947,660

The Water Utility debt service coverage on the outstanding revenue bonds for 2015 was 13.02. See NOTE 7 – LONG-TERM DEBT for additional information.

Wastewater Utility

The Wastewater Utility serves most of the City and limited outlying areas. The Wastewater Utility owns and operates a treatment plant, 26 pump stations, 70 miles of gravity sewer and 14 miles of force main. Wastewater revenues are based on water consumption, although residential customers are entitled to a winter cap that limits the number of units that may be charged during the summer. Commercial customers do not have a cap feature. Weather, customer growth, water conservation and economic conditions are the primary influences on wastewater revenues. Conservation efforts have reduced water consumption and therefore wastewater revenues. The downturn in the economy has resulted in fewer connections of new single family residential customers.

Financial Summary and Analysis

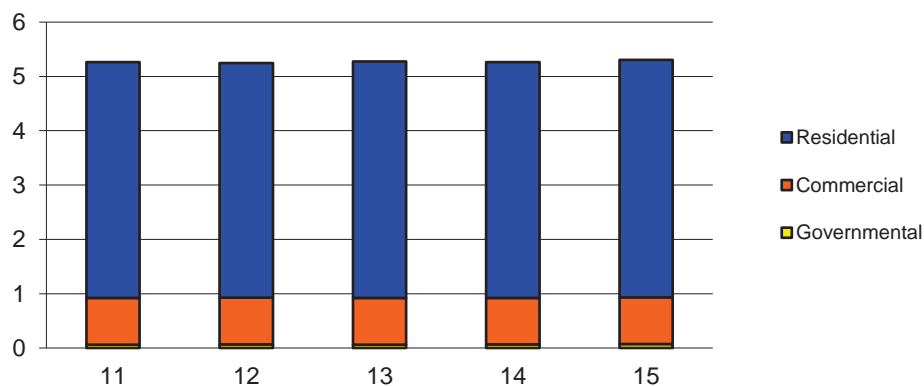
In 2015, the Wastewater Utility’s operating revenues increased by \$101,714 or 1.28%. Operating expenses decreased by \$594,809 or 8.96%. Operating income increased by \$696,524 or 53.28%. Factors influencing these results include:

- Wastewater service revenues increased by \$142,455 or 1.81% mostly due to rate increases and increased water usage which offset relatively modest customer growth in 2015.
- Depreciation decreased by \$638,886 or 30.26% mainly due to final depreciation expense taken on several high cost capital assets in 2014.
- Increased wastewater service revenues resulted in increased taxes of \$16,640 or 1.34%.

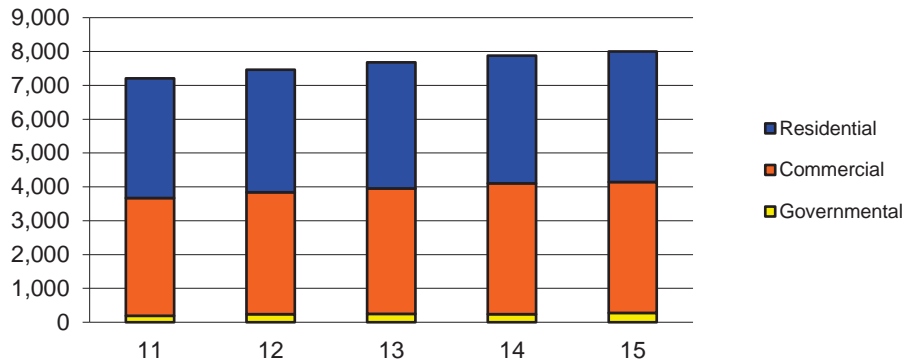
Wastewater Rates

Wastewater Utility rates were increased overall by 1.3% effective January 1, 2015.

**Wastewater Customers
(by customer class in thousands)**



**Wastewater Revenues
(by customer class in thousands of dollars)**



Selected Financial Data

	2015		2014	
Operating Revenues	\$	8,048,526	\$	7,946,812
Operating Expenses		6,044,621		6,639,431
Net Operating Income		2,003,905		1,307,381
Other Revenues (Expenses) and Contributed Capital		(8,149)		43,286
Change in Net Position	\$	1,995,756	\$	1,350,668
Total Assets and Deferred Outflows	\$	61,039,984	\$	60,694,629
Total Liabilities and Deferred Inflows		21,177,604		21,826,535
Prior Period Adjustments		202,097		-
Change in Accounting Principle		(1,203,567)		-
Net Position				
Net Investment in Capital Assets		32,206,353		29,210,180
Restricted		1,889,960		1,851,188
Unrestricted		5,766,068		7,806,727

Capital Assets, Liabilities and Long-Term Debt Activity

Total Wastewater Utility capital assets in service consisted of the following:

	2015		2014	
Collection	\$	24,329,363	\$	24,198,572
Pumping		8,015,790		7,988,628
Treatment		36,150,594		36,030,170
General		5,431,471		4,891,680
Construction in Progress		9,004,943		7,632,575
Total Capital Assets	\$	82,932,161	\$	80,741,625

Capital construction is provided for through a combination of construction fees, cash flow from revenues and long-term state loans. See NOTE 3 – CAPITAL ASSETS for additional information.

Total liabilities consisted of the following:

	2015		2014
Total Current Liabilities	\$ 2,424,973	\$	2,371,746
Total Non-Current Liabilities	18,587,492		19,454,789
Total Liabilities	\$ 21,012,465	\$	21,826,535

See NOTE 7 – LONG-TERM DEBT for additional information.

Storm & Surface Water Utility

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

Financial Summary and Analysis

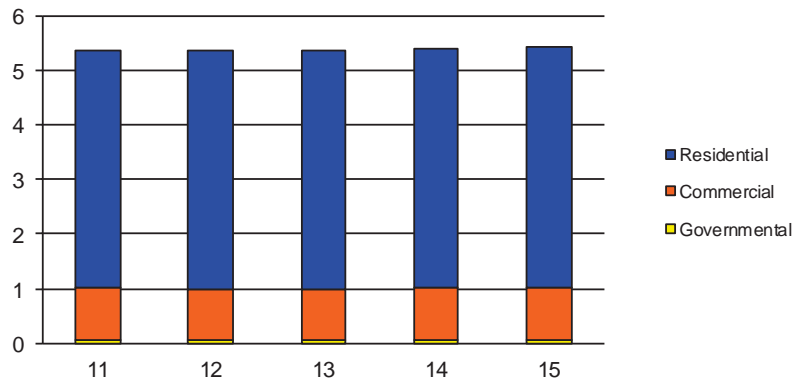
In 2015, the Storm & Surface Water Utility’s operating revenues increased by \$110,855 or 20.59% while operating expenses increased by \$59,554 or 14.23%. Operating income increased by \$51,301 or 42.80%. Factors influencing these results include:

- Stormwater service revenues increased by \$110,953 or 20.62% due to rate increases.
- General operations, maintenance, customer service and administration expenses increased in total by \$47,848 or 15.10% mainly due to higher labor costs relating to the addition of one full-time equivalent employee in 2015.
- Increased stormwater service revenues resulted in increased taxes of \$7,772 or 10.65%.

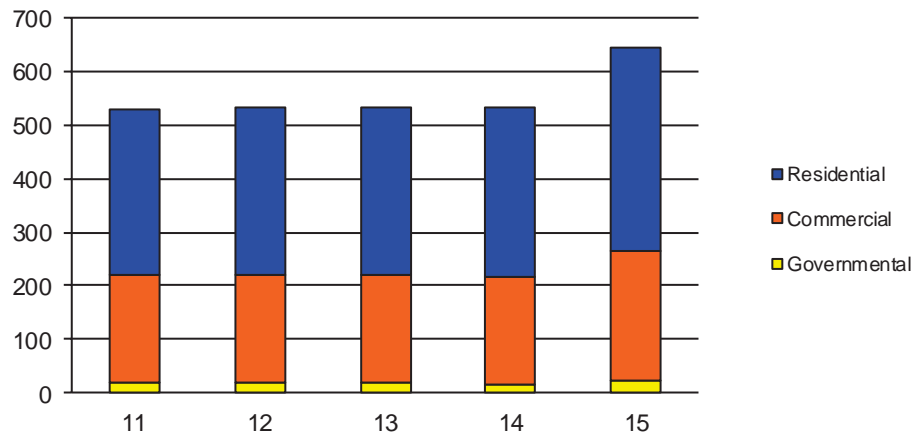
Storm & Surface Rates

Storm & Surface Water Utility rates were increased overall by 33.33% effective June 1, 2015.

**Storm & Surface Water Customers
(by customer class in thousands)**



**Storm & Surface Water Revenues
(by customer class in thousands of dollars)**



Selected Financial Data

	2015		2014	
Operating Revenues	\$	649,348	\$	538,493
Operating Expenses		478,174		418,620
Net Operating Income (Loss)		171,174		119,873
Other Revenues (Expenses) and Contributed Capital		340,925		158,870
Change in Net Position	\$	512,099	\$	278,743
Total Assets and Deferred Outflows	\$	2,160,295	\$	1,296,166
Total Liabilities and Deferred Inflows		613,878		132,563
Prior Period Adjustments		(935)		-
Change in Accounting Principle		(128,350)		-
Net Position				
Net Investment in Capital Assets		1,952,663		769,171
Restricted		1,809		905
Unrestricted		(408,056)		393,527

Capital Assets and Liabilities

Total Storm & Surface Water capital assets in service consisted of the following:

	2015		2014	
Collection	\$	585,369	\$	569,789
General		260,711		243,828
Construction in Progress		1,297,381		115,558
Total Capital Assets	\$	2,143,461	\$	929,174

See NOTE 3 – CAPITAL ASSETS for additional information.

Total liabilities consisted of the following:

	2015		2014	
Total Current Liabilities	\$	382,294	\$	40,117
Total Non-Current Liabilities		213,689		92,446
Total Liabilities	\$	595,983	\$	132,563

See NOTE 7 – LONG-TERM DEBT for additional information.

Requests for Information

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

CITY OF CENTRALIA UTILITIES
STATEMENT OF NET POSITION
December 31, 2015

	Storm & Surface				Totals
	Electric	Water	Wastewater	Water	
ASSETS					
Cash and cash equivalents	\$ 9,226,681	\$ 6,676,879	\$ 5,500,975	\$ (31,582)	\$ 21,372,953
Customer accounts receivable (net)	2,602,282	460,043	756,626	80,711	3,899,662
Other accounts receivable	256,515	-	-	79,253	335,768
Inventories and prepaid services	657,271	147,536	-	-	804,807
Restricted assets					
Customer deposits	451,887	14,270	-	-	466,157
Revenue bond/loan reserve cash	2,508,422	112,896	1,889,960	1,809	4,513,088
Revenue bond debt service cash	223,970	108,374	-	-	332,344
Notes/contracts receivable	-	-	161,432	-	161,432
Interfund loan receivable	-	225,219	1,148,000	-	1,373,219
Capital assets not being depreciated					
Land	2,398,930	379,904	1,616,244	-	4,395,077
Construction in progress	5,778,520	989,954	9,004,943	1,297,381	17,070,798
Capital assets being depreciated					
Buildings	5,081,390	2,986,124	31,029,137	24,352	39,121,003
Other improvements	8,835,093	13,799,651	7,769,018	525,306	30,929,069
Equipment	38,941,675	741,914	2,023,462	167,887	41,874,938
Intangible assets	2,743,040	-	-	-	2,743,040
Total capital assets (net)	<u>63,778,648</u>	<u>18,897,547</u>	<u>51,442,803</u>	<u>2,014,927</u>	<u>136,133,925</u>
TOTAL ASSETS	\$ 79,705,675	\$ 26,642,765	\$ 60,899,796	\$ 2,145,120	\$ 169,393,356
DEFERRED OUTFLOWS OF RESOURCES					
Deferred losses on refunded debt	\$ 351,104	\$ 18,348	\$ -	\$ -	\$ 369,452
Pension contributions & other allocations	350,488	127,940	140,188	15,175	633,791
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 701,592	\$ 146,288	\$ 140,188	\$ 15,175	\$ 1,003,243
LIABILITIES					
Accounts payable	\$ 1,458,379	\$ 492,149	\$ 408,039	\$ 202,553	\$ 2,561,121
Interfund loan payable				175,000	175,000
Revenues collected in advance	57,584	-	-	-	57,584
Liabilities payable from restricted assets					
Customer deposits payable	451,887	14,270	-	-	466,157
Bonds payable	148,560	105,739	-	-	254,298
Interest payable	75,410	2,636	-	-	78,046
Noncurrent liabilities:					
Due within one year					
Compensated absences payable	25,413	9,454	11,719	1,764	48,350
Bonds payable	1,634,156	52,869	-	-	1,687,026
Intergovernmental loans	-	276,648	2,005,215	2,977	2,284,840
Due in more than one year					
Compensated absences payable	482,844	179,628	222,658	33,515	918,645
Net pension liability	2,719,955	1,050,926	1,133,599	120,886	5,025,366
Bonds payable	21,560,012	638,868	-	-	22,198,880
Intergovernmental loans	-	1,924,096	17,231,235	59,287	19,214,618
TOTAL LIABILITIES	28,614,199	4,747,282	21,012,465	595,983	54,969,929
DEFERRED INFLOWS OF RESOURCES					
Pension - allocated investment earnings	\$ 414,092	\$ 150,534	\$ 165,139	\$ 17,895	\$ 747,660
NET POSITION					
Net investment in capital assets	40,787,024	15,917,676	32,206,353	1,952,663	90,863,716
Restricted for:					
Revenue bond/loan reserves	2,508,422	112,896	1,889,960	1,809	4,513,088
Debt service	223,970	108,374	-	-	332,344
Unrestricted	7,859,561	5,752,290	5,766,068	(408,056)	18,969,863
TOTAL NET POSITION	\$ 51,378,976	\$ 21,891,237	\$ 39,862,381	\$ 1,546,417	\$ 114,679,011

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

CITY OF CENTRALIA UTILITIES
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2015

	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>	<u>Storm & Surface Water</u>	<u>Totals</u>
Operating Revenue:					
Utility sales and service fees	\$ 21,856,880	\$ 5,094,368	\$ 8,017,876	\$ 649,146	\$ 35,618,269
Other revenue	629,572	25,680	30,651	202	686,104
Total operating revenue	<u>22,486,452</u>	<u>5,120,048</u>	<u>8,048,526</u>	<u>649,348</u>	<u>36,304,374</u>
Operating expenses:					
General operations	2,971,827	1,481,199	1,977,756	147,291	6,578,074
Purchased power/transmission	8,147,412	-	-	-	8,147,412
Maintenance	813,657	142,777	208,097	31,996	1,196,527
Customer services and marketing	383,650	224,199	208,375	12,795	829,020
Administration	2,243,180	695,569	915,670	172,558	4,026,977
Depreciation/Amortization	2,260,728	595,331	1,472,534	32,764	4,361,357
Property, excise and B&O taxes	2,095,471	741,287	1,262,189	80,769	4,179,716
Total operating expenses	<u>18,915,926</u>	<u>3,880,362</u>	<u>6,044,621</u>	<u>478,174</u>	<u>29,319,083</u>
Operating Income	<u>3,570,526</u>	<u>1,239,685</u>	<u>2,003,905</u>	<u>171,174</u>	<u>6,985,291</u>
Nonoperating revenues (expenses):					
Intergovernmental revenue	181,802	5,947	12,464	314,160	514,373
Interest revenue	21,425	10,609	14,970	458	47,462
Interest expenses and related charges	(1,160,521)	(44,482)	(79,040)	(1,620)	(1,285,662)
Gains (losses) on capital asset disposal	(14,813)	6,083	-	-	(8,730)
Other nonoperating revenues	12,500	-	-	-	12,500
Total nonoperating revenues (expenses)	<u>(959,608)</u>	<u>(21,842)</u>	<u>(51,607)</u>	<u>312,999</u>	<u>(720,058)</u>
Income (loss) before contributions	2,610,919	1,217,843	1,952,298	484,173	6,265,233
Capital contributions	64,514	95,893	43,458	27,926	231,791
Change in net position	<u>2,675,433</u>	<u>1,313,736</u>	<u>1,995,756</u>	<u>512,099</u>	<u>6,497,024</u>
Total Net Position - Beginning	51,962,604	21,733,606	38,868,094	1,163,603	113,727,907
Prior Period Adjustment	(370,990)	(40,350)	202,097	(935)	(210,178)
Change in Accounting Principle - GASB 61	(2,888,070)	(1,115,755)	(1,203,567)	(128,350)	(5,335,742)
Total Net Position - Ending	<u>\$ 51,378,976</u>	<u>\$21,891,237</u>	<u>\$ 39,862,381</u>	<u>\$ 1,546,417</u>	<u>\$ 114,679,011</u>

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

**CITY OF CENTRALIA UTILITIES
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2015**

	Wastewater		Storm & Surface Water		Totals
	Electric	Water	Water	Water	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 21,737,353	\$ 5,081,687	\$ 8,002,172	\$ 628,792	\$ 35,450,004
Cash payments to suppliers	(12,386,463)	(1,261,392)	(2,385,318)	(108,214)	(16,141,387)
Cash payments to employees	(3,994,250)	(1,689,587)	(1,886,206)	(219,990)	(7,790,033)
Internal activity - payments to other funds	(546,542)	(180,503)	(250,245)	(67,995)	(1,045,285)
Other operating receipts and payments	629,572	25,680	30,651	202	686,104
Net cash provided by operating activities	<u>5,439,670</u>	<u>1,975,885</u>	<u>3,511,053</u>	<u>232,795</u>	<u>11,159,403</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Grant proceeds	181,802	5,947	12,464	355,675	555,887
Transfers from other funds	12,500	75,120	-	175,000	262,620
Transfers to other funds	-	(300,339)	-	-	(300,339)
Net cash used by noncapital financing activities	<u>194,302</u>	<u>(219,272)</u>	<u>12,464</u>	<u>530,675</u>	<u>518,168</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	(2,352,373)	(1,392,719)	(2,225,909)	(1,069,878)	(7,040,880)
Proceeds from sale of capital assets	25,288	27,900	-	-	53,188
Capital contributions	64,514	95,893	43,458	-	203,865
Bond proceeds	9,684,433	-	-	-	9,684,433
Bond issuance costs	(27,338)	-	-	-	(27,338)
Principal paid on revenue bonds	(11,230,000)	(162,999)	-	-	(11,392,999)
Principal paid on other debt	-	(276,648)	(2,031,532)	(2,904)	(2,311,084)
Interest paid on revenue bonds and other debt	(1,525,208)	(41,348)	(79,040)	(1,620)	(1,647,216)
Net cash used for capital and related financing activities	<u>(5,360,684)</u>	<u>(1,749,921)</u>	<u>(4,293,024)</u>	<u>(1,074,402)</u>	<u>(12,478,031)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash receipts from interest earnings	21,425	10,609	14,970	458	47,462
Payments of notes and contracts receivable	-	-	99,253	-	99,253
Net cash provided by investing activities	<u>21,425</u>	<u>10,609</u>	<u>114,222</u>	<u>458</u>	<u>146,715</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	294,712	17,301	(655,284)	(310,474)	(653,745)
CASH AND CASH EQUIVALENTS - BEGINNING	12,116,248	6,895,119	8,046,219	280,702	27,338,287
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 12,410,960</u>	<u>\$ 6,912,420</u>	<u>\$ 7,390,935</u>	<u>\$ (29,772)</u>	<u>\$ 26,684,542</u>
Unrestricted cash and cash equivalents	\$ 9,226,681	\$ 6,676,879	\$ 5,500,975	\$ (31,582)	\$ 21,372,953
Restricted cash and cash equivalents	3,184,279	235,541	1,889,960	1,809	5,311,589
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 12,410,960</u>	<u>\$ 6,912,420</u>	<u>\$ 7,390,935</u>	<u>\$ (29,772)</u>	<u>\$ 26,684,542</u>

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

CITY OF CENTRALIA UTILITIES
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2015

	Electric	Water	Wastewater	Storm & Surface Water	Totals
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Net operating income	\$ 3,570,526	\$ 1,239,685	\$ 2,003,905	\$ 171,174	\$ 6,985,291
Adjustments to reconcile net operating income to net cash provided by operations:					
Depreciation	2,260,728	595,331	1,472,534	32,764	4,361,357
(Increase) decrease in accounts receivable	(131,758)	(193)	(4,231)	(20,354)	(156,536)
(Increase) decrease in inventory	4,816	(10,746)	-	-	(5,930)
Increase (decrease) in accounts payable	(301,535)	196,628	34,339	45,661	(24,907)
Increase (decrease) in compensated absence	24,661	(44,220)	4,507	3,549	(11,503)
Increase (decrease) in customer deposits	5,969	(600)	-	-	5,369
Increase (decrease) in unearned revenues	6,263	-	-	-	6,263
Total adjustments	<u>1,869,144</u>	<u>736,200</u>	<u>1,507,149</u>	<u>61,621</u>	<u>4,174,113</u>
Net cash provided by operating activities	\$ 5,439,670	\$ 1,975,885	\$ 3,511,053	\$ 232,795	\$ 11,159,403

Schedule of non-cash investing, capital or financing transactions:

Capital assets in the amount of \$27,926 was donated to the Stormwater Utility during 2015.

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

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

CITY OF CENTRALIA UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

The accounting records of the Utilities are maintained and reported in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. This prescription allows the City to report the Utilities using GAAP, while reporting all City funds, including the Utilities, using the cash basis of accounting as outlined in the Budgeting, Accounting, and Reporting System (BARS) manual. **See Note 11, Section A. – Accounting and Reporting Changes.**

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

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

The financial statements contain information for the following Utility funds:

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

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

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

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

C. Budgetary Information

1. Scope of Budget

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

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

2. Amending the Budget

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

D. Assets, Liabilities, and Net Position

1. Cash and Cash Equivalents

At December 31, 2015, total cash and cash equivalents for the Utilities funds were \$26,684,542. These are made up of \$25,240,931 in short-term investments of surplus cash, \$1,439,511 of cash in bank accounts and \$4,100 in cash on hand.

It is the City's policy to invest all temporary cash surpluses. For purposes of the statement of cash flows, the Utilities considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

2. Investments - See Note 2, Deposits and Investments

3. Receivables

Customer accounts receivable consist of amounts owed by private individuals, businesses and organizations for goods and services provided. Customer accounts receivable are written off when they are deemed to be uncollectible. The allowance for doubtful accounts is estimated based on each Utility's historical losses and a review of specific accounts.

Other accounts receivable consists of authorized loans and grants for which expenditures have been made but for which reimbursement has not yet been received.

4. Inventories

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

5. Restricted Assets and Liabilities

In accordance with bond resolutions and certain related agreements, separate restricted accounts been established. The assets held in these accounts are restricted for specific uses, including reserves, debt service and deposits. Restricted resources as of December 31, 2015 include the following:

	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>	<u>Stormwater</u>	<u>Total</u>
Bond/Loan Reserves	\$ 2,508,422	\$ 112,896	\$ 1,889,960	\$ 1,809	\$4,513,087
Debt Service	223,970	108,374	-	-	332,344
Deposits	451,887	14,270	-	-	466,157
	<u>\$ 3,184,279</u>	<u>\$ 235,540</u>	<u>\$ 1,889,960</u>	<u>\$ 1,809</u>	<u>\$5,311,588</u>

6. Capital Assets - See Note 3, Capital Assets

Major expenses for capital assets and major repairs that increase useful lives are capitalized. The Utilities' capitalization threshold is \$5,000. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

Capital assets are recorded at cost (where the historical cost is known). Where the historical cost is not known, assets are recorded at estimated cost. Donated capital assets are recorded at fair market value at the time of donation or the appraised value.

Depreciation is computed using the straight-line method with initial depreciation recorded in the year after purchase or construction project close-out. Applicable useful lives grouped by major capital asset type are as follows:

Buildings	10 - 50 years
Equipment	5 - 45 years
Other Improvements	7 - 50 years
Intangible Assets	40 years

7. Compensated Absences

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

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

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

8. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have

been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

9. Long-Term Debt - See Note 7, Long-Term Debt

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits

The Utilities deposits are entirely 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).

B. Investments

As of December 31, 2015, the Utilities had the following investments, which are stated at cash value:

Investment	Maturities	Fair Value of Utility-Owned Investments	Fair Value of Investments Held for Others	Total
WA State Local Government Investment Pool	NA	\$25,240,931	NA	\$25,240,931
Total	NA	\$25,240,931	NA	\$25,240,931

The Local Government Investment Pool is an unrated 2a-7 like pool, as defined by GASB 31. Accordingly, participants' balances in the LGIP are not subject to **interest rate risk**, as the weighted average maturity of the portfolio will not exceed 90 days. Per GASB 40 guidelines, the balances are also not subject to **custodial credit risk**. The **credit risk** of the LGIP is limited as most investments are either obligations of the US government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit. Investments or deposits held by the LGIP are either insured or held by a third-party custody provider in the LGIP's name. The fair value of the Utilities' pool investments is determined by the pool's share price. The Utilities have no regulatory oversight responsibility for the LGIP which is governed by the Washington State Finance Committee and is administered by the State Treasurer. The LGIP is audited annually by the Office of the State Auditor, an independently elected public official. The Utilities includes the LGIP as an investment for internal tracking, but it is shown in the financial statements as part of cash and cash equivalents.

NOTE 3 – CAPITAL ASSETS

A. Capital Asset Activity

	Beginning Balance 1/1/2015	Prior Period Adjustment	Beg Balance, as restated	Increases	Decreases	Ending Balance 12/31/2015
TOTAL UTILITY FUNDS						
Capital Assets not being depreciated:						
Land	\$ 4,247,131	\$ -	\$ 4,247,131	\$ 147,946	\$ -	\$ 4,395,077
Construction In Progress	13,863,854	(25,128)	13,838,725	5,635,851	(2,403,778)	17,070,798
Total Capital Assets not being depreciated	18,110,984	(25,128)	18,085,856	5,783,797	(2,403,778)	21,465,875
Capital Assets being depreciated						
Buildings	54,095,423	-	54,095,423	76,876	-	54,172,300
Other Improvements	61,009,497	15,581	61,025,078	991,343	-	62,016,421
Equipment	63,657,978	-	63,657,978	2,754,887	(306,530)	66,106,335
Intangible assets	4,862,082	-	4,862,082	-	-	4,862,082
Total Capital Assets being depreciated	183,624,980	15,581	183,640,561	3,823,107	(306,530)	187,157,137
Less Accumulated Depreciation for:						
Buildings	(13,849,646)	(51,763)	(13,901,409)	(1,149,888)	-	(15,051,297)
Other Improvements	(30,144,278)	199,942	(29,944,336)	(1,143,016)	-	(31,087,352)
Equipment	(22,477,153)	(33,352)	(22,510,505)	(1,947,667)	226,775	(24,231,397)
Intangible assets	(1,966,909)	(31,347)	(1,998,256)	(120,787)	-	(2,119,042)
Total Accumulated Depreciation	(68,437,986)	83,480	(68,354,505)	(4,361,357)	226,775	(72,489,087)
Total Capital Assets being depreciated, net	115,186,994	99,061	115,286,056	(538,251)	(79,755)	114,668,050
TOTAL UTILITY FUNDS - Net Total Capital Assets	\$ 133,297,979	\$ 73,933	\$ 133,371,912	\$ 5,245,547	\$(2,483,533)	\$ 136,133,925
ELECTRIC						
Capital Assets not being depreciated:						
Land	\$ 2,371,407	\$ -	\$ 2,371,407	\$ 27,522	\$ -	\$ 2,398,930
Construction In Progress	5,426,052	(9,547)	5,416,504	1,948,417	(1,586,401)	5,778,520
Total Capital Assets not being depreciated	7,797,459	(9,547)	7,787,912	1,975,939	(1,586,401)	8,177,450
Capital Assets being depreciated						
Buildings	6,944,302	-	6,944,302	61,722	-	7,006,024
Other Improvements	14,486,133	-	14,486,133	28,566	-	14,514,699
Equipment	57,401,263	-	57,401,263	1,872,547	(171,206)	59,102,604
Intangible assets	4,862,082	-	4,862,082	-	-	4,862,082
Total Capital Assets being depreciated	83,693,780	-	83,693,780	1,962,835	(171,206)	85,485,409
Less Accumulated Depreciation for:						
Buildings	(1,720,602)	(32,598)	(1,753,200)	(171,434)	-	(1,924,634)
Other Improvements	(5,386,459)	(8,453)	(5,394,912)	(284,694)	-	(5,679,606)
Equipment	(18,578,054)	(30,166)	(18,608,220)	(1,683,814)	131,105	(20,160,929)
Intangible assets	(1,966,909)	(31,347)	(1,998,256)	(120,787)	-	(2,119,042)
Total Accumulated Depreciation	(27,652,024)	(102,564)	(27,754,588)	(2,260,728)	131,105	(29,884,211)
Total Capital Assets being depreciated, net	56,041,756	(102,564)	55,939,192	(297,894)	(40,101)	55,601,198
ELECTRIC - Net Total Capital Assets	\$ 63,839,216	\$(112,112)	\$ 63,727,104	\$ 1,678,046	\$(1,626,502)	\$ 63,778,648

WATER	Beginning					Ending
	Balance 1/1/2015	Prior Period Adjustment	Beg Balance, as restated	Increases	Decreases	Balance 12/31/2015
Capital Assets not being depreciated:						
Land	\$ 379,904	\$ -	\$ 379,904	\$ -	\$ -	\$ 379,904
Construction In Progress	689,368	-	689,368	987,172	(686,586)	989,954
Total Capital Assets not being depreciated	1,069,272	-	1,069,272	987,172	(686,586)	1,369,858
Capital Assets being depreciated						
Buildings	4,237,750	-	4,237,750	-	-	4,237,750
Other Improvements	21,822,350	-	21,822,350	831,986	-	22,654,336
Equipment	1,444,253	-	1,444,253	260,148	(81,814)	1,622,588
Total Capital Assets being depreciated	27,504,353	-	27,504,353	1,092,134	(81,814)	28,514,673
Less Accumulated Depreciation for:						
Buildings	(1,138,584)	(11,726)	(1,150,310)	(101,316)	-	(1,251,626)
Other Improvements	(8,427,018)	(9,422)	(8,436,440)	(418,244)	-	(8,854,684)
Equipment	(861,762)	(3,138)	(864,900)	(75,771)	59,997	(880,674)
Total Accumulated Depreciation	(10,427,364)	(24,286)	(10,451,649)	(595,331)	59,997	(10,986,984)
Total Capital Assets being depreciated, net	17,076,990	(24,286)	17,052,704	496,802	(21,817)	17,527,689
WATER - Net Total Capital Assets	\$ 18,146,262	\$ (24,286)	\$ 18,121,976	\$ 1,483,974	\$ (708,403)	\$ 18,897,547

WASTEWATER	Beginning					Ending
	Balance 1/1/2015	Prior Period Adjustment	Beg Balance, as restated	Increases	Decreases	Balance 12/31/2015
Capital Assets not being depreciated:						
Land	\$ 1,495,820	\$ -	\$ 1,495,820	\$ 120,424	\$ -	\$ 1,616,244
Construction In Progress	7,632,875	-	7,632,875	1,502,858	(130,791)	9,004,943
Total Capital Assets not being depreciated	9,128,695	-	9,128,695	1,623,282	(130,791)	10,621,186
Capital Assets being depreciated						
Buildings	42,886,891	-	42,886,891	15,155	-	42,902,046
Other Improvements	24,147,319	-	24,147,319	130,791	-	24,278,110
Equipment	4,579,021	-	4,579,021	605,309	(53,511)	5,130,819
Total Capital Assets being depreciated	71,613,231	-	71,613,231	751,255	(53,511)	72,310,975
Less Accumulated Depreciation for:						
Buildings	(10,988,994)	(7,439)	(10,996,433)	(876,476)	-	(11,872,909)
Other Improvements	(16,304,847)	218,753	(16,086,094)	(422,997)	-	(16,509,092)
Equipment	(2,969,923)	(48)	(2,969,971)	(173,060)	35,674	(3,107,357)
Total Accumulated Depreciation	(30,263,763)	211,265	(30,052,498)	(1,472,534)	35,674	(31,489,358)
Total Capital Assets being depreciated, net	41,349,467	211,265	41,560,732	(721,279)	(17,837)	40,821,617
WASTEWATER - Net Total Capital Assets	\$ 50,478,162	\$ 211,265	\$ 50,689,427	\$ 902,004	\$ (148,628)	\$ 51,442,803

STORM	Beginning					Ending
	Balance 1/1/2015	Prior Period Adjustment	Beg Balance, as restated	Increases	Decreases	Balance 12/31/2015
Capital Assets not being depreciated:						
Construction In Progress	\$ 115,558	(15,581)	\$ 99,977	\$ 1,197,404	\$ -	\$ 1,297,381
Total Capital Assets not being depreciated	115,558	(15,581)	99,977	1,197,404	-	1,297,381
Capital Assets being depreciated						
Buildings	26,480	-	26,480	-	-	26,480
Other Improvements	553,695	15,581	569,276	-	-	569,276
Equipment	233,441	-	233,441	16,883	-	250,324
Total Capital Assets being depreciated	813,616	15,581	829,197	16,883	-	846,080
Less Accumulated Depreciation for:						
Buildings	(1,466)	-	(1,466)	(662)	-	(2,128)
Other Improvements	(25,955)	(935)	(26,889)	(17,080)	-	(43,969)
Equipment	(67,415)	-	(67,415)	(15,022)	-	(82,437)
Total Accumulated Depreciation	(94,835)	(935)	(95,770)	(32,764)	-	(128,534)
Total Capital Assets being depreciated, net	718,781	14,646	733,427	(15,881)	-	717,546
STORM - Net Total Capital Assets	\$ 834,339	\$ (935)	\$ 833,404	\$ 1,181,523	\$ -	\$ 2,014,927

B. Interest Capitalization

Interest cost incurred and charged to expense during 2015 is as follows:

<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>	<u>Stormwater</u>	<u>Total</u>
<u>\$ 1,137,231</u>	<u>\$ 40,810</u>	<u>\$ 79,040</u>	<u>\$ 1,620</u>	<u>\$ 1,258,701</u>

NOTE 4 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

A. Construction Commitments

The Utilities have active construction projects as of December 31, 2015. Significant commitments with contractors as of year-end are as follows:

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>	<u>Funding Source</u>
2015 Asphalt Patch Project	\$ 37,027	\$ 1,949	Water Reserves
Computer Training Room Remodel	124,005	42,067	Light Reserves
Cooks Hill to River Hts Main Installation	79,289	9,249	Water Reserves
Davis Hill Water Reservoir Repainting	265,696	19,556	Water Reserves
May Street Feeders M4/M5	155,026	25,129	Light Reserves
Penstock #2 at Yelm Plant Repainting	43,878	2,194	Light Reserves
Salzer/Courtland M-1/M-2 Feeder Upgrade	-	116,347	Light Reserves
Stormwater Decant Facility	973,204	(36,915)	Grant & Stormwater Revenues
Wastewater Decant Facility	1,261,049	20,000	Wastewater Reserves
Water Dept Breakroom Remodel	68,044	188,826	Water Reserves
Total	<u>\$ 3,007,218</u>	<u>\$ 388,401</u>	

B. Other Commitments

Power Purchase Contracts – **See Note 11, Section B.2. – Power Purchase Contracts**

All significant encumbrances effected by the Utilities as of the end of 2015 have been disclosed.

NOTE 5 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the Utility Funds for 2015:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$5,025,366
Deferred outflows of resources	633,791
Deferred inflows of resources	747,660
Pension expense/expenditures	392,316

State Sponsored Pension Plans

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

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

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

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS) Plans 1, 2 and 3

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

The Utility Funds' actual contributions to the plan were \$268,032 for the year ended December 31, 2015.

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

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

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer	Employee
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

The Utilities' actual contributions to the plan were \$320,791 for the year ended December 31, 2015.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

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

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

Discount Rate

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

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of NPL

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$3,406,707	\$2,798,111	\$2,274,774
PERS 2/3	6,512,609	2,227,255	(1,053,880)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2015, the Utilities reported a total pension liability of \$5,025,366 for its proportionate share of the net pension liabilities as follows:

	Liability (Asset)
PERS 1	\$2,798,111
PERS 2/3	2,227,255

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

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	.076896%	.075450%	-.001446%
PERS 2/3	.086018%	.089115%	.003097%

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

Pension Expense

For the year ended December 31, 2015, the Utilities recognized pension expense as follows:

	Pension Expense
PERS 1	\$107,026
PERS 2/3	285,290
TOTAL	\$392,316

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the Utilities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	153,088
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	144,790	-
TOTAL	\$144,790	\$153,088

PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$236,759	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	594,572
Changes of assumptions	3,589	-
Changes in proportion and differences between contributions and proportionate share of contributions	69,705	-
Contributions subsequent to the measurement date	178,948	-
TOTAL	\$489,001	\$594,572

Deferred outflows of resources related to pensions resulting from the Utility Funds' contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

PLAN SUMMARY AMORTIZATION SCHEDULE FOR ALL DEFERRED (INFLOWS) AND OUTFLOWS		
Year ended December 31:	PERS 1	PERS 2/3
2016	\$(59,331)	\$(140,928)
2017	(59,331)	(140,928)
2018	(59,331)	(140,928)
2019	24,907	138,263

NOTE 6 - 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 175 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, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self-insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sub-limits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

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

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

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

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

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

The amount of insurance settlements received were within the limits of insurance coverage during 2013, 2014 and 2015. In addition, insurance coverage amounts have remained unchanged from 2014 to 2015.

NOTE 7 – LONG-TERM DEBT

The Electric and Water utilities have issued revenue bonds to finance the acquisition and construction of major utility infrastructure and are being repaid with Electric and Water utility revenues. Bonded indebtedness has also been entered into in 2015 to advance refund part of an existing revenue bond. Outstanding bonds are reported as current and non-current liabilities, and are shown net of premiums or discounts. The Utilities are in compliance with Federal arbitrage regulations.

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

The Utilities have pledged income derived from capital assets to repay outstanding revenue bonds and loans. As required by bond indentures and loan agreements, the Utilities have restricted assets of \$4,845,432 in sinking funds and loan reserves. There are a number of other limitations and restrictions contained in the various bond indentures and loan contracts. The Utilities are in compliance with all significant limitations and restrictions.

A. Revenue Bonds and State Loans

Revenue bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rates	Original Amount	2015 Principal & Interest
Electric Construction Projects - Refunding	3/1/07 to 12/1/19	4.79%	\$ 4,530,000	\$ 569,825
Electric Construction Projects (partially refunded 12/3/15)	3/1/07 to 12/1/17	4.51%	1,685,000	1,300,313
Electric Construction Projects	10/7/10 to 12/1/30	5.54%	11,055,000	928,213
Electric Construction Projects - Refunding	12/3/15 to 12/1/26	2.38%	9,684,433	-
Total Electric Revenue Bonds			26,954,433	2,798,351
Water Construction Projects - Refunding	4/30/13 to 4/30/21	1.98%	1,128,964	180,427
Total Water Revenue Bonds			1,128,964	180,427
TOTAL ALL REVENUE BONDS			\$ 28,083,397	\$ 2,978,778

Revenue bond debt service requirements to maturity are as follows:

Year Ending December 31	Electric Revenue Bonds		Water Revenue Bonds	
	Principal	Interest	Principal	Interest
2016	1,782,716	906,173	158,608	14,244
2017	1,862,960	821,086	159,127	11,099
2018	1,924,459	750,817	159,250	7,947
2019	1,981,413	689,450	102,763	5,353
2020	1,676,994	625,989	109,053	3,256
2021-2025	8,831,600	2,269,877	109,908	1,088
2026-2030	5,214,291	763,242	-	-
Totals	\$ 23,274,433	\$ 6,826,635	\$ 798,709	\$ 42,986

The P WTF loans payable currently outstanding are as follows:

Fund - Purpose	Maturity Range	Interest Rates	Original Amount	2015
				Principal & Interest
Water - Cooks Hill Water	7/30/02 to 6/1/22	1%	\$ 2,316,356	\$ 137,511
Total Water P WTF loans			2,316,356	137,511
Sewer - Basin 4 Phase I	7/8/95 to 6/1/15	3%	678,521	30,349
Sewer - Swanson Heights	4/18/02 to 6/1/21	2%	1,307,382	47,273
Sewer - Maple Hansen	7/31/02 to 6/1/21	1%	280,098	8,965
Sewer - Cooks Hill Sewer	7/4/04 to 6/1/24	1%	1,192,500	66,084
Total Sewer P WTF loans			3,458,501	152,671
TOTAL ALL P WTF LOANS			\$ 5,774,857	\$ 290,182

P WTF loans payable debt service requirements to maturity are as follows:

Year Ending December 31	Water P WTF Loans		Wastewater P WTF Loans	
	Principal	Interest	Principal	Interest
2016	128,116	8,968	112,706	8,389
2017	128,116	7,687	112,706	7,162
2018	128,116	6,406	112,706	5,935
2019	128,116	5,125	112,706	4,708
2020	128,116	3,843	112,706	3,481
2021-2025	256,232	3,843	309,819	4,225
Totals	\$ 896,811	\$ 35,872	\$ 873,346	\$ 33,902

The SRF loans payable currently outstanding are as follows:

Fund - Purpose	Maturity Range	Interest Rates	Original Amount	2015
				Principal & Interest
Water - Ham Hill Water	7/30/04 to 10/1/23	1%	\$ 624,240	\$ 35,812
Water - Port North Ext	8/11/05 to 10/1/24	1%	2,197,866	127,245
Total Water SRF loans			2,822,106	163,057
Sewer - Basin 4 Phase II	5/12/97 to 9/10/18	0%	814,088	41,748
Sewer - Treatment Plant A	11/1/05 to 11/1/24	0%	33,009,836	1,692,812
Sewer - Treatment Plant B	8/31/06 to 8/31/26	0%	591,946	30,356
Sewer - I&I Reduction Proj	12/31/13 to 12/31/32	2.50%	3,003,050	193,860
Total Sewer SRF loans			37,418,920	1,958,776
Storm - I&I Reduction Proj	12/31/13 to 12/31/32	2.50%	70,067	4,523
Total Storm SRF loans			70,067	4,523
TOTAL ALL SRF LOANS			\$ 40,311,093	\$ 2,126,356

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

Year Ending December 31	Water SRF Loans		Wastewater SRF Loans		Stormwater SRF Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	148,532	13,039	1,892,509	66,268	2,977	1,546
2017	148,532	11,554	1,895,736	63,041	3,052	1,471
2018	148,532	10,069	1,899,044	59,733	3,129	1,394
2019	148,532	8,583	1,860,688	56,341	3,209	1,315
2020	148,532	7,098	1,864,165	52,863	3,290	1,233
2021-2025	561,273	13,539	7,683,336	208,994	17,739	4,876
2026-2030	-	-	891,785	107,873	20,099	2,517
2031-2032	-	-	375,841	11,880	8,769	277
Totals	\$ 1,303,932	\$ 63,883	\$ 18,363,103	\$ 626,993	\$ 62,264	\$ 14,629

B. Refunded Debt

On December 3, 2015, the Utilities issued \$9,684,433 of Electric System Revenue Refunding Bonds, 2015 to provide resources to purchase U.S. Government and State and Local Government Series securities which

were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$9,590,000 of existing Electric System Revenue and Refunding Bonds, 2007.

As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Statement of Net Position. The advance refunding was undertaken to reduce total debt service payments over the next eleven (11) years by \$1,220,715, and obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,069,130.

NOTE 8 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2015 the following changes occurred in long-term liabilities:

	Beginning			Ending	Due Within
	Balance	Additions	Reductions	Balance	One Year
Revenue bonds	\$25,959,021	\$ 9,674,822	\$(11,493,639)	\$24,140,204	\$1,941,324
Loans	23,810,542	-	(2,311,084)	21,499,458	2,284,840
Pensions	-	5,428,223	-	5,428,223	
Compensated absences/ Excess compensation	978,498	46,077	(57,580)	966,995	48,350
Total long-term liabilities	<u>\$50,748,061</u>	<u>\$15,149,122</u>	<u>\$(13,862,303)</u>	<u>\$52,034,880</u>	<u>\$4,274,514</u>

NOTE 9 - CONTINGENCIES AND LITIGATION

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

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

NOTE 10 – INTERFUND LOANS

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

Interfund loan activity during 2015:

<u>Borrowing Fund</u>	<u>Lending Fund</u>	<u>Balance 1/1/2015</u>	<u>New Loans</u>	<u>Repayments</u>	<u>Balance 12/31/2015</u>
General	Wastewater	\$ 1,230,000	\$ -	\$ 82,000	\$ 1,148,000
Flood Capital Projects	Water	-	125,339	75,120	50,219
Stormwater	Water	-	175,000	-	175,000

NOTE 11 – OTHER DISCLOSURES

A. Accounting and Reporting Changes

1. Reporting Changes

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

2. Adoption of New GASB Pronouncements

GASB Statement No. 68 Accounting and Financial Reporting for Pensions

The City implemented GASB Statement No. 68 in 2015 which amended GASB Statement No. 27. This Statement provides financial reporting guidance for state and local governmental pension plans and improves information provided by state and local governmental employers about financial support for pensions provided by other entities.

Implementation of GASB 68 requires an adjustment to net position for the implementation effects resulting from prior periods as a change in accounting principle.

Change in Accounting Principle for implementation of GASB 68 for PERS Plans 1 and 2/3:	<u>Storm & Surface</u>				<u>Totals</u>
	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>	<u>Water</u>	
Deferred outflow for actual contributions	\$ 141,194	\$ 53,759	\$ 58,220	\$ 6,233	\$ 259,406
Deferred inflow for difference between expected and actual earnings on plan investments	(903,901)	(328,912)	(360,725)	(39,078)	(1,632,616)
Net pension liability	(2,125,363)	(840,602)	(901,062)	(95,505)	(3,962,532)
Net Change in Accounting Principle for implementation of GASB 68 for PERS Plans 1 and 2/3	\$ (2,888,070)	\$ (1,115,755)	\$ (1,203,567)	\$ (128,350)	\$ (5,335,742)

B. Other

1. Prior Period Adjustments

Numerous prior period adjustments were made in 2015 to correct various errors found to affect previous years.

The following table summarizes the effects of prior errors corrected during 2015:

	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>	<u>Storm & Surface Water</u>	<u>Totals</u>
Prior Period Adjustments:					
Write off unamortized debt issue costs (GASB 65)	\$(255,197)	\$(21,457)			\$(276,655)
Correct accumulated depreciation for 2014 disposal errors	(1,773)				(1,773)
Correct beginning balance of accumulated depreciation for prior depreciation errors	(100,791)	(24,286)	(7,195)		(132,272)
Write off stale accounts receivable	(3,681)		(9,168)		(12,850)
Write off previously capitalized project that was cancelled	(9,547)				(9,547)
Correct beginning balance of bond interest payable		1,718			1,718
Correct beginning balance of other payables		3,675			3,675
Correct accumulated depreciation for 2014 depreciation calculation error			218,460		218,460
Correct capital asset accounts for 2012 project				(935)	(935)
Net Prior Period Adjustments	\$(370,990)	\$(40,350)	\$ 202,097	\$ (935)	\$(210,178)

2. Power Purchase Contracts

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

Under the contract, the Utility is required to inform BPA how the Utility plans to serve its load above the allocation amount (AHWM). The City has entered into a power purchase commitment agreement with Northwest Intergovernmental Energy Supply (NIES), a Northwest Requirements Utilities related organization, to supply power needs above the BPA Tier 1 amount using non-Federal sources through September 30, 2019.

In 2015, BPA and NIES provided 73.2% of the power supply, with the remainder produced by the Yelm Generating Plant. Charges for the BPA purchased power and transmission were \$7,823,251 in 2015. Charges for non-Federal AHWM power purchases from NIES amounted to \$324,161 in 2015.

C. Subsequent Events

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

REQUIRED SUPPLEMENTARY INFORMATION – STATE SPONSORED PLANS

City of Centralia - Utility Funds
 Schedule of Proportionate Share of the Net Pension Liability
 PERS Plan 1
 As of June 30, 2015
 Last 10 Fiscal Years*

	2015
Employer's (entire City) proportion of the net pension liability (asset)	0.075450%
Employer's (entire City) proportionate share of the net pension liability	\$ 3,946,737
Utilities' proportion (70.897% of entire City) of the net pension liability (asset)	0.053492%
Utilities' proportionate share of the net pension liability	\$ 2,798,111
Utilities' covered employee payroll	\$ 5,850,178
Utilities' proportionate share of the net pension liability as a percentage of covered employee payroll	47.83%
Plan fiduciary net position as a percentage of the total pension liability	59.10%

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

Notes to Schedule:

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

City of Centralia - Utility Funds
Schedule of Proportionate Share of the Net Pension Liability
PERS Plan 2/3
As of June 30, 2015
Last 10 Fiscal Years*

	2015
Employer's (entire City) proportion of the net pension liability (asset)	0.089115%
Employer's (entire City) proportionate share of the net pension liability	\$ 3,184,130
Utilities' proportion (69.949% of entire City) of the net pension liability (asset)	0.062335%
Utilities' proportionate share of the net pension liability	\$ 2,227,255
Utilities' covered employee payroll	\$ 5,554,517
Utilities' proportionate share of the net pension liability as a percentage of covered employee payroll	40.10%
Plan fiduciary net position as a percentage of the total pension liability	89.20%

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

City of Centralia - Utility Funds
 Schedule of Employer Contributions
 PERS Plan 1
 As of December 31, 2015
 Last 10 Fiscal Years*

	2015
Statutorily or contractually required contributions	\$ 268,032
Contributions in relation to the statutorily or contractually required contributions	\$ (268,032)
Contribution deficiency (excess)	-
Covered employer payroll	\$ 5,922,047
Contributions as a percentage of covered employee payroll	4.53%

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

City of Centralia - Utility Funds
 Schedule of Employer Contributions
 PERS Plan 2/3
 As of December 31, 2015
 Last 10 Fiscal Years*

	2015
Statutorily or contractually required contributions	\$ 320,791
Contributions in relation to the statutorily or contractually required contributions	\$ (320,791)
Contribution deficiency (excess)	-
Covered employer payroll	\$ 5,692,328
Contributions as a percentage of covered employee payroll	5.64%

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

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
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Toll-free Citizen Hotline	(866) 902-3900
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