Washington State Auditor's Office

Troy Kelley

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Financial Statements Audit Report

Port of Centralia

Lewis County

For the period January 1, 2011 through December 31, 2013

Published January 22, 2015

Report No. 1013482

Washington State Auditor
Troy Kelley

January 22, 2015

Board of Commissioners
Port of Centralia
Centralia, Washington

Report on Financial Statements

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

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

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

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*

Port of Centralia
Lewis County
January 1, 2011 through December 31, 2013

Board of Commissioners
Port 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 Port of Centralia, Lewis County, Washington, as of and for the years ended December 31, 2013, 2012, 2011 and 2010, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated January 15, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

January 15, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Centralia
Lewis County
January 1, 2011 through December 31, 2013

Board of Commissioners
Port of Centralia
Centralia, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Centralia, Lewis County, Washington, as of and for the years ended December 31, 2013, 2012, 2011 and 2010, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 9.

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 an opinion 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 Port'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 Port'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Centralia, as of December 31, 2013, 2012, 2011 and 2010, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 10 through 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2015 on our consideration of the Port'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 Port's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

January 15, 2015

FINANCIAL SECTION

Port of Centralia
Lewis County
January 1, 2011 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

Port of Centralia

MANAGEMENT DISCUSSION AND ANALYSIS
YEARS ENDED December 31, 2013 and 2012

INTRODUCTION

The following is the Port of Centralia's (the Port) Management Discussion and Analysis (MD&A) of financial activities and performance for the calendar years ended December 31, 2013 and 2012, with selected comparative information for the year ended December 31, 2011. It provides an introduction to the Port's 2013 and 2012 financial statements. Information contained in this MD&A has been prepared by Port management and should be considered in conjunction with the financial statements and the notes.

The notes are essential to a full understanding of the data contained in the financial statements. This report also presents certain required supplementary information regarding capital assets and long-term debt activity during the year, including commitments made for capital expenditures.

The financial information included in the MD&A is unaudited.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of four parts: MD&A, the basic financial statements, notes to the financial statements, and the annual report to the State Auditor's Office. The basic financial statements include: the statements of net position, the statements of revenues, expenses and changes in net position, and the statements of cash flows.

The statements of net position and the statements of revenues, expenses and changes in net position tell us if the Port as a whole is better or worse off as a result of the year's activities. The statements of net position present information on all of the Port's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the Port is improving or deteriorating. The statements of revenues, expenses and changes in net position show how the Port's net position changed during the most recent year. These changes are reported as the underlying event occurs regardless of the timing of related cash flows.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Port uses only one fund, an enterprise fund, which is a type of proprietary fund. An enterprise fund reports business type activities.

Financial Report

Financial Highlights

- The assets of the Port exceeded its liabilities at close of calendar year 2013. The net position of the Port totaled $18,285,811 in 2013. Of this amount, $18,276,276 is invested in capital assets, net of related debt. The net position of the Port totaled $17,558,404 in 2012. Of this amount, $16,689,154 is invested in capital assets, net of related debt.

- Due to the excess of revenues over expenses, the Port's net position increased by $727,407 in 2013 due primarily to an increase in total property rental revenue and other revenue items, compared to a $1,083,666 increase in 2012 figures from 2011, amounts which totaled $948,303.

- The Port's total long-term debt decreased by approximately $785,000 in 2013. The Port did not issue any bonds in 2013 but did have advances on its line of credit totaling $630,000 at December 31, 2013. The Port's total long-term debt increased by approximately $3,600,000 in 2012 due to additional bank debt obtained. The Port did not issue any bonds in 2012.

Financial Position Summary

The statements of net position present the financial position of the Port at the close of calendar year 2013. The statements include all of the Port's assets and liabilities. Net position serves as an indicator of the Port's financial position. A summarized comparison of the Port's assets, liabilities and net position at December 31, 2013, 2012, and 2011, follows:

PORT OF CENTRALIA'S Statements of Net Position

	2013	2012	2011
Current assets	$ 177,409	$ 1,121,171	$ 151,730
Restricted assets	35	35	35
Net capital assets	29,856,234	28,424,476	24,561,494
Other assets	24,563	27,684	30,577
Total assets	**$30,058,241**	**$29,573,366**	**$24,743,836**
Current liabilities	$3,190,962	$ 1,296,050	$2,408,337
Long-term liabilities	8,581,468	10,718,912	5,860,761
Total liabilities	**$11,772,430**	**$12,014,962**	**$8,269,098**
Net position:			
Invested in capital assets, net of related debt	$18,276,276	$16,689,154	$16,445,363
Cash restricted for debt service	35	35	35
Unrestricted	9,500	869,215	29,340
Total net position	**$18,285,811**	**$17,558,404**	**$16,474,738**

Financial Operation Highlights

As noted earlier, the Port uses only one fund, an enterprise fund, to comply with Washington state mandated reporting requirements. The following summary compares the 2013 and 2012 operating results to budget and prior years.

Revenues: To date, operating revenue of $671,269 is $114,053, or 15 percent, less than the 2013 original budget due primarily to building vacancy. The 2012 operating revenue of $619,916 is $75,328, or 11 percent, less than the 2012 original budget due primarily to vacancy of an industrial building.

Expenses: To date, operating expenses, excluding depreciation, totaled $816,200 and are over the 2013 original budget by $83,583, or 11 percent, due to building vacancy. Outside service costs rose due to leasing commissions associated with renting the vacant building and utilities increased, as the Port paid these until replacement tenants were found. Compared to the prior year, operating expenses, excluding depreciation, totaled $681,934 and are over the 2012 original budget by $7,482, or 1 percent.

Non-Operating: Year-to-date non-operating revenue is $1,948,295, which resulted in slightly better than the 2013 original plan by $25,274, or 1 percent, due to an increase in miscellaneous tax revenues. The 2012 non-operating revenue was less than the original plan by $58,361, or 3 percent, due to a change in the final total assessed value from the estimate provided by the Lewis County Assessor.

Change in Net Position: As a result of all of the above, the increase in net position for 2013 was $727,407, or 4 percent, compared to 2012. The 2012 net position increased by $1,083,666, or 7 percent, compared to 2011.

A summarized comparison of the Port's statements of revenues, expenses and changes in net position for the years ended December 31, 2013, 2012, and 2011, follows:

PORT OF CENTRALIA'S Statements of Revenues, Expenses and Changes in Net Position

	2013	2012	2011
Operating revenues	$ 671,269	$ 619,916	$ 550,234
Non-operating revenues	1,948,255	1,946,145	2,231,735
Other revenues	40	30	341
Total revenues	**$2,619,564**	**$2,566,091**	**$2,782,310**
Operating expenses	$1,396,186	$1,265,775	$1,252,222
Interest and bond issue costs	618,613	516,315	571,719
Other expenses	2,623	- -	10,066
Total expenses	**$2,017,422**	**$1,782,090**	**$1,834,007**
Increase in net position, before capital	$ 602,142	$ 784,001	$ 948,303
Capital contribution	125,265	299,665	- -
Increase in net position	**727,407**	**1,083,666**	**948,303**
Net position at beginning of year	17,558,404	16,474,738	15,526,435
Net position at end of year	**$18,285,811**	**$17,558,404**	**$16,474,738**

Capital Assets: The Port's investment in capital assets for its business activities as of December 31, 2013, amounts to approximately $29.9 million (net of accumulated depreciation), an increase of 5 percent over 2012. This investment in capital assets includes land, buildings, improvements, machinery and equipment, and construction in progress. The Port's investment in capital assets for its business activities as of December 31, 2012, amounts to approximately $28.4 million (net of accumulated depreciation), an increase of 16 percent over 2011. This investment in capital assets includes land, buildings, improvements, machinery and equipment, and construction in process.

Major capital assets events currently budgeted for 2014 include planned improvements to Centralia Station (major land development project), a freeway off-ramp and expansion of Industrial Park I and II.

Additional information on the Port's capital assets activity may be found in Note 4 of this report.

Debt Administration

Debt: At December 31, 2013, the Port has a line of credit of $1.0 million, of which advances outstanding totaled $630,000. The advances during 2013 were for the purpose of land acquisitions and land use planning. At December 31, 2013, the Port's total debt outstanding was $11.5 million. Of this amount, $6.9 million comprises debt backed by the full faith and credit of the Port. The remainder of the Port's debt represents contracts secured solely by revenue sources.

At December 31, 2012, the Port's available line of credit was $1 million. The advances during 2012 were for the purpose of land acquisitions. The line was paid off in late 2012. At December 31, 2012, the Port's total long-term debt outstanding was $11.7 million. Of this amount, $6.6 million comprises debt backed by the full faith and credit of the Port. The remainder of the Port's debt represents contracts secured solely by revenue sources.

The Port's total long-term debt, excluding the line of credit and including current maturities, decreased by $785,364, or 27 percent, during 2013. The Port's total long-term debt, including current maturities, increased by $3,619,191, or 45 percent, during 2012. Additional information on the Port's long-term debt activity may be found in Note 7 of this report.

Economic Factors and 2014 Budget

Economic Factors

The Port continues to work with several businesses looking to locate along the I-5 corridor between Seattle, Washington, and Portland, Oregon. With the emergence of the new development Centralia Station and the expansion of Industrial Park I and Industrial Park II, the Port maintains its position as the leading economic and industrial development agency in Lewis County.

The Port owns a short line railroad with several spurs that service property throughout the Industrial Park. Rail-served property has become a rarity which gives the Port the opportunity to recruit more businesses to its industrial parks.

2014 Budget: The Port's 2014 budget outlines what will be pursued in the next year to achieve line of business strategies; thus, accomplishing Port-wide goals while striving towards the Port's mission.

2014 Operating Budget: The Port developed an overall operating expense budget of $769,450, a decrease of 6 percent over the 2013 actual operating expenses. This budget produces operating income of $248,159.

Tax Levy: The Port placed the 2014 general levy rate at $0.45, or 0 percent, more than 2013 level, while providing the Port with $823,162 in needed revenue. As in the past, the levy will be used for general obligation bond debt service and capital spending. The difference between this year's levy and the legal limit is $0. In addition to the general levy, the Port is levying an Industrial Development District tax levy at a rate of $0.45, providing the Port with $823,162 in additional taxes to be used for debt service and infrastructure improvements within the Port's Industrial Development District No. 2.

Requests for Information

The Port designed this financial report to provide our citizens, customers, investors and creditors with an overview of the Port's finances. If you have questions or need additional information please visit our website at www.portofcentralia.com or contact: Kyle Heaton, Executive Director at (360) 736-3527.

Port of Centralia

MANAGEMENT DISCUSSION AND ANALYSIS
YEARS ENDED December 31, 2012 and 2011

INTRODUCTION

The following is the Port of Centralia's (the Port) Management Discussion and Analysis (MD&A) of financial activities and performance for the calendar years ended December 31, 2012 and 2011, with selected comparative information for the year ended December 31, 2010. It provides an introduction to the Port's 2012 and 2011 financial statements. Information contained in this MD&A has been prepared by Port management and should be considered in conjunction with the financial statements and the notes.

The notes are essential to a full understanding of the data contained in the financial statements. This report also presents certain required supplementary information regarding capital assets and long-term debt activity during the year, including commitments made for capital expenditures.

The financial information included in the MD&A is unaudited.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of four parts: MD&A, the basic financial statements, notes to the financial statements, and the annual report to the State Auditor's Office. The basic financial statements include: the statements of net position, the statements of revenues, expenses and changes in net position, and the statements of cash flows.

The statements of net position and the statements of revenues, expenses and changes in net position tell us if the Port as a whole is better or worse off as a result of the year's activities. The statements of net position present information on all of the Port's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the Port is improving or deteriorating. The statements of revenues, expenses and changes in net position show how the Port's net position changed during the most recent year. These changes are reported as the underlying event occurs regardless of the timing of related cash flows.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Port uses only one fund, an enterprise fund, which is a type of proprietary fund. An enterprise fund reports business type activities.

Financial Report

Financial Highlights

- The assets of the Port exceeded its liabilities at close of calendar year 2012. The net position of the Port totaled $17,558,404 in 2012. Of this amount, $16,689,154 is invested in capital assets, net of related debt. The net position of the Port totaled $16,474,738 in 2011. Of this amount, $16,445,364 is invested in capital assets, net of related debt.

- Due to the excess of revenues over expenses, the Port's net position increased by $1,083,666 in 2012 due primarily to an increase in total property rental revenue and other revenue items, compared to a $948,303 increase in 2011 figures from 2010, amounts which totaled $1,117,133.

- The Port's total long-term debt increased by $3,619,191 in 2012 due to additional bank debt obtained. The Port did not issue any bonds in 2012. The Port's total long-term debt decreased by $729,979 in 2011 due to regularly scheduled debt payments. The Port issued no additional long-term debt in 2011.

Financial Position Summary

The statements of net position present the financial position of the Port at the close of calendar year 2012. The statements include all of the Port's assets and liabilities. Net position serves as an indicator of the Port's financial position. A summarized comparison of the Port's assets, liabilities and net position at December 31, 2012, 2011 and 2010, follows:

PORT OF CENTRALIA'S Statements of Net Position

	2012	2011	2010
Current assets	$ 1,121,171	$ 151,730	$ 530,700
Restricted assets	35	35	35
Net capital assets	28,424,476	24,561,494	24,939,967
Other assets	27,684	30,577	36,421
Total assets	**$29,573,366**	**$24,743,836**	**$25,507,123**
Current liabilities	$ 1,295,050	$2,408,337	$1,865,235
Long-term liabilities	10,718,912	5,860,761	8,115,453
Total liabilities	**$12,013,962**	**$8,269,098**	**$9,980,688**
Net position:			
Invested in capital assets, net of related debt	$16,689,154	$16,445,363	$15,093,906
Cash restricted for debt service	35	35	35
Unrestricted	869,215	29,340	432,494
Total net position	**$17,558,404**	**$16,474,738**	**$15,526,435**

Financial Operation Highlights

As noted earlier, the Port uses only one fund, an enterprise fund, to comply with Washington state mandated reporting requirements. The following summary compares the 2012 and 2011 operating results to budget and prior years.

Revenues: To date operating revenue of $619,916 is $75,328 or 11 percent less than the 2012 original budget due primarily to vacancy of an industrial building. The 2011 operating revenue of $550,234 is $131,595 or 19 percent less than the 2011 original budget due primarily to vacancy of an industrial building.

Expenses: To date operating expenses, excluding depreciation, totaled $681,934 and are over the 2012 original budget by $7,482 or 1 percent. Compared to the prior year, operating expenses, excluding depreciation, totaled $667,749 and were over the 2011 original budget by $12,490 or 2 percent due to an extremely conservative 2011 budget.

Non-Operating: Year-to-date non-operating revenue is $1,946,175 less than the 2012 original plan by $58,361 or 3 percent due to a change in the final total assessed value from the estimate provided by the Lewis County Assessor. The 2011 non-operating revenue was more than the original plan by $243,280 or 12 percent due to an increase in Forest Board Yield Tax.

Change in Net Position: As a result of all of the above, the increase in net position for 2012 was $1,083,666 or 7 percent compared to 2011. The 2011 net position increased by $948,304 or 6 percent compared to 2010.

A summarized comparison of the Port's statements of revenues, expenses and changes in net position for the years ended December 31, 2012, 2011 and 2010, follows:

PORT OF CENTRALIA'S Statements of Revenues, Expenses and Changes in Net Position

	2012	2011	2010
Operating revenues	$ 619,916	$ 550,234	$ 943,557
Non-operating revenues	1,946,145	2,231,735	1,930,018
Other revenues	30	341	58,178
Total revenues	**$2,566,091**	**$2,782,310**	**$2,931,753**
Operating expenses	$1,265,775	$1,252,222	$1,187,278
Interest and bond issue costs	516,315	571,719	627,342
Other expenses	- -	10,066	- -
Total expenses	**$1,782,090**	**$1,834,007**	**$1,814,620**
Increase in net position, before capital	$ 784,001	$ 948,303	$ 1,117,133
Capital contribution	299,665	- -	- -
Increase in net position	**1,083,666**	**948,303**	**1,117,133**
Net position at beginning of year	16,474,738	15,526,435	14,409,302
Net position at end of year	**$17,558,404**	**$16,474,738**	**$15,526,435**

Capital Assets: The Port's investment in capital assets for its business activities as of December 31, 2012, amounts to approximately $28.4 million (net of accumulated depreciation), an increase of 16 percent over 2011. This investment in capital assets includes land, buildings, improvements, machinery and equipment, and construction in process. The Port's investment in capital assets for its business activities as of December 31, 2011, amounts to $24.6 million (net of accumulated depreciation), a decrease of 1 percent over 2010. This investment in capital assets includes land, buildings, improvements, machinery and equipment, and construction in process.

Major capital assets events currently budgeted for 2013 include planned improvements to the Gallagher Road Improvements, Centralia Station (major land development project), a freeway off-ramp and expansion of Industrial Park I and II.

Additional information on the Port's capital assets activity may be found in Note 4 of this report.

Debt Administration

Debt: At December 31, 2012, the Port's available line of credit was $1 million. The advances during 2012 were for the purpose of land acquisitions. The line was paid in full in late 2012. At December 31, 2012, the Port's total long-term debt outstanding was $11.7 million. Of this amount, $6.6 million comprises debt backed by the full faith and credit of the Port. The remainder of the Port's debt represents contracts secured solely by revenue sources.

At December 31, 2011, the Port's available line of credit was $1 million. The advances during 2011 were for the purpose of construction in progress payments. The line was paid in full in late 2011. At December 31, 2011, the Port's total long-term debt outstanding was $8.1 million. Of this amount, $1.8 million comprises debt backed by the full faith and credit of the Port. The remainder of the Port's debt represents contracts secured solely by revenue sources.

The Port's total long-term debt, including current maturities, increased by $3,619,191 or 45 percent during 2012. The Port's total long-term debt, including current maturities, decreased by $729,979 or 9 percent during 2011. Additional information on the Port's long-term debt activity may be found in Note 7 of this report.

Economic Factors and 2013 Budget

Economic Factors

The Port continues to work with several businesses looking to locate along the I-5 corridor between Seattle, Washington, and Portland, Oregon. With the emergence of the new development Centralia Station and the expansion of Industrial Park I and Industrial Park II, the Port maintains its position as the leading economic and industrial development agency in Lewis County.

The Port owns a short line railroad with several spurs that service property throughout the Industrial Park. Rail-served property has become a rarity which gives the Port the opportunity to recruit more businesses to its industrial parks.

2013 Budget: The Port's 2013 budget outlines what will be pursued in the next year to achieve line of business strategies; thus, accomplishing Port-wide goals while striving towards the Port's mission.

2013 Operating Budget: The Port developed an overall operating expense budget of $732,616, an increase of 7 percent over the 2012 actual operating expenses. This budget produces operating income of $52,706.

Tax Levy: The Port placed the 2013 general levy rate at $0.45 or 11 percent more than 2012 level, while providing the Port with $920,186 in needed revenue. As in the past, the levy will be used for general obligation bond debt service and capital spending. The difference between this year's levy and the legal limit is $0. In addition to the general levy, the Port is levying an Industrial Development District tax levy at a rate of $0.45, providing the Port with $920,186 in additional taxes to be used for debt service and infrastructure improvements within the Port's Industrial Development District No. 2.

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Port of Centralia

MANAGEMENT DISCUSSION AND ANALYSIS
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The statements of net assets and the statements of revenues, expenses and changes in net assets tell us if the Port as a whole is better or worse off as a result of the year's activities. The statements of net assets present information on all of the Port's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as an indicator of whether the financial position of the Port is improving or deteriorating. The statements of revenues, expenses and changes in net assets show how the Port's net assets changed during the most recent year. These changes are reported as the underlying event occurs regardless of the timing of related cash flows.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Port uses only one fund, an enterprise fund, which is a type of proprietary fund. An enterprise fund reports business type activities.

Financial Report

Financial Highlights

- The assets of the Port exceeded its liabilities at close of calendar year 2011. The net assets of the Port totaled $16,474,738 in 2011. Of this amount, $16,445,364 is invested in capital assets, net of related debt. Net assets totaled $15,526,435 at the end of calendar year 2010, with $15,093,906 invested in capital assets, net of related debt.

- Due to the excess of revenues over expenses, the Port's net assets increased by $948,303 in 2011 primarily due to an increase in total tax related revenue and other revenue items, compared to a $1,117,133 increase in 2010 figures from 2009, amounts which totaled $652,150.

- The Port's total long-term debt decreased by $729,979 in 2011 due to regularly scheduled debt payments. The Port issued no additional long-term debt in 2011. The Port's total long-term debt decreased by $993,385 in 2010 due to regularly scheduled debt payments. The Port issued $85,000 additional long-term debt in 2010.

Financial Position Summary

The statements of net assets present the financial position of the Port at the close of calendar year 2011. The statements include all of the Port's assets and liabilities. Net assets serve as an indicator of the Port's financial position. A summarized comparison of the Port's assets, liabilities and net assets at December 31, 2011, 2010 and 2009, follows:

PORT OF CENTRALIA'S Statements of Net Assets

	2011	2010	2009
Current assets	$ 151,730	$ 530,700	$ 114,553
Restricted assets	35	35	1,528
Net capital assets	24,561,494	24,939,967	25,285,389
Other assets	30,577	36,421	49,446
Total assets	**$24,743,836**	**$25,507,123**	**$25,450,916**
Current liabilities	$2,408,337	$1,865,235	$ 2,272,600
Long-term liabilities	5,860,761	8,115,453	8,769,014
Total liabilities	**$8,269,098**	**$9,980,688**	**$11,041,614**
Net assets:			
Invested in capital assets, net of related debt	$16,445,363	$15,093,906	$14,352,993
Cash restricted for debt service	35	35	1,528
Unrestricted	29,340	432,494	54,781
Total net assets	**$16,474,738**	**$15,526,435**	**$14,409,302**

Financial Operation Highlights

As noted earlier, the Port uses only one fund, an enterprise fund, to comply with Washington state mandated reporting requirements. The following summary compares the 2011 and 2010 operating results to budget and prior years.

Revenues: To date operating revenue of $550,234 is $131,595 or 19 percent less than the 2011 original budget due primarily to vacancy of an industrial building. The 2010 operating revenue of $943,557 is $76,058 or 8 percent more than the 2010 original budget due primarily to recovery of rent security from tenant.

Expenses: To date operating expenses, excluding depreciation, totaled $667,749 and are over the 2011 original budget by $12,490 or 2 percent. Compared to the prior year, operating expenses, excluding depreciation, totaled $605,429 and were over the 2010 original budget by $31,507 or 5 percent due to an extremely conservative 2010 budget.

Non-Operating: Year-to-date non-operating revenue is $2,232,076 more than the 2011 original plan by $243,280 or 12 percent due to an unanticipated increase in Forest Board Yield Tax totaling over $200,000. The 2010 non-operating revenue was more than the original plan by $40,631 or 2 percent due to an increase in Forest Board Yield Tax.

Change in Net Assets: As a result of all of the above, the increase in net assets for 2011 was $948,304 or 6 percent compared to 2010. The 2010 net assets increased by $1,117,133 or 8 percent compared to 2009.

A summarized comparison of the Port's statements of revenues, expenses and changes in net assets for the years ended December 31, 2011, 2010 and 2009, follows:

PORT OF CENTRALIA'S Statements of Revenues, Expenses and Changes in Net Assets

	2011	2010	2009
Operating revenues	$ 550,234	$ 943,557	$ 797,014
Non-operating revenues	2,231,735	1,930,018	495,608
Other revenues	341	58,178	16,560
Total revenues	**$2,782,310**	**$2,931,753**	**$1,309,182**
Operating expenses	$1,252,222	$1,187,278	$1,298,108
Interest and bond issue costs	571,719	627,342	653,311
Other expenses	10,066	- -	9,913
Total expenses	**$1,834,007**	**$1,814,620**	**$1,961,332**
Increase (decrease) in net assets	$ 948,303	$ 1,117,133	($ 652,150)
Net assets at beginning of year	15,526,435	14,409,302	15,061,452
Net assets at end of year	**$16,474,738**	**$15,526,435**	**$14,409,302**

Capital Assets: The Port's investment in capital assets for its business activities as of December 31, 2011, amounts to approximately $24.6 million (net of accumulated depreciation), a decrease of 1 percent over 2010. This investment in capital assets includes land, buildings, improvements, machinery and equipment, and construction in process. The Port's investment in capital assets for its business activities as of December 31, 2010, amounts to $25 million (net of accumulated depreciation), a decrease of 1 percent over 2009. This investment in capital assets includes land, buildings, improvements, machinery and equipment, and construction in process.

Major capital asset events currently budgeted for 2012 include planned improvements to the intersection at Kuper Road and Harrison Avenue. During 2010, the Port purchased a .31 acre piece of property.

Additional information on the Port's capital assets activity may be found in Note 4 of this report.

Debt Administration

Debt: At December 31, 2011, the Port's available line of credit was $1 million. The advances during 2011 were for the purpose of construction in progress payments. The line was paid in full in late 2011. At December 31, 2011, the Port's total long-term debt outstanding was $8.1 million. Of this amount, $1.8 million comprises debt backed by the full faith and credit of the Port. The remainder of the Port's debt represents contracts secured solely by revenue sources. At December 31, 2010, the Port's available line of credit was $1 million. The advances during 2010 were for the purpose of construction in progress payments. At December 31, 2010, the Port's total long-term debt outstanding was $8.8 million. Of this amount, $2.1 million comprises debt backed by the full faith and credit of the Port. The remainder of the Port's debt represents contracts secured solely by revenue sources.

The Port's total long-term debt, including current maturities, decreased by $729,979 or 9 percent during 2011. The Port's total long-term debt, including current maturities, decreased by $993,385 or 9 percent during 2010. Additional information on the Port's long-term debt activity may be found in Note 7 of this report.

Economic Factors and 2011 Budget

Economic Factors

The Port continues to work with several businesses looking to locate along the I-5 corridor between Seattle, Washington, and Portland, Oregon. With the emergence of Industrial Park II and the expansion of Industrial Park I, the Port maintains its position as the leading economic and industrial development agency in Lewis County.

The Port owns a short line railroad with several spurs that service property throughout the Industrial Park. Rail-served property has become a rarity which gives the Port the opportunity to recruit more businesses to its industrial parks.

2012 Budget: The Port's 2012 budget outlines what will be pursued in the next year to achieve line of business strategies; thus, accomplishing Port-wide goals while striving towards the Port's mission.

2012 Operating Budget: The Port developed an overall operating expense budget of $689,416, an increase of 3.2 percent over the 2011 actual operating expenses. This budget produces operating income of $5,828.

Tax Levy: The Port placed the 2012 general levy rate at $0.40452 or 9 percent more than 2011 level, while providing the Port with $897,460 in needed revenue. As in the past, the levy will be used for general obligation bond debt service and capital spending. The difference between this year's levy and the legal limit is $100,900. In addition to the general levy, the Port is levying an Industrial Development District tax levy at a rate of $0.45, providing the Port with $998,361 in additional taxes to be used for debt service and infrastructure improvements within the Port's Industrial Development District No. 2.

Requests for Information

The Port designed this financial report to provide our citizens, customers, investors and creditors with an overview of the Port's finances. If you have questions or need additional information please visit our Web site at www.portofcentralia.com or contact: Kyle Heaton, Executive Director at (360) 736-3527.

Port of Centralia
December 31, 2013 and 2012

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	$ 34,840	$ 903,364
Property taxes receivable	95,756	87,214
Accounts receivable	17,081	22,160
Grants receivable	- -	91,745
Prepaid expenses	29,732	16,688
Total current assets	**177,409**	**1,121,171**
Restricted Assets		
Cash and cash equivalents	**35**	**35**
Capital Assets		
Land	16,566,390	15,270,430
Land improvements	6,424,083	6,376,946
Building and improvements	12,381,310	12,300,473
Autos, equipment, office	359,760	352,588
Construction in progress	1,258,149	677,511
	36,989,692	**34,977,948**
Less accumulated depreciation	7,133,458	6,553,472
Net capital assets	**29,856,234**	**28,424,476**
Other Assets, Net	**24,563**	**27,684**
Total assets	**$30,058,241**	**$29,573,366**

See notes to financial statements.

	2013	2012
Liabilities and Net Position		
Current Liabilities		
Accounts and warrants payable	$ 143,764	$ 218,906
Accrued interest payable	45,243	46,769
Customer prepayments	- -	3,940
Other current liabilities	3,465	10,025
Line of credit	630,000	- -
Current portion of long-term liabilities	2,368,490	1,016,410
Total current liabilities	**3,190,962**	**1,296,050**
Long-Term Liabilities		
Notes payable	7,381,151	9,355,541
General obligation bonds	1,200,317	1,363,371
Total long-term liabilities	**8,581,468**	**10,718,912**
Total liabilities	**11,772,430**	**12,014,962**
Commitments and Contingencies	**- -**	**- -**
Net Position		
Net position invested in capital assets, net of related debt	18,276,276	16,689,154
Cash restricted for debt service	35	35
Unrestricted net position	9,500	869,215
Total net position	**$18,285,811**	**$17,558,404**

See notes to financial statements.

Statements of Net Position

Port of Centralia
December 31, 2012 and 2011

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	$ 903,364	$ 28,915
Property taxes receivable	87,214	86,363
Accounts receivable	22,160	19,863
Grants receivable	91,745	- -
Prepaid expenses	16,688	16,589
Total current assets	**1,121,171**	**151,730**
Restricted Assets		
Cash and cash equivalents	**35**	**35**
Capital Assets		
Land	15,270,430	12,234,220
Land improvements	6,376,946	6,376,946
Building and improvements	12,300,473	11,429,646
Autos, equipment, office	352,588	345,895
Construction in progress	677,511	144,417
	34,977,948	**30,531,124**
Less accumulated depreciation	6,553,472	5,969,630
Net capital assets	**28,424,476**	**24,561,494**
Other Assets, Net	**27,684**	**30,577**
Total assets	**$29,573,366**	**$24,743,836**

See notes to financial statements.

	2012	2011
Liabilities and Net Position		
Current Liabilities		
Accounts and warrants payable	$ 218,906	$ 82,804
Accrued interest payable	46,769	60,841
Customer prepayments	3,940	400
Other current liabilities	10,025	8,922
Current portion of long-term liabilities	1,016,410	2,255,370
Total current liabilities	**1,296,050**	**2,408,337**
Long-Term Liabilities		
Notes payable	9,355,541	4,344,706
General obligation bonds	1,363,371	1,516,055
Total long-term liabilities	**10,718,912**	**5,860,761**
Total liabilities	**12,014,962**	**8,269,098**
Commitments and Contingencies	**- -**	**- -**
Net Position		
Net position invested in capital assets, net of related debt	16,689,154	16,445,363
Cash restricted for debt service	35	35
Unrestricted net position	869,215	29,340
Total net position	**$17,558,404**	**$16,474,738**

See notes to financial statements.

Statements of Net Assets

Port of Centralia
December 31, 2011 and 2010

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	$ 28,915	$ 416,438
Property taxes receivable	86,363	71,594
Accounts receivable	19,863	26,866
Prepaid expenses	16,589	15,802
Total current assets	**151,730**	**530,700**
Restricted Assets		
Cash and cash equivalents	**35**	**35**
Capital Assets		
Land	12,234,220	12,224,823
Land improvements	6,376,946	6,376,946
Building and improvements	11,429,646	11,315,831
Autos, equipment, office	345,895	340,158
Construction in progress	144,417	68,402
	30,531,124	**30,326,160**
Less accumulated depreciation	5,969,630	5,386,193
Net capital assets	**24,561,494**	**24,939,967**
Other Assets, Net	**30,577**	**36,421**
Total assets	**$24,743,836**	**$25,507,123**

See notes to financial statements.

	2011	2010
Liabilities and Net Assets		
Current Liabilities		
Accounts and warrants payable	$ 82,804	$ 41,523
Accrued interest payable	60,841	48,192
Line of credit	- -	999,951
Customer prepayments	400	25,045
Other current liabilities	8,922	19,867
Current portion of long-term liabilities	2,255,370	730,657
Total current liabilities	**2,408,337**	**1,865,235**
Long-Term Liabilities		
Notes payable	4,344,706	6,337,064
General obligation bonds	1,516,055	1,778,389
Total long-term liabilities	**5,860,761**	**8,115,453**
Total liabilities	**8,269,098**	**9,980,688**
Commitments and Contingencies	**- -**	**- -**
Net Assets		
Net assets invested in capital assets, net of related debt	16,445,363	15,093,906
Cash restricted for debt service	35	35
Unrestricted net assets	29,340	432,494
Total net assets	**$16,474,738**	**$15,526,435**

See notes to financial statements.

Statements of Revenues, Expenses and Changes in Net Position

Port of Centralia
For the Years Ended December 31, 2013 and 2012

	2013 Balance	Percent of Operating Revenues	2012 Balance	Percent of Operating Revenues
Operating Revenues				
Property rental operations	**$ 671,269**	**100.00%**	**$ 619,916**	**100.00%**
Operating Expenses				
General and administrative	513,946	76.56	497,926	80.32
General operations	177,783	26.48	29,734	4.80
Maintenance	124,471	18.54	154,274	24.89
Depreciation	579,986	86.40	583,841	94.18
Total operating expenses	**1,396,186**	**207.99**	**1,265,775**	**204.19**
Loss from operations	**(724,917)**	**(107.99)**	**(645,859)**	**(104.19)**
Non-Operating Revenues (Expenses)				
Taxes levied for Port operations, net	919,799	137.02	895,645	144.48
Taxies levied for IDD, net	919,212	136.94	996,299	160.72
Interest income	40	0.01	30	- -
Other taxes	109,244	16.27	54,201	8.74
Interest and bond issue costs	(618,613)	(92.16)	(516,315)	(83.29)
Other expenses	(2,623)	(0.39)	- -	- -
Total non-operating revenues (expenses)	**1,327,059**	**197.69**	**1,429,860**	**230.65**
Increase in net position before capital contributions	**602,142**	**89.70%**	**784,001**	**126.46%**
Capital Contribution	125,265		299,665	
Increase in net position	**727,407**		**1,083,666**	
Net Position				
Beginning of year	17,558,404		16,474,738	
End of year	**$18,285,811**		**$17,558,404**	

See notes to financial statements.

Statements of Revenues, Expenses and Changes in Net Position

Port of Centralia
For the Years Ended December 31, 2012 and 2011

	2012 Balance	Percent of Operating Revenues	2011 Balance	Percent of Operating Revenues
Operating Revenues				
Property rental operations	**$ 619,916**	**100.00%**	**$ 550,234**	**100.00%**
Operating Expenses				
General and administrative	497,926	80.32	533,155	96.90
General operations	29,734	4.80	47,825	8.69
Maintenance	154,274	24.89	86,769	15.77
Depreciation	583,841	94.18	584,473	106.22
Total operating expenses	**1,265,775**	**204.19**	**1,252,222**	**227.58**
Loss from operations	**(645,859)**	**(104.19)**	**(701,988)**	**(127.58)**
Non-Operating Revenues (Expenses)				
Taxes levied for Port operations, net	895,645	144.48	888,441	161.47
Taxies levied for IDD, net	996,299	160.72	1,073,241	195.05
Interest income	30	- -	106	.02
Other taxes	54,201	8.74	270,053	49.08
Gain on sale of assets	- -	- -	235	.04
Interest and bond issue costs	(516,315)	(83.29)	(571,719)	(103.90)
Other expenses	- -	- -	(10,066)	(1.83)
Total non-operating revenues (expenses)	**1,429,860**	**230.65**	**1,650,291**	**299.93**
Increase in net position before capital contributions	**784,001**	**126.46%**	**948,303**	**172.35%**
Capital Contribution	299,665		- -	
Increase in net position	**1,083,666**		**948,303**	
Net Position				
Beginning of year	16,474,738		15,526,435	
End of year	**$17,558,404**		**$16,474,738**	

See notes to financial statements.

Statements of Revenues, Expenses and Changes in Net Assets

Port of Centralia
For the Years Ended December 31, 2011 and 2010

	2011 Balance	Percent of Operating Revenues	2010 Balance	Percent of Operating Revenues
Operating Revenues				
Property rental operations	**$ 550,234**	**100.00%**	**$ 943,557**	**100.00%**
Operating Expenses				
General and administrative	533,155	96.90	481,881	51.07
General operations	47,825	8.69	47,125	4.99
Maintenance	86,769	15.77	76,423	8.10
Depreciation	584,473	106.22	581,849	61.67
Total operating expenses	**1,252,222**	**227.58**	**1,187,278**	**125.83**
Loss from operations	**(701,988)**	**(127.58)**	**(243,721)**	**(25.83)**
Non-Operating Revenues (Expenses)				
Taxes levied for Port operations, net	888,441	161.47	874,812	92.71
Taxies levied for IDD, net	1,073,241	195.05	1,055,206	111.83
Interest income	106	.02	35	- -
Other taxes	270,053	49.08	55,486	5.88
Gain on sale of assets	235	.04	2,657	.28
Interest and bond issue costs	(571,719)	(103.90)	(627,342)	(66.47)
Other expenses	(10,066)	(1.83)	- -	- -
Total non-operating revenues (expenses)	**1,650,291**	**299.93**	**1,360,854**	**144.23**
Increase in net assets	**948,303**	**172.35%**	**1,117,133**	**118.40%**
Net Assets				
Beginning of year	15,526,435		14,409,302	
End of year	**$16,474,738**		**$15,526,435**	

See notes to financial statements.

Statements of Cash Flows

Port of Centralia
For the Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Cash received from customers	$ 759,551	$ 525,023
Cash paid to suppliers	(651,938)	(253,606)
Cash paid to employees	(262,948)	(287,682)
Net cash used in operating activities	**(155,335)**	**(16,265)**
Cash Flows from Non-Capital Financing Activities		
Property tax levy receipts not restricted for capital purposes	1,839,011	1,891,944
Other non-operating revenues, net	106,621	54,231
Net cash provided by non-capital financing activities	**1,945,632**	**1,946,175**
Cash Flows from Capital and Related Financing Activities		
Advances under line of credit, net	630,000	- -
Capital contributions	125,265	299,665
Purchase of capital assets	(2,011,744)	(4,446,823)
Borrowings on long-term debt	234,000	4,325,000
Repayment of long-term debt	(1,019,364)	(705,809)
Interest paid	(617,018)	(527,524)
Net cash used in capital and related financing activities	**(2,658,861)**	**(1,055,491)**
Cash Flow from Investing Activities		
Interest income	**40**	**30**
Net increase (decrease) in cash and cash equivalents	**(868,524)**	**874,449**
Cash and Cash Equivalents		
Beginning of year	903,399	28,950
End of year	**$ 34,875**	**$ 903,399**

(continued)

See notes to financial statements.

Statements of Cash Flows

(concluded)

Port of Centralia
For the Years Ended December 31, 2013 and 2012

	2013	2012
Reconciliation of Loss from Operations to Net Cash Used in Operating Activities		
Loss from operations	**($724,917)**	**($645,859)**
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation and amortization	579,986	583,841
(Increase) decrease in:		
Accounts and property taxes receivable	88,282	(94,893)
Prepaid expenses and other assets	(13,044)	(99)
Increase (decrease) in:		
Accounts payable	(75,142)	136,102
Other accrued expenses	(10,500)	4,643
Total adjustments	**569,582**	**629,594**
Net cash used in operating activities	**($155,335)**	**($ 16,265)**

See notes to financial statements.

Statements of Cash Flows

Port of Centralia
For the Years Ended December 31, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Cash received from customers	$ 525,023	$ 542,468
Cash paid to suppliers	(253,606)	(401,352)
Cash paid to employees	(287,682)	(255,650)
Net cash used in operating activities	**(16,265)**	**(114,534)**
Cash Flows from Non-Capital Financing Activities		
Property tax levy receipts not restricted for capital purposes	1,891,944	1,961,682
Other non-operating revenues, net	54,231	259,988
Net cash provided by non-capital financing activities	**1,946,175**	**2,221,670**
Cash Flows from Capital and Related Financing Activities		
Proceeds from sale of assets	- -	1,050
Net repayments under line of credit	- -	(999,951)
Capital contributions	299,665	- -
Purchase of capital assets	(4,446,823)	(206,815)
Borrowings on long-term debt	4,325,000	- -
Repayment of long-term debt	(705,809)	(729,979)
Interest paid	(527,524)	(559,070)
Net cash used in capital and related financing activities	**(1,055,491)**	**(2,494,765)**
Cash Flow from Investing Activities		
Interest income	**30**	**106**
Net increase (decrease) in cash and cash equivalents	**874,449**	**(387,523)**
Cash and Cash Equivalents		
Beginning of year	28,950	416,473
End of year	**$ 903,399**	**$ 28,950**

(continued)

See notes to financial statements.

Statements of Cash Flows

(concluded)

Port of Centralia
For the Years Ended December 31, 2012 and 2011

	2012	2011
Reconciliation of Loss from Operations to Net Cash Used in Operating Activities		
Loss from operations	**($645,859)**	**($701,988)**
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation and amortization	583,841	584,473
(Increase) decrease in:		
Accounts and property taxes receivable	(94,893)	(7,766)
Prepaid expenses and other assets	(99)	5,057
Increase (decrease) in:		
Accounts payable	136,102	41,280
Other accrued expenses	4,643	(35,590)
Total adjustments	**629,594**	**587,454**
Net cash used in operating activities	**($ 16,265)**	**($114,534)**

See notes to financial statements.

Statements of Cash Flows

Port of Centralia
For the Years Ended December 31, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Cash received from customers	$ 542,468	$ 901,254
Cash paid to suppliers	(401,352)	(350,439)
Cash paid to employees	(255,650)	(227,612)
Net cash provided by (used in) operating activities	**(114,534)**	**323,203**
Cash Flows from Non-Capital Financing Activities		
Property tax levy receipts not restricted for capital purposes	1,961,682	1,930,018
Other non-operating revenues, net	259,988	55,486
Net cash provided by non-capital financing activities	**2,221,670**	**1,985,504**
Cash Flows from Capital and Related Financing Activities		
Proceeds from sale of assets	1,050	7,444
Net repayments under line of credit	(999,951)	(177,949)
Purchase of capital assets	(206,815)	(156,215)
Repayment of long-term debt	(729,979)	(993,385)
Interest paid	(559,070)	(615,414)
Net cash used in capital and related financing activities	**(2,494,765)**	**(1,935,519)**
Cash Flow from Investing Activities		
Interest income	**106**	**35**
Net increase (decrease) in cash and cash equivalents	**(387,523)**	**373,223**
Cash and Cash Equivalents		
Beginning of year	416,473	43,250
End of year	**$ 28,950**	**$ 416,473**

(continued)

See notes to financial statements.

Statements of Cash Flows
(concluded)

Port of Centralia
For the Years Ended December 31, 2011 and 2010

	2011	2010
Reconciliation of Loss from Operations to Net Cash Provided by (Used in) Operating Activities		
Loss from operations	**($701,988)**	**($243,721)**
Adjustments to reconcile loss from operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	584,473	581,849
(Increase) decrease in:		
Accounts and property taxes receivable	(7,766)	(42,303)
Prepaid expenses and other assets	5,057	872
Increase (decrease) in:		
Accounts payable	41,280	16,151
Other accrued expenses	(35,590)	10,355
Total adjustments	**587,454**	**566,924**
Net cash provided by (used in) operating activities	**($114,534)**	**$323,203**
Supplementary Disclosure of Non-Cash Items		
Capital asset additions financed with seller financed loans	$- -	$85,000

See notes to financial statements.

Port of Centralia
December 31, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Port of Centralia (the Port) is a municipal corporation created in 1986 through enabling legislation of the state of Washington by consent of the voters within the Port District which is considered the Centralia School District boundaries. The Port has no stockholders or equity holders, but is for the benefit of its constituency. All revenues or other receipts must be disbursed in accordance with the provisions of various statutes. The accounting and reporting policies of the Port conform to generally accepted accounting principles for local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following summary of the significant accounting policies is presented to assist the reader in interpreting the financial statements.

The Port is a special purpose government, authorized by Washington law to acquire and improve lands for industrial or commercial purposes within the Centralia Port District. The Port's operations are supported primarily through industrial property leases and the tax levy.

The Port is governed by an elected three-member board of commissioners. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. These financial statements present the Port and its component unit. The component unit discussed below is included in the Port's reporting entity because of the significance of its operational and financial relationship with the Port.

Component Unit

In conformity with generally accepted accounting principles, the financial statements of the Industrial Development Corporation (IDC) of the Port have been included in the financial reporting entity as a blended component unit. The IDC, an entity legally separate from the Port, is governed by a three-member board. The members of the Port commission serve ex officio as members of the IDC board of directors. For financial reporting purposes, the IDC is reported as if it were part of the Port's operations because its purpose is aligned with that of the Port. The ending balance of the IDC bank account was $30 at December 31, 2013 and 2012.

Basis of Accounting and Reporting

The financial statements of the Port have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units and the Port is accounted for as a proprietary fund. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Port has chosen to continue to follow accounting standards applicable to private sector entities when those standards do not conflict with applicable GASB standards. The Port is accounted for on a flow of economic resources measurement focus.

(continued)

Port of Centralia
December 31, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies *(continued)*

Basis of Accounting and Reporting *(concluded)*

The accounting records of the Port are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09, Revised Code of Washington. The Port also follows the Uniform System of Accounts for Port Districts in the state of Washington.

The Port uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

Operating and Non-Operating Revenues

Property rents are charges for use of the Port's facilities and buildings and are classified as operating revenues. Funds from tax levies, other miscellaneous taxes and gain on sale of assets are reported as non-operating revenues. General obligation bond principal and interest are paid from ad valorem taxes levied upon real property within the Port District.

Cash and Cash Equivalents

It is the Port's policy to invest all temporary cash surpluses. This amount is classified on the statements of net position as cash and cash equivalents in either the unrestricted or restricted section (see Note 2). For the purposes of the statements of cash flows, the Port considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Receivables

Taxes receivable consist of property taxes (see Note 3). Accounts receivable consist of amounts due from tenants for balances deemed to be fully collectible. Management has determined that no allowance for bad debt is necessary at December 31, 2013 and 2012.

Restricted Assets and Liabilities

In accordance with revenue bond resolutions, separate restricted accounts are required to be established. These accounts contain resources for debt service. The reserve account requirement is the lesser of the maximum annual debt service and 12.5 percent of the average annual debt service, but not more than 10 percent of the proceeds of those bonds. Restricted cash for December 31, 2013 and 2012, was $35. At December 31, 2013 and 2012, there is no longer debt outstanding that requires restricted cash. Management has elected to maintain the remaining balance as restricted to be prepared for future needs.

(continued)

Port of Centralia
December 31, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies *(concluded)*

Capital Assets

Capital assets are stated at cost. The Port's policy is to capitalize all assets equal to or greater than $500 and with an estimated life greater than one year. Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful life using the straight-line method, based on estimated useful lives as follows:

Buildings and improvements	15-40 years
Land improvements	10-40 years
Autos	5-7 years
Equipment and office	3-10 years

The Port has acquired certain capital assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets; however, the Port has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable account. In addition, the Port leases certain real property to tenants.

Bond Issuance Costs

The costs associated with issuing bonds are capitalized and amortized over the lives of the bonds, using the straight-line method. These costs are included in other assets on the accompanying statements of net position.

Risk Management

The Port maintains liability and standard insurance coverage for personal property, automobile, public officials, bonds and equipment (see Note 9).

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The Port records unpaid leave for compensated balances as an expense and liability when incurred. Vacation pay may be accumulated up to 15 days and is payable upon separation or retirement. Sick leave may accumulate up to 90 days. Upon separation or retirement, employees do not receive payment for unused sick leave. The amount of accrued vacation totaled $3,266 and $9,795 at December 31, 2013 and 2012, respectively.

Use of Estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant estimates of the Port include the depreciable life of capital assets. Accordingly, actual results could differ from those estimates.

Prospective Accounting Pronouncement

Statement No. 68, *Financial Reporting for Pension Plans,* revises existing standards of financial reporting for most pension plans. This statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. The standard is effective for fiscal years beginning after June 15, 2013, and the Port has not yet evaluated the impact of adopting this standard on its financial statements.

Port of Centralia
December 31, 2013 and 2012

Note 2 - Cash and Cash Equivalents

Cash and cash equivalents, including liquid investments, at December 31 consist of the following:

	2013 Rate	Amount	2012 Rate	Amount
Unrestricted				
West Coast Bank, General Fund	0.03%	$34,735	0.25%	$903,259
West Coast Bank, IDD Fund	- -	50	- -	50
West Coast Bank, IDC	- -	30	- -	30
West Coast Bank, Money Market Account	- -	25	- -	25
Total		**$34,840**		**$903,364**
Restricted				
West Coast Bank, Money Market Account	**- -%**	**$35**	**- -%**	**$35**

As required by state law, all deposits and investments of the Port's funds are deposits with Washington state banks and savings and loan institutions. Restricted funds are not available until after debt is paid in full. The Port's deposits and money market accounts are entirely covered by the federal depository insurance commission (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Note 3 - Property Taxes

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed at the end of each month to the Port by the county treasurer. A revaluation of all property is required every four years. Property tax calendar:

January 1 - Taxes are levied and become an enforceable lien against properties.
February 14 - Tax bills are mailed.
April 30 - First of two equal installment payments is due.
May 31 - Assessed value of property established for next year's levy at 100 percent of market value.
October 31 - Second installment is due.

No allowance for uncollectible taxes is established, because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal and delinquent taxes are evaluated annually. State law allows for the sale of property for failure to pay taxes.

The Port may levy up to $0.45 per $1,000 of assessed valuation for general governmental services. Washington state Constitution and Washington state law, RCW 84.55.010, limit the rate. The Port may also levy taxes at a lower rate.

The Port's regular levy for 2013 and 2012 was $0.45 and $0.40, respectively, per $1,000. This levy was calculated on an assessed valuation for 2013 and 2012 of $2,044,857,720 and $2,218,579,547, for a total levy of approximately $920,000 and $896,000, respectively. The Port's additional IDD levy for 2013 and 2012 was $0.45 per $1,000. This levy was calculated on an assessed valuation for 2013 and 2012 of $2,044,857,720 and $2,218,579,547, for a total levy of approximately $920,000 and $998,000, respectively.

Port of Centralia
December 31, 2013 and 2012

Note 4 - Capital Assets

Major expenditures for capital assets, including major repairs that increase useful lives, are capitalized. Maintenance, repairs and minor renewals are accounted for as expenses when incurred. All capital assets are valued at historical cost. Capital assets activity for the years ended December 31 is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
December 31, 2013				
Capital assets, not depreciated:				
Land	$15,270,430	$1,295,960	$ - -	$16,566,390
Construction in progress	677,511	804,199	223,561	1,258,149
Total capital assets, not depreciated	**15,947,941**	**2,100,159**	**223,561**	**17,824,539**
Capital assets, depreciated:				
Land improvements	6,376,946	47,137	- -	6,424,083
Buildings and improvements	12,300,473	80,837	- -	12,381,310
Autos, equipment and office	352,588	7,172	- -	359,760
Total capital assets, depreciated	**19,030,007**	**135,146**	**- -**	**19,165,153**
Total accumulated depreciation	6,553,472	579,986		7,133,458
Total capital assets, depreciated, net	**12,476,535**	**(444,840)**	**- -**	**12,031,695**
Total capital assets, net	**$28,424,476**	**$1,655,319**	**$223,561**	**$29,856,234**
December 31, 2012				
Capital assets, not depreciated:				
Land	$12,234,220	$3,048,210	$12,000	$15,270,430
Construction in progress	144,417	548,338	15,244	677,511
Total capital assets, not depreciated	**12,378,637**	**3,596,548**	**27,244**	**15,947,941**
Capital assets, depreciated:				
Land improvements	6,376,946	- -	- -	6,376,946
Buildings and improvements	11,429,646	870,827	- -	12,300,473
Autos, equipment and office	345,895	6,693	- -	352,588
Total capital assets, depreciated	**18,152,487**	**877,520**	**- -**	**19,030,007**
Total accumulated depreciation	5,969,630	583,842	- -	6,553,472
Total capital assets, depreciated, net	**12,182,857**	**293,678**	**- -**	**12,476,535**
Total capital assets, net	**$24,561,494**	**$3,890,226**	**$27,244**	**$28,424,476**

Port of Centralia
December 31, 2013 and 2012

Note 5 - Construction in Progress

The Port has active construction projects as of December 31, 2013. The projects include:

Project	**Construction in Progress**	**Remaining Commitment**
Raisch Rail Line	$ 8,943	$ 350,000
Mahoney Project	30,522	78,000
Moe/Dahl Project	26,850	53,000
IDD No. 3	666,521	750,000
2000 North Park Building Improvements	9,321	75,000
Harrison/Kuper Improvement Project	515,992	25,000
Total construction in progress	**$1,258,149**	**$1,331,000**

The amounts listed under remaining commitment include expenditures that will be covered by a variety of methods, including grants, financing and Port funds.

Certain ongoing projects have been delayed due to lack of current funding required to complete them. Management is continuing to evaluate their options and believes these projects are not impaired at December 31, 2013.

Note 6 - Line of Credit

The Port has available a line of credit with West Coast Bank in which it may borrow up to $1,000,000. There was $630,000 outstanding at December 31, 2013. There were no outstanding borrowings at December 31, 2012. The line bears an interest of 5 percent, and matures March 10, 2014. The line of credit agreement contains a financial covenant which requires the Port to maintain a net revenue to debt service requirement. During the year ended December 31, 2013, there was $1,320,000 in advances for the purpose of land acquisition and planning/development payments and there was $690,000 in repayments. In 2012 there was $945,000 in advances for the purpose of construction in progress payments and there was $945,000 in repayments.

Port of Centralia
December 31, 2013 and 2012

Note 7 - Long-Term Debt

Long-term debt activity during 2013 and 2012 consisted of the following:

Description and Date of Issue	Original Interest Rate	Earliest Year of Call	Last Year of Maturity	December 31, 2012	Advances	Repayments	December 31, 2013
General Obligation Bonds							
1998 Series F	4.75%	N/A	2028	$ 171,056	$- -	($ 7,685)	$ 163,372
1998 Series Gb	4.30-5.25	2009	2018	730,000	- -	(105,000)	625,000
2004 Series Hb	2.20-6.25	N/A	2023	615,000	- -	(40,000)	575,000
				1,516,056	**$- -**	**($152,685)**	**1,363,372**
Less current portion				152,685			163,055
Total long-term general obligation bonds, net of current portion				**$1,363,371**			**$1,200,317**
Other Obligations							
CERB notes	0.00-4.00%	N/A	2012-2026	$ 893,702	$ - -	($ 77,834)	$ 815,868
Bank note	5	N/A	2014	1,545,408	- -	(109,129)	1,436,279
Bank note	4.5	N/A	2022	3,500,000	- -	(289,321)	3,210,679
Other various	7.00-8.00	N/A	2009-2036	4,280,156	234,000	(390,395)	4,123,761
				10,219,266	**$234,000**	**($866,679)**	**9,586,587**
Less current portion				863,725			2,205,436
Total other obligations, net of current portion				**$ 9,355,541**			**$7,381,151**

(continued)

Port of Centralia
December 31, 2013 and 2012

Note 7 - Long-Term Debt *(continued)*

Description and Date of Issue	Original Interest Rate	Earliest Year of Call	Last Year of Maturity	December 31, 2011	Advances	Repayments	December 31, 2012
General Obligation Bonds							
1998 Series F	4.75%	N/A	2028	$ 178,389	$- -	($ 7,333)	$ 171,056
1998 Series Gb	4.30-5.25	2009	2018	830,000	- -	(100,000)	730,000
2004 Series Ha	1.85-4.625	N/A	2012	115,000	- -	(115,000)	- -
2004 Series Hb	2.20-6.25	N/A	2023	655,000	- -	(40,000)	615,000
				1,778,389	**$- -**	**($262,333)**	**1,516,056**
Less current portion				262,334			152,685
Total long-term general obligation bonds, net of current portion				**$1,516,055**			**$1,363,371**
Other Obligations							
CERB notes	0.00-4.00%	N/A	2012-2026	$ 968,569	$ - -	($ 74,867)	$ 893,702
Bank note	5	N/A	2014	1,632,794	- -	(87,386)	1,545,408
Bank note	4.5	N/A	2022	- -	3,500,000	- -	3,500,000
Other various	7.00-8.00	N/A	2009-2036	3,736,379	825,000	(281,223)	4,280,156
				6,337,742	**$4,325,000**	**($443,476)**	**10,219,266**
Less current portion				1,993,036			863,725
Total other obligations, net of current portion				**$4,344,706**			**$ 9,355,541**

The general obligation bonds and related interest are paid from ad valorem tax revenues. The revenue bonds are secured by a pledge of the Port's gross operating revenues and contain a coverage requirement related to maintaining adequate net revenues to support debt service.

(continued)

Port of Centralia
December 31, 2013 and 2012

Note 7 - Long-Term Debt *(concluded)*

Annual Debt Amortization

The annual principal and interest requirements for all debt outstanding as of December 31, 2013, are as follows:

	Principal	Interest	Total
2014	$ 2,368,489	$ 517,158	$ 2,885,647
2015	978,702	449,635	1,428,337
2016	1,037,463	397,139	1,434,602
2017	1,316,456	340,609	1,657,064
2018	900,565	275,152	1,175,717
2019 - 2023	3,333,288	743,328	4,077,090
2024 - 2028	747,328	196,291	943,619
2029 - 2033	162,592	77,248	239,839
2034 - 2036	105,076	10,839	115,922
Total	**$10,949,958**	**$3,007,873**	**$13,957,831**

General Obligation Bonds

Revised Code of Washington (RCW) Chapter 53.36 provides that non-voted general obligation bond debt cannot be incurred in excess of 0.25 percent of the assessed value of the taxable property in the Port District, which was $2,044,857,720 at December 31, 2013. The Port is in compliance with this limitation.

RCW Chapter 53.36 also provides that additional general obligation bond debt can be incurred upon approval by the voters of the Port District.

Note 8 - Pension Plans

Substantially all Port 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 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 GASB Statement 50, *Pension Disclosures, an Amendment of GASB Statement No. 25 and Statement No. 27*.

(continued)

Port of Centralia
December 31, 2013 and 2012

Note 8 - Pension Plans *(continued)*

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; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 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 comprising 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 memberships 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. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS comprises and reports 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 Plan 2/3 defined benefit plan 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 2012, the rate was 5.5 percent, compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

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

(continued)

Port of Centralia
December 31, 2013 and 2012

Note 8 - Pension Plans *(continued)*

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

Plan Description *(continued)*

PERS Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60, with five years of service, or at the age of 55 with 25 years of service. 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.

The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. Plan 1 members may also 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 1 members can receive credit for military service while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

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; 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 the age of 65.

(continued)

Port of Centralia
December 31, 2013 and 2012

Note 8 - Pension Plans *(continued)*

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

Plan Description *(continued)*

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:

- With a benefit that is reduced by 3 percent for each year before the age of 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 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

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. 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 investments are made in the same portfolio as that of the PERS Plan 2/3 defined benefit plan.

For DRS' fiscal year 2013, PERS Plan 3 employee contributions were $99 million and plan refunds paid out were $69.4 million. For DRS' fiscal year 2012, PERS Plan 3 employee contributions were $95.2 million and plan refunds paid out were $66.2 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 the age of 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

(continued)

Port of Centralia
December 31, 2013 and 2012

Note 8 - Pension Plans *(continued)*

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

Plan Description *(continued)*

Vested PERS Plan 3 members are eligible for normal retirement at the age of 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 the age of 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before the age of 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 benefit retirement benefits are also 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 Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions.

PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PERS Plan 2 and Plan 3 members can purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of Department of Labor & Industries.

(continued)

Port of Centralia
December 31, 2013 and 2012

Note 8 - Pension Plans *(continued)*

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

Plan Description *(concluded)*

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

Members who chose to participate would: accrue service credit at the higher multiplier beginning with the date of their election; be subject to the benefit cap of 75 percent of AFC; stop contributing to the Judicial Retirement Account (JRA); pay higher contributions; and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; not be subject to a benefit cap; continue to participate in JRA, if applicable; continue to pay contributions at the regular PERS rate; and never be a participant in the JBM Program.

Newly elected or appointed justices or 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. Members required into the JBM program would: return to prior PERS Plan if membership had previously been established; be mandated into PERS Plan 2 and not have a PERS Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

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 Non-Vested	44,273
Total	**263,347**

(continued)

Port of Centralia
December 31, 2013 and 2012

Note 8 - Pension Plans *(concluded)*

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

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, based on member choice. Two of the options are graduated rates dependent on the employee's age.

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:

Members not participating JBM:

	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 set at 0.16%.
** The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% 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 4.64% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the Plan 3 member.

Both the Port and the employees made the required contributions. The Port's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
2013	$ 91	$13,275	$ 7,177
2012	4,133	17,261	14,224
2011	2,045	7,833	5,577

Port of Centralia
December 31, 2013 and 2012

Note 9 - Risk Management

Washington Government Entity Pool

The Port is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987, pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2013, there are 486 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides “per occurrence” based policies for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk,” blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, electronic data processing equipment, and business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of $100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of $1,000,000.

Members make an annual contribution to fund Enduris. The Port contributed $39,642 and $25,032 in 2013 and 2012, respectively. Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis:

$1,000,000 deductible on liability loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $999,000 on liability loss; $250,000 deductible on property loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $249,000 on property loss. Enduris is responsible for the $4,000 deductible on the boiler and machinery loss.

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

(continued)

Port of Centralia
December 31, 2013 and 2012

Note 9 - Risk Management *(concluded)*

Washington Government Entity Pool *(concluded)*

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house. There was a claim for building damage in 2013 and no claims made in 2012.

A board of directors consisting of seven (7) board members governs Enduris. Its members elect the board and the positions are filled on a rotating basis. The board meets quarterly and is responsible for conducting the business affairs of Enduris.

Note 10 - Major Customers

The Port had four significant customers who accounted for approximately 61 percent and three significant customers who accounted for approximately 53 percent of sales for the years ended December 31, 2013 and 2012, respectively. There were no accounts receivable from these customers for the years ended December 31, 2013 and 2012.

Note 11 - Leases

As a part of its normal operations, the Port leases land and buildings to tenants who intend to utilize the facilities to generate direct benefits within the community. The Port's objective is that lease terms be for a length of time that will assist in ensuring economic stability and a fair return on the value of the facilities being leased. Lease terms, including options for renewal, run from one to ten years. In addition, there are properties that are rented on a month-to-month basis. All leases are accounted for as operating leases.

Assets held for rental and leasing purposes totaled $18,646,108 and $17,321,566 at December 31, 2013 and 2012, respectively. Accumulated depreciation on these assets totaled $3,970,411 and $3,625,622 at December 31, 2013 and 2012, respectively.

Minimum annual rental income for all operating leases, having noncancellable original terms exceeding one year, is as follows:

2014	$ 648,792
2015	514,046
2016	241,824
2017	214,256
2018	192,927
2019-2022	465,267
Total	**$2,277,112**

During the years ended December 31, 2013 and 2012, the Port received $665,127 and $619,916, respectively, under these agreements, which also may contain options to renew.

Port of Centralia
December 31, 2013 and 2012

Note 12 - Conduit Debt

A description of conduit debt issued by the component unit, the IDC of the Port follows:

The IDC has issued conduit debt in the form of non-recourse revenue bonds in order to provide capital financing for specific commercial enterprises. The purpose of these bonds is to facilitate commercial development and expansion within the Port District. Neither the Port nor the IDC have any obligation for the repayment of this debt. The bonds are a direct liability of the commercial enterprises for which the bonds were issued. The aggregate amount of all conduit debt obligations issued by the IDC as of December 31, 2013 and 2012, totals $0.

Note 13 - Subsequent Events

On December 16, 2013, the Washington State Legislature approved a grant from the Department of Ecology to partially fund a storm water project at the Port of Centralia. The grant provides up to $750,000 in eligible costs relating to the project and can be applied retrospectively back to July 1, 2013. As of December 31, 2013, the Port has incurred approximately $58,000 of allowable costs that are eligible for reimbursement under this grant; management will request reimbursement during 2014.

The Port has evaluated subsequent events through February 25, 2014, the date on which the financial statements were available to be issued.

Port of Centralia
December 31, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Port of Centralia (the Port) is a municipal corporation created in 1986 through enabling legislation of the state of Washington by consent of the voters within the Port District which is considered the Centralia School District boundaries. The Port has no stockholders or equity holders, but is for the benefit of its constituency. All revenues or other receipts must be disbursed in accordance with the provisions of various statutes. The accounting and reporting policies of the Port conform to generally accepted accounting principles for local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following summary of the significant accounting policies is presented to assist the reader in interpreting the financial statements.

The Port is a special purpose government, authorized by Washington law to acquire and improve lands for industrial or commercial purposes within the Centralia Port District. The Port's operations are supported primarily through industrial property leases and the tax levy.

The Port is governed by an elected three-member board of commissioners. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. These financial statements present the Port and its component unit. The component unit discussed below is included in the Port's reporting entity because of the significance of its operational and financial relationship with the Port.

Component Unit

In conformity with generally accepted accounting principles, the financial statements of the Industrial Development Corporation (IDC) of the Port have been included in the financial reporting entity as a blended component unit. The IDC, an entity legally separate from the Port, is governed by a three-member board. The members of the Port commission serve ex officio as members of the IDC board of directors. For financial reporting purposes, the IDC is reported as if it were part of the Port's operations because its purpose is aligned with that of the Port. The ending balance of the IDC bank account was $30 at December 31, 2012 and 2011.

Basis of Accounting and Reporting

The financial statements of the Port have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units and the Port is accounted for as a proprietary fund. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Port has chosen to continue to follow accounting standards applicable to private sector entities when those standards do not conflict with applicable GASB standards. The Port is accounted for on a flow of economic resources measurement focus.

(continued)

Port of Centralia
December 31, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies *(continued)*

Basis of Accounting and Reporting *(concluded)*

The accounting records of the Port are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09, Revised Code of Washington. The Port also follows the Uniform System of Accounts for Port Districts in the state of Washington.

The Port uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred regardless of the timing of the related cash flows.

Operating and Non-Operating Revenues

Property rents are charges for use of the Port's facilities and buildings and are classified as operating revenues. Funds from tax levies, other miscellaneous taxes and gain on sale of assets are reported as non-operating revenues. General obligation bond principal and interest are paid from ad valorem taxes levied upon real property within the Port District.

Cash and Cash Equivalents

It is the Port's policy to invest all temporary cash surpluses. This amount is classified on the statements of net position as cash and cash equivalents in either the unrestricted or restricted section (see Note 2). For the purposes of the statements of cash flows, the Port considers all highly liquid investments with original maturity of three months or less to be cash equivalents.

Receivables

Taxes receivable consist of property taxes (see Note 3). Accounts receivable consist of amounts due from tenants for balances deemed to be fully collectible. Management has determined that no allowance for bad debt is necessary at December 31, 2012 and 2011.

Restricted Assets and Liabilities

In accordance with revenue bond resolutions, separate restricted accounts are required to be established. These accounts contain resources for debt service. The reserve account requirement is the lesser of the maximum annual debt service and 12.5 percent of the average annual debt service, but not more than 10 percent of the proceeds of those bonds. Restricted cash for December 31, 2012 and 2011, was $35. At December 31, 2012 and 2011, there is no longer debt outstanding that requires restricted cash. Management has elected to maintain the remaining balance as restricted to be prepared for future needs.

(continued)

Port of Centralia
December 31, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies *(continued)*

Capital Assets

Capital assets are stated at cost. The Port's policy is to capitalize all assets equal to or greater than $500 and with an estimated life greater than one year. Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful life using the straight-line method, based on estimated useful lives as follows:

Buildings and improvements	15-40 years
Land improvements	10-40 years
Autos	5-7 years
Equipment and office	3-10 years

The Port has acquired certain capital assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets; however, the Port has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable account. In addition, the Port leases certain real property to tenants.

Bond Issuance Costs

The costs associated with issuing bonds are capitalized and amortized over the lives of the bonds, using the straight-line method. These costs are included in other assets on the accompanying statements of net position.

Risk Management

The Port maintains liability and standard insurance coverage for personal property, automobile, public officials, bonds and equipment (see Note 9).

Compensated Absences

Compensated absences are absences for which employees will be paid such as vacation and sick leave. The Port records unpaid leave for compensated balances as an expense and liability when incurred. Vacation pay may be accumulated up to 15 days and is payable upon separation or retirement. Sick leave may accumulate up to 90 days. Upon separation or retirement, employees do not receive payment for unused sick leave. The amount of accrued vacation totaled $9,795 and $8,691 at December 31, 2012 and 2011, respectively.

Use of Estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant estimates of the Port include the depreciable life of capital assets. Accordingly, actual results could differ from those estimates.

(continued)

Port of Centralia
December 31, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies *(concluded)*

Recent Accounting Pronouncements

In March 2012, GASB issued *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The guidance is effective for years beginning after December 15, 2012. The Port has not elected early adoption of this guidance in current year.

In June 2011, GASB issued *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to standardize the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. The provisions of the guidance will change where the deferred outflows and deferred inflows are presented on the statements of net position. The guidance is effective for years beginning after December 15, 2011. The Port adopted this guidance in the current year with no material impact on the financial position and results of operations. The required disclosures are presented on the statements of net position.

Note 2 - Cash and Cash Equivalents

Cash and cash equivalents, including liquid investments, at December 31 consist of the following:

	2012 **Rate**	**Amount**	2011 **Rate**	**Amount**
Unrestricted				
West Coast Bank, General Fund	.25%	$903,259	.25%	$28,810
West Coast Bank, IDD Fund	- -	50	- -	50
West Coast Bank, IDC	- -	30	- -	30
West Coast Bank, Money Market Account	- -	25	- -	25
Totals		**$903,364**		**$28,915**
Restricted				
West Coast Bank, Money Market Account	**- -%**	**$35**	**- -%**	**$35**

As required by state law, all deposits and investments of the Port's funds are deposits with Washington state banks and savings and loan institutions. Restricted funds are not available until after debt is paid in full. The Port's deposits and money market accounts are entirely covered by the federal depository insurance commission (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Port of Centralia
December 31, 2012 and 2011

Note 3 - Property Taxes

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed at the end of each month to the Port by the county treasurer. A revaluation of all property is required every four years. Property tax calendar:

January 1 - Taxes are levied and become an enforceable lien against properties.
February 14 - Tax bills are mailed.
April 30 - First of two equal installment payments is due.
May 31 - Assessed value of property established for next year's levy at 100 percent of market value.
October 31 - Second installment is due.

No allowance for uncollectible taxes is established, because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal and delinquent taxes are evaluated annually. State law allows for the sale of property for failure to pay taxes.

The Port may levy up to $0.45 per $1,000 of assessed valuation for general governmental services. Washington state Constitution and Washington state law, RCW 84.55.010, limit the rate. The Port may also levy taxes at a lower rate.

The Port's regular levy for 2012 and 2011 was $0.40 and $0.37, respectively, per $1,000. This levy was calculated on an assessed valuation for 2012 and 2011 of $2,218,579,547 and $2,401,871,899 for a total levy of approximately $896,000 and $889,000, respectively.

The Port's additional IDD levy for 2012 and 2011 was $0.45 per $1,000. This levy was calculated on an assessed valuation for 2012 and 2011 of $2,218,579,547 and $2,401,871,899 for a total levy of approximately $998,000 and $1,074,000, respectively.

Note 4 - Capital Assets

Major expenditures for capital assets, including major repairs that increase useful lives, are capitalized. Maintenance, repairs and minor renewals are accounted for as expenses when incurred. All capital assets are valued at historical cost. Capital assets activity for the years ended December 31 is as follows:

	Beginning Balance	**Increase**	**Decrease**	**Ending Balance**
December 31, 2012				
Capital assets, not depreciated:				
Land	$12,234,220	$3,048,210	$12,000	$15,270,430
Construction in progress	144,417	548,338	15,244	677,511
Total capital assets, not depreciated	**12,378,637**	**3,596,548**	**27,244**	**15,947,941**

(continued)

Port of Centralia
December 31, 2012 and 2011

Note 4 - Capital Assets *(concluded)*

	Beginning Balance	Increase	Decrease	Ending Balance
December 31, 2012 *(concluded)*				
Capital assets, depreciated:				
Land improvements	$ 6,376,946	$ - -	$ - -	$ 6,376,946
Buildings and improvements	11,429,646	870,827	- -	12,300,473
Autos, equipment and office	345,895	6,693	- -	352,588
Total capital assets, depreciated	**18,152,487**	**877,520**	**- -**	**19,030,007**
Total accumulated depreciation	5,969,630	583,842	- -	6,553,472
Total capital assets, depreciated, net	**12,182,857**	**293,678**	**- -**	**12,476,535**
Total capital assets, net	**$24,561,494**	**$3,890,226**	**$27,244**	**$28,424,476**
December 31, 2011				
Capital assets, not depreciated:				
Land	$12,224,823	$ 9,397	$ - -	$12,234,220
Construction in progress	68,402	76,015	- -	144,417
Total capital assets, not depreciated	**12,293,225**	**85,412**	**- -**	**12,378,637**
Capital assets, depreciated:				
Land improvements	6,376,946	- -	- -	6,376,946
Buildings and improvements	11,315,831	113,815	- -	11,429,646
Autos, equipment and office	340,158	7,588	1,851	345,895
Total capital assets, depreciated	**18,032,935**	**121,403**	**1,851**	**18,152,487**
Total accumulated depreciation	5,386,193	584,473	1,036	5,969,630
Total capital assets, depreciated, net	**12,646,742**	**(463,070)**	**815**	**12,182,857**
Total capital assets, net	**$24,939,967**	**($377,658)**	**$ 815**	**$24,561,494**

Port of Centralia
December 31, 2012 and 2011

Note 5 - Construction in Progress

The Port has active construction projects as of December 31, 2012. The projects include:

Project	Construction in Progress	Remaining Commitment
Gallagher Road Improvements	$ 47,137	$ 150,000
Raisch Rail Line	8,943	350,000
Mahoney Project	29,639	78,000
Moe/Dahl Project	26,850	53,000
IDD No. 3	175,106	- -
Kuper/Harrison Intersection Improvements	380,515	40,000
2000 North Park Building Improvements	9,321	75,000
Total construction in progress	**$677,511**	**$746,000**

The amounts listed under remaining commitment include expenditures that will be covered by a variety of methods, including grants, financing and Port funds.

Certain ongoing projects have been delayed due to lack of current funding required to complete them. Management is continuing to evaluate their options and believes these projects are not impaired at December 31, 2012.

Note 6 - Line of Credit

The Port has available a line of credit with West Coast Bank in which it may borrow up to $1,000,000. There were no outstanding borrowings at December 31, 2012 and 2011. The line bears an interest of 5 percent, and matures March 10, 2014. The line of credit agreement contains a financial covenant which requires the Port to maintain a net revenue to debt service requirement. During the year ended December 31, 2012, there were $945,000 in advances for the purpose of construction in progress payments and there were $945,000 in repayments. In 2011, there were $60,000 in advances and there were $1,059,951 in repayments on this line.

Port of Centralia
December 31, 2012 and 2011

Note 7 - Long-Term Debt

Long-term debt activity during 2012 and 2011 consisted of the following:

Description and Date of Issue	Original Interest Rate	Earliest Year of Call	Last Year of Maturity	December 31, 2011	Advances	Repayments	December 31, 2012
General Obligation Bonds							
1998 Series F	4.75%	N/A	2028	$ 178,389	$ - -	($ 7,333)	$ 171,056
1998 Series Gb	4.30-5.25	2009	2018	830,000	- -	(100,000)	730,000
2004 Series Ha	1.85-4.625	N/A	2012	115,000	- -	(115,000)	- -
2004 Series Hb	2.20-6.25	N/A	2023	655,000	- -	(40,000)	615,000
				1,778,389		**($262,333)**	**1,516,056**
Less current portion				262,334			152,685
Total long-term general obligation bonds, net of current portion				**$1,516,055**			**$1,363,371**
Other Obligations							
CERB notes	0.00-4.00%	N/A	2012-2026	$ 968,569	$ - -	($ 74,867)	$ 893,702
WCB note	5	N/A	2014	1,632,794	- -	(87,386)	1,545,408
WCB note	4.5	N/A	2022	- -	3,500,000	- -	3,500,000
Other various	7.00-8.00	N/A	2009-2036	3,736,379	825,000	(281,223)	4,280,156
				6,337,742	**$4,325,000**	**($443,476)**	**10,219,266**
Less current portion				1,993,036			863,725
Total other obligations, net of current portion				**$4,344,706**			**$ 9,355,541**

(continued)

Port of Centralia
December 31, 2012 and 2011

Note 7 - Long-Term Debt *(continued)*

Description and Date of Issue	Original Interest Rate	Earliest Year of Call	Last Year of Maturity	December 31, 2010	Advances	Repayments	December 31, 2011
General Obligation Bonds							
1998 Series F	4.75%	N/A	2028	$ 185,385	$ - -	($ 6,996)	$ 178,389
1998 Series Gb	4.30-5.25	2009	2018	925,000	- -	(95,000)	830,000
2004 Series Ha	1.85-4.625	N/A	2012	220,000	- -	(105,000)	115,000
2004 Series Hb	2.20-6.25	N/A	2023	690,000	- -	(35,000)	655,000
				2,020,385		**($241,996)**	**1,778,389**
Less current portion				241,996			262,334
Total long-term general obligation bonds, net of current portion				**$1,778,389**			**$1,516,055**
Other Obligations							
CERB notes	0.00-4.00%	N/A	2012-2026	$1,041,458	$ - -	($ 72,889)	$ 968,569
WCB note	6.5	N/A	2012	1,713,683	- -	(80,889)	1,632,794
Other various	7.00-8.00	N/A	2009-2036	4,070,584	- -	(334,205)	3,736,379
				6,825,725		**($487,983)**	**6,337,742**
Less current portion				488,661			1,993,036
Total other obligations, net of current portion				**$6,337,064**			**$4,344,706**

The general obligation bonds and related interest are paid from ad valorem tax revenues. The revenue bonds are secured by a pledge of the Port's gross operating revenues and contain a coverage requirement related to maintaining adequate net revenues to support debt service.

(continued)

Port of Centralia
December 31, 2012 and 2011

Note 7 - Long-Term Debt *(concluded)*

Annual Debt Amortization

The annual principal and interest requirements for all debt outstanding as of December 31, 2012, are as follows:

	Principal	Interest	Total
2013	$ 1,016,410	$ 602,293	$ 1,618,703
2014	2,349,833	504,238	2,854,071
2015	959,479	437,800	1,397,279
2016	1,017,088	386,516	1,403,604
2017	1,294,855	331,151	1,626,006
2018 - 2022	3,818,620	916,169	4,734,789
2023 - 2027	980,688	249,926	1,230,614
2028 - 2032	157,750	89,889	247,639
2033 - 2037	142,982	20,908	163,890
Total	**$11,737,705**	**$3,538,890**	**$15,276,595**

General Obligation Bonds

Revised Code of Washington (RCW) Chapter 53.36 provides that non-voted general obligation bond debt cannot be incurred in excess of 0.25 percent of the assessed value of the taxable property in the Port District, which was $2,218,579,547 at December 31, 2012. The Port is in compliance with this limitation.

RCW Chapter 53.36 also provides that additional general obligation bond debt can be incurred upon approval by the voters of the Port District.

Note 8 - Pension Plans

Substantially all Port 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 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 the GASB statement 27, *Accounting for Pensions by State and Local Government Employers* and the GASB Statement 50*, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

(continued)

Port of Centralia
December 31, 2012 and 2011

Note 8 - Pension Plans *(continued)*

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; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 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. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

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 Plan 2/3 defined benefit plan 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 2012, 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 upon separation from PERS-covered employment.

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

(continued)

Port of Centralia
December 31, 2012 and 2011

Note 8 - Pension Plans *(continued)*

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

Plan Description *(continued)*

PERS Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. 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.

The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. Plan 1 members may also 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 1 members can receive credit for military service while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit of the lump sum of contributions plus interest.

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; 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 the age of 65.

(continued)

Port of Centralia
December 31, 2012 and 2011

Note 8 - Pension Plans *(continued)*

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

Plan Description *(continued)*

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:

- With a benefit that is reduced by 3 percent for each year before the age of 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 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

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. 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 investments are made in the same portfolio as that of the PERS Plan 2/3 defined benefit plan.

For DRS' fiscal year 2012, PERS Plan 3 employee contributions were $95.2 million, and plan refunds paid out were $66.2 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 PERS Plan 3 provides the same cost-of-living allowance as PERS 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 the age of 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

(continued)

Port of Centralia
December 31, 2012 and 2011

Note 8 - Pension Plans *(continued)*

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

Plan Description *(continued)*

Vested PERS Plan 3 members are eligible for normal retirement at the age of 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 the age of 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before the age of 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 benefit retirement benefits are also 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. PERS Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For PERS 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 Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions.

PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PERS Plan 2 and Plan 3 members can purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of Department of Labor & Industries.

(continued)

Port of Centralia
December 31, 2012 and 2011

Note 8 - Pension Plans *(continued)*

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

Plan Description *(concluded)*

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

Members who chose to participate would: accrue service credit at the higher multiplier beginning with the date of their election; be subject to the benefit cap of 75 percent of AFC; stop contributing to the Judicial Retirement Account (JRA); pay higher contributions; and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; not be subject to a benefit cap; continue to participate in JRA, if applicable; continue to pay contributions at the regular PERS rate; and never be a participant in the JBM Program.

Newly elected or appointed justices or 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. Members required into the JBM program would: return to prior PERS Plan if membership had previously been established; be mandated into PERS Plan 2 and not have a PERS Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Non Vested	46,839
Total	**261,705**

(continued)

Port of Centralia
December 31, 2012 and 2011

Note 8 - Pension Plans *(concluded)*

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

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 PERS 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 PERS Plan 2 and the employer contribution rate for PERS Plan 3 are developed by the Office of the State Actuary to fully fund PERS Plan 2 and the defined benefit portion of PERS 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 PERS Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age.

As a result of the implementation of the JBM 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, 2012, are as follows:

Members not participating JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.21%**	7.21%**	7.21%***
Employee	6.00%****	4.64%****	*****

* The employer rates include the employer administrative expense fee of 0.16%
** The employer rate for state elected officials is 7.21% for Plan 1, Plan 2 and Plan 3
*** Plan 3 defined benefit portion only
**** The employee rate for state elected officials is 6.00% for Plan 1 and 4.64% for Plan 2
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the Plan 3 member

Both the Port and the employees made the required contributions. The Port's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	4,133	17,261	14,224
2011	2,045	7,833	5,577
2010	1,756	5,071	4,146

Port of Centralia
December 31, 2012 and 2011

Note 9 - Risk Management

Washington Government Entity Pool

The Port is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987, pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2012, there are 477 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides “per occurrence” based policies for all lines of liability coverage, including Public Official’s Liability. The property coverage is written on an “all risk”, blanket basis form using current Statement of Values. The property coverage includes but is not limited to mobile equipment, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of $100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of $1,000,000.

Members make an annual contribution to fund Enduris. The Port contributed $25,032 and $24,316 in 2012 and 2011, respectively. Enduris acquires insurance from unrelated insurance companies on a “per occurrence” basis:

- $1,000,000 deductible on liability loss **-** the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $999,000 on liability loss
- $250,000 deductible on property loss **-** the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $249,000 on property loss
- Enduris is responsible for the $4,000 deductible on the boiler and machinery loss

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

(continued)

Port of Centralia
December 31, 2012 and 2011

Note 9 - Risk Management *(concluded)*

Washington Government Entity Pool *(concluded)*

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house. There were no claims filed by the Port in 2012 and 2011.

Board of directors consisting of seven (7) board members governs Enduris. Its members elect the board and the positions are filled on a rotating basis. The board meets quarterly and is responsible for conducting the business affairs of Enduris.

Note 10 - Major Customers

The Port had three significant customers which accounted for approximately 53 percent and four significant customers which accounted for approximately 70 percent of sales for the years ended December 31, 2012 and 2011, respectively. There were no accounts receivable from these customers for the years ended December 31, 2012 and 2011.

Note 11 - Leases

As a part of its normal operations, the Port leases land and buildings to tenants who intend to utilize the facilities to generate direct benefits within the community. The Port's objective is that lease terms be for a length of time that will assist in ensuring economic stability and a fair return on the value of the facilities being leased. Lease terms, including options for renewal, run from one to ten years. In addition, there are properties that are rented on a month-to-month basis. All leases are accounted for as operating leases.

Assets held for rental and leasing purposes totaled $17,321,566 and $16,347,563 at December 31, 2012 and 2011, respectively. Accumulated depreciation on these assets totaled $3,625,622 and $3,295,295 at December 31, 2012 and 2011, respectively.

Minimum annual rental income for all operating leases having noncancellable original terms exceeding one year are as follows:

2013	$ 475,767
2014	453,918
2015	316,055
2016	36,167
2017	15,674
2018 - 2022	68,167
Total	**$1,365,748**

During the years ended December 31, 2012 and 2011, the Port received $619,916 and $550,234, respectively, under these agreements, which also may contain options to renew.

Port of Centralia
December 31, 2012 and 2011

Note 12 - Conduit Debt

A description of conduit debt issued by the component unit, the IDC of the Port follows:

The IDC has issued conduit debt in the form of non-recourse revenue bonds in order to provide capital financing for specific commercial enterprises. The purpose of these bonds is to facilitate commercial development and expansion within the Port District. Neither the Port nor the IDC have any obligation for the repayment of this debt. The bonds are a direct liability of the commercial enterprises for which the bonds were issued. The aggregate amount of all conduit debt obligations issued by the IDC as of December 31, 2012 and 2011, totals $0.

Note 13 - Subsequent Events

The Port has evaluated subsequent events through March 22, 2013, the date on which the financial statements were available to be issued.

The Port has signed two Purchase and Sale Agreements for two and half acres for $279,000.

Port of Centralia
December 31, 2011 and 2010

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Port of Centralia (the Port) is a municipal corporation created in 1986 through enabling legislation of the state of Washington by consent of the voters within the Port District which is considered the Centralia School District boundaries. The Port has no stockholders or equity holders, but is for the benefit of its constituency. All revenues or other receipts must be disbursed in accordance with the provisions of various statutes. The accounting and reporting policies of the Port conform to generally accepted accounting principles for local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following summary of the significant accounting policies is presented to assist the reader in interpreting the financial statements.

The Port is a special purpose government, authorized by Washington law to acquire and improve lands for industrial or commercial purposes within the Centralia Port District. The Port's operations are supported primarily through industrial property leases and the tax levy.

The Port is governed by an elected three-member board of commissioners. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. These financial statements present the Port and its component unit. The component unit discussed below is included in the Port's reporting entity because of the significance of its operational and financial relationship with the Port.

Component Unit

In conformity with generally accepted accounting principles, the financial statements of the Industrial Development Corporation (IDC) of the Port have been included in the financial reporting entity as a blended component unit. The IDC, an entity legally separate from the Port, is governed by a three-member board. The members of the Port commission serve ex officio as members of the IDC board of directors. For financial reporting purposes, the IDC is reported as if it were part of the Port's operations because its purpose is aligned with that of the Port. The ending balance of the IDC bank account was $30 and $30 at December 31, 2011 and 2010, respectively.

Basis of Accounting and Reporting

The financial statements of the Port have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units and the Port is accounted for as a proprietary fund. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Port has chosen to continue to follow accounting standards applicable to private sector entities when those standards do not conflict with applicable GASB standards. The Port is accounted for on a flow of economic resources measurement focus.

(continued)

Port of Centralia
December 31, 2011 and 2010

Note 1 - Summary of Significant Accounting Policies *(continued)*

Basis of Accounting and Reporting *(concluded)*

The accounting records of the Port are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09, Revised Code of Washington. The Port also follows the Uniform System of Accounts for Port Districts in the state of Washington.

The Port uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred regardless of the timing of the related cash flows.

Operating and Non-Operating Revenues

Property rents are charges for use of the Port's facilities and buildings and are classified as operating revenues. Funds from tax levies, other miscellaneous taxes and gain on sale of assets are reported as non-operating revenues. General obligation bond principal and interest are paid from ad valorem taxes levied upon real property within the Port District.

Cash and Cash Equivalents

It is the Port's policy to invest all temporary cash surpluses. This amount is classified on the statements of net assets as cash and cash equivalents in either the unrestricted or restricted section (see Note 2). For the purposes of the statements of cash flows, the Port considers all highly liquid investments with original maturity of three months or less to be cash equivalents.

Receivables

Taxes receivable consist of property taxes (see Note 3). Accounts receivable consist of amounts due from tenants for balances deemed to be fully collectible. Management has determined that no allowance for bad debt is necessary at December 31, 2011 and 2010.

Restricted Assets and Liabilities

In accordance with grant awards and revenue bond resolutions, separate restricted accounts are required to be established. These accounts contain resources for debt service. The reserve account requirement is the lesser of the maximum annual debt service and 12.5 percent of the average annual debt service, but not more than 10 percent of the proceeds of those bonds. Restricted cash for December 31, 2011 and 2010, was $35 and $35, respectively. At December 31, 2011 and 2010, there is no longer debt outstanding that requires restricted cash. Management has elected to maintain the remaining balance as restricted to be prepared for future needs.

(continued)

Port of Centralia
December 31, 2011 and 2010

Note 1 - Summary of Significant Accounting Policies *(concluded)*

Capital Assets

Capital assets are stated at cost. The Port's policy is to capitalize all assets equal to or greater than $500 and with an estimated life greater than one year. Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful life using the straight-line method, based on estimated useful lives as follows:

Buildings and improvements	15-40 years
Land improvements	10-40 years
Autos	5-7 years
Equipment and office	3-10 years

The Port has acquired certain capital assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets; however, the Port has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable account. In addition, the Port leases certain real property to tenants.

Bond Issuance Costs

The costs associated with issuing bonds are capitalized and amortized over the lives of the bonds, using the straight-line method. These costs are included in other assets on the accompanying statements of net assets.

Risk Management

The Port maintains liability and standard insurance coverage for personal property, automobile, public officials, bonds and equipment (see Note 9).

Compensated Absences

Compensated absences are absences for which employees will be paid such as vacation and sick leave. The Port records unpaid leave for compensated balances as an expense and liability when incurred. Vacation pay may be accumulated up to 15 days and is payable upon separation or retirement. Sick leave may accumulate up to 90 days. Upon separation or retirement, employees do not receive payment for unused sick leave. The amount of accrued vacation totaled $8,691 and $5,900 at December 31, 2011 and 2010, respectively.

Use of Estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant estimates of the Port include the depreciable life of capital assets. Accordingly, actual results could differ from those estimates.

Port of Centralia
December 31, 2011 and 2010

Note 2 - Cash and Cash Equivalents

Cash and cash equivalents, including liquid investments, at December 31 consist of the following:

	2011 Rate	Amount	2010 Rate	Amount
Unrestricted				
West Coast Bank, General Fund	.25%	$28,810	.45%	$416,332
West Coast Bank, IDD Fund	- -	50	- -	50
West Coast Bank, IDC	- -	30	.05	30
West Coast Bank, Money Market Account	- -	25	.50	26
Totals		**$28,915**		**$416,438**
Restricted				
West Coast Bank, Money Market Account	- -	**$35**	.15%	**$35**

As required by state law, all deposits and investments of the Port's funds are deposits with Washington state banks and savings and loan institutions. Restricted funds are not available until after debt is paid in full. The Port's deposits and money market accounts are entirely covered by the federal depository insurance commission (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Note 3 - Property Taxes

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed at the end of each month to the Port by the county treasurer. A revaluation of all property is required every four years. Property tax calendar:

January 1 - Taxes are levied and become an enforceable lien against properties.
February 14 - Tax bills are mailed.
April 30 - First of two equal installment payments is due.
May 31 - Assessed value of property established for next year's levy at 100 percent of market value.
October 31 - Second installment is due.

No allowance for uncollectible taxes is established, because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal and delinquent taxes are evaluated annually. State law allows for the sale of property for failure to pay taxes.

(continued)

Port of Centralia
December 31, 2011 and 2010

Note 3 - Property Taxes *(concluded)*

The Port may levy up to $0.45 per $1,000 of assessed valuation for general governmental services. Washington state Constitution and Washington state law, RCW 84.55.010, limit the rate. The Port may also levy taxes at a lower rate.

The Port's regular levy for 2011 and 2010 was $0.37 per $1,000. This levy was calculated on an assessed valuation for 2011 and 2010 of $2,401,871,899 and $2,345,041,957 for a total levy of approximately $889,000 and $875,000, respectively.

The Port's additional IDD levy for 2011 and 2010 was $0.45 per $1,000. This levy was calculated on an assessed valuation for 2011 and 2010 of $2,401,871,899 and $2,345,041,957 for a total levy of approximately $1,074,000 and $1,055,000, respectively.

Note 4 - Capital Assets

Major expenditures for capital assets, including major repairs that increase useful lives, are capitalized. Maintenance, repairs and minor renewals are accounted for as expenses when incurred. All capital assets are valued at historical cost. Capital assets activity for the years ended December 31 is as follows:

	Beginning Balance	**Increase**	**Decrease**	**Ending Balance**
December 31, 2011				
Capital assets, not depreciated:				
Land	$12,224,823	$ 9,397	$ - -	$12,234,220
Construction in progress	68,402	76,015	- -	144,417
Total capital assets, not depreciated	**12,293,225**	**85,412**	**- -**	**12,378,637**
Capital assets, depreciated:				
Land improvements	6,376,946	- -	- -	6,376,946
Buildings and improvements	11,315,831	113,815	- -	11,429,646
Autos, equipment and office	340,158	7,588	1,851	345,895
Total capital assets, depreciated	**18,032,935**	**121,403**	**1,851**	**18,152,487**
Total accumulated depreciation	5,386,193	584,473	1,036	5,969,630
Total capital assets, depreciated, net	**12,646,742**	**(463,070)**	**815**	**12,182,857**
Total capital assets, net	**$24,939,967**	**($377,658)**	**$ 815**	**$24,561,494**

(continued)

Port of Centralia
December 31, 2011 and 2010

Note 4 - Capital Assets *(concluded)*

	Beginning Balance	Increase	Decrease	Ending Balance
December 31, 2010				
Capital assets, not depreciated:				
Land	$12,079,133	$145,690	$ - -	$12,224,823
Construction in progress	54,688	13,714	- -	68,402
Total capital assets, not depreciated	**12,133,821**	**159,404**	**- -**	**12,293,225**
Capital assets, depreciated:				
Land improvements	6,364,008	12,938	- -	6,376,946
Buildings and improvements	11,250,889	64,942	- -	11,315,831
Autos, equipment and office	359,986	3,930	23,758	340,158
Total capital assets, depreciated	**17,974,883**	**81,810**	**23,758**	**18,032,935**
Total accumulated depreciation	4,823,315	581,848	18,970	5,386,193
Total capital assets, depreciated, net	**13,151,568**	**(500,038)**	**4,788**	**12,646,742**
Total capital assets, net	**$25,285,389**	**($340,634)**	**$ 4,788**	**$24,939,967**

Note 5 - Construction in Progress

The Port has active construction projects as of December 31, 2011. The projects include:

Project	**Construction in Progress**	**Remaining Commitment**
Gallagher Road Improvements	$ 47,137	$ 150,000
Raisch Rail Line	8,943	350,000
Mahoney Project	17,349	78,000
Moe/Dahl Project	26,005	53,000
Land Acquisition	11,017	0
Kuper/Harrison Intersection Improvements	24,645	700,000
2000 North Park Building Improvements	9,321	75,000
Total construction in progress	**$144,417**	**$1,406,000**

The amounts listed under remaining commitment include expenditures that will be covered by a variety of methods, including grants, financing and Port funds.

Certain ongoing projects have been delayed due to lack of current funding required to complete them. Management is continuing to evaluate their options and believes these projects are not impaired at December 31, 2011.

Port of Centralia
December 31, 2011 and 2010

Note 6 - Line of Credit

The Port has available a line of credit with West Coast Bank in which it may borrow up to $1,000,000. Outstanding borrowings totaled $0 and $999,951 at December 31, 2011 and 2010, respectively. The line bears an interest of 6.5 percent, and matures August 10, 2012. The line of credit agreement contains a financial covenant which requires the Port to maintain a net revenue to debt service requirement. During the year ended December 31, 2011, there were $60,000 in advances for the purpose of construction in progress payments and there were $1,059,951 in repayments. In 2010, there were $539,576 in advances and there were $717,525 in repayments on this line.

Note 7 - Long-Term Debt

Long-term debt activity during 2011 and 2010 consisted of the following:

Description and Date of Issue	Original Interest Rate	Earliest Year of Call	Last Year of Maturity	December 31, 2010	Advances	Repayments	December 31, 2011
General Obligation Bonds							
1998 Series F	4.75%	N/A	2028	$ 185,385	$ - -	($ 6,996)	$ 178,389
1998 Series Gb	4.30-5.25	2009	2018	925,000	- -	(95,000)	830,000
2004 Series Ha	1.85-4.625	N/A	2012	220,000	- -	(105,000)	115,000
2004 Series Hb	2.20-6.25	N/A	2023	690,000	- -	(35,000)	655,000
				2,020,385		**($241,996)**	**1,778,389**
Less current portion				241,996			262,334
Total long-term general obligation bonds, net of current portion				**$1,778,389**			**$1,516,055**
Other Obligations							
CERB notes	0.00-4.00%	N/A	2012-2026	$1,041,458	$ - -	($ 72,889)	$ 968,569
WCB note	6.5	N/A	2012	1,713,683	- -	(80,889)	1,632,794
Other various	7.00-8.00	N/A	2009-2036	4,070,584	- -	(334,205)	3,736,379
				6,825,725		**($487,983)**	**6,337,742**
Less current portion				488,661			1,993,036
Total other obligations, net of current portion				**$6,337,064**			**$4,344,706**

(continued)

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Port of Centralia
December 31, 2011 and 2010

Note 7 - Long-Term Debt *(continued)*

Description and Date of Issue	Original Interest Rate	Earliest Year of Call	Last Year of Maturity	December 31, 2009	Advances	Repayments	December 31, 2010
General Obligation Bonds							
1998 Series F	4.75%	N/A	2028	$ 192,060	$- -	($ 6,675)	$ 185,385
1998 Series Gb	4.30-5.25	2009	2018	1,015,000	- -	(90,000)	925,000
2004 Series Ha	1.85-4.625	N/A	2012	360,000	- -	(140,000)	220,000
2004 Series Hb	2.20-6.25	N/A	2023	725,000	- -	(35,000)	690,000
				2,292,060	**$- -**	**($271,675)**	**2,020,385**
Less current portion				271,675			241,996
Total long-term general obligation bonds, net of current portion				**$2,020,385**			**$1,778,389**
Revenue Bonds							
1995 Bond D	4.70-6.125%	2003	2010	$115,000	$- -	($115,000)	$- -
1995 Bond E	4.30-5.8	2006	2010	90,000	- -	(90,000)	- -
				205,000	**$- -**	**($205,000)**	**- -**
Less current portion				205,000			- -
Total long-term revenue bonds, net of current portion				**$ - -**			**$- -**
Other Obligations							
CERB notes	0.00-4.00%	N/A	2012-2026	$1,112,444	$ - -	($ 70,986)	$1,041,458
WCB note	7.125	N/A	2014	1,791,078		(77,395)	1,713,683
Other various	7.00-8.00	N/A	2009-2036	4,353,913	85,000	(368,329)	4,070,584
				7,257,435	**$85,000**	**($516,710)**	**6,825,725**
Less current portion				508,806			488,661
Total other obligations, net of current portion				**$6,748,629**			**$6,337,064**

The general obligation bonds and related interest are paid from ad valorem tax revenues. The revenue bonds are secured by a pledge of the Port's gross operating revenues and contain a coverage requirement related to maintaining adequate net revenues to support debt service.

(continued)

Port of Centralia
December 31, 2011 and 2010

Note 7 - Long-Term Debt *(concluded)*

Annual Debt Amortization

The annual principal and interest requirements for all debt outstanding as of December 31, 2011, are as follows:

	Principal	Interest	Total
2012	$2,255,370	$ 478,769	$ 2,734,139
2013	512,482	341,641	854,123
2014	510,823	312,983	823,806
2015	537,645	282,963	820,608
2016	576,144	250,729	826,873
2017 - 2021	2,180,767	789,217	2,969,984
2022 - 2026	1,164,798	314,987	1,479,785
2027 - 2031	204,277	103,009	307,286
2032 - 2036	173,825	33,881	207,706
Total	**$8,116,131**	**$2,908,179**	**$11,024,310**

General Obligation Bonds

Revised Code of Washington (RCW) Chapter 53.36 provides that non-voted general obligation bond debt cannot be incurred in excess of 0.25 percent of the assessed value of the taxable property in the Port District, which was $2,401,871,899 at December 31, 2011. The Port is in compliance with this limitation.

RCW Chapter 53.36 also provides that additional general obligation bond debt can be incurred upon approval by the voters of the Port District.

Note 8 - Pension Plans

Substantially all of the Port's 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 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 Web site at www.drs.wa.gov. The following disclosures are made pursuant to GASB statements 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*.

(continued)

Port of Centralia
December 31, 2011 and 2010

Note 8 - Pension Plans *(continued)*

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 (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical college, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in Chapters 41.34 and 41.4 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 exercise 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 PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of the AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired for 20 years, or who have 20 years of service and have been retired for 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of-living allowance (COLA) was granted at the age of 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may also 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.

(continued)

Port of Centralia
December 31, 2011 and 2010

Note 8 - Pension Plans *(continued)*

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

Plan Description *(continued)*

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 payable to the age of 60. The allowance 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. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance 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. A cost-of-living allowance was granted at the age of 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. 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 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

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 (AFC is the monthly average of the 60 consecutive highest-paid service months).

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 the age of 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:

- With a benefit that is reduced by 3 percent for each year before the age of 65
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

(continued)

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Port of Centralia
December 31, 2011 and 2010

Note 8 - Pension Plans *(continued)*

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

Plan Description *(continued)*

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is 1 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

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

Vested PERS Plan 3 members are eligible for normal retirement at the age of 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 the age of 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before the age of 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and PERS Plan 3 provides the same cost-of-living allowance as PERS Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

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

(continued)

Port of Centralia
December 31, 2011 and 2010

Note 8 - Pension Plans *(continued)*

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

Plan Description *(concluded)*

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 Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor & Industries.

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

There are 1,197 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	76,899
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,860
Active Plan Members Vested	105,521
Active Plan Members Non Vested	51,005
Total	**262,285**

(continued)

Port of Centralia
December 31, 2011 and 2010

Note 8 - Pension Plans *(concluded)*

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

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and 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. All employers are required to contribute at the level established by the Legislature. 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, based on member choice. Two of the options are Multiplier Program in January 2007, a second tier of employer and employee rates was developed to the 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, 2011, are as follows:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
Employer*	7.25%**	7.25%**	7.25%***
Employee	6.00%****	4.64%****	*****

* The employer rates include the employer administrative expense fee of 0.16%
** The employer rate for state elected officials is 10.80% for Plan 1 and 7.25% 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 4.64% for Plan 2
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the Plan 3 member

Both the Port and the employees made the required contributions. The Port's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
2011	$2,045	$7,833	$5,577
2010	1,756	5,071	4,146
2009	1,796	6,816	6,964

Port of Centralia
December 31, 2011 and 2010

Note 9 - Risk Management

Washington Government Entity Pool

The Port is a member of Enduris. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entity to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. Enduris was formed July 10, 1987, when two (2) counties and two (2) cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2011, there are 468 Enduris members representing a broad range of special purpose districts.

Enduris allows members to jointly purchase excess insurance coverage, share in the self-insured retention, establish a plan for total self-insurance, and provide excellent risk management services and other related services. Enduris provides “occurrence” policies for all lines of liability coverage, including Public Official’s Liability. The property coverage is written on an “all risk” basis blanket form using current Statement of Values. The property coverage includes mobile equipment, electronic data processing equipment, valuable papers, building ordinance coverage, property in transit, extra expense, consequential loss, accounts receivable, fine arts, inventory or appraisal cost, automobile, and physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of $100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of $1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires insurance from unrelated insurance companies that is subject to a “per occurrence.” The Port contributed $24,316 and $23,703 in 2011 and 2010, respectively.

$1,000,000 deductible on liability loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $999,000 on liability loss. The deductible on property loss is $250,000 and the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $249,000 on property loss. Enduris is responsible for the $4,000 deductible on the boiler and machinery loss.

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since the Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were signatory to the Master Agreement.

(continued)

Port of Centralia
December 31, 2011 and 2010

Note 9 - Risk Management *(concluded)*

Washington Government Entity Pool *(concluded)*

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in-house. There were no claims filed by the Port in 2011 and 2010.

Board of directors consisting of seven (7) board members governs Enduris. Its members elect the board and the positions are filled on a rotating basis. The board meets quarterly and is responsible for conducting the business affairs of Enduris.

Note 10 - Major Customers

The Port had four significant customers which accounted for approximately 70 percent and three significant customers which accounted for approximately 66 percent of sales for the years ended December 31, 2011 and 2010, respectively. There were no accounts receivable from these customers for the years ended December 31, 2011 and 2010.

Note 11 - Leases

As a part of its normal operations, the Port leases land and buildings to tenants who intend to utilize the facilities to generate direct benefits within the community. The Port's objective is that lease terms be for a length of time that will assist in insuring economic stability and a fair return on the value of the facilities being leased. Lease terms, including options for renewal, run from one to ten years. In addition, there are properties that are rented on a month-to-month basis. All leases are accounted for as operating leases.

Assets held for rental and leasing purposes totaled $16,347,563 and $13,720,387 at December 31, 2011 and 2010, respectively. Accumulated depreciation on these assets totaled $3,295,295 and $2,973,814 at December 31, 2011 and 2010, respectively.

Minimum annual rental income for all operating leases having noncancellable original terms exceeding one year are as follows:

2012	$ 524,482
2013	517,698
2014	490,795
2015	371,689
2016	132,971
2017 - 2022	83,841
Total	**$2,121,476**

During the years ended December 31, 2011 and 2010, the Port received $550,234 and $943,557, respectively, under these agreements, which also may contain options to renew.

Port of Centralia
December 31, 2011 and 2010

Note 12 - Conduit Debt

A description of conduit debt issued by the component unit, the IDC of the Port follows:

The IDC has issued conduit debt in the form of non-recourse revenue bonds in order to provide capital financing for specific commercial enterprises. The purpose of these bonds is to facilitate commercial development and expansion within the Port District. Neither the Port nor the IDC have any obligation for the repayment of this debt. The bonds are a direct liability of the commercial enterprises for which the bonds were issued. The aggregate amount of all conduit debt obligations issued by the IDC as of December 31, 2011 and 2010, totals $0.

Note 13 - Subsequent Events

The Port has evaluated subsequent events through April 9, 2012, the date on which the financial statements were available to be issued.

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.

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