



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

## **Financial Statements Audit Report**

# **City of Centralia**

**Lewis County**

**For the period January 1, 2013 through December 31, 2013**

**Published February 23, 2015**

**Report No. 1013659**





**Washington State Auditor**  
**Troy Kelley**

February 23, 2015

Mayor and City Council  
City of Centralia  
Centralia, Washington

**Report on Financial Statements**

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

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

Sincerely,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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

**City of Centralia  
Lewis County  
January 1, 2013 through December 31, 2013**

Mayor and City Council  
City of Centralia  
Centralia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Centralia, Lewis County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated February 12, 2015.

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

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

## **COMPLIANCE AND OTHER MATTERS**

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

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

## **PURPOSE OF THIS REPORT**

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

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

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

February 12, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Centralia Lewis County January 1, 2013 through December 31, 2013

Mayor and City Council  
City of Centralia  
Centralia, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Centralia, Lewis County, Washington, for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 10.

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

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

#### Auditor's Responsibility

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

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

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

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Centralia, for the year ended December 31, 2013, on the basis of accounting described in Note 1.

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

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

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

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Centralia, as of December 31, 2013, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.



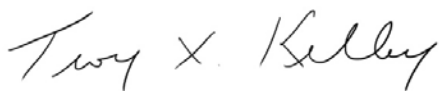
## Other Matters

### *Supplementary and Other Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2015 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.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

February 12, 2015

## **FINANCIAL SECTION**

**City of Centralia  
Lewis County  
January 1, 2013 through December 31, 2013**

### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2013  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2013  
Notes to Financial Statements – 2013

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2013

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds*	001 General	101 Streets	109 Stadium
<b>Beginning Cash and Investments</b>					
30810	Beg Fund Bal-Reserved	15,094,267	669,093	499,828	282,398
30880	Beg Fund Bal-Unreserved	16,261,574	2,640,613	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
<b>Operating Revenues</b>					
310	Taxes	7,479,540	6,885,873	264,326	128,899
320	Licenses & Permits	602,740	421,286	177,204	0
330	Intergovernmental Revenues	2,435,959	322,189	576,804	0
340	Charges for Goods and Services	35,206,715	1,123,830	29,953	0
350	Fines & Penalties	600,466	250,473	0	0
360	Miscellaneous Revenues	1,516,354	201,193	234,181	1,904
<b>Total Operating Revenues:</b>		<b>47,841,775</b>	<b>9,204,845</b>	<b>1,282,468</b>	<b>130,803</b>
<b>Operating Expenditures</b>					
510	General Government	1,862,719	1,862,656	0	0
520	Public Safety	5,694,575	5,642,184	0	0
530	Utilities	23,596,701	6,804	0	0
540	Transportation	1,402,508	9,398	994,018	0
550	Natural and Economic Environment	240,086	205,923	0	34,163
560	Social Services	8,224	8,224	0	0
570	Culture And Recreation	1,097,215	1,097,215	0	0
598	Intergovernmental Payments	0	0	0	0
<b>Total Operating Expenditures:</b>		<b>33,902,028</b>	<b>8,832,404</b>	<b>994,018</b>	<b>34,163</b>
<b>Net Operating Increase (Decrease):</b>		<b>13,939,747</b>	<b>372,441</b>	<b>288,450</b>	<b>96,640</b>
<b>Nonoperating Revenues</b>					
370, 380, 395, 398	Other Financing Sources	681,709	259,288	0	119
391-393	Debt Proceeds	4,339,484	0	0	0
397	Transfers-In	0	0	0	0
<b>Total Nonoperating Revenues:</b>		<b>5,021,193</b>	<b>259,288</b>		<b>119</b>
<b>Nonoperating Expenditures</b>					
580, 596, 599	Other Financing Uses	357,725	336,639	0	119
591-593	Debt Service	8,133,219	108,258	0	92,683
594-595	Capital Expenditures	7,550,954	111,924	267,698	0
597	Transfers-Out	0	0	0	0
<b>Total Nonoperating Expenditures:</b>		<b>16,041,898</b>	<b>556,821</b>	<b>267,698</b>	<b>92,802</b>
<b>Increase (Decrease) in Cash and Investments</b>		<b>2,919,042</b>	<b>74,907</b>	<b>20,752</b>	<b>3,957</b>
<b>Ending Cash and Investments</b>					
50810	End Fund Bal-Reserved	22,285,735	622,803	520,581	286,355
50880	End Fund Balance-Unreserved	11,989,149	2,761,811	0	0

The accompanying notes are an integral part of this Statement.

BARS Code		111 Confiscations/Seizures	131 Landfill Closure	302 Capital Projects	303 Energy Efficiency Capital Projects
<b>Beginning Cash and Investments</b>					
30810	Beg Fund Bal-Reserved	48,740	167,755	207,298	0
30880	Beg Fund Bal-Unreserved	0	0	0	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
<b>Operating Revenues</b>					
310	Taxes	0	0	200,442	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	170,000	0	0
340	Charges for Goods and Services	0	0	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	84,642	333	383	755
<b>Total Operating Revenues:</b>		<b>84,642</b>	<b>170,333</b>	<b>200,825</b>	<b>755</b>
<b>Operating Expenditures</b>					
510	General Government	0	0	0	63
520	Public Safety	52,391	0	0	0
530	Utilities	0	142,191	0	0
540	Transportation	0	0	302	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
<b>Total Operating Expenditures:</b>		<b>52,391</b>	<b>142,191</b>	<b>302</b>	<b>63</b>
<b>Net Operating Increase (Decrease):</b>		<b>32,251</b>	<b>28,142</b>	<b>200,523</b>	<b>692</b>
<b>Nonoperating Revenues</b>					
370, 380, 395, 398	Other Financing Sources	6,377	0	96,967	0
391-393	Debt Proceeds	0	0	1,116,592	1,100,000
397	Transfers-In	0	0	0	0
<b>Total Nonoperating Revenues:</b>		<b>6,377</b>		<b>1,213,559</b>	<b>1,100,000</b>
<b>Nonoperating Expenditures</b>					
580, 596, 599	Other Financing Uses	6,377	0	0	0
591-593	Debt Service	0	0	1,267,653	6,750
594-595	Capital Expenditures	0	4,331	0	691,388
597	Transfers-Out	0	0	0	0
<b>Total Nonoperating Expenditures:</b>		<b>6,377</b>	<b>4,331</b>	<b>1,267,653</b>	<b>698,138</b>
<b>Increase (Decrease) in Cash and Investments</b>		<b>32,251</b>	<b>23,811</b>	<b>146,429</b>	<b>402,554</b>
<b>Ending Cash and Investments</b>					
50810	End Fund Bal-Reserved	80,990	191,567	353,726	402,554
50880	End Fund Balance-Unreserved	0	0	0	0

The accompanying notes are an integral part of this Statement.

BARS Code		401 Electric	402 Water	403 Wastewater	405 Storm & Surface Water
<b>Beginning Cash and Investments</b>					
30810	Beg Fund Bal-Reserved	6,284,785	2,612,441	3,039,733	0
30880	Beg Fund Bal-Unreserved	8,557,471	2,578,868	2,348,764	135,858
38800/58800	Prior Period Adjustments, net	0	0	0	0
<b>Operating Revenues</b>					
310	Taxes	0	0	0	0
320	Licenses & Permits	2,100	0	2,050	100
330	Intergovernmental Revenues	407,851	0	942,789	16,326
340	Charges for Goods and Services	20,966,025	4,595,890	7,567,617	528,867
350	Fines & Penalties	202,180	55,878	85,545	6,390
360	Miscellaneous Revenues	892,931	40,558	53,394	4,216
<b>Total Operating Revenues:</b>		<b>22,471,087</b>	<b>4,692,326</b>	<b>8,651,395</b>	<b>555,899</b>
<b>Operating Expenditures</b>					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities	15,727,981	2,971,772	4,272,102	475,851
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
<b>Total Operating Expenditures:</b>		<b>15,727,981</b>	<b>2,971,772</b>	<b>4,272,102</b>	<b>475,851</b>
<b>Net Operating Increase (Decrease):</b>		<b>6,743,106</b>	<b>1,720,554</b>	<b>4,379,293</b>	<b>80,048</b>
<b>Nonoperating Revenues</b>					
370, 380, 395, 398	Other Financing Sources	111,034	46,092	161,832	0
391-393	Debt Proceeds	0	1,128,964	988,478	5,450
397	Transfers-In	0	0	0	0
<b>Total Nonoperating Revenues:</b>		<b>111,034</b>	<b>1,175,056</b>	<b>1,150,310</b>	<b>5,450</b>
<b>Nonoperating Expenditures</b>					
580, 596, 599	Other Financing Uses	10,989	2,755	846	0
591-593	Debt Service	2,808,185	1,897,173	1,952,517	0
594-595	Capital Expenditures	4,621,106	323,409	1,299,067	5,523
597	Transfers-Out	0	0	0	0
<b>Total Nonoperating Expenditures:</b>		<b>7,440,280</b>	<b>2,223,337</b>	<b>3,252,430</b>	<b>5,523</b>
<b>Increase (Decrease) in Cash and Investments</b>		<b>-586,140</b>	<b>672,273</b>	<b>2,277,173</b>	<b>79,975</b>
<b>Ending Cash and Investments</b>					
50810	End Fund Bal-Reserved	10,784,458	3,426,086	4,563,320	0
50880	End Fund Balance-Unreserved	3,471,658	2,437,498	3,102,349	215,833

The accompanying notes are an integral part of this Statement.

BARS Code		501 Equipment Rental & Revolving
<b>Beginning Cash and Investments</b>		
30810	Beg Fund Bal-Reserved	1,282,196
30880	Beg Fund Bal-Unreserved	0
38800/58800	Prior Period Adjustments, net	0
<b>Operating Revenues</b>		
310	Taxes	0
320	Licenses & Permits	0
330	Intergovernmental Revenues	0
340	Charges for Goods and Services	394,533
350	Fines & Penalties	0
360	Miscellaneous Revenues	1,864
<b>Total Operating Revenues:</b>		<b>396,397</b>
<b>Operating Expenditures</b>		
510	General Government	0
520	Public Safety	0
530	Utilities	0
540	Transportation	398,790
550	Natural and Economic Environment	0
560	Social Services	0
570	Culture And Recreation	0
598	Intergovernmental Payments	0
<b>Total Operating Expenditures:</b>		<b>398,790</b>
<b>Net Operating Increase (Decrease):</b>		<b>-2,393</b>
<b>Nonoperating Revenues</b>		
370, 380, 395, 398	Other Financing Sources	0
391-393	Debt Proceeds	0
397	Transfers-In	0
<b>Total Nonoperating Revenues:</b>		<b>0</b>
<b>Nonoperating Expenditures</b>		
580, 596, 599	Other Financing Uses	0
591-593	Debt Service	0
594-595	Capital Expenditures	226,508
597	Transfers-Out	0
<b>Total Nonoperating Expenditures:</b>		<b>226,508</b>
<b>Increase (Decrease) in Cash and Investments</b>		<b>-228,901</b>
<b>Ending Cash and Investments</b>		
50810	End Fund Bal-Reserved	1,053,295
50880	End Fund Balance-Unreserved	0

The accompanying notes are an integral part of this Statement.

**CITY OF CENTRALIA**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2013**

<b>BARS CODE</b>		<b>611 FIREMAN'S PENSION</b>
		<b>Actual Amount</b>
308	Beginning Cash and Investments	\$ 922,120
388/588	Prior Period Adjustments, net	-
310-360	Revenues	20,874
380-390	Other Increases and Financing Resources	-
510-570	Expenditures	17,552
580-590	Other Decreases and Financing Uses	-
	Increase (Decrease) in Cash and Investments	3,322
508	Ending Cash and Investments	\$ 925,442

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

**CITY OF CENTRALIA**  
**NOTES TO CASH FINANCIAL STATEMENTS**  
**December 31, 2013**

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

The City of Centralia reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the Cash Basis Budgeting, Accounting and Reporting System (BARS) manual for all funds. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

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

The City is a general-purpose city government and provides public safety, street improvements and maintenance, parks and recreation, tourism information, planning and zoning, judicial administration, and general administration services. In addition, the City also owns and operates four utilities - electric, water, wastewater and storm & surface water. The City utilities are part of these financial statements, but formerly were reported in their own GAAP financial statements.

**A. Fund Accounting**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. Utility funds account for transactions on an accrual basis and are restated for year-end statements. The City's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City:

**GOVERNMENTAL FUND TYPES:**

**General Fund (001)**

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

**Special Revenue Funds (100-199)**

These funds account for revenue that are legally restricted or designated to finance particular activities of the City.

**Capital Projects Fund (302-303)**

These funds accounts for financial resources which are designated for the acquisition or construction of general government capital projects, and debt service on the Streetscape general obligation bonds.



PROPRIETARY FUND TYPES:

Enterprise Funds (401-405)

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

Internal Services Fund (501)

This fund accounts for the fleet maintenance and acquisition services provided to the other departments of the City on a cost reimbursement basis.

FIDUCIARY FUND TYPES:

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

Pension Trust Fund (611)

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

Agency Funds (801 & 803)

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

**B. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year's budget appropriations as required by state law.

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

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The enterprise funds, formerly reported separately on a GAAP basis, have been included, as required, into the city-wide financial statements. This transition to cash basis reporting occurred in FY 2011 statements through restatement of ending fund balances. The City also reports the enterprise funds in separate financial statements on the GAAP basis.

### C. Budgets

The City adopts annual appropriated budgets at the fund level for the general, special revenue, capital projects, enterprise, internal service and pension trust funds. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end. Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting. The appropriated and actual expenditures for the legally adopted budgets by fund were as follows:

<b>Fund/Department</b>	<b>Final Appropriated Amounts</b>	<b>Actual Expenditures</b>	<b>Variance</b>
<b>General Fund</b>	9,277,134	9,043,734	233,400
<b>Streets</b>	3,038,927	1,263,439	1,775,488
<b>Paths &amp; Trails</b>	4,235	-	4,235
<b>Repair &amp; Demolition</b>	1,500	1,425	75
<b>Park Improvement</b>	8,800	-	8,800
<b>Stadium</b>	127,985	126,846	1,139
<b>Confiscation/Seizures</b>	52,650	52,391	259
<b>Law Enforcement Grants</b>	193,185	175,708	17,477
<b>Indoor Pool</b>	10,000	10,000	-
<b>Borst Park Construction</b>	132,200	87,280	44,920
<b>Borst Home</b>	4,920	3,647	1,273
<b>Wash Lawn Cemetery</b>	2,340	-	2,340
<b>Landfill Closure</b>	194,315	146,521	47,794
<b>Landfill Operation Trust</b>	194,315	146,521	47,794
<b>Capital Projects</b>	172,420	151,363	21,057
<b>Cap Projects- Energy Efficiency</b>	1,694,030	698,201	995,829
<b>Light</b>	25,741,372	23,157,272	2,584,100
<b>Water</b>	5,040,198	5,195,108	(154,910)
<b>Wastewater</b>	8,529,375	7,523,686	1,005,689
<b>Storm &amp; Surface Water</b>	1,286,310	481,374	804,936
<b>Equip Rental</b>	677,291	625,297	51,994
<b>Fireman's Pension</b>	37,000	17,552	19,448

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

### D. Cash

It is the City's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various funds.

## **E. Deposits**

The City deposits are covered by the Federal Deposit Insurance Corporations and/or the Washington Public Deposit Protection Commission.

## **F. Investments (See Note 2)**

## **G. Capital Assets**

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

## **H. Compensated Absences**

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

Sick leave may be accumulated up to 960 hours with a maximum of 360 hours payable upon separation, retirement or death (subject to union or employment agreements that may allow for more liberal accumulation and payment).

## **I. Long-Term Debt (See Note 5)**

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

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

## **K. 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 162 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, 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 sublimits 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.

**L. Reserved Fund Balance**

External parties or the Centralia City Council have placed restrictions on portions of the General Fund balance. The City Council has assigned a portion of General Fund balance to indicate tentative plans for future financial resource uses. Also, balances rolled up from managerial accounts, which do not qualify as special revenue funds, are included as assigned:

General Fund (001) Restricted:

Distressed counties reinvestment	\$ 111,749
HUD reinvestment	34,716
Municipal court	22,831
HUB City sign maintenance	5,162
Mural maintenance	4,462
Total Restricted Fund Balance	<u>\$ 178,920</u>

General Fund (001) Assigned:

Vacation, sick, excess compensation & LEOFF I	\$ 323,564
Depot maintenance	27,090
Mellen Street Training Facility	16,775
Repair & Demolition (managerial Fund 106)	101
Park Improvement (managerial Fund 108)	10,826
Borst Construction (managerial Fund 124)	62,080
Borst Home (managerial Fund 125)	1,104
Washington Lawn Cemetery (managerial Fund 130)	2,344
Total Assigned Fund Balance	<u>\$ 443,883</u>

General Fund (001) Unassigned	<u>\$2,761,811</u>
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<b>Total General Fund Balance</b>	<b><u><u>\$3,384,615</u></u></b>
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Balances in the qualifying Special Revenue Funds are displayed as Restricted. Utility Fund balances are either Reserved or Unreserved. Internal Service Fund balance is Assigned.

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

<u>Light (401) Restricted</u>	
Bond Reserves	\$ 2,808,185
Debt Service	233,387
Customer Deposits	430,086
<b>Total Light</b>	<b><u>\$ 3,471,658</u></b>

<u>Water (402) Restricted</u>	
Construction	\$ 2,195,401
Bond Reserves	112,896
Debt Service	115,250
Customer Deposits	13,950
<b>Total Water</b>	<b><u>\$ 2,437,498</u></b>

<u>Wastewater (403) Restricted</u>	
Construction	\$ 995,150
Loan Reserves	1,812,416
Debt Service	294,784
<b>Total Wastewater</b>	<b><u>\$ 3,102,349</u></b>

**NOTE 2 – INVESTMENTS**

The City’s investments consist entirely of deposits in the Washington State Local Government Investment Pool (LGIP). As of December 31, 2013, the City’s LGIP balance was \$33,381,999.07. For financial reporting purposes, the City considers the LGIP deposit balance to be cash.

**NOTE 3 - PROPERTY TAXES**

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

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

The City's regular levy for 2013 was \$.625511996892 per \$1,000 on an assessed valuation of \$1,040,770,478 for a total regular levy of \$651,014.

**NOTE 4 – INTERFUND LOANS**

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

Interfund loan activity during 2013:

Borrowing	Lending	Balance			Balance
<u>Fund</u>	<u>Fund</u>	<u>1/1/2013</u>	<u>New Loans</u>	<u>Repayments</u>	<u>12/31/2013</u>
General	Wastewater	\$1,394,000	0	\$ 82,000	\$ 1,312,000

**NOTE 5 – DEBT SERVICE REQUIREMENTS**

The accompanying Schedule of Long-Term Liabilities (09) provides more details of the outstanding debt and liabilities of the City of Centralia and summarizes the City’s debt transactions for the year ended December 31, 2013.

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

	<u>General Obligation Bonds</u>	<u>Revenue Bonds</u>	<u>Other Debt*</u>	<u>Total Debt</u>
<b>2014</b>	\$ 484,536	\$ 2,988,601	2,569,498	6,042,635
<b>2015</b>	388,667	2,978,778	2,456,289	5,823,734
<b>2016</b>	387,631	2,972,155	2,421,953	5,781,738
<b>2017</b>	385,595	2,965,302	2,417,966	5,768,863
<b>2018</b>	377,914	2,953,503	2,413,979	5,745,396
<b>2019-2023</b>	1,522,946	12,562,308	11,571,581	25,656,835
<b>2024-2028</b>	458,128	8,893,265	3,046,784	12,398,177
<b>2029-2032</b>	182,113	1,867,732	906,128	2,955,973
<b>Totals</b>	<b><u>\$4,187,531</u></b>	<b><u>\$38,181,644</u></b>	<b><u>\$27,804,177</u></b>	<b><u>\$70,173,351</u></b>

\*Does not include compensated absences liabilities.

**NOTE 6 - PENSION PLANS**

Substantially all City full-time and qualifying part-time employees participate in either the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2 or the Public

Employees' Retirement System (PERS) Plans 1, 2 and 3 administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the City's financial statements. Contributions to the systems of both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

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

#### **A. Local Government Pension System**

The City is also the administrator of a pension retirement system called the Firemen's Pension System. The system is shown as a trust fund in the financial statements of the City. As of December 31, 2013, there were a total of 12 individuals covered by this system of which zero was currently still employed and four were drawing benefits.

The most recent actuarial review of the system was done by Milliman and Robertson, Inc. to determine the funding requirements as of December 31, 1999. As of this date, the actuarial present value of future benefits was \$1,006,000; the present value of future fire insurance premiums to be allocated to the Fund through 2009 was \$58,000; the market value of assets held by the Fund was \$651,000, and the actuarial deficiency was \$297,000. Per the actuarial study, the City contributed \$297,000 in 2000 to fully fund the Firemen's Pension System. The total balance in the Firemen's Pension Fund available to pay pension benefits as of December 31, 2013 is \$925,442.

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

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

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

#### **B. Riverside Fire Authority - Joint Undertaking of City of Centralia and Lewis County Fire District 12**

In March of 2003, the City and Lewis County Fire District 12 (LCFD 12) established a joint undertaking to cooperatively provide fire suppression services and emergency response services in both jurisdictions, and to operate such undertaking under the control and direction of a Joint Board. Each of the parties appoints three members to the Board, provided that at least two of such appointees are members of the legislative body of the appointing party. Each party individually administers its own property and funds.

In January 2006, the City and Lewis County Fire District 12 (LCFD 12) agreed to consolidate administrative management under the administration of the Joint Board as established by the enabling agreement. In April 2006, a Fire Chief was appointed to serve as the Chief Executive Officer of the two departments. The Fire Chief reports to and is held accountable by the Joint Board. The City agreed to increase its budget sufficient to provide an Assistant Chief/Fire Marshall, while LCFD 12 agreed to fund one-half the actual cost for salary and benefits of the Fire Chief.

In 2007, the Joint Board recommended that the two entities be combined into a single Regional Fire Authority. In November 2007, the citizens approved the formation of the Regional Fire Authority (subsequently named Riverside Fire Authority) with an effective date of January 1, 2008.

In 2008, the Riverside Fire Authority (RFA) lacked the authority to levy property taxes. RFA operating expenses in 2008 were paid by the City and LCFD #12. The City also provided the RFA with a \$220,589 intergovernmental loan to finance operations and provide a beginning cash balance for 2009. The intergovernmental loan was repaid in full on July 24, 2009.

In 2009, the RFA levied regular property taxes in the amount of \$1.50 per \$1,000 of assessed value. As agreed, the City reduced its regular property tax levy by the same \$1.50 per \$1,000 of assessed value. The City continued to levy the Emergency Medical Services (EMS) property tax and remitted all receipts for 2009 to the RFA.

In 2010, the City did not levy its Emergency Medical Services (EMS) property tax as the Riverside Fire Authority received voter approval to levy an EMS property tax.

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

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

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

In addition to the pension benefits described in Note 7, the City provides postretirement health care benefits, in accordance with the Washington Law Enforcement Officers and Fire Fighters Retirement System (LEOFF) Act (RCW 41.26), to 25 retired law enforcement officers and firefighters who established membership in the LEOFF Plan 1 Retirement System on or before September 30, 1977.

The City reimburses 100 percent of the unpaid portion of validated claims for medical and hospitalization costs incurred by pre-Medicare and post-Medicare retirees. The City also pays health insurance premiums and reimburses the premium for a Medicare supplement for each retiree eligible for Medicare. This premium amount changes each January and varies per each eligible retiree.

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

During 2013, expenditures of \$294,798 were recognized for post-retirement health care (premiums and excess medical claims).



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

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

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

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

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

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

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

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

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

The \$8.7 million grant from the Lewis County Sanitation District was returned to them in April 1997 because construction activities at the landfill did not require that support. Remedial investigation leading to feasibility reports have been delivered to the DOE for their review and issuance of a cleanup action plan. The DOE has reviewed the CLCG's feasibility study and issued a draft Cleanup Action Plan (CAP). The draft CAP was available for public review and comment in September 2000. A second

public hearing on the proposed consent decree was held in March of 2001. The order entering the CAP Consent Decree was filed with the United States District Court Western District of Washington at Seattle and signed on May 22, 2001. The Consent Decree stipulated the draft monitoring plans for the landfill needed to be submitted to the DOE within 45 days of the effective date of the Consent Decree. The CLCG had submitted the draft monitoring plans to the DOE in May of 1999; however, changes to the draft monitoring plans were made in late summer of 1999. A letter was submitted to the DOE on June 12, 2001 requesting acceptance and review of the monitoring plans submitted in June of 1999 along with proposed amendments to the plans.

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

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

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

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

## **B. Funding Status**

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

In order to maintain sufficient funds to satisfy the purposes of the Landfill Closure Agreement and fund the Landfill Closure Operating Trust Fund, the CLCG contacted the Solid Waste Disposal District No. 1 of Lewis County pursuant to Section 7.3 of the Second Amended Interlocal Agreement Regarding Centralia Landfill Closure and Section 3.B of the Interlocal Agreement Regarding Lewis County Solid Waste Disposal District and Flow Control. Actual revenue requirements for year 2013 were \$146,521 and were funded by available reserves and the Disposal District. At yearend 2013, the reserves amount to \$191,567. Revenue requirements for Landfill Closure activities for year 2014 are projected to be \$145,000 and will be funded by available reserves and the Disposal District. Ensuing years will be funded in a similar procedure.

The yearly post closure expenditures will continue to fluctuate as known circumstances change due to engineering determinations, inflation, deflation, technology, or applicable laws or regulations.

## **NOTE 10 - OTHER DISCLOSURES**

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

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

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

In 2013, transactions in the Law Enforcement Grant Fund 112 were funded by a transfer from the General Fund, not from restricted grant monies as in prior years. Accordingly, the fund was included with those rolled into the General Fund for the 2013 financial reports. Fund 112 is expected to be discontinued in 2014.

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

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

### **B. Subsequent Events**

#### **1) Yelm Hydro Turbine shutdown**

On November 5, 2013, the 6.5 MW Turbine Unit # 3 at the Yelm Hydro Generating Plant was shut down due to a rotor malfunction and could not be restarted. As Unit #3 provides over 50% of the power generation, an emergency declaration by Council on November 12, 2013 approved waiver of normal bidding requirements so that immediate repairs could begin. Repairs commenced November 18<sup>th</sup> with an estimated cost of \$1.5 million. The City is incurring unscheduled repair costs and unbudgeted expenses related to purchase of power from BPA for the duration of the repairs. After initial investigation, the estimated costs were revised upward to \$2.5 million. This required use of reserves of \$1.5 million from the City Light accounts and deferral of other planned construction projects. Council approved budget amendments and use of reserves on February 25, 2014. Work is still underway and not expected to be completed until mid-June 2014.

### **C. Other Commitments**

#### **1) Wilson Hotel Foreclosure**

On January 14, 2011, the City declared that Historic Wilson Hotel, LLC was in default on their obligations secured by Deeds of Trust recorded on May 2, 2007 by failure to pay past due amounts and delinquent property taxes. The two promissory notes in total called for monthly interest only payments of \$1,778 through May 1, 2012 and a balloon payment of \$355,500 on May 1, 2012. On

May 20, 2011, a trustee sale was held where the City regained ownership by submitting the only bids for the buildings. On June 9, 2011, the City regained possession. The City marketed the Wilson Hotel buildings for sale in 2011 without culmination in a sale. The City intends to sell the building and the net proceeds from any future sale of the Wilson Hotel buildings will be deposited in the General Fund.

## **2) Washington State Department of Ecology Loans**

On March 10, 2011, two loans totaling \$5,607,606 from the Washington State Department of Ecology were awarded to the City. Of the total awarded, \$3,386,994 was a 2.5 percent per annum, twenty year loan and \$2,220,612 was a forgivable loan. The City used the funds to replace the leaking sewer mains and service connections identified as sources of inflow and infiltration to reduce potential for overflows, increase efficiency at the Wastewater Treatment Plant, and comply with Agreed Order DE 02WQSR-3351. These loans were not reflected in prior years' Long Term Debt Schedules as repayment was not required until completion of the project.

The project completion date was deemed September 30, 2013. The original loan amount was decreased by \$411,411.14, to \$2,967,613.86 based on final eligible project costs. In addition, \$105,503.88 of interest accrued from prior years' disbursements is included in the final loan amount. The loan obligation has been displayed in its entirety on the Long Term Debt Schedule in the final principal amount of \$3,073,118. The forgivable principal amount was decreased to \$1,989,949.19 and is not included as a liability. The 2013 financial reports present only that portion of the loan proceeds received by the City during the 2013 fiscal year.

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

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

The City began repayment of the \$300,000, 2.00 percent per annum, twenty year loan in December 2010. The City's General Fund will repay the loan with increased electric utility taxes due to Millard's operations. Should Millard cease business during any year prior to April 13, 2016, Millard has agreed to reimburse the City for the \$300,000 loan portion as follows: year 1 = \$300,000; year 2 = \$250,000; year 3 = \$200,000; year 4 = \$150,000; year 5 = \$100,000; year 6 = \$50,000.

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

On May 15, 2013, the City of Centralia entered into an agreement with the Centralia School District #401 to share the cost of HVAC modernization improvements at the Community Indoor Swimming Pool. The City agreed to provide the School District \$20,769.03 per year for ten years beginning September 15, 2013, as its share of the bonded debt issued by the School District. The City obligation of \$207,690 was added to the Long Term Debt Schedule.

## 5) Construction Commitments

The City has active construction projects as of December 31, 2013. At year end, the City's projects and commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment	Funding Source
2009 Sewer I&I Reduction Project	\$5,114,413	\$8,514	Grant/Loan
Installation of 2 - 6" conduits under I-5 south of Mellen interchange with vaults on each side	35,616	21,248	Light Revenue
School Safety Enhancement	217,618	4,739	Grant
Relocate utility poles & signal at Reynolds & Pearl	0	79,655	Light Revenue
Wastewater Treatment Plant Demolition	219,523	17,884	Wastewater Revenue
Yelm Canal Crest - Raise to 800 CFS	286,482	124,617	Light Revenue
2013 Sanitary Sewer Wet Well Coating	71,997	3,495	Wastewater Revenue
Yelm Transmission & Underbuild Pole Replacement	210,650	25,339	Light Revenue
Borthwick & Mellen St OHD to UGD relocation	327,926	15,919	Light Revenue
First Street Feeder Replacement	0	82,720	Light Revenue
Fleet Department Storage Building	70,382	16,440	ER&R Revenue
WWTP Compost Yard Concrete Slab & Asphalt Paving	83,688	121,183	Wastewater Revenue
Yelm Hydro Plant Unit #3 Turbine Rehabilitation	0	1,540,337	Light Reserves
Energy Efficiency Capital Improvements	698,201	995,829	Grant & Bond Proceeds
Total	<u>\$7,336,496</u>	<u>\$3,057,919</u>	

**City of Centralia**

Schedule of Liabilities

For the year ended December 31, 2013

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2013	Additions	Reductions	Ending Balance December 31, 2013
<b>General Obligations</b>							
	251.11	GENERAL OBLIGATION BONDS	12/2/2021	1,220,000	0	1,220,000	0
	251.11	GENERAL OBLIGATION BONDS	5/1/2021	0	1,116,592	0	1,116,592
	251.11	GENERAL OBLIGATION BONDS	1/10/2014	169,920	0	83,298	86,622
	251.11	GENERAL OBLIGATION BONDS	12/1/2030	1,140,000	0	50,000	1,090,000
	251.11	GENERAL OBLIGATION BONDS	8/1/2023	0	1,100,000	0	1,100,000
	259.11	COMPENSATED ABSENCES- Governmental Funds		932,274	63,654	4,627	991,301
	263.81	DISTRESSED COUNTIES LOAN	11/30/2029	259,219	0	12,923	246,296
	263.81	HVAC SYSTEM/ CENTRALIA SCHOOL DISTRICT	6/1/2023	0	207,690	10,384	197,306
<b>Total General Obligations:</b>				<b>3,721,413</b>	<b>2,487,936</b>	<b>1,381,232</b>	<b>4,828,117</b>

The accompanying notes to the financial statements are an integral part of this schedule

**City of Centralia**

Schedule of Liabilities

For the year ended December 31, 2013

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2013	Additions	Reductions	Ending Balance December 31, 2013
<b>Revenue Obligations</b>							
	252.11	REVENUE BONDS	8/1/2021	985,000	0	985,000	0
	252.11	REFUNDING BONDS	8/1/2013	180,000	0	180,000	0
	252.11	REFUNDING BONDS	5/1/2021	0	1,128,964	0	1,128,964
	252.11	REVENUE BONDS	12/1/2026	13,485,000	0	700,000	12,785,000
	252.11	REVENUE BONDS	12/1/2019	3,360,000	0	410,000	2,950,000
	252.11	REVENUE BONDS	12/1/2030	11,055,000	0	400,000	10,655,000
	259.12	COMPENSATED ABSENCES-Proprietary Funds		901,521	30,812	11,315	921,018
	263.82	PUBLIC WORKS TRUST FUND LOAN	7/1/2013	24,044	0	24,044	0
	263.82	PUBLIC WORKS TRUST FUND LOAN	7/1/2013	18,210	0	18,210	0
	263.82	PUBLIC WORKS TRUST FUND LOAN	7/1/2013	2,875	0	2,875	0
	263.82	PUBLIC WORKS TRUST FUND LOAN	7/1/2014	17,760	0	8,880	8,880
	263.82	PUBLIC WORKS TRUST FUND LOAN	7/1/2015	88,395	0	29,465	58,930
	263.82	PUBLIC WORKS TRUST FUND LOAN	7/1/2022	83,007	0	8,301	74,706

The accompanying notes to the financial statements are an integral part of this schedule

**City of Centralia**

**Schedule of Liabilities**  
For the year ended December 31, 2013

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2013	Additions	Reductions	Ending Balance December 31, 2013
	263.82	PUBLIC WORKS TRUST FUND LOAN	7/1/2022	1,281,159	0	128,116	1,153,043
	263.82	PUBLIC WORKS TRUST FUND LOAN	7/1/2021	373,206	0	41,467	331,739
	263.82	PUBLIC WORKS TRUST FUND LOAN	7/1/2024	755,250	0	62,937	692,313
	263.82	STATE REVOLVING FUND LOAN	9/1/2018	250,489	0	41,749	208,740
	263.82	STATE REVOLVING FUND LOAN	10/1/2018	327,127	0	327,127	0
	263.82	STATE REVOLVING FUND LOAN	11/1/2024	20,313,745	0	1,692,812	18,620,933
	263.82	STATE REVOLVING FUND LOAN	10/1/2023	360,541	0	32,855	327,686
	263.82	STATE REVOLVING FUND LOAN	10/1/2024	1,388,126	0	115,677	1,272,449
	263.82	STATE REVOLVING FUND LOAN	8/1/2026	424,987	0	30,356	394,631
	263.82	STATE REVOLVING FUND LOAN	12/31/2032	0	3,073,118	0	3,073,118
<b>Total Revenue Obligations:</b>				<b>55,675,442</b>	<b>4,232,894</b>	<b>5,251,186</b>	<b>54,657,150</b>
<b>Total Liabilities:</b>				<b>59,396,855</b>	<b>6,720,830</b>	<b>6,632,418</b>	<b>59,485,267</b>

The accompanying notes to the financial statements are an integral part of this schedule



## 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.

<b>Contact information for the State Auditor's Office</b>	
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