



**Office of the Washington State Auditor**  
**Pat McCarthy**

# **Financial Statements and Federal Single Audit Report**

## **City of Kelso**

**Cowlitz County**

**For the period January 1, 2017 through December 31, 2017**

**Published July 19, 2018**

**Report No. 1021728**





**Office of the Washington State Auditor  
Pat McCarthy**

July 19, 2018

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,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Kelso  
Cowlitz County  
January 1, 2017 through December 31, 2017**

### SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Kelso are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

#### Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

##### 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 in accordance with 2 CFR 200.516(a).

### **Identification of Major Federal Programs:**

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
66.468	Drinking Water State Revolving Fund Cluster – Capitalization Grants for Drinking Water State Revolving Funds

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.

## **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported.

**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, 2017 through December 31, 2017**

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, 2017, 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 27, 2018.

**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.



Pat McCarthy  
State Auditor  
Olympia, WA

June 27, 2018

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE**

**City of Kelso  
Cowlitz County  
January 1, 2017 through December 31, 2017**

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) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2017. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2017.

## **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 the Uniform Guidance, 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 the Uniform Guidance. 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, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

June 27, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **City of Kelso Cowlitz County January 1, 2017 through December 31, 2017**

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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 14.

### **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, 2017, 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.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 14 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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 27, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

June 27, 2018

## **FINANCIAL SECTION**

**City of Kelso  
Cowlitz County  
January 1, 2017 through December 31, 2017**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2017

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2017

Statement of Activities – 2017

Balance Sheet – Governmental Funds – 2017

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental  
Funds – 2017

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund  
Balances of Governmental Funds to the Statement of Activities – 2017

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual  
– General Fund – 2017

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual  
– Arterial Street Fund – 2017

Statement of Net Position – Proprietary Funds – 2017

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds  
– 2017

Statement of Cash Flows – Proprietary Funds – 2017

Statement of Net Position – Fiduciary Funds – 2017

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2017

Notes to the Financial Statements – 2017

### **REQUIRED SUPPLEMENTARY INFORMATION**

Information on Postemployment Benefits Other Than Pensions – 2017

Schedule of Employer Contributions – Public Employees Retirement System Plan 1 –  
2017

Schedule of Employer Contributions – Public Employees Retirement System Plan 2/3 –  
2017

Schedule of Employer Contributions – Law Enforcement Officers and Fire Fighters  
Retirement Plan 2 – 2017

Schedule of Proportionate Share of Net Pension Liability – Public Employees Retirement  
System Plan 1 – 2017

Schedule of Proportionate Share of Net Pension Liability – Public Employees Retirement  
System Plan 2/3 – 2017

Schedule of Proportionate Share of Net Pension Liability – Law Enforcement Officers and  
Fire Fighters Retirement Plan 1 – 2017

Schedule of Proportionate Share of Net Pension Liability – Law Enforcement Officers  
and Fire Fighters Retirement Plan 2 – 2017

## **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2017

Notes to the Schedule of Expenditures of Federal Awards – 2017

## 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, 2017. 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 and deferred inflows of resources at the close of the most recent fiscal year by \$97,607 (net position). Capital assets, net of depreciation and related debt, account for \$81,726 or 83.7% of total net position. \$14,287 or 14.6% 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 decreased by \$209 during 2017.
- As of the close of the current fiscal year, the City of Kelso's governmental funds reported combined ending fund balances of \$9,680, a decrease of \$2,174 in comparison with the prior year. Approximately 89% of this amount, \$8,577, 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 \$5,794, or 57% of total general fund expenditures.
- The City of Kelso's total debt (exclusive of compensated absences, bond discounts/premiums, and pension obligations) decreased by \$412 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 ten 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 and required supplemental information.

### **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 and deferred inflows of resources by \$97,607 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, 2017 with comparable data provided for the previous year.

<b>City of Kelso's Net Position</b>						
	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$12,417	\$13,964	\$ 11,602	\$ 11,475	\$ 24,019	\$ 25,439
Capital assets (net)	<u>61,833</u>	<u>59,405</u>	<u>29,111</u>	<u>27,331</u>	<u>90,944</u>	<u>86,736</u>
Total assets	<u>74,250</u>	<u>73,369</u>	<u>40,713</u>	<u>38,806</u>	<u>114,963</u>	<u>112,175</u>
Total deferred outflows of resources	<u>384</u>	<u>641</u>	<u>155</u>	<u>180</u>	<u>539</u>	<u>821</u>
Long-term liabilities outstanding	9,374	9,560	5,806	6,133	15,180	15,693
Other liabilities	<u>604</u>	<u>806</u>	<u>1,353</u>	<u>1,377</u>	<u>1,957</u>	<u>2,183</u>
Total liabilities	<u>9,978</u>	<u>10,366</u>	<u>7,159</u>	<u>7,510</u>	<u>17,137</u>	<u>17,876</u>
Total deferred inflows of resources	<u>605</u>	<u>78</u>	<u>153</u>	<u>35</u>	<u>758</u>	<u>113</u>
Net position:						
Net investment in capital assets	56,850	56,985	24,876	22,337	81,726	79,322
Restricted	1,115	1,085	479	478	1,594	1,563
Unrestricted	<u>6,086</u>	<u>5,496</u>	<u>8,201</u>	<u>8,626</u>	<u>14,287</u>	<u>14,122</u>
Total net position	<u>\$64,051</u>	<u>\$63,566</u>	<u>\$33,556</u>	<u>\$31,441</u>	<u>\$97,607</u>	<u>\$95,007</u>

By far the largest portion of the City's net position (83.7 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 (1.6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$14,287 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 decreased the City of Kelso's net position by \$1,414 in 2017. Revenues decreased by \$719 and expenditures increased by \$1,446 in 2017. Key elements for these changes are as follows:

- Capital grant revenues for airport improvements decreased by \$745 from prior year.

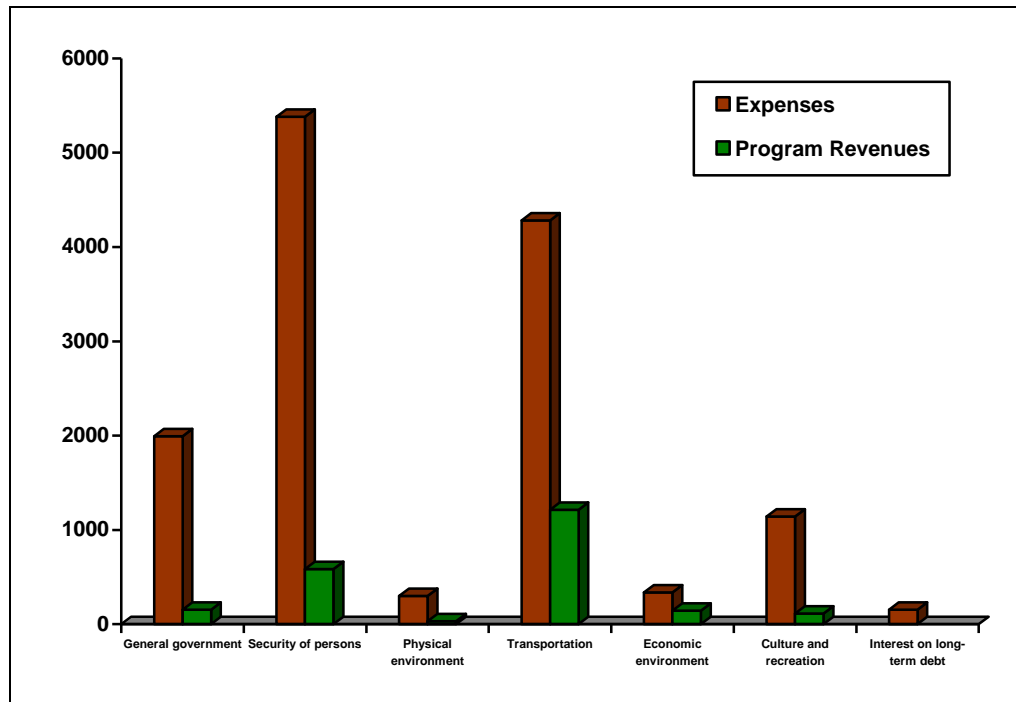
- Roadway maintenance expenditures increased by \$1,770 over prior year as the City completed some major street overlay projects.

**City of Kelso's Changes in Net Position**

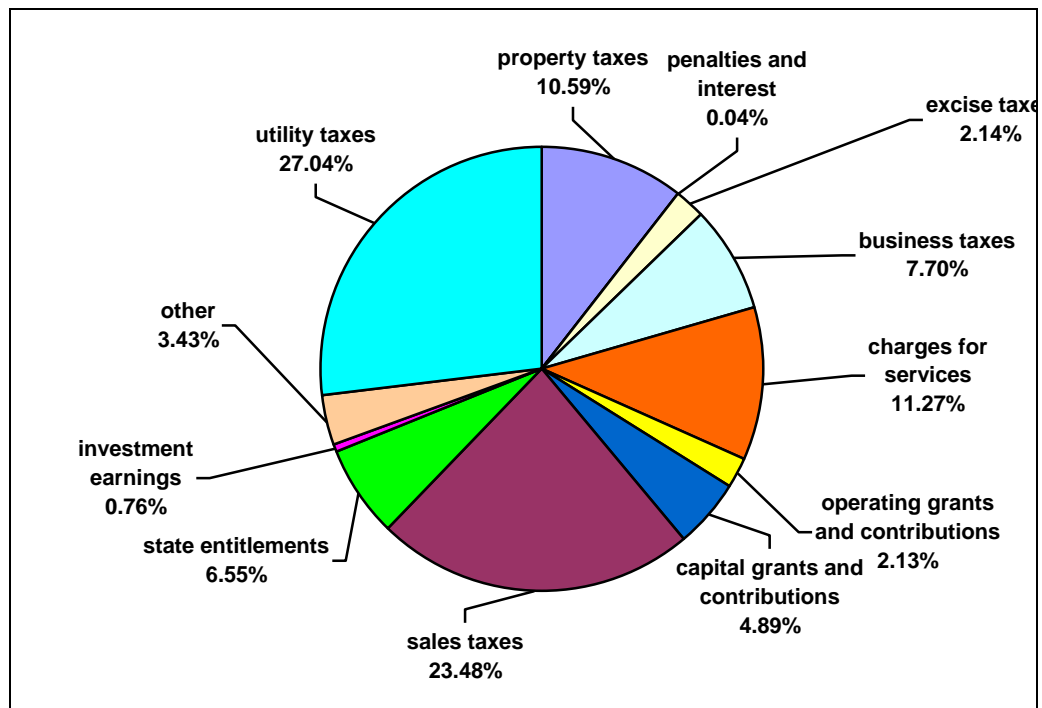
	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$1,384	\$1,320	\$11,437	\$11,314	\$12,821	\$12,634
Operating grants and contributions	261	192	44	25	305	217
Capital grants and contributions	601	1,460	165	1,144	766	2,604
General revenues:						
Property taxes	1,300	1,280	-	-	1,300	1,280
Sales and use taxes	2,883	2,899	-	-	2,883	2,899
Utility taxes	3,320	3,265	-	-	3,320	3,265
Business taxes	945	944	-	-	945	944
Excise taxes	263	188	-	-	263	188
Penalties and interest	5	6	-	-	5	6
State entitlements	804	763	-	-	804	763
Investment earnings	93	51	70	23	163	74
Miscellaneous	286	631	-	1	286	632
Gain/(loss) on sale of capital assets	<u>135</u>	<u>-</u>	<u>(264)</u>	<u>-</u>	<u>(129)</u>	<u>-</u>
Total revenues	<u>12,280</u>	<u>12,999</u>	<u>11,452</u>	<u>12,507</u>	<u>23,732</u>	<u>25,506</u>
Expenses:						
General government	2,031	1,863	-	-	2,031	1,863
Security of persons and property	5,392	5,134	-	-	5,392	5,134
Physical environment	324	338	-	-	324	338
Transportation	4,287	3,322	-	-	4,287	3,322
Economic environment	343	325	-	-	343	325
Culture and recreation	1,161	1,087	-	-	1,161	1,087
Interest on long-term debt	156	179	-	-	156	179
Water/Sewer	-	-	8,008	7,672	8,008	7,672
Storm water	-	-	665	609	665	609
Solid waste	<u>-</u>	<u>-</u>	<u>1,575</u>	<u>1,549</u>	<u>1,575</u>	<u>1,549</u>
Total expenses	<u>13,694</u>	<u>12,248</u>	<u>10,248</u>	<u>9,830</u>	<u>23,942</u>	<u>22,078</u>
Change in net position before transfers	(1,414)	751	1,204	2,677	(210)	3,428
Transfers	<u>-</u>	<u>17</u>	<u>-</u>	<u>(17)</u>	<u>-</u>	<u>-</u>
Change in net position	(1,414)	768	1,204	2,660	(210)	3,428
Net position – beginning, restated*	<u>65,465</u>	<u>62,798</u>	<u>32,352</u>	<u>28,781</u>	<u>97,817</u>	<u>91,579</u>
Net position – ending	<u>\$ 64,051</u>	<u>\$ 63,566</u>	<u>\$33,556</u>	<u>\$31,441</u>	<u>\$97,607</u>	<u>\$95,007</u>

\*Restated for 2016, see note V.I.

## Expenses and Program Revenues – Governmental Activities

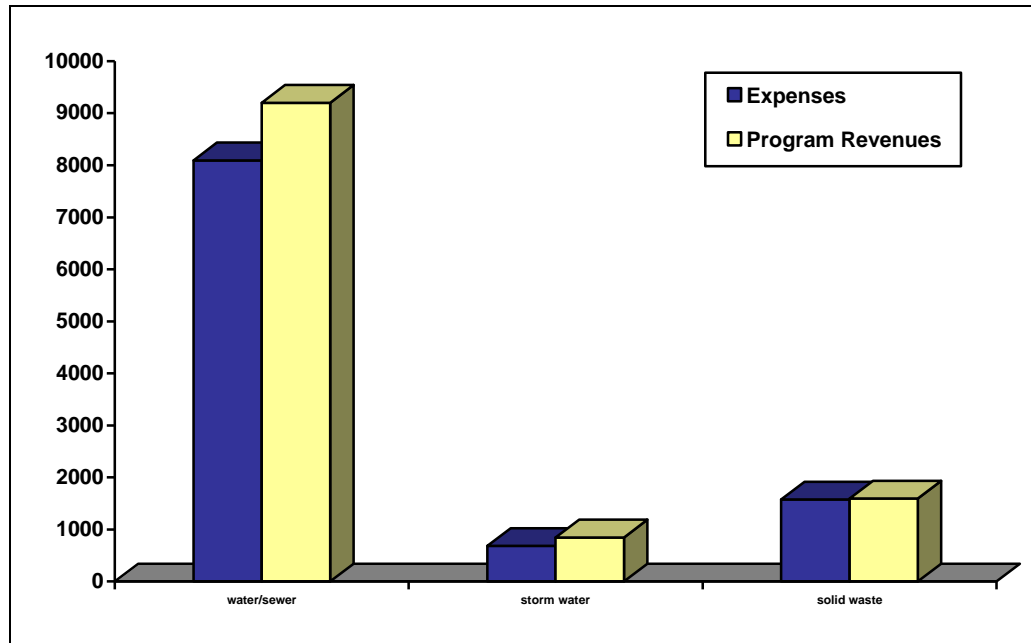


## Revenues by Source - Governmental Activities

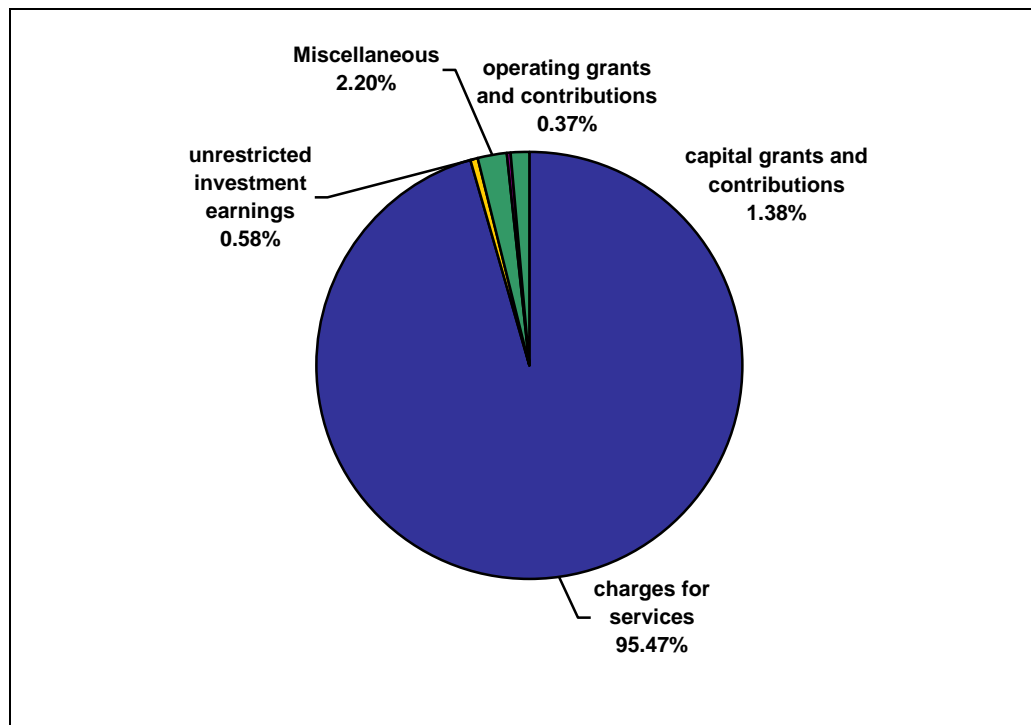


**Business-type activities.** Business-type activities increased the City of Kelso's net position by \$1,204. Business-type activity revenues decreased by \$1,055 and expenditures increased by \$418 in 2017. Operating revenues exceeded operating expenses in 2017 by \$1,134 in the water/sewer fund.

#### Expenses and Program Revenues – Business-type Activities



#### Revenues by Source – Business-type Activities



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

- Capital grant revenues decreased by \$979 from prior year.
- Staffing increased by 1 FTE in water/sewer in 2017.
- The City increased the water and sewer rates by 2% in 2017.
- The City increased the garbage collection rates by 4% in 2017.

## **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 \$9,680 a decrease of \$2,174 in comparison with the prior year. Approximately 89% of ending fund balance (\$8,577) 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 to indicate that it is not available for new spending because it is restricted 1) to pay for housing rehabilitation (\$612), 2) to pay for low income housing (\$53), 3) to pay for street maintenance & construction (\$35), 4) to pay for construction or debt service on certain capital projects (\$239), 5) for a variety of other restricted purposes (\$165)

As mentioned earlier, the City of Kelso maintains ten 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 \$5,913. All but \$432 of this fund balance is unassigned. \$119 is restricted for low income housing, criminal justice, and public education. \$312 has been assigned by the City for maintenance of City owned bridges. Unassigned fund balance represents 54.1 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 \$233 during the current fiscal year.

The fund balance of the City of Kelso's general fund increased by \$233 during the current fiscal year.

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 streets or for payment of related municipal indebtedness. In 2017, the arterial street fund expended in excess of \$3.3 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 \$6,840, and for the solid waste fund amounted to \$298. The total net position for the water/sewer fund increased by \$962 and the total net position for the solid waste fund increased by \$23. 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 \$337 increase in appropriations.

At the end of the year, budgetary estimates exceeded operating revenues by \$82. Operating expenditures and transfers were \$590 less than budgetary estimates.

The main factor that contributed to the variance in budgeted vs. actual expenditures can be attributed to the funding of certain airport projects scheduled for 2017 have been moved to the 2018 budget.

### **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, 2017 amounts to \$81,726 (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 2017, the City of Kelso completed the West Main Revitalization Project improving approximately 850 feet of West Main Street in Kelso. The improvements included new sidewalks, enhanced decorative crosswalks, new pavement, new decorative street lighting, and water quality facilities for treating storm water. These project improvements have created an enhanced environment for existing retail, professional and service businesses in the West Kelso area. The



project was funded primarily through federal and county grants, the Kelso Transportation Benefit District, State shared revenues, and a small percentage being funded by the City. The total cost of this project through December 31, 2017 was \$1,502.

- In 2017, the City completely rebuilt Yew St. from Pacific Avenue to Seventh Street. Also completed was an offsite stormwater sewer that extended to Walnut Street. Improvements also included curbs and gutters, sidewalks, driveway approaches, crosswalks, and stormwater rain gardens. The total cost of this project through December 31, 2017 was \$1,954.
- In 2017, the City also completed major improvements to Minor Road between Allen Street and Mt. Brynion Street. Improvements included storm sewer, curbs, gutters, storm facility construction, replacement of existing pavement, erosion control, pavement marking, signing, illumination system and a full reconstruction of approximately 300 feet of full width roadway. The total cost of this project through December 31, 2017 was \$1,621.

#### City of Kelso's Capital Assets

(net of depreciation)

	Governmental activities		Business-type activities		Total	
	2017	2016*	2017	2016*	2017	2016*
Land	\$23,022	\$23,022	\$ 29	\$ 29	\$23,051	\$23,051
Buildings and structures	7,034	6,984	7,587	8,028	14,621	15,012
Improvements other than buildings	3,704	2,542	17,936	16,694	21,640	19,236
Machinery and equipment	1,053	599	1,752	735	2,805	1,334
Infrastructure	26,367	22,918	-	-	26,367	22,918
Construction in progress	<u>653</u>	<u>3,340</u>	<u>1,807</u>	<u>1,845</u>	<u>2,460</u>	<u>5,185</u>
Total	<u>\$61,833</u>	<u>\$59,405</u>	<u>\$29,111</u>	<u>\$27,331</u>	<u>\$90,944</u>	<u>\$86,736</u>

\*Restated (see note V.I.)

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 \$4,800. 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	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$4,800	\$5,070	\$-	\$-	\$4,800	\$5,070
Revenue bonds	<u>-</u>	<u>-</u>	<u>3,880</u>	<u>4,085</u>	<u>3,880</u>	<u>4,085</u>
Total	<u>\$4,800</u>	<u>\$5,070</u>	<u>\$3,880</u>	<u>\$4,085</u>	<u>\$8,680</u>	<u>\$9,155</u>

The City of Kelso's total bonded debt decreased by \$475 during the current fiscal year.

In addition to the bonded debt mentioned above, the City has three Drinking Water State Revolving Fund loans outstanding at year end. The total amount outstanding at year end for these loans is \$972.

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 2017 was 6.1 percent, which is a decrease from a rate of 7.1 percent in 2016. This compares unfavorably to the State's average unemployment rate of 4.8 percent and the national average rate of 4.4 percent.
- In 2017, the City experienced a robust economy that provided higher than expected sales tax revenues. In addition, for the 2017/2018 biennium, the City increased utility taxes on water, sewer, and garbage by 2%.
- The City's ability to raise property taxes has been limited by Initiative 747. I-747 is a voter approved initiative that reduces the allowable property tax growth limit to the 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 2018 fiscal year.

At the end of the current fiscal year the unassigned fund balance in the general fund is \$5,482. In 2018, the City anticipates spending down \$805 of this unassigned fund balance. Most of the anticipated deficit stems from conservative revenue projections and certain capital projects that have been rolled over into 2018 from 2017.

In 2018, water and sewer non-industrial rates will be increased by 3% and 2%, respectively. Garbage and drainage rates will be increased by 2% and 4%, respectively. These rate increases are necessary to keep pace with inflation and for future capital upgrades.

### **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, 2017**

	<b>PRIMARY GOVERNMENT</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash & cash equivalents	\$ 6,254,063	\$ 8,169,220	\$ 14,423,283
Investments	1,782,115	790,963	2,573,078
Receivables (net of allowance for uncollectible):	2,203,625	1,797,967	4,001,592
Net pension asset	1,709,829	-	1,709,829
Long-term notes receivable	467,640	-	467,640
Restricted assets	-	844,033	844,033
Capital assets net of accumulated depreciation:			
Land	23,021,844	28,712	23,050,556
Buildings	7,033,839	7,587,483	14,621,322
Improvements other than buildings	3,704,639	17,935,365	21,640,004
Machinery and equipment	1,053,342	1,751,422	2,804,764
Infrastructure	26,366,658	-	26,366,658
Construction in progress	652,794	1,807,656	2,460,450
Total assets	<u>74,250,388</u>	<u>40,712,821</u>	<u>114,963,209</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on refunding	36,533	-	36,533
Deferred outflows related to pensions	347,374	154,472	501,846
Total deferred outflows of resources	<u>383,907</u>	<u>154,472</u>	<u>538,379</u>
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	489,482	970,315	1,459,797
Interest payable	13,330	16,556	29,886
Unearned revenue	100,986	-	100,986
Liabilities payable from restricted assets	-	365,523	365,523
Long-term liabilities:			
Due within one year	375,181	438,001	813,182
Due in more than one year	5,165,105	4,500,384	9,665,489
Net pension liability	1,301,693	867,795	2,169,488
Net OPEB liability	2,531,934	-	2,531,934
Total liabilities	<u>9,977,711</u>	<u>7,158,574</u>	<u>17,136,285</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	605,043	153,111	758,154
Total deferred inflows of resources	<u>605,043</u>	<u>153,111</u>	<u>758,154</u>
<b>NET POSITION</b>			
Net investment in capital assets	56,849,623	24,875,937	81,725,560
Restricted for:			
Debt service	-	478,510	478,510
Capital projects	239,074	-	239,074
Promotion of tourism	108,068	-	108,068
Paths and trails	1,786	-	1,786
Street maintenance/construction	35,221	-	35,221
Criminal Justice	40,912	-	40,912
Affordable housing	52,662	-	52,662
Housing/neighborhood rehabilitation	612,306	-	612,306
Public education	25,769	-	25,769
Unrestricted	6,086,120	8,201,161	14,287,281
Total net position	<u>\$ 64,051,541</u>	<u>\$ 33,555,608</u>	<u>\$ 97,607,149</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, 2017**

Functions/Programs	Program Revenues				Net (expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating		Primary Government		
			Grants and Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 2,031,140	\$ 154,849	\$ -	\$ -	\$ (1,876,291)	\$ -	\$ (1,876,291)
Security of persons and property	5,391,946	374,827	211,139	-	(4,805,980)	-	(4,805,980)
Physical environment	323,879	33,342	-	#	(290,537)	-	(290,537)
Transportation	4,287,510	577,051	41,621	595,328	(3,073,510)	-	(3,073,510)
Economic environment	342,776	145,335	-	-	(197,441)	-	(197,441)
Culture and recreation	1,160,658	98,704	8,100	6,000	(1,047,854)	-	(1,047,854)
Interest on long-term debt	156,065	-	-	-	(156,065)	-	(156,065)
Total governmental activities	13,693,974	1,384,108	260,860	601,328	(11,447,678)	-	(11,447,678)
Business-type activities:							
Water/Sewer	8,008,335	9,038,099	-	164,964	-	1,194,728	1,194,728
Solid waste	1,574,874	1,596,113	-	-	-	21,239	21,239
Storm water	664,630	803,272	43,760	-	-	182,402	182,402
Total business-type activities	10,247,839	11,437,484	43,760	164,964	-	1,398,369	1,398,369
Total primary government	\$ 23,941,813	\$ 12,821,592	\$ 304,620	\$ 766,292	\$ (11,447,678)	\$ 1,398,369	\$ (10,049,309)
General Revenues:							
Property taxes				1,300,113	1,300,113	-	1,300,113
Sales taxes				2,882,824	2,882,824	-	2,882,824
Utility taxes				3,319,973	3,319,973	-	3,319,973
Business taxes				944,780	944,780	-	944,780
Excise taxes				262,843	262,843	-	262,843
Penalties & interest				4,841	4,841	-	4,841
State entitlements (unrestricted)				804,362	804,362	-	804,362
Investment earnings				93,360	93,360	70,277	163,637
Miscellaneous				286,091	286,091	-	286,091
Gain/(loss) on sale of capital assets				134,995	134,995	(264,630)	(129,635)
Total general revenues				10,034,182	10,034,182	(194,353)	9,839,829
Change in net position				(1,413,496)	(1,413,496)	1,204,016	(209,480)
Net position - beginning, restated (see note V.I.)				65,465,037	65,465,037	32,351,592	97,816,629
Net position - ending				\$ 64,051,541	\$ 64,051,541	\$ 33,555,608	\$ 97,607,149

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

**City of Kelso**  
**Balance Sheet**  
**Governmental Funds**  
**December 31, 2017**

	General Fund	Arterial Street Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash & cash equivalents	\$ 3,481,350	\$ 280,356	\$ 2,242,077	\$ 6,003,783
Investments	997,453	-	784,662	1,782,115
Receivables (net):				
Taxes	1,547,173	-	20,548	1,567,721
Accounts	223,444	13,478	158,056	394,978
Assessments	-	13,089	-	13,089
Due from other funds	-	-	31,443	31,443
Due from other governments	192,164	26,101	8,606	226,871
Advances to other funds	-	-	257,561	257,561
Long-term notes receivable	-	-	467,640	467,640
Total assets	<u>\$ 6,441,584</u>	<u>\$ 333,024</u>	<u>\$ 3,970,593</u>	<u>\$ 10,745,201</u>
<b>LIABILITIES</b>				
Accounts payable	368,748	89,288	31,446	489,482
Due to other funds	-	31,443	-	31,443
Advances from other funds	-	257,561	-	257,561
Unearned revenue	-	13,089	87,897	100,986
Total liabilities	<u>368,748</u>	<u>391,381</u>	<u>119,343</u>	<u>879,472</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue-property tax	79,918	-	-	79,918
Unavailable revenue-municipal court	79,601	-	-	79,601
Unavailable revenue-grants	-	26,101	-	26,101
Total deferred inflows of resources	<u>159,519</u>	<u>26,101</u>	<u>-</u>	<u>185,620</u>
<b>FUND BALANCES (DEFICITS)</b>				
Restricted for:				
Paths and trails	-	-	1,786	1,786
Promotion of tourism	-	-	95,803	95,803
Housing/neighborhood rehabilitation	-	-	612,306	612,306
Low income housing	52,662	-	-	52,662
Criminal justice	40,912	-	-	40,912
Street maintenance/construction	-	-	35,221	35,221
Capital projects	-	-	239,074	239,074
Public education	25,769	-	-	25,769
Assigned to:				
Debt service	-	-	2,389,556	2,389,556
Bridge maintenance	312,322	-	-	312,322
Recreation	-	-	6,969	6,969
Neighborhood rehabilitation	-	-	387,031	387,031
Criminal justice	-	-	71,239	71,239
Promotion of tourism	-	-	12,265	12,265
Unassigned	5,481,652	(84,458)	-	5,397,194
Total fund balances	<u>5,913,317</u>	<u>(84,458)</u>	<u>3,851,250</u>	<u>9,680,109</u>
Total liabilities, deferred inflows of resources and fund balances (deficits)	<u>\$ 6,441,584</u>	<u>\$ 333,024</u>	<u>\$ 3,970,593</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.	61,153,668
Other assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	185,620
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.	(2,381,467)
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.	930,694
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(5,517,083)</u>
Net position of governmental activities	<u>\$ 64,051,541</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, 2017**

	General Fund	Arterial Street Fund	Other Governmental Funds	Total
<b>Revenues</b>				
Taxes	\$ 8,224,849	\$ -	\$ 633,812	\$ 8,858,661
Licenses and permits	190,965	-	-	190,965
Intergovernmental	904,396	3,373	213,516	1,121,285
Charges for services	973,457	161,736	5,247	1,140,440
Fines	100,172	-	4,905	105,077
Investment earnings	54,270	16,487	24,965	95,722
Contributions	35,312	-	-	35,312
Rental/lease income	107,229	-	10,920	118,149
Miscellaneous	112,988	1,747	142,421	257,156
Total revenues	<u>10,703,638</u>	<u>183,343</u>	<u>1,035,786</u>	<u>11,922,767</u>
<b>Expenditures</b>				
Current:				
General government	2,434,021	-	-	2,434,021
Security of persons and property	4,873,640	-	240,256	5,113,896
Physical environment	549,571	-	-	549,571
Transportation	869,107	2,316,742	-	3,185,849
Economic environment	345,145	-	-	345,145
Culture and recreation	862,049	-	171,314	1,033,363
Debt service:				
Principal	-	-	270,000	270,000
Interest and bond issuance costs	-	3,973	167,067	171,040
Capital outlay:				
General government	5,483	-	-	5,483
Transportation	17,406	980,640	-	998,046
Culture and recreation	179,214	-	-	179,214
Total expenditures	<u>10,135,636</u>	<u>3,301,355</u>	<u>848,637</u>	<u>14,285,628</u>
Excess (deficiency) of revenues over (under) expenditures	<u>568,002</u>	<u>(3,118,012)</u>	<u>187,149</u>	<u>(2,362,861)</u>
<b>Other financing sources (uses)</b>				
Sale of general capital assets	-	23,874	165,207	189,081
Transfers in	250,869	375,000	520,450	1,146,319
Transfers out	(585,450)	-	(560,869)	(1,146,319)
Total other financing sources (uses)	<u>(334,581)</u>	<u>398,874</u>	<u>124,788</u>	<u>189,081</u>
Net change in fund balances	<u>233,421</u>	<u>(2,719,138)</u>	<u>311,937</u>	<u>(2,173,780)</u>
Fund balances - beginning	5,679,896	2,634,680	3,539,313	11,853,889
Fund balances - ending	<u>\$ 5,913,317</u>	<u>\$ (84,458)</u>	<u>\$ 3,851,250</u>	<u>\$ 9,680,109</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, 2017**

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

Net change in fund balances - total governmental funds (page 33)	\$ (2,173,780)
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 depreciation exceeded capital outlays in the current period.	(106,146)
The net effect of various miscellaneous transactions involving capital assets is to increase net assets.	508,092
The net effect of funding the City's annual required contribution to the State Pension Fund.	338,696
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.	(356,842)
Some revenues reported in the governmental funds have already been reported in the statement of activities in prior years.	(12,313)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	71,056
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.	270,000
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.	(20,020)
Some expenses reported in the governmental funds have already been reported in the statement of activities in prior years.	543
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.	67,218
Change in net position of governmental activities (page 31)	<u>\$ (1,413,496)</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 Balance - Budget and Actual**  
**For the Year Ended December 31, 2017**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>With Final Budget</b>
<b>Revenues</b>				
Taxes	\$ 6,675,391	\$ 6,837,391	\$ 7,100,685	\$ 263,294
Licenses and permits	150,900	150,900	190,965	40,065
Intergovernmental	1,062,800	1,062,800	632,567	(430,233)
Charges for services	962,350	962,350	951,648	(10,702)
Fines	125,500	125,500	97,000	(28,500)
Investment earnings	29,000	29,000	48,095	19,095
Contributions	-	-	21,060	21,060
Rental/lease income	-	-	8,096	8,096
Other miscellaneous	19,500	19,500	55,529	36,029
Total revenues	<u>9,025,441</u>	<u>9,187,441</u>	<u>9,105,645</u>	<u>(81,796)</u>
<b>Expenditures</b>				
General government:				
Council	166,436	166,436	145,929	20,507
Municipal court	244,900	259,900	259,980	(80)
Manager	335,213	335,213	325,943	9,270
Finance	632,300	641,300	628,024	13,276
Attorney	168,589	168,589	132,490	36,099
Other - unclassified	826,249	864,249	941,655	(77,406)
Total general government	<u>2,373,687</u>	<u>2,435,687</u>	<u>2,434,021</u>	<u>1,666</u>
Security of persons and property:				
Police	4,252,998	4,352,998	4,322,968	30,030
Jail	315,000	315,000	281,974	33,026
Fire	171,000	171,000	170,952	48
Other	106,857	106,857	97,746	9,111
Total security of persons and property	<u>4,845,855</u>	<u>4,945,855</u>	<u>4,873,640</u>	<u>72,215</u>
Physical environment	<u>618,850</u>	<u>618,850</u>	<u>549,571</u>	<u>69,279</u>
Transportation	<u>574,700</u>	<u>574,700</u>	<u>133,752</u>	<u>440,948</u>
Economic environment	<u>333,937</u>	<u>333,937</u>	<u>345,145</u>	<u>(11,208)</u>
Capital outlay	<u>-</u>	<u>-</u>	<u>5,483</u>	<u>(5,483)</u>
Total expenditures	<u>8,747,029</u>	<u>8,909,029</u>	<u>8,341,612</u>	<u>567,417</u>
Excess (deficiency) of revenues over (under) expenditures	<u>278,412</u>	<u>278,412</u>	<u>764,033</u>	<u>485,621</u>
<b>Other financing sources (uses)</b>				
Transfers in	60,000	60,000	60,000	-
Transfers out	(459,581)	(634,581)	(611,920)	22,661
Total other financing sources (uses)	<u>(399,581)</u>	<u>(574,581)</u>	<u>(551,920)</u>	<u>22,661</u>
Net change in fund balances budgetary basis	<u>(121,169)</u>	<u>(296,169)</u>	<u>212,113</u>	<u>508,282</u>
<b>Reconciliation of budgetary/GAAP basis:</b>				
Basis difference (See note III.B.)			<u>21,308</u>	
Net change in fund balance GAAP basis			233,421	
Fund balance - beginning			<u>5,679,896</u>	
Fund balance - ending			<u>\$ 5,913,317</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 Balance - Budget and Actual**  
**For the Year Ended December 31, 2017**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance With Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Intergovernmental	\$ 1,100,000	\$ 400,000	\$ 3,373	\$ (396,627)
Charges for services	162,000	162,000	161,736	(264)
Investment earnings	100	100	16,487	16,387
Miscellaneous	2,000	2,000	1,747	(253)
Total revenues	<u>1,264,100</u>	<u>564,100</u>	<u>183,343</u>	<u>(380,757)</u>
<b>Expenditures</b>				
Transportation	1,770,000	1,770,000	2,316,742	(546,742)
Capital outlay	2,230,000	1,800,000	980,640	819,360
Debt Service:				
Principal	141,809	141,809	-	141,809
Interest and bond issuance costs	3,700	3,700	3,973	(273)
Total expenditures	<u>4,145,509</u>	<u>3,715,509</u>	<u>3,301,355</u>	<u>414,154</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,881,409)</u>	<u>(3,151,409)</u>	<u>(3,118,012)</u>	<u>33,397</u>
<b>Other financing sources (uses)</b>				
Sale of general capital assets	-	-	23,874	23,874
Transfers in	400,000	375,000	375,000	-
Total other financing sources (uses)	<u>400,000</u>	<u>375,000</u>	<u>398,874</u>	<u>23,874</u>
Net change in fund balance	<u>(2,481,409)</u>	<u>(2,776,409)</u>	<u>(2,719,138)</u>	<u>57,271</u>
Fund balance - beginning	2,634,680	2,634,680	2,634,680	-
Fund balance - ending	<u>\$ 153,271</u>	<u>\$ (141,729)</u>	<u>\$ (84,458)</u>	<u>\$ 57,271</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, 2017**

	Business-type Activities - Enterprise Funds				
	Major Funds		Non-Major Fund		Equipment Reserve
	Solid Waste	Water-Sewer	Storm Water	Total	Internal Service Fund
<b>ASSETS</b>					
Current Assets:					
Cash & cash equivalents	\$ 172,089	\$ 6,732,058	\$ 537,793	\$ 7,441,940	\$ 977,560
Investments	-	790,963	-	790,963	-
Restricted cash, cash equivalents, and investments:					
Customer deposits	-	365,523	-	365,523	-
Accounts receivable	272,774	1,346,705	134,030	1,753,509	966
Due from other governments	-	-	44,458	44,458	-
Total current assets	444,863	9,235,249	716,281	10,396,393	978,526
Noncurrent assets:					
Restricted cash, cash equivalents, and investments:					
Cash - revenue bond covenants	-	93,062	-	93,062	-
Investments - revenue bond covenants	-	385,448	-	385,448	-
Capital Assets:					
Land	-	28,712	-	28,712	-
Buildings and structures	-	10,252,801	-	10,252,801	-
Improvements other than buildings	-	28,740,332	971,075	29,711,407	-
Machinery and equipment	-	2,682,052	43,401	2,725,453	3,474,368
Construction in progress	-	1,758,389	49,267	1,807,656	-
Less accumulated depreciation	-	(15,668,105)	(394,134)	(16,062,239)	(2,148,073)
Total capital assets (net of accumulated depreciation)	-	27,794,181	669,609	28,463,790	1,326,295
Total noncurrent assets	-	28,272,691	669,609	28,942,300	1,326,295
Total Assets	444,863	37,507,940	1,385,890	39,338,693	2,304,821
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred outflows related to pensions	-	127,439	27,033	154,472	-
Total Deferred Outflows of Resources	-	127,439	27,033	154,472	-

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

	Business-type Activities - Enterprise Funds				
	Major Funds		Non-Major Fund		Internal Service Funds
	Solid Waste	Water-Sewer	Storm Water	Total	
<b>LIABILITIES</b>					
Current Liabilities:					
Accounts payable	146,841	607,616	21,369	775,826	194,489
Compensated absences	-	18,400	3,188	21,588	-
Customer deposits	-	365,523	-	365,523	-
Accrued interest payable	-	16,556	-	16,556	-
Current revenue bonds payable	-	215,000	-	215,000	-
Current portion notes payable	-	201,413	-	201,413	-
Total current liabilities	146,841	1,424,508	24,557	1,595,906	194,489
Noncurrent liabilities:					
Compensated absences	-	55,199	9,565	64,764	-
Revenue bonds payable	-	3,665,000	-	3,665,000	-
Notes payable	-	770,620	-	770,620	-
Net pension liability	-	715,931	151,864	867,795	-
Total noncurrent liabilities	-	5,206,750	161,429	5,368,179	-
Total Liabilities	146,841	6,631,258	185,986	6,964,085	194,489
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred inflows related to pensions	-	126,316	26,794	153,110	-
Total Deferred Inflows of Resources	-	126,316	26,794	153,110	-
<b>NET POSITION</b>					
Net investment in capital assets	-	23,559,480	669,609	24,229,089	1,326,295
Restricted for debt service	-	478,510	-	478,510	-
Unrestricted	298,022	6,839,815	530,534	7,668,371	784,037
Total net position	\$ 298,022	\$ 30,877,805	\$ 1,200,143	32,375,970	\$ 2,110,332
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:				1,179,638	
Net position of business-type activities				\$ 33,555,608	

**City of Kelso**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ended December 31, 2017**

	Business-type Activities		Enterprise Funds		
	Major Funds		Non-Major Fund		Equipment Reserve Internal Service Fund
	Solid Waste	Water-Sewer	Storm Water	Total	
Operating revenues:					
Charges for services	\$ 1,595,198	\$ 8,769,989	\$ 768,801	\$ 11,133,988	\$ 337,300
Other operating revenue	915	152,084	10,870	163,869	6,510
Total operating revenues	1,596,113	8,922,073	779,671	11,297,857	343,810
Operating expenses:					
General operations	832,336	2,795,342	567,916	4,195,594	-
Contracted processing operations	495,854	2,896,915	-	3,392,769	-
Maintenance	5,000	187,630	70,365	262,995	-
Depreciation	-	754,068	15,459	769,527	216,260
Taxes	241,684	1,154,116	10,932	1,406,732	-
Total operating expenses	1,574,874	7,788,071	664,672	10,027,617	216,260
Operating income (loss)	21,239	1,134,002	114,999	1,270,240	127,550
Nonoperating revenues (expenses):					
Investment earnings	1,304	60,518	2,671	64,493	8,022
Intergovernmental	-	-	43,760	43,760	-
Other	-	75,277	3,643	78,920	-
Gain (loss) on capital asset disposition	-	(247,670)	(16,960)	(264,630)	2,975
Interest expense	-	(225,060)	-	(225,060)	-
Total nonoperating revenues (expenses)	1,304	(336,935)	33,114	(302,517)	10,997
Income (loss) before capital contributions,	22,543	797,067	148,113	967,723	138,547
Capital contributions	-	164,964	-	164,964	-
Change in net position	22,543	962,031	148,113	1,132,687	138,547
Total net position - beginning, restated (See note V.I.)	275,479	29,915,774	1,052,030		1,971,785
Total net position - ending	\$ 298,022	\$ 30,877,805	\$ 1,200,143		\$ 2,110,332
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:				71,329	
Change in net position of business-type activities				\$ 1,204,016	

The 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, 2017**

	Business-type Activities - Enterprise Funds				
	Major Funds		Non-Major Fund		Equipment Reserve Internal Service Fund
	Solid Waste	Water-Sewer	Storm Water	Totals	
<b>Cash flows from operating activities</b>					
Receipts from customers and users	\$ 1,585,376	\$ 8,648,074	\$ 758,305	\$ 10,991,755	\$ -
Receipts from other sources	915	116,854	17,308	135,077	-
Receipts from interfund services provided	-	72,367	42	72,409	342,844
Payments to suppliers and service providers	(1,521,600)	(5,068,492)	(259,949)	(6,850,041)	-
Payments to employees	(7,795)	(1,466,404)	(303,948)	(1,778,147)	-
Payments for interfund services used	(84,040)	(424,355)	(107,709)	(616,104)	-
Net cash provided (used) by operating activities	(27,144)	1,878,044	104,049	1,954,949	342,844
<b>Cash flows from noncapital financing activities</b>					
Operating grants received	-	-	25,000	25,000	-
Net cash provided (used) by noncapital financing activities	-	-	25,000	25,000	-
<b>Cash flows from capital and related financing activities</b>					
Proceeds from capital recovery fees	-	74,428	3,643	78,071	-
Proceeds from State Revolving Fund loan	-	264,237	-	264,237	-
Capital grants received	-	1,309,500	-	1,309,500	-
Proceeds from sale of capital assets	-	-	-	-	2,975
Acquisition and construction of capital assets	-	(1,900,886)	(44,133)	(1,945,019)	(368,240)
Principal paid on capital debt	-	(406,413)	-	(406,413)	-
Interest paid on capital debt	-	(225,732)	-	(225,732)	-
Net cash provided (used) by capital financing activities	-	(884,866)	(40,490)	(925,356)	(365,265)
<b>Cash flows from investing activities</b>					
Interest received	1,304	64,657	2,670	68,631	8,022
Net cash provided (used) by investing activities	1,304	64,657	2,670	68,631	8,022
Net increase (decrease) in cash and cash equivalents	(25,840)	1,057,835	91,229	1,123,224	(14,399)
Cash and cash equivalents, January 1	197,929	6,132,808	446,564	6,777,301	991,959
Cash and cash equivalents, December 31	\$ 172,089	\$ 7,190,643	\$ 537,793	\$ 7,900,525	\$ 977,560
<b>Reconciliation of operating income to net cash provided by operating activities:</b>					
Operating income (loss)	\$ 21,239	\$ 1,134,002	\$ 114,999	\$ 1,270,240	\$ 127,550
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	-	754,068	15,459	769,527	216,260
Capital projects expensed	-	64,736	-	64,736	-
(Increase) decrease in accounts receivable	(9,822)	(72,037)	(4,016)	(85,875)	(966)
Increase (decrease) in customer deposits	-	(12,741)	-	(12,741)	-
Increase (decrease) in accounts payable	(38,561)	33,454	(4,555)	(9,662)	-
Increase (decrease) in compensated absences	-	(8,916)	(1,500)	(10,416)	-
Increase (decrease) in pension expense	-	(14,522)	(16,338)	(30,860)	-
Total adjustments	(48,383)	744,042	(10,950)	684,709	215,294
Net cash provided (used) by operating activities	\$ (27,144)	\$ 1,878,044	\$ 104,049	\$ 1,954,949	\$ 342,844
<b>Schedule of non-cash investing activities:</b>					
Loss in fair market value of investments.	\$ -	\$ (3,507)	\$ -	\$ (3,507)	\$ -

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, 2017**

	<b>Firemen's Pension Fund</b>	<b>Airport Agency Fund</b>
<b>Assets</b>		
Cash & cash equivalents	\$ 516,034	\$ 600,906
Receivables	-	184,923
Total assets	<u>516,034</u>	<u>785,829</u>
<b>Liabilities</b>		
Accounts payable	-	94,479
Due to other governments	-	150,000
Custodial accounts	-	541,350
Total liabilities	<u>-</u>	<u>\$ 785,829</u>
<b>Net Position</b>		
Held in trust for pension benefits	<u>\$ 516,034</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, 2017**

	<b>Firemen's Pension Fund</b>
<b>Additions</b>	
Contributions:	
Employer	\$ 172,030
Nonemployer contributing entities	12,492
Total contributions	<u>184,522</u>
Investment earnings:	
Interest	3,922
Total investment earnings	<u>3,922</u>
Total additions	<u>188,444</u>
 <b>Deductions</b>	
Pension benefits	45,935
Healthcare benefits	64,037
Administrative expenses	1,013
Total deductions	<u>110,985</u>
Change in net position	<u>77,459</u>
Net position - beginning	<u>438,575</u>
Net position - ending	<u><u>\$ 516,034</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, 2017

**I. Summary of significant accounting policies**

The financial statements of the City of Kelso have been prepared in conformity with generally accepted accounting principles (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 principles. 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 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 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.

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2017

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 most 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.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 90 days of year end). 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.

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 streets and arterial streets or for payment of related municipal indebtedness.

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2017

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:

The *internal service fund* accounts for fleet management and acquisition services provided to other departments of the City.

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.

#### **D. Employee retirement systems and pension plans**

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

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2017

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

**E. 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, however, all trust fund investments are in the State investment pool as of December 31, 2017.

Investments Measured at Amortized Cost

As of December 31, 2017 the City has \$13,565,228 invested in the Washington State Treasurer's Investment Pool. These investments are reported at amortized cost. 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. The portfolio is invested in a manner that meets the maturity, quality, diversification, and liquidity requirements set forth by the GASB for external investment pools who wish to measure all of its investments at amortized cost.

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.

Investments Measured at Fair Value

The City measures and reports certain investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

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- Level 1: Quoted prices in active markets for identical assets.
- Level 2: Quoted market prices for similar assets, quoted prices for identical or similar assets in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

At December 31, 2017, the City had the following investments measured at fair value:

Investment type	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
Federal Farm Credit Bank	\$ -	\$ 2,958,527	\$ -
<b>Total Investments by Fair Value Level</b>	<u>\$ -</u>	<u>\$ 2,958,527</u>	<u>\$ -</u>

These investments are valued daily by ICE Data Services using evaluations based on various market and industry inputs.

## ***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.B.). Special assessments consist of assessments which are recorded when levied and are liens against the property benefited. There is \$418 in delinquent special assessments as of December 31, 2017.

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.”

## ***3. Inventories***

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

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**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. In addition, deposits received from customers for water service are also restricted.

The restricted assets of the enterprise funds consists of \$844,033 which is cash and investments held for debt service and customer deposit refunds.

**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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The City recognizes a distinction between a capital assets acquired prior to December 31, 2016, and those acquired/placed in service after that date. Prior to December 31, 2016, a capital asset was defined as an individual asset with an initial value in excess of \$5,000 and a useful life in excess of one year. Subsequent to December 31, 2016, the City adjusted its definition of capital assets to identify the following thresholds:

- A capital asset is defined as an individual asset with an initial value in excess of \$5,000 and a useful life in excess of one year
- Public domain infrastructure consists of general use assets with an initial value of at least \$100,000 and having a useful life of at least one year. Infrastructure typically includes streets and roads, sidewalks, curbs, gutters, and lighting.
- System infrastructure is comprised of collections, treatment, and distribution systems related to the City's utility operations with an initial value of at least \$100,000 and having a useful life of at least one year. These include water treatment and distribution, sewer collection and treatment, and storm water collection systems assets.

The adjusted thresholds for infrastructure have been applied prospectively for qualifying assets placed into service after December 31, 2016. Assets capitalized under previous thresholds will be removed from inventory once fully depreciated

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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.

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 - 75
Improvements	10 - 75
Public domain infrastructure	10 - 75
System infrastructure	10 - 75
Vehicles	5 - 20
Office equipment	3 - 15
Computer equipment	3 - 10

Water and sewer infrastructure assets are depreciated beginning in the year after they are put in service.

**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.

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.

**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 and proprietary 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.

**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



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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 plus deferred outflows of resources and liabilities plus deferred inflows of resources 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. 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.
- 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 remaining amounts within the fund that are not classified as nonspendable and



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are neither restricted nor 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 \$(5,517,083) difference are as follows:

Bonds payable	\$(4,800,000)
Deferred charges/loss on issuance (to be amortized over life of debt)	36,533
Premium on G.O. Bond (to be amortized over life of debt)	(319,561)
Accrued interest payable	(13,330)
Compensated absences	<u>(420,725)</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u><u>\$(5,517,083)</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 \$61,153,668 difference are as follows:

Capital assets used in governmental fund operations	\$87,093,248
Less: Accumulated depreciation	<u>(25,939,580)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$61,153,668</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 \$(2,381,467) difference are as follows:

Net OPEB obligation	\$(2,531,934)
Net pension obligation	(1,301,693)
Net pension asset	1,709,829
Deferred inflows related to pensions	(605,043)
Deferred outflows related to pensions	347,374
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$(2,381,467)</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 \$185,619 difference are as follows:

Property taxes receivable	\$ 79,918
Grants receivable	26,101
Court ordered fines receivable – net	<u>79,601</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$ 185,620</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 \$(106,146) difference are as follows:

Capital outlay	\$ 1,182,743
Depreciation expense	<u>(1,288,889)</u>
Net adjustment to decrease <i>net changes in funds balances- total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ (106,146)</u>

Another element of that reconciliation states that “Some revenues reported in the governmental funds have already been reported in the statement of activities in prior years.” The details of this \$(12,313) difference are as follows:

Court ordered fines	<u>\$ (12,313)</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i> .	<u>\$ (12,313)</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 \$71,055 difference are as follows:

Property tax receivable	\$ 44,954
Grants receivable	<u>26,101</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>\$ 71,055</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 deferred and amortized in the statement of activities.” The details of this \$270,000 difference are as follows:

<u>Principal repayments:</u>	
General obligation debt	<u>270,000</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>\$ 270,000</u>

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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 \$508,092 difference are as follows:

Donations of capital assets	\$ 565,153
Loss on disposition of capital assets	<u>(57,061)</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>\$ 508,092</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 \$(20,020) difference are as follows:

Compensated absences	\$ (34,452)
Amortization of issuance costs	(3,321)
Amortization of bond premium	<u>17,753</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i> .	<u>\$ (20,020)</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 biannually 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 year end, 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 2017 budget was amended two 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 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	\$ 703,376
Library fund	555,961
Kelso Station fund	57,797
Parks Fund	498,194
Façade Fund	4

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**Expenditures:**

Street fund	(701,977)
Library fund	(545,473)
Kelso Station fund	(50,784)
Parks Fund	(495,790)
Façade Fund	<u>-</u>

Total General fund Basis difference	<u>\$ 21,308</u>
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**C. Deficit fund balance**

The Arterial Street Fund deficit of \$84,458 is due to accounting for an interfund loan in this fund while the capital assets constructed with the loan proceeds are not. 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.

As of December 31, 2017, the City had the following deposits and investments:

<u>Investment type</u>	<u>Maturities</u>	<u>Fair Value</u>
<b>Cash</b>		
FDIC or WPDPC insured deposits		\$ 2,661,675
In-transit items		(235,245)
Petty cash on hand		<u>7,150</u>
<b>Total Cash</b>		<u>2,433,580</u>
<b>Investments</b>		
Federal Farm Credit Bank	5/16/2019	1,376,601
Federal Farm Credit Bank	1/13/2020	1,581,926
State Treasurer's investment pool	< 90 days	<u>13,565,228</u>
<b>Total investments</b>		<u>16,523,755</u>
<b>Total Cash, Cash Equivalents, Investments</b>		<u>\$ 18,957,335</u>

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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 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 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.

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 2017, the City's investments were either in the Washington State Local Government Investment Pool or held in a custodial safekeeping account with a bank.

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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	\$1,547	\$ -	\$ -	\$ -	\$ 21	\$ -	\$1,568
Accounts	223	13	273	1,347	158	134	2,148
Special Assessments	-	13	-	-	-	-	13
Intergovernmental	192	26	-	-	9	44	271
Long-term notes	-	-	-	-	468	-	468
Net total receivables	<u>\$1,962</u>	<u>\$ 52</u>	<u>\$ 273</u>	<u>\$1,347</u>	<u>\$ 656</u>	<u>\$ 178</u>	<u>\$4,468</u>

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)	\$ 79,918	\$ -
Delinquent Court ordered fines receivable (general fund)	79,601	-
Grants received (arterial street fund)	26,101	-
Grants received (Non-major fund)	-	37,520
Special assessments not due yet (arterial street fund)	-	13,089
Prepaid lease (Non-major fund)	-	50,377
Total deferred/unearned revenue for governmental funds	<u>\$ 185,620</u>	<u>\$100,986</u>



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**C. Capital assets**

Capital asset activity for the year ended December 31, 2017 was as follows:

	Beginning Balance*	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$23,021,844	\$ -	\$ -	\$23,021,844
Construction in progress	<u>2,130,226</u>	<u>1,128,068</u>	<u>2,605,500</u>	<u>652,794</u>
Total capital assets, not being depreciated	<u>25,152,070</u>	<u>1,128,068</u>	<u>2,605,500</u>	<u>23,674,638</u>
Capital assets, being depreciated:				
Buildings	12,287,583	58,432	417,225	11,928,790
Improvements other than buildings	6,242,644	565,153	175,985	6,631,812
Machinery and equipment	3,192,450	330,267	483,145	3,039,572
Infrastructure	<u>42,468,400</u>	<u>2,605,500</u>	<u>1,285,561</u>	<u>43,788,339</u>
Total capital assets being depreciated	<u>64,191,077</u>	<u>3,559,352</u>	<u>2,361,916</u>	<u>65,388,513</u>
Less accumulated depreciation for:				
Buildings	5,121,736	154,599	381,384	4,894,951
Improvements other than buildings	2,861,158	162,348	96,333	2,927,173
Machinery and equipment	2,266,286	203,089	483,145	1,986,230
Infrastructure	<u>17,789,700</u>	<u>917,542</u>	<u>1,285,561</u>	<u>17,421,681</u>
Total accumulated depreciation	<u>28,038,880</u>	<u>1,437,578</u>	<u>2,246,423</u>	<u>27,230,035</u>
Total capital assets, being depreciated, net	<u>36,152,197</u>	<u>2,121,774</u>	<u>115,493</u>	<u>38,158,478</u>
Governmental activities capital assets, net	<u>\$61,304,267</u>	<u>\$ 3,249,842</u>	<u>\$ 2,720,993</u>	<u>\$61,833,116</u>
*Restated (see note V.I)				
	Beginning Balance*	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 28,712	\$ -	\$ -	\$ 28,712
Construction in progress	<u>1,844,641</u>	<u>1,749,288</u>	<u>1,786,273</u>	<u>1,807,656</u>
Total capital assets, not being depreciated	<u>1,873,353</u>	<u>1,749,288</u>	<u>1,786,273</u>	<u>1,836,368</u>
Capital assets, being depreciated:				
Buildings and structures	10,252,801	-	427,112	10,252,801
Improvements other than buildings	29,711,407	1,704,577	2,363,755	29,711,407
Machinery and equipment	<u>4,229,919</u>	<u>287,137</u>	<u>331,379</u>	<u>4,229,919</u>
Total capital assets being depreciated	<u>45,324,659</u>	<u>1,991,714</u>	<u>3,122,246</u>	<u>44,194,127</u>
Less accumulated depreciation for:				
Buildings and structures	2,652,205	206,300	193,187	2,665,318
Improvements other than buildings	13,650,730	474,682	2,349,370	11,776,042
Machinery and equipment	<u>2,653,760</u>	<u>156,116</u>	<u>331,379</u>	<u>2,478,497</u>
Total accumulated depreciation	<u>18,956,695</u>	<u>837,098</u>	<u>2,873,936</u>	<u>16,919,857</u>
Total capital assets, being depreciated, net	<u>26,367,964</u>	<u>1,154,616</u>	<u>248,310</u>	<u>27,274,270</u>
Business-type activities capital assets, net	<u>\$28,241,317</u>	<u>\$2,903,904</u>	<u>\$ 2,034,583</u>	<u>\$29,110,638</u>
*Restated (see note V.I)				

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

Governmental activities:	
General government	\$ 102,661
Security of persons and property	3,569
Physical environment	1,292
Transportation	1,055,870
Culture and recreation	125,497
Capital assets held by the City's internal service funds are charged to various functions based on usage of assets.	<u>148,689</u>

Total depreciation expense – governmental activities	<u>\$1,437,578</u>
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Business-type activities:	
Water	\$ 457,929
Sewer	296,139
Storm water drainage	15,459
Capital assets held by the City's internal service funds are charged to various functions based on usage of assets.	<u>67,571</u>

Total depreciation expense – business-type activities	<u>\$ 837,098</u>
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Construction commitments

The City of Kelso has active construction projects as of December 31, 2017. The projects include waterline and roadway construction. At year end the City's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Reservoir construction	\$ 784,569	\$ 4,018,995

**D. Interfund receivables, payables, and transfers**

The composition of interfund balances as of December 31, 2017 is as follows:

**Due to/from other funds:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
Nonmajor govt.	Arterial Street	\$ 31,443	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	257,561	Roadway Improvements

<u>Transfer out</u>	<u>Transfer in</u>	<u>Amount</u>	<u>Purpose</u>
General fund	Arterial Street	\$ 375,000	2016 overlay project
General fund	Nonmajor govt.	142,468	Debt service
General fund	Nonmajor govt.	<u>67,982</u>	Routine operating
<b>Sub-Total</b>		585,450	

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Nonmajor govt.	General Fund	190,869	Park Improvements
	General Fund	60,000	Nuisance abatement
	Nonmajor govt.	165,000	Debt service
	Nonmajor govt.	130,000	Debt service
	Nonmajor govt.	<u>15,000</u>	Routine operating
<b>Sub-Total</b>		560,869	
<b>Total</b>		<u>\$ 1,146,319</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 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 \$5,910,000. 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%	\$1,890,000
Governmental activities – Roadway improvements	2.00% – 4.00%	<u>2,910,000</u>
		<u>\$4,800,000</u>

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

<u>Year ending December 31</u>	<u>Governmental activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 270,000	\$ 159,963
2019	280,000	152,733
2020	290,000	145,233
2021	295,000	138,038
2022	305,000	130,698
2023-2027	1,650,000	525,425
2028-2032	1,090,000	240,590
2033-2037	<u>620,000</u>	<u>50,200</u>
Total	<u>\$4,800,000</u>	<u>\$1,542,880</u>

In 2016, the City of Kelso was awarded a Drinking Water State Revolving Fund Loan (DWSRF) in the amount of \$4,529,850 (which includes a \$44,850 loan fee) for the replacement of a reservoir and the addition of a transmission line associated with the reservoir. The interest rate on the loan is 1.5 percent and the maturity date is October 1, 2035. As of December 31, 2017, the City has drawn down \$264,237 in loan funds.

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The City has also received two government loans for the reconstruction of City's water treatment plant. Government loans outstanding at year-end are as follows:

<u>Issuance</u>	<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
1999 DWSRF – \$2,040,000	Business-type activities	2.50%	\$ 323,742
2001 DWSRF – \$1,500,000	Business-type activities	1.50%	397,961
2016 DWSRF – \$264,237	Business-type activities	1.50%	<u>250,330</u>
Total government loans			<u>\$ 972,033</u>

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

<u>Year ending</u> <u>December 31</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 201,413	\$ 17,818
2019	201,413	13,718
2020	201,413	9,617
2021	93,499	5,517
2022	93,499	4,114
2023-2027	69,536	11,473
2028-2032	69,536	6,258
2033-2037	<u>41,724</u>	<u>1,252</u>
Total	<u>\$ 972,033</u>	<u>\$ 69,767</u>

#### Revenue bonds

The City also issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. Water/Sewer revenue bond covenants require that revenue available for debt service (defined as operating and nonoperating revenues less expenses requiring payment to outside entities) exceed the annual debt payment of both principal and interest by a ratio of 1.25 to 1. The City remains in compliance with that provision with a current ratio of 5.70 to 1 coverage. See page 139.

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.

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\* 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>
Water Sewer improvements – refunding	2.40% - 4.20%	\$ 105,000
Water improvements – tax exempt	1.10% - 3.25%	110,000
Water improvements – taxable	5.50% - 7.40%	<u>3,665,000</u>
		<u>\$3,880,000</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>
2018	\$ 215,000	\$ 259,290
2019	225,000	253,510
2020	225,000	241,135
2021	240,000	228,198
2022	250,000	212,238
2023-2027	1,395,000	797,668
2028-2032	<u>1,330,000</u>	<u>250,490</u>
Total	<u>\$3,880,000</u>	<u>\$2,242,529</u>

\*Interest is not net of Federal Subsidy

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
General obligation bonds	\$ 5,070,000	\$ -	\$ 270,000	\$ 4,800,000	\$ 270,000
G.O. bond premium	337,314	-	17,753	319,561	-
Compensated absences	386,273	420,725	386,273	420,725	105,181
Net Pension obligation	1,591,392	-	289,699	1,301,693	-
Net OPEB obligation	<u>2,175,092</u>	<u>547,355</u>	<u>190,513</u>	<u>2,531,934</u>	<u>-</u>
Governmental activity Long-term liabilities	<u>\$ 9,560,071</u>	<u>\$ 968,080</u>	<u>\$ 1,154,238</u>	<u>\$ 9,373,913</u>	<u>\$ 375,181</u>
<b>Business-type activities:</b>					
Revenue bonds	\$4,085,000	\$ -	\$ 205,000	\$3,880,000	\$ 215,000
Drinking Water State Revolving Fund	909,209	264,237	201,413	972,033	201,413
Compensated absences	96,768	86,352	96,768	86,352	21,588
Net Pension obligation	<u>1,041,917</u>	<u>-</u>	<u>174,122</u>	<u>867,795</u>	<u>-</u>
Business-type activity Long-term liabilities	<u>\$6,132,894</u>	<u>\$ 350,589</u>	<u>\$ 677,303</u>	<u>\$5,806,180</u>	<u>\$ 438,001</u>

For the governmental activities, compensated absences are generally liquidated by the general fund. Pension and OPEB liabilities are also liquidated by the general fund.

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**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.

**Washington Cities Insurance Authority**

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 161 members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$21 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$25 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

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

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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, reinsurance and other 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.

**Association of Washington Cities Employee Benefit Trust Health Care Program**

The City is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2017 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run out for all current members. The AWC Trust HCP includes medical insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest



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Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the State of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the State of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The City's contribution to the Trust for the year ended December 31, 2017 was \$421,310. The AWC Trust HCP is responsible for payment of all covered claims. In 2017 the AWC Trust HCP purchased stop loss insurance for Regence/ Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1,000,000 through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with fewer than 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.



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**Unemployment Insurance**

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:

2017	\$ 30,661
2016	\$ 8,108
2015	\$ 7,854

**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.

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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 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 2017 was \$1.9237 per \$1,000 on an assessed valuation of \$765,621,360 for a total regular levy of \$1,472,804.

**C. Subsequent event**

In 2016, the City of Kelso was awarded a Drinking Water State Revolving Fund Loan (DWSRF) in the amount of \$4,529,850. Subsequent to year end, the City received \$2,581,460 in loan proceeds. The total amount drawn down on this loan as of the date of this report is \$2,831,790.

**D. 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 management and counsel, the City's insurance policies are adequate to pay all known or pending claims.

**E. Joint Municipal Utility Services Authority**

**Three Rivers Regional Waste Water Authority**

History. 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 a central sewage treatment facility. The 1996 interlocal agreement was subsequently amended on several occasions and on January 15, 2016, TRRWA was incorporated with the Washington Secretary of State as a Joint Municipal Utility Services Authority.

Purpose. TRRWA's purpose is to jointly provide regional wastewater transmission and treatment for TRRWA members and other contracting municipal wastewater utilities. TRRWA's membership consists of the original members, together with any additional members that may later join TRRWA. As of January 15, 2016, this Agreement replaces the pre-formation agreements.

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Board of Directors. TRRWA's board of directors consists of one director and any alternate directors appointed by each member. Directors and alternates must be elected officials of the appointing member. The members may appoint and remove their appointee directors and alternates in such manner as they individually determine. Each director will have one vote on issues that come before the board of directors. The following board of directors actions require both (i) a majority vote of the board of directors and (ii) approval by directors representing a member paying more than 50% of the maintenance and operations (M&O) component, unadjusted for the prior flow portion period:

- a) Amend this Agreement.
- b) Ratify budgets adopted.
- c) Ratify Member rates, charges, fees, or other adopted payments
- d) Admit new members to TRRWA.
- e) Revise the service area.
- f) Terminate this agreement.

Operating Board. Under the direction of the board of directors, an operating board operates and administers TRRWA's day-to-day activities. The operating board consists of one representative appointed by each member. The appointment, duration, termination, and revocation of any operating board representative rests within the sole discretion of the representative's appointing member. Each operating board representative will have one vote on issues that come before the operating board. The following operating board actions require both (i) a majority vote of the operating board and (ii) approval by operating board representatives of a member paying more than 50% of the M&O component, unadjusted for the prior flow portion period:

- a) Adoption of budgets.
- b) Adoption of rates, charges, fees, or other required payments.
- c) Approve wages and benefits for non-represented TRRWA employees.
- d) Approve employee collective bargaining agreements.
- e) Adopt and amend TRRWA rules or regulations.

Budget Formulation. The operating board adopts TRRWA's budget, which must be formulated in a manner consistent with the relevant budget processes employed by each member. The budget adopted by the operating board is subject to ratification by

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the board of directors. TRRWA will submit each member's proportionate share of TRRWA's budget to that member's legislative authority for incorporation into the member's sewer enterprise fund budget.

Required Appropriations. Each member must fund its portion of the following:

- TRRWA's maintenance and operations (M&O) costs in proportion to that member's respective flow to the facility, as reasonably determined by TRRWA.
- TRRWA's repair and replacement costs to existing facility in proportion to that member's respective flow to the facility.
- TRRWA's costs related to upgrades to existing facilities for purposes of capacity expansion or regulatory compliance with new standards by payment from: (a) the system development charges (SDCs) imposed by TRRWA in the portion of the service area covered by that member's sewage utility or (b) other funds equal to that member's share of the costs proportional to its respective flow to the facilities, as determined by TRRWA.

Monthly Payments. Each member must make monthly payments to TRRWA for the rates, charges, fees or other payments established by TRRWA. The M&O component of monthly payments must include one twelfth of the member's proportionate share of the M&O costs adopted in TRRWA's annual budget for the facilities. The City paid \$2,894,570 to TRRWA in 2017.

Termination. This Agreement may not be terminated so long as there remain outstanding any bonds payable from TRRWA rates. Thereafter, this Agreement may be terminated by both (i) a majority vote of the board of directors and (ii) approval by the board of director representatives of a member paying more than 50% of the M&O component, unadjusted for the prior flow portion period.

Disposition of Asset on Termination. Prior to termination, the members must develop a plan of dissolution to wind up TRRWA's affairs under the following requirements:

- The member with the greatest number of retail Equivalent Residential Unit's (ERUs) will have the exclusive option to purchase the Authority assets, including all land, improvements, and rights in property. The purchasing member must assume any indemnity agreement or guarantee by TRRWA or any member with respect to any bonds issued for the benefit of TRRWA.
- If the members cannot agree on a purchase price, a purchase price will be established that will include a sum equal to the then (on the date of purchase contract execution) fair market value of all of the Authority assets, including all personal property, cash in banks and on deposit, and all accounts receivable, less all indebtedness. Each member's interest will be equal to its proportionate share of payments remitted over the then previous 60 calendar months. Payment to other members must be made within twelve months following the

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effective date of termination of the agreement, or such other time as the members may agree upon.

- If the purchasing member declines to exercise its option to purchase, the other members may purchase the Authority assets on the same terms as set forth above and in priority order of greatest number of retail ERUs. If none of the members elect to purchase the Authority assets, then TRRWA must sell the Authority assets as soon as reasonably possible following the effective date of termination. Any remaining TRRWA bonds must be paid from the proceeds of the sale, and the remaining proceeds will be divided based on member's proportionate share of flow to the Authority facilities. If the proceeds are insufficient to pay the remaining bonds, the members will remain obligated to pay the bonds after dissolution in accordance with applicable bond covenants. The board of directors must supervise the termination and sale of the Authority assets and the distribution of proceeds.

As of December 31, 2017 TRRWA had \$14,075,849 of outstanding debt. In addition, the City is not aware of whether or not TRRWA is accumulating significant resources or experiencing fiscal stress that would cause additional material financial benefit or burden on the City in the future.

TRRWA issues a publicly available annual financial report. The annual financial report may be obtained by writing to:

Three Rivers Regional Wastewater Authority  
467 Fibre Way  
Longview, WA 98632

## **F. Joint Venture**

### **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 four member board made up of an appointed representative from each jurisdiction.

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

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projects, and debt service are netted against estimated airport operating revenues to determine the amount of annual subsidy required by the participating jurisdictions. Payments made to the airport by the City in 2017 were \$76,000.

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, 2017, the City's ongoing financial responsibility is minimal. In addition, the airport has no 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.

**G. 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 accordance with State statute to all LEOFF 1 (law enforcement officers and fire fighters hired prior to October 1, 1977) retirees. Currently, there are 15 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 the eligible age for Medicare, the City requires the retirees to apply for and utilize Medicare Part B coverage. In 2017, the City's cost for these Medicare premiums was \$20,167. This expenditure represents a fixed amount of approximately \$112 per month for 15 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 \$190,513 were recognized for post-retirement health care.

*Annual OPEB Cost and Net OPEB Obligation (NOO).* The City's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required

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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	\$ 648,508
Interest on net OPEB obligation	87,004
Adjustment to annual required contribution	<u>(188,157)</u>
Annual OPEB cost	547,355
Contributions made	<u>190,513</u>
Increase in net OPEB obligation	356,842
Net OPEB obligation beginning of year	<u>2,175,092</u>
Net OPEB obligation end of year	<u>\$2,531,934</u>

Three Year Trend Information:

	<u>Annual OPEB Percentage Contributed</u>		
<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB Obligation</u>
12/31/15	\$537,024	39.81%	\$1,889,089
12/31/16	\$514,577	44.42%	\$2,175,092
12/31/17	\$547,355	34.81%	\$2,531,934

*Funded Status and Funding Progress.* As of January 1, 2017, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits was \$7,210,365, 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.



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*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, 2011 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.

*Healthcare cost trend rate-* Medical trend, long-term care trend, claims costs and Medicare coverage, and the expected rate of increase in healthcare costs were based on projections made by an independent actuary and used by OSA in a State-wide LEOFF 1 medical study performed in 2013. A rate of 7.0 percent in 2012, reduced to an ultimate rate of 4.6 percent after 2089, was used.

Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 4.0 percent was used. A 3% general inflation rate was used based on the CPI for Urban Wage Earners and Clerical Workers, Seattle-Tacoma-Bremerton, WA – All Items. In addition, the projected unit credit actuarial cost method was used to determine the AAL, with results based on grouped data of 4 active and 4 inactive groupings. The AAL and NOO are amortized on an open basis as a level dollar amount over 15 years. The remaining amortization period at December 31, 2017 is fourteen.

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**

The City of Kelso 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 nature of medical and other benefits



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provided by the Trust. The Trust issues a publicly available financial report that includes financial statements and required supplementary information which may be obtained by writing to the Trust at 1076 Franklin Street SE, Olympia, WA 98501-1346.

The Trust provides that contribution requirements 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 \$734 per month for non-Medicare enrolled retiree only coverage, \$1,475 for non-Medicare enrolled retiree and spouse coverage, \$1,136 for Medicare enrolled retiree and non-Medicare enrolled spouse (or non-Medicare enrolled retiree and Medicare-enrolled spouse) and \$790 for Medicare-enrolled retiree and spouse coverage.

#### **H. Employee retirement systems and pension plans**

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2017

<b>Aggregate Pension Amounts – All Plans</b>	
Pension liabilities	\$ (2,169,488)
Pension assets	\$ 1,709,829
Deferred outflows of resources	\$ 501,846
Deferred inflows of resources	\$ (758,154)
Pension expense/expenditures	\$ 200,603

#### **State Sponsored Pension Plans**

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

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

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

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Or the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

**Public Employees' Retirement System (PERS)**

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the State Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

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<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
January – June 2017:		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	-
Administrative Fee	.18%	-
<b>Total</b>	<b>11.18%</b>	<b>6.00%</b>
July – December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	-
Administrative Fee	.18%	-
<b>Total</b>	<b>12.70%</b>	<b>6.00%</b>

The City's actual contributions to the plan were \$0 for the year ended December 31, 2017 as the City does not have any active employee eligible for PERS 1 benefits.

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

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

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the State Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates:</b>	<b>Employer 2/3</b>	<b>Employee 2</b>
January – June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	-
Administrative Fee	.18%	-
Employee PERS Plan 3		varies
<b>Total</b>	<b>11.18%</b>	<b>6.12%</b>
July – December 2017:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	-
Administrative Fee	.18%	-
Employee PERS Plan 3		varies
<b>Total</b>	<b>12.70%</b>	<b>7.38%</b>

The City's actual plan contributions were \$149,623 to PERS Plan 1 and \$209,473 to PERS Plan 2/3 for the year ended December 31, 2017.

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

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

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**LEOFF Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

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 ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan 1 had no required employer or employee contributions for fiscal year 2017. Employers paid only the administrative expense of 0.18 percent of covered payroll.

**LEOFF Plan 2** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. 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 three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement

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Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

<b>LEOFF Plan 2</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
January – June 2017:		
State and local governments	5.05%	8.41%
Administrative Fee	.18%	-
<b>Total</b>	<b>5.23%</b>	<b>8.41%</b>
July – December 2017:		
State and local governments	5.25%	8.75%
Administrative Fee	.18%	-
<b>Total</b>	<b>5.43%</b>	<b>8.75%</b>

The City's actual contributions to the plan were \$128,018 for the year ended December 31, 2017

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 the State fiscal year ending June 30, 2017 the State contributed \$62,155,262 to LEOFF Plan 2.

### **Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

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

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average expected remaining service lives calculation was revised.

### **Discount Rate**

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

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

### **Long-Term Expected Rate of Return**

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.



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**Estimated Rates of Return by Asset Class**

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>% Long-Term Expected Real Rate of Return Arithmetic</b>
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	<u>23%</u>	9.30%
	<b>100%</b>	

**Sensitivity of NPL**

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

	<b>1% Decrease (6.5%)</b>	<b>Current Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
PERS 1	\$ 1,360,998	\$ 1,117,229	\$ 906,072
PERS 2/3	2,834,896	1,052,259	(408,347)
LEOFF 1	(469,233)	(632,590)	(772,876)
LEOFF 2	233,113	(1,077,239)	(2,144,859)

**Pension Plan Fiduciary Net Position**

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

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

At June 30, 2017, the City reported a total pension liability of \$2,169,488 for its proportionate share of the net pension liabilities as follows:

	<b>Liability (or Asset)</b>
PERS 1	\$ 1,117,229
PERS 2/3	\$ 1,052,259



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LEOFF 1	\$ (632,590)
LEOFF 2	\$(1,077,239)

The amount of the asset reported above for LEOFF Plan 2 reflects a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the City were as follows:

	<u>Liability (or Asset)</u>
LEOFF 2 – employer’s proportionate share	\$ (1,077,239)
LEOFF 2 – State’s proportionate share of the net pension liability/(asset) associated with the employer	<u>(698,785)</u>
<b>TOTAL</b>	<u><b>\$ (1,776,024)</b></u>

At June 30, the City’s proportionate share of the collective net pension liabilities/assets was as follows:

<b>Plan</b>	<b>Proportionate Share 6/30/16</b>	<b>Proportionate Share 6/30/17</b>	<b>Change in Proportion</b>
PERS 1	% .022776	% .023545	% .000769
PERS 2/3	.028007	.030285	.002278
LEOFF 1	.042555	.041694	(.000861)
LEOFF 2	.075802	.077629	.001827

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer’s proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2017. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2017, the State of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2017, the State of Washington contributed 39.35 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.65 percent of employer contributions.

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The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

**Pension Expense**

For the year ended December 31, 2017, the City recognized pension expense as follows:

<b>Plan</b>	<b>Pension Expense</b>
PERS 1	\$ 109,010
PERS 2/3	148,376
LEOFF 1	(90,803)
LEOFF 2	<u>34,020</u>
<b>TOTAL</b>	<b><u>\$ 200,603</u></b>

**Deferred Outflows of Resources and Deferred Inflows of Resources**

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>PERS Plan 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (41,692)
Contributions subsequent to the measurement date	<u>76,961</u>	<u>-</u>
<b>TOTAL PERS Plan 1</b>	<b><u>\$ 76,961</u></b>	<b><u>\$ (41,692)</u></b>

<b>PERS Plan 2</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 106,619	\$ (34,607)
Net difference between projected and actual investment earnings on pension plan investments	-	(280,507)
Changes of assumptions	11,177	-
Changes in proportion and differences between contributions and proportionate share of contributions	83,845	(25,968)
Contributions subsequent to the measurement date	<u>107,579</u>	<u>-</u>
<b>TOTAL PERS Plan 2</b>	<b><u>\$ 309,220</u></b>	<b><u>\$ (341,082)</u></b>

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<b>LEOFF Plan 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (58,782)
<b>TOTAL LEOFF Plan 1</b>	<u>\$ -</u>	<u>\$ (58,782)</u>

<b>LEOFF Plan 2</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 47,347	\$ (40,851)
Net difference between projected and actual investment earnings on pension plan investments	-	(241,848)
Changes in assumptions	1,297	
Changes in proportion and differences between contributions and proportionate share of contributions	-	(33,899)
Contributions subsequent to the measurement date	<u>67,021</u>	<u>-</u>
<b>TOTAL LEOFF Plan 2</b>	<u>\$ 115,665</u>	<u>\$ (316,598)</u>

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended December 31:</b>	<b>PERS 1</b>	<b>PERS 2/3</b>	<b>LEOFF 1</b>	<b>LEOFF 2</b>
2018	\$ (28,181)	\$(114,425)	\$ (36,890)	\$(118,134)
2019	8,897	34,063	9,949	18,134
2020	(2,066)	(11,981)	(3,973)	(23,628)
2021	(20,342)	(99,512)	(27,868)	(112,073)
2022	-	22,789	-	(5,759)
Thereafter	-	29,625	-	(26,494)

### Other Local Government Pension System

The City is the administrator of a single employer defined benefit pension plan, the Firemen's Pension Fund. The plan is limited to firefighters and beneficiaries employed before March 1, 1970, and as of March 1, 1970, the plan was closed to new entrants. Firefighters hired before March 1, 1970, at retirement receive the greater of the pension benefit provided under this plan or under the LEOFF plan. Any excess benefit over the LEOFF benefit is provided by the City plan. There are currently nine individuals retired under the LEOFF plan, but drawing excess benefits from this plan. There are no individuals currently employed that are eligible for benefits from this

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plan. All future obligations of the Firemen's Pension Fund were assumed by the State pension system, LEOFF.

The Fireman's Pension Fund cash and investment balance consists of \$516,033 with the investment portion held in the State investment pool as of December 31, 2017.

A recent actuarial survey has not been done because annual benefits are approximately \$54,000 and the net position held in trust for pension benefits is over \$516,000 and the average age of current retirees is 81. However, the last actuarial survey indicated that there was a net accrued liability of \$225,000 in the system that will be fully amortized with annual contributions to the plan of \$26,616 through 2024. Furthermore, there was no preparation of the schedules or required supplementary information required by GASB's 67 and 68 because, in management's opinion, future funding and contributions by the City are not material and the cost of future actuarials would outweigh the benefits.

In 2017, the City also received on behalf payments from taxes on fire insurance premiums in the amount of \$12,492.

## **I. Direct Adjustments to Net Position**

### Prior Period Adjustment

The City revised its capitalization policy during this reporting period. Revisions included adjustments to capitalization thresholds from \$5,000 to \$100,000 for roadway and utility infrastructure, reevaluation of the useful service lives of certain capital assets and redefining roadway overlays as a maintenance expenditures instead of a capital expenditures.

Incorporating the new estimated lives of certain fully depreciated assets resulted in reducing accumulated depreciation for excess amounts charged in prior periods. Applying the redefinition of roadway overlays as maintenance expenditures resulted in a reduction to capital assets for amounts previously capitalized as construction in progress.

These adjustments increased the net position for governmental activities by \$1,739,994, enterprise funds by \$611,582 and the internal service funds by \$457,961.

## **J. Reporting Changes**

### Implementation of GASB 74

For fiscal years that begin after June 30, 2017, GASB 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, became effective. This GASB is not applicable to the City.

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2017

Implementation of GASB 80

For fiscal years that begin after June 30, 2017, GASB 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, became effective. This GASB is not applicable to the City.

Implementation of GASB 81

For fiscal years that begin after December 31, 2017, GASB 81, *Irrevocable Split-interest Agreements*, became effective. This GASB is not applicable to the City.

Implementation of GASB 82

For fiscal years that begin after June 30, 2017, GASB 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, became effective. This GASB is not applicable to the City.

**CITY OF KELSO  
REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2017**

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>
01/01/08	\$ 0	\$5,910,503	0%	\$5,910,503	N/A	N/A
01/01/11	\$ 0	\$5,394,230	0%	\$5,394,230	N/A	N/A
01/01/14	\$ 0	\$6,904,580	0%	\$6,904,580	N/A	N/A
01/01/17	\$ 0	\$7,210,365	0%	\$7,210,365	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, 2017 is \$0.

Schedule of Employer Contributions:

Fiscal <u>Year</u>	Total Employer <u>Contributions</u>	Annual Required Contribution <u>(ARC)</u>	Percentage of ARC <u>Contributed</u>
2013	\$ 276,032	\$502,277	55.0%
2014	\$ 238,052	\$621,006	38.3%
2015	\$ 213,806	\$621,006	34.5%
2016	\$ 228,574	\$621,006	36.8%
2017	\$ 190,153	\$648,508	29.3%

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

## Required Supplementary Information

**City of Kelso**  
**Schedule of Employer Contributions**  
**Public Employees Retirement System Plan 1**  
**As of December 31, 2017**  
**Last Ten Fiscal Years**

	<u>Fiscal Year</u> <u>2015*</u>	<u>Fiscal Year</u> <u>2016</u>	<u>Fiscal Year</u> <u>2017</u>
Statutorily required contributions	\$ 119,722	\$ 135,433	\$ 149,623
Contributions in relation to the statutorily required contributions	(119,722)	(135,433)	(149,623)
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employer payroll	\$ 2,653,280	\$ 2,824,028	\$ 3,053,518
Contributions as a percentage of covered employee payroll	11.00%**	11.00%	12.52%***

This schedule is intended to show information for ten years, additional years' information will be displayed as it becomes available.

\* Information not available prior to 2015

\*\* Rate was 9.03% thru June 30, 2015 and increased to 11.00% for the remainder of the year

\*\*\* Rate was 11.00% thru June 30, 2017 and increased to 12.52% for the remainder of the year

## Required Supplementary Information

**City of Kelso**  
**Schedule of Employer Contributions**  
**Public Employees Retirement System Plan 2/3**  
**As of December 31, 2017**  
**Last Ten Fiscal Years**

	<u>Fiscal Year</u> <u>2015*</u>	<u>Fiscal Year</u> <u>2016</u>	<u>Fiscal Year</u> <u>2017</u>
Statutorily required contributions	\$ 146,061	\$ 175,210	\$ 209,473
Contributions in relation to the statutorily required contributions	(146,061)	(175,210)	(209,473)
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employer payroll	\$ 2,593,780	\$ 2,812,358	\$ 3,053,518
Contributions as a percentage of covered employee payroll	11.00%**	11.00%	12.52%***

This schedule is intended to show information for ten years, additional years' information will be displayed as it becomes available.

\* Information not available prior to 2015

\*\* Rate was 9.03% thru June 30, 2015 and increased to 11.00% for the remainder of the year

\*\*\* Rate was 11.00% thru June 30, 2017 and increased to 12.52% for the remainder of the year



## Required Supplementary Information

**City of Kelso**  
**Schedule of Employer Contributions**  
**Law Enforcement Officers and Fire Fighters Retirement Plan 2**  
**As of December 31, 2017**  
**Last Ten Fiscal Years**

	<u>Fiscal Year</u> <u>2015*</u>	<u>Fiscal Year</u> <u>2016</u>	<u>Fiscal Year</u> <u>2017</u>
Statutorily required contributions	\$ 110,458	\$ 121,594	\$ 128,018
Contributions in relation to the statutorily required contributions	(110,458)	(121,594)	(128,018)
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employer payroll	\$ 2,187,286	\$ 2,407,794	\$ 2,485,109
Contributions as a percentage of covered employee payroll	5.05%	5.05%	5.25%

This schedule is intended to show information for ten years, additional years' information will be displayed as it becomes available.

\* Information not available prior to 2015

\*\*\* Rate was 5.05% thru June 30, 2017 and increased to 5.25% for the remainder of the year

## Required Supplementary Information

**City of Kelso**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**Public Employees Retirement System Plan 1**  
**As of June 30, 2017**  
**Last Ten Fiscal Years**

	<u>Fiscal Year</u> <u>2015*</u>	<u>Fiscal Year</u> <u>2016</u>	<u>Fiscal Year</u> <u>2017</u>
Employer's proportion of the net pension liability (asset)	0.023210%	0.022776%	0.023545%
Employer's proportionate share of the net pension liability	\$ 1,214,099	\$ 1,223,179	\$ 1,117,229
Employer's covered employee payroll	\$ 2,609,568	\$ 2,691,098	\$ 2,986,773
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	46.52%	45.45%	37.41%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%	61.24%

This schedule is intended to show information for ten years, additional years' information will be displayed as it becomes available.

\* Information not available prior to 2015

## Required Supplementary Information

**City of Kelso**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**Public Employees Retirement System Plan 2/3**  
**As of June 30, 2017**  
**Last Ten Fiscal Years**

	<u>Fiscal Year</u> <u>2015*</u>	<u>Fiscal Year</u> <u>2016</u>	<u>Fiscal Year</u> <u>2017</u>
Employer's proportion of the net pension liability (asset)	0.028465%	0.028007%	0.030285%
Employer's proportionate share of the net pension liability	\$ 1,017,071	\$ 1,410,130	\$ 1,052,259
Employer's covered employee payroll	\$ 2,549,530	\$ 2,649,405	\$ 2,986,773
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	39.89%	53.22%	35.23%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%	90.97%

This schedule is intended to show information for ten years, additional years' information will be displayed as it becomes available.

\* Information not available prior to 2015

## Required Supplementary Information

**City of Kelso**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**Law Enforcement Officers and Fire Fighters Retirement Plan 1**  
**As of June 30, 2017**  
**Last Ten Fiscal Years**

	<u>Fiscal Year</u> <u>2015*</u>	<u>Fiscal Year</u> <u>2016</u>	<u>Fiscal Year</u> <u>2017</u>
Employer's proportion of the net pension liability (asset)	0.042208%	0.042555%	0.041694%
Employer's proportionate share of the net pension liability (asset)	\$ (508,700)	\$ (438,438)	\$ (632,590)
Employer's covered employee payroll	\$ -	\$ -	\$ -
Employer's proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability (asset)	127.36%	123.74%	135.96%

This schedule is intended to show information for ten years, additional years' information will be displayed as it becomes available.

\* Information not available prior to 2015

## Required Supplementary Information

**City of Kelso**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**Law Enforcement Officers and Fire Fighters Retirement Plan 2**  
**As of June 30, 2017**  
**Last Ten Fiscal Years**

	<u>Fiscal Year</u> <u>2015*</u>	<u>Fiscal Year</u> <u>2016</u>	<u>Fiscal Year</u> <u>2017</u>
Employer's proportion of the net pension liability (asset)	0.072194%	0.075802%	0.077629%
Employer's proportionate share of the net pension liability (asset)	\$ (742,010)	\$ (440,887)	\$ (1,077,239)
State's proportionate share of the net pension liability (asset) associated with the employer	\$ (490,624)	\$ (287,426)	\$ (698,785)
Employer's covered employee payroll	\$ 2,120,860	\$ 2,294,917	\$ 2,439,577
Employer's proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	34.99%	19.21%	44.16%
Plan fiduciary net position as a percentage of the total pension liability (asset)	111.67%	106.04%	113.36%

This schedule is intended to show information for ten years, additional years' information will be displayed as it becomes available.

\* Information not available prior to 2015

**City of Kelso**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Office of Community Planning and Development, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via Washington State Department of Commerce)	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	1-96-745-005	102,712	-	102,712	-	2,4,6
OFFICE ON VIOLENCE AGAINST WOMEN (OVW), JUSTICE, DEPARTMENT OF (via Washington State Department of Commerce)	Violence Against Women Formula Grants	16.588	F-16-31103-067	12,328	-	12,328	-	2,6
Bureau of Justice Assistance, JUSTICE, DEPARTMENT OF (via Cowlitz County, Washington)	Edward Byrne Memorial Justice Assistance Grant Program	16.738	F-16-31440-006	68,410	-	68,410	-	2,6
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program	20.106	3-53-0034-016	-	701	701	701	2,3,6
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program	20.106	3-53-0034-017	-	16,907	16,907	16,907	2,3,6
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program	20.106	3-53-0034-018	-	2,183	2,183	2,183	2,3,6
<b>Total CFDA 20.106:</b>				-	<b>19,791</b>	<b>19,791</b>	<b>19,791</b>	

**Highway Planning and Construction Cluster**

*The accompanying notes are an integral part of this schedule.*

**City of Kelso**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	HPP-6746(003)	3,373	-	3,373	-	2,6
<b>Total Highway Planning and Construction Cluster:</b>				<b>3,373</b>	<b>-</b>	<b>3,373</b>	<b>-</b>	
<b>Highway Safety Cluster</b>								
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington Association of Sheriffs and Police Chiefs)	State and Community Highway Safety	20.600	N/A	4,839	-	4,839	-	2,6
<b>Total Highway Safety Cluster:</b>				<b>4,839</b>	<b>-</b>	<b>4,839</b>	<b>-</b>	
<b>Drinking Water State Revolving Fund Cluster</b>								
ASSISTANT ADMINISTRATOR FOR WATER, ENVIRONMENTAL PROTECTION AGENCY (via Washington State Department of Commerce)	Capitalization Grants for Drinking Water State Revolving Funds	66.468	DM16-952-013	1,028,295	-	1,028,295	-	2,5,6
<b>Total Drinking Water State Revolving Fund Cluster:</b>				<b>1,028,295</b>	<b>-</b>	<b>1,028,295</b>	<b>-</b>	
EXECUTIVE OFFICE OF THE PRESIDENT, None; (via Cowlitz County, Washington)	High Intensity Drug Trafficking Areas Program	95.001	G16NW0011A	957	-	957	-	2,6
EXECUTIVE OFFICE OF THE PRESIDENT, None; (via Cowlitz County, Washington)	High Intensity Drug Trafficking Areas Program	95.001	G17NW0011A	1,283	-	1,283	-	2,6
<b>Total CFDA 95.001:</b>				<b>2,240</b>	<b>-</b>	<b>2,240</b>	<b>-</b>	
<b>Total Federal Awards Expended:</b>				<b>1,222,197</b>	<b>19,791</b>	<b>1,241,988</b>	<b>19,791</b>	

The accompanying notes are an integral part of this schedule.

**City of Kelso**  
Notes to the Schedule of Expenditures of Federal Awards  
December 31, 2017

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 Subrecipients

All amounts expended for this program were passed through to a subrecipient 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 disbursements of such funds to eligible recipients are considered expenditures. The amount of funds disbursed to program participants for the year was \$60,000 and is presented in this schedule. The amount of principal and interest received in loan repayments for the year was \$42,712.

Note 5 – Federal Loans

The City was approved by the EPA and the Washington State Department of Commerce to receive a loan totaling \$4,529,850 to improve its drinking water system. The amount listed for this loan includes the proceeds used during the year.

Note 6 – Indirect Cost Rate

The City has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Not Applicable (N/A)

Information is not applicable or available for this grant.



## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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Contact information for the State Auditor's Office	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>