Washington State Auditor's Office

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Financial Statements Audit Report

City of Centralia

Lewis County

For the period January 1, 2013 through December 31, 2014

Published September 8, 2016

Report No. 1017292

Washington State Auditor's Office

September 8, 2016

Board of Directors
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,

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

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City of Centralia
Lewis County
January 1, 2013, through December 31, 2014

2014-001 The City's internal controls over financial statement preparation are inadequate to ensure accurate accounting and financial reporting.

Background

City management, the state Legislature, state and federal agencies, and bondholders rely on the information included in financial statements and supplemental schedules to make decisions. It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified a material weakness in internal controls over financial reporting that affected the City's ability to produce reliable financial statements.

Description of Condition

Due to significant concerns over the statements originally provided by the City for fiscal year 2013, the City provided us with revised financial statements for fiscal year 2013, as well as financial statements for fiscal year 2014, in the fall of 2015.

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

- 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.

Cause of Condition

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.

Effect of Condition

Our audit of the City's financial statements identified the follow errors:

Capital Assets

- The City was not able to provide support for how assets were valued in the Electric Fund, Water Fund, Wastewater Fund, and Storm & Surface Water Fund resulting in capital assets being overstated by a total of $2,447,069 and depreciation being overstated by $290,103 in 2013.

- In 2014 the total capital asset balance was understated by $218,460 and depreciation was overstated by $218,460.

The City did not correct these errors.

Long Term Debt (2013)

- The City reported intergovernmental loans as bonds payable liabilities. This resulted in classification errors of $23,393,881 in the Wastewater fund and $70,108 in the Storm & Surface Water Fund.

Bonds/Loans Payable were misclassified as restricted which resulted in a $294,784 classification error in the Wastewater Fund. The City corrected these errors.

Net Position Balances (2014)

- Net position was misclassified as restricted in the Water Fund resulting in the restricted balance being overstated and the unrestricted balance being understated by $2,289,321.

- Net position was misclassified as restricted in the Wastewater Fund resulting in the restricted balance being overstated and the unrestricted balanced being understated by $1,104,702.

The City corrected these errors.

GASB 65 Implementation

The City did not expense unamortized debt issuance costs in the year of GASB 65 implementation. As a result, multiple funds had uncorrected errors with related balances for fiscal year 2013.

Because the City did not correct fiscal year 2013, similar uncorrected errors were identified in the fiscal year 2014 statements.

Financial Statement Presentation

The City had a large number of errors for both fiscal years that were corrected related to financial statement presentation, the Management Discussion & Analysis, and the Notes to the Financial Statements, including outdated financial terms, inaccurate formatting, calculation errors, missing references, improper labels and other miscellaneous errors.

Recommendation

We recommend the City establish the following internal controls to:

- 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.

City's Response

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. These policies will be in place by the end of 2016.

Auditor's Remarks

We appreciate the City's response and recognize that the City is committed to ongoing quality improvement and working to improve its internal controls.

We also wish to thank City management for their cooperation and assistance during our audit. We look forward to working with the City on this issue and will follow up on it during the next audit.

Applicable Laws and Regulations

RCW 43.09.200 states in part:

> The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

Budget Accounting and Reporting System Manual Part 3 on Accounting Principles and Internal Control states, in part:

> Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body . . .
>
> Internal control should be viewed as an integral or inherent part of the policies, systems and procedures management uses to operate and oversee the organization. This is not to say effective control will never require additional or incremental effort. Rather, controls exist to provide reasonable assurance about the achievement of objectives and so should be integrated into all the organization's fundamental business processes. Controls are normally most effective when built into the government's infrastructure rather than being treated as supplemental or separate processes. In the same way, implementation and monitoring of internal controls should not be viewed as a singular event, but rather a continuous or iterative process.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

> 4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, as follows:

> .07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows: . . .
>
> Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.
>
> Significant deficiency. 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.

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, 2014

Board of Directors
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 years ended December 31, 2014 and 2013, and the related notes to the financial statements and have issued our report thereon dated August 11, 2016.

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, 2014, and 2013, 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 audits 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2014-001 to be material weaknesses.

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*.

CITY'S RESPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the

City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

August 11, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Centralia
Lewis County
January 1, 2013 through December 31, 2014

Board of Directors
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 years ended December 31, 2014 and 2013, and the related notes to the financial statements, as listed on page 15.

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 audits. We conducted our audits 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, 2014 and 2013, and the changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1B, the financial statements of the City's Electric, Water, Wastewater, and Storm & Surface Water 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, 2014, and 2013, 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.

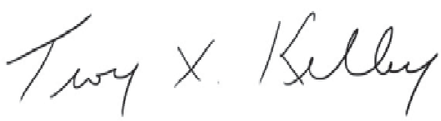
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 16 through 43 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 August 11, 2016 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

August 11, 2016

FINANCIAL SECTION

City of Centralia
Lewis County
January 1, 2013 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

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, 2014. 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, 2014 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. The addition of a new large customer in late 2009 helped to mitigate the decline in residential consumption.

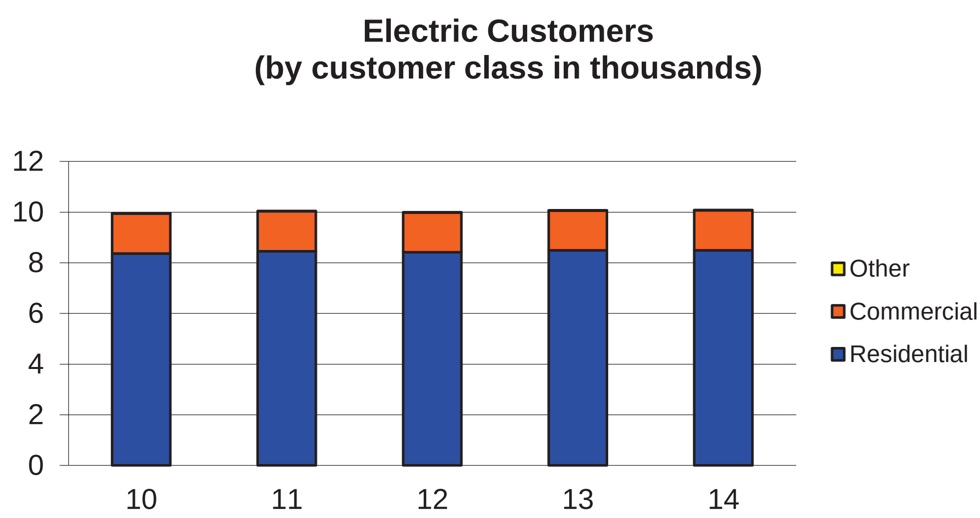
Financial Summary and Analysis

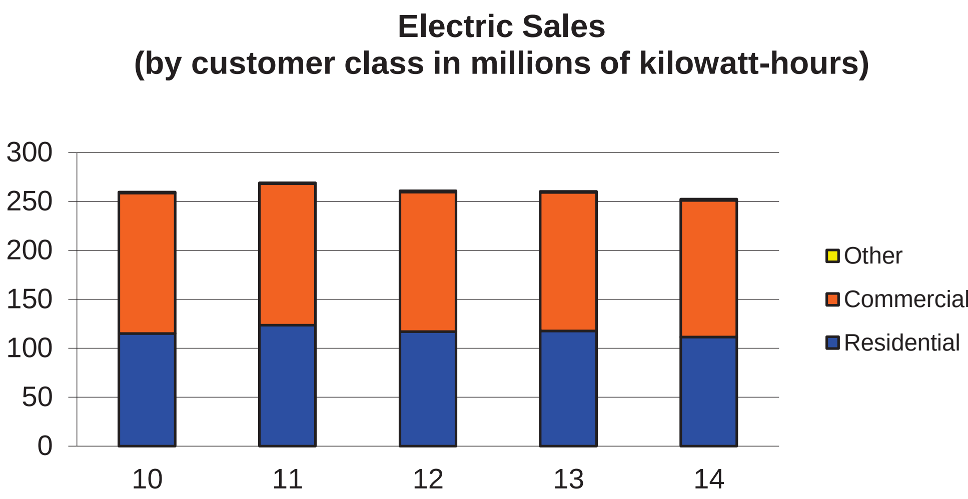
In 2014, the Electric Utility's operating revenues increased by $179,072 or 0.8% and operating expenses increased by $666,757 or 3.55% resulting in an operating income decrease of $487,685 or 13.74%. Factors influencing these results include:

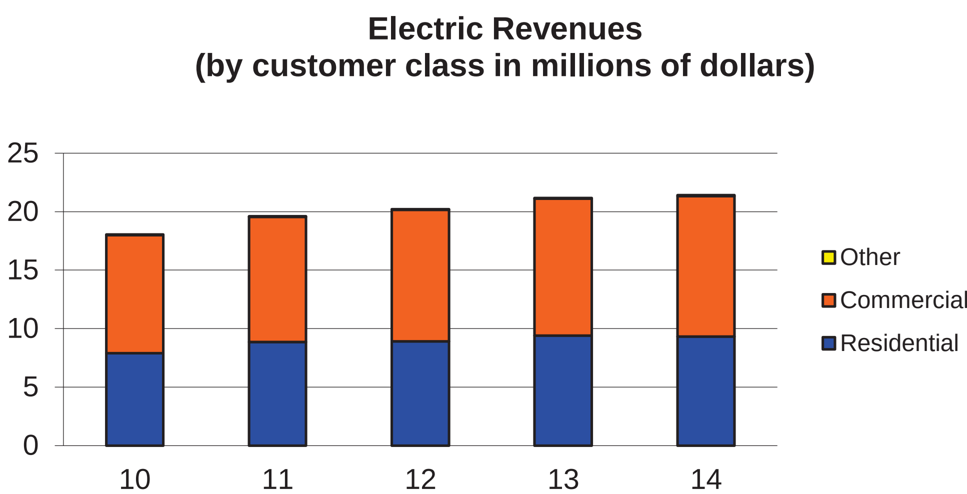
- Increases in electric rates were applied to decreased consumption of 252,369,319 kilowatt hours mainly due to a continuation of warmer winter weather and the continued impacts of conservation during 2014. Service revenues were up by $234,545 or 1.09%. Other operating revenue fell by $55,060 or 6.32% mainly due to pole lease revisions in 2013 compared with normal pole lease revenues in 2014.
- Purchased power and transmission expenses increased by $627,489 or 7.81% mainly due to increased non-Federal power purchases during 2014.
- Increased service revenues resulted in increased taxes of $24,371 or 1.17%.
- Increases in general and administrative expenses were offset by decreases in maintenance costs creating a net decrease of $113,722 or 1.71%. Decreases in pole maintenance efforts on the Electric System during 2014 compared to 2013 offset increases in general operations and administrative costs during 2014.

Electric Rates

Electric Utility rates were increased overall by 3.4% effective March 1, 2014. BPA implemented region-wide 9% wholesale power and 11% transmission rate increases for the period October 1, 2013 through September 30, 2015.







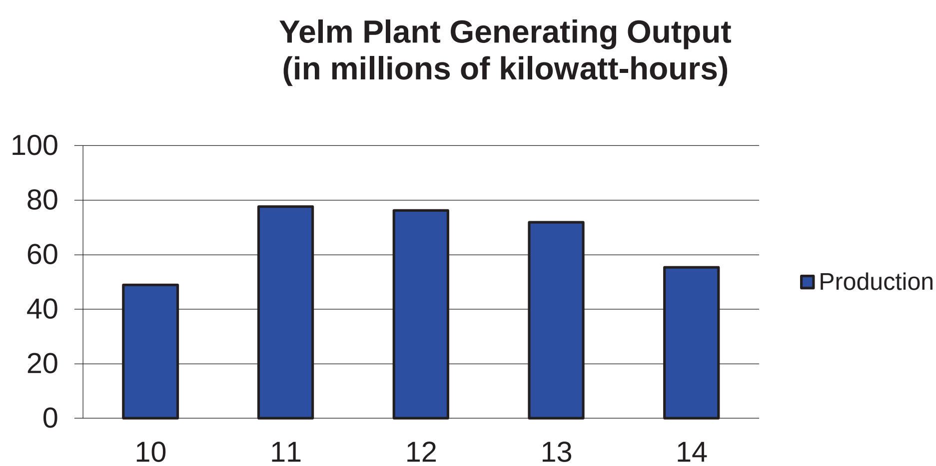
Selected Financial Data

		2014		2013
Operating Revenues	$	22,484,911	$	22,305,839
Operating Expenses		19,423,315		18,756,558
Net Operating Income		3,061,596		3,549,281
Other Revenues (Expenses) and Contributed Capital		(284,981)		(796,659)
Change in Net Position	$	2,776,616	$	2,752,622
Total Assets and Deferred Outflows	$	79,681,582	$	79,059,416
Total Liabilities and Deferred Inflows		27,718,978		29,873,428
Net Position				
Net Investment in Capital Assets		38,931,119		34,351,789
Restricted		3,487,299		3,471,658
Unrestricted		9,544,186		11,362,541

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 2014, approximately 76.5% 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 2014, approximately 2.5% 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 $8,662,958 for 2014.

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 2014, approximately 21% of the City's total power supply was generated by the Yelm Hydroelectric Plant.



Capital Asset, Liabilities and Long-Term Debt Activity

Total Electric Utility capital assets in service as of December 31, 2014 and 2013 consisted of the following:

		2014		2013
Distribution	$	40,447,368	$	38,775,254
Production		30,324,942		26,837,775
Transmission		2,777,274		2,776,950
General		7,653,523		7,307,754
Intangible		4,862,082		4,862,082
Construction in Progress		5,426,052		6,011,543
Total Capital Assets	$	91,491,239	$	86,571,358

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 as of December 31, 2014 and 2013 consisted of the following:

		2014		2013
Total Current Liabilities	$	3,900,785	$	4,430,642
Total Non-Current Liabilities		23,818,193		25,442,785
Total Liabilities	$	27,718,978	$	29,873,428

The Electric Utility debt service coverage on the outstanding revenue bonds for 2014 was 2.31. 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.

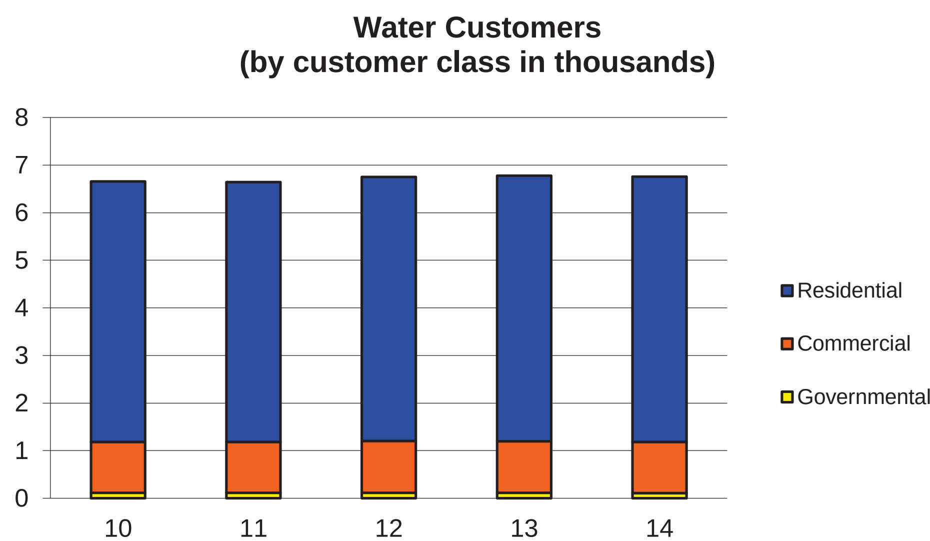
Financial Summary and Analysis

In 2014, the Water Utility's water sales revenues were higher by $210,445 or 4.54% while operating revenues increased by $203,108 or 4.34%. Operating expenses increased by $187,757 or 5.27%. Operating income increased by $15,351 or 1.38%. Factors influencing these results include:

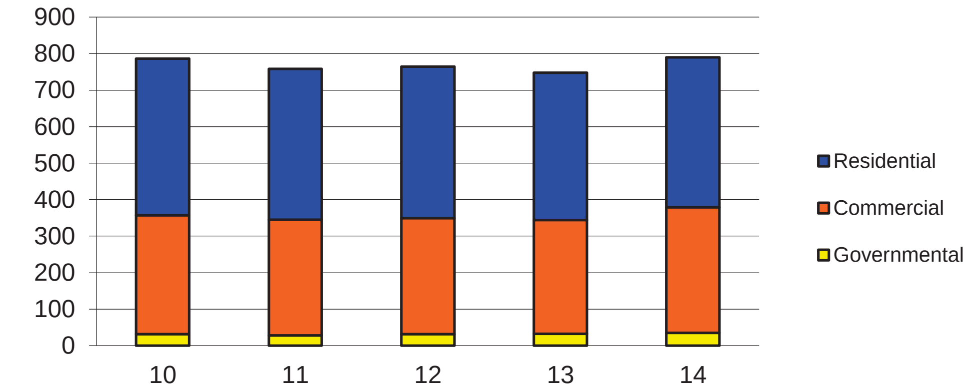
- Increases in water sales revenues were due to increased water consumption despite continued flat customer growth in 2014.
- General operations expenses increased by $155,645 or 12.32% mainly due to increased labor costs.
- Increased water sales revenues resulted in increased taxes of $48,643 or 7.36%.
- Interest expense decreased by $37,328 or 39.84%.

Water Rates

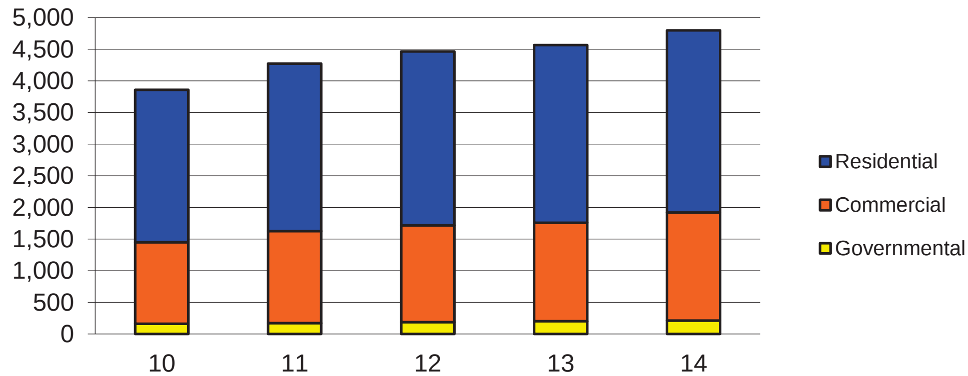
Water Utility rates were increased overall by 1.2% effective January 1, 2014.



Water Sales
(by customer class in thousands of units)



Water Revenues
(by customer class in thousands of dollars)



Selected Financial Data

	2014	2013
Operating Revenues	$ 4,879,432	$ 4,676,324
Operating Expenses	3,751,338	3,563,581
Net Operating Income	1,128,094	1,112,743
Other Revenues (Expenses) and Contributed Capital	36,726	(40,109)
Change in Net Position	$ 1,164,819	$ 1,072,634
Total Assets and Deferred Outflows	$ 25,669,311	$ 24,864,508
Total Liabilities and Deferred Inflows	3,935,705	4,295,722
Net Position		
Net Investment in Capital Assets	14,730,416	14,459,851
Restricted	244,162	242,098
Unrestricted	6,759,028	5,866,839

Capital Asset, Liabilities and Long-Term Debt Activity

Total Water Utility capital assets in service as of December 31, 2014 and 2013 consisted of the following:

	2014	2013
Distribution	$ 13,593,747	$ 13,468,326
Pumping	549,790	549,790
Source of Supply	4,021,905	4,021,905
Transmission	4,973,907	4,968,107
Treatment	2,818,216	2,818,216
General	1,926,693	1,896,500
Construction in Progress	689,368	433,765
Total Capital Assets	$ 28,573,626	$ 28,156,608

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 as of December 31, 2014 and 2013 consisted of the following:

	2014	2013
Total Current Liabilities	$ 716,080	$ 642,608
Total Non-Current Liabilities	3,219,625	3,653,114
Total Liabilities	$ 3,935,705	$ 4,295,722

The Water Utility debt service coverage on the outstanding revenue bonds for 2014 was 12.19. 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.

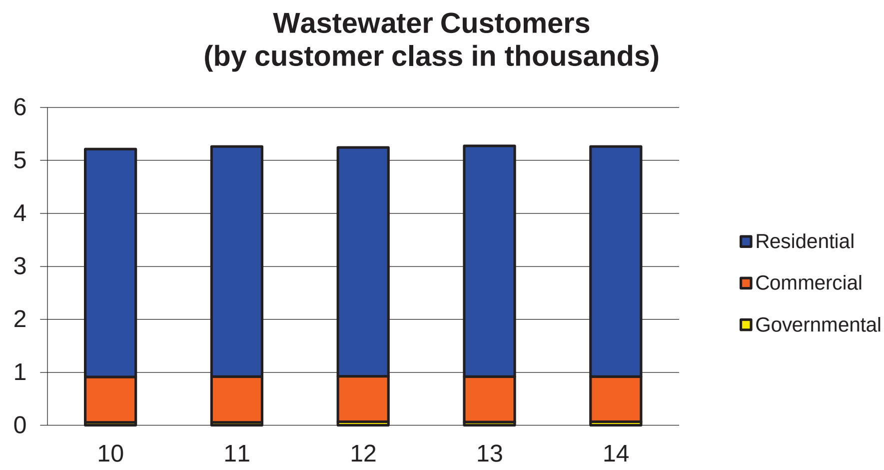
Financial Summary and Analysis

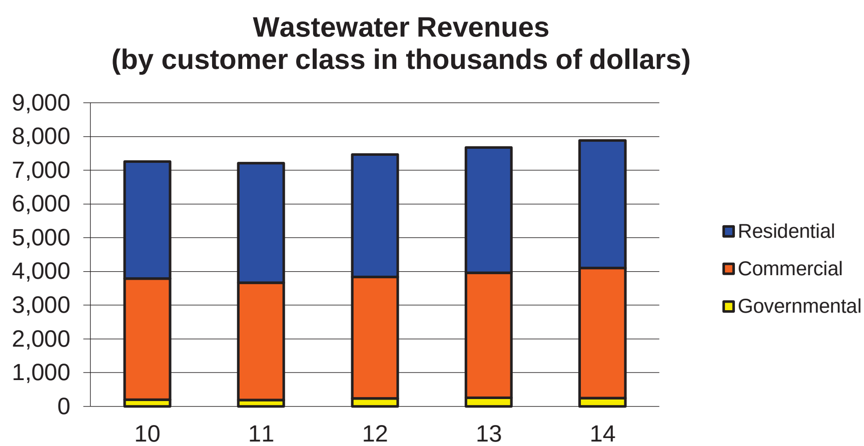
In 2014, Wastewater service revenues increased by $180,367 or 2.34% while operating revenues increased by $209,773 or 2.71%. Operating expenses increased by $25,940 or 0.39%. Operating income increased by $183,833 or 16.36%. Factors influencing these results include:

- Increases in water usage influenced service revenues which offset flat customer growth.
- Decreases in general operations and administration expenses were offset by increases in maintenance and customer service costs.
- Increased wastewater service revenues resulted in increased taxes of $24,217 or 1.98%.
- Intergovernmental revenue decreased in 2014 by $459,021 or 91.25% due to final grant revenues received from state agencies on two projects completed during 2013.

Wastewater Rates

Wastewater Utility rates were increased overall by 1.2% effective January 1, 2014.





Selected Financial Data

	2014	2013
Operating Revenues	$ 7,946,812	$ 7,737,039
Operating Expenses	6,639,431	6,613,491
Net Operating Income	1,307,381	1,123,549
Other Revenues (Expenses) and Contributed Capital	43,286	460,170
Change in Net Position	$ 1,350,668	$ 1,583,719
Total Assets	$ 60,682,654	$ 61,606,915
Total Liabilities	21,814,559	24,089,488
Net Position		
Net Investment in Capital Assets	29,210,180	28,097,878
Restricted	1,851,188	1,812,416
Unrestricted	7,806,727	7,607,133

Capital Assets, Liabilities and Long-Term Debt Activity

Total Wastewater Utility capital assets in service as of December 31, 2014 and 2013 consisted of the following:

	2014	2013
Collection	$ 24,198,572	$ 24,140,786
Pumping	7,988,628	7,946,899
Treatment	36,030,170	35,685,269
General	4,891,680	4,641,296
Intangible	-	-
Construction in Progress	7,632,575	7,229,853
Total Capital Assets	$ 80,741,625	$ 79,644,102

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 as of December 31, 2014 and 2013 consisted of the following:

	2014	2013
Total Current Liabilities	$ 2,359,770	$ 2,625,817
Total Non-Current Liabilities	19,454,789	21,463,671
Total Liabilities	$ 21,814,559	$ 24,089,488

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.

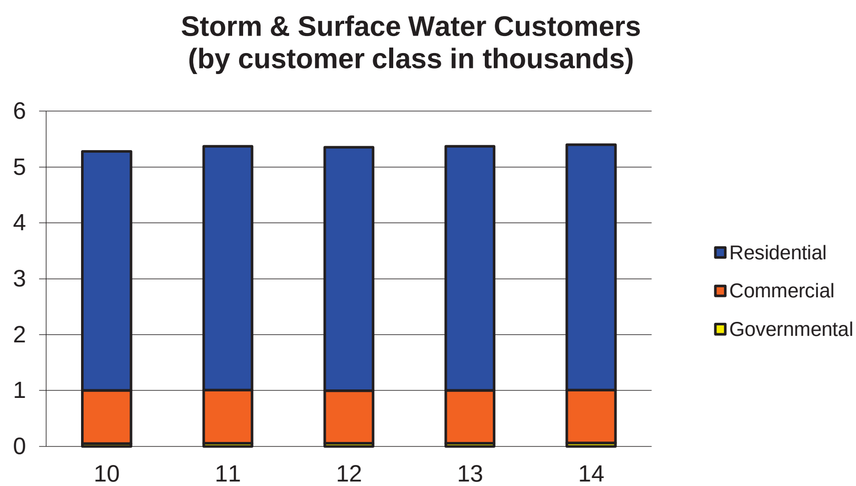
Financial Summary and Analysis

In 2014, the Storm & Surface Water Utility's operating revenues remained flat while operating expenses decreased by $77,389 or 15.6%. Operating income increased by $75,975 or 173.07%. Factors influencing these results include:

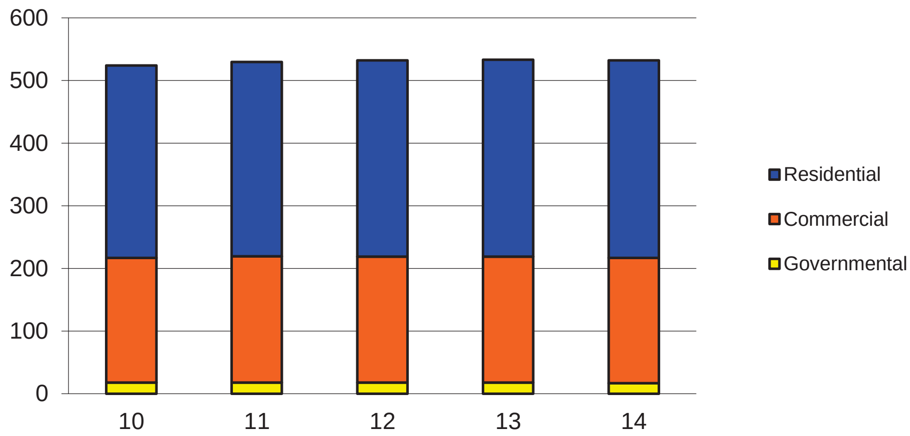
- Maintenance, and administration expenses decreased by $95,041 or 35.19%.
- Intergovernmental revenues increased by $129,155 or 1134.11%.

Storm & Surface Rates

Storm & Surface Water Utility rates remained unchanged in 2014.



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



Selected Financial Data

		2014		2013
Operating Revenues	$	538,493	$	539,907
Operating Expenses		418,620		496,009
Net Operating Income (Loss)		119,873		43,898
Other Revenues (Expenses) and Contributed Capital		158,870		9,199
Change in Net Position	$	278,743	$	53,097
Total Assets	$	1,295,942	$	1,031,724
Total Liabilities		132,340		146,863
Net Position				
Net Investment in Capital Assets		769,171		665,883
Restricted		905		-
Unrestricted		393,527		218,977

Capital Assets and Liabilities

Total Storm & Surface Water capital assets in service as of December 31, 2014 and 2013 consisted of the following:

		2014		2013
Collection	$	569,789	$	427,995
General		243,828		243,828
Construction in Progress		115,558		130,174
Total Capital Assets	$	929,174	$	801,996

See NOTE 3 – CAPITAL ASSETS for additional information.

Total liabilities as of December 31, 2014 and 2013 consisted of the following:

	2014	2013
Total Current Liabilities	$ 39,894	$ 38,176
Total Non-Current Liabilities	92,446	108,688
Total Liabilities	$ 132,340	$ 146,863

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.

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, 2013. 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, 2013 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 separately 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. The addition of a new large customer in late 2009 helped to mitigate the decline in residential consumption.

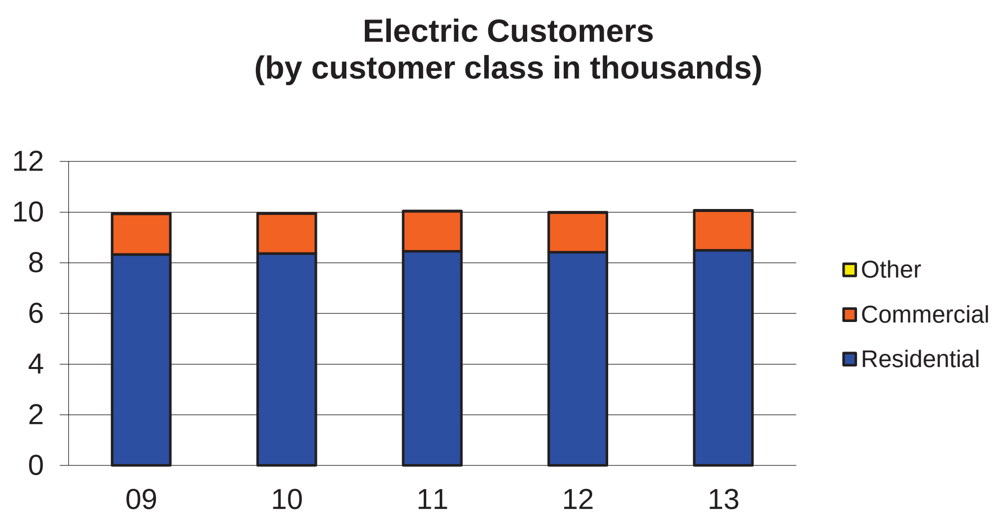
Financial Summary and Analysis

In 2013, the Electric Utility's operating revenues increased by $1,237,706 or 5.87% and operating expenses increased by $1,195,266 or 6.81% resulting in an operating income increase of $42,440 or 1.21%. Factors influencing these results include:

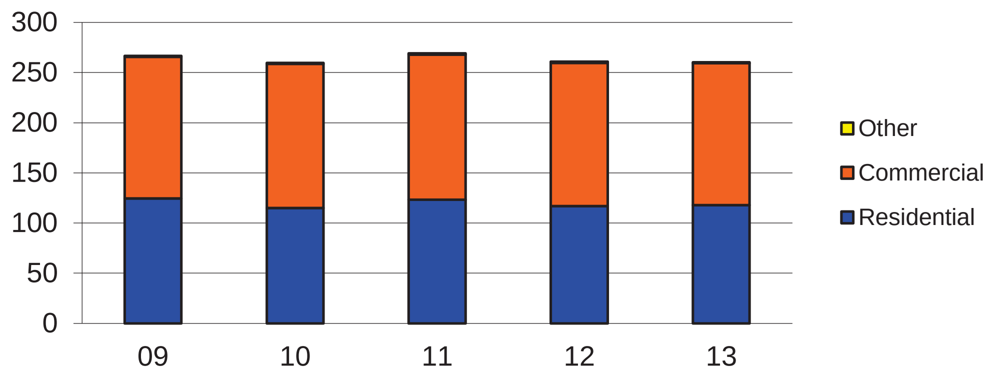
- Increases in electric rates were applied to relatively flat consumption of 260,342,352 kilowatt hours mainly due to a continuation of warmer winter weather during 2013. Service revenues were up by $959,974 or 4.75%. Increases in other operating revenue of $270,690 or 45.12% occurred because higher BPA conservation rebates and increased pole lease revenues were received during 2013.
- Purchased power and transmission expenses increased by $509,696 or 6.77% due to increased non-Federal power purchases made in compliance with the new BPA rate design first implemented in October 2011.
- Increased service revenues resulted in increased taxes of $95,048 or 4.77%.
- General, maintenance and administration expenses increased by $672,765 or 11.2% mainly due to increases in pole maintenance costs on the Electric System, increases in conservation efforts and other general and administrative costs during 2013.

Electric Rates

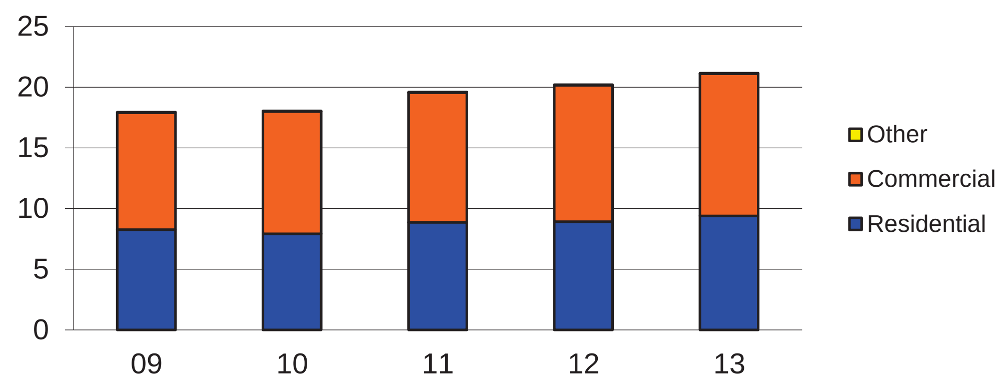
Electric Utility rates were increased overall by 3.4% effective May 1, 2013. BPA implemented region-wide 9% wholesale power and 11% transmission rate increases for the period October 1, 2013 through September 30, 2015.



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



Electric Revenues
(by customer class in millions of dollars)



Selected Financial Data

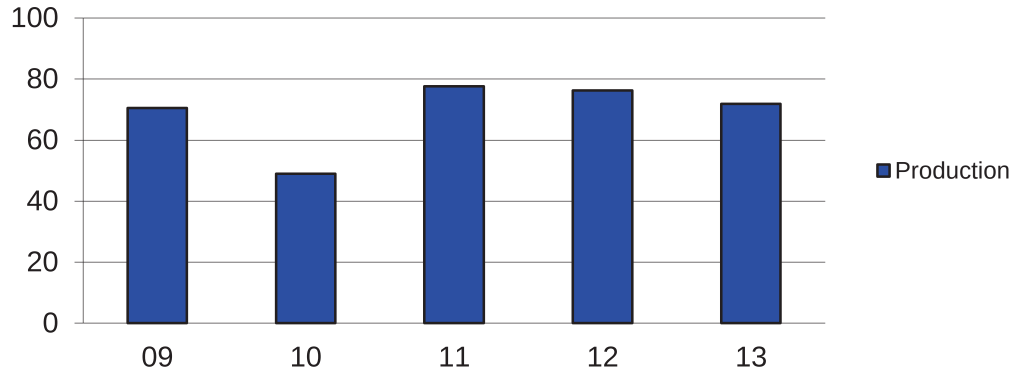
		2013		2012
Operating Revenues	$	22,305,839	$	21,068,133
Operating Expenses		18,756,558		17,561,292
Net Operating Income		3,549,281		3,506,842
Other Revenues (Expenses) and Contributed Capital		(796,659)		(764,486)
Change in Net Position	$	2,752,622	$	2,742,356
Total Assets and Deferred Outflows	$	79,059,415	$	77,364,620
Total Liabilities and Deferred Inflows		29,873,428		30,583,820
Net Position				
Net Investment in Capital Assets		34,351,789		33,355,146
Restricted		3,471,658		6,284,785
Unrestricted		11,362,541		7,140,869

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 2013, approximately 72% 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 2013, approximately 2% 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 $8,035,469 for 2013.

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 2013, approximately 26% 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 as of December 31, 2013 and 2012 consisted of the following:

		2013		2012
Distribution	$	38,775,254	$	37,514,761
Production		26,837,775		24,910,546
Transmission		2,776,950		2,590,615
General		7,307,754		7,069,764
Intangible		4,862,082		4,862,082
Construction in Progress		6,011,543		5,426,929
Total Capital Assets	$	86,571,358	$	82,374,696

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 as of December 31, 2013 and 2012 consisted of the following:

		2013		2012
Total Current Liabilities	$	4,430,642	$	3,546,114
Total Non-Current Liabilities		25,442,785		27,037,706
Total Liabilities	$	29,873,428	$	30,583,820

The Electric Utility debt service coverage on the outstanding revenue bonds for 2013 was 2.43. 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

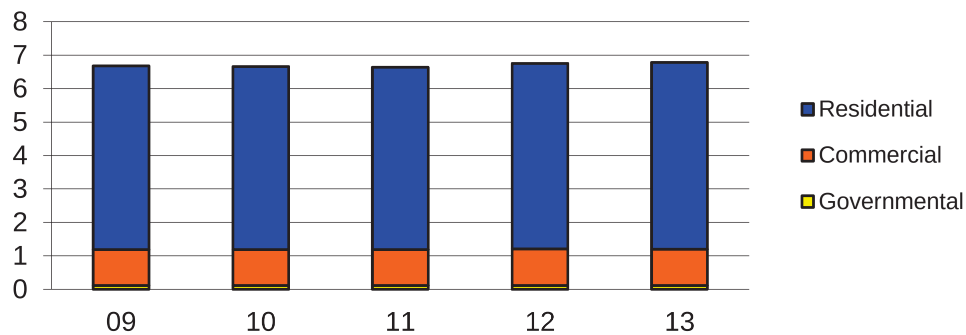
In 2013, the Water Utility's water sales revenues were higher by $99,408 or 2.23% while operating revenues increased by $102,379 or 2.24%. Operating expenses decreased by $11,839 or 0.33%. Operating income increased by $114,219 or 11.44%. Factors influencing these results include:

- Increases in water rates were reflected in water sales revenues offsetting flat customer growth and water consumption in 2013.
- Decreases in administration and customer service expenses offset increases in general operations expenses by $10,041 or 0.46%.
- Decreases in interest expense offset decreases in intergovernmental revenue by $7,992 or 7.86%.

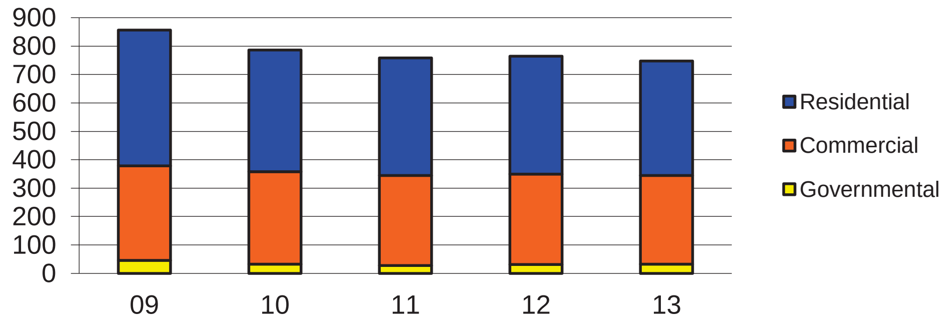
Water Rates

Water Utility rates were increased overall by 4.0% effective January 1, 2013.

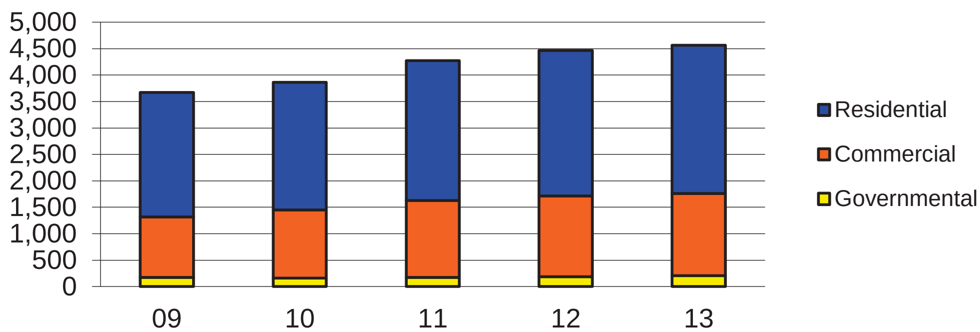
Water Customers
(by customer class in thousands)



Water Sales
(by customer class in thousands of units)



Water Revenues
(by customer class in thousands of dollars)



Selected Financial Data

	2013	2012
Operating Revenues	$ 4,676,324	$ 4,573,944
Operating Expenses	3,563,581	3,575,420
Net Operating Income	1,112,743	998,524
Other Revenues (Expenses) and Contributed Capital	(40,109)	(6,783)
Change in Net Position	$ 1,072,634	$ 991,741
Total Assets and Deferred Outflows	$ 24,864,508	$ 24,400,912
Total Liabilities and Deferred Inflows	4,295,722	4,972,995
Net Position		
Net Investment in Capital Assets	14,459,851	14,028,157
Restricted	242,097	462,095
Unrestricted	5,866,839	4,937,665

Capital Asset, Liabilities and Long-Term Debt Activity

Total Water Utility capital assets in service as of December 31, 2013 and 2012 consisted of the following:

	2013	2012
Distribution	$ 13,468,326	$ 13,402,650
Pumping	549,790	549,790
Source of Supply	4,021,905	4,021,905
Transmission	4,968,107	4,819,958
Treatment	2,818,216	2,818,216
General	1,896,500	1,826,980
Construction in Progress	433,765	433,765
Total Capital Assets	$ 28,156,608	$ 27,873,263

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 as of December 31, 2013 and 2012 consisted of the following:

	2013	2012
Total Current Liabilities	$ 642,608	$ 828,022
Total Non-Current Liabilities	3,653,114	4,144,972
Total Liabilities	$ 4,295,722	$ 4,972,995

Water Revenue Refunding Bond, 2013 was issued on April 30, 2013 for $1.129 million, which refunded the 2001 Water Revenue Bond for $823,875 and paid off a Washington State loan for $305,089. 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

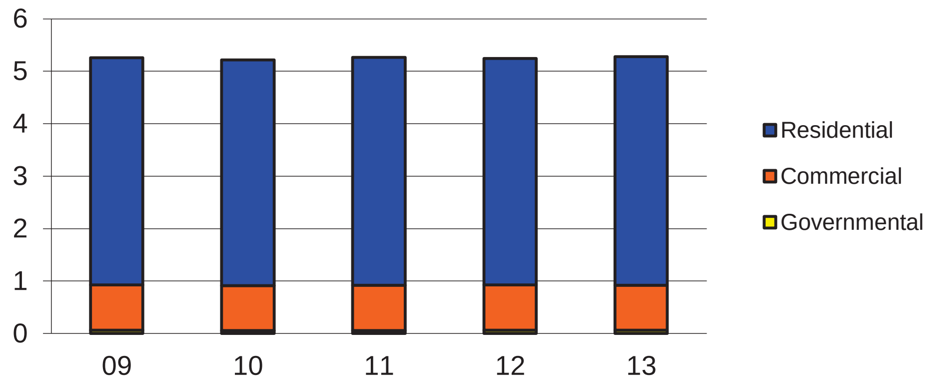
In 2013, Wastewater service revenues increased by $211,790 or 2.84% while operating revenues increased by $197,440 or 2.62%. Operating expenses increased by $225,516 or 3.53%. Operating income decreased by $28,076 or 2.44%. Factors influencing these results include:

- Increases in wastewater rates were reflected in wastewater service revenues offsetting flat customer growth and water usage.
- Increases in general operations and administration expenses were offset by decreases in maintenance and customer service costs by $199,255 or 6.46%.
- Interest expense increased by $100,510.
    - A loan from the Washington State Department of Ecology was finalized as of January 1, 2013.

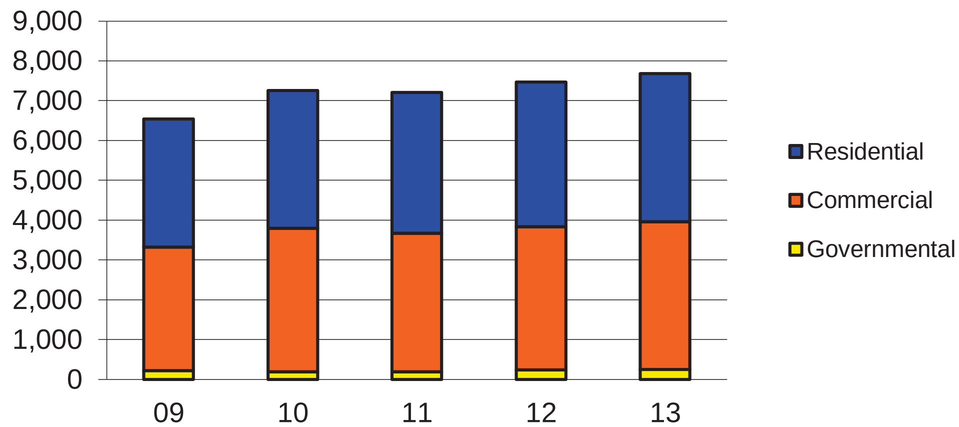
Wastewater Rates

Wastewater Utility rates were increased overall by 3.0% effective January 1, 2013.

Wastewater Customers
(by customer class in thousands)



Wastewater Revenues
(by customer class in thousands of dollars)



Selected Financial Data

	2013	2012
Operating Revenues	$ 7,737,039	$ 7,539,599
Operating Expenses	6,613,491	6,387,974
Net Operating Income	1,123,549	1,151,625
Other Revenues (Expenses) and Contributed Capital	460,170	620,714
Change in Net Position	$ 1,583,719	$ 1,772,338
Total Assets and Deferred Outflows	$ 61,606,915	$ 61,218,550
Total Liabilities and Deferred Inflows	24,089,488	25,390,038
Net Position		
Net Investment in Capital Assets	28,097,878	27,369,503
Restricted	1,812,416	1,812,416
Unrestricted	7,607,133	6,646,593

Capital Assets, Liabilities and Long-Term Debt Activity

Total Wastewater Utility capital assets in service as of December 31, 2013 and 2012 consisted of the following:

	2013	2012
Collection	$ 24,140,786	$ 24,140,786
Pumping	7,946,899	7,935,467
Treatment	35,685,269	35,617,981
General	4,641,296	4,442,975
Intangible	-	-
Construction in Progress	7,229,853	6,269,788
Total Capital Assets	$ 79,644,102	$ 78,406,997

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 as of December 31, 2013 and 2012 consisted of the following:

	2013	2012
Total Current Liabilities	$ 2,625,817	$ 2,217,499
Total Non-Current Liabilities	21,463,671	23,172,539
Total Liabilities	$ 24,089,488	$ 25,390,038

During 2011, the Wastewater Utility and the Storm & Surface Water Utility financed capital improvements with a State Revolving Fund Loan. The project was completed in 2013. The final loan amount was $3.07 million. The majority of this loan is the Wastewater Utility's responsibility which had a year-end principal balance of $3.0 million. The Storm & Surface Water Utility's loan principal balance was $70,109 at year-end. 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.

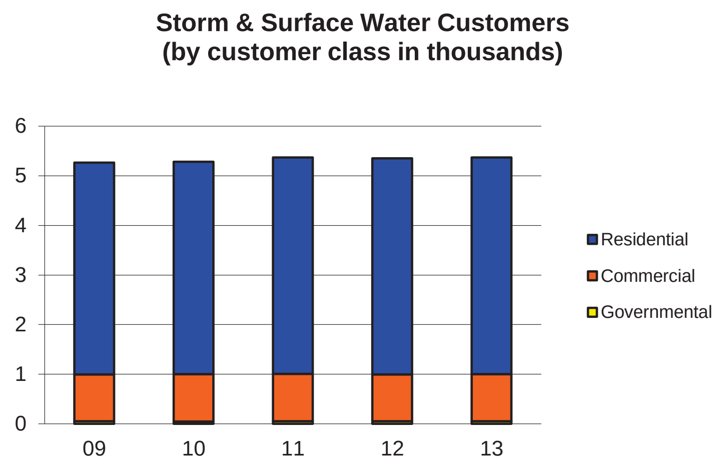
Financial Summary and Analysis

In 2013, the Storm & Surface Water Utility's operating revenues remained flat while operating expenses decreased by $106,617 or 17.69%. Operating income increased by $107,011 or 169.56%. Factors influencing these results include:

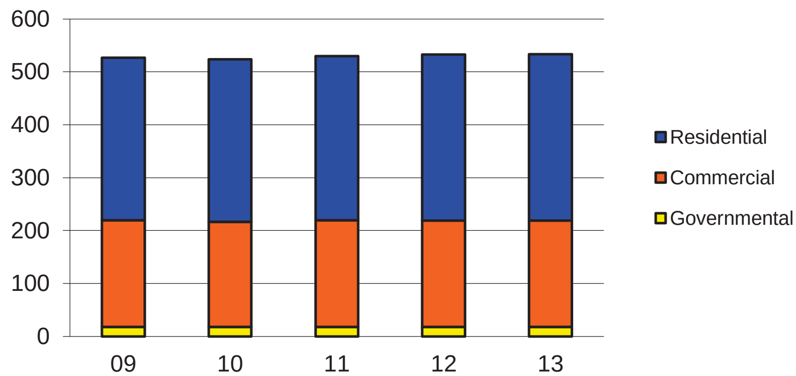
- General, maintenance, and administration expenses decreased by $106,259 or 20.76%.
- Intergovernmental revenues decreased by $47,938 or 80.8%.

Storm & Surface Rates

Storm & Surface Water Utility rates remained unchanged in 2013.



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



Selected Financial Data

		2013		2012
Operating Revenues	$	539,907	$	539,514
Operating Expenses		496,009		602,626
Net Operating Income (Loss)		43,898		(63,112)
Other Revenues (Expenses) and Contributed Capital		9,199		83,171
Change in Net Position	$	53,097	$	20,058
Total Assets and Deferred Outflows	$	1,031,724	$	959,540
Total Liabilities and Deferred Inflows		146,864		147,679
Net Position				
Net Investment in Capital Assets		665,883		697,045
Restricted		-		-
Unrestricted		218,977		114,816

Capital Assets and Liabilities

Total Storm & Surface Water capital assets in service as of December 31, 2013 and 2012 consisted of the following:

		2013		2012
Collection	$	427,995	$	427,995
General		243,828		243,828
Construction in Progress		130,174		124,650
Total Capital Assets	$	801,996	$	796,472

See NOTE 3 – CAPITAL ASSETS for additional information.

Total liabilities as of December 31, 2013 and 2012 consisted of the following:

	2013	2012
Total Current Liabilities	$ 38,176	$ 41,287
Total Non-Current Liabilities	108,688	106,392
Total Liabilities	$ 146,864	$ 147,679

During 2011, the Wastewater Utility and the Storm & Surface Water Utility financed capital improvements with a State Revolving Fund Loan. The project was completed in 2013. The final loan amount was $3.07 million. The majority of this loan is the Wastewater Utility's responsibility which had a year-end principal balance of $3.0 million. The Storm & Surface Water Utility's loan principal balance was $70,109 at year-end. 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 POSITON
December 31, 2014

	Electric	Water	Wastewater	Storm & Surface Water	Totals
ASSETS					
Cash and cash equivalents	$ 8,616,382	$ 6,639,001	$ 6,183,056	$ 279,573	$ 21,718,013
Customer accounts receivable (net)	2,474,205	447,962	740,923	60,357	3,723,447
Other accounts receivable	256,515	11,888	11,473	120,768	400,643
Inventories and prepaid services	662,087	136,790	-	-	798,877
Restricted assets					
Customer deposits	445,918	14,870	-	-	460,788
Revenue bond/loan reserve cash	2,808,185	112,896	1,851,188	905	4,773,173
Revenue bond debt service cash	233,196	116,396	-		349,592
Notes/contracts receivable	-	-	187,853	-	187,853
Interfund loan receivable	-	-	1,230,000	-	1,230,000
Capitalized long-term debt costs	255,197	21,457	-	-	276,655
Capital assets not being depreciated					
Land	2,371,407	379,904	1,495,820	-	4,247,131
Construction in progress	5,426,052	689,368	7,632,875	115,558	13,863,854
Capital assets being depreciated					
Buildings	5,223,700	3,099,166	31,897,897	25,014	40,245,777
Other improvements	9,099,674	13,395,332	7,842,472	527,741	30,865,219
Equipment	38,823,209	582,491	1,609,098	166,026	41,180,825
Intangible assets	2,895,173	-	-	-	2,895,173
Total capital assets (net)	63,839,216	18,146,262	50,478,162	834,339	133,297,979
TOTAL ASSETS	**$ 79,590,901**	**$ 25,647,522**	**$ 60,682,654**	**$ 1,295,942**	**$ 167,217,020**
DEFERRED OUTFLOWS OF RESOURCES					
Deferred losses on refunded debt	**$ 90,681**	**$ 21,789**	**$ -**	**$ -**	**$ 112,469**
LIABILITIES					
Accounts payable	$ 1,519,043	$ 241,331	$ 314,183	$ 35,441	$ 2,109,999
Revenues collected in advance	51,321	-	-	-	51,321
Retainage payable	123,794	-	-	-	123,794
Other current liabilities	-	-	2,524	-	2,524
Liabilities payable from restricted assets					
Customer deposits payable	445,918	18,545	-	-	464,464
Bonds payable	136,667	111,504	-	-	248,171
Interest payable	96,530	4,892	-	-	101,421
Noncurrent liabilities:					
Due within one year					
Compensated absences payable	24,180	11,665	11,494	1,587	48,925
Bonds payable	1,503,333	51,495	-	-	1,554,828
Intergovernmental loans	-	276,648	2,031,570	2,866	2,311,084
Due in more than one year					
Compensated absences payable	459,415	221,637	218,377	30,144	929,573
Bonds payable	23,358,778	797,244	-	-	24,156,022
Intergovernmental loans	-	2,200,744	19,236,412	62,302	21,499,458
TOTAL LIABILITIES	**27,718,978**	**3,935,705**	**21,814,559**	**132,340**	**53,601,582**
NET POSITION					
Net investment in capital assets	38,931,119	14,730,416	29,210,180	769,171	83,640,885
Restricted for:					
Revenue bond/loan reserves	2,808,185	112,896	1,851,188	905	4,773,173
Debt service	233,196	116,396	-	-	349,592
Customer deposits	445,918	14,870	-	-	460,788
Unrestricted	9,544,186	6,759,028	7,806,727	393,527	24,503,468
TOTAL NET POSITION	**$ 51,962,604**	**$ 21,733,606**	**$ 38,868,094**	**$ 1,163,603**	**$ 113,727,907**

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

CITY OF CENTRALIA UTILITIES
STATEMENT OF NET POSITON
December 31, 2013

	Electric	Water	Wastewater	Storm & Surface Water	Totals
ASSETS					
Cash and cash equivalents	$ 10,784,458	$ 5,621,487	$ 5,853,254	$ 215,833	$ 22,475,031
Customer accounts receivable (net)	2,601,492	430,877	810,768	59,997	3,903,133
Other accounts receivable	256,515	68,235	105,196	19,902	449,848
Inventories and prepaid services	722,249	137,604	-	-	859,852
Restricted assets					
Customer deposits	430,086	13,950	-	-	444,036
Revenue bond/loan reserve cash	2,808,185	112,896	1,812,416	-	4,733,497
Revenue bond debt service cash	233,387	115,250	-		348,638
Notes/contracts receivable	-	-	221,523	-	221,523
Interfund loan receivable	-	-	1,312,000	-	1,312,000
Capitalized long-term debt costs	277,658	23,912	-	-	301,570
Capital assets not being depreciated					
Land	2,350,844	372,507	1,160,512	-	3,883,864
Construction in progress	6,011,543	433,765	7,229,853	130,174	13,805,336
Capital assets being depreciated					
Buildings	4,836,113	3,199,954	32,662,680	17,805	40,716,552
Other improvements	8,717,435	13,677,699	8,870,175	406,214	31,671,522
Equipment	35,904,521	623,746	1,568,539	181,798	38,278,605
Non-utility property	-	7,397	-	-	7,397
Intangible assets	3,015,805	-	-	-	3,015,805
Total capital assets (net)	60,836,262	18,315,068	51,491,759	735,991	131,379,081
TOTAL ASSETS	**$ 78,950,291**	**$ 24,839,279**	**$ 61,606,915**	**$ 1,031,724**	**$ 166,428,210**
DEFERRED OUTFLOWS OF RESOURCES					
Deferred losses on refunded debt	**$ 109,124**	**$ 25,229**	**$ -**	**$ -**	**$ 134,353**
LIABILITIES					
Accounts payable	$ 2,218,506	$ 169,609	$ 481,895	$ 36,145	$ 2,906,156
Revenues collected in advance	36,728	-	-	-	36,728
Retainage payable	50,706	-	-	-	50,706
Other current liabilities	-	-	2,524	-	2,524
Liabilities payable from restricted assets					
Customer deposits payable	430,086	13,950	-	-	444,036
Bonds payable	130,833	111,504	-	-	242,337
Interest payable	102,554	3,746	-	-	106,300
Noncurrent liabilities:					
Due within one year					
Compensated absences payable	22,063	11,398	10,559	2,031	46,051
Bonds payable	1,439,167	55,752	-	-	1,494,919
Intergovernmental loans	-	276,648	2,130,839	-	2,407,487
Due in more than one year					
Compensated absences payable	419,188	216,571	200,629	38,580	874,967
Bonds payable	25,023,598	960,012	-	-	25,983,610
Intergovernmental loans	-	2,476,530	21,263,042	70,108	23,809,681
TOTAL LIABILITIES	29,873,428	4,295,722	24,089,488	146,864	58,405,501
NET POSITION					
Net investment in capital assets	34,351,789	14,459,851	28,097,878	665,883	77,575,400
Restricted for:					
Revenue bond/loan reserves	2,808,185	112,896	1,812,416	-	4,733,497
Debt service	233,387	115,250	-	-	348,638
Customer deposits	430,086	13,950	-	-	444,036
Unrestricted	11,362,541	5,866,839	7,607,133	218,977	25,055,491
TOTAL NET POSITION	$ 49,185,988	$ 20,568,786	$ 37,517,427	$ 884,860	$ 108,157,062

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, 2014

	Electric	Water	Wastewater	Storm & Surface Water	Totals
Operating Revenue:					
Utility sales and service fees	$ 21,669,302	$ 4,860,877	$ 7,875,420	$ 538,193	$ 34,943,791
Other revenue	815,609	18,555	71,392	300	905,856
Total operating revenue	22,484,911	4,879,432	7,946,812	538,493	35,849,647
Operating expenses:					
General operations	2,997,089	1,419,036	1,968,014	140,925	6,525,065
Purchased power/transmission	8,662,958	-	-	-	8,662,958
Maintenance	751,392	144,513	169,240	18,351	1,083,496
Customer services and marketing	330,615	216,663	217,542	841	765,661
Administration	2,465,325	675,959	927,665	156,676	4,225,625
Depreciation/Amortization	2,102,909	585,824	2,111,420	28,830	4,828,982
Property, excise and B&O taxes	2,113,026	709,344	1,245,549	72,996	4,140,916
Total operating expenses	19,423,315	3,751,338	6,639,431	418,620	30,232,703
Operating Income	3,061,596	1,128,094	1,307,381	119,873	5,616,944
Nonoperating revenues (expenses):					
Intergovernmental revenue	743,151	-	44,011	140,543	927,706
Interest revenue	12,615	5,757	10,977	212	29,562
Interest expenses and related charges	(1,240,707)	(56,371)	(93,695)	(1,886)	(1,392,659)
Gains (losses) on capital asset disposal	(24,214)	-	-	-	(24,214)
Total nonoperating revenues (expenses)	(509,156)	(50,613)	(38,707)	138,870	(459,606)
Income (loss) before contributions	2,552,441	1,077,480	1,268,675	258,743	5,157,338
Capital contributions	224,175	87,339	81,993	20,000	413,507
Change in net position	2,776,616	1,164,819	1,350,668	278,743	5,570,845
Total Net Position - Beginning	49,185,988	20,568,787	37,517,427	884,860	108,157,062
					-
Total Net Position - Ending	$ 51,962,604	$ 21,733,606	$ 38,868,094	$ 1,163,603	$ 113,727,907

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, 2013

	Electric	Water	Wastewater	Storm & Surface Water	Totals
Operating Revenue:					
Utility sales and service fees	$ 21,435,170	$ 4,643,253	$ 7,695,051	$ 535,807	$ 34,309,281
Other revenue	870,669	33,071	41,988	4,100	949,828
Total operating revenue	22,305,839	4,676,324	7,737,039	539,907	35,259,109
Operating expenses:					
General operations	2,681,330	1,263,391	2,033,580	135,479	6,113,780
Purchased power/transmission	8,035,469	-	-	-	8,035,469
Maintenance	1,403,004	155,434	114,790	22,099	1,695,327
Customer services and marketing	318,685	202,243	202,215	-	723,143
Administration	2,255,125	709,344	935,258	247,969	4,147,696
Depreciation/Amortization	1,974,290	572,469	2,106,314	28,830	4,681,903
Property, excise and B&O taxes	2,088,655	660,701	1,221,333	61,632	4,032,321
Total operating expenses	18,756,558	3,563,581	6,613,491	496,009	29,429,638
Operating Income	3,549,281	1,112,743	1,123,549	43,898	5,829,471
Nonoperating revenues (expenses):					
Intergovernmental revenue	407,852	-	503,032	11,388	922,272
Interest revenue	22,272	7,498	13,467	216	43,453
Interest expenses and related charges	(1,308,641)	(93,698)	(118,564)	(2,405)	(1,523,310)
Gains (losses) on capital asset disposal	(19,080)	3,994	1,080	-	(14,006)
Total nonoperating revenues (expenses)	(897,598)	(82,207)	399,014	9,199	(571,591)
Income (loss) before contributions	2,651,684	1,030,536	1,522,563	53,097	5,257,880
Capital contributions	100,939	42,098	61,156	-	204,193
Change in net position	2,752,622	1,072,634	1,583,719	53,097	5,462,073
Total Net Position - Beginning	46,780,800	19,427,917	35,828,512	811,861	102,849,090
Prior Period Adjustment	(347,434)	68,235	105,196	19,902	(154,101)
Total Net Position - Ending	$ 49,185,988	$ 20,568,786	$ 37,517,427	$ 884,860	$ 108,157,062

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, 2014

	Electric	Water	Wastewater	Storm & Surface Water	Totals
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	$ 21,827,013	$ 4,848,387	$ 7,945,265	$ 537,833	$ 35,158,498
Cash payments to suppliers	(13,733,651)	(1,271,778)	(2,633,245)	(156,938)	(17,795,612)
Cash payments to employees	(3,651,153)	(1,651,602)	(1,794,772)	(175,345)	(7,272,872)
Internal activity - payments to other funds	(532,559)	(164,267)	(249,023)	(67,091)	(1,012,940)
Other operating receipts and payments	815,609	18,555	71,392	300	905,856
Net cash provided by operating activities	4,725,260	1,779,295	3,339,616	138,759	9,982,930
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Grant proceeds	743,151	56,347	137,735	39,677	976,911
Net cash used by noncapital financing activities	743,151	56,347	137,735	39,677	976,911
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	(5,060,020)	(417,017)	(1,097,823)	(107,178)	(6,682,038)
Proceeds from sale of capital assets	3,032	-	-	-	3,032
Capital contributions	224,175	87,339	81,993	-	393,507
Principal paid on revenue bonds	(1,570,000)	(167,256)	-	-	(1,737,256)
Principal paid on other debt	-	(275,787)	(2,125,899)	(4,940)	(2,406,626)
Interest paid on revenue bonds and other debt	(1,230,647)	(49,099)	(93,695)	(1,886)	(1,375,327)
Net cash used for capital and related financing activities	(7,633,460)	(821,820)	(3,235,424)	(114,003)	(11,804,708)
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash receipts from interest earnings	12,615	5,757	10,977	212	29,562
Payments of notes and contracts receivable	-	-	115,670	-	115,670
Net cash provided by investing activities	12,615	5,757	126,647	212	145,232
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,152,435)	1,019,580	368,574	64,645	(699,635)
CASH AND CASH EQUIVALENTS - BEGINNING	14,256,116	5,863,584	7,665,669	215,833	28,001,202
CASH AND CASH EQUIVALENTS - ENDING	$ 12,103,681	$ 6,883,163	$ 8,034,244	$ 280,478	$ 27,301,566
Unrestricted cash and cash equivalents	$ 8,616,382	$ 6,639,001	$ 6,183,056	$ 279,573	$ 21,718,013
Restricted cash and cash equivalents	3,487,299	244,162	1,851,188	905	5,583,553
CASH AND CASH EQUIVALENTS - ENDING	$ 12,103,681	$ 6,883,163	$ 8,034,244	$ 280,478	$ 27,301,566

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, 2014

	Electric	Water	Wastewater	Storm & Surface Water	Totals
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Net operating income	$ 3,061,596	$ 1,128,094	$ 1,307,381	$ 119,873	$ 5,616,944
Adjustments to reconcile net operating income to net cash provided by operations:					
Depreciation	2,102,909	585,824	2,111,420	28,830	4,828,982
(Increase) decrease in accounts receivable	127,286	(17,085)	69,845	(360)	179,687
(Increase) decrease in inventory	60,162	813	-	-	60,975
Increase (decrease) in accounts payable	(699,464)	71,722	(167,712)	(704)	(796,158)
Increase (decrease) in compensated absences	42,345	5,333	18,682	(8,880)	57,479
Increase (decrease) in customer deposits	15,832	4,595	-	-	20,427
Increase (decrease) in unearned revenues	14,593	-	-	-	14,593
Total adjustments	1,663,663	651,202	2,032,235	18,886	4,365,986
Net cash provided by operating activities	$ 4,725,260	$ 1,779,295	$ 3,339,616	$ 138,759	$ 9,982,930

Schedule of non-cash investing, capital or financing transactions:
Infrastructure in the amount of $20,000 was donated to the Stormwater Utility during 2014.

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, 2013

	Electric	Water	Wastewater	Storm & Surface Water	Totals
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	$ 21,161,438	$ 4,651,757	$ 7,653,151	$ 535,257	$ 34,001,603
Cash payments to suppliers	(11,528,624)	(1,295,162)	(2,316,831)	(175,727)	(15,316,344)
Cash payments to employees	(3,746,121)	(1,518,907)	(1,731,391)	(245,214)	(7,241,633)
Internal activity - payments to other funds	(444,381)	(157,703)	(223,880)	(54,910)	(880,873)
Other operating receipts and payments	870,669	30,317	41,988	4,100	947,073
Net cash provided by operating activities	6,312,981	1,710,302	3,423,036	63,507	11,509,826
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Grant proceeds	407,852	-	942,789	16,326	1,366,967
Net cash used by noncapital financing activities	407,852	-	942,789	16,326	1,366,967
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	(4,624,954)	(323,408)	(1,299,067)	(5,524)	(6,252,953)
Proceeds from sale of capital assets	2,955	3,994	1,080	-	8,029
Capital contributions	100,939	42,098	61,156	-	204,193
Bond proceeds	-	1,128,964	-	-	1,128,964
Loan/Grant proceeds	-	(6,300)	988,478	5,450	987,628
Principal paid on revenue bonds	(1,510,000)	(1,165,000)	-	-	(2,675,000)
Principal paid on other debt	-	(627,819)	(1,937,051)	-	(2,564,870)
Interest paid on revenue bonds and other debt	(1,298,185)	(98,054)	(15,466)	-	(1,411,706)
Net cash used for capital and related financing activities	(7,329,245)	(1,045,525)	(2,200,870)	(74)	(10,575,715)
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash receipts from interest earnings	22,272	7,498	13,467	216	43,453
Payments of notes and contracts receivable	-	-	98,750	-	98,750
Net cash provided by investing activities	22,272	7,498	112,217	216	142,203
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(586,140)	672,274	2,277,172	79,975	2,443,282
CASH AND CASH EQUIVALENTS - BEGINNING	14,842,256	5,191,309	5,388,497	135,858	25,557,920
CASH AND CASH EQUIVALENTS - ENDING	$ 14,256,116	$ 5,863,584	$ 7,665,669	$ 215,833	$ 28,001,202
Unrestricted cash and cash equivalents	$ 10,784,458	$ 5,621,487	$ 5,853,254	$ 215,833	$ 22,475,031
Restricted cash and cash equivalents	3,471,658	242,097	1,812,416	-	5,526,170
CASH AND CASH EQUIVALENTS - ENDING	$ 14,256,116	$ 5,863,584	$ 7,665,669	$ 215,833	$ 28,001,202

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, 2013

	Electric	Water	Wastewater	Storm & Surface Water	Totals
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Net operating income	$ 3,549,281	$ 1,112,743	$ 1,123,549	$ 43,898	$ 5,829,471
Adjustments to reconcile net operating income to net cash provided by operations:					
Depreciation	1,974,290	572,469	2,106,314	28,830	4,681,903
(Increase) decrease in accounts receivable	(268,626)	8,515	(41,901)	(550)	(302,563)
(Increase) decrease in inventory	250,771	12,661	-	-	263,431
Increase (decrease) in accounts payable	803,622	93	213,449	(2,819)	1,014,346
Increase (decrease) in compensated absences	(106)	3,831	21,625	(5,853)	19,497
Increase (decrease) in customer deposits	11,221	(10)	-	-	11,211
Increase (decrease) in unearned revenues	(7,471)	-	-	-	(7,471)
Total adjustments	2,763,700	597,559	2,299,488	19,608	5,680,355
Net cash provided by operating activities	$ 6,312,981	$ 1,710,302	$ 3,423,036	$ 63,507	$ 11,509,826

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

Loan interest expense was accrued and increased the principal balances of a long-term loan held in the Wastewater and Storm & Surface Water Funds for $103,099 and $2,405, respectively.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Utility funds of the City of Centralia (the Utilities) conform to generally accepted accounting principles (GAAP) as applicable to utility funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the most significant policies:

A. Reporting Entity

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 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 - 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 recognized when earned and expenses are recognized when a liability is incurred regardless of the timing of the cash flows.

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.

The Utility funds distinguish operating revenue and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing 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 include the cost of sales and services, administrative expenses, maintenance costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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, Net Position

1. Cash and Cash Equivalents

It is the City's policy to invest all temporary cash surpluses in the Washington State Local Government Invest Pool (LGIP). At December 31, 2014, the balance in the LGIP, for the Utility funds was $25,720,467. All other cash and cash equivalents are made up of cash in bank accounts and cash on hand.

For purposes of the statement of cash flows, the Utilities consider the LGIP and 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.

5. Restricted Assets

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 reserves, debt service and deposits. Restricted resources currently include the following:

	Electric	Water	Wastewater	Stormwater
Bond/Loan Reserves	$ 2,808,185	$ 112,896	$ 1,851,188	$ 905
Debt Service	233,196	116,396	-	-
Deposits	445,918	14,870	-	-
	$ 3,487,299	$ 244,162	$ 1,851,188	$ 905

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	15 - 50 years
Equipment	5 - 45 years
Other Improvements	15 - 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. 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, 2014, 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 (LGIP)	NA	25,720,467	NA	$25,720,467
Total	NA	$25,720,467	NA	$25,720,467

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the Utilities would not be able to recover the value of the investment or collateral securities. Of the Utilities' total position in the LGIP, none is exposed to custodial credit risk. The LGIP has limited exposure to custodial credit risk as most investments it holds 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 all classified as category 1 risk level investments. They are either insured or held by a third-party custody provider in the LGIP's name.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 was as follows:

ELECTRIC	Beginning Balance 1/1/2014	Increases	Decreases	Ending Balance 12/31/2014
Capital Assets not being depreciated:				
Land	$ 2,350,844	$ 20,563	$ -	$ 2,371,407
Construction In Progress	6,011,543	4,560,722	(5,146,213)	5,426,052
Total Capital Assets not being depreciated	8,362,388	4,581,285	(5,146,213)	7,797,459
Capital Assets being depreciated				
Buildings	6,402,288	542,014	-	6,944,302
Other Improvements	13,832,078	654,055	-	14,486,133
Equipment	53,112,522	4,501,968	(213,227)	57,401,263
Intangible assets	4,862,082	-	-	4,862,082
Total Capital Assets being depreciated	78,208,971	5,698,037	(213,227)	83,693,780
Less Accumulated Depreciation for:				
Buildings	(1,566,175)	(154,427)	(0)	(1,720,602)
Other Improvements	(5,114,644)	(271,815)	-	(5,386,459)
Equipment	(17,208,001)	(1,556,034)	185,981	(18,578,054)
Intangible assets	(1,846,276)	(120,632)	-	(1,966,909)
Total Accumulated Depreciation	(25,735,096)	(2,102,909)	185,981	(27,652,024)
Total Capital Assets being depreciated, net	52,473,874	3,595,128	(27,246)	56,041,756
ELECTRIC - Net Total Capital Assets	$ 60,836,262	$ 8,176,413	$ (5,173,460)	$ 63,839,216

WATER	Beginning Balance 1/1/2014	Increases	Decreases	Ending Balance 12/31/2014
Capital Assets not being depreciated:				
Land	$ 379,904	$ -	$ -	$ 379,904
Construction In Progress	433,765	310,757	(55,153)	689,368
Total Capital Assets not being depreciated	813,669	310,757	(55,153)	1,069,272
Capital Assets being depreciated				
Buildings	4,237,750	-	-	4,237,750
Other Improvements	21,691,129	131,221	-	21,822,350
Equipment	1,414,060	30,193	-	1,444,253
Total Capital Assets being depreciated	27,342,939	161,414	-	27,504,353
Less Accumulated Depreciation for:				
Buildings	(1,037,796)	(100,788)	(0)	(1,138,584)
Other Improvements	(8,013,430)	(413,587)	0	(8,427,018)
Equipment	(790,314)	(71,448)	-	(861,762)
Total Accumulated Depreciation	(9,841,540)	(585,824)	(0)	(10,427,364)
Total Capital Assets being depreciated, net	17,501,399	(424,409)	(0)	17,076,990
WATER - Net Total Capital Assets	$ 18,315,068	$ (113,653)	$ (55,153)	$ 18,146,262

WASTEWATER	Beginning Balance 1/1/2014	Increases	Decreases	Ending Balance 12/31/2014
Capital Assets not being depreciated:				
Land	$ 1,160,512	$ 335,308	$ -	$ 1,495,820
Construction In Progress	7,229,853	787,556	(384,533)	7,632,875
Total Capital Assets not being depreciated	8,390,365	1,122,863	(384,533)	9,128,695
Capital Assets being depreciated				
Buildings	42,786,569	100,322	-	42,886,891
Other Improvements	24,098,093	49,226	-	24,147,319
Equipment	4,369,076	209,945	-	4,579,021
Total Capital Assets being depreciated	71,253,738	359,493	-	71,613,231
Less Accumulated Depreciation for:				
Buildings	(10,123,889)	(865,105)	(0)	(10,988,994)
Other Improvements	(15,227,918)	(1,076,929)	-	(16,304,847)
Equipment	(2,800,536)	(169,386)	(0)	(2,969,923)
Total Accumulated Depreciation	(28,152,343)	(2,111,420)	(0)	(30,263,763)
Total Capital Assets being depreciated, net	43,101,394	(1,751,927)	(0)	41,349,467
WASTEWATER - Net Total Capital Assets	$ 51,491,759	$ (629,064)	$ (384,534)	$ 50,478,162

STORM	Beginning Balance 1/1/2014	Increases	Decreases	Ending Balance 12/31/2014
Capital Assets not being depreciated:				
Construction In Progress	$ 130,174	$ 107,178	$ (121,794)	$ 115,558
Total Capital Assets not being depreciated	130,174	107,178	(121,794)	115,558
Capital Assets being depreciated				
Buildings	18,931	7,550	-	26,480
Other Improvements	419,451	134,244	-	553,695
Equipment	233,441	-	-	233,441
Total Capital Assets being depreciated	671,822	141,794	-	813,616
Less Accumulated Depreciation for:				
Buildings	(1,125)	(260)	(81)	(1,466)
Other Improvements	(13,237)	(12,798)	81	(25,955)
Equipment	(51,643)	(15,772)	-	(67,415)
Total Accumulated Depreciation	(66,005)	(28,830)	0	(94,835)
Total Capital Assets being depreciated, net	605,817	112,964	0	718,781
STORM - Net Total Capital Assets	$ 735,991	$ 220,142	$ (121,794)	$ 834,339

NOTE 4 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

A. Construction Commitments

The Utilities has active construction projects as of December 31, 2014. Significant commitments with contractors as of year-end are as follows:

Project	Spent to Date	Remaining Commitment	Funding Source
Yelm Hydro Plant Unit #3 Turbine Rehabilitation	$ 2,437,318	$ 119,916	Light Reserves
May Street Storage Building	79,882	3,878	Light Revenues
Hydro Zone 19 Seepage Mitigation	267,711	55,654	Light Revenues
WWTP Compost Yard Concrete Slab & Asphalt Paving Ph2	431,230	20,974	Wastewater Reserves
Total	$ 3,216,141	$ 200,422	

B. Other Commitments

Power Purchase Contracts – **See Note 13, Other Disclosures**

All significant encumbrances executed by the Utilities as of the end of 2014 have been disclosed.

NOTE 5 - PENSION PLANS

Substantially all Utility 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 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 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers and* No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.*

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 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.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS 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 twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.
PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of

AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Active Plan Members Nonvested	101,191
Total	**368,272**

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.
The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the Utilities and the employees made the required contributions. The Utilities' required contributions for the years ending December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	$30,819	$489,304	$4,135
2013	$33,998	$413,996	$3,576
2012	$30,306	$362,780	$3,134

B. Excess Compensation

Cash compensation in lieu of unused annual or sick leave may be considered compensation earnable for Plan 1 members and may result in “excess compensation.” When a payment is made that qualifies as excess compensation, the employer is billed for the resulting increase to the retiree’s benefit to offset the increased cost to the Department of Retirement Systems. The amount billed is based on the present value of the increase to the retiree’s benefit. The liability for PERS Plan 1 excess compensation at December 31, 2014 was $61,047.

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 2012, 2013 and 2014.

NOTE 7 – LONG-TERM DEBT

A. Revenue Bonds

The Electric and Water Funds have issued revenue bonds to finance the purchase of equipment and the acquisition and construction of utility infrastructure. The revenue bonds are being repaid with Electric and Water Utility revenues.

Revenue bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rates	Original Amount	2014 Principal & Interest
Electric Construction Projects - Refunding	3/1/07 to 12/1/19	4.79%	$ 4,530,000	$ 568,475
Electric Construction Projects	3/1/07 to 12/1/26	4.51%	17,275,000	1,300,738
Electric Construction Projects	10/7/10 to 12/1/30	5.54%	11,055,000	931,435
	Total Electric Revenue Bonds		**32,860,000**	**2,800,647**
Water Construction Projects - Refunding	4/30/13 to 4/30/21	1.98%	1,128,964	187,954
	Total Water Revenue Bonds		**1,128,964**	**187,954**
	TOTAL ALL REVENUE BONDS		**$ 33,988,964**	**$ 2,988,601**

Revenue bond debt service requirements to maturity are as follows:

Year Ending December 31	Electric Revenue Bonds		Water Revenue Bonds	
	Principal	Interest	Principal	Interest
2015	$ 1,640,000	$ 1,158,351	$ 162,999	$ 17,428
2016	1,720,000	1,079,303	158,608	14,244
2017	1,800,000	995,077	159,127	11,099
2018	1,860,000	926,307	159,250	7,947
2019	1,930,000	851,894	102,763	5,353
2020-2024	8,650,000	3,120,095	218,961	4,344
2025-2029	6,345,000	1,117,510	-	-
2030	875,000	51,599	-	-
Totals	**$ 24,820,000**	**$ 9,300,133**	**$ 961,708**	**$ 60,414**

At December 31, 2014, the Utilities had no Federal arbitrage rebate liability.

B. State Loans

The Water, Wastewater and Stormwater Funds have borrowed funds from the Public Works Trust Fund (PWTF) and State Revolving Fund (SRF) to finance the construction of Utility infrastructure. These loans are being repaid with Water, Wastewater and Stormwater Utility revenues.

The PWTF loans payable currently outstanding are as follows:

Fund - Purpose	Maturity Range	Interest Rates	Original Amount	2014 Principal & Interest
Water - Cooks Hill Water	7/30/02 to 6/1/22	1%	$ 2,316,356	$ 139,646
	Total Water PWTF loans		**2,316,356**	**139,646**
Sewer - Basin 4 Phase I	7/8/95 to 6/1/15	3%	678,521	31,233
Sewer - Basin 6 East & 20	12/30/94 to 7/1/14	3%	788,823	9,146
Sewer - Swanson Heights	4/18/02 to 6/1/21	2%	1,307,382	48,102
Sewer - Maple Hansen	7/31/02 to 6/1/21	1%	280,098	9,048
Sewer - Cooks Hill Sewer	7/4/04 to 6/1/24	1%	1,192,500	66,400
	Total Sewer PWTF loans		**4,247,324**	**163,929**
	TOTAL ALL PWTF LOANS		**$ 6,563,680**	**$ 303,575**

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

Year Ending	Water PWTF Loans		Wastewater PWTF Loans	
December 31	Principal	Interest	Principal	Interest
2015	$ 128,116	$ 9,395	$ 142,170	$ 10,500
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
2020-2024	384,348	7,687	422,524	7,706
Totals	$ 1,024,927	$ 45,268	$ 1,015,517	$ 44,402

The SRF loans payable currently outstanding are as follows:

Fund - Purpose	Maturity Range	Interest Rates	Original Amount	2014 Principal & Interest
Water - Ham Hill Water	7/30/04 to 10/1/23	1%	$ 624,240	$ 36,140
Water - Port North Ext	8/11/05 to 10/1/24	1%	2,197,866	128,402
	Total Water SRF loans		**2,822,106**	**164,542**
Sewer - Basin 4 Phase II	5/12/97 to 3/10/18	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**	**$ 2,127,841**

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

Year Ending December 31	Water SRF Loans Principal	Water SRF Loans Interest	Wastewater SRF Loans Principal	Wastewater SRF Loans Interest	Stormwater SRF Loans Principal	Stormwater SRF Loans Interest
2015	$ 148,532	$ 14,525	$ 1,889,400	$ 69,414	$ 2,866	$ 1,621
2016	148,532	13,039	1,892,507	66,267	2,979	1,547
2017	148,532	11,554	1,895,734	63,040	3,054	1,472
2018	148,532	10,069	1,899,042	59,732	3,131	1,395
2019	148,532	8,583	1,860,686	56,340	3,211	1,315
2020-2024	709,805	20,637	9,357,385	227,744	17,312	5,317
2025-2029	-	-	900,882	129,118	19,615	3,014
2030-2032	-	-	556,829	24,743	13,000	578
Totals	$ 1,452,464	$ 78,407	$ 20,252,465	$ 696,398	$ 65,168	$ 16,258

At December 31, 2014, the Utilities have restricted assets of $5,122,765 in sinking funds and reserves as required by bond indentures and loan contracts.

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.

NOTE 8 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2014 the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	$27,720,866	$ -	$(1,761,845)	$25,959,021	$1,802,999
Loans	26,217,167	-	(2,406,625)	23,810,542	2,311,084
Compensated absences/ Excess compensation	921,018	71,208	(13,728)	978,498	48,925
Total long-term liabilities	**$54,859,050**	**$ 71,208**	**$(4,182,198)**	**$50,748,061**	**$4,163,008**

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, will 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 2014:

Borrowing Fund	Lending Fund	Balance 1/1/2014	New Loans	Repayments	Balance 12/31/2014
General	Wastewater	$ 1,312,000	$ -	$ 82,000	$1,230,000

NOTE 11 – ACCOUNTING AND REPORTING CHANGES

A. 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.

NOTE 12 – SUBSEQUENT EVENTS

A. Electric System Revenue Refunding Bonds, 2015

On October 26th, 2015 the City released a "Request for Financing" for up to $10,910,000 in Electric System Revenue Refunding Bonds, 2015. The 2015 bonds would cover the callable portion of the Electric System Revenue Bonds, 2007 plus costs of issuance and interest until the December 2016 call date. Several institutions, including local banks, were provided the information necessary to respond to the request. Responses were received November 9, 2015; the City Council approved the required Bond Ordinance, and the bond closing actions are expected to be completed by year end 2015.

NOTE 13 – OTHER DISCLOSURES

A. 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 2014, BPA and NIES provided 79.1% of the power supply, with the remainder produced by the Yelm Generating Plant. Charges for the BPA purchased power and transmission were $8,257,353 in 2014. Charges for non-Federal AHWM power purchases from NIES amounted to $405,605 in 2014.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Utility funds of the City of Centralia (the Utilities) conform to generally accepted accounting principles (GAAP) as applicable to utility funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the most significant policies:

A. Reporting Entity

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 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 - 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 recognized when earned and expenses are recognized when a liability is incurred regardless of the timing of the cash flows.

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.

The Utility funds distinguish operating revenue and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing 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 include the cost of sales and services, administrative expenses, maintenance costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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, Net Position

1. Cash and Cash Equivalents

It is the City's policy to invest all temporary cash surpluses in the Washington State Local Government Invest Pool (LGIP). At December 31, 2013, the balance in the LGIP, for the Utility funds was $25,341,713. All other cash and cash equivalents are made up of cash in bank accounts and cash on hand.

For purposes of the statement of cash flows, the Utilities consider the LGIP and 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.

5. Restricted Assets

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 reserves, debt service and deposits. Restricted resources currently include the following:

	Electric	Water	Wastewater
Bond/Loan Reserves	$ 2,808,185	$ 112,896	$ 1,812,416
Debt Service	233,387	115,250	-
Deposits	430,086	13,950	-
	$ 3,471,658	$ 242,096	$ 1,812,416

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	15 - 50 years
Equipment	5 - 45 years
Other Improvements	15 - 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. 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, 2013, 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 (LGIP)	NA	$25,341,713	NA	$25,341,713
Total	NA	$25,341,713	NA	$25,341,713

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the Utilities would not be able to recover the value of the investment or collateral securities. Of the Utilities' total position in the LGIP, none is exposed to custodial credit risk. The LGIP has limited exposure to custodial credit risk as most investments it holds 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 all classified as category 1 risk level investments. They are either insured or held by a third-party custody provider in the LGIP's name.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013 was as follows:

ELECTRIC	Beginning Balance 1/1/2013	Prior Period Adjustment	Beginning Balance, As Restated	Increases	Decreases	Ending Balance 12/31/2013
Capital Assets not being depreciated:						
Land	$ 2,329,575		$ 2,329,575	$ 21,269	$ -	$ 2,350,844
Construction In Progress	5,426,929		5,426,929	4,046,836	(3,462,221)	6,011,543
Total Capital Assets not being depreciated	7,756,504	0	7,756,504	4,068,105	(3,462,221)	8,362,388
Capital Assets being depreciated						
Buildings	6,369,021		6,369,021	46,064	(12,797)	6,402,288
Other Improvements	13,317,835		13,317,835	514,244	-	13,832,078
Equipment	50,069,255	(367,434)	49,701,821	3,481,553	(70,851)	53,112,522
Intangible assets	4,862,082		4,862,082	-	-	4,862,082
Total Capital Assets being depreciated	74,618,192	(367,434)	74,250,758	4,041,861	(83,648)	78,208,971
Less Accumulated Depreciation for:						
Buildings	(1,416,173)		(1,416,173)	(153,851)	3,849	(1,566,175)
Other Improvements	(4,854,055)		(4,854,055)	(260,589)	-	(5,114,644)
Equipment	(15,846,548)	20,000	(15,826,548)	(1,439,218)	57,764	(17,208,001)
Intangible assets	(1,725,644)		(1,725,644)	(120,632)	-	(1,846,276)
Total Accumulated Depreciation	(23,842,420)	20,000	(23,822,420)	(1,974,290)	61,613	(25,735,096)
Total Capital Assets being depreciated, net	50,775,772	(347,434)	50,428,338	2,067,571	(22,035)	52,473,874
ELECTRIC - Net Total Capital Assets	$ 58,532,276	$ (347,434)	$ 58,184,842	$ 6,135,676	$ (3,484,257)	$ 60,836,262

WATER	Beginning Balance 1/1/2013	Increases	Decreases	Ending Balance 12/31/2013
Capital Assets not being depreciated:				
Land	$ 372,507	$ -	$ -	$ 372,507
Construction In Progress	433,765	300,435	(300,435)	433,765
Total Capital Assets not being depreciated	806,273	300,435	(300,435)	806,273
Capital Assets being depreciated				
Buildings	4,206,360	31,390	-	4,237,750
Other Improvements	21,477,304	238,825	(25,000)	21,691,129
Equipment	1,375,930	53,193	(15,063)	1,414,060
Non Utility Property	7,397	-	-	7,397
Total Capital Assets being depreciated	27,066,991	323,408	(40,063)	27,350,336
Less Accumulated Depreciation for:				
Buildings	(937,792)	(100,003)	-	(1,037,796)
Other Improvements	(7,630,443)	(407,987)	25,000	(8,013,430)
Equipment	(740,898)	(64,479)	15,063	(790,314)
Total Accumulated Depreciation	(9,309,134)	(572,469)	40,063	(9,841,540)
Total Capital Assets being depreciated, net	17,757,857	(249,061)	-	17,508,796
WATER - Net Total Capital Assets	$ 18,564,129	$ 51,374	$ (300,435)	$ 18,315,068

WASTEWATER	Beginning Balance 1/1/2013	Increases	Decreases	Ending Balance 12/31/2013
Capital Assets not being depreciated:				
Land	$ 1,160,512	$ -	$ -	$ 1,160,512
Construction In Progress	6,269,788	1,066,237	(106,172)	7,229,853
Total Capital Assets not being depreciated	7,430,300	1,066,237	(106,172)	8,390,365
Capital Assets being depreciated				
Buildings	42,719,281	67,288	-	42,786,569
Other Improvements	24,098,093	-	-	24,098,093
Equipment	4,159,323	271,714	(61,961)	4,369,076
Total Capital Assets being depreciated	70,976,697	339,001	(61,961)	71,253,738
Less Accumulated Depreciation for:				
Buildings	(9,261,885)	(862,004)	-	(10,123,889)
Other Improvements	(14,150,989)	(1,076,929)	-	(15,227,918)
Equipment	(2,695,116)	(167,381)	61,961	(2,800,536)
Total Accumulated Depreciation	(26,107,990)	(2,106,314)	61,961	(28,152,343)
Total Capital Assets being depreciated, net	44,868,707	(1,767,313)	-	43,101,394
WASTEWATER - Net Total Capital Assets	$ 52,299,007	$ (701,076)	$ (106,172)	$ 51,491,759

STORM	Beginning Balance 1/1/2013	Increases	Decreases	Ending Balance 12/31/2013
Capital Assets not being depreciated:				
Construction In Progress	$ 124,650	$ 5,524	$ -	$ 130,174
Total Capital Assets not being depreciated	124,650	5,524	-	130,174
Capital Assets being depreciated				
Buildings	18,931	-	-	18,931
Other Improvements	419,451	-	-	419,451
Equipment	233,441	-	-	233,441
Total Capital Assets being depreciated	671,822	-	-	671,822
Less Accumulated Depreciation for:				
Buildings	(652)	(473)	-	(1,125)
Other Improvements	(652)	(12,585)	-	(13,237)
Equipment	(35,871)	(15,772)	-	(51,643)
Total Accumulated Depreciation	(37,175)	(28,830)	-	(66,005)
Total Capital Assets being depreciated, net	634,647	(28,830)	-	605,817
STORM - Net Total Capital Assets	$ 759,298	$ (23,306)	$ -	$ 735,991

NOTE 4 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

A. Construction Commitments

The Utilities has active construction projects as of December 31, 2013. Significant commitments with contractors as of year-end were as follows:

Project	Spent to Date	Remaining Commitment	Funding Source
2009 Sewer I&I Reduction Project	$ 5,114,413	$ 8,514	Wastewater 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
Relocate utility poles & signal at Reynolds & N Pearl	-	79,655	Light Revenue
WWTP Demolition	219,523	17,884	Wastewater Revenue
Yelm Canal Crest Maint-raise to 800 CFS	286,482	124,617	Light Revenue
2013 Sanitary Sewer Wet Well Coating Project	71,997	3,495	Wastewater Revenue
Yelm Transmission & Underbuild Pole Repl Project	210,650	25,339	Light Revenue
Borthwick & Mellen St OHD to UGD relocation	327,926	15,919	Light Revenue
First Street Feeder Replacement	-	82,720	Light Revenue
WWTP Compost Yard Concrete Slab & Asphalt Paving Project	83,688	121,183	Wastewater Revenue
Yelm Hydro Plant Unit #3 Turbine Rehabilitation	-	1,540,337	Light Reserves
Total	$ 6,350,295	$ 2,040,911	

B. Other Commitments

Power Purchase Contracts – **See Note 14, Other Disclosures**

All other significant encumbrances executed by the Utilities as of the end of 2013 have been disclosed.

NOTE 5 - PENSION PLANS

Substantially all Utility 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 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 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers and* No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.*

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 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.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS 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 twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.
PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.
From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
Total	**263,347**

Funding Policy
Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the Utilities and the employees made the required contributions. The Utilities' required contributions for the years ending December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	$33,998	$413,996	$3,576
2012	$30,306	$362,780	$3,134
2011	$34,892	$332,707	$2,658

B. Excess Compensation

Cash compensation in lieu of unused annual or sick leave may be considered compensation earnable for Plan 1 members and may result in "excess compensation." When a payment is made that qualifies as excess compensation, the employer is billed for the resulting increase to the retiree's benefit to offset the increased cost to the Department of Retirement Systems. The amount billed is based on the present value of the increase to the retiree's benefit. The liability for PERS Plan 1 excess compensation at December 31, 2013 was $64,539.

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 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 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 2011, 2012 and 2013.

NOTE 7 – LONG-TERM DEBT

A. Revenue Bonds

The Electric and Water Funds have issued revenue bonds to finance the purchase of equipment and the acquisition and construction of utility infrastructure. The revenue bonds are being repaid with Electric and Water Utility revenues.

Revenue bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rates	Original Amount	2013 Principal & Interest
Electric Construction Projects - Refunding	3/1/07 to 12/1/19	4.79%	$ 4,530,000	$ 571,025
Electric Construction Projects	3/1/07 to 12/1/26	4.51%	17,275,000	1,304,237
Electric Construction Projects	10/7/10 to 12/1/30	5.54%	11,055,000	932,923
	Total Electric Revenue Bonds		**32,860,000**	**2,808,185**
Water Construction Projects	12/21/01 to 8/1/21	4.91%	1,760,000	1,095,191
Water Construction Projects - Refunding	8/1/03 to 8/1/13	3.57%	1,595,000	183,885
Water Construction Projects - Refunding	4/30/13 to 4/30/21	1.98%	1,128,964	14,985
	Total Water Revenue Bonds		**4,483,964**	**1,294,061**
	TOTAL ALL REVENUE BONDS		**$ 37,343,964**	**$ 4,102,246**

Revenue bond debt service requirements to maturity are as follows:

Year Ending	Electric Revenue Bonds		Water Revenue Bonds	
December 31	Principal	Interest	Principal	Interest
2014	$ 1,570,000	$ 1,230,647	$ 167,256	$ 20,698
2015	1,640,000	1,158,351	162,999	17,428
2016	1,720,000	1,079,303	158,608	14,244
2017	1,800,000	995,077	159,127	11,099
2018	1,860,000	926,307	159,250	7,947
2019-2023	8,725,000	3,505,887	321,724	9,697
2024-2028	7,360,000	1,533,265	-	-
2029-2030	1,715,000	152,732	-	-
Totals	$ 26,390,000	$ 10,581,568	$ 1,128,964	$ 81,112

At December 31, 2013, the Utilities had no Federal arbitrage rebate liability.

B. State Loans

The Water and Wastewater Funds have borrowed funds from the Public Works Trust Fund (PWTF) and State Revolving Fund (SRF) to finance the construction of utility infrastructure. These loans are being repaid with Water and Wastewater Utility revenues.

The PWTF loans payable currently outstanding are as follows:

Fund/Name	Maturity Range	Interest Rates	Original Amount	2013 Principal & Interest
Water - Well Placement	12/30/94 to 7/1/13	2%	$ 456,840	$ 24,525
Water - Cooks Hill Water	7/30/02 to 7/1/22	1%	2,316,356	140,868
	Total Water PWTF loans		**2,773,196**	**165,393**
Sewer - Basin 6 West	6/16/93 to 7/1/13	1%	345,983	18,392
Sewer - Basin 4 Phase I	7/8/95 to 7/1/15	3%	678,521	32,117
Sewer - Trailer Village	3/9/95 to 7/1/13	1%	54,618	2,903
Sewer - Basin 6 East & 20	12/30/94 to 7/1/14	3%	788,823	9,413
Sewer - Swanson Heights	4/18/02 to 7/1/21	2%	1,307,382	48,931
Sewer - Maple Hansen	7/31/02 to 7/1/21	1%	280,098	9,131
Sewer - Cooks Hill Sewer	7/4/04 to 7/1/24	1%	1,192,500	66,714
	Total Sewer PWTF loans		**4,647,925**	**187,601**
	TOTAL ALL PWTF LOANS		**$ 7,421,121**	**$ 352,994**

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

Year Ending December 31	Water PWTF Loans		Wastewater PWTF Loans	
	Principal	Interest	Principal	Interest
2014	$ 128,116	$ 11,477	$ 151,050	$ 12,878
2015	128,116	10,202	142,170	10,500
2016	128,116	8,927	112,706	8,389
2017	128,116	7,651	112,706	7,162
2018	128,116	6,376	112,706	5,935
2019-2023	512,464	12,752	472,292	12,100
2024-2028	-	-	62,938	315
Totals	$ 1,153,043	$ 57,385	$ 1,166,567	$ 57,280

The SRF loans payable currently outstanding are as follows:

Fund/Name	Maturity Range	Interest Rates	Original Amount	2013 Principal & Interest
Water - Tennis Court Well	6/29/99 to 10/1/17	5%	$ 1,030,000	$ 327,127
Water - Ham Hill Water	7/30/04 to 10/1/23	1%	624,240	36,462
Water - Port North Ext	8/11/05 to 10/1/24	1%	2,197,866	129,558
	Total Water SRF loans		**3,852,106**	**493,147**
Sewer - Basin 4 Phase II	5/12/97 to 3/10/18	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%	3,003,010	-
	Total Sewer SRF loans		**37,418,880**	**1,764,916**
Storm – I&I Reduction Proj	12/31/13 to 12/31/32	2.50%	70,108	-
	Total Storm SRF loans		**70,108**	**-**
	TOTAL ALL SRF LOANS		**$ 41,341,094**	**$ 2,258,063**

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

Year Ending	Water SRF Loans		Wastewater SRF Loans		Stormwater SRF Loans	
December 31	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 148,532	$ 16,004	$ 1,974,887	$ 80,816	$ 4,902	$ 1,887
2015	148,532	14,519	1,889,360	69,414	2,905	1,621
2016	148,532	13,035	1,892,507	66,267	2,979	1,547
2017	148,532	11,550	1,895,734	63,040	3,054	1,472
2018	148,532	10,065	1,899,042	59,732	3,131	1,395
2019-2023	741,798	28,055	9,339,095	246,034	16,885	5,744
2024-2028	115,677	1,157	2,603,328	149,840	19,131	3,498
2029-2032	-	-	733,359	42,071	17,121	982
Totals	$ 1,600,135	$ 94,386	$ 22,227,313	$ 777,214	$ 70,109	$ 18,145

At December 31, 2013, the Utilities have restricted assets of $5,082,134 in sinking funds and reserves as required by bond indentures and loan contracts.

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.

NOTE 8 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2013 the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	$29,289,675	$1,127,114	$(2,695,923)	$27,720,866	$1,737,256
Loans	28,372,754	409,284	(2,564,871)	26,217,167	2,407,487
Compensated absences/ Excess compensation	901,521	30,812	(11,316)	921,018	46,051
Total long-term liabilities	**$58,563,950**	**$1,567,210**	**$(5,272,109)**	**$54,859,050**	**$4,190,794**

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, will 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 2013:

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

NOTE 11 – ACCOUNTING AND REPORTING CHANGES

A. 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.

NOTE 12 – PRIOR PERIOD ADJUSTMENTS

1. The City's Equipment Rental & Revolving Fund (ER&R) had accumulated excess cash over the previous years that should be distributed back to the funds that overpaid. Fund balance and accounts receivable were increased to account for the overpayment.

Water Fund	$68,235
Wastewater	105,196
Storm & Surface Water	19,902

2. The beginning balance of the Electric Fund's capital assets for equipment did not match the underlying subsidiary records. Both the capital asset account and fund balance were decreased by $367,434 to correct the error.

   In addition, it was discovered that 2012 depreciation expense for the Electric Fund was overstated by $20,000. Accumulated depreciation for equipment was decreased and fund balance was increased to adjust for the error.

NOTE 13 – SUBSEQUENT EVENTS

1) Yelm Hydro Turbine shutdown

On November 5, 2013, the 6.5 MW Turbine Unit # 3 at the Yelm Hydro Generating Plan 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 12th approved waiver of normal bidding requirements so that immediate repairs could begin. Repairs commenced November 18th 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 ($1.5 M) from the City Light accounts and deferral of other planned construction projects. Council approved budget amendments and use of reserves on February 25, 2014. Unit # 3 came back online in September 2014, transition is still underway and total financial impacts are not yet known.

NOTE 14 – OTHER DISCLOSURES

A. 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 2013, BPA and NIES provided 73.7% of the power supply, with the remainder produced by the Yelm Generating Plant. Charges for the BPA purchased power and transmission were $7,646,241 in 2013. Charges for non-Federal AHWM power purchases from NIES amounted to $389,228 in 2013.

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
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov