

Washington State Auditor's Office
Financial Statements and Federal Single Audit Report

City of Kelso
Cowlitz County

Audit Period
January 1, 2013 through December 31, 2013

Report No. 1012231

Issue Date
July 21, 2014



Washington State Auditor
Troy Kelley

Independence • Respect • Integrity



Washington State Auditor Troy Kelley

July 21, 2014

Mayor and City Council
City of Kelso
Kelso, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

TROY KELLEY
STATE AUDITOR

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Cowlitz County
January 1, 2013 through December 31, 2013**

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Federal Summary

City of Kelso Cowlitz County January 1, 2013 through December 31, 2013

The results of our audit of the City of Kelso are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unmodified opinion was issued on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

Internal Control Over Financial Reporting:

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

We issued an unmodified opinion on the City's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
20.205	Highway Planning and Construction Cluster - Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The City qualified as a low-risk auditee under OMB Circular A-133.

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

**City of Kelso
Cowlitz County
January 1, 2013 through December 31, 2013**

Mayor and City Council
City of Kelso
Kelso, 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 governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Kelso, Cowlitz County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 26, 2014. As discussed in Note V to the financial statements, during the year ended December 31, 2013, the City implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

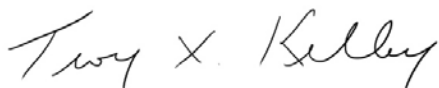
COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



TROY KELLEY
STATE AUDITOR

June 26, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

**City of Kelso
Cowlitz County
January 1, 2013 through December 31, 2013**

Mayor and City Council
City of Kelso
Kelso, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Kelso, Cowlitz County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It

also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR

June 26, 2014

Independent Auditor's Report on Financial Statements

City of Kelso Cowlitz County January 1, 2013 through December 31, 2013

Mayor and City Council
City of Kelso
Kelso, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Kelso, Cowlitz County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Kelso, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and Arterial Street funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note V to the financial statements, in 2013, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 23, and firemen's pension fund and information on postemployment benefits other than pensions on pages 81 through 82 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.

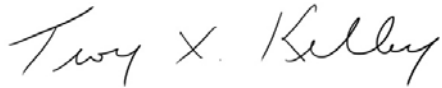
Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to

prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

TROY KELLEY
STATE AUDITOR

June 26, 2014

Financial Section

**City of Kelso
Cowlitz County
January 1, 2013 through December 31, 2013**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013
Statement of Activities – 2013
Balance Sheet – Governmental Funds – 2013
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2013
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – 2013
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund – 2013
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Arterial Street Fund – 2013
Statement of Net Position – Proprietary Funds – 2013
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2013
Statement of Cash Flows – Proprietary Funds – 2013
Statement of Net Position – Fiduciary Funds – 2013
Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2013
Notes to Financial Statements

REQUIRED SUPPLEMENTARY INFORMATION

Firemen's Pension Fund and Other Postemployment Benefits Other Than Pensions

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2013
Notes to the Schedule of Expenditures of Federal Awards

Management's Discussion and Analysis

As management of the City of Kelso, we offer readers of the City of Kelso's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2013. We encourage readers to consider the information presented in conjunction with additional information that we have furnished in our letter of transmittal. All amounts reported in the MD&A, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets and deferred outflows of resources of the City of Kelso exceeded its liabilities at the close of the most recent fiscal year by \$88,084 (net position). Capital assets, net of depreciation and related debt, account for \$74,437 or 84.5% of total net position. \$11,561 or 13.1% of total net position (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$4,239 during 2013.
- As of the close of the current fiscal year, the City of Kelso's governmental funds reported combined ending fund balances of \$5,601, a decrease of \$657 in comparison with the prior year. Approximately 62% of this amount, \$3,462, is available for spending at the government's discretion (unrestricted fund balance).
- At the end of the current fiscal year, unrestricted fund balance (the total of the committed, assigned, and unassigned components of fund balance) for the general fund was \$3,340, or 37% of total general fund expenditures.
- The City of Kelso's total debt (exclusive of compensated absences and pension obligations) decreased by \$590 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Kelso's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position.

Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, security of persons and property, physical environment, transportation, economic environment, and culture and recreation. The business-type activities of the City include a water/sewer enterprise, a solid waste enterprise, and a storm water drainage enterprise.

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 City of Kelso, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Kelso maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheets and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general

fund and the arterial street fund, which are considered to be major funds. Data from the other nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Kelso adopts a biennial appropriated budget for all of its governmental funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with this budget.

Proprietary funds. The City of Kelso maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water/sewer, solid waste, and its storm water drainage departments. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for the acquisition of its vehicle fleet. A portion of the acquisition fund has been included within the business-type functions. The remainder of these services predominantly benefit governmental rather than business-type functions and have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water/sewer, solid waste, and storm water drainage departments. However, only the water/sewer and solid waste funds are considered to be major funds of the City. The internal service fund is also presented separately in the proprietary fund financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents the combining statements, referred to earlier in connection with nonmajor governmental funds, which are presented immediately following the notes.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. In the case of the City of Kelso, assets and deferred outflows of

resources exceeded liabilities by \$88,084 at the close of the most recent fiscal year. The following is a condensed version of the Government-Wide Statement of Net Position as of December 31, 2013 with comparable data provided for the previous year.

City of Kelso's Net Position						
	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$8,878	\$7,828	\$ 8,772	\$ 9,099	\$ 17,650	\$16,927
Capital assets (net)	<u>57,386</u>	<u>50,989</u>	<u>25,829</u>	<u>28,568</u>	<u>83,215</u>	<u>79,557</u>
Total assets	<u>66,264</u>	<u>58,817</u>	<u>34,601</u>	<u>37,667</u>	<u>100,865</u>	<u>96,484</u>
Total deferred outflows of resources	<u>50</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50</u>	<u>-</u>
Long-term liabilities outstanding	4,235	4,279	6,171	6,699	10,406	10,978
Other liabilities	<u>1,492</u>	<u>403</u>	<u>933</u>	<u>1,258</u>	<u>2,425</u>	<u>1,661</u>
Total liabilities	<u>5,727</u>	<u>4,682</u>	<u>7,104</u>	<u>7,957</u>	<u>12,831</u>	<u>12,639</u>
Net assets:						
Net investment in capital assets	54,754	48,199	19,683	21,989	74,437	70,188
Restricted	1,491	1,442	595	593	2,086	2,035
Unrestricted	<u>4,342</u>	<u>4,494</u>	<u>7,219</u>	<u>7,128</u>	<u>11,561</u>	<u>11,622</u>
Total net position	<u>\$60,587</u>	<u>\$54,135</u>	<u>\$27,497</u>	<u>\$29,710</u>	<u>\$88,084</u>	<u>\$83,845</u>

By far the largest portion of the City's net position (84.5 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Kelso's net position (2.4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$11,561 may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Kelso is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental activities. Governmental activities increased the City of Kelso's net position by \$6,452 in 2013. Revenues and expenditures increased in 2013 by \$3,656 and \$600, respectively. Key elements for these changes are as follows:

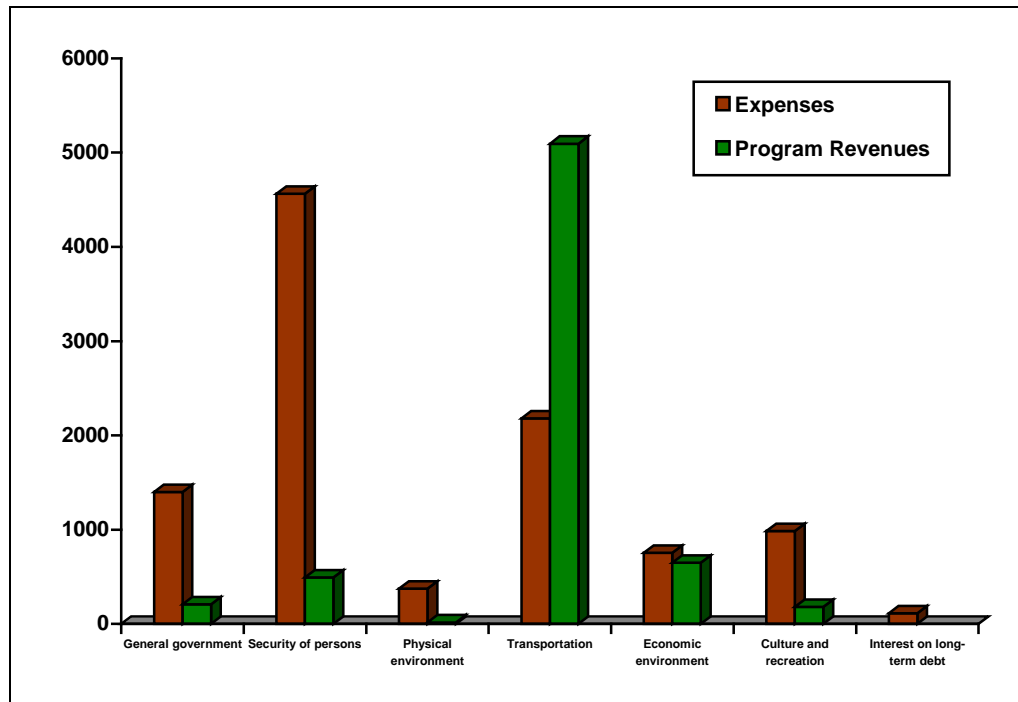
- The general fund received a one-time transfer of \$2,512 from the City's airport fund. (See note V. section G)

- Capital grants increased by \$3,440 in 2013.

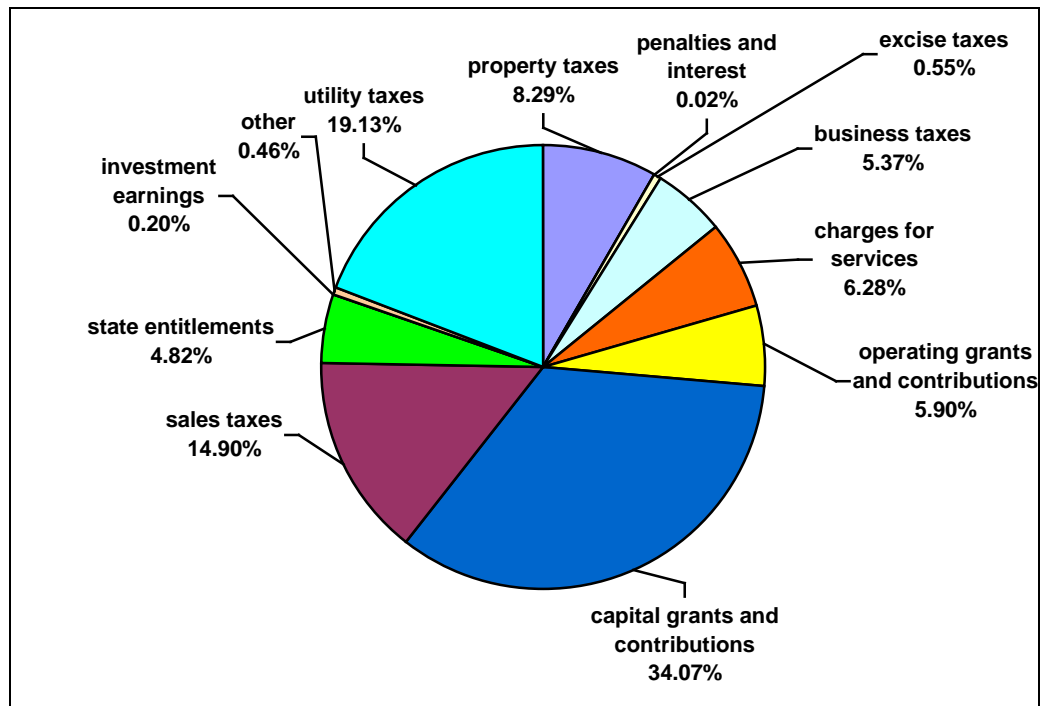
City of Kelso's Changes in Net Position

	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$902	\$747	\$9,668	\$9,471	\$10,570	\$10,218
Operating grants and contributions	848	894	19	193	867	1,087
Capital grants and contributions	4,895	1,455	2	457	4,897	1,912
General revenues:						
Property taxes	1,191	1,175	-	-	1,191	1,175
Sales and use taxes	2,141	2,103	-	-	2,141	2,103
Utility taxes	2,748	2,827	-	-	2,748	2,827
Business taxes	772	755	-	-	772	755
Excise taxes	79	86	-	-	79	86
Penalties and interest	3	5	-	-	3	5
State entitlements	692	573	-	-	692	573
Investment earnings	29	64	11	11	40	75
Other	66	26	-	-	66	26
Total revenues	<u>14,366</u>	<u>10,710</u>	<u>9,700</u>	<u>10,132</u>	<u>24,066</u>	<u>20,842</u>
Expenses:						
General government	1,401	1,312	-	-	1,401	1,312
Security of persons and property	4,562	4,533	-	-	4,562	4,533
Physical environment	375	431	-	-	375	431
Transportation	2,180	1,722	-	-	2,180	1,722
Economic environment	754	590	-	-	754	590
Culture and recreation	985	1,066	-	-	985	1,066
Interest on long-term debt	114	117	-	-	114	117
Water/Sewer	-	-	7,079	6,610	7,079	6,610
Storm water	-	-	547	571	547	571
Solid waste	-	-	1,317	1,294	1,317	1,294
Airport	-	-	-	422	-	422
Total expenses	<u>10,371</u>	<u>9,771</u>	<u>8,943</u>	<u>8,897</u>	<u>19,314</u>	<u>18,668</u>
Change in net position before transfers and special items	3,995	939	757	1,235	4,752	2,174
Special items	2,513	-	(3,026)	-	(513)	-
Transfers	(56)	(40)	56	40	-	-
Change in net position	6,452	899	(2,213)	1,275	4,239	2,174
Net position – beginning	<u>54,135</u>	<u>53,236</u>	<u>29,710</u>	<u>28,435</u>	<u>83,845</u>	<u>81,671</u>
Net position – ending	<u>\$60,587</u>	<u>\$54,135</u>	<u>\$27,497</u>	<u>\$29,710</u>	<u>\$88,084</u>	<u>\$83,845</u>

Expenses and Program Revenues – Governmental Activities

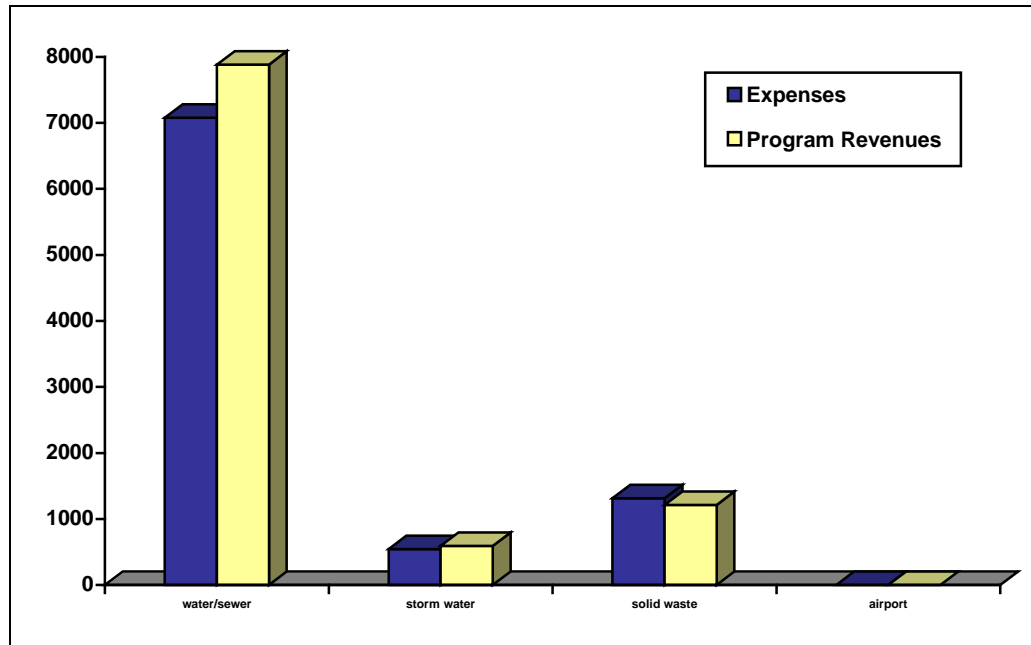


Revenues by Source - Governmental Activities

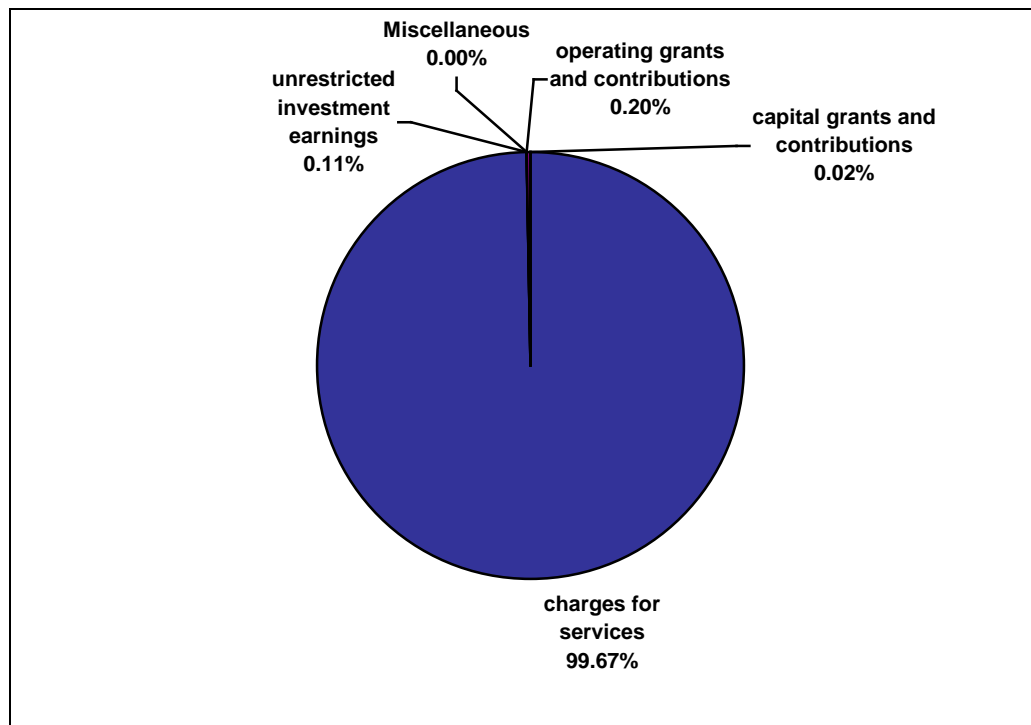


Business-type activities. Business-type activities decreased the City of Kelso's net position by \$2,213. Business-type activity revenues decreased by \$432 while expenses increased by \$46 in 2013. Operating revenues exceeded operating expenses in 2013 by \$805 in the water/sewer fund.

Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type Activities



Key elements for the change in net position are as follows:

- The City increased the water and sewer rates by 7.5% and 3.0%, respectively, in 2013.
- On January 1, 2013, the City transferred Airport Fund Operations over to the newly formed Airport Board (joint venture). Operating assets in the amount of \$513 were transferred to the Board and capital assets in the amount of \$2,512 were transferred to the general fund. (See note V. section H).
- The City increased the garbage collection rates by 3% in 2013.
- Payments made to the regional sewage treatment plant increased by \$407 in 2013. (See Note V. section D).

Financial Analysis of the Government's Funds

As noted earlier, the City of Kelso uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City of Kelso's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Kelso's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City of Kelso, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City Council.

As of the end of the current fiscal year, the City of Kelso's governmental funds reported combined ending fund balances of \$5,601, a decrease of \$657 in comparison with the prior year. However, the City deferred \$1,212 in grant revenues as they were not collected soon enough after year end (60 days) to be available to liquidate liabilities of the current period. Approximately 62% of ending fund balance (\$3,462) constitutes unrestricted fund balance (unassigned, assigned, and committed), which is available for spending at the City's discretion. The remainder of fund balance is restricted or nonspendable to indicate that it is not available for new spending because it is restricted 1) to pay for housing rehabilitation (\$1,108), 2) to pay for low income housing (\$49), 3) to pass through grant receipts for airport improvements (\$82), 4) for a variety of other restricted purposes (\$252), or it is nonspendable 1) for interfund loans that are not payable/receivable in the current period (\$388), or 2) for long-term notes receivable that will not become available in the current period (\$260).

As mentioned earlier, the City of Kelso maintains eleven individual governmental funds. Two of these funds are classified as major funds for the purposes of this report, based on criteria set forth by the GASB. Those funds are the General Fund and the Arterial Street Fund.

The general fund is the chief operating fund of the City of Kelso. At the end of the current fiscal year, total fund balance of the general fund was \$3,510. All but \$413 of this fund balance is unassigned. \$49 is restricted for low income housing, \$39 is restricted for the maintenance of City streets, \$82 is restricted for grants to airport, and \$242 has been committed by the City for maintenance of City owned bridges. Unassigned fund balance represents 37 percent of total general fund operating expenditures (excludes capital expenditures and transfers).

The fund balance of the City of Kelso's general fund increased by \$141 during the current fiscal year

The arterial street fund accounts for the receipt and expenditure of expenditure of various grants, road maintenance fees, as well as transfers from the other funds. Revenues are designated for construction, improvement, chip sealing, seal coating, and repair of streets or for payment of related municipal indebtedness. In 2013, the arterial street fund expended in excess of \$5 million on roadway improvements.

Proprietary funds. The City of Kelso's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the water/sewer fund at the end of the year amounted to \$5,746, and for the solid waste fund amounted to \$414. The total net position for the water/sewer fund increased by \$871 and the total net position for the solid waste fund decreased by \$104. Residential and commercial water rates were increased by 7.5% and sewer rates were increased by 3.0% in 2013. Garbage rates were increased by 3% in 2013. Factors concerning the finances of these two funds have already been addressed in the discussion of the City of Kelso's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget amounted to a \$568 increase in appropriations. The entire increase was for the cleanup of some blighted property and was funded by various grants.

At the end of the year, budgetary estimates exceeded operating revenues by \$342. Operating expenditures and transfers were \$497 less than budgetary estimates.

Capital Asset and Debt Administration

Capital Assets. The City of Kelso's investment in capital assets for its governmental and business type activities as of December 31, 2013 amounts to \$74,437 (net of related debt and accumulated depreciation). This investment in capital assets includes land, buildings and structures, improvements, machinery and equipment, park facilities, and infrastructure (roads, highways, and bridges constructed after December 31, 1979).

Major capital asset events during the current fiscal year included the following:

- In 2013, the City of Kelso continued the right-of-way acquisition phase and began the construction phase of the West Main Street Realignment project in West Kelso. The West Main Street Realignment project runs from the Allen Street Bridge on the west end of Allen Street, to the west city limits of Kelso at West Cowlitz Way. The Realignment Project stems from growing traffic, congestion and accidents along the corridor. The goal of the project is to redevelop the streets in the area to deal with those issues, and at the same time provide a desirable business friendly environment. During the planning phase the city decided on the final alignment option, developing the supporting environmental documents and developing engineering plans, estimates and specifications for construction. The project is being funded primarily through federal and state grants with a small percentage being funded by the City. The total cost of this project through December 31, 2013 was \$6,827.
- The Paxton Road Water Reservoir project was completed in 2013. This project consisted of the construction of a 2 million gallon water reservoir with a total cost of \$3,813.

City of Kelso's Capital Assets
(net of depreciation)

	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$18,588	\$18,133	\$ 29	\$484	\$18,617	\$18,617
Buildings and structures	7,856	7,612	8,644	5,268	16,500	12,880
Improvements other than buildings	3,291	1,787	15,330	17,569	18,621	19,356
Machinery and equipment	541	319	860	586	1,401	905
Infrastructure	19,195	20,042	-	-	19,195	20,042
Construction in progress	<u>7,915</u>	<u>3,096</u>	<u>966</u>	<u>4,661</u>	<u>8,881</u>	<u>7,757</u>
Total	<u>\$57,386</u>	<u>\$50,989</u>	<u>\$25,829</u>	<u>\$28,568</u>	<u>\$83,215</u>	<u>\$79,557</u>

Additional information on the City of Kelso's capital assets can be found in note IV.C.

Long-term debt. At the end of the current fiscal year, the City of Kelso had total bonded G.O. debt outstanding of \$2,450. 100% of this amount is backed by the full faith and credit of the City. The remainder of the City of Kelso's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

City of Kelso's Outstanding Debt
General Obligation and Revenue Bonds

	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
General obligation bonds	\$2,450	\$2,585	\$-	\$-	\$2,450	\$2,585
Revenue bonds	-	-	4,675	4,865	4,675	4,865
Total	<u>\$2,450</u>	<u>\$2,585</u>	<u>\$4,675</u>	<u>\$4,865</u>	<u>\$7,125</u>	<u>\$7,450</u>

The City of Kelso's total bonded debt decreased by \$325 during the current fiscal year.

In addition to the bonded debt mentioned above, the City has two Public Works Trust Fund loans and two Drinking Water State Revolving Fund loans outstanding at year end. The total amount outstanding at year end for these loans is \$1,654.

Additional information on the City of Kelso's long-term debt can be found in note IV.E.

The City of Kelso is authorized to issue debt pursuant to the Acts of the State of Washington. With voter approval the City can issue debt up to 2.5 percent of the assessed valuation of taxable property within the City. Without a vote, the City can incur debt up to an amount equal to 1.5 percent of the assessed valuation. Further, voted indebtedness is permitted for water, artificial lights, and sewerage up to 2.5 percent of assessed valuation, with an additional 2.5 percent available for acquiring open space for park facilities. The combination of unlimited tax (voted) and limited tax (non-voted) general obligation debt for all purposes cannot exceed 7.5 percent of assessed valuation.

Economic Factors and Next Year's Budgets and Rates

- The annual average unemployment rate for the Kelso/Longview metropolitan area in 2013 was 10.1 percent, which is a decrease from a rate of 10.8 percent in 2012. This compares unfavorably to the State's average unemployment rate of 7.0 percent and the national average rate of 7.4 percent.
- In late 2008, the City began to experience a severe downturn in economic activity. This downturn, which has continued through 2013, has manifested itself with decreased sales, business, and gambling tax revenues, as well as, decreased building permit revenues. In addition, the rate of return on the City's investments has fallen to .13% as of December 31, 2013 from as high as 4.6% just six years ago.
- The City's ability to raise property taxes has been further limited by I-747. I-747 is a voter approved initiative that reduces the allowable property tax growth limit to lower of 1 percent or the Implicit Price Deflator.

All of these factors were considered in preparing the City of Kelso's budget for the 2014 fiscal year.

At the end of the current fiscal year the unassigned fund balance in the general fund is \$3,097. In 2014, the City anticipates spending down \$174 of this unassigned fund balance.

In 2014, water and sewer rates will be increased by 7.5% and 1.0%, respectively. Garbage and stormwater drainage rates will increase by 3%. These rate increases are necessary to keep pace with inflation, for future capital upgrades, and the increased cost of sewage treatment.

Requests for Information

This financial report is designed to provide a general overview of the City of Kelso's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, P.O. Box 819, Kelso, Washington 98626.

City of Kelso
Statement of Net Position
December 31, 2013

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash & cash equivalents	\$ 3,137,264	\$ 5,085,675	\$ 8,222,939
Investments	1,793,261	799,574	2,592,835
Receivables (net of allowance for uncollectible):	3,519,435	1,570,772	5,090,207
Internal balances	(250,000)	250,000	-
Inventory	-	161,631	161,631
Long-term notes receivable	678,603	-	678,603
Restricted assets	-	903,963	903,963
Capital assets net of accumulated depreciation:			
Land	18,588,751	28,712	18,617,463
Buildings	7,856,362	8,644,187	16,500,549
Improvements other than buildings	3,290,557	15,330,308	18,620,865
Machinery and equipment	540,764	860,508	1,401,272
Infrastructure	19,194,585	-	19,194,585
Construction in progress	7,915,083	965,682	8,880,765
Total assets	<u>66,264,665</u>	<u>34,601,012</u>	<u>100,865,677</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	49,817	-	49,817
Total assets	<u>49,817</u>	<u>-</u>	<u>49,817</u>
LIABILITIES			
Accounts payable and other current liabilities	1,362,622	601,853	1,964,475
Interest payable	9,502	21,833	31,335
Unearned revenue	120,204	-	120,204
Liabilities payable from restricted assets	-	309,274	309,274
Long-term liabilities:			
Due within one year	249,250	406,674	655,924
Due in more than one year	3,985,638	5,764,847	9,750,485
Total liabilities	<u>5,727,216</u>	<u>7,104,481</u>	<u>12,831,697</u>
NET POSITION			
Net investment in capital assets	54,754,328	19,682,669	74,436,997
Restricted for:			
Debt service	-	594,689	594,689
Capital projects	48,302	-	48,302
Paths and trails	38,711	-	38,711
Street maintenance	94,376	-	94,376
Parks	14,826	-	14,826
Criminal Justice	55,891	-	55,891
Affordable housing	49,361	-	49,361
Housing rehabilitation	1,108,162	-	1,108,162
Grant pass-thru	81,809	-	81,809
Unrestricted	4,341,500	7,219,173	11,560,673
Total net position	<u>\$ 60,587,266</u>	<u>\$ 27,496,531</u>	<u>\$ 88,083,797</u>

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

CITY OF KELSO
Statement of Activities
For the Year Ended December 31, 2013

Functions/Programs	Program Revenues			Net (expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Primary Government	
					Governmental Activities	Business-type Activities
Primary government:						
Governmental activities:						
General government	\$ 1,400,924	\$ 209,116	\$ 1,381	\$ -	\$ (1,190,427)	\$ -
Security of persons and property	4,561,695	150,709	342,984	-	(4,068,002)	-
Physical environment	375,605	17,327	-	-	(358,278)	-
Transportation	2,180,334	298,467	-	4,795,388	2,913,521	-
Economic environment	754,048	146,747	503,494	-	(103,807)	-
Culture and recreation	984,787	80,197	-	100,000	(804,590)	-
Interest on long-term debt	113,984	-	-	-	(113,984)	-
Total governmental activities	10,371,377	902,563	847,859	4,895,388	(3,725,567)	-
Business-type activities:						
Water/Sewer	7,078,786	7,883,534	-	-	-	804,748
Solid waste	1,316,969	1,193,942	18,743	-	-	(104,284)
Storm water	546,783	590,960	-	2,387	-	46,564
Airport	-	-	-	-	-	-
Total business-type activities	8,942,538	9,668,436	18,743	2,387	-	747,028
Total primary government	#####	\$ 10,570,999	\$ 866,602	\$ 4,897,775	\$ (3,725,567)	\$ 747,028
General Revenues:						
Property taxes					1,191,288	-
Sales taxes					2,141,216	-
Utility taxes					2,747,708	-
Business taxes					772,077	-
Excise taxes					78,732	-
Penalties & interest					2,845	-
State entitlements (unrestricted)					691,996	-
Investment earnings					29,103	10,017
Miscellaneous					66,302	-
Special items					2,512,452	(3,025,837)
Transfers					(55,576)	55,576
Total general revenues, special items, and transfers					10,178,143	(2,960,244)
Change in net position					6,452,576	(2,213,216)
Net position - beginning					54,134,690	29,709,747
Net position - ending					\$ 60,587,266	\$ 27,496,531
						7,217,899
						4,239,360
						83,844,437
						\$ 88,083,797

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

City of Kelso
Balance Sheet
Governmental Funds
December 31, 2013

	<u>General Fund</u>	<u>Arterial Street Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash & cash equivalents	\$ 849,347	\$ 278,242	\$ 1,650,243	\$ 2,777,832
Investments	998,311	-	794,950	1,793,261
Receivables (net):				
Taxes	1,334,861	-	-	1,334,861
Accounts	217,041	-	2,219	219,260
Assessments	-	21,217	-	21,217
Due from other funds	500,000	-	129,500	629,500
Due from other governments	446,819	1,457,543	39,735	1,944,097
Advances to other funds	-	-	387,630	387,630
Long-term notes receivable	-	-	678,603	678,603
Total assets	<u>\$ 4,346,379</u>	<u>\$ 1,757,002</u>	<u>\$ 3,682,880</u>	<u>\$ 9,786,261</u>
LIABILITIES				
Accounts payable	253,652	792,181	275,989	1,321,822
Due to other funds	-	879,500	-	879,500
Due to other governments	10,195	-	-	10,195
Advances from other funds	-	387,630	-	387,630
Unearned revenue	-	21,217	98,987	120,204
Total liabilities	<u>263,847</u>	<u>2,080,528</u>	<u>374,976</u>	<u>2,719,351</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue-property tax	114,010	-	-	114,010
Unavailable revenue-municipal court	139,827	-	-	139,827
Unavailable revenue-grants	318,494	893,272	-	1,211,766
Total deferred inflows of resources	<u>572,331</u>	<u>893,272</u>	<u>-</u>	<u>1,465,603</u>
FUND BALANCES (DEFICITS)				
Nonspendable:				
Long-term notes	-	-	260,021	260,021
Advances	-	-	387,630	387,630
Restricted for:				
Paths and trails	197	-	38,514	38,711
Housing/neighborhood rehabilitation	-	-	1,108,162	1,108,162
Low income housing	49,361	-	-	49,361
Criminal justice	-	-	55,891	55,891
Parks	-	-	14,826	14,826
Street maintenance/construction	39,142	-	55,234	94,376
Grant pass-thru	81,809	-	-	81,809
Capital projects	-	-	48,302	48,302
Committed to:				
Bridge maintenance	242,385	-	-	242,385
Assigned to:				
Debt service	-	-	1,203,595	1,203,595
Other purposes	-	-	146,280	146,280
Unassigned	3,097,307	(1,216,798)	(10,551)	1,869,958
Total fund balances	<u>3,510,201</u>	<u>(1,216,798)</u>	<u>3,307,904</u>	<u>5,601,307</u>
Total liabilities, deferred inflows of resources and fund balances (deficits)	<u>\$ 4,346,379</u>	<u>\$ 1,757,002</u>	<u>\$ 3,682,880</u>	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	57,031,686
Other assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,465,603
Net Pension and Net OPEB Assets or Obligations are not considered to represent a financial resource or liability and, therefore, are not reported in the funds.	(1,278,776)
Internal service funds are used by management to charge the costs of fleet management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	683,243
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the fund:	<u>(2,915,797)</u>
Net position of governmental activities	<u>\$ 60,587,266</u>

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

City of Kelso
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2013

	General Fund	Arterial Street Fund	Other Governmental Funds	Total
Revenues				
Taxes	\$ 6,762,884	\$ -	\$ 177,030	\$ 6,939,914
Licenses and permits	211,972	-	-	211,972
Intergovernmental	1,063,992	3,893,766	456,358	5,414,116
Charges for services	745,313	155,412	62,269	962,994
Fines	130,296	-	-	130,296
Investment earnings	24,466	147	4,795	29,408
Rental/lease income	89,703	-	910	90,613
Miscellaneous	29,809	2,125	45,624	77,558
Total revenues	<u>9,058,435</u>	<u>4,051,450</u>	<u>746,986</u>	<u>13,856,871</u>
Expenditures				
Current:				
General government	1,659,196	-	-	1,659,196
Security of persons and property	4,040,470	-	299,450	4,339,920
Physical environment	494,060	-	-	494,060
Transportation	725,614	15,006	938	741,558
Economic environment	742,511	-	9,979	752,490
Culture and recreation	610,911	-	97,643	708,554
Debt service:				
Principal	-	22,713	135,000	157,713
Interest and bond issuance costs	-	34,793	73,603	108,396
Capital outlay:				
General government	6,458	-	-	6,458
Transportation	76,194	5,071,016	-	5,147,210
Culture and recreation	33,189	-	309,848	343,037
Total expenditures	<u>8,388,603</u>	<u>5,143,528</u>	<u>926,461</u>	<u>14,458,592</u>
Excess (deficiency) of revenues over (under) expenditures	<u>669,832</u>	<u>(1,092,078)</u>	<u>(179,475)</u>	<u>(601,721)</u>
Other financing sources (uses)				
Transfers in	-	379,550	193,519	573,069
Transfers out	(528,645)	-	(100,000)	(628,645)
Total other financing sources (uses)	<u>(528,645)</u>	<u>379,550</u>	<u>93,519</u>	<u>(55,576)</u>
Net change in fund balances	<u>141,187</u>	<u>(712,528)</u>	<u>(85,956)</u>	<u>(657,297)</u>
Fund balances - beginning	3,369,014	(504,270)	3,393,860	6,258,604
Fund balances - ending	<u>\$ 3,510,201</u>	<u>\$ (1,216,798)</u>	<u>\$ 3,307,904</u>	<u>\$ 5,601,307</u>

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

City of Kelso
Reconciliation of the Statement of Revenues,
Expenditures, and Changes In Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended December 31, 2013

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (page 33)	\$ (657,297)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	3,637,914
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to increase net position.	2,512,452
The net effect of underfunding the City's annual required contribution to the Firemen's Pension Fund.	(4,004)
The net effect of underfunding the City's annual required contribution for post-retirement health care benefits for LEOFF 1 (Law Enforcement Officers and Fire Fighters) employees.	(171,432)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	991,969
The issuance of long-term debt (e.g. bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	157,713
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	13,576
Some expenses reported in the governmental funds have already been reported in the statement of activities in prior years.	521
Internal service funds are used by management to charge the costs of fleet acquisition to individual funds.	
The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>(28,836)</u>
Change in net position of governmental activities (page 31)	<u><u>\$6,452,576</u></u>
The notes to the financial statements are an integral part of this statement.	

City of Kelso
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	With Final Budget
Revenues				
Taxes	\$ 5,837,335	\$ 5,837,335	\$ 5,814,213	\$ (23,122)
Licenses and permits	194,000	194,000	211,972	17,972
Intergovernmental	559,000	1,126,700	817,751	(308,949)
Charges for services	770,663	770,663	735,464	(35,199)
Fines	135,500	135,500	125,503	(9,997)
Investment earnings	8,300	8,300	23,323	15,023
Other miscellaneous	14,600	14,600	16,911	2,311
Total revenues	<u>7,519,398</u>	<u>8,087,098</u>	<u>7,745,137</u>	<u>(341,961)</u>
Expenditures				
General government:				
Council	83,482	83,482	69,267	14,215
Municipal court	203,100	203,100	170,195	32,905
Manager	203,865	203,865	182,011	21,854
Finance	575,857	575,857	535,263	40,594
Attorney	107,766	107,766	99,954	7,812
Other - unclassified	695,780	695,780	602,506	93,274
Total general government	<u>1,869,850</u>	<u>1,869,850</u>	<u>1,659,196</u>	<u>210,654</u>
Security of persons and property:				
Police	3,484,306	3,484,306	3,466,579	17,727
Jail	312,000	312,000	248,407	63,593
Fire	240,000	240,000	240,000	-
Other	87,000	87,000	85,484	1,516
Total security of persons and property	<u>4,123,306</u>	<u>4,123,306</u>	<u>4,040,470</u>	<u>82,836</u>
Physical environment	<u>645,084</u>	<u>645,084</u>	<u>494,060</u>	<u>151,024</u>
Transportation	<u>60,000</u>	<u>60,000</u>	<u>211,785</u>	<u>(151,785)</u>
Economic environment	<u>375,555</u>	<u>943,255</u>	<u>742,511</u>	<u>200,744</u>
Capital outlay	<u>10,000</u>	<u>10,000</u>	<u>6,458</u>	<u>3,542</u>
Total expenditures	<u>7,083,795</u>	<u>7,651,495</u>	<u>7,154,480</u>	<u>497,015</u>
Excess (deficiency) of revenues over (under) expenditures	<u>435,603</u>	<u>435,603</u>	<u>590,657</u>	<u>155,054</u>
Other financing sources (uses)				
Transfers out	<u>(550,153)</u>	<u>(550,153)</u>	<u>(547,008)</u>	<u>3,145</u>
Total other financing sources (uses)	<u>(550,153)</u>	<u>(550,153)</u>	<u>(547,008)</u>	<u>3,145</u>
Net change in fund balances budgetary basis	<u>(114,550)</u>	<u>(114,550)</u>	<u>43,649</u>	<u>158,199</u>
Reconciliation of budgetary/GAAP basis:				
Basis difference (See note III.B.)			<u>97,538</u>	
Net change in fund balances GAAP basis			141,187	
Fund balances - beginning			<u>3,369,014</u>	
Fund balances - ending			<u>\$ 3,510,201</u>	

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

City of Kelso
Arterial Street Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>With Final</u>
				<u>Budget</u>
Revenues				
Intergovernmental	\$ 7,495,565	\$ 7,495,565	\$ 3,893,766	\$(3,601,799)
Charges for services	156,000	156,000	155,412	(588)
Investment earnings	-	-	147	147
Miscellaneous	2,650	2,650	2,125	(525)
Total revenues	<u>7,654,215</u>	<u>7,654,215</u>	<u>4,051,450</u>	<u>(3,602,765)</u>
Expenditures				
Transportation	-	-	15,006	(15,006)
Capital outlay	7,858,091	7,858,091	5,071,016	2,787,075
Debt Service:				
Principal	146,525	146,525	22,713	123,812
Interest	34,149	34,149	34,793	(644)
Total expenditures	<u>8,038,765</u>	<u>8,038,765</u>	<u>5,143,528</u>	<u>2,895,237</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(384,550)</u>	<u>(384,550)</u>	<u>(1,092,078)</u>	<u>(707,528)</u>
Other financing sources (uses)				
Transfers in	384,550	384,550	379,550	(5,000)
Total other financing sources (uses)	<u>384,550</u>	<u>384,550</u>	<u>379,550</u>	<u>(5,000)</u>
Net change in fund balances	-	-	(712,528)	(712,528)
Fund balances - beginning	(504,270)	(504,270)	(504,270)	-
Fund balances - ending	<u>\$ (504,270)</u>	<u>\$ (504,270)</u>	<u>\$ (1,216,798)</u>	<u>\$ (712,528)</u>

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

City of Kelso
Statement of Net Position
Proprietary Funds
December 31, 2013

	Business-type Activities - Enterprise Funds					Equipment Reserve Internal Service Fund
	Major Funds		Non-major Funds			
	Solid Waste	Water- Sewer	Airport	Storm Water	Total	
ASSETS						
Current Assets:						
Cash & cash equivalents	\$ 314,435	\$ 4,039,612	\$ -	\$ 538,505	\$ 4,892,552	\$ 552,555
Investments	-	799,574	-	-	799,574	-
Restricted cash, cash equivalents, and investments:						
Customer deposits	-	309,274	-	-	309,274	-
Grant for capital improvements	-	-	-	-	-	-
Accounts receivable	219,086	1,242,463	-	101,200	1,562,749	-
Due from other governments	5,636	-	-	2,387	8,023	-
Due from other funds	-	-	-	-	-	250,000
Prepaid expense	-	-	-	-	-	-
Inventory	-	161,631	-	-	161,631	-
Total current assets	539,157	6,552,554	-	642,092	7,733,803	802,555
Noncurrent assets:						
Restricted cash, cash equivalents, and investments:						
Revenue bond covenant accounts	-	593,656	-	-	593,656	-
Interest receivable	-	1,033	-	-	1,033	-
Capital Assets:						
Land	-	28,712	-	-	28,712	-
Buildings and structures	-	10,638,948	-	-	10,638,948	-
Improvements other than buildings	-	26,687,073	-	715,203	27,402,276	-
Machinery and equipment	-	2,900,292	-	43,401	2,943,693	2,885,345
Construction in progress	-	927,502	-	38,180	965,682	-
Less accumulated depreciation	-	(16,039,654)	-	(297,808)	(16,337,462)	(2,343,381)
Total capital assets (net of accumulated depreciation)	-	25,142,873	-	498,976	25,641,849	541,964
Total noncurrent assets	-	25,737,562	-	498,976	26,236,538	541,964
Total Assets	539,157	32,290,116	-	1,141,068	33,970,341	1,344,519

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

City of Kelso
Statement of Net Position
Proprietary Funds
December 31, 2013

	Business-type Activities - Enterprise Funds					Internal Service Funds
	Major Funds		Non-major Funds			
	Solid Waste	Water- Sewer	Airport	Storm Water	Total	
LIABILITIES						
Current Liabilities:						
Due to other funds	-	-	-	-	-	-
Compensated absences	-	21,183	-	2,984	24,167	-
Customer deposits	-	309,274	-	-	309,274	-
Due to other governments	-	-	-	-	-	-
Accrued interest payable	-	21,833	-	-	21,833	-
Deferred revenue	-	-	-	-	-	-
Current revenue bonds payable	-	195,000	-	-	195,000	-
Current portion notes payable	-	187,507	-	-	187,507	-
Total current liabilities	125,028	1,197,766	-	16,840	1,339,634	30,605
Noncurrent liabilities:						
Compensated absences	-	63,550	-	8,950	72,500	-
Revenue bonds payable	-	4,408,126	-	-	4,408,126	-
Notes payable	-	1,284,221	-	-	1,284,221	-
Total noncurrent liabilities	-	5,755,897	-	8,950	5,764,847	-
Total Liabilities	125,028	6,953,663	-	25,790	7,104,481	30,605
NET POSITION						
Net investment in capital assets	-	18,996,145	-	498,976	19,495,121	541,964
Restricted for debt service	-	594,689	-	-	594,689	-
Unrestricted	414,129	5,745,619	-	616,302	6,776,050	771,950
Total net position	\$ 414,129	\$ 25,336,453	\$ -	\$ 1,115,278	\$ 26,865,860	\$ 1,313,914
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:					630,671	
Net position of business-type activities					\$ 27,496,531	

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

City of Kelso
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2013

	Business-type Activities - Enterprise Funds					Equipment Reserve Internal Service Fund
	Major Funds		Non-major Funds			
	Solid Waste	Water- Sewer	Airport	Storm Water	Total	
Operating revenues:						
Charges for services	\$ 1,183,106	\$ 7,696,944	\$ -	\$ 590,109	\$ 9,470,159	\$ 195,652
Other operating revenue	10,836	100,729	-	851	112,416	-
Total operating revenues	<u>1,193,942</u>	<u>7,797,673</u>	<u>-</u>	<u>590,960</u>	<u>9,582,575</u>	<u>195,652</u>
Operating expenses:						
General operations	813,256	2,560,129	-	482,044	3,855,429	-
Contracted processing operations	344,283	2,551,004	-	-	2,895,287	-
Maintenance	2,821	132,368	-	31,978	167,167	-
Depreciation	-	675,450	-	23,840	699,290	228,091
Taxes	156,609	882,402	-	8,921	1,047,932	-
Total operating expenses	<u>1,316,969</u>	<u>6,801,353</u>	<u>-</u>	<u>546,783</u>	<u>8,665,105</u>	<u>228,091</u>
Operating income (loss)	<u>(123,027)</u>	<u>996,320</u>	<u>-</u>	<u>44,177</u>	<u>917,470</u>	<u>(32,439)</u>
Nonoperating revenues (expenses):						
Investment earnings	531	8,256	-	614	9,401	1,309
Intergovernmental	18,743	-	-	-	18,743	-
Other	-	37,295	-	-	37,295	-
Interest expense	-	(225,957)	-	-	(225,957)	-
Total nonoperating revenues (expenses)	<u>19,274</u>	<u>(180,406)</u>	<u>-</u>	<u>614</u>	<u>(160,518)</u>	<u>1,309</u>
Income (loss) before capital contributions, special items, and transfers	(103,753)	815,914	-	44,791	756,952	(31,130)
Capital contributions	-	-	-	2,387	2,387	-
Special Item	-	-	(3,025,837)	-	(3,025,837)	-
Transfers in	-	55,576	19,892	-	75,468	-
Change in net position	<u>(103,753)</u>	<u>871,490</u>	<u>(3,005,945)</u>	<u>47,178</u>	<u>(2,191,030)</u>	<u>(51,022)</u>
Total net position - beginning	517,882	24,464,963	3,005,945	1,068,100		1,364,936
Total net position - ending	<u>\$ 414,129</u>	<u>\$ 25,336,453</u>	<u>\$ -</u>	<u>\$ 1,115,278</u>		<u>\$ 1,313,914</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:					(22,186)	
Changes in net position of business-type activities					<u>\$ (2,213,216)</u>	

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

City of Kelso
Statement of Cash Flows
Proprietary Funds
For the year ended December 31, 2013

	Business-type Activities - Enterprise Funds					Equipment Reserve Internal Service Fund
	Major Funds		Non-major Funds			
	Solid Waste	Water- Sewer	Airport	Storm Water	Totals	
Cash flows from operating activities						
Receipts from customers and users	\$ 1,166,765	\$ 7,644,643	\$ -	\$ 571,578	\$ 9,382,986	\$ -
Receipts from other sources	10,836	100,729	-	-	111,565	-
Receipts from interfund services provided	-	59,542	-	17,889	77,431	195,652
Payments to suppliers and service providers	(1,234,081)	(3,946,983)	-	(173,096)	(5,354,160)	-
Payments to employees	(14,045)	(1,632,299)	-	(249,186)	(1,895,530)	-
Payments for interfund services used	(68,097)	(404,533)	-	(99,945)	(572,575)	-
Net cash provided (used) by operating activities	(138,622)	1,821,099	-	67,240	1,749,717	195,652
Cash flows from noncapital financing activities						
Contributions to joint venture	-	-	(699,910)	-	(699,910)	-
Advances to other funds	-	-	-	-	-	(250,000)
Payments received from advances to other funds	-	900,000	-	-	900,000	-
Operating grants received	24,422	-	-	50,000	74,422	-
Transfer from (to) other funds	-	55,576	19,892	-	75,468	(19,892)
Net cash provided (used) by noncapital financing activities	24,422	955,576	(680,018)	50,000	349,980	(269,892)
Cash flows from capital and related financing activities						
Proceeds from capital recovery fees	-	37,295	-	-	37,295	-
Acquisition and construction of capital assets	-	(966,133)	-	(77,167)	(1,043,300)	(486,093)
Principal paid on capital debt	-	(377,506)	-	-	(377,506)	-
Interest paid on capital debt	-	(221,551)	-	-	(221,551)	-
Net cash provided (used) by capital financing activities	-	(1,527,895)	-	(77,167)	(1,605,062)	(486,093)
Cash flows from investing activities						
Interest received	531	7,223	-	614	8,368	1,309
Purchase of investments	-	(1,197,049)	-	-	(1,197,049)	-
Net cash provided (used) by investing activities	531	(1,189,826)	-	614	(1,188,681)	1,309
Net increase (decrease) in cash and cash equivalents	(113,669)	58,954	(680,018)	40,687	(694,046)	(559,024)
Cash and cash equivalents, January 1	428,104	4,486,113	680,018	497,818	6,092,053	1,111,579

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

Cash and cash equivalents, December 31

\$	314,435	\$	4,545,067	\$	-	\$	538,505	\$	5,398,007	\$	552,555
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Reconciliation of operating income to net cash provided by operating activities:

Operating income (loss)	\$	(123,027)	\$	996,320	\$	-	\$	44,177	\$	917,470	\$	(32,439)
cash provided (used) by operating activities:												
Depreciation expense		-	675,450		-		23,840		699,290		228,091	
(Increase) decrease in accounts receivable		(16,341)	(32,812)		-		(1,493)		(50,646)		-	
(Increase) decrease in prepaid expense		-	-		-		-		-		-	
Increase (decrease) in accounts payable		746	186,537		-		6,212		193,495		-	
Increase (decrease) in compensated absences		-	(16,279)		-		(5,496)		(21,775)		-	
Increase (decrease) in intergovernmental payables		-	-		-		-		-		-	
Increase (decrease) in due to other funds		-	-		-		-		-		-	
Total adjustments		(15,595)	824,779		-		23,063		832,247		228,091	
Net cash provided (used) by operating activities	\$	(138,622)	\$	1,821,099	\$	-	\$	67,240	\$	1,749,717	\$	195,652

Schedule of non-cash capital and related financing activities:

Loss on disposition of capital assets	-	-	3,008,391	-	3,008,391
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The notes to the financial statements are an integral part of this statement.

City of Kelso
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2013

	Firemen's Pension Fund	Airport Agency Fund
	<u> </u>	<u> </u>
Assets		
Cash & cash equivalents	\$ 345,540	\$ 412,963
Receivables	-	99,550
Total assets	<u>345,540</u>	<u>512,513</u>
Liabilities		
Accounts payable	335	124,742
Custodial accounts	-	387,771
Total liabilities	<u>335</u>	<u>\$ 512,513</u>
Net Position		
Held in trust for pension benefits	<u>\$ 345,205</u>	

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

City of Kelso
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the year ended December 31, 2013

	<u>Firemen's Pension Fund</u>
Additions	
Contributions:	
Employer	\$ 214,956
Total contributions	<u>214,956</u>
Investment earnings:	
Interest	367
Total investment earnings	<u>367</u>
Total additions	<u>215,323</u>
Deductions	
Pension benefits	56,419
Healthcare benefits	125,184
Administrative expenses	83
Total deductions	<u>181,686</u>
Change in net position	33,637
Net position - beginning	311,568
Net position - ending	<u><u>\$ 345,205</u></u>

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

CITY OF KELSO
Notes to the Financial Statements
December 31, 2013

I. Summary of significant accounting policies

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

A. Reporting Entity

The City of Kelso was incorporated in January 1889 and operates under the laws of the State of Washington applicable to a Charter Code City with a Council-Manager form of government.

The City's Comprehensive Annual Financial Report (CAFR) includes the financial statements for the City of Kelso and its component units, entities for which the City is considered to be financially accountable. The City has one blended component unit, the Kelso Transportation Benefit District. Although legally separate entities, blended component units are, in substance, part of the City's operations. (See Note V. section G.).

The Southwest Washington Regional Airport provides airport services to the region surrounding the City of Kelso. This activity is neither directly controlled nor dependent upon the City. It is directed by a board of directors composed of representatives from the City of Kelso, the City of Longview, Washington, Cowlitz County, Washington, and the Port of Longview and derives some financial support from each of these entities. It is not a separate taxing authority. An additional interlocal agreement directs the City of Kelso to maintain the financial records and reports as required by the laws of the State of Washington in addition to City's duty as Airport Treasurer. The combined financial statements therefore also include the Southwest Washington Regional Airport Agency fund.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs for centralized services are included in program expenses reported for individual functions and activities. Program revenues include 1) charges to customers or applicants who

CITY OF KELSO
Notes to the Financial Statements
December 31, 2013

purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues generally are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Grants associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF KELSO
Notes to the Financial Statements
December 31, 2013

The *arterial street fund* accounts for the receipt and expenditure of various grants, road maintenance fees, as well as transfers from the other funds. Revenues are designated for construction, improvement, chip sealing, seal coating, and repair of arterial streets or for payment of related municipal indebtedness.

The City reports the following major proprietary funds:

The *water and sewer fund* accounts for operations of providing water and sewer services.

The *solid waste fund* accounts for operations of providing garbage collection services.

Additionally, the City reports the following fund types:

Internal service funds account for fleet management and acquisition services provided to other departments of the City, or to other governments, on a cost reimbursement basis.

The *pension trust fund* accounts for the activities of the Firemen's Pension Fund, which accumulates resources for pension and healthcare benefit payments to qualified retired firemen and qualified spouses.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water/sewer enterprise fund, the solid waste enterprise fund, the storm drain enterprise fund and the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF KELSO
Notes to the Financial Statements
December 31, 2013

D. Assets, liabilities, deferred outflows/inflows of resources and net position or equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to invest in obligations of the U. S. Treasury, U.S. Agencies, obligations of the State of Washington, general obligations of Washington State municipalities, bankers' acceptances, certificates of deposit with Washington State banks, and the State Treasurer's Investment Pool.

Investments of pension trust funds are not subject to the preceding limitations.

Investments for the City are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate State laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and payables

Customer accounts receivable consist of amounts owed by private individuals or organizations for goods and services provided, as well as, court ordered fines. Taxes receivable consist of property, sales, and utility taxes and related interest and penalties (See Note V. section B.). Special assessments consist of assessments which are recorded when levied and are liens against the property benefited. There are no delinquent special assessments as of December 31, 2013.

Because property taxes, special assessments, and utility billings are considered liens on property, no estimated uncollectible amounts are established. Receivables from court ordered fines are shown net of allowance for uncollectibles. All other receivables are considered immaterial and the direct write off method is used.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are reported as nonspendable in the fund balance section of the applicable governmental funds to

CITY OF KELSO
Notes to the Financial Statements
December 31, 2013

indicate that they are not available for appropriation and are not expendable available financial resources.

3. *Inventories*

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Ending inventories of materials and supplies are not recorded in governmental funds as they are immaterial.

Inventories in proprietary funds are valued by the weighted average method which approximates the market value. A physical count is taken once a year.

4. *Restricted assets*

Certain proceeds of the City's water/sewer fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants. The "revenue bond current debt service" account is used to segregate resources accumulated for debt service payments over the next twelve months. The "revenue bond reserve" account is used to report resources set aside to make up potential future deficiencies in the revenue bond current debt service account.

5. *Capital assets*

Capital assets – which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) – are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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Property, plant, equipment and infrastructure of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	10 - 50
Improvements	10 - 50
Public domain infrastructure	10 - 50
System infrastructure	10 - 50
Vehicles	5 - 10
Office equipment	3 - 10
Computer equipment	3 - 10

6. *Deferred outflows/inflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, court ordered fines and grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. (See note IV.B)

7. *Compensated absences*

It is the City's policy to permit employees to accumulate earned but unused vacation, comp-time, and sick pay benefits. All vacation pay, comp-time pay, and eligible sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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8. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Net position/Fund balance

The difference between fund assets and liabilities is “net position” on the government-wide, proprietary, and fiduciary fund statements, and is “fund balance” on the governmental fund statements.

10. Fund balance components

The fund balance amounts for governmental funds have been classified in accordance with GASB Statement No. 54. As a result, amounts are reported as nonspendable, restricted, committed, assigned, or unassigned.

- Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.
- Restricted fund balances have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.
- Committed fund balance can be used only for specific purposes pursuant to constraints imposed by a formal action of the City Council, the City’s highest level of decision-making authority. City Council can commit fund balance by passing an ordinance and may modify or rescind the ordinance at any time through the passage of an additional ordinance.

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- Assigned fund balance includes amounts that are constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the General Fund, this is the residual amount within the fund that is not restricted or committed. The City Council is the only body authorized to assign fund balances and can delegate that authority to other body's or individuals.
- Unassigned fund balance is the residual amount of the General Fund not included in the four categories described above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

Each fund has been analyzed to classify the fund balance in accordance with GASB Statement No. 54.

Generally, when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, followed in order by committed, assigned, and unassigned resources as they are needed.

The City does not have a formal minimum fund balance policy.

11. Data reclassifications

Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental funds balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$2,915,797 difference are as follows:

Bonds payable	\$(2,450,000)
Less: Deferred charges/loss on issuance (to be amortized over life of debt)	91,628
Notes payable	(181,774)
Accrued interest payable	(9,502)
Compensated absences	<u>(366,149)</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u><u>\$(2,915,797)</u></u>

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Another element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.” The details of this \$57,031,686 difference are as follows:

Capital assets used in governmental fund operations	\$80,820,615
Less: Accumulated depreciation	<u>(23,788,929)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$57,031,686</u>

Another element of that reconciliation explains that “Net Pension and Net OPEB Assets or Obligations are not considered to represent a financial resource or liability and, therefore, are not reported in the funds. The details of this \$1,278,776 difference are as follows:

Net pension obligation	\$ (33,677)
Net OPEB obligation	<u>(1,245,099)</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$(1,278,776)</u>

Another element of that reconciliation explains that “Other assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. The details of this \$1,465,603 difference are as follows:

Property taxes receivable	\$ 114,010
Grants receivable	1,211,766
Court ordered fines receivable – net	<u>139,827</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$1,465,603</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated

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useful lives and reported as depreciation expense.” The details of this \$3,637,914 difference are as follows:

Capital outlay	\$ 5,496,705
Depreciation expense	<u>(1,858,791)</u>
Net adjustment to increase <i>net changes in funds balances- total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 3,637,914</u>

Another element of that reconciliation states that “The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.” The details of this \$2,512,452 difference are as follows:

Transfers of capital assets from proprietary funds increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	\$2,512,452
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i> .	<u>\$2,512,452</u>

Another element of that reconciliation states that “Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this \$991,969 difference are as follows:

Property taxes	\$ (6,048)
Miscellaneous grants	1,021,127
Court ordered fines	<u>(23,110)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i> .	<u>\$ 991,969</u>

Another element of that reconciliation states that “The issuance of long-term debt (e.g., bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are

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deferred and amortized in the statement of activities.” The details of this \$157,313 difference are as follows:

Principal repayments:	
General obligation debt	\$ (135,000)
Note payable	<u>(22,713)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i> .	<u>\$ (157,713)</u>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$13,576 difference are as follows:

Compensated absences	\$ 19,685
Amortization of issuance costs	(3,321)
Amortization of deferred charge on refunding	<u>(2,788)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i> .	<u>\$ 13,576</u>

III. Stewardship, compliance, and accountability

A. Budgetary information

Biennial budgets are adopted for the general and special revenue funds on the modified accrual basis of accounting. Proprietary fund budgets are also adopted utilizing the modified accrual basis of accounting. Except as noted below, for governmental funds, there are no material differences between the budgetary basis and generally accepted accounting principles. Budgetary accounts are integrated in funds ledgers for all budgeted funds, but the financial statements include budgetary comparisons for annually budgeted governmental funds only. Budgets for debt service and capital project funds are only required to be adopted at the level of the individual debt issue or project and for fiscal periods that correspond to the lives of the debt issues or projects, however the City of Kelso also budgets on a biennial basis as well. NCGA Statement 1 does not require, and the financial statements do not present, budgetary comparisons for proprietary fund types. Biennial budgets are adopted at the level of the fund, and the budgets constitute the legal authority for expenditures at that level. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, the subsidiary ledgers monitor expenditures for individual functions and activities by object class. Appropriations for general and special revenue funds lapse at year-end.

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The City of Kelso's budget procedures are mandated by RCW 35A.34. The following is a summary of the budget process:

Prior to November 1, of even-numbered years, the City Manager submits a proposed budget to the City Council. This budget is based on priorities established by the Council and estimates provided by City departments during the preceding months, and balanced with revenue estimates made by the City Manager. The Council conducts public hearings on the proposed budget in November and December. The Council makes its adjustments to the proposed budget and adopts by ordinance a final balanced budget no later than December 31. Within 30 days of adoption, the final budget is available to the public.

The City Manager is authorized to transfer budgeted amounts between departments within any fund and object classes within departments; however, any revisions that alter the total expenditures of a fund or that effect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council. When the City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by a simple majority plus one upon second reading of the proposed ordinance amending the budget. The 2013 budget was amended three times. Budget amounts shown in the fund financial statements include the original budget amounts plus the revised budget amounts approved by the City Council.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City of Kelso.

B. Budgetary/GAAP basis reconciliation

In accordance with GASB Statement No. 54, the City reclassified certain funds within the governmental fund types for reporting purposes for fiscal year 2013. For budgetary and internal reporting the City classifies its street, library, parks, façade, and Kelso station funds as special revenue funds. Under GASB 54, these funds do not meet the criteria to be classified as special revenue funds and are reported as part of the general fund in the basic financial statements, thus creating a basis difference. Basis differences arise when the budgetary basis of accounting differs from the basis of accounting applicable to fund types when reporting on operations in accordance with GAAP. This difference is comprised of the following in the general fund:

Revenues:

Street fund	\$ 617,782
Library fund	441,682
Kelso Station fund	43,954
Parks Fund	228,243
Façade Fund	-

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Expenditures:

Street fund	(549,468)
Library fund	(429,557)
Kelso Station fund	(40,555)
Parks Fund	(214,543)
Façade Fund	<u>-</u>

Total General fund Basis difference \$ 97,538

C. Deficit fund balance

The Arterial Street Fund deficit of \$1,216,798 is due to accounting for an interfund loan in this fund while the capital assets constructed with the loan proceeds are not. Also, the Arterial Street fund has accrued grants receivable at year end in the amount of \$893,272 which are not available to pay for current-period expenditures and, therefore, are deferred in the funds. A deficit balance is normal for this type of situation.

At December 31, 2013, the Stadium Fund had a deficit of \$10,551. During 2013, the City constructed a visitor's information center for \$310,366 using Stadium fund monies. To help finance this building, the local chamber of commerce contributed \$100,000. In return, the City is allowing the Chamber to use the building for their operations for 99 months. The City subsequently had to defer the \$100,000 contribution while the capital asset constructed with the proceeds is not included on the Stadium fund balance sheet. A deficit balance is normal for this type of situation.

IV. Detailed notes on all funds

A. Deposits and investments

The City of Kelso's deposits are entirely covered by Federal Depository Insurance or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (WPDPC). Under State statute, members of WPDPC may be assessed losses on a prorated basis if the pool's collateral provides insufficient coverage. Deposits collateralized in the collateral pool are considered insured, and therefore not exposed to custodial credit risk. At year end, the City's carrying amount of deposits was \$2,941,328 and the bank balance was \$2,848,156.

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As of December 31, 2013, the City had the following investments:

Investment	Maturities	Fair Value
Federal Farm Credit Bank	2/21/2017	\$ 1,391,162
Federal National Mortgage Association	3/28/2016	\$ 1,599,147
State Treasurer's investment pool	< 90 days	<u>\$ 6,866,078</u>
Total investments		<u>\$ 9,856,387</u>

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The City's investment policy further limits its investment choices to include the following:

- Investment deposits, including certificates of deposit, with qualified public depositories.
- Certificates, notes, or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States. (However, this specifically excludes Collateralized Mortgage Obligations (CMOs), Real Estate Mortgage Investment Conduits (REMICs), and other Principal Only (POs) and Interest Only (IOs) obligations that are secured with mortgages issued by any federal agency, instrumentality or private firm).
- Obligations of government-sponsored corporations which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. (These include but are not limited to Federal Home Loan Bank notes and bonds, Federal Farm Credit Bank consolidated notes and bonds, Federal National Mortgage Association notes, debentures, and guaranteed certificates of participation.)
- Washington State Local Government Investment Pool.
- Lawfully issued debt obligations of the agencies and instrumentalities of the State of Washington and its political subdivisions that have a long-term credit rating of A1/A+ or higher by a nationally recognized rating agency at the time of investment. General obligation bonds of a state other than the State of Washington and general obligation bonds of a local government of a state

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other than the State of Washington that have a long-term credit rating of A1/A+ or higher by a nationally recognized rating agency at the time of investment.

The City's investment in the State's investment pool is not rated. However, the investment pool's investment policy limits the types of securities available for investment to obligations of the U.S. government or its agencies, obligations of government-sponsored corporations, bankers' acceptances, commercial paper, certificates of deposit, or obligations of the State of Washington or its political subdivisions. Bankers' acceptances and commercial paper must be rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations at the time of purchase.

Custodial Credit Risk – Investments

For investments, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy with regard to custodial credit risk, however, for all of 2013, the City's investments were either in the Washington State Local Government Investment Pool or held in a custodial safekeeping account with a bank.

Concentration of Credit Risk

The city's investment policy states that no more than 90% of the total portfolio may be invested in certificates of deposits, federal agency securities, or U.S. Treasuries. Further, no more than 25% of the total portfolio will be invested in obligations of the State of Washington or its political subdivisions and no more than 10% of the portfolio in any one bond issue.

B. Receivables

Receivables as of year end for the City's individual major funds and nonmajor funds in the aggregate, are as follows (amounts are expressed in thousands of dollars):

	<u>General</u>	<u>Arterial Street</u>	<u>Solid Waste</u>	<u>Water/ Sewer</u>	<u>Non- major Govt. Funds</u>	<u>Non- major Prop. Funds</u>	<u>Total</u>
Receivables:							
Taxes	\$1,335	\$ -	\$ -	\$ -	\$ -	\$ -	\$1,335
Accounts	217	-	219	1,242	2	101	1,781
Special Assessments	-	21	-	-	-	-	21
Intergovernmental	447	1,458	6	-	40	2	1,953
Long-term notes	-	-	-	-	679	-	679
Net total receivables	<u>\$1,999</u>	<u>\$1,479</u>	<u>\$ 225</u>	<u>\$1,242</u>	<u>\$ 721</u>	<u>\$ 103</u>	<u>\$5,769</u>

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Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of these deferrals reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (general fund)	\$ 114,010	\$ -
Delinquent Court ordered fines receivable (general fund)	139,827	-
Grants receivable (general fund)	318,494	-
Grants receivable (arterial street fund)	893,272	-
Special assessments not due yet (arterial street fund)	-	21,217
Prepaid lease (Non-major fund)	-	98,987
Total deferred/unearned revenue for governmental funds	<u>\$1,465,603</u>	<u>\$120,204</u>

C. Capital assets

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

	Beginning Balance	<u>Increases</u>	<u>Decreases</u>	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$18,133,171	\$ 455,580	\$ -	\$18,588,751
Construction in progress	<u>3,095,640</u>	<u>4,865,638</u>	<u>46,195</u>	<u>7,915,083</u>
Total capital assets, not being depreciated	<u>21,228,811</u>	<u>5,321,218</u>	<u>46,195</u>	<u>26,503,834</u>
Capital assets, being depreciated:				
Buildings	11,432,550	795,130	-	12,227,680
Improvements other than buildings	3,364,870	2,828,080	-	6,192,950
Machinery and equipment	2,431,656	556,808	-	2,988,464
Infrastructure	<u>34,295,463</u>	<u>326,413</u>	<u>-</u>	<u>34,621,876</u>
Total capital assets being depreciated	<u>51,524,539</u>	<u>4,506,431</u>	<u>-</u>	<u>56,030,970</u>
Less accumulated depreciation for:				
Buildings	3,820,784	550,534	-	4,371,318
Improvements other than buildings	1,578,279	1,324,114	-	2,902,393
Machinery and equipment	2,112,254	335,446	-	2,447,700
Infrastructure	<u>14,253,503</u>	<u>1,173,788</u>	<u>-</u>	<u>15,427,291</u>
Total accumulated depreciation	<u>21,764,820</u>	<u>3,383,882</u>	<u>-</u>	<u>25,148,702</u>
Total capital assets, being depreciated, net	<u>29,759,719</u>	<u>1,122,549</u>	<u>-</u>	<u>30,882,268</u>
Governmental activities capital assets, net	<u>\$50,988,530</u>	<u>\$ 6,443,767</u>	<u>\$ 46,195</u>	<u>\$57,386,102</u>

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	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 484,292	\$ -	\$ 455,580	\$ 28,712
Construction in progress	<u>4,660,909</u>	<u>868,747</u>	<u>4,563,974*</u>	<u>965,682</u>
Total capital assets, not being depreciated	<u>5,145,201</u>	<u>868,747</u>	<u>5,019,554</u>	<u>994,394</u>
Capital assets, being depreciated:				
Buildings and structures	7,358,137	3,812,632	531,821	10,638,948
Improvements other than buildings	30,139,138	44,161	2,781,023	27,402,276
Machinery and equipment	<u>3,844,594</u>	<u>422,302</u>	<u>152,046</u>	<u>4,114,850</u>
Total capital assets being depreciated	<u>41,341,869</u>	<u>4,279,095</u>	<u>3,464,890</u>	<u>42,156,074</u>
Less accumulated depreciation for:				
Buildings and structures	2,090,306	140,847	236,392	1,994,761
Improvements other than buildings	12,569,661	523,079	1,020,772	12,071,968
Machinery and equipment	<u>3,258,813</u>	<u>146,382</u>	<u>150,853</u>	<u>3,254,342</u>
Total accumulated depreciation	<u>17,918,780</u>	<u>810,308</u>	<u>1,408,017</u>	<u>17,321,071</u>
Total capital assets, being depreciated, net	<u>23,423,089</u>	<u>3,468,787</u>	<u>2,056,873</u>	<u>24,835,003</u>
Business-type activities capital assets, net	<u>\$28,568,290</u>	<u>\$ 4,337,534</u>	<u>\$7,076,427</u>	<u>\$25,829,397</u>

*Includes \$443,094 transfer to Southwest Washington Regional Airport Joint Venture. See Note V. H.

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:	
General government	\$ 185,808
Security of persons and property	10,734
Physical environment	1,292
Transportation	1,380,272
Culture and recreation	280,685
Capital assets held by the City's internal service funds are charged to various functions based on usage of assets.	<u>117,073</u>
Total depreciation expense – governmental activities	<u>\$1,975,864</u>
Business-type activities:	
Water	\$ 377,433
Sewer	298,017
Storm drains	23,840
Capital assets held by the City's internal service funds are charged to various functions based on usage of assets.	<u>111,018</u>
Total depreciation expense – business-type activities	<u>\$ 810,308</u>

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Construction commitments

The City of Kelso has one active construction project as of December 31, 2013. The project includes the realignment of a major roadway in West Kelso. At year end the City's commitment with the prime contractor is as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Road realignment project	\$1,216,234	\$2,991,749

D. Interfund receivables, payables, and transfers

The composition of interfund balances as of December 31, 2013, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Arterial Street	\$ 500,000	Roadway improvements
Nonmajor govt.	Arterial Street	129,500	2010 overlay project
Internal service fund	Arterial Street	250,000	Roadway improvements

Advances to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
Nonmajor govt.	Arterial Street	387,630	2010 overlay project

Interfund transfers:

<u>Transfer out</u>	<u>Transfer in</u>	<u>Amount</u>	<u>Purpose</u>
General fund	Arterial Street	\$ 329,550	2013 overlay project
	Nonmajor govt.	141,119	Debt service
	Water/Sewer	55,576	Fire hydrant maintenance
	Nonmajor govt.	2,400	Routine operating
Nonmajor prop.	General fund	2,512,452	Airport fund closure
Nonmajor govt.	Arterial Street	50,000	2013 overlay project
Nonmajor govt.	Nonmajor govt.	40,000	Debt service
Nonmajor govt.	Nonmajor govt.	10,000	Routine operating
Internal service fund	Nonmajor prop.	<u>19,892</u>	Airport fund closure
Total		<u>\$3,160,989</u>	

E. Long-term debt

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as

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20-year serial bonds with varying amounts of principal maturing each year. The debt service on general obligation bonds is paid from debt service funds. Debt service for voter approved issues is funded by special property tax levies. Debt service for City Council authorized or Councilmanic issues are funded from general government revenue sources. The original amount of general obligation bonds issued in prior years was \$2,710,000. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities – City Hall construction	.60% – 3.80%	<u>\$2,450,000</u> <u>\$2,450,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year ending</u> <u>December 31</u>	<u>Governmental activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 135,000	\$ 72,080
2015	140,000	70,528
2016	140,000	68,428
2017	145,000	65,768
2018	145,000	63,013
2019-2023	800,000	255,137
2024-2028	<u>945,000</u>	<u>110,390</u>
Total	<u>\$2,450,000</u>	<u>\$ 705,344</u>

The City has also received several government loans for the construction of capital projects. Government loans outstanding at year-end are as follows:

<u>Issuance</u>	<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
1998 PWTF – Allen St. Bridge	Governmental activities	3.00%	\$ 28,301
2002 PWTF – 16 th Avenue retaining wall	Governmental activities	4.00%	153,473
1999 DWSRF – water treatment plant	Business-type activities	2.50%	755,398
2001 DWSRF – water treatment plant	Business-type activities	1.50%	<u>716,330</u>
Total government loans			<u>\$1,653,502</u>

Annual debt service requirements to maturity for governmental loans are as follows:

<u>Year ending</u> <u>December 31</u>	<u>Governmental activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 22,713	\$ 6,988	\$ 187,507	\$ 29,630
2015	22,713	6,136	187,506	25,738
2016	22,713	5,284	187,506	21,846
2017	22,713	4,432	187,506	17,955
2018	22,713	3,580	187,506	14,063
2019-2023	<u>68,209</u>	<u>6,821</u>	<u>534,197</u>	<u>20,032</u>
Total	<u>\$181,774</u>	<u>\$ 33,241</u>	<u>\$1,471,728</u>	<u>\$129,264</u>

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Revenue bonds

The City also issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. In 2010, the City of Kelso issued \$4,475,000 of revenue bonds. These Water and Sewer Revenue Bonds, 2010 Series A (Tax-Exempt Bonds) (the “Series A Bonds”) in the aggregate principal amount of \$810,000 and the Water and Sewer Revenue Bonds, 2010 Series B (Taxable Recovery Zone Economic Development Bonds – Direct Payment) (the “Series B Bonds,”) in the aggregate principal amount of \$3,665,000, were issued to provide the funds necessary to construct a new water reservoir and replace certain water mains and water meters in the City. The City has designated the Series B Bonds as “recovery zone economic development bonds” for purposes of Section 1400U-2 of the Internal Revenue Code, such that a Tax Credit Subsidy Payment will be allowed to the City pursuant to Section 6431 of the Code in an amount up to 45% of the interest payable on the Series B Bonds on each interest payment date. The interest rate on the “Series A” bonds range from 1.10% – 3.25% and the maturity date is December 1, 2018. The interest rate on the “Series B” bonds range from 5.50%* – 7.40%* and the maturity date is December 1, 2031. The original amount of revenue bonds issued in prior years was \$5,390,000.

* Interest rate shown is not net of federal subsidy

Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type activities – refunding	2.40% - 4.20%	\$ 500,000
Business-type activities – tax exempt	1.10% - 3.25%	510,000
Business-type activities – taxable	5.50% - 7.40%	<u>3,665,000</u>
		<u>\$4,675,000</u>

Revenue bond debt service requirements to maturity are as follows:

<u>Year ending December 31</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest*</u>
2014	\$ 195,000	\$ 287,198
2015	195,000	280,850
2016	200,000	274,255
2017	205,000	266,950
2018	215,000	259,290
2019-2023	1,195,000	1,130,694
2024-2028	1,455,000	700,475
2029-2033	<u>1,015,000</u>	<u>152,070</u>
Total	<u>\$4,675,000</u>	<u>\$3,351,782</u>

*Interest is not net of Federal Subsidy

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Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
General obligation bonds	\$2,585,000	\$ -	\$ 135,000	\$2,450,000	\$ 135,000
Discount	(44,599)	-	(2,788)	(41,811)	-
Public Works Trust Fund	204,487	-	22,713	181,774	22,713
Compensated absences	385,834	366,149	385,834	366,149	91,537
Net Pension obligation	29,673	4,004	-	33,677	-
Net OPEB obligation	<u>1,073,667</u>	<u>171,432</u>	<u>-</u>	<u>1,245,099</u>	<u>-</u>
Governmental activity Long-term liabilities	<u>\$4,234,062</u>	<u>\$ 541,585</u>	<u>\$ 540,759</u>	<u>\$4,234,888</u>	<u>\$ 249,250</u>
Business-type activities:					
Revenue bonds	\$4,865,000	\$ -	\$ 190,000	\$4,675,000	\$ 195,000
Discount	(77,766)	-	(5,892)	(71,874)	-
Drinking Water State Revolving Fund	1,659,234	-	187,506	1,471,728	187,507
Notes payable	55,000	-	55,000	-	-
Compensated absences	<u>120,330</u>	<u>96,667</u>	<u>120,330</u>	<u>96,667</u>	<u>24,167</u>
Business-type activity Long-term liabilities	<u>\$6,621,798</u>	<u>\$ 96,667</u>	<u>\$ 546,944</u>	<u>\$6,171,521</u>	<u>\$ 406,674</u>

For the governmental activities, compensated absences are generally liquidated by the general fund. Pension and OPEB liabilities are liquidated by the general or firemen's pension funds.

V. Other information

A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City carries insurance.

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

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 162 members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

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

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

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

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

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

Settlements have not exceeded coverages for each of the past three fiscal years.

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The City is self insured for amounts related to unemployment claims. The City pays these claims on a pay-as-you go basis and does not set aside funds for future claims. The City made the following payments for unemployment claims:

2013	\$6,565
2012	\$26,993
2011	\$40,449

B. Property Taxes

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities.

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.

Property taxes are recorded as a receivable when levied, offset by a deferred inflow of resources. During the year, property tax revenues are recognized when cash is collected. The amount of taxes receivable at year-end that would be collected soon enough to be available to pay liabilities of the current period is immaterial.

The City of Kelso may levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services and 22.5 cents per \$1,000 for local Fire Pension Funds. However, the amount is reduced by the Fire District #2 annexation. Fire District #2 may levy up to a maximum of \$1.50 per \$1,000 of assessed valuation. The City's levy is also subject to the following two limitations:

The Washington State Constitution limits the total regular property taxes to 1 percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1 percent limit.

Washington State law in RCW 84.55.010 limits the growth of regular property taxes to the lesser of 1 percent per year, or the Implicit Price Deflator. Adjustments for new

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construction are excluded from this calculation. If the assessed valuation increases by more than 1 percent due to revaluation, the levy rate will be decreased.

The City's regular levy for 2013 was \$2.0116 per \$1,000 on an assessed valuation of \$680,263,551 for a total regular levy of \$1,368,390.

C. Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by the grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by these grantors, cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

D. Joint Ventures

Three Rivers Regional Waste Water Authority

In 1996 the City of Kelso entered into an interlocal agreement with Cowlitz County, the City of Longview, and Beacon Hill Sewer District, to form the Three Rivers Regional Waste Water Authority (TRRWA). The TRRWA was created so that the participating entities can equitably share in the operations and improvements of the central sewage treatment facility. The TRRWA is governed by a four member board. This board is made up of an appointed representative from each jurisdiction.

Each entity is obligated to make monthly payments to the TRRWA based on the following criteria: TRRWA formulates its preliminary annual budget by the last working day of September each year. Each entity's appointed representative then submits its proportionate share of TRRWA's budget to their respective jurisdiction for incorporation of the expense into the entity's sewer enterprise fund budget. Expenses for maintenance and operations, repairs and replacements to existing facilities, and debt service are funded by the participating entities based on their proportionate share of flow to the Facilities as determined by the TRRWA. Capital improvements to the Facility are funded by System Development Charges by each entity's sewage utility fund or in proportion to each jurisdictions respective flow to the facilities. Payments made to TRRWA by the City in 2013 were \$2,551,004.

This agreement may not be terminated so long as there remains outstanding any bonds or other debt or loan obligations payable from the TRRWA rates described above. Upon termination of the agreement, each entity's interest in the net position shall be deemed to be equal to their proportionate share of payments over the then previous 12

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calendar months. The City does not have an equity interest in the TRRWA. Complete financial statements for the TRRWA can be obtained from the TRRWA at 207 4th Avenue North, Kelso, WA 98626.

Southwest Washington Regional Airport Board

In 2012 the City of Kelso entered into an interlocal agreement with Cowlitz County, the City of Longview, and the Port of Longview, to form the Airport Operations Board (The Board). The Board was created so that the participating entities can equitably share in the operations and improvements of the Southwest Washington Regional Airport. However, the City of Kelso retains final decision making authority in all decisions as may be required of a sponsor by the Federal Aviation Administration (FAA) under the grant assurances included in Kelso's previous and future grant agreements. The Board is governed by a five member board. This board is made up of an appointed representative from each jurisdiction plus one at large member.

The Board formulates its preliminary annual budget and submits it to each participating jurisdiction prior to August 1, of each year. Estimated expenses for maintenance and operations, repairs and replacements to existing facilities, capital projects, and debt service are netted against estimated airport operating revenues to determine the amount of annual subsidy required by the participating jurisdictions. Each jurisdiction is responsible for 25% of the estimated subsidy. Payments made to the airport by the City in 2013 were \$60,000.

This agreement may be terminated at any time upon the approval by a super-majority of the entities. All assets and liabilities acquired by the Board will remain the property of the airport and used for airport maintenance and operations consistent with FAA's Revenue Use Policy. In the event the airport ceases to operate, any assets or liabilities remaining from such property acquired after the commencement of this agreement, and after the full satisfaction of all federal obligations, grant repayments to the FAA, and satisfaction of FAA's Revenue Use Policy, shall be distributed to the parties in the same proportion as the financial contribution of the parties for its acquisition.

As of December 31, 2013, the City's ongoing financial responsibility is minimal. In addition, the airport has less than \$50,000 in outstanding long-term obligations and is not accumulating significant resources or experiencing fiscal stress that would cause additional material financial benefit or burden on the City in the future. The airport does not issue stand-alone financial statements.

E. Post employment benefits other than pension benefits

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

Plan description. The City of Kelso administers a single-employer defined benefit healthcare plan. It is a closed plan that provides post-retirement health care benefits, in

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accordance with State statute to all LEOFF 1 (law enforcement officers and fire fighters hired prior to October 1, 1977) retirees. Currently, there are 18 LEOFF 1 retirees who are eligible to receive necessary medical and hospitalization coverage.

The City reimburses one hundred percent of the amount of validated claims for medical and hospitalization costs incurred by retirees. State statute provides that the City's responsibility for medical payments of LEOFF 1 retirees is secondary to any other coverage retirees receive or are eligible to receive. Therefore, upon reaching age 65, the City requires the retirees to apply for and utilize Medicare Part B coverage. In 2013, the City's cost for these Medicare premiums was \$17,351. This expenditure represents a fixed amount of approximately \$111 per month for 13 LEOFF 1 retirees.

Funding Policy. Employer contributions are financed on a pay-as-you-go basis. Expenditures for post-retirement health care benefits are recognized as retirees report claims. During the year, expenditures of \$276,032 were recognized for post-retirement health care.

Annual OPEB Cost and Net OPEB Obligation. The City's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed fifteen years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the plan:

Annual required contribution	\$ 502,277
Interest on net OPEB obligation	48,456
Adjustment to annual required contribution	<u>(103,269)</u>
Annual OPEB cost	447,464
Contributions made	<u>276,032</u>
Increase in net OPEB obligation	171,432
Net OPEB obligation beginning of year	<u>1,073,667</u>
Net OPEB obligation end of year	<u>\$1,245,099</u>

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Three Year Trend Information:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Percentage Contributed</u>		<u>Net OPEB Obligation</u>
	<u>Annual OPEB Cost</u>	<u>Percentage of annual OPEB cost contributed</u>	
12/31/11	\$467,583	65.50%	\$ 944,435
12/31/12	\$456,194	71.67%	\$1,073,667
12/31/13	\$447,464	61.69%	\$1,245,099

Funded Status and Funding Progress. As of December 31, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$5,394,230, all of which was unfunded. The covered payroll ratio is not applicable to this plan as all members are retired.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about mortality and the healthcare cost trend.

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical patterns of benefit costs incurred by the employer to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Marital status- Not applicable, spouses are not eligible for benefits.

Termination and Mortality- Termination and mortality rates were assumed to follow the LEOFF 1 termination and mortality rates used in the June 30, 2009 actuarial valuation report issued by the Office of the Washington State Actuary (OSA). A single retirement age of 56.24 was assumed for all active members for the purposes of determining the actuarial accrued liability and normal cost.

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Healthcare cost trend rate- The expected rate of increase in healthcare costs was based on projections made by an independent actuary and used by OSA in a State-wide LEOFF 1 medical study performed in 2007. These 2007 projections were rolled over to OSA's 2009 study. A rate of 7.6 percent initially, reduced to an ultimate rate of 5.0 percent after 2016, was used.

Health insurance premiums- A 2007 survey of LEOFF 1 employers' health insurance premiums for retirees was used as the basis for calculation of the present value of total benefits to be paid.

Based on the historical and expected returns of the city's short-term investment portfolio, a discount rate of 4.5 percent was used. In addition, the projected unit credit actuarial cost method was used to determine the actuarial accrued liability, with results based on grouped data of 4 active and 4 inactive groupings. The unfunded actuarial accrued liability is being amortized as a level dollar amount. The remaining amortization period at December 31, 2013, is thirteen years.

This OPEB plan does not issue a stand-alone financial report nor is it included in the report of another entity.

Association of Washington Cities Employee Benefit Trust ("Trust")

Trust Description. The City is a Participating Employer in the Association of Washington Cities Employee Benefit Trust ("Trust"), a cost-sharing multiple-employer welfare benefit plan administered by the Association of Washington Cities. The Trust provides medical benefits to certain eligible retired employees of Participating Employers and their eligible family members. Under Article VII of the Trust document, the Trustees have the authority and power to amend the amount and the nature of the medical and other benefits provided by the Trust. The Trust issues a publicly available financial report that includes financial statements and required supplementary information for the Trust. That report, along with a copy of the Trust document, may be obtained by writing to Trust at 1076 Franklin Street SE, Olympia, WA 98501-1346 or by calling 1-800-562-8981.

Funding Policy. The Trust provides that contribution requirements of Participating Employers and of participating employees, retirees and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust. Retirees of the City receiving medical benefits from the Trust contribute the following monthly amounts:

AWC HealthFirst 1000

- \$830.01 for non-Medicare enrolled retiree coverage
- \$837.26 for non-Medicare enrolled spouse coverage

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- \$443.30 for Medicare enrolled retiree coverage
- \$456.13 for Medicare enrolled spouse coverage

AWC HealthFirst 2500

- \$724.72 for non-Medicare enrolled retiree coverage
- \$729.99 for non-Medicare enrolled spouse coverage
- \$388.08 for Medicare enrolled retiree coverage
- \$398.04 for Medicare enrolled spouse coverage

Participating Employers are not contractually required to contribute an assessed rate each year by the Trust for the retirees. The retiree pays for 100% of the premium.

F. Employee retirement systems and pension plans

Substantially all City of Kelso 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, and Amendment of GASB Statements No. 25 and No. 27*.

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 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.

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

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

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 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 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

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

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

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

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

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

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

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

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

PERS Plan 2 members who have at least 20 years of service credit, and are 55 years of age or older, are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

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

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

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This

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option is available only to those who are age 55 or older and have at least 30 years of service.

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

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

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

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

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

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

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

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

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December 31, 2013

- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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

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

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

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

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

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

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contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

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 covered payroll, as of December 31, 2013 were:

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

* The employer rates include the employer administrative expense fee currently set at 0.18%

** The employer rate for State elected officials is 13.73% for Plan1 and 9.21% for Plan2 and Plan 3.

*** Plan 3 defined benefit portion only

**** The employee rate for State elected officials is 7.50% for Plan 1 and 4.92% for Plan 2

***** Variable from 5% minimum to 15% maximum based on rate selected by the PERS 3 member

Both the City of Kelso and the employees made the required contributions. The City of Kelso's required contributions for the years ended December 31, were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	\$8,276	\$296,163	\$36,716
2012	\$7,952	\$244,662	\$38,430
2011	\$6,881	\$210,683	\$34,167

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2

Plan Description

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

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Notes to the Financial Statements
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Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

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

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of Final Average Salary
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If there is an eligible spouse, 50 percent of the FAS, plus 5 percent of the FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If there is no eligible spouse, eligible children receive 30 percent of the FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of the FAS, divided equally.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

CITY OF KELSO
Notes to the Financial Statements
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The LEOFF Plan 1 disability benefit is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability benefit or service retirement benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

CITY OF KELSO
Notes to the Financial Statements
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A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

Legislation passed in 2009 provides to the Washington state registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

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

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	10,189
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	689
Active Plan Members Vested	14,273
Active Plan Members Nonvested	<u>2,633</u>
Total	<u>27,784</u>

Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent, as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For DRS' Fiscal Year 2013, the state contributed \$54.2 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

CITY OF KELSO
Notes to the Financial Statements
December 31, 2013

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

	LEOFF Plan 1	LEOFF Plan 2
Employer*	.18%	5.23%**
Employee	0%	8.41%
State	N/A	3.36%
* The employer rates include the employer administrative expense currently set at 0.18%		
** The employer rates for ports and universities is 8.59%		

Both the City of Kelso and the employees made the required contributions. The City's required contributions for the years ended December 31, were:

	LEOFF Plan 1	LEOFF Plan 2
2013	\$0	\$283,557
2012	\$0	\$271,196
2011	\$0	\$263,777

Other Local Government Pension System

Plan description. The City of Kelso is also the administrator of a pension retirement system called the Firemen's Pension Fund. The Firemen's Pension Fund is a single employer defined benefit retirement plan. It is a closed plan that provides pension benefits some of which can be in excess of LEOFF benefits. The methods used to determine the amount of benefits payable are established under State statute in accordance with chapters 41.18 RCW(PRE-LEOFF) and 41.26 RCW(LEOFF). These statutes require a varying obligation of the City for benefits paid to Firefighters:

1. Pension benefits for firefighters retired prior to March 1, 1970, are to be paid in their entirety by the City in accordance with 41.18 RCW.
2. Firefighters hired before, but not retired on March 1, 1970, receive at retirement the greater of the pension benefit provided under PRE-LEOFF or under LEOFF. Any excess of the PRE-LEOFF benefit over the LEOFF benefit is provided by the City.

As of December 31, 2013, there were a total of 10 (all retired after March 1, 1970) retirees or widows included in the Firemen's Pension Fund.

The Firemen's Pension Fund does not issue a stand-alone financial report nor is it included in the report of another entity.

Summary of Significant Accounting Policies. The financial statements of the Firemen's Pension Fund are prepared using the accrual basis of accounting. Revenues are

CITY OF KELSO
Notes to the Financial Statements
December 31, 2013

recognized in the period in which they become due or are earned. Benefits paid by the Fund are recognized when due and payable in accordance with the terms of the plan. All pension fund investments are reported at fair value.

Funding policy. Contributions to the plan are provided entirely by the City. The major sources of revenue to fund contributions include sales and property taxes and interest earnings on investments. The City also received on behalf payments from taxes on fire insurance premium taxes in the amount of \$11,206. Pursuant to RCW 41.16.060 the City levies an additional 22.5 cents per \$1,000 of assessed value to pay expenses of the Firemen's Pension Fund. GASB Statements No. 25 and 27 require the performance of biennial actuarial valuations to determine minimum annual funding requirements. However, due to the small size of the plan and the fact that it is a closed plan, it is management's opinion that the cost of an additional actuarial would outweigh the benefits. Actual expenses for pension benefits in 2013 were \$56,419. Administrative costs of the plan are immaterial and financed on a pay-as-you-go basis for 2013. The results of the City's most recent actuarial is as follows:

The City is required to contribute an actuarially determined amount of \$94,444.

Annual Pension Cost (APC). For 2013, the City's annual pension cost (APC) and net pension obligation were as follows:

Annual required contribution	\$94,444
Interest on net pension obligation	2,077
Adjustment to annual required contribution	<u>(2,461)</u>
Annual pension cost	94,060
Contributions made	<u>90,056</u>
Increase in net pension obligation	4,004
Net pension obligation beginning of year	<u>29,673</u>
Net pension obligation end of year	<u>\$33,677</u>

The required contribution was determined as part of the January 1, 2000, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included 7% investment rate of return and projected salary increases of 5% per year. The actuarial value of assets was determined using fair market value. The unfunded actuarial accrued liability is being amortized as a level dollar amount over a closed 30-year period. The remaining amortization period at December 31, 2013 is 17 years.

CITY OF KELSO
Notes to the Financial Statements
December 31, 2013

Firemen's Pension Fund Three Year Trend Information:

<u>Annual Pension Percentage of APC</u>			
<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Contribution as a Percentage of APC</u>	<u>Net Pension Obligation</u>
12/31/11	\$94,280	91.74%	\$ 17,872
12/31/12	\$94,186	87.47%	\$ 29,673
12/31/13	\$94,060	95.74%	\$ 33,677

Funded status and Funding progress. As of January 1, 2000, the most recent actuarial valuation date, the plan was 9.01 percent funded. The actuarial accrued liability for benefits was \$1,288,000 and the actuarial value of assets was \$116,000, resulting in an unfunded actuarially accrued liability (UAAL) of 1,172,000. The ratio of the UAAL to the covered payroll of the City is not applicable as all members are retired.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2000
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar
Remaining amortization period	17 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7%
Projected salary increases	5%
Projected inflation rate	4%

G. Blended Component Unit

Kelso Transportation Benefit District

There is one blended component unit in the City's reporting entity. During 2012 the City Council passed an ordinance forming the Kelso Transportation Benefit District (TBD). RCW 36.73.020 grants cities the authority to establish a TBD. The governing

CITY OF KELSO
Notes to the Financial Statements
December 31, 2013

board of the TBD is the Kelso City Council acting in an ex officio and independent capacity.

The TBD's purpose is to acquire, construct, improve, provide, and fund transportation improvements within the district that is consistent with any existing State, regional and local transportation plan. RCW 36.73.065 gives the Kelso TBD authorization to impose taxes, fees, charges, and tolls. The Kelso TBD has approved a \$20 vehicle registration fee. The fee will be collected beginning July 1, 2013 and will be imposed on vehicles registering within the district's boundaries.

The Transportation Benefit District is accounted for in Fund 125, a Special Revenue Fund. Financial reporting for this fund can be found in the combining statements located in the governmental subsection of this report, which starts on Page 94.

H. Special Item

In February, 2012, the City of Kelso entered into an interlocal agreement with Cowlitz County, the City of Longview, and the Port of Longview, to establish an Airport Board ("Board") to participate jointly in the funding and decision-making for the operation, repair, improvement and regulation of the Southwest Washington Regional Airport and to assure the continued operation of the Airport for the benefit of all. Prior to this agreement, the airport was owned and operated by the City of Kelso.

On January 1, 2013, the Board took over as the decision making authority for the new jointly operated entity. In addition, on January 1, 2013, the City of Kelso transferred all airport assets (except for any land, buildings, improvements, or machinery and equipment) and liabilities to the Board. All capital assets of the airport were transferred to the City of Kelso General Fund. The Special Item amount included in Kelso's Basic Financial Statements is made up of the following:

Transfer to Airport Board	\$ 513,385
Transfer to General fund	<u>2,512,452</u>
Total Special Item	<u>\$ 3,025,837</u>

I. Reporting Changes

Implementation of GASB 61

For fiscal years that begin after June 15, 2012, GASB 61, *The Financial Reporting Entity; Omnibus; an amendment of GASB Statements No. 14 and No. 34*, became effective. This GASB became effective for the City of Kelso in 2013.

Implementation of GASB 65

For fiscal years that begin after December 15, 2012, GASB 65, *Items Previously Reported as Assets and Liabilities*, became effective. This GASB became effective for the City of Kelso in 2013.

CITY OF KELSO
Notes to the Financial Statements
December 31, 2013

Implementation of GASB 66

For fiscal years that begin after December 15, 2012, GASB 66, *Technical Corrections – 2012; an amendment of GASB Statements No. 10 and No. 62*, became effective. This GASB became effective for the City of Kelso in 2013.

CITY OF KELSO
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2013

Firemen's Pension Fund:

Schedule of Funding Progress:

Valuation <u>Date</u>	Actuarial Value of <u>Assets</u>	Actuarial Accrued <u>Liability</u>	Funding <u>Ratio</u>	Unfunded <u>AAL</u>	Total <u>Pay</u>	Unfunded AAL/Total <u>Pay</u>
1/1/95	\$22,436	\$1,773,969	1.26%	\$1,751,533	N/A	N/A
1/1/00	\$116,000	\$1,288,000	9.01%	\$1,172,000	N/A	N/A

Note: Total pay is not applicable because only retired firefighters are covered by the fund.

The fair market value of plan assets at December 31, 2013 is \$345,540.

Schedule of Employer Contributions:

Fiscal <u>Year</u>	Fire Insurance <u>Premium Tax</u>	Actual Employer <u>Contributions</u>	Total Employer <u>Contributions</u>	Annual Required Contribution <u>(ARC)</u>	Percentage of ARC <u>Contributed</u>
2009	\$9,548	\$ 78,082	\$ 87,630	\$94,444	92.8%
2010	\$10,167	\$ 58,916	\$ 69,083	\$94,444	73.1%
2011	\$10,620	\$ 75,878	\$ 86,497	\$94,444	91.6%
2012	\$10,113	\$ 72,272	\$ 82,385	\$94,444	87.2%
2013	\$11,205	\$ 78,851	\$ 90,056	\$94,444	87.2%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated.

Other Postemployment Benefits Other Than Pensions

Schedule of Funding Progress:

Valuation <u>Date</u>	Actuarial Value of <u>Assets</u>	Actuarial Accrued <u>Liability</u>	Funding <u>Ratio</u>	Unfunded <u>AAL</u>	Total <u>Pay</u>	Unfunded AAL/Total <u>Pay</u>
12/31/08	\$ 0	\$5,910,503	0%	\$5,910,503	N/A	N/A
12/31/11	\$ 0	\$5,394,230	0%	\$5,394,230	N/A	N/A

Note: Total pay is not applicable because only retired members are covered by the plan.

The fair market value of plan assets at December 31, 2013 is \$0.

CITY OF KELSO
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2013

Schedule of Employer Contributions:

<u>Fiscal Year</u>	<u>Total Employer Contributions</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>
2009	\$ 277,549	\$550,349	50.4%
2010	\$ 296,071	\$550,349	53.8%
2011	\$ 306,262	\$502,277	61.0%
2012	\$ 326,962	\$502,277	65.1%
2013	\$ 276,032	\$502,277	55.0%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated.

City of Kelso, Washington

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2013

Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Other Identification Number	Current Year Expenditures	Footnote Reference
U.S. Environmental Protection Agency Direct Program:				
Brownfields Assessment and Cleanup cooperative Agreements	66.818	00J80801	\$ 127,860	2
U.S. Dept of Justice Direct Program:				
Bulletproof Vest Partnership Program	16.607	N/A	\$ 1,128	2
U.S. Dept of Justice Pass-Through County: Cowlitz/Wahkiakum Narcotics Task Force:				
Edward Byrne Memorial Justice Assistance Program	16.738	M13-34021-007	46,059	2
Edward Byrne Memorial Justice Assistance Program	16.738	M12-34021-007	69,069	2
Joint Law Enforcement Operations	16.111	PA-WAW-0272	4,565	2
Total Department of Justice			\$ 120,821	
Executive Office of the President Pass-Through County Cowlitz/Wahkiakum Narcotics Task Force:				
High Intensity Drug Trafficking Areas Program	95.001	G12NW0011A	\$ 7,019	2
High Intensity Drug Trafficking Areas Program	95.001	G13NW0011A	2,223	2
Total Executive Office of the President			\$ 9,242	
U.S. Dept of HUD Pass-Through State: Department of Commerce:				
Community Development Block Grants/States Program and Non-entitlement Grants in Hawaii	14.228	08-F6401-007	\$ 11,269	2
Community Development Block Grants/States Program and Non-entitlement Grants in Hawaii	14.228	1-96-745-005	211	2,4
Total Department of HUD			\$ 11,480	
U.S. Dept of Transportation Direct Program:				
Airport Improvement Program	20.106	3-53-0034-014	\$ 151,822	2,3
U.S. Dept of Transportation Pass-Through State: Washington State Department of Transportation:				
Highway Planning & Construction	20.205	HSRP-0605(008)	74,769	2
Highway Planning & Construction	20.205	HPP-6736(003)	2,438,908	2
Washington State Traffic Safety Commission:				
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	N/A	414	2
Occupant Protection Incentive Grants	20.602	N/A	452	2
Washington Association of Sherriff's and Police Chiefs:				
State and Community Highway Safety	20.600	N/A	1,400	2
Total Department of Transportation			\$ 2,667,765	
TOTAL FEDERAL ASSISTANCE			\$ 2,937,168	

The Accompanying Notes To The Schedule of Expenditures of Federal Awards Are An Integral Part Of This Schedule.

City of Kelso
Notes to the Schedule of Expenditures of Federal Awards
December 31, 2013

Note 1 - Basis of Accounting

The Schedule of Financial Assistance is prepared on the same basis of accounting as the City of Kelso's financial statements. The City of Kelso uses the modified accrual basis of accounting for all Governmental Funds and the accrual basis of accounting for all Proprietary Funds.

Note 2 - Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City of Kelso's portion, may be more than shown.

Note 3 – Amounts Awarded to Sub Recipients

All amounts expended for this program were passed through to a sub recipient that administered its own project.

Note 4 – Revolving Loan - Program Income

The City has a revolving loan program for low income housing renovation. Under this federal program, repayments to the City are considered program revenues (income) and loans of such funds to eligible recipients are considered expenditures. The amount of loan funds disbursed to program participants for the year was \$11 and is presented in this schedule. The amount of principal and interest received in loan repayments for the year was \$200

Not Applicable (N/A)

The City of Kelso was unable to obtain other identification number.



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 as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

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Director of Performance and State Audit
Director of Local Audit
Deputy Director of State Audit
Deputy Director of Local Audit
Deputy Director of Local Audit
Deputy Director of Performance Audit
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