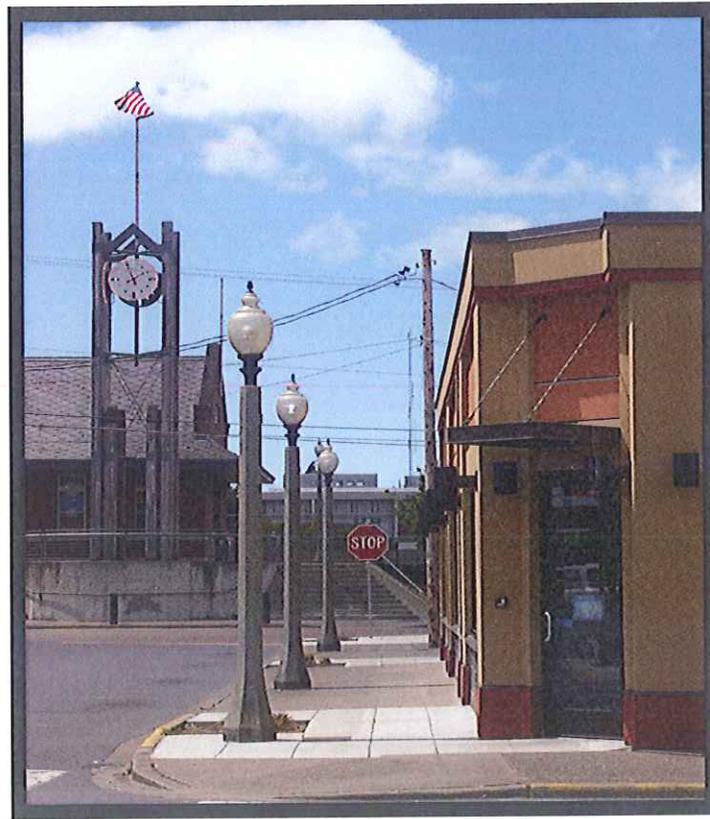


*City of Kelso, Washington
Comprehensive Annual
Financial Report*

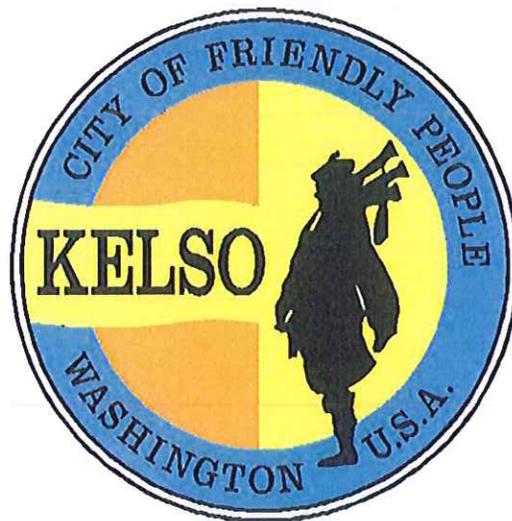


Kelso, Washington 2013

*FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2012*

City of Kelso, Washington

Comprehensive Annual Financial Report



For the fiscal year ended December 31, 2012

Prepared by the Finance Department

**Brian Butterfield
Finance Director**

**Accounting Staff
Patty Murray
Tami Sutherby
Lisa Wetle**

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City of Kelso
 Comprehensive Annual Financial Report
 For the Fiscal Year Ended December 31, 2012

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INTRODUCTORY SECTION

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City of Kelso



Finance & Utility Department 203 S Pacific, Suite 102 P.O. Box 819 Kelso, Washington
360-423-0900 fax 360-425-9807

June 27, 2013

To the Honorable David Futcher, Mayor
Members of the City Council
Stephen Taylor, City Manager
Citizens of the City of Kelso

State law requires that all local governments publish within 150 days of the close of each fiscal year financial statements covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the Washington State Auditor's Office. In addition to the State reporting requirements, the City has chosen to issue our financial report in conformity with generally accepted accounting practices (GAAP) and hereby submit this comprehensive annual financial report (CAFR) of the City of Kelso for the fiscal year ended December 31, 2012.

This report consists of management's representations concerning the finances of the City of Kelso (City). Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Kelso's financial statements have been audited by the Washington State Auditor's Office. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended December 31, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an

unqualified opinion that the City of Kelso's financial statements for the fiscal year ended December 31, 2012, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Kelso, incorporated in 1889, is located in southwestern Washington on the Cowlitz River, approximately 127 miles south of the City of Seattle, Washington and 50 miles north of the City of Portland, Oregon. The City, which serves as the Cowlitz County seat, lies adjacent to the City of Longview. Together, these two cities comprise of the Kelso/Longview metropolitan area, the major population center of Cowlitz County. The City of Kelso currently occupies a land area of 8 square miles and serves a population of 11,930.

The City of Kelso operates under the Council-Manager form of government. The Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the City Manager and Attorney. The City Manager is responsible for carrying out the policies and ordinances of the Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The Council is elected via City-wide vote. Council members serve four-year staggered terms, with three-four Council members elected every two years. The City Council elects a Mayor from the Council membership for a two-year term.

The City of Kelso provides a full range of services, including police, fire protection (City contracts with Cowlitz County Fire District No. 2), refuse removal (City contracts with Waste Control Equipment Inc.), a municipal airport, street maintenance, transit system (City contracts with River Cities Transit), water and sewer utilities, library services, and parks and recreation facilities.

Cities and counties of the State of Washington must comply with the Budgeting, Accounting, and Reporting System (BARS) prescribed by the Office of the State Auditor as authorized under RCW 43.09.200 and RCW 43.09.230. State law also provides for annual independent audits by the Washington State Auditor's Office and requires timely submission of annual financial reports to the State for review. The financial system of the City of Kelso incorporates a system of financial and administrative controls that ensure the safeguarding of assets and the reliability of financial reports. Consequently they are designed to provide reasonable assurance that transactions are executed in accordance with management authorization, recorded in conformity with GAAP, that accountability of control over assets and obligations exists, and that sufficient reporting and review exists to provide adequate information for analysis and comparability of data.

Internal control is an area of audit by the State Auditor as well and City management takes action upon recommendations made by the State.

The City of Kelso prepares a biennial budget in accordance with RCW 35.A.34. The biennial budget serves as the foundation for the City's financial planning and control. The budget process begins in mid summer of even-numbered years. All departments of the City are required to submit requests for appropriation to the City Clerk on or before the fourth Monday in September. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then submits the proposed budget to the City Council for review prior to November 1. The City Council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than December 31, the close of the City's fiscal year. The appropriated budget is prepared by fund. 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 must be approved by the Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general and arterial street funds this comparison is presented on pages 35-36 as part of the basic financial statements for the governmental funds. For governmental funds, other than those previously mentioned, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on page 92.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Kelso operates.

Local economy. Kelso's economy is predominately retail, commercial and service oriented. The largest employers in the City include Foster Farms Poultry Processing Plant, Cowlitz County, and Kelso School District. The City also has a mall that encompasses over 420,000 square feet and includes two anchor stores; Macy's and J.C. Penney. Additional employment is provided by regional employers such as Longview Fibre Company, PeaceHealth/St. John's Hospital, and Weyerhaeuser Company which are located in neighboring Longview, Washington.

The economy of the region is based on a mixture of industrial, commercial and service activity. Wood and paper products processing, steel processing, trade and port activity, as well as healthcare, make up the economic foundation of the area. The economy as a whole has become more diversified in recent years, but remains materially dependent on the forest products industry and, as a result, is relatively vulnerable to the cyclical downturns of that industry. The average unemployment rate for the Kelso/Longview metropolitan area in 2012 was 10.9 percent compared with state and national rates of 8.2 percent and 8.1 percent, respectively.

Long-term financial planning. As always the City of Kelso will strive to continue providing basic services at current levels. Funding priorities for long-term operating and capital needs are reviewed and updated annually during the budget process and again at the council retreat. Over the past decade the City has been particularly successful in obtaining grants and low interest loans for the upgrade of roadway and utility infrastructure. One of the primary goals of the City is to upgrade its infrastructure to help attract new business to the region which, in turn, will increase our tax base.

Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Kelso for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2011. This was the eighth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this Comprehensive Annual Financial Report represents the culmination of months of concerted teamwork and could not have been accomplished without the professional, efficient and dedicated staff of the Finance Department. To each, I share my sincerest appreciation.

Credit also must be given to the Mayor and the City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Kelso's finances.

Respectfully submitted,



Brian Butterfield
Finance Director

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Certificate of Achievement for Excellence in Financial Reporting

Presented to
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City of Kelso
Washington

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



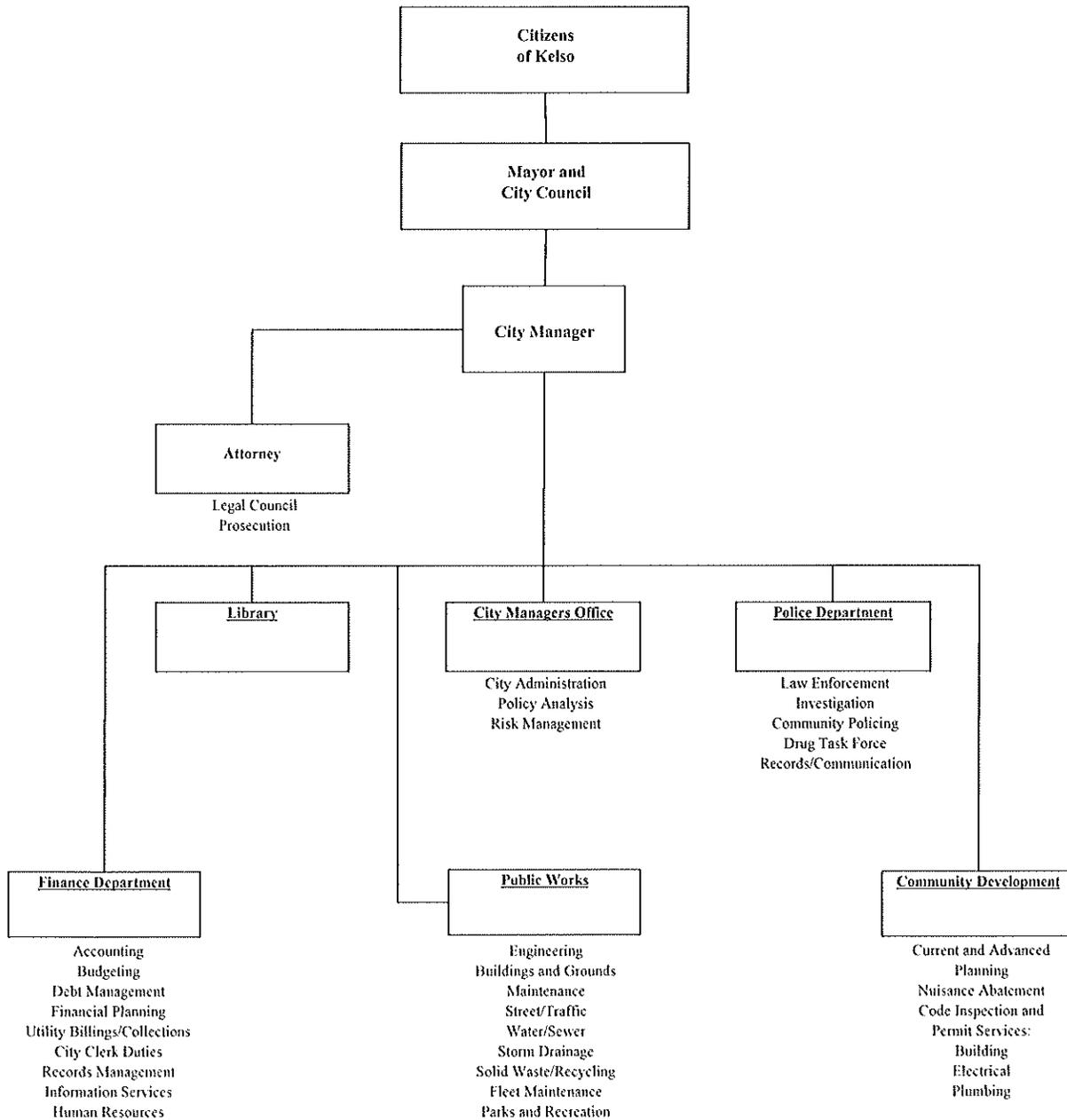
Christopher P. Mouill

President

Jeffrey R. Emer

Executive Director

City Of Kelso Organizational Chart



City of Kelso

Directory of Officials

December 31, 2012

Elected Officials

Mayor

David Futcher

Council Members

Todd McDaniel

Dan Myers

Rick Roberson

Gary Schimmel

Gary Archer

Kim Lefebvre

Appointed Officials

City Manager

Stephen Taylor

City Attorney

Janean Parker

Clerk / Finance Director

Brian Butterfield

Public Works Director

David Sypher

Police Chief

Andy Hamilton

Community Development Manager

Nancy Malone

FINANCIAL SECTION

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**Washington State Auditor
Troy Kelley**

INDEPENDENT AUDITOR'S REPORT

June 27, 2013

Mayor and City Council
City of Kelso
Kelso, Washington

REPORT ON 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, Cowlitz County, Washington, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and Arterial Street funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis Regarding Material Misstatements in Previously Issued Financial Statements

As described in Note V to the financial statements, the City's 2011 basic financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Matters of Emphasis Regarding Implementation of New Accounting Standard

As described in Note V, during the year ended December 31, 2012, the City has implemented the Governmental Accounting Standards Board Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 28, pension trust fund information on page 84 and information on postemployment benefits other than pensions on pages 84 and 85 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 as a whole. The accompanying

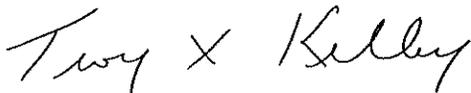
information listed as combining financial statements on pages 88 through 104 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the Introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated June 27, 2013, 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. That report will be issued under separate cover in the City's Single Audit Report. 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.

Sincerely,

A handwritten signature in cursive script that reads "Troy X Kelley". The signature is written in black ink and is positioned above the typed name.

TROY KELLEY
STATE AUDITOR

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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, 2012. 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 of the City of Kelso exceeded its liabilities at the close of the most recent fiscal year by \$83,845 (net position). Capital assets, net of depreciation and related debt, account for \$70,188 or 83.7% of total net assets. \$11,622 or 13.9% of total net position (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$2,174 during 2012.
- As of the close of the current fiscal year, the City of Kelso's governmental funds reported combined ending fund balances of \$6,259, an increase of \$793 in comparison with the prior year. Approximately 64% of this amount, \$3,987, is available for spending at the government's discretion (unrestricted fund balance).
- At the end of the current fiscal year, unrestricted fund balance for the general fund was \$3,276, or 39% of total general fund expenditures.
- The City of Kelso's total debt (exclusive of compensated absences) decreased by \$535 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 and liabilities, with the difference between the two 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, a storm water drainage enterprise, and an airport.

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 eight 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 and solid waste departments, its airport, and for its storm water drainage department. 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, as well as, the City's airport. However, only the water/sewer, solid waste and airport funds are considered to be major funds of the City. The internal service fund is also presented separately in the proprietary fund financial statements.

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

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

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. In the case of the City of Kelso, assets exceeded liabilities by \$83,845 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, 2012 with comparable data provided for the previous year.

City of Kelso's Net Position

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$7,828	\$6,059	\$ 9,099	\$ 8,537	\$16,927	\$14,596
Capital assets (net)	<u>50,989</u>	<u>50,690</u>	<u>28,568</u>	<u>27,776</u>	<u>79,557</u>	<u>78,466</u>
Total assets	<u>58,817</u>	<u>56,749</u>	<u>37,667</u>	<u>36,313</u>	<u>96,484</u>	<u>93,062</u>
Long-term liabilities outstanding	4,279	4,230	6,699	7,081	10,978	11,311
Other liabilities	<u>403</u>	<u>481</u>	<u>1,258</u>	<u>1,615</u>	<u>1,661</u>	<u>2,096</u>
Total liabilities	<u>4,682</u>	<u>4,711</u>	<u>7,957</u>	<u>8,696</u>	<u>12,639</u>	<u>13,407</u>
Net assets:						
Net investment in capital assets	48,199	47,753	21,989	20,809	70,188	68,562
Restricted	1,442	1,349	593	592	2,035	1,941
Unrestricted	<u>4,494</u>	<u>2,936</u>	<u>7,128</u>	<u>6,216</u>	<u>11,622</u>	<u>9,152</u>
Total net position	<u>\$54,135</u>	<u>\$52,038</u>	<u>\$29,710</u>	<u>\$27,617</u>	<u>\$83,845</u>	<u>\$79,655</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 (2.4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$11,622 may be used to meet the City's ongoing obligations to citizens and creditors.

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

Governmental activities. Governmental activities increased the City of Kelso's net position by \$899 in 2012. Revenues and expenditures increased in 2012 by \$1,069 and \$27, respectively. Key elements for these changes are as follows:

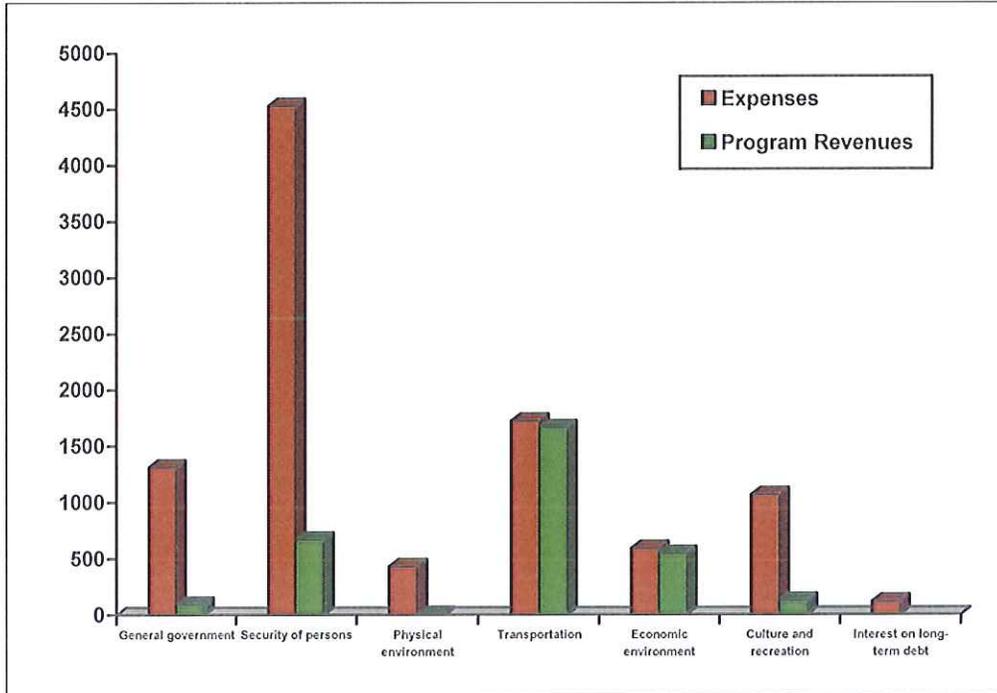
- Capital grants increased by \$632 in 2012.
- Operating grants increased by \$270 in 2012.

City of Kelso's Changes in Net Assets

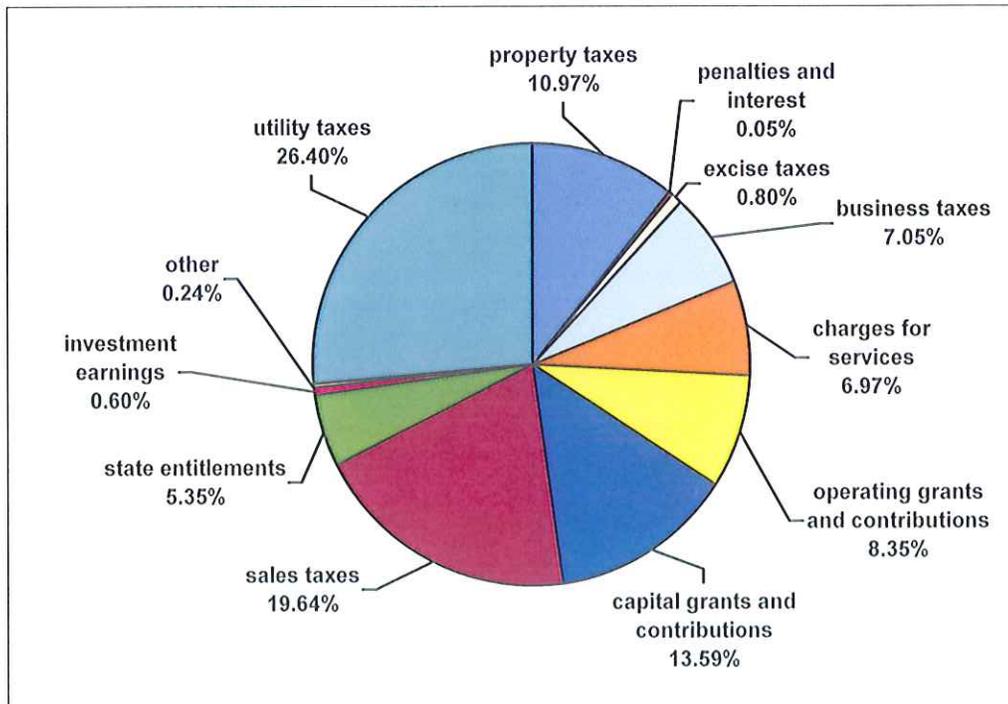
	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$747	\$782	\$9,471	\$9,538	\$10,218	\$10,320
Operating grants and contributions	894	624	193	238	1,087	862
Capital grants and contributions	1,455	822	457	-	1,912	822
General revenues:						
Property taxes	1,175	1,159	-	-	1,175	1,159
Sales and use taxes	2,103	2,154	-	-	2,103	2,154
Utility taxes	2,827	2,611	-	-	2,827	2,611
Business taxes	755	713	-	-	755	713
Excise taxes	86	111	-	-	86	111
Penalties and interest	5	4	-	-	5	4
State entitlements	573	572	-	-	573	572
Investment earnings	64	68	11	15	75	83
Other	26	21	-	-	26	21
Total revenues	<u>10,710</u>	<u>9,641</u>	<u>10,132</u>	<u>9,791</u>	<u>20,842</u>	<u>19,432</u>
Expenses:						
General government	1,312	1,453	-	-	1,312	1,453
Security of persons and property	4,533	4,543	-	-	4,533	4,543
Physical environment	431	422	-	-	431	422
Transportation	1,722	1,703	-	-	1,722	1,703
Economic environment	590	396	-	-	590	396
Culture and recreation	1,066	1,054	-	-	1,066	1,054
Interest on long-term debt	117	173	-	-	117	173
Water/Sewer	-	-	6,610	6,578	6,610	6,578
Storm water	-	-	571	580	571	580
Solid waste	-	-	1,294	1,235	1,294	1,235
Airport	-	-	422	380	422	380
Total expenses	<u>9,771</u>	<u>9,744</u>	<u>8,897</u>	<u>8,773</u>	<u>18,668</u>	<u>18,517</u>
Change in net position before transfers	939	(103)	1,235	1,018	2,174	915
Transfers	(40)	4	40	(4)	-	-
Change in net position	899	(99)	1,275	1,014	2,174	915
Net position – beginning, restated for 2012*	<u>53,236</u>	<u>52,137</u>	<u>28,435</u>	<u>26,603</u>	<u>81,671</u>	<u>78,740</u>
Net position – ending	<u>\$54,135</u>	<u>\$52,038</u>	<u>\$29,710</u>	<u>\$27,617</u>	<u>\$83,845</u>	<u>\$79,655</u>

*See note V.G.

Expenses and Program Revenues – Governmental Activities

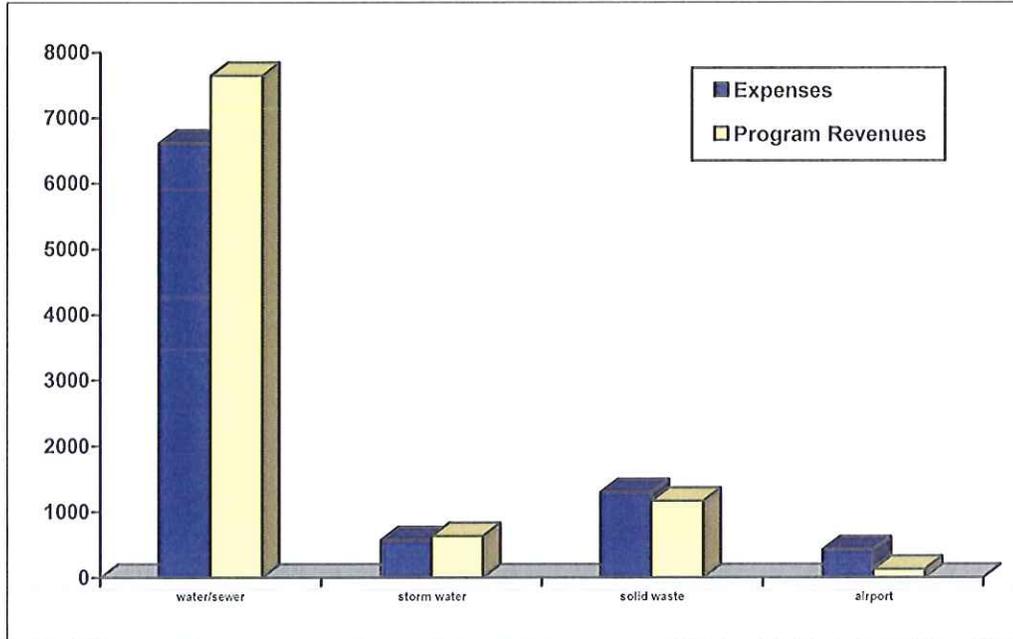


Revenues by Source - Governmental Activities

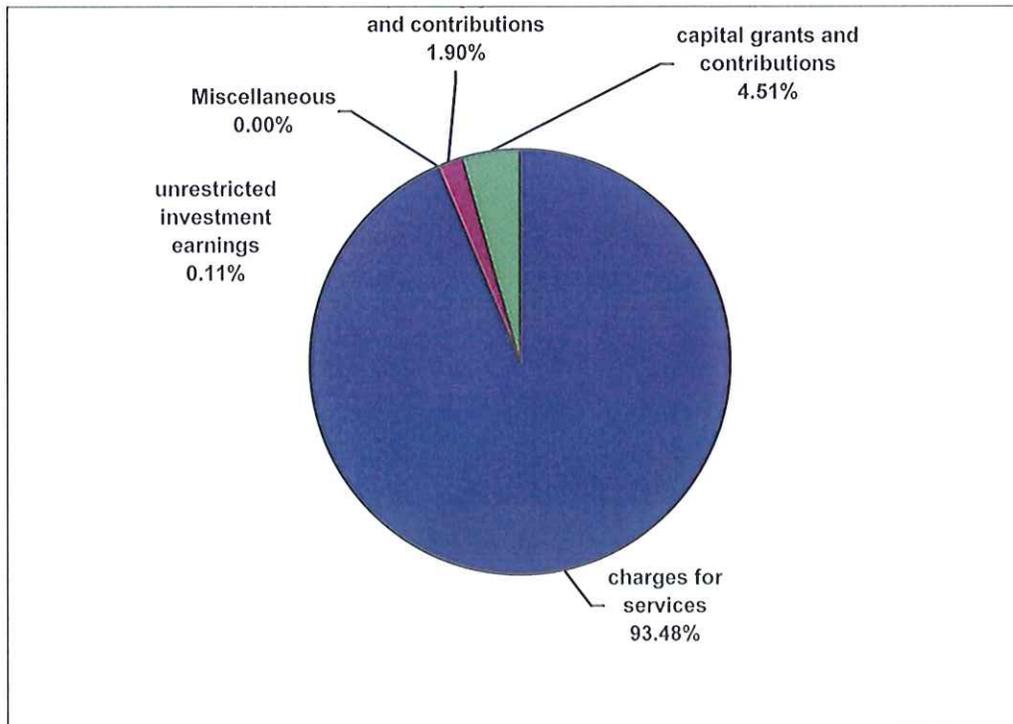


Business-type activities. Business-type activities increased the City of Kelso’s net position by \$1,275. Business-type activity revenues and expenses increased by \$341 and \$124, respectively, in 2012. Operating revenues exceeded operating expenses in 2012 by \$1,203 in the water/sewer fund.

Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type Activities



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

- The City increased the water and sewer rates by 7.5% and 3.0%, respectively, in 2012.
- The City increased the garbage collection rates by 2.5% in 2012.
- Payments made to the regional sewage treatment plant decreased by \$211 in 2012. See Note V.D.

Financial Analysis of the Government's Funds

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

Governmental Funds. The focus of the City of Kelso's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Kelso's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Kelso's governmental funds reported combined ending fund balances of \$6,259, an increase of \$793 in comparison with the prior year. Approximately 64% of this total amount (\$3,987) constitutes unrestricted fund balance (unassigned, assigned, and committed), which is available for spending at the City's discretion. The remainder of fund balance is restricted or nonspendable to indicate that it is not available for new spending because it is restricted 1) to pay for tourism promotion and for the acquisition and/or operation of tourism-related facilities (\$132), 2) to pay for low income housing (\$54), 3) to pay for housing rehabilitation (\$1,060), 4) for a variety of other restricted purposes (\$196), or it is nonspendable 1) for interfund loans that are not payable/receivable in the current period (\$517), or 2) for long-term notes receivable that will not become available in the current period (\$312).

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 \$3,369. All but \$306 of this fund balance is unassigned. \$54 is restricted for low income housing, \$38 is restricted for the maintenance of City streets and \$213 has been committed by the City for maintenance of City owned bridges. Unassigned fund balance represents 39 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 \$486 during the current fiscal year. This increase in fund balance can be attributed to the elimination of

eleven full-time positions in 2011 and 2 full-time positions in 2012. Nine of the thirteen positions were eliminated through attrition.

The arterial street fund accounts for the receipt and expenditure of a portion of the State-levied motor vehicle fuel taxes distributed to the City as well as various grants. Revenues are designated for construction, improvement, chip sealing, seal coating, and repair of streets or for payment of related municipal indebtedness. In 2012, the arterial street fund expended in excess of \$1.9 million on roadway improvements.

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

Unrestricted net position of the water/sewer fund at the end of the year amounted to \$5,428, and for the solid waste fund amounted to \$518. The total net position for the water/sewer fund increased by \$1,025 and the total net position for the solid waste fund decreased by \$126. Residential and commercial water rates were increased by 7.5% and sewer rates were increased by 3.0% in 2012. 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 (\$333 increase in appropriations) can be briefly summarized as follows:

- \$300 for the clean up a blighted property.
- \$62 for police operations.
- \$(16) for miscellaneous Community Development operations.
- \$(13) for miscellaneous operations.

\$375 of this increase was funded by grants and \$42 was added back to reserves. At the end of the year, operating revenues exceeded budgetary estimates by \$113. Operating expenditures and transfers were \$359 less than budgetary estimates.

Capital Asset and Debt Administration

Capital Assets. The City of Kelso's investment in capital assets for its governmental and business type activities as of December 31, 2012 amounts to \$70,188 (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 2012, the City of Kelso continued the planning/preliminary engineering phase and began the Right-of-Way acquisition phase of the West Main Street Realignment project in West Kelso. The West Main Street Realignment project runs from the Allen Street Bridge on the west end of Allen Street, to the west city limits of Kelso at West Cowlitz Way. The Realignment Project stems from growing traffic, congestion and accidents along the corridor. The goal of the project is to redevelop the streets in the area to deal with those issues, and at the same time provide a desirable business friendly environment. During the planning phase the city decided on the final alignment option, developing the supporting environmental documents and developing engineering plans, estimates and specifications for construction. The planning phase is being funded entirely by a federal grant. The total cost of this project through December 31, 2012 was \$2,557.
- The Paxton Road Water Reservoir project was substantially completed in 2012. This project consists of the construction of a 2 million gallon water reservoir with accumulated costs of \$3,798 through December 31, 2012.
- Various waterline replacement projects were completed in 2012. These projects consisted of the installation of 2.26 miles of new water mains throughout the City. The total cost of these projects through December 2012 was \$2,118.

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

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$18,133	\$18,133	\$484	\$484	\$18,617	\$18,617
Buildings and structures	7,612	7,863	5,268	5,424	12,880	13,287
Improvements other than buildings	1,787	1,997	17,569	15,109	19,356	17,106
Machinery and equipment	319	353	586	697	905	1,050
Infrastructure	20,042	19,946	-	-	20,042	19,946
Construction in progress	<u>3,096</u>	<u>2,398</u>	<u>4,661</u>	<u>6,062</u>	<u>7,757</u>	<u>8,460</u>
Total	<u>\$50,989</u>	<u>\$50,690</u>	<u>\$28,568</u>	<u>\$27,776</u>	<u>\$79,557</u>	<u>\$78,466</u>

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

Long-term debt. At the end of the current fiscal year, the City of Kelso had total bonded debt outstanding of \$2,585. 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	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$2,585	\$2,710	\$-	\$-	\$2,710	\$2,710
Revenue bonds	-	-	4,865	5,050	5,050	5,050
Total	<u>\$2,585</u>	<u>\$2,710</u>	<u>\$4,865</u>	<u>\$5,050</u>	<u>\$7,450</u>	<u>\$7,760</u>

The City of Kelso's total bonded debt decreased by \$310 during the current fiscal year.

In addition to the bonded debt mentioned above, the City has two Public Works Trust Fund loans, two Drinking Water State Revolving Fund loans, and one miscellaneous note outstanding at year end. The total amount outstanding at year end for these loans is \$1,919.

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 2012 was 10.9 percent, which is a decrease from a rate of 12.0 percent in 2011. This compares unfavorably to the State's average unemployment rate of 8.2 percent and the national average rate of 8.1 percent.
- In late 2008, the City began to experience a severe downturn in economic activity. This downturn, which has continued through 2012, has manifested itself with decreased sales, business, and gambling tax revenues, as well as, decreased building permit revenues. In addition, the rate of return on the City's investments has fallen to .24% at December 31, 2012 from as high as 4.6% just five years ago.
- The City's ability to raise property taxes has been further limited by I-747. I-747 is a voter approved initiative that reduces the allowable property tax growth limit to lower of 1 percent or the Implicit Price Deflator.

All of these factors were considered in preparing the City of Kelso's budget for the 2013 fiscal year.

At the end of the current fiscal year the unassigned fund balance in the general fund is \$3,063. In 2013, the City anticipates spending down \$115 of this unassigned fund balance.

In 2013, water and sewer rates will be increased by 7.5% and 3.0%, respectively. These rate increases are necessary to keep pace with inflation, for future capital upgrades, and the increased cost of sewage treatment.

Requests for Information

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

**BASIC
FINANCIAL
STATEMENTS**

City of Kelso
Statement of Net Position
December 31, 2012

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash & cash equivalents	\$ 4,995,808	\$ 5,400,626	\$ 10,396,434
Receivables (net of allowance for uncollectibles):	2,503,770	1,783,066	4,286,836
Internal balances	(500,000)	500,000	-
Prepays	-	5,890	5,890
Inventory	-	133,461	133,461
Deferred charges	97,737	77,766	175,503
Long-term notes receivable	731,039	-	731,039
Restricted assets	-	1,198,137	1,198,137
Capital assets net of accumulated depreciation:			
Land	18,133,171	484,292	18,617,463
Buildings	7,611,766	5,267,831	12,879,597
Improvements other than buildings	1,786,591	17,569,477	19,356,068
Machinery and equipment	319,402	585,781	905,183
Infrastructure	20,041,960	-	20,041,960
Construction in progress	3,095,640	4,660,909	7,756,549
Total assets	58,816,884	37,667,236	96,484,120
LIABILITIES			
Accounts payable and other current liabilities	370,168	630,045	1,000,213
Interest payable	10,023	23,319	33,342
Unearned revenue	23,342	335,340	358,682
Liabilities payable from restricted assets	-	269,221	269,221
Long-term liabilities:			
Due within one year	254,171	422,590	676,761
Due in more than one year	4,024,490	6,276,974	10,301,464
Total liabilities	4,682,194	7,957,489	12,639,683
NET POSITION			
Net investment in capital assets	48,199,043	21,989,056	70,188,099
Restricted for:			
Debt service	-	592,774	592,774
Capital projects	48,792	-	48,792
Promotion of tourism	131,507	-	131,507
Paths and trails	37,433	-	37,433
Street maintenance	38,300	-	38,300
Parks	14,806	-	14,806
Criminal Justice	56,858	-	56,858
Affordable housing	54,184	-	54,184
Housing rehabilitation	1,060,100	-	1,060,100
Unrestricted	4,493,667	7,127,917	11,621,584
Total net position	\$ 54,134,690	\$ 29,709,747	\$ 83,844,437

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, 2012

Functions/Programs	Program Revenues			Net (expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities:							
General government	\$ 1,311,999	\$ 90,819	\$ -	\$ -	\$ (1,221,180)	\$ -	\$ (1,221,180)
Security of persons and property	4,533,302	192,634	475,156	-	(3,865,512)	-	(3,865,512)
Physical environment	430,716	5,948	-	-	(424,768)	-	(424,768)
Transportation	1,721,530	231,209	-	1,429,735	(60,586)	-	(60,586)
Economic environment	590,332	126,758	418,595	-	(44,979)	-	(44,979)
Culture and recreation	1,065,914	99,702	-	24,828	(941,384)	-	(941,384)
Interest on long-term debt	116,927	-	-	-	(116,927)	-	(116,927)
Total governmental activities	<u>9,770,720</u>	<u>747,070</u>	<u>893,751</u>	<u>1,454,563</u>	<u>(6,675,336)</u>	<u>-</u>	<u>(6,675,336)</u>
Business-type activities:							
Water/Sewer	6,610,179	7,621,013	-	24,000	-	1,034,834	1,034,834
Solid waste	1,293,754	1,144,784	21,763	-	-	(127,207)	(127,207)
Storm water	570,940	578,845	50,770	-	-	58,675	58,675
Airport	421,686	126,530	120,000	432,805	-	257,649	257,649
Total business-type activities	<u>8,896,559</u>	<u>9,471,172</u>	<u>192,533</u>	<u>456,805</u>	<u>-</u>	<u>1,223,951</u>	<u>1,223,951</u>
Total primary government	<u>\$ 18,667,279</u>	<u>\$ 10,218,242</u>	<u>\$ 1,086,284</u>	<u>\$ 1,911,368</u>	<u>\$ (6,675,336)</u>	<u>\$ 1,223,951</u>	<u>\$ (5,451,385)</u>
General Revenues:							
Property taxes					1,175,167	-	1,175,167
Sales taxes					2,103,289	-	2,103,289
Utility taxes					2,827,378	-	2,827,378
Business taxes					754,358	-	754,358
Excise taxes					86,231	-	86,231
Penalties & interest					5,421	-	5,421
State entitlements (unrestricted)					572,431	-	572,431
Investment earnings					64,031	11,001	75,032
Miscellaneous					26,072	-	26,072
Transfers					(40,000)	40,000	-
Total general revenues and transfers					<u>7,574,378</u>	<u>51,001</u>	<u>7,625,379</u>
Change in net position					<u>899,042</u>	<u>1,274,952</u>	<u>2,173,994</u>
Net position - beginning, restated (see note V.G.)					<u>53,235,648</u>	<u>28,434,795</u>	<u>81,670,443</u>
Net position - ending					<u>\$ 54,134,690</u>	<u>\$ 29,709,747</u>	<u>\$ 83,844,437</u>

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

City of Kelso
Balance Sheet
Governmental Funds
December 31, 2012

	General Fund	Arterial Street Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash & cash equivalents	\$ 2,094,093	\$ 253,953	\$ 2,042,893	\$ 4,390,939
Receivables (net):				
Taxes	1,317,720	-	-	1,317,720
Accounts	241,857	-	-	241,857
Assessments	-	23,342	-	23,342
Due from other funds	55,000	-	123,812	178,812
Due from other governments	198,125	635,325	87,401	920,851
Advances to other funds	-	-	517,130	517,130
Long-term notes receivable	-	-	731,039	731,039
Total assets	\$ 3,906,795	\$ 912,620	\$ 3,502,275	\$ 8,321,690
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	226,077	109,134	6,248	341,459
Due to other funds	-	623,812	55,000	678,812
Due to other governments	28,709	-	-	28,709
Advances from other funds	-	517,130	-	517,130
Deferred revenue	282,995	166,814	47,167	496,976
Total liabilities	537,781	1,416,890	108,415	2,063,086
Fund Balances:				
Nonspendable:				
Long-term notes	-	-	312,268	312,268
Advances	-	-	517,130	517,130
Restricted for:				
Paths and trails	192	-	37,241	37,433
Promotion of tourism	-	-	131,507	131,507
Housing/neighborhood rehabilitation	-	-	1,060,100	1,060,100
Low income housing	54,184	-	-	54,184
Criminal justice	-	-	56,858	56,858
Parks	-	-	14,806	14,806
Street maintenance	38,300	-	-	38,300
Capital projects	-	-	48,792	48,792
Committed to:				
Bridge maintenance	213,264	-	-	213,264
Assigned to:				
Debt service	-	-	1,071,763	1,071,763
Other purposes	-	-	143,395	143,395
Unassigned	3,063,074	(504,270)	-	2,558,804
Total fund balances	3,369,014	(504,270)	3,393,860	6,258,604
Total liabilities and fund balances	\$ 3,906,795	\$ 912,620	\$ 3,502,275	

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.	50,881,320
Other assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	473,634
Net Pension and Net OPEB Assets or Obligations are not considered to represent a financial resource or liability and, therefore, are not reported in the funds.	(1,103,340)
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.	712,079
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(3,087,607)
Net position of governmental activities	\$ 54,134,690

City of Kelso
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2012

	General	Arterial Street Fund	Other Governmental Funds	Total
Revenues				
Taxes	\$ 6,770,091	\$ -	\$ 184,860	\$ 6,954,951
Licenses and permits	194,965	-	-	194,965
Intergovernmental	940,432	1,699,238	426,373	3,066,043
Charges for services	697,282	152,706	28,568	878,556
Fines	140,313	-	-	140,313
Investment earnings	29,606	8	34,626	64,240
Rental/lease income	86,077	-	-	86,077
Miscellaneous	11,719	11,093	14,707	37,519
Total revenues	<u>8,870,485</u>	<u>1,863,045</u>	<u>689,134</u>	<u>11,422,664</u>
Expenditures				
Current:				
General government	1,619,519	-	-	1,619,519
Security of persons and property	3,988,663	-	307,935	4,296,598
Physical environment	570,797	-	-	570,797
Transportation	478,928	-	-	478,928
Economic environment	493,826	-	90,868	584,694
Culture and recreation	614,137	-	167,331	781,468
Debt service:				
Principal	-	22,713	125,000	147,713
Interest and bond issuance costs	-	40,439	70,542	110,981
Capital outlay:				
General government	40,528	-	-	40,528
Transportation	72,647	1,866,304	-	1,938,951
Culture and recreation	19,271	-	518	19,789
Total expenditures	<u>7,898,316</u>	<u>1,929,456</u>	<u>762,194</u>	<u>10,589,966</u>
Excess (deficiency) of revenues over (under) expenditures	<u>972,169</u>	<u>(66,411)</u>	<u>(73,060)</u>	<u>832,698</u>
Other financing sources (uses)				
Transfers in	-	306,385	190,280	496,665
Transfers out	(486,535)	(130)	(50,000)	(536,665)
Total other financing sources (uses)	<u>(486,535)</u>	<u>306,255</u>	<u>140,280</u>	<u>(40,000)</u>
Net change in fund balances	485,634	239,844	67,220	792,698
Fund balances - beginning, restated (see note V.G)	2,883,380	(744,114)	3,326,640	5,465,906
Fund balances - ending	<u>\$ 3,369,014</u>	<u>\$ (504,270)</u>	<u>\$ 3,393,860</u>	<u>\$ 6,258,604</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, 2012

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

Net change in fund balances - total governmental funds (page 31)	\$ 792,698
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	300,400
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to increase net position.	29,521
The net effect of underfunding the City's annual required contribution to the Firemen's Pension Fund.	(11,801)
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.	(129,232)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(176,320)
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.	147,713
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(61,111)
Some expenses reported in the governmental funds have already been reported in the statement of activities in prior years.	163
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.	7,011
Change in net position of governmental activities (page 29)	\$ 899,042

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

City of Kelso
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 5,601,584	\$ 5,601,584	\$ 5,805,868	\$ 204,284
Licenses and permits	200,500	200,500	194,965	(5,535)
Intergovernmental	441,000	781,000	763,161	(17,839)
Charges for services	679,417	679,417	686,872	7,455
Fines	131,000	161,000	135,813	(25,187)
Investment earnings	10,300	10,300	28,961	18,661
Contributions	19,850	19,850	-	(19,850)
Other miscellaneous	57,000	57,000	7,735	(49,265)
Total revenues	<u>7,140,651</u>	<u>7,510,651</u>	<u>7,623,375</u>	<u>112,724</u>
Expenditures				
General government:				
Council	82,029	82,029	79,099	2,930
Municipal court	192,600	192,600	179,776	12,824
Manager	195,087	195,087	149,335	45,752
Finance	564,484	564,484	553,505	10,979
Attorney	140,587	110,750	89,199	21,551
Other - unclassified	681,489	663,792	568,605	95,187
Total general government	<u>1,856,276</u>	<u>1,808,742</u>	<u>1,619,519</u>	<u>189,223</u>
Security of persons and property:				
Police	3,263,548	3,352,680	3,351,517	1,163
Jail	338,960	312,000	307,184	4,816
Fire	240,000	240,000	240,000	-
Other	91,000	91,000	89,962	1,038
Total security of persons and property	<u>3,933,508</u>	<u>3,995,680</u>	<u>3,988,663</u>	<u>7,017</u>
Physical environment	614,461	614,461	570,797	43,664
Economic environment	325,804	609,884	493,826	116,058
Capital outlay	-	-	40,528	(40,528)
Total expenditures	<u>6,730,049</u>	<u>7,028,767</u>	<u>6,713,333</u>	<u>315,434</u>
Excess (deficiency) of revenues over (under) expenditures	<u>410,602</u>	<u>481,884</u>	<u>910,042</u>	<u>428,158</u>
Other financing sources (uses)				
Transfers out	(465,055)	(500,055)	(456,180)	43,875
Total other financing sources (uses)	<u>(465,055)</u>	<u>(500,055)</u>	<u>(456,180)</u>	<u>43,875</u>
Net change in fund balances budgetary basis	<u>(54,453)</u>	<u>(18,171)</u>	<u>453,862</u>	<u>472,033</u>
Reconciliation of budgetary/GAAP basis:				
Basis difference (See note III.B.)			<u>31,772</u>	
Net change in fund balances GAAP basis			<u>485,634</u>	
Fund balances - beginning, restated (see note V.G.)			<u>2,883,380</u>	
Fund balances - ending			<u>\$ 3,369,014</u>	

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

City of Kelso
Arterial Street Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 2,020,000	\$ 5,897,000	\$ 1,699,238	\$ (4,197,762)
Charges for services	152,000	152,000	152,706	706
Investment earnings	-	-	8	8
Miscellaneous	2,700	2,700	11,093	8,393
Total revenues	<u>2,174,700</u>	<u>6,051,700</u>	<u>1,863,045</u>	<u>(4,188,655)</u>
Expenditures				
Capital outlay	2,250,000	6,160,000	1,866,304	4,293,696
Debt Service:				
Principal	141,088	141,088	22,713	118,375
Interest	40,440	40,440	40,439	1
Total expenditures	<u>2,431,528</u>	<u>6,341,528</u>	<u>1,929,456</u>	<u>4,412,072</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(256,828)</u>	<u>(289,828)</u>	<u>(66,411)</u>	<u>223,417</u>
Other financing sources (uses)				
Transfers in	261,755	294,755	306,385	11,630
Transfers out	(350)	(350)	(130)	220
Total other financing sources (uses)	<u>261,405</u>	<u>294,405</u>	<u>306,255</u>	<u>11,850</u>
Net change in fund balances	4,577	4,577	239,844	235,267
Fund balances - beginning	(744,114)	(744,114)	(744,114)	-
Fund balances - ending	<u>\$ (739,537)</u>	<u>\$ (739,537)</u>	<u>\$ (504,270)</u>	<u>\$ 235,267</u>

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

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City of Kelso
Statement of Net Position
Proprietary Funds
December 31, 2012

	Business-type Activities - Enterprise Funds				Total	Equipment Reserve Internal Service Fund
	Major Funds			Non-major Fund		
	Solid Waste	Water- Sewer	Airport	Storm Water		
ASSETS						
Current Assets:						
Cash & cash equivalents	\$ 428,104	\$ 3,624,118	\$ 343,876	\$ 497,818	\$ 4,893,916	\$ 1,111,579
Restricted cash, cash equivalents, and investments:						
Customer deposits	-	269,221	-	-	269,221	-
Grant for capital improvements	-	-	336,142	-	336,142	-
Accounts receivable	202,745	1,209,651	13,162	99,707	1,525,265	-
Due from other governments	11,315	-	196,486	50,000	257,801	-
Due from other funds	-	900,000	-	-	900,000	-
Prepaid expense	-	-	5,890	-	5,890	-
Inventory	-	133,461	-	-	133,461	-
Total current assets	<u>642,164</u>	<u>6,136,451</u>	<u>895,556</u>	<u>647,525</u>	<u>8,321,696</u>	<u>1,111,579</u>
Noncurrent assets:						
Restricted cash, cash equivalents, and investments:						
Revenue bond covenant accounts	-	592,774	-	-	592,774	-
Deferred charges	-	77,766	-	-	77,766	-
Capital Assets:						
Land	-	28,712	455,580	-	484,292	-
Buildings and structures	-	6,826,316	531,821	-	7,358,137	-
Improvements other than buildings	-	26,687,073	2,781,023	671,042	30,139,138	-
Machinery and equipment	-	2,630,410	152,046	43,401	2,825,857	2,368,647
Construction in progress	-	4,159,796	495,939	5,174	4,660,909	-
Less accumulated depreciation	-	(15,364,204)	(1,408,018)	(273,968)	(17,046,190)	(2,115,290)
Total capital assets (net of accumulated depreciation)	-	<u>24,968,103</u>	<u>3,008,391</u>	<u>445,649</u>	<u>28,422,143</u>	<u>253,357</u>
Total noncurrent assets	-	<u>25,638,643</u>	<u>3,008,391</u>	<u>445,649</u>	<u>29,092,683</u>	<u>253,357</u>
Total Assets	<u>642,164</u>	<u>31,775,094</u>	<u>3,903,947</u>	<u>1,093,174</u>	<u>37,414,379</u>	<u>1,364,936</u>

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

	Business-type Activities - Enterprise Funds				Internal Service Funds
	Major Funds			Non-major Fund	
	Solid Waste	Water- Sewer	Airport	Storm Water	
				Total	
LIABILITIES					
Current Liabilities:					
Accounts payable	124,282	392,345	105,774	7,644	630,045
Due to other funds	-	-	400,000	-	400,000
Compensated absences	-	25,253	472	4,358	30,083
Customer deposits	-	269,221	-	-	269,221
Accrued interest payable	-	23,319	-	-	23,319
Deferred revenue	-	-	335,340	-	335,340
Current revenue bonds payable	-	190,000	-	-	190,000
Current portion notes payable	-	187,507	15,000	-	202,507
Total current liabilities	<u>124,282</u>	<u>1,087,645</u>	<u>856,586</u>	<u>12,002</u>	<u>2,080,515</u>
Noncurrent liabilities:					
Compensated absences	-	75,759	1,416	13,072	90,247
Revenue bonds payable	-	4,675,000	-	-	4,675,000
Notes payable	-	1,471,727	40,000	-	1,511,727
Total noncurrent liabilities	-	<u>6,222,486</u>	<u>41,416</u>	<u>13,072</u>	<u>6,276,974</u>
Total Liabilities	<u>124,282</u>	<u>7,310,131</u>	<u>898,002</u>	<u>25,074</u>	<u>8,357,489</u>
NET POSITION					
Net investment in capital assets	-	18,443,869	2,953,391	445,649	21,842,909
Restricted for debt service	-	592,774	-	-	592,774
Unrestricted	517,882	5,428,320	52,554	622,451	6,621,207
Total net position	<u>\$ 517,882</u>	<u>\$ 24,464,963</u>	<u>\$ 3,005,945</u>	<u>\$ 1,068,100</u>	<u>\$ 29,056,890</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:				652,857	
Net position of business-type activities				<u>\$ 29,709,747</u>	

City of Kelso
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December, 31 2012

	Business-type Activities - Enterprise Funds				Equipment Reserve Internal Service Fund	
	Major Funds			Non-major Fund		
	Solid Waste	Water- Sewer	Airport	Storm Water		
			Total			
Operating revenues:						
Charges for services	\$ 1,139,928	\$ 7,481,135	\$ 123,470	\$ 578,845	\$ 9,323,378	\$ 187,387
Other operating revenue	4,856	95,767	3,060	-	103,683	-
Total operating revenues	<u>1,144,784</u>	<u>7,576,902</u>	<u>126,530</u>	<u>578,845</u>	<u>9,427,061</u>	<u>187,387</u>
Operating expenses:						
General operations	783,153	2,521,904	211,176	517,809	4,034,042	-
Contracted processing operations	332,380	2,148,294	-	-	2,480,674	-
Maintenance	2,895	98,571	62,962	21,394	185,822	-
Depreciation	-	633,414	128,744	22,368	784,526	163,057
Taxes	175,326	971,590	18,675	9,369	1,174,960	-
Total operating expenses	<u>1,293,754</u>	<u>6,373,773</u>	<u>421,557</u>	<u>570,940</u>	<u>8,660,024</u>	<u>163,057</u>
Operating income (loss)	<u>(148,970)</u>	<u>1,203,129</u>	<u>(295,027)</u>	<u>7,905</u>	<u>767,037</u>	<u>24,330</u>
Nonoperating revenues (expenses):						
Investment earnings	856	7,978	843	692	10,369	1,474
Intergovernmental	21,763	24,000	552,805	50,770	649,338	-
Other	-	15,723	-	-	15,723	-
Interest expense	-	(226,179)	(129)	-	(226,308)	-
Total nonoperating revenues (expenses)	<u>22,619</u>	<u>(178,478)</u>	<u>553,519</u>	<u>51,462</u>	<u>449,122</u>	<u>1,474</u>
Income (loss) before transfers	<u>(126,351)</u>	<u>1,024,651</u>	<u>258,492</u>	<u>59,367</u>	<u>1,216,159</u>	<u>25,804</u>
Transfers in	-	-	40,000	-	40,000	-
Change in net position	<u>(126,351)</u>	<u>1,024,651</u>	<u>298,492</u>	<u>59,367</u>	<u>1,256,159</u>	<u>25,804</u>
Total net position - beginning, restated (See note V.G)	<u>644,233</u>	<u>23,440,312</u>	<u>2,707,453</u>	<u>1,008,733</u>		<u>1,339,132</u>
Total net position - ending	<u>\$ 517,882</u>	<u>\$ 24,464,963</u>	<u>\$ 3,005,945</u>	<u>\$ 1,068,100</u>		<u>\$ 1,364,936</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:				<u>18,793</u>		
Change in net position of business-type activities				<u>\$ 1,274,952</u>		

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, 2012

	Business-type Activities - Enterprise Funds					Equipment Reserve Internal Service Fund
	Major Funds			Non-major Funds		
	Solid Waste	Water- Sewer	Airport	Storm Water	Totals	
Cash flows from operating activities						
Receipts from customers and users	\$ 1,135,719	\$ 7,407,370	\$ 132,422	\$ 550,692	\$ 9,226,203	\$ -
Receipts from other sources	4,856	95,767	3,060	-	103,683	-
Receipts from interfund services provided	-	81,724	-	30,452	112,176	187,387
Payments to suppliers	(1,201,445)	(4,088,212)	(181,813)	(206,453)	(5,677,923)	-
Payments to employees	(13,619)	(1,180,883)	(82,517)	(275,426)	(1,552,445)	-
Payments for interfund services used	(68,509)	(423,792)	(31,611)	(92,925)	(616,837)	-
Net cash provided (used) by operating activities	(142,998)	1,891,974	(160,459)	6,340	1,594,857	187,387
Cash flows from noncapital financing activities						
Subsidies from local governments	-	24,000	120,000	-	144,000	-
Advances (to) from other funds	-	(900,000)	400,000	-	(500,000)	-
Operating grants received	18,120	-	-	101,139	119,259	-
Transfer from (to) other funds	-	-	40,000	-	40,000	-
Net cash provided (used) by noncapital financing activities	18,120	(876,000)	560,000	101,139	(196,741)	-
Cash flows from capital and related financing activities						
Proceeds from capital recovery fees	-	15,723	-	-	15,723	-
Capital grants received	-	-	172,468	-	172,468	-
Acquisition and construction of capital assets	-	(1,522,874)	(412,544)	(7,160)	(1,942,578)	(39,777)
Principal paid on capital debt	-	(372,506)	(15,000)	-	(387,506)	-
Interest paid on capital debt	-	(221,591)	(129)	-	(221,720)	-
Net cash provided (used) by capital financing activities	-	(2,101,248)	(255,205)	(7,160)	(2,363,613)	(39,777)
Cash flows from investing activities						
Interest received	856	7,978	843	692	10,369	1,474
Net cash provided (used) by investing activities	856	7,978	843	692	10,369	1,474
Net increase (decrease) in cash and cash equivalents	(124,022)	(1,077,296)	145,179	101,011	(955,128)	149,084
Cash and cash equivalents, January 1	552,126	5,563,409	534,839	396,807	7,047,181	962,495
Cash and cash equivalents, December 31	\$ 428,104	\$ 4,486,113	\$ 680,018	\$ 497,818	\$ 6,092,053	\$ 1,111,579
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	\$ (148,970)	\$ 1,203,129	\$ (295,027)	\$ 7,905	\$ 767,037	\$ 24,330
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	-	633,414	128,744	22,368	784,526	163,057
(Increase) decrease in accounts receivable	(4,209)	(30,163)	8,952	2,299	(23,121)	-
(Increase) decrease in prepaid expense	-	-	85	-	85	-
(Increase) decrease in inventory	-	27,775	-	-	27,775	-
Increase (decrease) in customer deposits	-	38,122	-	-	38,122	-
Increase (decrease) in accounts payable	10,181	13,862	(2,892)	(26,846)	(5,675)	-
Increase (decrease) in compensated absences	-	5,815	(321)	614	6,108	-
Total adjustments	5,972	688,845	134,568	(1,565)	827,820	163,057
Net cash provided (used) by operating activities	\$ (142,998)	\$ 1,891,974	\$ (160,459)	\$ 6,340	\$ 1,594,857	\$ 187,387

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, 2012

	<u>Firemen's Pension Fund</u>
Assets	
Cash & cash equivalents	<u>\$ 312,855</u>
Total assets	<u>312,855</u>
Liabilities	
Accounts payable	<u>1,287</u>
Total liabilities	<u>1,287</u>
Net Position	
Held in trust for pension benefits	<u><u>\$ 311,568</u></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, 2012

	<u>Firemen's Pension Fund</u>
Additions	
Contributions:	
Employer	\$ 226,417
Total contributions	<u>226,417</u>
Investment earnings:	
Interest	425
Total investment earnings	<u>425</u>
Total additions	<u>226,842</u>
 Deductions	
Pension benefits	57,211
Healthcare benefits	143,916
Administrative expenses	541
Total deductions	<u>201,668</u>
Change in net position	<u>25,174</u>
Net position - beginning	<u>286,394</u>
Net position - ending	<u><u>\$ 311,568</u></u>

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

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CITY OF KELSO
Notes to the Financial Statements
December 31, 2012

I. Summary of significant accounting policies

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

A. Reporting Entity

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

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.

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.

CITY OF KELSO
Notes to the Financial Statements
December 31, 2012

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

The City reports the following major governmental funds:

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

The *arterial street fund* accounts for the receipt and expenditure of a portion of the State-levied motor vehicle fuel taxes distributed to the City as well as various grants. Revenues are designated for construction, improvement, chip sealing, seal coating, and repair of arterial streets or for payment of related municipal indebtedness.

The City reports the following major proprietary funds:

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

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

The *airport fund* accounts for operations of the local airport.

Additionally, the City reports the following fund types:

CITY OF KELSO
Notes to the Financial Statements
December 31, 2012

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water/sewer enterprise fund, of the solid waste enterprise fund, of the airport enterprise fund, of the storm drain enterprise fund and of 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. Assets, liabilities, 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, 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.

CITY OF KELSO
Notes to the Financial Statements
December 31, 2012

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

2. Receivables and payables

Customer accounts receivable consist of amounts owed by private individuals or organizations for goods and services provided, as well as, court ordered fines. Taxes receivable consist of property taxes and related interest and penalties (See Note V, section B). Special assessments consist of assessments which are recorded when levied and are liens against the property benefited. There is \$557 in delinquent special assessments as of December 31, 2012.

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

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

Advances between funds, as reported in the fund financial statements, are reported as nonspendable in the fund balance section of the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Inventories

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

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

4. Restricted assets

Certain proceeds of the City's water/sewer fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the

CITY OF KELSO
Notes to the Financial Statements
December 31, 2012

balance sheet because their use is limited by applicable bond covenants. The “revenue bond current debt service” account is used to segregate resources accumulated for debt service payments over the next twelve months. The “revenue bond reserve” account is used to report resources set aside to make up potential future deficiencies in the revenue bond current debt service account.

5. Capital assets

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

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

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

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

6. Compensated absences

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

7. 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

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liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and 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.

8. Net position/Fund balance

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

9. Fund balance components

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

- Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.
- Restricted fund balance 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 or resolution and may modify or rescind the ordinance or resolution at any time through the passage of an additional ordinance or resolution.
- 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

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committed. For governmental funds, other than the General Fund, this is the residual amount within the fund that is not restricted or committed. The City Council is the only body authorized to assign fund balances.

- 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.

10. Data reclassifications

Certain amounts presented in the prior year data 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 \$3,087,607 difference are as follows:

Bonds payable	\$ (2,585,000)
Less: Deferred charges/loss on issuance (to be amortized over life of debt)	97,737
Notes payable	(204,487)
Accrued interest payable	(10,023)
Compensated absences	<u>(385,834)</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u><u>\$ (3,087,607)</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 \$50,881,320 difference are as follows:

Capital assets used in governmental fund operations	\$71,403,440
Less: Accumulated depreciation	<u>(20,522,120)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$50,881,320</u>

Another element of that reconciliation explains that “Net Pension and Net OPEB Assets or Obligations are not considered to represent a financial resource or liability and, therefore, are not reported in the funds. The details of this \$1,103,340 difference are as follows:

Net pension obligation	\$ (29,673)
Net OPEB obligation	<u>(1,073,667)</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$(1,103,340)</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 \$473,634 difference are as follows:

Property taxes receivable	\$ 120,058
Grants receivable	190,639
Court ordered fines receivable – net	<u>162,937</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$ 473,634</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 \$300,400 difference are as follows:

Capital outlay	\$ 1,999,268
Depreciation expense	<u>(1,698,868)</u>
Net adjustment to increase <i>net changes in funds balances-total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 300,400</u>

Another element of that reconciliation states that “The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.” The details of this \$29,521 difference are as follows:

Donations of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	\$29,521
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>\$29,521</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 \$176,320 difference are as follows:

Property taxes	\$ (3,107)
Miscellaneous grants	(174,819)
Court ordered fines	<u>1,606</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>\$(176,320)</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 \$147,313 difference are as follows:

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Principal repayments:	
General obligation debt	\$ (125,000)
Note payable	<u>(22,713)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities.</i>	<u>\$ (147,713)</u>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$61,111 difference are as follows:

Compensated absences	\$ (55,002)
Amortization of issuance costs	<u>(6,109)</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>\$ (61,111)</u>

III. Stewardship, compliance, and accountability

A. Budgetary information

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

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

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

The City Manager is authorized to transfer budgeted amounts between departments within any fund and object classes within departments; however, any revisions that alter the total expenditures of a fund or that effect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council. When the City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by a simple majority after holding two readings of the proposed ordinance amending the budget. The 2012 budget was amended three times. Budget amounts shown in the fund financial statements include the original budget amounts plus the revised budget amounts approved by the City Council.

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

B. Budgetary/GAAP basis reconciliation

In accordance with GASB Statement No. 54, the City reclassified certain funds within the governmental fund types for reporting purposes for fiscal year 2012. 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:

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Revenues:	
Street fund	\$ 576,846
Library fund	415,210
Kelso Station fund	41,099
Parks Fund	228,579
Façade fund	1
Expenditures:	
Street fund	(536,304)
Library fund	(408,054)
Kelso Station fund	(60,251)
Parks Fund	<u>(225,354)</u>
 Total General fund Basis difference	 <u>\$ 31,772</u>

C. Deficit fund equity

The Arterial Street Fund deficit of \$504,270 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. At year end, the City's carrying amount of deposits was \$1,478,676 and the bank balance was \$1,389,694.

As of December 31, 2012, the City had the following investments:

Investment	Maturities	Fair Value
State Treasurer's investment pool	< 90 days	<u>\$10,751,151</u>
Total investments		<u>\$10,751,151</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 does not have an investment policy that limits its investment choices. However, the City does follow State law regarding investment choices and accordingly has invested excess funds in the State investment pool which is allowed by State statute. The City's investment in the State's investment pool is not rated. However, the investment pool's investment policy limits the types of securities available for investment to obligations of the U.S. government or its agencies, obligations of government-sponsored corporations, bankers' acceptances, commercial paper, certificates of deposit, or obligations of the State of Washington or its political subdivisions. Bankers' acceptances and commercial paper must be rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations at the time of purchase.

Custodial Credit Risk – Investments

For investments, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy with regard to custodial credit risk, however, for all of 2012, the City invested only in the Washington State Local Government Investment Pool.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer.

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):

	General	Arterial Street	Solid Waste	Water/Sewer	Airport	Non-major Govt. Funds	Non-major Prop. Funds	Total
Receivables:								
Taxes	\$1,318	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,318
Accounts	242	-	203	1,210	13	-	100	1,768
Special Assessments	-	24	-	-	-	-	-	24
Intergovernmental	198	635	11	-	197	87	-	1,128
Long-term notes	-	-	-	-	-	731	-	731
Net total receivables	<u>\$1,758</u>	<u>\$ 659</u>	<u>\$ 214</u>	<u>\$1,210</u>	<u>\$210</u>	<u>\$ 818</u>	<u>\$ 100</u>	<u>\$4,969</u>

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Governmental funds report deferred 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 deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (general fund)	\$ 120,058	\$ -
Delinquent Court ordered fines receivable (general fund)	162,937	-
Special assessments not due yet (arterial street fund)	23,342	-
Grants receivable (HUD grant fund)	47,167	-
Grants receivable (arterial street fund)	<u>143,472</u>	<u>-</u>
Total deferred/unearned revenue for governmental funds	<u>\$ 496,976</u>	<u>\$ -</u>

C. Capital assets

Capital asset activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	<u>Increases</u>	<u>Decreases</u>	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$18,133,171	\$ -	\$ -	\$18,133,171
Construction in progress	<u>2,398,152</u>	<u>1,448,320</u>	<u>750,832</u>	<u>3,095,640</u>
Total capital assets, not being depreciated	<u>20,531,323</u>	<u>1,448,320</u>	<u>750,832</u>	<u>21,228,811</u>
Capital assets, being depreciated:				
Buildings	11,390,974	41,576	-	11,432,550
Improvements other than buildings	3,364,870	-	-	3,364,870
Machinery and equipment	2,332,079	99,577	-	2,431,656
Infrastructure	<u>33,065,537</u>	<u>1,229,926</u>	<u>-</u>	<u>34,295,463</u>
Total capital assets being depreciated	<u>50,153,460</u>	<u>1,371,079</u>	<u>-</u>	<u>51,524,539</u>
Less accumulated depreciation for:				
Buildings	3,527,661	293,123	-	3,820,784
Improvements other than buildings	1,367,694	210,585	-	1,578,279
Machinery and equipment	1,979,599	132,655	-	2,112,254
Infrastructure	<u>13,119,892</u>	<u>1,133,611</u>	<u>-</u>	<u>14,253,503</u>
Total accumulated depreciation	<u>19,994,846</u>	<u>1,769,974</u>	<u>-</u>	<u>21,764,820</u>
Total capital assets, being depreciated, net	<u>30,158,614</u>	<u>(398,895)</u>	<u>-</u>	<u>29,759,719</u>
Governmental activities capital assets, net	<u>\$50,689,937</u>	<u>\$ 1,049,425</u>	<u>\$ 750,832</u>	<u>\$50,988,530</u>

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Notes to the Financial Statements
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	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 484,292	\$ -	\$ -	\$ 484,292
Construction in progress	<u>6,061,821</u>	<u>1,668,604</u>	<u>3,069,516</u>	<u>4,660,909</u>
Total capital assets, not being depreciated	<u>6,546,113</u>	<u>1,668,604</u>	<u>3,069,516</u>	<u>5,145,201</u>
Capital assets, being depreciated:				
Buildings and structures	7,358,137	-	-	7,358,137
Improvements other than buildings	27,161,256	3,029,423	51,541	30,139,138
Machinery and equipment	<u>3,804,502</u>	<u>40,092</u>	-	<u>3,844,594</u>
Total capital assets being depreciated	<u>38,323,895</u>	<u>3,069,515</u>	<u>51,541</u>	<u>41,341,869</u>
Less accumulated depreciation for:				
Buildings and structures	1,934,062	156,244	-	2,090,306
Improvements other than buildings	12,051,770	569,432	51,541	12,569,661
Machinery and equipment	<u>3,108,012</u>	<u>150,801</u>	-	<u>3,258,813</u>
Total accumulated depreciation	<u>17,093,844</u>	<u>876,477</u>	<u>51,541</u>	<u>17,918,780</u>
Total capital assets, being depreciated, net	<u>21,230,051</u>	<u>2,193,038</u>	<u>-</u>	<u>23,423,089</u>
Business-type activities capital assets, net	<u>\$27,776,164</u>	<u>\$ 3,861,642</u>	<u>\$3,069,516</u>	<u>\$28,568,290</u>

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

Governmental activities:	
General government	\$ 185,808
Security of persons and property	10,734
Transportation	1,224,662
Culture and recreation	277,664
Capital assets held by the City's internal service funds are charged to various functions based on usage of assets.	<u>71,106</u>
Total depreciation expense – governmental activities	<u>\$1,769,974</u>
Business-type activities:	
Water	\$ 332,489
Sewer	300,925
Storm drains	22,368
Airport	128,744
Capital assets held by the City's internal service funds are charged to various functions based on usage of assets.	<u>91,951</u>
Total depreciation expense – business-type activities	<u>\$ 876,477</u>

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D. Interfund receivables, payables, and transfers

The composition of interfund balances as of December 31, 2012, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Nonmajor govt.	\$ 55,000	Parking lot improvements
Nonmajor govt.	Arterial Street	123,812	2010 overlay project
Water/Sewer	Arterial Street	500,000	Right-of-Way acquisition
Water/Sewer	Airport	400,000	Runway extension project

Advances to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
Nonmajor govt.	Arterial Street	517,130	2010 overlay project

Interfund transfers:

<u>Transfer out</u>	<u>Transfer in</u>	<u>Amount</u>	<u>Purpose</u>
General fund	Arterial Street	\$ 306,385	2012 overlay project
	Nonmajor govt.	139,800	Debt service
	Airport	40,000	Routine operating
	Nonmajor govt.	350	Routine operating
Arterial street fund	Nonmajor govt.	130	Routine operating
Nonmajor govt.	Nonmajor govt.	35,000	Debt service
Nonmajor govt.	Nonmajor govt.	<u>15,000</u>	Routine operating
Total		<u>\$ 536,665</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 \$2,710,000. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities – City Hall construction	.60% – 3.80%	<u>\$2,585,000</u>
		<u>\$2,585,000</u>

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

Year ending <u>December 31</u>	Governmental activities	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 135,000	\$ 73,228
2014	135,000	72,080
2015	140,000	70,528
2016	140,000	68,428
2017	145,000	65,768
2018-2022	775,000	276,715
2023-2027	910,000	144,035
2028-2032	<u>205,000</u>	<u>7,790</u>
Total	<u>\$2,585,000</u>	<u>\$ 778,572</u>

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

<u>Issuance</u>	<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
1998 PWTF – Allen St. Bridge	Governmental activities	3.00%	\$ 33,961
2002 PWTF – 16 th Avenue retaining wall	Governmental activities	4.00%	170,526
1999 DWSRF – water treatment plant	Business-type activities	2.50%	863,312
2001 DWSRF – water treatment plant	Business-type activities	1.50%	795,922
City of Longview – airport hangars	Business-type activities	Variable*	<u>55,000</u>
Total government loans			<u>\$1,918,721</u>

*Interest rate mirrors the rate being paid by the Washington State Investment Pool. .24% at December 31, 2012

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

Year ending <u>December 31</u>	Governmental activities		Business-type Activities	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 22,713	\$ 7,840	\$ 202,506	\$ 36,822
2014	22,713	6,988	207,506	32,030
2015	22,713	6,136	207,506	26,938
2016	22,713	5,284	187,507	21,846
2017	22,713	4,432	187,506	17,955
2018-2022	<u>90,922</u>	<u>10,402</u>	<u>721,703</u>	<u>34,095</u>
Total	<u>\$204,487</u>	<u>\$ 41,082</u>	<u>\$1,714,234</u>	<u>\$169,686</u>

Revenue bonds

The City also issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. In 2010, the City of Kelso issued \$4,475,000 of revenue bonds. These Water and Sewer Revenue Bonds, 2010 Series A (Tax-Exempt Bonds) (the “Series A Bonds”) in the aggregate principal amount of \$810,000 and the Water and Sewer Revenue Bonds, 2010 Series B (Taxable Recovery Zone Economic Development Bonds – Direct Payment) (the “Series B Bonds,”) in the aggregate principal amount of \$3,665,000, were issued to provide the funds necessary to construct a new water reservoir and replace certain water mains and water meters in the City. The City has designated the Series B Bonds as “recovery zone economic

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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 equal to 45% of the interest payable on the Series B Bonds on each interest payment date. The interest rate on the “Series A” bonds range from 1.10% – 3.25% and the maturity date is December 1, 2018. The interest rate on the “Series B” bonds range from 5.50%* – 7.40%* and the maturity date is December 1, 2031. The original amount of revenue bonds issued in prior years was \$5,390,000.

** Interest rate shown is not net of federal subsidy*

Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type activities – refunding	2.40% - 4.20%	\$ 590,000
Business-type activities – tax exempt	1.10% - 3.25%	610,000
Business-type activities – taxable	5.50% - 7.40%	<u>3,665,000</u>
		<u>\$4,865,000</u>

Revenue bond debt service requirements to maturity are as follows:

<u>Year ending</u> <u>December 31</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest*</u>
2013	\$ 190,000	\$ 292,738
2014	195,000	287,198
2015	195,000	280,850
2016	200,000	274,255
2017	205,000	266,950
2018-2022	1,155,000	1,194,371
2023-2027	1,395,000	797,668
2028-2032	<u>1,330,000</u>	<u>250,490</u>
Total	<u>\$4,865,000</u>	<u>\$3,644,520</u>

*Interest is not net of Federal Subsidy

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2012 was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
General obligation bonds	\$2,710,000	\$ -	\$ 125,000	\$2,585,000	\$ 135,000
Public Works Trust Fund	227,200	-	22,713	204,487	22,713
Compensated absences	330,832	385,834	330,832	385,834	96,458
Net Pension obligation	17,872	11,801	-	29,673	-
Net OPEB obligation	<u>944,435</u>	<u>129,232</u>	<u>-</u>	<u>1,073,667</u>	<u>-</u>
Governmental activity					
Long-term liabilities	<u>\$4,230,339</u>	<u>\$ 526,867</u>	<u>\$ 478,545</u>	<u>\$4,278,661</u>	<u>\$ 254,171</u>

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Business-type activities:					
Revenue bonds	\$5,050,000	\$ -	\$ 185,000	\$4,865,000	\$ 190,000
Drinking Water State					
Revolving Fund	1,846,740	-	187,506	1,659,234	187,507
Notes payable	70,000	-	15,000	55,000	15,000
Compensated absences	<u>114,222</u>	<u>120,330</u>	<u>114,222</u>	<u>120,330</u>	<u>30,083</u>
Business-type activity					
Long-term liabilities	<u>\$7,080,962</u>	<u>\$ 120,330</u>	<u>\$ 501,728</u>	<u>\$6,699,564</u>	<u>\$ 422,590</u>

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

V. Other information

A. Risk management

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

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

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 153 members.

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

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

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded

CITY OF KELSO
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from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

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

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

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

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

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

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:

2012	\$26,993
2011	\$40,449
2010	\$5,941

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.

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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 revenue. During the year, property tax revenues are recognized when cash is collected. The amount of taxes receivable at year-end that would be collected soon enough to be available to pay liabilities of the current period is immaterial.

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

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

Washington State law in RCW 84.55.010 limits the growth of regular property taxes to the lesser of 1 percent per year, or the Implicit Price Deflator. Adjustments for new 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 2012 was \$1.8130 per \$1,000 on an assessed valuation of \$743,257,054 for a total regular levy of \$1,347,579.

C. Contingent liabilities

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

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

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D. Joint Venture

In 1996 the City of Kelso entered into an interlocal agreement with Cowlitz County, the City of Longview, and Beacon Hill Sewer District, to form the Three Rivers Regional Waste Water Authority (TRRWA). The TRRWA was created so that the participating entities can equitably share in the operations and improvements of the central sewage treatment facility. The TRRWA is governed by a four member board. This board is made up of an appointed representative from each jurisdiction. Each entity is obligated to make monthly payments to the TRRWA based on the following criteria: TRRWA formulates its preliminary annual budget by the last working day of September each year. Each entity's appointed representative then submits its proportionate share of TRRWA's budget to their respective jurisdiction for incorporation of the expense into the entity's sewer enterprise fund budget. Expenses for maintenance and operations, repairs and replacements to existing facilities, and debt service are funded by the participating entities based on their proportionate share of flow to the Facilities as determined by the TRRWA. Capital improvements to the Facility are funded by System Development Charges by each entity's sewage utility fund or in proportion to each jurisdictions respective flow to the facilities. Payments made to TRRWA by the City in 2012 were \$2,143,604. This agreement may not be terminated so long as there remains outstanding any bonds or other debt or loan obligations payable from the TRRWA rates described above. Upon termination of the agreement, each entity's interest in the net position shall be deemed to be equal to their proportionate share of payments over the then previous 12 calendar months. The City does not have an equity interest in the TRRWA. Complete financial statements for the TRRWA can be obtained from the TRRWA at 207 4th Avenue North, Kelso, WA 98626.

E. Post employment benefits other than pension benefits

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

Plan description. The City of Kelso administers a single-employer defined benefit healthcare plan. It is a closed plan that provides post-retirement health care benefits, in accordance with State statute to all LEOFF 1 (law enforcement officers and fire fighters hired prior to October 1, 1977) retirees. Currently, there are 19 LEOFF 1 retirees who are eligible to receive necessary medical and hospitalization coverage.

The City reimburses one hundred percent of the amount of validated claims for medical and hospitalization costs incurred by retirees. State statute provides that the City's responsibility for medical payments of LEOFF 1 retirees is secondary to any other coverage retirees receive or are eligible to receive. Therefore, upon reaching age 65, the City requires the retirees to apply for and utilize Medicare Part B coverage. In 2012, the City's cost for these Medicare premiums was \$18,738. This expenditure represents a fixed amount of approximately \$112 per month for 14 LEOFF 1 retirees.

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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 \$326,962 were recognized for post-retirement health care.

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

Annual required contribution	\$ 502,277
Interest on net OPEB obligation	42,641
Adjustment to annual required contribution	<u>(88,724)</u>
Annual OPEB cost	456,194
Contributions made	<u>326,962</u>
Increase in net OPEB obligation	129,232
Net OPEB obligation beginning of year	<u>944,435</u>
Net OPEB obligation end of year	<u>\$1,073,667</u>

Three Year Trend Information:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Percentage Contributed</u>		<u>Net OPEB Obligation</u>
	<u>Annual OPEB Cost</u>	<u>Percentage of annual OPEB cost contributed</u>	
12/31/10	\$520,093	56.93%	\$ 786,249
12/31/11	\$467,583	65.50%	\$ 944,435
12/31/12	\$456,194	71.67%	\$1,073,667

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

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

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

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

The following simplifying assumptions were made:

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

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

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

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

Based on the historical and expected returns of the city's short-term investment portfolio, a discount rate of 4.5 percent was used. In addition, the projected unit credit actuarial cost method was used to determine the actuarial accrued liability, with results based on grouped data of 4 active and 4 inactive groupings. The unfunded actuarial accrued liability is being amortized as a level dollar amount. The remaining amortization period at December 31, 2012, is fourteen years.

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

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Association of Washington Cities Employee Benefit Trust (“Trust”)

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

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

AWC HealthFirst 1000

- \$789.14 for non-Medicare enrolled retiree coverage
- \$795.57 for non-Medicare enrolled spouse coverage
- \$421.75 for Medicare enrolled retiree coverage
- \$433.48 for Medicare enrolled spouse coverage

AWC HealthFirst 2500

- \$689.11 for non-Medicare enrolled retiree coverage
- \$693.66 for non-Medicare enrolled spouse coverage
- \$369.29 for Medicare enrolled retiree coverage
- \$378.30 for Medicare enrolled spouse coverage

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

F. Employee retirement systems and pension plans

Substantially all City of Kelso full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it

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

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; State employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education programs; employees of district and municipal courts; and employees of local governments. Approximately 50 percent of PERS salaries are accounted for by State employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

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

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

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PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2012, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

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

PERS Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

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

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

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

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions: 1) With a benefit that is reduced by 3 percent for each year before age 65; or 2) With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

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

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For DRS fiscal year 2012, PERS Plan 3 employee contributions were \$95.2 million, and plan refunds paid out were \$66.2 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60

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consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of living allowance as Plan 2.

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

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

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Nonvested	<u>46,839</u>
Total	<u>261,705</u>

Funding Policy

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

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

The required contribution rates expressed as a percentage of covered payroll, as of December 31, 2012 were:

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

- * The employer rates include the employer administrative expense fee currently set at 0.16%
- ** The employer rate for State elected officials is 10.74% for Plan 1 and 7.21% for Plan 2 and Plan 3.
- *** Plan 3 defined benefit portion only
- **** The employee rate for State elected officials is 7.50% for Plan 1 and 4.64% for Plan 2
- ***** Variable from 5% minimum to 15% maximum based on rate selected by the PERS 3 member

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	\$7,952	\$244,662	\$38,430
2011	\$6,881	\$210,683	\$34,167
2010	18,999	\$205,845	\$29,420

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

Plan Description

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

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

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

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the State pays through State legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

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

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

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

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

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

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's benefit.

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

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

CITY OF KELSO
Notes to the Financial Statements
December 31, 2012

of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

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

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

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

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

LEOFF Plan 2 members who apply for retirement may purchase up to five years of additional service credit. The cost of this credit is the actuarial equivalent of the resulting increase in the member's benefit.

LEOFF Plan 2 members can receive service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while serving in the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

LEOFF Plan 2 members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries. Benefits to eligible surviving

CITY OF KELSO
Notes to the Financial Statements
December 31, 2012

spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington State Health Care Authority.

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

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

There are 373 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	9,947
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	656
Active Plan Members Vested	13,942
Active Plan Members Nonvested	<u>3,113</u>
Total	<u>27,658</u>

Funding Policy

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

The Legislature, by means of a special funding arrangement, appropriates money from the State General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the State constitution and this funding requirement could be returned to the employers by a change of statute. For DRS' fiscal year 2012, the State contributed \$52.8 million to LEOFF Plan 2.

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

CITY OF KELSO
Notes to the Financial Statements
December 31, 2012

	LEOFF Plan 1	LEOFF Plan 2
Employer*	.16%	5.24%**
Employee	0%	8.46%
State	N/A	3.38%

* The employer rates include the employer administrative expense currently set at 0.16%
** The employer rates for ports and universities is 8.62%

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

	LEOFF Plan 1	LEOFF Plan 2
2012	\$0	\$271,196
2011	\$0	\$263,777
2010	\$0	\$288,773

Other Local Government Pension System

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

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

As of December 31, 2012, there were a total of 11 (all retired after March 1, 1970) retirees or widows included in the Firemen's Pension Fund.

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

Summary of Significant Accounting Policies. The financial statements of the Firemen's Pension Fund are prepared using the accrual basis of accounting. Revenues are recognized in the period in which they become due or are earned. Benefits paid by the Fund are recognized when due and payable in accordance with the terms of the plan. All pension fund investments are reported at fair value.

CITY OF KELSO
Notes to the Financial Statements
December 31, 2012

Funding policy. Contributions to the plan are provided entirely by the City. The major sources of revenue to fund contributions include sales and property taxes and interest earnings on investments. The City also received on behalf payments from taxes on fire insurance premium taxes in the amount of \$10,113. Pursuant to RCW 41.16.060 the City levies an additional 22.5 cents per \$1,000 of assessed value to pay expenses of the Firemen's Pension Fund. GASB Statements No. 25 and 27 require the performance of biennial actuarial valuations to determine minimum annual funding requirements. However, due to the small size of the plan and the fact that it is a closed plan, it is management's opinion that the cost of an additional actuarial would outweigh the benefits. Actual expenses for pension benefits in 2012 were \$57,211. Administrative costs of the plan are immaterial and financed on a pay-as-you-go basis for 2012. The results of the City's most recent actuarial is as follows:

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

Annual Pension Cost (APC). For 2012, the City's annual pension cost (APC) and net pension obligation were as follows:

Annual required contribution	\$94,444
Interest on net pension obligation	1,251
Adjustment to annual required contribution	<u>(1,509)</u>
Annual pension cost	94,186
Contributions made	<u>82,385</u>
Increase in net pension obligation	11,801
Net pension obligation beginning of year	<u>17,872</u>
Net pension obligation end of year	<u>\$ 29,673</u>

The required contribution was determined as part of the January 1, 2000, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included 7% investment rate of return and projected salary increases of 5% per year. The actuarial value of assets was determined using fair market value. The unfunded actuarial accrued liability is being amortized as a level dollar amount over a closed 30-year period. The remaining amortization period at December 31, 2012 is 18 years.

Firemen's Pension Fund Three Year Trend Information:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Contribution as a Percentage of APC</u>	<u>Net Pension Obligation</u>
12/31/10	\$94,726	72.93%	\$ 10,089
12/31/11	\$94,280	91.74%	\$ 17,872
12/31/12	\$94,186	87.47%	\$ 29,673

Funded status and Funding progress. As of January 1, 2000, the most recent actuarial valuation date, the plan was 9.01 percent funded. The actuarial accrued liability for

CITY OF KELSO
Notes to the Financial Statements
December 31, 2012

benefits was \$1,288,000 and the actuarial value of assets was \$116,000, resulting in an unfunded actuarially accrued liability (UAAL) of 1,172,000. The ratio of the UAAL to the covered payroll of the City is not applicable as all members are retired.

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

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

Valuation date	January 1, 2000
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar
Remaining amortization period	18 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7%
Projected salary increases	5%
Projected inflation rate	4%

G. Prior Period Adjustment

Generally the City uses the accrual or modified accrual basis of accounting when recording revenues. However, for the last several decades the City chose to record certain tax and utility revenues on a cash basis as the revenue differences between the consecutive reporting periods were not material to the financial statements. However, the City has determined that the receivable balances related to such revenues are materially understated. As a result, governmental fund balances and proprietary net positions as of January 1, 2012 were restated by the following amounts:

CITY OF KELSO
Notes to the Financial Statements
December 31, 2012

Governmental Funds:	
General Fund	\$1,197,662
Proprietary Funds	
Solid Waste Fund	\$112,474
Water/Sewer Fund	652,446
Stormwater Fund (Non major fund)	52,840

H. Reporting Entity Changes

Kelso Transportation Benefit District

During 2012 the City Council passed an ordinance forming the Kelso Transportation Benefit District (TBD). RCW 36.73.020 grants cities the authority to establish a TBD. The governing board of the TBD is the Kelso City Council acting in an ex officio and independent capacity.

The TBD's purpose is to acquire, construct, improve, provide, and fund transportation improvement within the district that is consistent with any existing State, regional, and local transportation plan. RCW 36.73.065 gives the Kelso TBD authorization to impose taxes, fees, charges, and tolls. The Kelso TBD has approved a \$20 vehicle registration fee. The fee will be collected beginning July 1, 2013 and will be imposed on vehicles registering within the district's boundary's. There were no financial transactions recorded during 2012 in the Kelso Transportation Benefit District.

I. Subsequent Event

In January, 2013, the City of Kelso acquired a piece of property through foreclosure. An environmental study of the property, performed in 2012, indicated the property is impacted by metals and petroleum products in shallow soil, but not groundwater. The City has entered into a formal cleanup agreement with the Washington State Department of Ecology to remediate the site. The remediation cost has been estimated by a licensed engineer to be \$617,100 (including a 30% contingency). The City has applied for and has been awarded state and federal grants that will fund 100% of remediation costs.

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

On January 1, 2013, the Board took over as the decision making authority for the new jointly operated entity. In addition, on January 1, 2013, the City of Kelso transferred all

CITY OF KELSO
Notes to the Financial Statements
December 31, 2012

airport assets (except for any land, buildings, improvements, or machinery and equipment) and liabilities to the Board.

All operation and management of the Airport will be vested in the Board. The Board will consist of one (1) member of each party to this Agreement and one (1) 'at large' member to be appointed by a majority vote of the other members.

J. Reporting Changes

Implementation of GASB 63

For fiscal years that begin after December 15, 2011, GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, became effective. This GASB became effective for the City of Kelso in 2012.

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**CITY OF KELSO
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2012**

Firemen's Pension Fund:

Schedule of Funding Progress:

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

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

The fair market value of plan assets at December 31, 2012 is \$311,568.

Schedule of Employer Contributions:

Fiscal Year	Fire Insurance Premium Tax	Actual Employer Contributions	Total Employer Contributions	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2008	\$10,014	\$ 78,094	\$ 88,108	\$94,444	93.3%
2009	\$9,548	\$ 78,082	\$ 87,630	\$94,444	92.8%
2010	\$10,167	\$ 58,916	\$ 69,083	\$94,444	73.1%
2011	\$10,620	\$ 75,878	\$ 86,497	\$94,444	91.6%
2012	\$10,113	\$ 72,272	\$ 82,385	\$94,444	87.2%

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

Other Postemployment Benefits Other Than Pensions

Schedule of Funding Progress:

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

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

The fair market value of plan assets at December 31, 2012 is \$0.

CITY OF KELSO
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2012

Schedule of Employer Contributions:

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

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

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Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Paths & Trails Fund – this fund is used to account for the receipt of .5% of the State fuel taxes. Expenditures are restricted for City paths & trails.

Stadium Fund – this fund is used to account for the City's share of hotel-motel taxes which are used for the promotion of tourism and for the acquisition and/or operation of tourism related facilities.

Highlander Festival Fund – this fund is used to account for the revenues and expenditures associated with the City's annual festival.

Tam O'Shanter Park Fund – this fund is used to account for donated monies to be used for improvements at Tam O'Shanter Park.

The *HUD grant fund* accounts for the resources accumulated through Community Development Block Grants to implement neighborhood rehabilitation programs to assist low to moderate income property owners rehabilitate their properties.

Criminal Justice Fund – this fund is used to account for State-distributed money for criminal justice purposes only. This fund also accounts for revenues and expenditures associated with the City's drug task force.

Debt Service Funds

Non-Voted General Obligation Bond Fund – this fund is used to account for the debt service on Council approved general obligation bonds. The City Hall bonds are the only bonds outstanding.

Capital Projects Fund

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

City Hall Fund – this fund accounts for the receipt and expenditure of the restricted Real Estate Excise Tax distributed by the State to the City. These funds were used to construct a portion of the new city hall and to pay the future debt service on the new city hall.

City of Kelso
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2012

	Special Revenue					
	Paths/ Trails	Stadium	Highlander Festival	Tam O'Shanter Park	HUD Block Grant	Criminal Justice
Assets						
Cash & cash equivalents	\$ 37,241	\$ 190,776	\$ 935	\$ 14,806	\$ 785,407	\$ 16,985
Receivables (net)						
Due from other funds	-	-	-	-	-	-
Due from other governments	-	-	-	-	47,167	40,234
Advances to other funds	-	-	-	-	-	-
Long-term notes receivable	-	-	-	-	731,039	-
Total Assets	<u>37,241</u>	<u>190,776</u>	<u>935</u>	<u>14,806</u>	<u>1,563,613</u>	<u>57,219</u>
Liabilities						
Accounts payable	-	4,269	-	-	1,618	361
Due to other funds	-	55,000	-	-	-	-
Deferred revenue	-	-	-	-	47,167	-
Total Liabilities	<u>-</u>	<u>59,269</u>	<u>-</u>	<u>-</u>	<u>48,785</u>	<u>361</u>
Fund Balances						
Nonspendable:						
Long-term notes	-	-	-	-	312,268	-
Advances	-	-	-	-	-	-
Restricted for:						
Paths and trails	37,241	-	-	-	-	-
Capital projects	-	-	-	-	-	-
Promotion of tourism	-	131,507	-	-	-	-
Housing/neighborhood rehabilitation	-	-	-	-	1,060,100	-
Criminal justice	-	-	-	-	-	56,858
Parks	-	-	-	14,806	-	-
Assigned to:						
Debt service	-	-	-	-	-	-
Other purposes	-	-	935	-	142,460	-
Total Fund Balance	<u>37,241</u>	<u>131,507</u>	<u>935</u>	<u>14,806</u>	<u>1,514,828</u>	<u>56,858</u>
Total Liabilities and Fund Balances	<u>\$ 37,241</u>	<u>\$ 190,776</u>	<u>\$ 935</u>	<u>\$ 14,806</u>	<u>\$ 1,563,613</u>	<u>\$ 57,219</u>

City of Kelso
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2012

	Total Non-Major Special Revenue Funds	Debt Service Non Voted G.O. Bond	Capital projects City Hall Fund	Total Non-Major Governmental Funds
Assets				
Cash & cash equivalents	\$ 1,046,150	\$ 947,951	\$ 48,792	\$ 2,042,893
Receivables (net)				
Due from other funds	-	123,812	-	123,812
Due from other governments	87,401	-	-	87,401
Advances to other funds	-	517,130	-	517,130
Long-term notes receivable	731,039	-	-	731,039
Total Assets	<u>1,864,590</u>	<u>1,588,893</u>	<u>48,792</u>	<u>3,502,275</u>
Liabilities				
Accounts payable	6,248	-	-	6,248
Due to other funds	55,000	-	-	55,000
Deferred revenue	47,167	-	-	47,167
Total Liabilities	<u>108,415</u>	<u>-</u>	<u>-</u>	<u>108,415</u>
Fund Balances				
Nonspendable:				
Long-term notes	312,268	-	-	312,268
Advances	-	517,130	-	517,130
Restricted for:				
Paths and trails	37,241	-	-	37,241
Capital projects	-	-	48,792	48,792
Promotion of tourism	131,507	-	-	131,507
Housing/neighborhood rehabilitation	1,060,100	-	-	1,060,100
Criminal justice	56,858	-	-	56,858
Parks	14,806	-	-	14,806
Assigned to:				
Debt service	-	1,071,763	-	1,071,763
Other purposes	143,395	-	-	143,395
Total Fund Balance	<u>1,756,175</u>	<u>1,588,893</u>	<u>48,792</u>	<u>3,393,860</u>
Total Liabilities and Fund Balances	<u>\$ 1,864,590</u>	<u>\$ 1,588,893</u>	<u>\$ 48,792</u>	<u>\$ 3,502,275</u>

City of Kelso
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the fiscal year ended December 31, 2012

	Special Revenue					
	Paths and Trails	Stadium	Highlander Festival	Tam O'Shanter Park	Hud Block Grant	
Revenues						
Taxes	\$ -	\$ 137,093	\$ -	\$ -	\$ -	\$ -
Intergovernmental	738	-	-	-	129,250	296,385
Charges for services	-	-	28,568	-	-	-
Investment earnings	46	360	-	23	1,051	9
Miscellaneous	-	14	11,375	-	72	3,246
Total revenues	<u>784</u>	<u>137,467</u>	<u>39,943</u>	<u>23</u>	<u>130,373</u>	<u>299,640</u>
Expenditures						
Security of persons and property	-	-	-	-	-	307,935
Economic Environment	-	-	-	-	90,868	-
Culture and recreation	-	113,306	54,025	-	-	-
Capital outlay	-	518	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	183	-	-	-	-
Total expenditures	<u>-</u>	<u>114,007</u>	<u>54,025</u>	<u>-</u>	<u>90,868</u>	<u>307,935</u>
Excess (deficiency) of revenues over (under) expenditures	<u>784</u>	<u>23,460</u>	<u>(14,082)</u>	<u>23</u>	<u>39,505</u>	<u>(8,295)</u>
Other financing sources (uses)						
Transfers in	480	-	15,000	-	-	-
Transfers out	-	(15,000)	-	-	-	-
Total other financing sources (uses)	<u>480</u>	<u>(15,000)</u>	<u>15,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	1,264	8,460	918	23	39,505	(8,295)
Fund balances - beginning	35,977	123,047	17	14,783	1,475,323	65,153
Fund balances - ending	<u>\$ 37,241</u>	<u>\$ 131,507</u>	<u>\$ 935</u>	<u>\$ 14,806</u>	<u>\$ 1,514,828</u>	<u>\$ 56,858</u>

City of Kelso
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the fiscal year ended December 31, 2012

	Total Non-Major Special Revenue Funds	Debt Service	Capital Projects	Total Non-Major Governmental Funds
		Non-Voted G.O. Bond	City Hall Fund	
Revenues				
Taxes	\$ 137,093	\$ -	\$ 47,767	\$ 184,860
Intergovernmental	426,373	-	-	426,373
Charges for services	28,568	-	-	28,568
Investment earnings	1,489	33,086	51	34,626
Miscellaneous	14,707	-	-	14,707
Total revenues	<u>608,230</u>	<u>33,086</u>	<u>47,818</u>	<u>689,134</u>
Expenditures				
Security of persons and property	307,935	-	-	307,935
Economic Environment	90,868	-	-	90,868
Culture and recreation	167,331	-	-	167,331
Capital outlay	518	-	-	518
Debt service:				
Principal	-	125,000	-	125,000
Interest and fiscal charges	183	70,359	-	70,542
Total expenditures	<u>566,835</u>	<u>195,359</u>	<u>-</u>	<u>762,194</u>
Excess (deficiency) of revenues over (under) expenditures	<u>41,395</u>	<u>(162,273)</u>	<u>47,818</u>	<u>(73,060)</u>
Other financing sources (uses)				
Transfers in	15,480	174,800	-	190,280
Transfers out	(15,000)	-	(35,000)	(50,000)
Total other financing sources (uses)	<u>480</u>	<u>174,800</u>	<u>(35,000)</u>	<u>140,280</u>
Net change in fund balances	41,875	12,527	12,818	67,220
Fund balances - beginning	1,714,300	1,576,366	35,974	3,326,640
Fund balances - ending	<u>\$ 1,756,175</u>	<u>\$ 1,588,893</u>	<u>\$ 48,792</u>	<u>\$ 3,393,860</u>

City of Kelso
Street Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 375,693	\$ 375,693	\$ 375,693	\$ -
Intergovernmental	185,000	185,000	177,271	(7,729)
Investment earnings	500	500	532	32
Rental/lease income	19,959	19,959	19,909	(50)
Miscellaneous	-	-	3,441	3,441
Total revenues	<u>581,152</u>	<u>581,152</u>	<u>576,846</u>	<u>(4,306)</u>
Expenditures				
Transportation	506,252	506,252	435,425	70,827
Capital outlay	74,000	74,000	55,899	18,101
Total expenditures	<u>580,252</u>	<u>580,252</u>	<u>491,324</u>	<u>88,928</u>
Excess (deficiency) of revenues over (under) expenditures	<u>900</u>	<u>900</u>	<u>85,522</u>	<u>84,622</u>
Other financing sources (uses)				
Transfers out	(900)	(900)	(44,980)	(44,080)
Total other financing sources (uses)	<u>(900)</u>	<u>(900)</u>	<u>(44,980)</u>	<u>(44,080)</u>
Net change in fund balances	-	-	40,542	40,542
Fund balances - beginning, restated (see note V.G.)	309,512	309,512	309,512	-
Fund balances - ending	<u>\$ 309,512</u>	<u>\$ 309,512</u>	<u>\$ 350,054</u>	<u>\$ 40,542</u>

City of Kelso
Library Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 403,262	\$ 403,262	\$ 403,262	\$ -
Charges for services	5,100	5,100	7,335	2,235
Fines	4,700	4,700	4,500	(200)
Investment earnings	-	-	65	65
Miscellaneous	220	220	48	(172)
Total revenues	<u>413,282</u>	<u>413,282</u>	<u>415,210</u>	<u>1,928</u>
Expenditures				
Culture and recreation	377,282	397,282	388,783	8,499
Capital outlay	36,000	36,000	19,271	16,729
Total expenditures	<u>413,282</u>	<u>433,282</u>	<u>408,054</u>	<u>25,228</u>
Excess (deficiency) of revenues over (under) expenditures	-	(20,000)	7,156	27,156
Net change in fund balances	<u>-</u>	<u>(20,000)</u>	<u>7,156</u>	<u>27,156</u>
Fund balances - beginning	46,442	46,442	46,442	-
Fund balances - ending	<u>\$ 46,442</u>	<u>\$ 26,442</u>	<u>\$ 53,598</u>	<u>\$ 27,156</u>

City of Kelso
Kelso Station Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment earnings	\$ -	\$ -	\$ 35	\$ 35
Rental/lease income	16,500	16,500	26,319	9,819
Miscellaneous	100	100	120	20
Total revenues	<u>16,600</u>	<u>16,600</u>	<u>26,474</u>	<u>9,874</u>
Expenditures				
Transportation	44,100	44,100	43,503	597
Capital outlay	48,000	63,000	16,748	46,252
Total expenditures	<u>92,100</u>	<u>107,100</u>	<u>60,251</u>	<u>46,849</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(75,500)</u>	<u>(90,500)</u>	<u>(33,777)</u>	<u>56,723</u>
Other financing sources (uses)				
Transfers in	43,500	58,500	14,625	(43,875)
Total other financing sources (uses)	<u>43,500</u>	<u>58,500</u>	<u>14,625</u>	<u>(43,875)</u>
Net change in fund balances	(32,000)	(32,000)	(19,152)	12,848
Fund balances - beginning	29,081	29,081	29,081	-
Fund balances - ending	<u>\$ (2,919)</u>	<u>\$ (2,919)</u>	<u>\$ 9,929</u>	<u>\$ 12,848</u>

City of Kelso
Parks and Recreation Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 185,268	\$ 185,268	\$ 185,268	\$ -
Charges for services	4,000	4,000	3,075	(925)
Investment earnings	100	100	12	(88)
Rental/lease income	29,400	29,400	39,849	10,449
Miscellaneous	10,000	10,000	375	(9,625)
Total revenues	<u>228,768</u>	<u>228,768</u>	<u>228,579</u>	<u>(189)</u>
Expenditures				
Culture and recreation	223,368	223,368	225,354	(1,986)
Capital outlay	5,400	5,400	-	5,400
Total expenditures	<u>228,768</u>	<u>228,768</u>	<u>225,354</u>	<u>3,414</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>3,225</u>	<u>3,225</u>
Fund balances - beginning	<u>33,381</u>	<u>33,381</u>	<u>33,381</u>	<u>-</u>
Fund balances - ending	<u>\$ 33,381</u>	<u>\$ 33,381</u>	<u>\$ 36,606</u>	<u>\$ 3,225</u>

City of Kelso
Facade Improvement Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment earnings	\$ -	\$ -	\$ 1	\$ 1
Total revenues	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>
Fund balances - beginning	443	443	443	-
Fund balances - ending	<u>\$ 443</u>	<u>\$ 443</u>	<u>\$ 444</u>	<u>\$ 1</u>

City of Kelso
Paths and Trails Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ -	\$ -	\$ 738	\$ 738
Investment earnings	50	50	46	(4)
Total revenues	<u>50</u>	<u>50</u>	<u>784</u>	<u>734</u>
Excess (deficiency) of revenues over (under) expenditures	<u>50</u>	<u>50</u>	<u>784</u>	<u>734</u>
Other financing sources (uses)				
Transfers in	1,250	1,250	480	(770)
Transfers out	-	(33,000)	-	33,000
Total other financing sources (uses)	<u>1,250</u>	<u>(31,750)</u>	<u>480</u>	<u>32,230</u>
Net change in fund balances	1,300	(31,700)	1,264	32,964
Fund balances - beginning	35,977	35,977	35,977	-
Fund balances - ending	<u>\$ 37,277</u>	<u>\$ 4,277</u>	<u>\$ 37,241</u>	<u>\$ 32,964</u>

City of Kelso
Stadium Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 135,000	\$ 135,000	\$ 137,093	\$ 2,093
Investment earnings	450	450	360	(90)
Miscellaneous	100	100	14	(86)
Total revenues	<u>135,550</u>	<u>135,550</u>	<u>137,467</u>	<u>1,917</u>
Expenditures				
Culture and recreation	102,500	128,100	113,306	14,794
Capital outlay	-	-	518	(518)
Debt service:				
Principal	55,000	55,000	-	55,000
Interest and fiscal charges	1,250	1,250	183	1,067
Total expenditures	<u>158,750</u>	<u>184,350</u>	<u>114,007</u>	<u>70,343</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(23,200)</u>	<u>(48,800)</u>	<u>23,460</u>	<u>72,260</u>
Other financing sources (uses)				
Transfers out	<u>(20,000)</u>	<u>(20,000)</u>	<u>(15,000)</u>	<u>5,000</u>
Total other financing sources (uses)	<u>(20,000)</u>	<u>(20,000)</u>	<u>(15,000)</u>	<u>5,000</u>
Net change in fund balances	<u>(43,200)</u>	<u>(68,800)</u>	<u>8,460</u>	<u>77,260</u>
Fund balances - beginning	123,047	123,047	123,047	-
Fund balances - ending	<u>\$ 79,847</u>	<u>\$ 54,247</u>	<u>\$ 131,507</u>	<u>\$ 77,260</u>

City of Kelso
Highlander Festival Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for services	\$ 32,700	\$ 32,700	\$ 28,568	\$ (4,132)
Miscellaneous	11,400	11,400	11,375	(25)
Total revenues	<u>44,100</u>	<u>44,100</u>	<u>39,943</u>	<u>(4,157)</u>
Expenditures				
Culture and recreation	64,100	64,100	54,025	10,075
Total expenditures	<u>64,100</u>	<u>64,100</u>	<u>54,025</u>	<u>10,075</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(20,000)</u>	<u>(20,000)</u>	<u>(14,082)</u>	<u>5,918</u>
Other financing sources (uses)				
Transfers in	20,000	20,000	15,000	(5,000)
Total other financing sources (uses)	<u>20,000</u>	<u>20,000</u>	<u>15,000</u>	<u>(5,000)</u>
Net change in fund balances	-	-	918	918
Fund balances - beginning	17	17	17	-
Fund balances - ending	<u>\$ 17</u>	<u>\$ 17</u>	<u>\$ 935</u>	<u>\$ 918</u>

City of Kelso
Tam O'Shanter Park Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment earnings	\$ 50	\$ 50	\$ 23	\$ (27)
Total revenues	<u>50</u>	<u>50</u>	<u>23</u>	<u>(27)</u>
 Excess (deficiency) of revenues over (under) expenditures	 50	 50	 23	 (27)
Net change in fund balances	50	50	23	(27)
Fund balances - beginning	14,783	14,783	14,783	-
Fund balances - ending	<u>\$ 14,833</u>	<u>\$ 14,833</u>	<u>\$ 14,806</u>	<u>\$ (27)</u>

City of Kelso
HUD Block Grant Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 514,472	\$ 514,472	\$ 129,250	\$ (385,222)
Investment earnings	15,000	15,000	1,051	(13,949)
Miscellaneous	20,500	20,500	72	(20,428)
Total revenues	<u>549,972</u>	<u>549,972</u>	<u>130,373</u>	<u>(419,599)</u>
Expenditures				
Economic Environment:				
Neighborhood stabilization	514,472	514,472	76,788	437,684
Housing rehabilitation	112,100	112,100	14,080	98,020
Total expenditures	<u>626,572</u>	<u>626,572</u>	<u>90,868</u>	<u>535,704</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(76,600)</u>	<u>(76,600)</u>	<u>39,505</u>	<u>116,105</u>
Net change in fund balances	<u>(76,600)</u>	<u>(76,600)</u>	<u>39,505</u>	<u>116,105</u>
Fund balances - beginning	<u>1,475,323</u>	<u>1,475,323</u>	<u>1,475,323</u>	<u>-</u>
Fund balances - ending	<u>\$ 1,398,723</u>	<u>\$ 1,398,723</u>	<u>\$ 1,514,828</u>	<u>\$ 116,105</u>

City of Kelso
Criminal Justice Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 332,725	\$ 332,725	\$ 296,385	\$ (36,340)
Investment earnings	1,000	1,000	9	(991)
Miscellaneous	2,500	2,500	3,246	746
Total revenues	<u>336,225</u>	<u>336,225</u>	<u>299,640</u>	<u>(36,585)</u>
Expenditures				
Security of persons and property	331,671	331,671	307,935	23,736
Total expenditures	<u>331,671</u>	<u>331,671</u>	<u>307,935</u>	<u>23,736</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,554</u>	<u>4,554</u>	<u>(8,295)</u>	<u>(12,849)</u>
Net change in fund balances	4,554	4,554	(8,295)	(12,849)
Fund balances - beginning	65,153	65,153	65,153	-
Fund balances - ending	<u>\$ 69,707</u>	<u>\$ 69,707</u>	<u>\$ 56,858</u>	<u>\$ (12,849)</u>

City of Kelso
G.O. Bond Debt Service Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the fiscal year ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment earnings	\$ 40,775	\$ 40,775	\$ 33,086	\$ (7,689)
Total revenues	<u>40,775</u>	<u>40,775</u>	<u>33,086</u>	<u>(7,689)</u>
Expenditures				
Debt service:				
Principal	115,000	115,000	125,000	(10,000)
Interest	<u>110,525</u>	<u>110,525</u>	<u>70,359</u>	<u>40,166</u>
Total expenditures	<u>225,525</u>	<u>225,525</u>	<u>195,359</u>	<u>30,166</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(184,750)</u>	<u>(184,750)</u>	<u>(162,273)</u>	<u>22,477</u>
Other financing sources (uses)				
Transfers in/(out)	184,800	184,800	174,800	(10,000)
Total other financing sources (uses)	<u>184,800</u>	<u>184,800</u>	<u>174,800</u>	<u>(10,000)</u>
Net change in fund balances	50	50	12,527	12,477
Fund balances - beginning	1,576,366	1,576,366	1,576,366	-
Fund balances - ending	<u>\$1,576,416</u>	<u>\$1,576,416</u>	<u>\$1,588,893</u>	<u>\$ 12,477</u>

City of Kelso
City Hall Capital Projects Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 35,000	\$ 35,000	\$ 47,767	\$ 12,767
Investment earnings	-	-	51	51
Total revenues	<u>35,000</u>	<u>35,000</u>	<u>47,818</u>	<u>12,818</u>
Excess (deficiency) of revenues over (under) expenditures	<u>35,000</u>	<u>35,000</u>	<u>47,818</u>	<u>12,818</u>
Other financing sources (uses)				
Transfers out	<u>(35,000)</u>	<u>(35,000)</u>	<u>(35,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(35,000)</u>	<u>(35,000)</u>	<u>(35,000)</u>	<u>-</u>
Net change in fund balances	-	-	12,818	12,818
Fund balances - beginning	<u>35,974</u>	<u>35,974</u>	<u>35,974</u>	<u>-</u>
Fund balances - ending	<u>\$ 35,974</u>	<u>\$ 35,974</u>	<u>\$ 48,792</u>	<u>\$ 12,818</u>

STATISTICAL SECTION

This part of the City of Kelso's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents	Page
Financial Trends	107
<i>These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</i>	
Revenue Capacity	114
<i>These schedules contain trend information to help the reader assess one of the City's most significant local revenue sources, the property tax.</i>	
Debt Capacity	120
<i>These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.</i>	
Demographic and Economic	125
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place</i>	
Operating Information	128
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.</i>	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

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City of Kelso
 Net Position by Component
 Last Ten Fiscal Years
 (accrual basis of accounting)
 (amounts expressed in thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities										
Net investment in capital assets	\$ 18,960	\$ 22,768	\$ 23,450	\$ 27,053	\$ 47,636	\$ 47,405	\$ 47,642	\$ 48,034	\$ 47,753	\$ 48,199
Restricted	2,523	684	1,196	1,169	1,181	1,015	845	1,302	1,349	1,442
Unrestricted	4,771	3,306	3,060	3,067	4,231	4,480	4,021	2,801	2,936	4,494
Total governmental activities net position	<u>\$ 26,254</u>	<u>\$ 26,758</u>	<u>\$ 27,706</u>	<u>\$ 31,289</u>	<u>\$ 53,048</u>	<u>\$ 52,900</u>	<u>\$ 52,508</u>	<u>\$ 52,137</u>	<u>\$ 52,038</u>	<u>\$ 54,135</u>
Business-type activities										
Net investment in capital assets	\$ 16,509	\$ 16,929	\$ 18,238	\$ 18,750	\$ 19,488	\$ 19,499	\$ 20,013	\$ 20,893	\$ 20,809	\$ 21,989
Restricted	486	492	508	534	563	201	202	591	592	593
Unrestricted	3,903	3,688	3,483	3,698	4,402	5,787	5,747	5,119	6,216	7,128
Total business-type activities net position	<u>\$ 20,898</u>	<u>\$ 21,109</u>	<u>\$ 22,229</u>	<u>\$ 22,982</u>	<u>\$ 24,453</u>	<u>\$ 25,487</u>	<u>\$ 25,962</u>	<u>\$ 26,603</u>	<u>\$ 27,617</u>	<u>\$ 29,710</u>
Primary government										
Net investment in capital assets	\$ 35,469	\$ 39,697	\$ 41,688	\$ 45,803	\$ 67,124	\$ 66,904	\$ 67,655	\$ 68,927	\$ 68,562	\$ 70,188
Restricted	3,009	1,176	1,704	1,703	1,744	1,216	1,047	1,893	1,941	2,035
Unrestricted	8,674	6,994	6,543	6,765	8,633	10,267	9,768	7,920	9,152	11,622
Total primary government net position	<u>\$ 47,152</u>	<u>\$ 47,867</u>	<u>\$ 49,935</u>	<u>\$ 54,271</u>	<u>\$ 77,501</u>	<u>\$ 78,387</u>	<u>\$ 78,470</u>	<u>\$ 78,740</u>	<u>\$ 79,655</u>	<u>\$ 83,845</u>

City of Kelso
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental activities:										
General government	\$ 1,087	\$ 1,383	\$ 1,368	\$ 1,512	\$ 1,645	\$ 1,560	\$ 1,503	\$ 1,501	\$ 1,453	\$ 1,312
Security of persons and property	3,612	3,829	3,887	4,136	4,388	4,808	4,939	5,031	4,543	4,533
Physical environment	356	301	266	321	603	598	430	441	422	431
Transportation	780	703	850	835	1,652	1,695	1,747	1,783	1,703	1,722
Economic environment	326	297	354	365	849	493	442	695	396	590
Culture and recreation	864	975	710	921	1,095	1,192	993	1,091	1,054	1,066
Interest on long-term debt	122	155	150	143	137	136	135	140	173	117
Total governmental activities expenses	<u>7,147</u>	<u>7,643</u>	<u>7,585</u>	<u>8,233</u>	<u>10,369</u>	<u>10,482</u>	<u>10,189</u>	<u>10,682</u>	<u>9,744</u>	<u>9,771</u>
Business-type activities:										
Water/Sewer	4,700	5,285	4,842	5,753	6,045	5,912	6,889	6,634	6,578	6,610
Solid waste	244	1,079	1,059	1,085	1,099	1,087	1,091	1,247	1,235	1,294
Storm water	1,092	258	243	283	295	417	464	456	580	571
Airport	251	211	218	290	224	348	423	357	380	422
Total business-type activities expenses	<u>6,287</u>	<u>6,833</u>	<u>6,362</u>	<u>7,411</u>	<u>7,663</u>	<u>7,764</u>	<u>8,867</u>	<u>8,694</u>	<u>8,773</u>	<u>8,897</u>
Total primary government expenses	<u>\$ 13,434</u>	<u>\$ 14,476</u>	<u>\$ 13,947</u>	<u>\$ 15,644</u>	<u>\$ 18,032</u>	<u>\$ 18,246</u>	<u>\$ 19,056</u>	<u>\$ 19,376</u>	<u>\$ 18,517</u>	<u>\$ 18,668</u>
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 66	\$ 76	\$ 82	\$ 85	\$ 82	\$ 63	\$ 60	\$ 62	\$ 97	\$ 91
Security of persons and property	150	124	185	212	170	213	370	185	233	192
Physical environment	5	4	4	8	49	70	13	48	11	6
Transportation	70	63	67	52	34	119	75	191	210	231
Economic environment	362	196	205	262	263	224	119	119	127	127
Culture and recreation	47	36	35	63	56	71	56	76	104	100
Operating grants and contributions	418	343	444	588	908	492	585	691	624	894
Capital grants and contributions	482	279	298	2,958	113	596	1,262	867	822	1,455
Total governmental activities program revenues	<u>1,600</u>	<u>1,121</u>	<u>1,320</u>	<u>4,228</u>	<u>1,675</u>	<u>1,848</u>	<u>2,540</u>	<u>2,239</u>	<u>2,228</u>	<u>3,096</u>
Business-type activities:										
Charges for services:										
Water/Sewer	5,288	5,262	5,389	5,804	6,425	6,781	7,182	7,320	7,635	7,621
Solid waste	1,073	1,095	1,105	1,115	1,110	1,174	1,110	1,131	1,142	1,145
Storm water	267	253	255	249	254	267	446	559	623	579
Airport	107	103	106	109	109	118	125	131	138	126
Operating grants and contributions	67	58	66	112	72	227	256	193	238	193
Capital grants and contributions	143	247	550	610	849	75	163	10	-	457
Total business-type activities program revenues	<u>6,945</u>	<u>7,018</u>	<u>7,471</u>	<u>7,999</u>	<u>8,819</u>	<u>8,642</u>	<u>9,282</u>	<u>9,280</u>	<u>9,776</u>	<u>10,121</u>
Total primary government program revenues	<u>\$ 8,545</u>	<u>\$ 8,139</u>	<u>\$ 8,791</u>	<u>\$ 12,227</u>	<u>\$ 10,494</u>	<u>\$ 10,490</u>	<u>\$ 11,822</u>	<u>\$ 11,519</u>	<u>\$ 12,004</u>	<u>\$ 13,217</u>

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net (expense)/revenue										
Governmental activities	\$ (5,547)	\$ (6,522)	\$ (6,265)	\$ (4,005)	\$ (8,694)	\$ (8,634)	\$ (7,649)	\$ (8,443)	\$ (7,516)	\$ (6,675)
Business-type activities	658	185	1,109	588	1,156	878	415	586	1,003	1,224
Total primary government net expense	<u>\$ (4,889)</u>	<u>\$ (6,337)</u>	<u>\$ (5,156)</u>	<u>\$ (3,417)</u>	<u>\$ (7,538)</u>	<u>\$ (7,756)</u>	<u>\$ (7,234)</u>	<u>\$ (7,857)</u>	<u>\$ (6,513)</u>	<u>\$ (5,451)</u>
General Revenues and other Changes in Net Position										
Governmental activities:										
Taxes:										
Property taxes	\$ 1,062	\$ 1,068	\$ 1,078	\$ 1,081	\$ 1,018	\$ 1,007	\$ 1,146	\$ 1,139	\$ 1,159	\$ 1,175
Sales taxes	2,198	1,890	2,080	2,281	2,439	2,343	2,014	2,150	2,154	2,103
Utility taxes	2,181	2,117	2,120	2,323	2,426	2,487	2,534	2,542	2,611	2,827
Business taxes	609	669	648	679	716	722	659	671	713	755
Excise taxes	360	376	446	427	387	215	156	117	111	86
Penalties & interest	3	7	9	7	5	5	5	5	4	5
State entitlements	526	540	582	549	597	635	638	640	572	573
Investment earnings	84	98	143	212	286	177	65	50	68	64
Miscellaneous	54	226	35	5	67	29	60	12	21	26
Gain/(loss) on sale of capital assets	1	-	-	46	716	885	-	-	-	-
Transfers	(19)	35	72	(22)	(111)	(19)	(20)	(20)	4	(40)
Total governmental activities	<u>7,059</u>	<u>7,026</u>	<u>7,213</u>	<u>7,588</u>	<u>8,546</u>	<u>8,486</u>	<u>7,257</u>	<u>7,306</u>	<u>7,417</u>	<u>7,574</u>
Business-type activities:										
Investment earnings	51	56	112	165	203	137	39	15	15	11
Miscellaneous	-	-	-	-	-	-	-	20	-	-
Gain/(loss) on sale of capital assets	(35)	5	(29)	(21)	-	1	-	-	-	-
Transfers	19	(35)	(72)	22	111	19	20	20	(4)	40
Total business-type activities	<u>35</u>	<u>26</u>	<u>11</u>	<u>166</u>	<u>314</u>	<u>157</u>	<u>59</u>	<u>55</u>	<u>11</u>	<u>51</u>
Total primary government	<u>\$ 7,094</u>	<u>\$ 7,052</u>	<u>\$ 7,224</u>	<u>\$ 7,754</u>	<u>\$ 8,860</u>	<u>\$ 8,643</u>	<u>\$ 7,316</u>	<u>\$ 7,361</u>	<u>\$ 7,428</u>	<u>\$ 7,625</u>
Change in Net Position										
Governmental activities	\$ 1,512	\$ 504	\$ 948	\$ 3,583	\$ (148)	\$ (148)	\$ (392)	\$ (1,137)	\$ (99)	\$ 899
Business-type activities	693	211	1,120	754	1,470	1,035	474	641	1,014	1,275
Total primary government	<u>\$ 2,205</u>	<u>\$ 715</u>	<u>\$ 2,068</u>	<u>\$ 4,337</u>	<u>\$ 1,322</u>	<u>\$ 887</u>	<u>\$ 82</u>	<u>\$ (496)</u>	<u>\$ 915</u>	<u>\$ 2,174</u>

City of Kelso
Governmental Activities Tax Revenues by Source
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

Fiscal Year	Property Tax	Sales Tax	Utility Taxes	Business Taxes	Excise Taxes
2003	\$ 1,062	\$ 2,198	\$ 2,181	\$ 609	\$ 360
2004	1,068	1,890	2,117	669	375
2005	1,078	2,080	2,120	648	446
2006	1,081	2,281	2,323	679	427
2007	1,018	2,439	2,426	716	387
2008	1,007	2,343	2,487	722	214
2009	1,146	2,014	2,534	659	156
2010	1,139	2,150	2,542	671	117
2011	1,159	2,154	2,611	713	111
2012	1,175	2,103	2,827	755	86

City of Kelso
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General fund (Per GASB 54)*										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55	\$ -
Restricted	-	-	-	-	-	-	-	-	54	93
Committed	-	-	-	-	-	-	-	-	178	213
Assigned	-	-	-	-	-	-	-	-	202	-
Unassigned	-	-	-	-	-	-	-	-	1,197	3,063
General fund (Prior to GASB 54)*										
Reserved	-	26	140	185	51	243	200	155	-	-
Unreserved	2,563	1,762	1,684	1,528	3,175	3,587	1,491***	1,022	-	-
Total general fund	\$ 2,563	\$ 1,788	\$ 1,824	\$ 1,713	\$ 3,226	\$ 3,830	\$ 1,691	\$ 1,177	\$ 1,686	\$ 3,369
All other governmental funds (Per GASB 54)*										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 953	\$ 829
Restricted	-	-	-	-	-	-	-	-	1,295	1,350
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	-	1,078	1,215
Unassigned	-	-	-	-	-	-	-	-	(744)	(504)
All other governmental funds (Prior to GASB 54)*										
Reserved	2,579**	1,068	1,068	987	1,130	837	811	155	-	-
Unreserved, reported in:										
Special revenue funds	1,182	862	996	832	705	773	802	379***	-	-
Debt service funds	-	-	-	-	-	-	1,605***	1,597	-	-
Capital projects funds	692	-	-	-	-	-	-	-	-	-
Total all other governmental funds	\$ 4,453	\$ 1,930	\$ 2,064	\$ 1,819	\$ 1,835	\$ 1,610	\$ 3,218	\$ 2,131	\$ 2,582	\$ 2,890

* In 2011 the City Adopted GASB 54. Fund Balance Reporting and Governmental Fund Type Definitions. Amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned. Additionally, as required by GASB 54, the City reclassified certain funds within the governmental fund types for reporting purposes for fiscal year 2011.

** The increase in fund balance in this period was due to unspent bond proceeds for construction of City Hall.

*** In 2009 city council designated certain proceeds from the sale of City property for the retirement of the 2003 G.O. Bond.

**** This decrease is due to accounting for an interfund loan (\$900) in the arterial street fund while the fixed assets constructed with the loan proceeds were not recorded.

City of Kelso
Changes in Fund Balances of Governmental Funds

Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues										
Taxes	\$ 6,413	\$ 6,140	\$ 6,367	\$ 6,818	\$ 6,988	\$ 6,802	\$ 6,506	\$ 6,607	\$ 6,745	\$ 6,955
Licenses and permits	239	192	272	325	290	229	159	138	200	195
Intergovernmental	1,390	1,147	1,094	2,370	1,540	1,063	2,341	2,199	1,653	3,066
Charges for services	473	506	540	621	625	616	747	988	824	879
Fines	148	125	120	139	163	131	127	164	190	140
Investment earnings	111	94	132	192	262	165	61	49	69	64
Contributions	17	2	120	7	15	14	48	1	-	-
Rental/lease income	46	49	53	40	38	56	59	53	61	86
Miscellaneous	234	305	226	154	140	91	159	37	36	38
Total revenues	9,071	8,560	8,924	10,666	10,061	9,167	10,207	10,236	9,778	11,423
Expenditures										
General government	1,318	1,563	1,543	1,571	1,808	1,712	1,746	1,812	1,726	1,619
Security of persons and property	3,595	3,742	3,867	4,091	4,297	4,428	4,614	4,700	4,299	4,297
Physical environment	353	413	415	492	650	667	635	647	548	571
Transportation	692	628	766	676	701	734	657	605	495	479
Economic environment	325	295	352	372	839	491	441	709	398	585
Culture and recreation	814	876	651	697	764	844	717	758	774	781
Capital outlay	2,041	3,976	910	2,757	519	759	1,646	2,005	1,355	1,999
Debt service										
Principal	495	93	98	103	23	123	128	128	133	148
Interest	178	154	149	142	135	134	133	138	224	111
Total expenditures	9,811	11,740	8,751	10,901	9,736	9,892	10,717	11,502	9,952	10,590
Excess of revenues over (under) expenditures	(740)	(3,180)	173	(235)	325	(725)	(510)	(1,266)	(174)	833

Other financing sources (uses)										
Transfers in	117	1,234	557	243	279	675	2,019	258	489	497
Transfers out	(281)	(1,352)	(560)	(411)	(503)	(694)	(2,039)	(278)	(485)	(537)
Notes issued	-	-	-	-	-	-	-	-	-	-
Bonds issued	3,355	-	-	-	-	-	-	-	2,710	-
Bonds refunded	-	-	-	-	-	-	-	-	(2,660)	-
Sale of capital assets	-	-	-	46	1,427	1,123	-	-	-	-
Total other financing sources (uses)	3,191	(118)	(3)	(122)	1,203	1,104	(20)	(20)	54	(40)
Net change in fund balances	\$ 2,451	\$ (3,298)	\$ 170	\$ (357)	\$ 1,528	\$ 379	\$ (530)	\$ (1,286)	\$ (120)	\$ 793

Debt service as a percentage of noncapital expenditures* 8.66% 3.18% 3.15% 3.01% 1.71% 2.81% 2.88% 2.80% 4.15% 3.01%

* This ratio was calculated by dividing the debt service (principal and interest) by the non-capital expenditures. Non-capital expenditures were calculated by subtracting capital outlay from total expenditures.

Fiscal Year	City of Kelso						Total
	General Governmental Tax Revenues by Source						
	Last Ten Fiscal Years (modified accrual basis of accounting) (amounts expressed in thousands)						
	Property Tax	Sales Tax	Utility Taxes	Business Taxes	Other Taxes		
2003	1,062	2,198	2,181	609	363	6,413	
2004	1,081	1,890	2,117	669	383	6,140	
2005	1,064	2,080	2,120	648	455	6,367	
2006	1,101	2,281	2,323	679	434	6,818	
2007	1,015	2,439	2,426	716	392	6,988	
2008	1,030	2,343	2,487	722	220	6,802	
2009	1,138	2,014	2,534	659	161	6,506	
2010	1,121	2,150	2,542	671	123	6,607	
2011	1,152	2,154	2,611	713	115	6,745	
2012	1,178	2,103	2,827	755	92	6,955	

City of Kelso
Assessed Value and Estimated Actual Value of Taxable Property
(amounts expressed in thousands)

Fiscal Year	Real Property		Direct Tax Rate	Ratio of Assessed Value To Estimated Actual Value²
	Assessed Value¹	Estimated Value		
2003	510,829	553,444	2.2924%	92.3%
2004	518,895	568,964	2.2911%	91.2%
2005	561,334	628,594	2.1529%	89.3%
2006	564,395	672,700	2.1496%	83.9%
2007	606,625	770,807	1.9095%	78.7%
2008	648,929	775,303	1.8219%	83.7%
2009	727,939	830,033	1.8102%	87.7%
2010	728,204	812,728	1.7985%	89.6%
2011	753,399	817,136	1.7643%	92.2%
2012	743,257	793,231	1.8131%	93.7%

¹ Cowlitz County Assessor's Office

² Department of Revenue - Property Tax Division

Note - personal property information is not currently available.

City of Kelso
Property Tax Rates
Direct and Overlapping Governments
(Per \$1,000 of Assessed Value)
Last Ten Fiscal Years

Fiscal Year	City		City Debt	Total City	School District	Port of Longview		Cowlitz County	State of Washington		Cowlitz 2 Fire District		Total
	Regular	Other				Longview	Cowlitz County		Washington	Fire District			
2003	2.1183	0.1741	0.1741	2.2924	5.9823	0.4453	1.8000	2.7559	1.4807	14.7566			
2004	2.1194	0.1717	0.1717	2.2911	6.0672	0.45	1.8000	2.8002	1.5000	14.9085			
2005	1.9962	0.1567	0.1567	2.1529	5.68	0.4500	1.8715	2.7639	1.6595	14.5778			
2006	2.0127	0.1369	0.1369	2.1496	5.5473	0.4509	1.8714	2.5686	1.6551	14.2429			
2007	1.9095	0	0	1.9095	5.2332	0.4503	1.7564	2.3887	1.5608	13.2989			
2008	1.8219	0	0	1.8219	4.9324	0.4143	1.6756	2.2277	1.5000	12.5719			
2009	1.8102	0	0	1.8102	4.3766	0.4037	1.6629	2.0593	1.4044	11.7171			
2010	1.7985	0	0	1.7985	4.4339	0.3906	1.6904	2.1058	1.4643	11.8835			
2011	1.7643	0	0	1.7643	5.1213	0.3933	1.7304	2.2954	1.5000	12.8047			
2012	1.8131	0	0	1.8131	5.1967	0.2192	1.8647	2.3733	1.5000	12.9670			

Diking and Mosquito Districts are not included
Source: Cowlitz County Assessor's Office

City of Kelso
Principal Property Taxpayers
December 31, 2012
(amounts expressed in thousands)

Taxpayer	2012			2003		
	Rank	Assessed Valuation	Percentage of Total Assessed Valuation	Rank	Assessed Valuation	Percentage of Total Assessed Valuation
Foster Farms Poultry	1	\$ 31,989	4.70%	1	\$ 35,118	6.90%
Three Rivers Mall LLC	2	22,707	3.34%	2	25,850	5.10%
Mario Segale	3	14,664	2.16%			
Burlington Northern Santa Fe	4	10,741	1.58%	5	5,454	1.10%
Safeway Inc.	5	10,474	1.54%	4	5,515	1.10%
SW Paper Inc.	6	7,837	1.15%	3	8,406	1.70%
CAS Holdings Inc.	7	7,259	1.07%			
Storedahl Enterprises LLC	8	7,125	1.05%			
Allen Street Investments	9	6,939	1.02%			
Dayton Hudson	10	6,706	0.99%	6	5,412	1.10%
Brookhollow partners LP				7	4,700	0.90%
Riverway Plaza				8	4,078	0.80%
Kelso Elks 1482				9	3,220	0.60%
A I Longview LLC				10	3,072	0.60%
		<u>\$ 126,441</u>	<u>18.60%</u>		<u>\$ 100,825</u>	<u>19.90%</u>

Source: Cowlitz County Assessor's Office

**City of Kelso
Ten Principal Sales Taxpayers
December 31, 2012**

Taxpayer*	2012			2003		
	Rank	Sales Tax	Percentage of Total Sales Tax	Rank	Sales Tax	Percentage of Total Sales Tax
Company A	1	\$ 179,903	9.63%	3	\$ 164,087	7.66%
Company B	2	178,186	9.54%	2	204,580	9.55%
Company C	3	65,255	3.49%	7	71,194	
Company D	4	63,954	3.43%	5	92,585	4.32%
Company E	5	47,571	2.55%	11	47,230	2.20%
Company F	6	46,304	2.48%	6	90,629	4.23%
Company G	7	42,862	2.30%	9	57,869	2.70%
Company H	8	39,737	2.13%	12	37,826	1.77%
Company I	9	35,205	1.89%		-	0.00%
Company J	10	30,194	1.62%	10	48,727	2.27%
Company K		-	0.00%	1**	241,191	11.26%
Company L		-	0.00%	4**	118,777	5.54%
Company M		-	0.00%	8**	59,942	2.80%
		<u>\$ 729,171</u>	<u>39.05%</u>		<u>\$ 1,234,637</u>	<u>54.31%</u>

Source: Washington State Department of Revenue

* Washington State law precludes the City from disclosing certain taxpayer information.

**Sales tax was paid on non-recurring construction projects.

**City of Kelso
Principal Utility Taxpayers
December 31, 2012**

Utility Tax Type	2012			2003		
	Rank	Tax	Percentage of Tax to Total	Rank	Tax	Percentage of Tax to Total
Electricity*	1	\$ 695,036	24.58%	1	\$ 492,880	22.60%
Sewer*	2	423,968	15.00%	2	268,215	12.30%
Water*	3	268,737	9.50%	5	157,554	7.22%
Cell Phone**	4	199,591	7.06%	4	168,594	7.73%
Cable Television*	5	112,155	3.97%	8	62,791	2.88%
Telephone**	6	110,180	3.90%	3	181,432	8.32%
Garbage*	7	106,469	3.77%	7	89,389	4.10%
Natural Gas*	8	62,162	2.20%	6	94,369	4.33%
		<u>1,978,298</u>	<u>69.97%</u>		<u>1,515,224</u>	<u>69.47%</u>

* Taxes paid by single utility provider

**Taxes paid by multiple providers

Source: City of Kelso

City of Kelso
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Current Taxes Collected	Collections in Subsequent Years	Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy	Outstanding Delinquent Taxes	Ratio of Delinquent Taxes to Total Tax Levy
2003	1,082,067	1,023,276	94.6%	57,511	1,080,787	99.9%	1,280	0.1%
2004	1,100,591	1,045,442	95.0%	55,142	1,100,584	100.0%	7	0.0%
2005	1,120,558	1,057,770	94.4%	62,788	1,120,558	100.0%	-	0.0%
2006	1,135,972	1,078,134	94.9%	57,360	1,135,494	100.0%	478	0.0%
2007	1,158,144	1,098,560	94.9%	59,584	1,158,144	100.0%	-	0.0%
2008	1,182,285	1,136,819	96.2%	45,163	1,181,982	100.0%	271	0.0%
2009	1,316,848	1,254,188	95.2%	61,440	1,315,628	99.9%	1,220	0.1%
2010	1,309,655	1,242,802	94.9%	50,054	1,292,856	98.7%	16,799	1.3%
2011	1,329,252	1,262,544	95.0%	39,822	1,302,366	98.0%	26,886	2.0%
2012	1,347,579	1,285,794	95.4%	-	1,285,794	95.4%	61,785	4.6%

Basis for property tax rates is per \$1,000 of assessed valuation
Source: Cowlitz County Assessor's Office

City of Kelso
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(amounts expressed in thousands, except per capita amount)

Fiscal Year	Governmental Activities			Business-Type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Miscellaneous Notes	Capital Leases	Water/Sewer Revenue Bonds	Miscellaneous Notes				
2003	3,305	409	-	1,875	3,839		9,428	3.12%	797
2004	3,235	386	-	1,720	3,547		8,888	2.90%	753
2005	3,160	363	-	1,565	3,273		8,361	2.64%	707
2006	3,080	341	-	1,400	2,997		7,818	2.38%	660
2007	3,080	318	-	1,230	2,735		7,363	2.12%	622
2008	2,980	295	-	915	2,524		6,714	1.90%	564
2009	2,875	273	-	840	2,322		6,310	1.73%	533
2010	2,770	250	-	5,235*	2,119		5,139	1.35%	436
2011	2,710	227	-	5,050	1,916		9,903	2.55%	831
2012	2,585	204	-	4,865	1,714		9,368	N/A	N/A

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

N/A - Information not available.

1 Personal income was calculated by multiplying the County's per capita income by the City's population.

2 See the schedule of Demographic and Economic Statistics on page 123 for personal income and population data.

*City issued \$4,475 in revenue bonds in 2010.

City of Kelso
Ratio of General Bonded Debt Outstanding
Last Ten Fiscal Years

Fiscal Year	Assessed Value*₁	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value of Property₂	Per Capita₃
2003	510,829	3,305,000	-	3,305,000	0.62%	279
2004	518,895	3,235,000	-	3,235,000	0.58%	274
2005	561,334	3,160,000	-	3,160,000	0.56%	267
2006	564,395	3,080,000	-	3,080,000	0.49%	260
2007	606,625	3,080,000	-	3,080,000	0.46%	260
2008	648,929	2,980,000	-	2,980,000	0.39%	250
2009	727,939	2,875,000	-	2,875,000	0.37%	243
2010	728,204	2,770,000	-	2,770,000	0.33%	235
2011	753,399	2,710,000	-	2,710,000	0.33%	227
2012	743,257	2,585,000	-	2,585,000	0.33%	217

*Amounts expressed in thousands

₁Cowlitz County Assessor's Office

₂See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property on Page 110 for property value data

₃Population data can be found in the Schedule of Demographic and Economic Statistics on page 125.

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

City of Kelso
Direct and Overlapping Governmental Activities Debt
December 31, 2012

<u>Jurisdiction</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable¹</u>	<u>Estimated Share of Overlapping Debt</u>
Direct:			
City of Kelso	\$ 2,789,487	100%	\$ 2,789,487
Overlapping:			
Cowlitz County	16,887,750	8%	1,351,020
Kelso School District	22,094,465	41%	9,058,731
Port of Longview	13,246,235	10%	1,324,624
Cowlitz Fire District #2	383,559	32%	122,739
Subtotal, overlapping debt	52,612,009		11,857,113
 Total direct and overlapping	 <u>\$ 55,401,496</u>		 <u>\$ 14,646,600</u>

Source: Cowlitz County Assessor's Office

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Kelso. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

¹ The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the jurisdiction's taxable value that is within the City's boundaries and dividing it by the jurisdiction's total taxable assessed value.

City of Kelso
 Legal Debt Margin Information
 Last Ten Fiscal Years
 (amounts expressed in thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt limit	\$ 38,917	\$ 42,100	\$ 42,330	\$ 45,497	\$ 48,670	\$ 54,595	\$ 54,615	\$ 56,505	\$ 55,744	\$ 51,020
Total net debt applicable to limit	3,523	3,221	3,145	3,079	3,079	2,978	1,270	2,046	1,893	1,637
Legal debt margin	\$ 35,394	\$ 38,879	\$ 39,185	\$ 42,418	\$ 45,591	\$ 51,617	\$ 53,345	\$ 54,459	\$ 53,851	\$ 49,383
Total net debt applicable to the limit as a percentage of debt limit	9.05%	7.65%	7.43%	6.77%	6.33%	5.45%	2.33%	3.62%	3.40%	3.21%

Legal Debt Margin Calculation for Fiscal Year 2012

Assessed value	\$ 680,264
Debt limit (7.5% of total assessed value)	51,020
Debt applicable to limit:	
General obligation bonds	2,585
Less: Amount set aside for repayment of general obligation debt	(948)
Total net debt applicable to limit	1,637
Legal debt margin	\$ 49,383

N/A - Information not available.

Note: 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.

**City of Kelso
Pledged-Revenue Coverage
Last Ten Fiscal Years**

Water/Sewer Revenue Bonds						
Fiscal Year	Water/Sewer Revenues¹	Less:	Net	Debt Services		Coverage
		Operating Expenses²	Available Revenue	Principal	Interest	
2003	5,330,468	3,934,700	1,395,768	145,000	90,345	5.93
2004	5,307,950	4,508,903	799,047	155,000	84,367	3.34
2005	5,475,244	4,036,836	1,438,408	155,000	78,946	6.15
2006	5,925,889	4,936,770	989,119	165,000	73,014	4.16
2007	6,576,208	5,205,623	1,370,585	170,000	66,709	5.79
2008	6,701,592	5,101,568	1,600,024	255,000	79,839	4.78
2009	7,124,034	6,102,630	1,021,404	75,000	35,291	9.26
2010	7,256,265	5,871,745	1,384,520	80,000	33,454	12.20
2011	7,569,205	5,664,324	1,904,881	185,000	194,836	5.02
2012	7,584,880	5,740,359	1,844,521	185,000	189,738	4.92

¹Total revenues (including investment earnings) exclusive of capital recovery charges and capital grants.

²Total operating expenses exclusive of depreciation.

³Includes principal and interest of water/sewer revenue bonds only.

**City of Kelso
Demographic and Economic Statistics
Last Ten Fiscal Years**

Fiscal Year	Population ¹	Info available at County level only			School Enrollments ³	Metro/Area Unemployment Rate ⁴
		County Personal Income ²	Per Capita Personal Income ²	County Median Age ¹		
2003	11,830	2,413,754	25,562	37.79	5,274	10.0%
2004	11,800	2,474,470	25,931	38.14	5,205	8.5%
2005	11,820	2,579,236	26,767	38.48	5,245	7.2%
2006	11,840	2,741,307	27,703	38.67	5,174	6.5%
2007	11,840	2,933,223	29,170	38.82	4,921	6.3%
2008	11,900	3,015,993	29,703	38.99	5,089	8.2%
2009	11,840	3,146,526	30,859	39.25	5,022	13.4%
2010	11,780	3,304,488	32,249	40.19	5,034	13.0%
2011	11,920	3,341,482	32,607	40.57	4,970	12.1%
2012	11,930	N/A	N/A	40.74	4,091	10.9%

N/A - information not available.

¹Source: Office of Financial Management

²Source: U.S. Department of Commerce, Bureau of Economic Analysis

³Source: Kelso School District

⁴Source: Bureau of Labor Statistics

**City of Kelso
Principal Employers
Current Year and Nine Years Ago**

Employer	2012			2003		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
St John's Medical Center/Peace Health	1,650	1	4.30%	1,605	2	4.16%
Weyerhaeuser	1,539	2	4.01%	1,330	3	3.45%
Longview Fibre	1,028	3	2.68%	1,702	1	4.42%
Longview School District	735	4	1.92%	850	6	2.20%
Foster Farms	707	5	1.84%	860	5	2.23%
JH Kelly	600	6	1.56%	900	4	2.33%
Cowlitz County	549	7	1.43%	550	9	1.43%
Safeway Grocery	454	8	1.18%	553	8	1.43%
Lower Columbia College	399	9	1.04%	745	7	1.93%
Wal-Mart	380	10	0.99%			
Kelso School District				495	10	1.28%
Total	8,041		20.95%	9,590		24.88%

Note - Principal employer information is available on a county-wide basis only.

Sources: Cowlitz-Wahkiakum Council of Governments, Kelso Longview Chamber of Commerce and Washington State Employment Security Department

City of Kelso
Full-time Equivalent City Government Employees by Function
Last Ten Fiscal Years

Function	2006	2007	2008	2009	2010	2011	2012
General Government							
Community Development	4	5	5.0	5.0	5.0	2.3	3.0
Finance	8	8	8.0	8.0	7.0	7.0	7.0
City Attorney	2	1.5	1.0	1.0	1.0	0.3	0.3
Admin.	2	1.5	1.9	2.0	2.0	1.8	1.7
Engineering	7	6	8.0	6.9	6.1	6.1	6.1
Public Safety							
Police							
Officers	29	28	31.4	29.8	27.0	27.0	24.3
Civilians	4	4	3.4	3.4	3.4	3.4	3.4
Highways & Streets							
Maintenance	2	2	2.5	1.4	1.0	0.0	0.0
Traffic	2	2	2.4	2.5	1.5	1.3	1.3
Culture and recreation	8	7	8.9	7.1	6.0	6.0	6.0
Water	8	7	8.1	8.7	7.5	7.5	7.5
Sewer	6	6	5.4	6.7	5.5	5.5	5.5
Drainage	2	2	2.2	3.0	3.0	3.0	3.0
Total	84	80	88.2	85.6	76.0	71.1	69.1

Source: City Payroll Department

The City converted to GASB 44 in 2006, historical data prior to 2006 is not available.

City of Kelso
Operating Indicators by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police										
Physical arrests	1,525	1,309	1,549	2,026	1,824	1,586	1,668	1,608	1,435	1,309
Traffic violations	1,119	1,003	1,033	1,211	1,135	1,276	1,176	2,477	2,471	1,310
Fire (contracted with Cowlitz 2 Fire and Rescue)										
Number of calls answered	4,426	4,250	4,627	4,911	4,996	4,607	3,981	3,743	3,974	4,180
Highways and streets										
Street resurfacing (linear feet)	3,629	-	10,439	17,536	6,600	5,647	5,150	35,957	21,056	6,300
Sanitation (contracted with Waste Control Equipment Inc.)										
Residential refuse collected (tons monthly average)	550	569	567	533	573	562	519	495	507	524
Residential recyclables collected (tons monthly average)	48	48	51	52	52	49	50	51	46	50
Water										
Number of service connections	4,575	4,606	4,640	4,660	4,704	4,716	4,725	4,758	4,775	4,782
Water main breaks	29	16	19	11	3	11	6	11	9	5
Average daily consumption (millions of gallons)	2.5	2.4	2.3	2.4	2.2	2.3	2.3	2.2	2.2	2.0
Sewer										
Number of service connections	3,868	3,906	3,930	3,954	3,961	3,970	3,938	3,943	3,931	3,924
Average daily sewage treatment (millions of gallons)	2.4	2.3	2.8	3.0	2.6	2.6	2.4	2.6	2.7	2.9

Sources: Various City departments.

City of Kelso
Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	8	8	8	8	8	8	8	8	8	9
Highways and streets										
Street (miles)	64	64	64	64	64	64	64	64	64	64
Streetlights	300	300	300	300	300	380	380	432	432	432
Traffic signals	12	12	12	12	12	12	12	13	13	13
Culture and recreation										
Libraries	1	1	1	1	1	1	1	1	1	1
Park acreage	46	46	50	50	50	50	50	50	50	50
Swimming pools	1	1	-	-	-	-	-	-	-	-
Water										
Water mains (miles)	72.39	72.39	72.71	72.99	73.00	73.00	73.00	73.00	73.00	73.56
Fire hydrants	602	603	604	605	605	550	550	550	554	554
Maximum daily capacity (millions of gallons)	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60
Sewer										
Sanitary sewers (miles)	54.93	54.93	54.99	55.06	52.00	52.00	52.00	56.00	56.00	56.52
Storm sewers (miles)	55	55	55	55	55	55	55	55	55	34
Maximum daily treatment capacity (millions of gallons)	26	26	26	26	26	26	26	26	26	26

Sources: Various City departments.