

City of Kelso, Washington Comprehensive Annual Financial Report



*FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2016*

City of Kelso, Washington

Comprehensive Annual Financial Report



For the fiscal year ended December 31, 2016

Prepared by the Finance Department

Brian Butterfield
Finance Director

Accounting Staff
Patty Murray
Lisa Wetle
Sharry Hilton

City of Kelso
Comprehensive Annual Financial Report
For the Fiscal Year Ended December 31, 2016

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INTRODUCTORY SECTION

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Finance / Utility Department

203 S. Pacific Avenue, PO Box 819 Kelso, WA 98626

Phone: 360-423-0900 FAX: 360-425-9807



June 15, 2017

To the Honorable David Fatcher, 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, 2016.

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, 2016, 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

unmodified opinion that the City of Kelso's financial statements for the fiscal year ended December 31, 2016, 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 11,970.

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.), 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 102.

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; Sportsman's Warehouse, and J.C. Penney. Additional employment is provided by regional employers such as KapStone Paper and Packaging Corp. (formerly Longview Fibre Company), PeaceHealth/St. John Hospital, and Weyerhaeuser Company which are located in neighboring Longview, Washington and in Cowlitz County, 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 2016 was 7.4 percent compared with state and national rates of 5.4 percent and 4.9 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, 2015. This was the twelfth 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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Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Kelso
Washington**

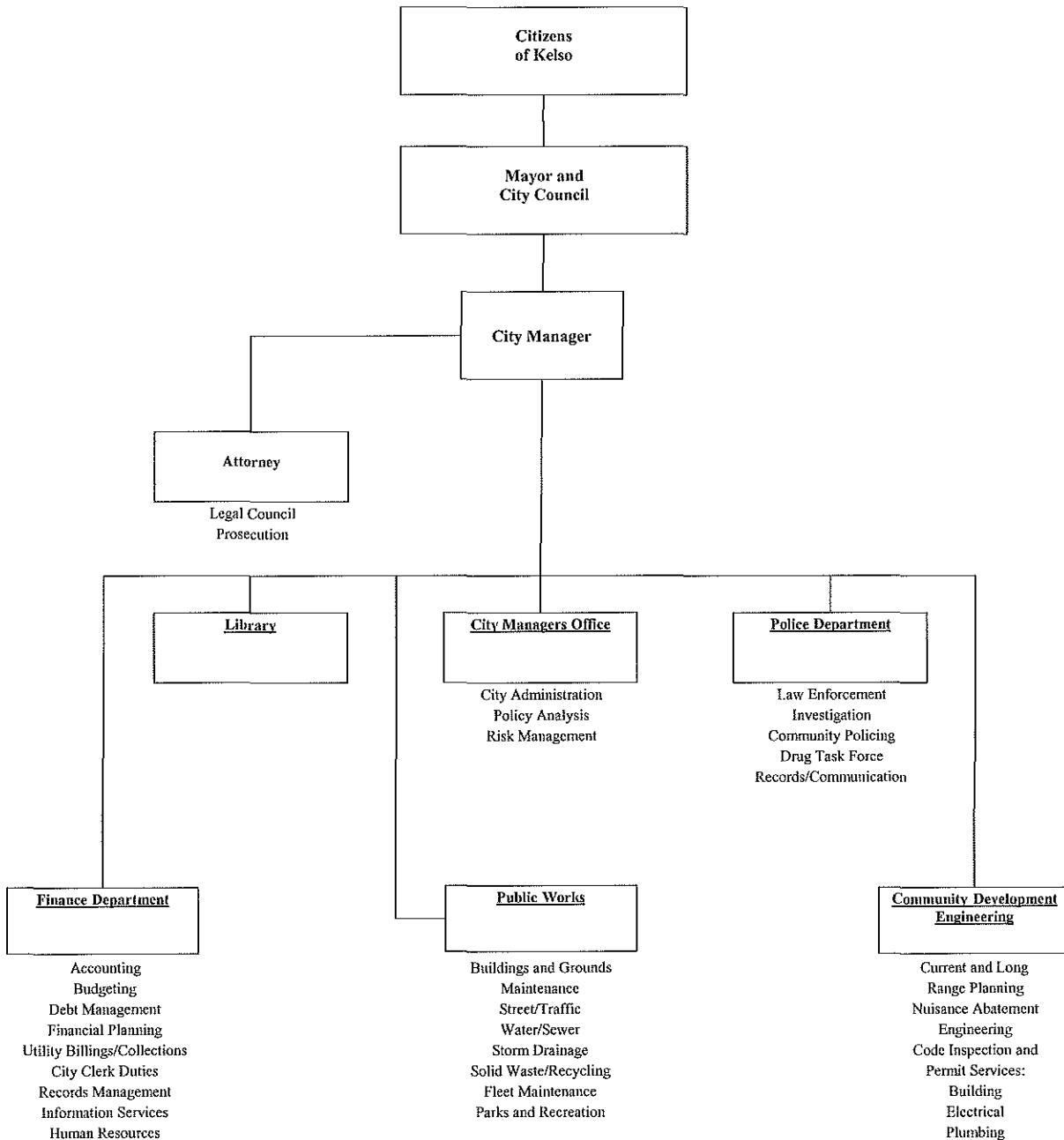
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2015



Executive Director/CEO

City Of Kelso Organizational Chart



City of Kelso

Directory of Officials

December 31, 2016

Elected Officials

Mayor

David Futcher

Council Members

Todd McDaniel
Rick Roberson
Kimberly Lefebvre
Larry Alexander
Jim Hill
Nancy Malone

Appointed Officials

City Manager

Stephen Taylor

City Attorney

Janean Parker

Clerk / Finance Director

Brian Butterfield

Public Works Superintendant

Randy Johnson

Police Chief

Andy Hamilton

Community Development Director/
City Engineer

Michael Kardas

FINANCIAL SECTION

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

June 15, 2017

Mayor and City Council
City of Kelso
Kelso, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Kelso, Cowlitz County, Washington, as of and for the year ended December 31, 2016, 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and Arterial Street funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 27, information on postemployment benefits other than pensions on page 89 and pension plan information on pages 90 through 96 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying information listed as combining financial statements and supplementary information on pages 98 through 117 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 15, 2017, 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 black ink, reading "Pat McCarthy". The signature is written in a cursive style with a large, stylized "P" and "M".

Pat McCarthy

State Auditor

Olympia, WA

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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, 2016. We encourage readers to consider the information presented in conjunction with additional information that we have furnished in our letter of transmittal. All amounts reported in the MD&A, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets and deferred outflows of resources of the City of Kelso exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$95,007 (net position). Capital assets, net of depreciation and related debt, account for \$79,322 or 83.5% of total net position. \$14,122 or 14.9% 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 \$3,428 during 2016.
- As of the close of the current fiscal year, the City of Kelso's governmental funds reported combined ending fund balances of \$11,854, an increase of \$3,707 in comparison with the prior year. Approximately 67% of this amount, \$7,938, is available for spending at the government's discretion (unrestricted fund balance).
- At the end of the current fiscal year, unrestricted fund balance (the total of the committed, assigned, and unassigned components of fund balance) for the general fund was \$5,562, or 55% of total general fund expenditures.
- The City of Kelso's total debt (exclusive of compensated absences, bond discounts/premiums, and pension obligations) increased by \$2,695 during the current fiscal year.

Overview of the Financial Statements

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

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

The *statement of net position* presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

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

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Kelso, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

The City of Kelso maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheets and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the arterial street fund, which are considered to be major funds. Data from the other nine governmental funds are combined into a single, aggregated presentation.

Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

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

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

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

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

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. In the case of the City of Kelso, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$95,007 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, 2016 with comparable data provided for the previous year.

City of Kelso's Net Position

	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$13,964	\$11,107	\$ 11,475	\$ 9,906	\$ 25,439	\$ 21,013
Capital assets (net)	<u>59,405</u>	<u>58,586</u>	<u>27,331</u>	<u>26,469</u>	<u>86,736</u>	<u>85,055</u>
Total assets	<u>73,369</u>	<u>69,693</u>	<u>38,806</u>	<u>36,375</u>	<u>112,175</u>	<u>106,068</u>
Total deferred outflows of resources	<u>641</u>	<u>318</u>	<u>180</u>	<u>106</u>	<u>821</u>	<u>424</u>
Long-term liabilities outstanding	9,560	5,727	6,133	6,383	15,693	12,110
Other liabilities	<u>806</u>	<u>952</u>	<u>1,377</u>	<u>1,029</u>	<u>2,183</u>	<u>1,981</u>
Total liabilities	<u>10,366</u>	<u>6,679</u>	<u>7,510</u>	<u>7,412</u>	<u>17,876</u>	<u>14,091</u>
Total deferred inflows of resources	<u>78</u>	<u>533</u>	<u>35</u>	<u>155</u>	<u>113</u>	<u>688</u>
Net position:						
Net investment in capital assets	56,985	56,455	22,337	21,087	79,322	77,542
Restricted	1,085	1,664	478	603	1,563	2,267
Unrestricted	<u>5,496</u>	<u>4,680</u>	<u>8,626</u>	<u>7,224</u>	<u>14,122</u>	<u>11,904</u>
Total net position	<u>\$63,566</u>	<u>\$62,799</u>	<u>\$31,441</u>	<u>\$28,914</u>	<u>\$95,007</u>	<u>\$91,713</u>

By far the largest portion of the City's net position (83.5 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Kelso's net position (1.6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$14,122 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 \$768 in 2016. Revenues increased by \$2,061 and expenditures increased by \$1,433 in 2016. Key elements for these changes are as follows:

- Actual sales tax collections were \$628 over budgeted amounts.
- Received one-time revenues of \$570 for wetlands the City previously donated to a Wetland Mitigation Bank.

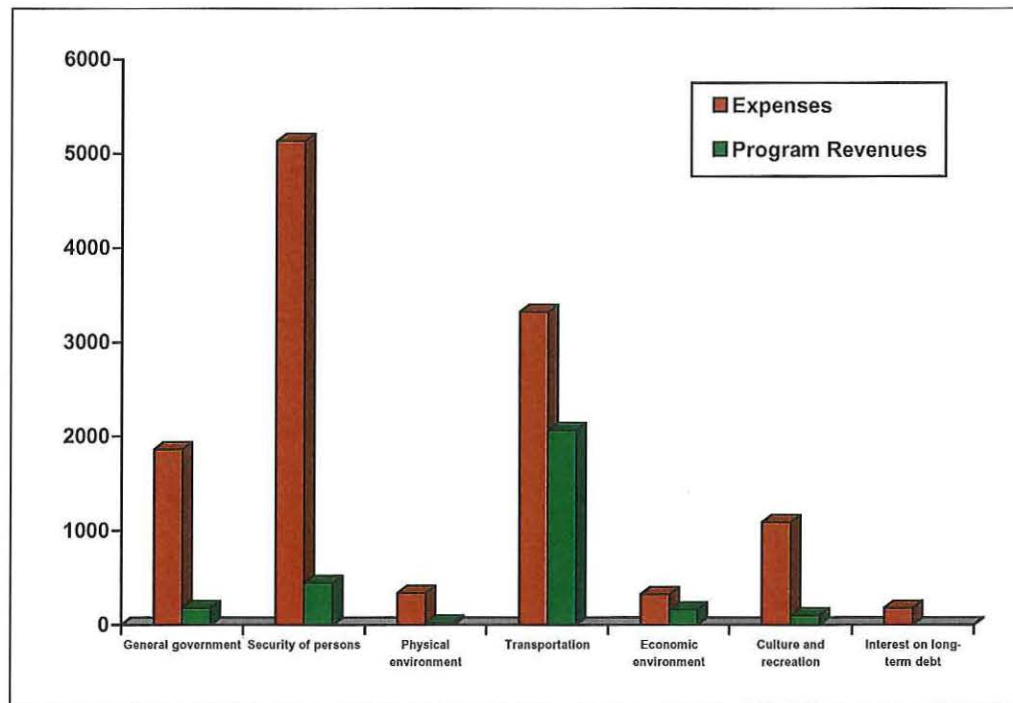
- Grant revenues related to capital expenditures increased by approximately \$800.
- The City passed thru approximately \$800 of grant revenues to the Southwest Washington Regional Airport.
- Staffing increased by 3.5 FTE's in 2016.

City of Kelso's Changes in Net Position

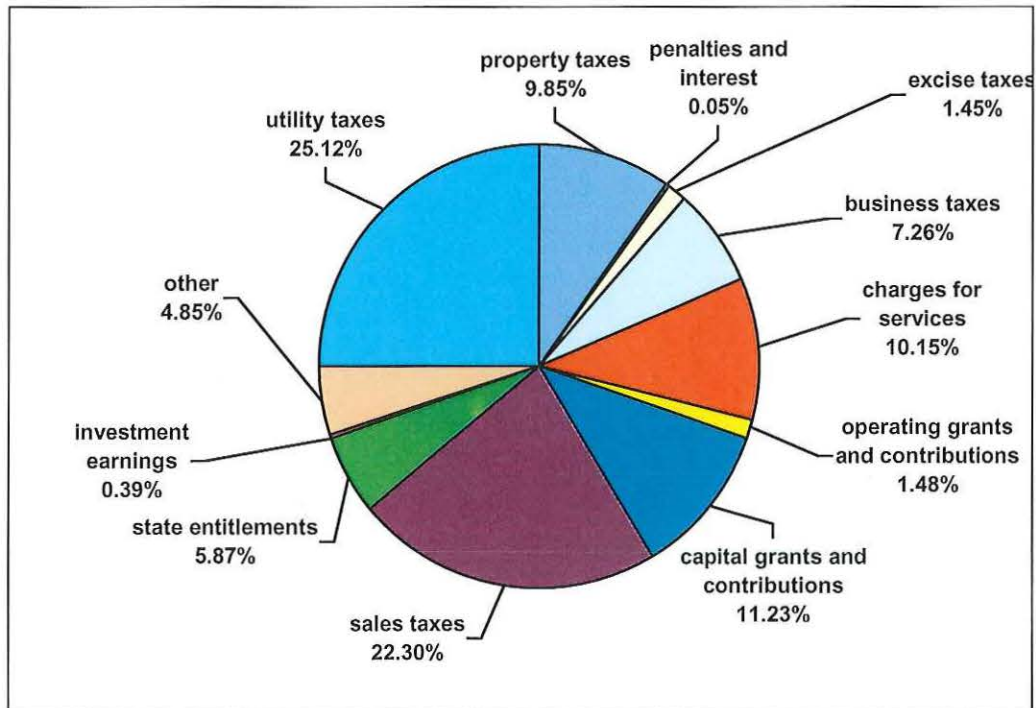
	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$1,320	\$1,257	\$11,314	\$11,009	\$12,634	\$12,266
Operating grants and contributions	192	317	25	7	217	324
Capital grants and contributions	1,460	663	1,144	-	2,604	663
General revenues:						
Property taxes	1,280	1,243	-	-	1,280	1,243
Sales and use taxes	2,899	2,546	-	-	2,899	2,546
Utility taxes	3,265	3,099	-	-	3,265	3,099
Business taxes	944	875	-	-	944	875
Excise taxes	188	157	-	-	188	157
Penalties and interest	6	4	-	-	6	4
State entitlements	763	653	-	-	763	653
Investment earnings	51	55	23	18	74	73
Miscellaneous	631	-	1	-	632	-
Gain/(loss) on sale of capital assets	-	69	-	4	-	73
Total revenues	<u>12,999</u>	<u>10,938</u>	<u>12,507</u>	<u>11,038</u>	<u>25,506</u>	<u>21,976</u>
Expenses:						
General government	1,863	1,714	-	-	1,863	1,714
Security of persons and property	5,134	4,608	-	-	5,134	4,608
Physical environment	338	249	-	-	338	249
Transportation	3,322	2,654	-	-	3,322	2,654
Economic environment	325	374	-	-	325	374
Culture and recreation	1,087	1,107	-	-	1,087	1,107
Interest on long-term debt	179	109	-	-	179	109
Water/Sewer	-	-	7,672	7,645	7,672	7,645
Storm water	-	-	609	715	609	715
Solid waste	-	-	1,549	1,481	1,549	1,481
Total expenses	<u>12,248</u>	<u>10,815</u>	<u>9,830</u>	<u>9,841</u>	<u>22,078</u>	<u>20,656</u>
Change in net position before transfers	751	123	2,677	1,197	3,428	1,320
Transfers	17	-	(17)	-	-	-
Change in net position	768	123	2,660	1,197	3,428	1,320
Net position – beginning, restated*	<u>62,798</u>	<u>62,675</u>	<u>28,781</u>	<u>27,717</u>	<u>91,579</u>	<u>90,392</u>
Net position – ending	<u>\$ 63,566</u>	<u>\$62,798</u>	<u>\$31,441</u>	<u>\$28,914</u>	<u>\$95,007</u>	<u>\$91,712</u>

*Restated for 2015, see note V.H.

Expenses and Program Revenues – Governmental Activities

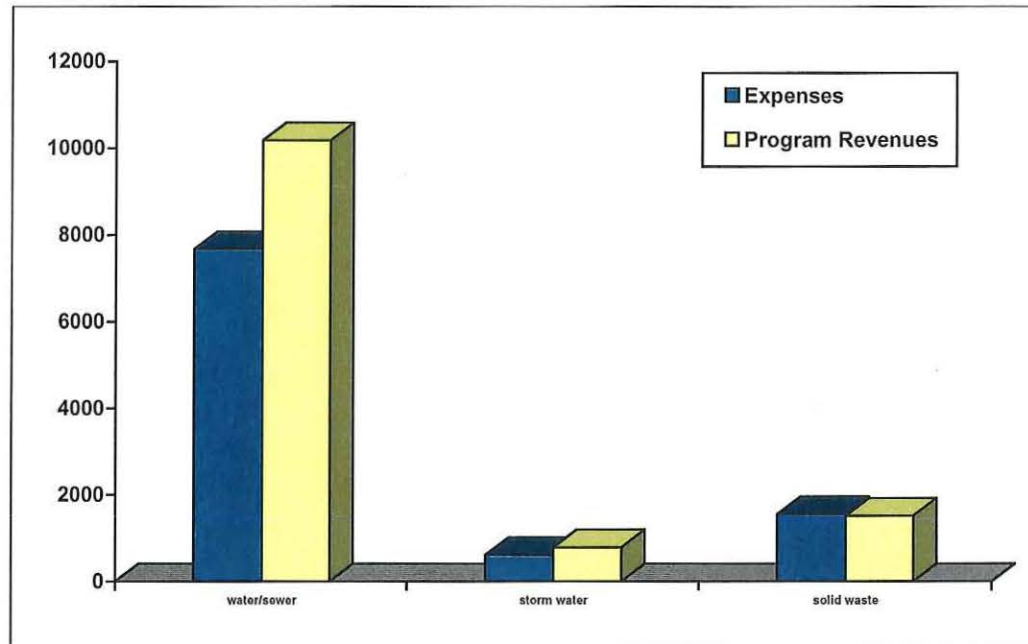


Revenues by Source - Governmental Activities

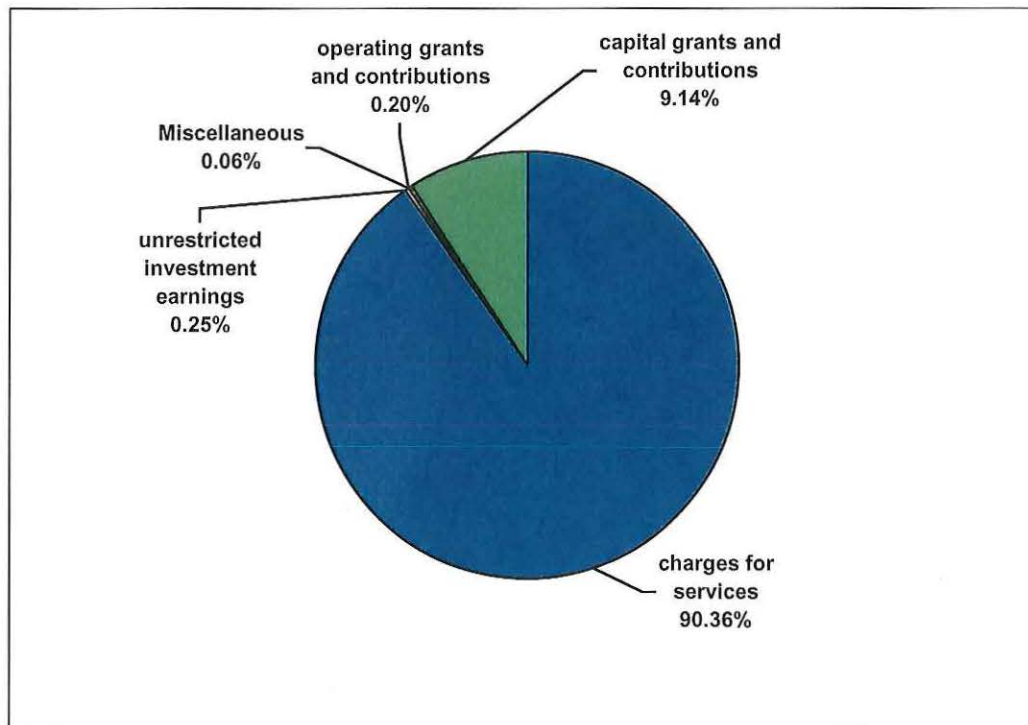


Business-type activities. Business-type activities increased the City of Kelso's net position by \$2,660. Business-type activity revenues increased by \$1,469 in 2016, while expenditures remained relatively flat. Operating revenues exceeded operating expenses in 2016 by \$1,483 in the water/sewer fund.

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's water department received \$1,144 in grant revenues for work started on a reservoir and water main replacement project expected to be completed in 2017.
- The City increased the water and sewer rates by 2% and 3%, respectively, in 2016.
- The City increased the garbage collection rates by 5% in 2016.
- Payments made to the regional sewage treatment plant increased by \$107 in 2016. (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 discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City of Kelso, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City Council.

As of the end of the current fiscal year, the City of Kelso's governmental funds reported combined ending fund balances of \$11,854 an increase of \$3,707 in comparison with the prior year. Approximately 67% of ending fund balance (\$7,938) constitutes unrestricted fund balance (unassigned, assigned, and committed), which is available for spending at the City's discretion. The remainder of fund balance is restricted to indicate that it is not available for new spending because it is restricted 1) to pay for housing rehabilitation (\$668), 2) to pay for low income housing (\$60), 3) to pay for street maintenance & construction (\$2,916), 4) for a variety of other restricted purposes (\$272)

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

The general fund is the chief operating fund of the City of Kelso. At the end of the current fiscal year, total fund balance of the general fund was \$5,680. All but \$395 of this fund balance is unassigned. \$60 is restricted for low income housing, \$38 is restricted for the maintenance of City streets, and \$277 has been assigned by the City for maintenance of City owned bridges. Unassigned fund balance represents 53.7 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 \$782 during the current fiscal year.

The arterial street fund accounts for the receipt and expenditure of various grants, road maintenance fees, as well as transfers from the other funds. Revenues are designated for construction, improvement, chip sealing, seal coating, and repair of streets or for payment of related municipal indebtedness. In 2016, the arterial street fund expended in excess of \$2.7 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 \$7,270, and for the solid waste fund amounted to \$275. The total net position for the water/sewer fund increased by \$2,477 and the total net position for the solid waste fund decreased by \$35. Factors concerning the finances of these two funds have already been addressed in the discussion of the City of Kelso's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget amounted to a \$1,310 increase in appropriations.

At the end of the year, operating revenues exceeded budgetary estimates by \$1,135. Operating expenditures and transfers were \$10 less than budgetary estimates.

Some of the factors that contributed to the revenue surplus are as follows:

- Sales tax came in \$628 above budgeted amount due to increased economic activity and certain one-time amounts related to work being done by a private entity within Kelso's city limits
- State and federal grants exceeded budgeted amounts by \$225

Some of the factors that contributed to the variance in budgeted vs. actual expenditures can be attributed to the following:

- Grant expenditures related to airport improvements exceeded budgeted amounts by \$225
- Newly budgeted full-time positions went unfilled until late in the year

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, 2016 amounts to \$79,322 (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 2016, the City of Kelso substantially completed the West Main Revitalization Project improving approximately 850 feet of West Main Street in Kelso. The improvements included new sidewalks, enhanced decorative crosswalks, new pavement, new decorative street lighting, and water quality facilities for treating storm water. The street is the remaining portion of West Main between 3rd Avenue and Cowlitz Way. It is contiguous to the new construction and will further contribute to the revitalization of the West Kelso commercial area. These project improvements have created an enhanced environment for existing retail, professional and service businesses in the West Kelso area. The project was funded primarily through federal and county grants, the Kelso Transportation Benefit District, State shared revenues, and a small percentage being funded by the City. The total cost of this project through December 31, 2016 was \$1,405.

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

	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$23,022	\$22,931	\$ 29	\$ 29	\$23,051	\$22,960
Buildings and structures	6,984	7,263	8,028	8,247	15,012	15,510
Improvements other than buildings	2,542	2,748	16,694	15,714	19,236	18,462
Machinery and equipment	599	640	735	819	1,334	1,459
Infrastructure	22,918	23,824	-	-	22,918	23,824
Construction in progress	<u>3,340</u>	<u>1,180</u>	<u>1,845</u>	<u>1,660</u>	<u>5,185</u>	<u>2,840</u>
Total	<u>\$59,405</u>	<u>\$58,586</u>	<u>\$27,331</u>	<u>\$26,469</u>	<u>\$86,736</u>	<u>\$85,055</u>

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

Long-term debt. At the end of the current fiscal year, the City of Kelso had total bonded G.O. debt outstanding of \$5,070. 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	
	2016	2015	2016	2015	2016	2015
General obligation bonds	\$5,070*	\$2,175	\$-	\$-	\$5,070	\$2,175
Revenue bonds	-	-	<u>4,085</u>	<u>4,285</u>	<u>4,085</u>	<u>4,285</u>
Total	<u>\$5,070</u>	<u>\$2,175</u>	<u>\$4,085</u>	<u>\$4,285</u>	<u>\$9,155</u>	<u>\$6,460</u>

*In 2016 the City issued \$3.2 million in General Obligation Bonds for roadway repairs and reconstruction.

The City of Kelso's total bonded debt increased by \$2,695 during the current fiscal year.

In addition to the bonded debt mentioned above, the City has two Drinking Water State Revolving Fund loans outstanding at year end. The total amount outstanding at year end for these loans is \$909.

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 2016 was 7.4 percent, which is a decrease from a rate of 7.6 percent in 2015. This compares unfavorably to the State's average unemployment rate of 5.4 percent and the national average rate of 4.9 percent.
- In 2016, the City experienced an upturn in economic activity which has manifested itself with increased sales taxes. In addition, for the 2017/2018 biennium, the City increased utility taxes on water, sewer, and garbage by 2%.
- The City's ability to raise property taxes has been limited by Initiative 747. I-747 is a voter approved initiative that reduces the allowable property tax growth limit to the lower of 1 percent or the Implicit Price Deflator.

All of these factors were considered in preparing the City of Kelso's budget for the 2017 fiscal year.

At the end of the current fiscal year the unassigned fund balance in the general fund is \$5,285. In 2017, the City anticipates spending down \$221 of this unassigned fund balance. Most of the anticipated deficit stems from conservative revenue projections.

In 2017, water and sewer non-industrial rates will be increased by 2%. Garbage and drainage will be increased by 4%. These rate increases are necessary to keep pace with inflation and for future capital upgrades.

Requests for Information

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

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BASIC FINANCIAL STATEMENTS

City of Kelso
Statement of Net Position
December 31, 2016

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash & cash equivalents	\$ 5,757,138	\$ 6,986,361	\$ 12,743,499
Investments	1,784,603	795,102	2,579,705
Receivables (net of allowance for uncollectible):	1,953,910	2,837,019	4,790,929
Net pension asset	879,325	-	879,325
Long-term notes receivable	505,745	-	505,745
Restricted assets	3,082,863	856,774	3,939,637
Capital assets net of accumulated depreciation:			
Land	23,021,844	28,712	23,050,556
Buildings	6,984,345	8,027,708	15,012,053
Improvements other than buildings	2,542,351	16,694,322	19,236,673
Machinery and equipment	598,495	735,401	1,333,896
Infrastructure	22,918,367	-	22,918,367
Construction in progress	3,339,862	1,844,641	5,184,503
Total assets	<u>73,368,848</u>	<u>38,806,040</u>	<u>112,174,888</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	39,854	-	39,854
Deferred outflows related to pensions	601,640	179,635	781,275
Total deferred outflows of assets	<u>641,494</u>	<u>179,635</u>	<u>821,129</u>
LIABILITIES			
Accounts payable and other current liabilities	659,197	981,220	1,640,417
Interest payable	13,873	17,228	31,101
Unearned revenue	133,365	-	133,365
Liabilities payable from restricted assets	-	378,264	378,264
Long-term liabilities:			
Due within one year	366,568	416,699	783,267
Due in more than one year	5,427,019	4,674,278	10,101,297
Net pension liability	1,591,392	1,041,917	2,633,309
Net OPEB liability	2,175,092	-	2,175,092
Total liabilities	<u>10,366,506</u>	<u>7,509,606</u>	<u>17,876,112</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	77,802	35,011	112,813
Total deferred inflows of assets	<u>77,802</u>	<u>35,011</u>	<u>112,813</u>
NET POSITION			
Net investment in capital assets	56,985,103	22,336,575	79,321,678
Restricted for:			
Debt service	-	478,510	478,510
Capital projects	130,671	-	130,671
Promotion of tourism	120,662	-	120,662
Paths and trails	488	-	488
Street maintenance/construction	50,457	-	50,457
Criminal Justice	4,598	-	4,598
Affordable housing	59,967	-	59,967
Housing/neighborhood rehabilitation	703,959	-	703,959
Public education	14,486	-	14,486
Unrestricted	5,495,643	8,625,973	14,121,616
Total net position	<u>\$ 63,566,034</u>	<u>\$ 31,441,058</u>	<u>\$ 95,007,092</u>

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

CITY OF KELSO
Statement of Activities
For the Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues			Net (expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 1,863,373	\$ 130,298	\$ 47,550	\$ -	\$ (1,685,525)	\$ -	\$ (1,685,525)
Security of persons and property	5,133,583	305,982	136,423	-	(4,691,178)	-	(4,691,178)
Physical environment	337,638	26,098	-	-	(311,540)	-	(311,540)
Transportation	3,322,399	598,568	8,100	1,459,732	(1,255,999)	-	(1,255,999)
Economic environment	325,027	159,528	-	-	(165,499)	-	(165,499)
Culture and recreation	1,087,149	99,521	-	-	(987,628)	-	(987,628)
Interest on long-term debt	178,833	-	-	-	(178,833)	-	(178,833)
Total governmental activities	12,248,002	1,319,995	192,073	1,459,732	(9,276,202)	-	(9,276,202)
Business-type activities:							
Water/Sewer	7,671,990	9,035,066	-	1,144,536	-	2,507,612	2,507,612
Solid waste	1,549,545	1,517,090	-	-	-	(32,455)	(32,455)
Storm water	608,796	761,726	25,000	-	-	177,930	177,930
Total business-type activities	9,830,331	11,313,882	25,000	1,144,536	-	2,653,087	2,653,087
Total primary government	\$ 22,078,333	\$ 12,633,877	\$ 217,073	\$ 2,604,268	\$ (9,276,202)	\$ 2,653,087	\$ (6,623,115)
General Revenues:							
Property taxes					1,279,865	-	1,279,865
Sales taxes					2,899,330	-	2,899,330
Utility taxes					3,265,359	-	3,265,359
Business taxes					943,587	-	943,587
Excise taxes					188,393	-	188,393
Penalties & interest					5,873	-	5,873
State entitlements (unrestricted)					763,276	-	763,276
Investment earnings					50,775	23,259	74,034
Miscellaneous					630,469	1,055	631,524
Transfers					16,873	(16,873)	-
Total general revenues					10,043,800	7,441	10,051,241
Change in net position					767,598	2,660,528	3,428,126
Net position - beginning, restated (see note V.H.)					62,798,436	28,780,530	91,578,966
Net position - ending					\$ 63,566,034	\$ 31,441,058	\$ 95,007,092

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

City of Kelso
Balance Sheet
Governmental Funds
December 31, 2016

	General Fund	Arterial Street Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash & cash equivalents	\$ 3,300,393	\$ 250,201	\$ 1,895,613	\$ 5,446,207
Investments	1,001,248	-	783,355	1,784,603
Receivables (net):				
Taxes	1,586,526	-	7,921	1,594,447
Accounts	110,937	-	5,758	116,695
Assessments	-	14,836	-	14,836
Due from other funds	-	-	141,795	141,795
Due from other governments	197,748	21,356	8,828	227,932
Advances to other funds	-	-	288,713	288,713
Long-term notes receivable	-	-	505,745	505,745
Cash & cash equivalents - restricted	-	3,082,863	-	3,082,863
Total assets	<u>\$ 6,196,852</u>	<u>\$ 3,369,256</u>	<u>\$ 3,637,728</u>	<u>\$ 13,203,836</u>
LIABILITIES				
Accounts payable	334,079	289,232	35,886	659,197
Due to other funds	-	141,795	-	141,795
Advances from other funds	-	288,713	-	288,713
Unearned revenue	56,000	14,836	62,529	133,365
Total liabilities	<u>390,079</u>	<u>734,576</u>	<u>98,415</u>	<u>1,223,070</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue-property tax	34,963	-	-	34,963
Unavailable revenue-municipal court	91,914	-	-	91,914
Total deferred inflows of resources	<u>126,877</u>	<u>-</u>	<u>-</u>	<u>126,877</u>
FUND BALANCES (DEFICITS)				
Restricted for:				
Paths and trails	-	-	488	488
Promotion of tourism	-	-	120,662	120,662
Housing/neighborhood rehabilitation	-	-	668,959	668,959
Low income housing	59,967	-	-	59,967
Criminal justice	4,598	-	-	4,598
Street maintenance/construction	38,478	2,865,517	11,979	2,915,974
Capital projects	-	-	130,671	130,671
Public education	14,486	-	-	14,486
Assigned to:				
Debt service	-	-	2,167,571	2,167,571
Bridge maintenance	277,366	-	-	277,366
Recreation	-	-	4,443	4,443
Neighborhood rehabilitation	-	-	385,770	385,770
Criminal justice	-	-	48,770	48,770
Unassigned	5,285,001	(230,837)	-	5,054,164
Total fund balances	<u>5,679,896</u>	<u>2,634,680</u>	<u>3,539,313</u>	<u>11,853,889</u>
Total liabilities, deferred inflows of resources and fund balances (deficits)	<u>\$ 6,196,852</u>	<u>\$ 3,369,256</u>	<u>\$ 3,637,728</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	59,011,728
Other assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	126,877
Net Pension and Net OPEB Assets or Obligations are not considered to represent a financial resource or liability and, therefore, are not reported in the funds.	(2,363,321)
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.	704,467
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the fund	(5,767,606)
Net position of governmental activities	<u>\$ 63,566,034</u>

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

City of Kelso
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2016

	General Fund	Arterial Street Fund	Other Governmental Funds	Total
Revenues				
Taxes	\$ 8,119,624	\$ 193,049	\$ 342,582	\$ 8,655,255
Licenses and permits	173,840	-	-	173,840
Intergovernmental	1,680,146	895,767	163,531	2,739,444
Charges for services	971,209	160,230	179,407	1,310,846
Fines	98,085	-	-	98,085
Investment earnings	38,795	8,051	6,449	53,295
Contributions	10,000	54,640	-	64,640
Rental/lease income	101,036	-	10,920	111,956
Miscellaneous	65,213	1,951	587,367	654,531
Total revenues	<u>11,257,948</u>	<u>1,313,688</u>	<u>1,290,256</u>	<u>13,861,892</u>
Expenditures				
Current:				
General government	2,110,382	-	-	2,110,382
Security of persons and property	4,571,059	-	237,420	4,808,479
Physical environment	602,223	-	-	602,223
Transportation	1,587,722	843	-	1,588,565
Economic environment	243,544	-	73,308	316,852
Culture and recreation	731,452	-	153,104	884,556
Debt service:				
Principal	-	-	305,000	305,000
Interest and bond issuance costs	-	60,600	124,494	185,094
Capital outlay:				
General government	94,208	-	-	94,208
Transportation	24,906	2,707,433	-	2,732,339
Culture and recreation	99,072	-	-	99,072
Total expenditures	<u>10,064,568</u>	<u>2,768,876</u>	<u>893,326</u>	<u>13,726,770</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,193,380</u>	<u>(1,455,188)</u>	<u>396,930</u>	<u>135,122</u>
Other financing sources (uses)				
Proceeds from general obligation bonds	-	3,200,000	-	3,200,000
Proceeds from bond premium	-	355,067	-	355,067
Transfers in	91,803	963,000	462,245	1,517,048
Transfers out	(503,245)	-	(996,930)	(1,500,175)
Total other financing sources (uses)	<u>(411,442)</u>	<u>4,518,067</u>	<u>(534,685)</u>	<u>3,571,940</u>
Net change in fund balances	781,938	3,062,879	(137,755)	3,707,062
Fund balances - beginning	4,897,958	(428,199)	3,677,068	8,146,827
Fund balances - ending	<u>\$ 5,679,896</u>	<u>\$ 2,634,680</u>	<u>\$ 3,539,313</u>	<u>\$ 11,853,889</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, 2016

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

Net change in fund balances - total governmental funds (page 33)	\$ 3,707,062
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	885,082
The net effect of various miscellaneous transactions involving capital assets is to decrease net assets.	(12,809)
The net effect of funding the City's annual required contribution to the State Pension Fund.	136,148
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.	(286,003)
Some revenues reported in the governmental funds have already been reported in the statement of activities in prior years.	(86,960)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(279,644)
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.	(3,250,067)
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.	(24,962)
Some expenses reported in the governmental funds have already been reported in the statement of activities in prior years.	(8,171)
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.	(12,078)
Change in net position of governmental activities (page 31)	<u>\$ 767,598</u>

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

City of Kelso
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>With Final Budget</u>
Revenues				
Taxes	\$ 6,182,941	\$ 6,313,941	\$ 6,871,900	\$ 557,959
Licenses and permits	195,200	195,200	173,840	(21,360)
Intergovernmental	434,500	1,055,050	1,413,185	358,135
Charges for services	687,171	687,171	939,720	252,549
Fines	130,500	130,500	93,894	(36,606)
Investment earnings	8,400	8,400	37,696	29,296
Other miscellaneous	14,500	14,500	10,375	(4,125)
Total revenues	<u>7,653,212</u>	<u>8,404,762</u>	<u>9,540,610</u>	<u>1,135,848</u>
Expenditures				
General government:				
Council	85,947	160,349	146,827	13,522
Municipal court	247,300	249,000	228,733	20,267
Manager	237,948	263,750	229,941	33,809
Finance	604,600	669,500	620,783	48,717
Attorney	128,317	131,250	124,001	7,249
Other - unclassified	690,150	791,150	760,097	31,053
Total general government	<u>1,994,262</u>	<u>2,264,999</u>	<u>2,110,382</u>	<u>154,617</u>
Security of persons and property:				
Police	3,857,070	3,981,070	4,016,542	(35,472)
Jail	301,500	301,500	285,010	16,490
Fire	172,000	172,000	170,952	1,048
Other	88,300	88,300	98,555	(10,255)
Total security of persons and property	<u>4,418,870</u>	<u>4,542,870</u>	<u>4,571,059</u>	<u>(28,189)</u>
Physical environment	<u>587,640</u>	<u>602,100</u>	<u>602,223</u>	<u>(123)</u>
Transportation	<u>156,960</u>	<u>752,960</u>	<u>956,756</u>	<u>(203,796)</u>
Economic environment	<u>216,950</u>	<u>315,620</u>	<u>243,544</u>	<u>72,076</u>
Capital outlay	<u>5,000</u>	<u>65,000</u>	<u>94,208</u>	<u>(29,208)</u>
Total expenditures	<u>7,379,682</u>	<u>8,543,549</u>	<u>8,578,172</u>	<u>(34,623)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>273,530</u>	<u>(138,787)</u>	<u>962,438</u>	<u>1,101,225</u>
Other financing sources (uses)				
Transfers in	-	35,000	51,873	16,873
Transfers out	<u>(432,358)</u>	<u>(578,825)</u>	<u>(533,825)</u>	<u>45,000</u>
Total other financing sources (uses)	<u>(432,358)</u>	<u>(543,825)</u>	<u>(481,952)</u>	<u>61,873</u>
Net change in fund balances budgetary basis	<u>(158,828)</u>	<u>(682,612)</u>	<u>480,486</u>	<u>1,163,098</u>
Reconciliation of budgetary/GAAP basis:				
Basis difference (See note III.B.)			<u>301,452</u>	
Net change in fund balance GAAP basis			<u>781,938</u>	
Fund balance - beginning			<u>4,897,958</u>	
Fund balance - ending			<u>\$ 5,679,896</u>	

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

City of Kelso
Arterial Street Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2016

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues				
Taxes	\$ -	\$ -	\$ 193,049	\$ 193,049
Intergovernmental	6,397,000	1,615,000	895,767	(719,233)
Charges for services	160,000	160,000	160,230	230
Investment earnings	100	100	8,051	7,951
Contributions	-	60,000	54,640	(5,360)
Miscellaneous	2,000	2,000	1,951	(49)
Total revenues	<u>6,559,100</u>	<u>1,837,100</u>	<u>1,313,688</u>	<u>(523,412)</u>
Expenditures				
Transportation	-	-	843	(843)
Capital outlay	8,355,500	4,920,000	2,707,433	2,212,567
Debt Service:				
Principal	141,672	141,672	-	141,672
Interest and bond issuance costs	8,680	60,830	60,600	230
Total expenditures	<u>8,505,852</u>	<u>5,122,502</u>	<u>2,768,876</u>	<u>2,353,626</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,946,752)</u>	<u>(3,285,402)</u>	<u>(1,455,188)</u>	<u>1,830,214</u>
Other financing sources (uses)				
Proceeds from general obligation bonds	1,410,500	3,200,000	3,200,000	-
Proceeds from bond premium	-	355,067	355,067	-
Transfers in	516,000	1,021,000	963,000	(58,000)
Total other financing sources (uses)	<u>1,926,500</u>	<u>4,576,067</u>	<u>4,518,067</u>	<u>(58,000)</u>
Net change in fund balance	<u>(20,252)</u>	<u>1,290,665</u>	<u>3,062,879</u>	<u>1,772,214</u>
Fund balance - beginning	<u>(428,199)</u>	<u>(428,199)</u>	<u>(428,199)</u>	-
Fund balance - ending	<u>\$ (448,451)</u>	<u>\$ 862,466</u>	<u>\$ 2,634,680</u>	<u>\$ 1,772,214</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, 2016

	Business-type Activities - Enterprise Funds				
	Major Funds		Non-Major Fund		Equipment Reserve Internal Service Fund
	Solid Waste	Water-Sewer	Storm Water	Total	
ASSETS					
Current Assets:					
Cash & cash equivalents	\$ 197,929	\$ 5,660,840	\$ 446,564	\$ 6,305,333	\$ 991,959
Investments	-	795,102	-	795,102	-
Restricted cash, cash equivalents, and investments:					
Customer deposits	-	378,264	-	378,264	-
Accounts receivable	262,952	1,273,819	130,712	1,667,483	-
Due from other governments	-	1,144,536	25,000	1,169,536	-
Total current assets	460,881	9,252,561	602,276	10,315,718	991,959
Noncurrent assets:					
Restricted cash, cash equivalents, and investments:					
Cash - revenue bond covenants	-	93,704	-	93,704	-
Investments - revenue bond covenants	-	384,806	-	384,806	-
Capital Assets:					
Land	-	28,712	-	28,712	-
Buildings and structures	-	10,679,913	-	10,679,913	-
Improvements other than buildings	-	29,399,510	971,075	30,370,585	-
Machinery and equipment	-	3,009,662	43,401	3,053,063	2,957,632
Construction in progress	-	1,827,681	16,960	1,844,641	-
Less accumulated depreciation	-	(18,395,783)	(378,676)	(18,774,459)	(2,435,767)
Total capital assets (net of accumulated depreciation)	-	26,549,695	652,760	27,202,455	521,865
Total noncurrent assets	-	27,028,205	652,760	27,680,965	521,865
Total Assets	460,881	36,280,766	1,255,036	37,996,683	1,513,824
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows related to pensions	-	146,010	33,625	179,635	-
Total Deferred Outflows of Resources	-	146,010	33,625	179,635	-

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

Business-type Activities - Enterprise Funds					
	Major Funds		Non-Major	Total	Internal Service Funds
	Solid Waste	Water- Sewer	Fund Storm Water		
LIABILITIES					
Current Liabilities:					
Accounts payable	185,402	775,028	20,790	981,220	-
Compensated absences	-	20,629	3,563	24,192	-
Customer deposits	-	378,264	-	378,264	-
Accrued interest payable	-	17,228	-	17,228	-
Current revenue bonds payable	-	205,000	-	205,000	-
Current portion notes payable	-	187,507	-	187,507	-
Total current liabilities	<u>185,402</u>	<u>1,583,656</u>	<u>24,353</u>	<u>1,793,411</u>	<u>-</u>
Noncurrent liabilities:					
Compensated absences	-	61,886	10,690	72,576	-
Revenue bonds payable	-	3,880,000	-	3,880,000	-
Notes payable	-	721,702	-	721,702	-
Net pension liability	-	846,883	195,034	1,041,917	-
Total noncurrent liabilities	<u>-</u>	<u>5,510,471</u>	<u>205,724</u>	<u>5,716,195</u>	<u>-</u>
Total Liabilities	<u>185,402</u>	<u>7,094,127</u>	<u>230,077</u>	<u>7,509,606</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows related to pensions	-	28,457	6,554	35,011	-
Total Deferred Inflows of Resources	<u>-</u>	<u>28,457</u>	<u>6,554</u>	<u>35,011</u>	<u>-</u>
NET POSITION					
Net investment in capital assets	-	21,555,486	652,760	22,208,246	521,865
Restricted for debt service	-	478,510	-	478,510	-
Unrestricted	275,479	7,270,196	399,270	7,944,945	991,959
Total net position	<u>\$ 275,479</u>	<u>\$ 29,304,192</u>	<u>\$ 1,052,030</u>	<u>30,631,701</u>	<u>\$ 1,513,824</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:				809,357	
Net position of business-type activities				<u>\$ 31,441,058</u>	

City of Kelso
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2016

	Business-type Activities - Enterprise Funds				
	Major Funds		Non-Major Fund		Equipment Reserve Internal Service Fund
	Solid Waste	Water-Sewer	Storm Water	Total	
Operating revenues:					
Charges for services	\$ 1,516,454	\$ 8,771,049	\$ 725,897	\$ 11,013,400	\$ 273,061
Other operating revenue	636	187,822	31,142	219,600	-
Total operating revenues	1,517,090	8,958,871	757,039	11,233,000	273,061
Operating expenses:					
General operations	830,944	2,516,560	537,204	3,884,708	-
Contracted processing operations	480,160	2,841,870	-	3,322,030	-
Maintenance	8,822	162,698	46,218	217,738	-
Depreciation	-	799,844	32,369	832,213	228,122
Taxes	229,619	1,154,691	10,313	1,394,623	-
Total operating expenses	1,549,545	7,475,663	626,104	9,651,312	228,122
Operating income (loss)	(32,455)	1,483,208	130,935	1,581,688	44,939
Nonoperating revenues (expenses):					
Investment earnings	693	19,256	1,748	21,697	2,371
Intergovernmental	-	-	25,000	25,000	-
Other	-	29,975	1,991	31,966	-
Gain (loss) on capital asset disposition	-	-	-	-	2,777
Interest expense	-	(189,651)	-	(189,651)	-
Total nonoperating revenues (expenses)	693	(140,420)	28,739	(110,988)	5,148
Income (loss) before capital contributions,	(31,762)	1,342,788	159,674	1,470,700	50,087
Capital contributions	-	1,144,536	-	1,144,536	-
Transfers out	(3,366)	(10,139)	(3,368)	(16,873)	-
Change in net position	(35,128)	2,477,185	156,306	2,598,363	50,087
Total net position - beginning, restated (See note V.H.)	310,607	26,827,007	895,724		1,463,737
Total net position - ending	\$ 275,479	\$ 29,304,192	\$ 1,052,030		\$ 1,513,824
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:				62,165	
Change in net position of business-type activities				\$ 2,660,528	

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, 2016

	Business-type Activities - Enterprise Funds				
	Major Funds		Non-Major Fund		Equipment Reserve Internal Service Fund
	Solid Waste	Water-Sewer	Storm Water	Totals	
Cash flows from operating activities					
Receipts from customers and users	\$ 1,518,676	\$ 8,897,550	\$ 722,565	\$ 11,138,791	\$ -
Receipts from other sources	636	63,832	17,308	81,776	-
Receipts from interfund services provided	-	123,990	13,835	137,825	273,061
Payments to suppliers and service providers	(1,426,602)	(5,000,422)	(232,269)	(6,659,293)	-
Payments to employees	(7,795)	(1,295,134)	(284,852)	(1,587,781)	-
Payments for interfund services used	(73,727)	(409,135)	(115,062)	(597,924)	-
Net cash provided (used) by operating activities	11,188	2,380,681	121,525	2,513,394	273,061
Cash flows from noncapital financing activities					
Transfer from (to) other funds	(3,366)	(10,139)	(3,368)	(16,873)	-
Net cash provided (used) by noncapital financing activities	(3,366)	(10,139)	(3,368)	(16,873)	-
Cash flows from capital and related financing activities					
Proceeds from capital recovery fees	-	30,422	1,991	32,413	-
Proceeds from sale of capital assets	-	-	-	-	2,777
Acquisition and construction of capital assets	-	(1,314,535)	(258,111)	(1,572,646)	(149,233)
Principal paid on capital debt	-	(387,507)	-	(387,507)	-
Interest paid on capital debt	-	(191,232)	-	(191,232)	-
Net cash provided (used) by capital financing activities	-	(1,862,852)	(256,120)	(2,118,972)	(146,456)
Cash flows from investing activities					
Interest received	693	30,699	1,748	33,140	2,371
Purchase of investments	-	(1,195,040)	-	(1,195,040)	-
Proceeds from sale of investments	-	1,192,000	-	1,192,000	-
Net cash provided (used) by investing activities	693	27,659	1,748	30,100	2,371
Net increase (decrease) in cash and cash equivalents	8,515	535,349	(136,215)	407,649	128,976
Cash and cash equivalents, January 1	189,414	5,597,459	582,779	6,369,652	862,983
Cash and cash equivalents, December 31	\$ 197,929	\$ 6,132,808	\$ 446,564	\$ 6,777,301	\$ 991,959
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ (32,455)	\$ 1,483,208	\$ 130,935	\$ 1,581,688	\$ 44,939
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	-	799,844	32,369	832,213	228,122
(Increase) decrease in accounts receivable	2,222	88,114	(3,331)	87,005	-
Increase (decrease) in customer deposits	-	38,387	-	38,387	-
Increase (decrease) in accounts payable	41,421	10,922	(21,955)	30,388	-
Increase (decrease) in compensated absences	-	6,227	3,509	9,736	-
Increase (decrease) in pension expense	-	(46,021)	(20,002)	(66,023)	-
Total adjustments	43,643	897,473	(9,410)	931,706	228,122
Net cash provided (used) by operating activities	\$ 11,188	\$ 2,380,681	\$ 121,525	\$ 2,513,394	\$ 273,061
Schedule of non-cash investing activities:					
Loss in fair market value of investments.	\$ -	\$ (11,416)	\$ -	\$ (11,416)	\$ -

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, 2016

	<u>Firemen's Pension Fund</u>	<u>Airport Agency Fund</u>
Assets		
Cash & cash equivalents	\$ 448,213	\$ 651,450
Receivables	7,105	14,722
Total assets	<u>455,318</u>	<u>666,172</u>
Liabilities		
Accounts payable	16,743	26,427
Due to other governments	-	150,000
Custodial accounts	-	489,745
Total liabilities	<u>16,743</u>	<u>\$ 666,172</u>
Net Position		
Held in trust for pension benefits	<u>\$ 438,575</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, 2016

	Firemen's Pension Fund
Additions	
Contributions:	
Employer	\$ 167,977
Nonemployer contributing entities	12,251
Total contributions	<u>180,228</u>
Investment earnings:	
Interest	<u>1,442</u>
Total investment earnings	<u>1,442</u>
Total additions	<u>181,670</u>
Deductions	
Pension benefits	53,543
Healthcare benefits	116,851
Administrative expenses	586
Total deductions	<u>170,980</u>
Change in net position	<u>10,690</u>
Net position - beginning	427,885
Net position - ending	<u><u>\$ 438,575</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, 2016

I. Summary of significant accounting policies

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

A. Reporting Entity

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

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

B. Government-wide and fund financial statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs for centralized services are included in program expenses reported for individual functions and activities. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF KELSO
Notes to the Financial Statements
December 31, 2016

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

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

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

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

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 90 days of year end). Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

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

CITY OF KELSO
Notes to the Financial Statements
December 31, 2016

The City reports the following major proprietary funds:

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

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

Additionally, the City reports the following fund types:

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

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

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

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

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

D. Employee retirement systems and pension plans

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

CITY OF KELSO
Notes to the Financial Statements
December 31, 2016

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

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

1. Deposits and investments

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

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

Investments of pension trust funds are not subject to the preceding limitations, however, all trust fund investments are in the State investment pool as of December 31, 2016.

Investments Measured at Amortized Cost

As of December 31, 2016 the City has \$11,927,802 invested in the Washington State Treasurer's Investment Pool. These investments are reported at amortized cost. The State Treasurer's Investment Pool operates in accordance with appropriate State laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. The portfolio is invested in a manner that meets the maturity, quality, diversification, and liquidity requirements set forth by the GASB for external investment pools who wish to measure all of its investments at amortized cost.

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

Investments Measured at Fair Value

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

CITY OF KELSO
Notes to the Financial Statements
December 31, 2016

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

At December 31, 2016, the City had the following investments measured at fair value:

Investment type	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
Federal Farm Credit Bank	\$ -	\$ 2,964,512	\$ -
Total Investments by Fair Value Level	<u>\$ -</u>	<u>\$ 2,964,512</u>	<u>\$ -</u>

2. Receivables and payables

Customer accounts receivable consist of amounts owed by private individuals or organizations for goods and services provided, as well as, court ordered fines. Taxes receivable consist of property, sales, and utility taxes and related interest and penalties (See Note V.B.). Special assessments consist of assessments which are recorded when levied and are liens against the property benefited. There is \$200 in delinquent special assessments as of December 31, 2016.

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

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

3. Inventories

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

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4. *Restricted assets*

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

The restricted assets of the enterprise funds consists of \$856,774 which is cash and investments held for debt service and customer deposit refunds.

The restricted assets reported in the governmental funds and governmental activities represents unspent bond proceeds related to the 2016 G.O. Bond. Unspent proceeds at December 31, 2016 were \$3,082,863.

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 acquisition 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

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

6. *Deferred outflows/inflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

7. *Compensated absences*

It is the City's policy to permit employees to accumulate earned but unused vacation, comp-time, and sick pay benefits. All vacation pay, comp-time pay, and eligible sick pay is accrued when incurred in the government-wide, 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.

8. *Long-term obligations*

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

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

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9. Net position/Fund balance

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

10. Fund balance components

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

- Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.
- Restricted fund balances have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.
- Committed fund balance can be used only for specific purposes pursuant to constraints imposed by a formal action of the City Council, the City’s highest level of decision-making authority. City Council can commit fund balance by passing an ordinance and may modify or rescind the ordinance at any time through the passage of an additional ordinance.
- Assigned fund balance includes amounts that are constrained by the City’s intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the General Fund, this is the remaining amounts within the fund that are not classified as nonspendable and are neither restricted nor committed. The City Council is the only body authorized to assign fund balances and can delegate that authority to other body’s or individuals.
- Unassigned fund balance is the residual amount of the General Fund not included in the four categories described above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

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

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

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

11. Data reclassifications

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

II. Reconciliation of government-wide and fund financial statements

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

The governmental funds balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$(5,767,606) difference are as follows:

Bonds payable	\$(5,070,000)
Deferred charges/loss on issuance (to be amortized over life of debt)	39,854
Premium on G.O. Bond (to be amortized over life of debt)	(337,314)
Accrued interest payable	(13,873)
Compensated absences	<u>(386,273)</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u><u>\$(5,767,606)</u></u>

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 \$59,011,728 difference are as follows:

Capital assets used in governmental fund operations	\$88,816,249
Less: Accumulated depreciation	<u>(29,804,521)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u><u>\$59,011,728</u></u>

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Another element of that reconciliation explains that “Net Pension and Net OPEB Assets or Obligations are not considered to represent a financial resource or liability and, therefore, are not reported in the funds. The details of this \$(2,363,321) difference are as follows:

Net OPEB obligation	\$(2,175,092)
Net pension obligation	(1,591,392)
Net pension asset	879,325
Deferred inflows related to pensions	(77,802)
Deferred outflows related to pensions	601,640
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$(2,363,321)</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 \$126,877 difference are as follows:

Property taxes receivable	\$ 34,963
Court ordered fines receivable – net	<u>91,914</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$ 126,877</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 useful lives and reported as depreciation expense.” The details of this \$885,082 difference are as follows:

Capital outlay	\$ 2,925,619
Depreciation expense	<u>(2,040,537)</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>\$ 885,082</u>

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Another element of that reconciliation states that “Some revenues reported in the governmental funds have already been reported in the statement of activities in prior years.” The details of this \$(86,960) difference are as follows:

Property taxes	\$ (72,847)
Court ordered fines	<u>(14,113)</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>\$ (86,960)</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 \$(279,644) difference are as follows:

Miscellaneous grants	<u>\$ (279,644)</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>\$ (279,644)</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 \$(3,250,067) difference are as follows:

<u>Debt issuance:</u>	
Bond proceeds	\$ (3,200,000)
Premium	(355,067)
<u>Principal repayments:</u>	
General obligation debt	<u>305,000</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>\$ (3,250,067)</u>

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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 \$(24,962) difference are as follows:

Compensated absences	\$ (39,394)
Amortization of issuance costs	(3,321)
Amortization of bond premium	<u>17,753</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i> .	<u>\$ (24,962)</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:

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

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The City Manager is authorized to transfer budgeted amounts between departments within any fund and object classes within departments; however, any revisions that alter the total expenditures of a fund or that effect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council. When the City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by a simple majority plus one upon second reading of the proposed ordinance amending the budget. The 2016 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 budgetary and internal reporting the City classifies its street, library, parks, façade, and Kelso station funds as special revenue funds. Under GASB 54, these funds do not meet the criteria to be classified as special revenue funds and are reported as part of the general fund in the basic financial statements, thus creating a basis difference. Basis differences arise when the budgetary basis of accounting differs from the basis of accounting applicable to fund types when reporting on operations in accordance with GAAP. This difference is comprised of the following in the general fund:

Revenues:	
Street fund	\$ 823,136
Library fund	548,994
Kelso Station fund	61,648
Parks Fund	354,068
Façade Fund	2
Expenditures:	
Street fund	(596,757)
Library fund	(524,834)
Kelso Station fund	(59,115)
Parks Fund	(305,690)
Façade Fund	<u>-</u>
Total General fund Basis difference	<u>\$ 301,452</u>

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C. Deficit fund balance

The Arterial Street Fund deficit of \$230,837 is due to accounting for an interfund loan in this fund while the capital assets constructed with the loan proceeds are not. A deficit balance is normal for this type of situation.

IV. Detailed notes on all funds

A. Deposits and investments

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

As of December 31, 2016, the City had the following deposits and investments:

<u>Investment type</u>	<u>Maturities</u>	<u>Fair Value</u>
Cash		
FDIC or WPDPC insured deposits		\$ 5,723,126
In-transit items		(260,086)
Petty cash on hand		<u>7,150</u>
Total Cash		<u>5,470,190</u>
Investments		
Federal Farm Credit Bank	7/13/2018	1,374,307
Federal Farm Credit Bank	1/13/2020	1,590,205
State Treasurer's investment pool	< 90 days	<u>11,927,802</u>
Total investments		<u>14,892,314</u>
Total Cash, Cash Equivalents, Investments		<u>\$ 20,362,504</u>

Interest Rate Risk

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

Credit Risk

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

- Investment deposits, including certificates of deposit, with qualified public depositories.

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

Custodial Credit Risk – Investments

For investments, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy with regard to custodial credit risk, however, for all of 2016, the City's investments were either in the Washington State Local Government Investment Pool or held in a custodial safekeeping account with a bank.

Concentration of Credit Risk

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

B. Receivables

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

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	<u>General</u>	<u>Arterial Street</u>	<u>Solid Waste</u>	<u>Water/ Sewer</u>	<u>Non- major Govt. Funds</u>	<u>Non- major Prop. Funds</u>	<u>Total</u>
Receivables:							
Taxes	\$1,586	\$ -	\$ -	\$ -	\$ 8	\$ -	\$1,594
Accounts	111	-	263	1,274	6	130	1784
Special Assessments	-	15	-	-	-	-	15
Intergovernmental	198	21	-	1,145	9	25	1,398
Long-term notes	-	-	-	-	506	-	506
Net total receivables	<u>\$1,895</u>	<u>\$ 36</u>	<u>\$ 263</u>	<u>\$2,419</u>	<u>\$ 529</u>	<u>\$ 155</u>	<u>\$5,297</u>

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

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (general fund)	\$ 34,963	\$ -
Delinquent Court ordered fines receivable (general fund)	91,914	-
Grants received (general fund)	-	56,000
Special assessments not due yet (arterial street fund)	-	14,836
Prepaid lease (Non-major fund)	-	62,529
Total deferred/unearned revenue for governmental funds	<u>\$ 126,877</u>	<u>\$133,365</u>

C. Capital assets

Capital asset activity for the year ended December 31, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$22,931,670	\$ 90,174	\$ -	\$23,021,844
Construction in progress	<u>1,179,583</u>	<u>2,515,500</u>	<u>355,221</u>	<u>3,339,862</u>
Total capital assets, not being depreciated	<u>24,111,253</u>	<u>2,605,674</u>	<u>355,221</u>	<u>26,361,706</u>
Capital assets, being depreciated:				
Buildings	12,280,316	52,865	45,598	12,287,583
Improvements other than buildings	6,242,644	-	-	6,242,644
Machinery and equipment	3,119,352	178,368	105,270	3,192,450
Infrastructure	<u>41,920,235</u>	<u>548,165</u>	<u>-</u>	<u>42,468,400</u>
Total capital assets being depreciated	<u>63,562,547</u>	<u>779,398</u>	<u>150,868</u>	<u>64,191,077</u>
Less accumulated depreciation for:				
Buildings	5,017,523	318,504	32,789	5,303,238
Improvements other than buildings	3,494,100	206,193	-	3,700,293
Machinery and equipment	2,479,491	219,734	105,270	2,593,955
Infrastructure	<u>18,096,313</u>	<u>1,453,720</u>	<u>-</u>	<u>19,550,033</u>
Total accumulated depreciation	<u>29,087,427</u>	<u>2,198,151</u>	<u>138,059</u>	<u>31,147,519</u>

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Total capital assets, being depreciated, net	<u>34,475,120</u>	<u>(1,418,753)</u>	<u>12,809</u>	<u>33,043,558</u>
Governmental activities capital assets, net	<u>\$58,586,373</u>	<u>\$ 1,186,921</u>	<u>\$ 368,030</u>	<u>\$59,405,264</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 28,712	\$ -	\$ -	\$ 28,712
Construction in progress	<u>1,660,056</u>	<u>1,626,696</u>	<u>1,442,111</u>	<u>1,844,641</u>
Total capital assets, not being depreciated	<u>1,688,768</u>	<u>1,626,696</u>	<u>1,442,111</u>	<u>1,873,353</u>
Capital assets, being depreciated:				
Buildings and structures	10,679,913	-	-	10,679,913
Improvements other than buildings	28,838,741	1,532,331	487	30,370,585
Machinery and equipment	<u>4,244,676</u>	<u>47,502</u>	<u>18,017</u>	<u>4,274,161</u>
Total capital assets being depreciated	<u>43,763,330</u>	<u>1,579,833</u>	<u>18,504</u>	<u>45,324,659</u>
Less accumulated depreciation for:				
Buildings and structures	2,433,057	219,148	-	2,652,205
Improvements other than buildings	13,124,814	551,936	487	13,676,263
Machinery and equipment	<u>3,425,140</u>	<u>131,637</u>	<u>18,017</u>	<u>3,538,760</u>
Total accumulated depreciation	<u>18,983,011</u>	<u>902,721</u>	<u>18,504</u>	<u>19,867,228</u>
Total capital assets, being depreciated, net	<u>24,780,319</u>	<u>677,112</u>	<u>-</u>	<u>25,457,431</u>
Business-type activities capital assets, net	<u>\$26,469,087</u>	<u>\$2,303,808</u>	<u>\$ 1,442,111</u>	<u>\$27,330,784</u>

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

Governmental activities:	
General government	\$ 189,178
Security of persons and property	9,517
Physical environment	1,292
Transportation	1,655,386
Culture and recreation	185,164
Capital assets held by the City's internal service funds are charged to various functions based on usage of assets.	<u>157,614</u>
Total depreciation expense – governmental activities	<u>\$2,198,151</u>
Business-type activities:	
Water	\$ 464,144
Sewer	335,700
Storm water drainage	32,369
Capital assets held by the City's internal service funds are charged to various functions based on usage of assets.	<u>70,508</u>
Total depreciation expense – business-type activities	<u>\$ 902,721</u>

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Construction commitments

The City of Kelso has active construction projects as of December 31, 2016. The projects include waterline and roadway construction. At year end the City's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Waterline replacement	\$ 656,381	\$ 210,713
Roadway improvements	550,028	914,743
Total	<u>\$ 1,206,409</u>	<u>\$ 1,125,456</u>

D. Interfund receivables, payables, and transfers

The composition of interfund balances as of December 31, 2016, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
Nonmajor govt.	Arterial Street	\$ 141,795	Roadway Improvements

Advances to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
Nonmajor govt.	Arterial Street	288,713	Roadway Improvements

<u>Transfer out</u>	<u>Transfer in</u>	<u>Amount</u>	<u>Purpose</u>
General fund	Arterial Street	\$ 216,000	2016 overlay project
Water/sewer fund	General Fund	10,139	Computer upgrade
Solid Waste fund	General Fund	3,366	Computer upgrade
General fund	Nonmajor govt.	259,695	Debt service
General fund	Nonmajor govt.	<u>27,550</u>	Routine operating
Sub-Total		516,750	
Nonmajor govt.	General Fund	39,930	Park Improvements
	General Fund	35,000	Nuisance abatement
	Arterial Street	747,000	Roadway Improvements
	Nonmajor govt.	160,000	Debt service
	Nonmajor govt.	15,000	Routine operating
Nonmajor prop.	General Fund	<u>3,368</u>	Computer upgrade
Sub-Total		1,000,298	
Total		<u>\$ 1,517,048</u>	

E. Long-term debt

General Obligation Bonds

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

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20-year serial bonds with varying amounts of principal maturing each year. The debt service on general obligation bonds is paid from debt service funds. Debt service for voter approved issues is funded by special property tax levies. Debt service for City Council authorized or Councilmanic issues are funded from general government revenue sources. The original amount of general obligation bonds issued in prior years was \$5,910,000. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities – City Hall construction	.60% – 3.80%	\$2,035,000
Governmental activities – Roadway improvements	2.00% – 4.00%	<u>3,035,000</u>
		<u>\$5,070,000</u>

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

<u>Year ending December 31</u>	<u>Governmental activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 270,000	\$ 166,468
2018	270,000	159,963
2019	280,000	152,733
2020	290,000	145,233
2021	295,000	138,038
2022-2026	1,605,000	566,733
2027-2031	1,250,000	297,580
2032-2036	<u>810,000</u>	<u>82,600</u>
Total	<u>\$5,070,000</u>	<u>\$1,709,248</u>

In 2016, the City of Kelso issued \$3,200,000 of Limited Tax General Obligation Bonds to pay the costs of certain road and stormwater improvements. The interest rate on the bonds range from 2.00 – 4.00 percent and the maturity date is December 1, 2035. The City received net proceeds of \$3,513,667 (including a \$355,067 premium less \$52,150 in underwriting fees and other issuance costs).

Also in 2016, the City of Kelso was awarded a Drinking Water State Revolving Fund Loan (DWSRF) in the amount of \$4,529,850 (which includes a \$44,850 loan fee) for the replacement of a reservoir and the addition of a transmission line associated with the reservoir. The interest rate on the loan is 1.5 percent and the maturity date is October 1, 2035. As of December 31, 2016, the City has not drawn down any loan funds.

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

<u>Issuance</u>	<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
1999 DWSRF – \$2,040,000	Business-type activities	2.50%	\$ 431,656
2001 DWSRF – \$1,500,000	Business-type activities	1.50%	<u>477,553</u>
Total government loans			<u>\$ 909,209</u>

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

Year ending December 31	Business-type Activities	
	Principal	Interest
2017	\$ 187,507	\$ 17,955
2018	187,506	14,063
2019	187,506	10,171
2020	187,506	6,279
2021	79,592	2,388
2022-2026	<u>79,592</u>	<u>1,194</u>
Total	<u>\$ 909,209</u>	<u>\$ 52,050</u>

Revenue bonds

The City also issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. Water/Sewer revenue bond covenants require that revenue available for debt service (defined as operating and nonoperating revenues less expenses requiring payment to outside entities) exceed the annual debt payment of both principal and interest by a ratio of 1.25 to 1. The City remains in compliance with that provision with a current ratio of 6.34 to 1 coverage. See page 137.

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

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

Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Amount
Water Sewer improvements – refunding	2.40% - 4.20%	\$ 210,000
Water improvements – tax exempt	1.10% - 3.25%	210,000
Water improvements – taxable	5.50% - 7.40%	<u>3,665,000</u>
		<u>\$4,085,000</u>

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Revenue bond debt service requirements to maturity are as follows:

Year ending December 31	Business-type Activities	
	Principal	Interest*
2017	\$ 205,000	\$ 266,950
2018	215,000	259,290
2019	225,000	253,510
2020	225,000	241,135
2021	240,000	228,198
2022-2026	1,345,000	889,286
2027-2031	<u>1,630,000</u>	<u>371,110</u>
Total	<u>\$4,085,000</u>	<u>\$2,509,479</u>

*Interest is not net of Federal Subsidy

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$2,175,000	\$3,200,000	\$ 305,000	\$ 5,070,000	\$ 270,000
G.O. bond premium	-	355,067	17,753	337,314	-
Compensated absences	346,879	386,273	346,879	386,273	96,568
Net Pension obligation	1,316,390	275,002	-	1,591,392	-
Net OPEB obligation	<u>1,889,089</u>	<u>514,577</u>	<u>228,574</u>	<u>2,175,092</u>	<u>-</u>
Governmental activity Long-term liabilities	<u>\$5,727,358</u>	<u>\$4,730,919</u>	<u>\$ 898,206</u>	<u>\$ 9,560,071</u>	<u>\$ 366,568</u>
Business-type activities:					
Revenue bonds	\$4,285,000	\$ -	\$ 200,000	\$4,085,000	\$ 205,000
Drinking Water State Revolving Fund	1,096,716	-	187,507	909,209	187,507
Compensated absences	87,032	96,768	87,032	96,768	24,192
Net Pension obligation	<u>914,780</u>	<u>127,137</u>	<u>-</u>	<u>1,041,917</u>	<u>-</u>
Business-type activity Long-term liabilities	<u>\$6,383,528</u>	<u>\$ 223,905</u>	<u>\$ 474,539</u>	<u>\$6,132,894</u>	<u>\$ 416,699</u>

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

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.

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Washington Cities Insurance Authority

The City of Kelso is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 168 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 coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300,000 million per occurrence subject to aggregates and sublimits. Automobile physical damage is self-funded from the members' deductible to \$250,000 and insured above that to \$100,000 million per occurrence subject to aggregates and sublimits.

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.

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

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

Association of Washington Cities Employee Benefit Trust Health Care Program

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

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

As of December 31, 2016, 258 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run out for all current members. The AWC Trust HCP includes medical insurance through Group Health, Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the State of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the State of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The City's contribution to the Trust for the year ended December 31, 2016 was \$327,526. The AWC Trust HCP is responsible for payment of all covered claims. In 2016, the AWC Trust HCP purchased stop loss insurance for Regence/ Asuris plans at an Individual

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Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Retirees of the City receiving medical benefits from the Trust contribute the following monthly amounts:

AWC Health First - 1000

- \$734.37 for non-Medicare enrolled retiree coverage
- \$740.78 for non-Medicare enrolled spouse coverage

AWC Health First - 2500

- \$641.21 for non-Medicare enrolled retiree coverage
- \$645.87 for non-Medicare enrolled spouse coverage

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

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

The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

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

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Unemployment Insurance

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

2016	\$ 8,108
2015	\$ 7,854
2014	\$17,450

B. Property Taxes

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

Property Tax Calendar

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

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

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

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

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Washington State law in RCW 84.55.010 limits the growth of regular property taxes to the lesser of 1 percent per year, or the Implicit Price Deflator. Adjustments for new construction are excluded from this calculation. If the assessed valuation increases by more than 1 percent due to revaluation, the levy rate will be decreased.

The City's regular levy for 2016 was \$2.0612 per \$1,000 on an assessed valuation of \$703,551,750 for a total regular levy of \$1,450,135.

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

D. Joint Municipal Utility Services Authority

Three Rivers Regional Waste Water Authority

History. In 1996 the City of Kelso entered into an interlocal agreement with Cowlitz County, the City of Longview, and Beacon Hill Sewer District, to form the Three Rivers Regional Waste Water Authority (TRRWA). The TRRWA was created so that the participating entities can equitably share in the operations and improvements of a central sewage treatment facility. The 1996 interlocal agreement was subsequently amended on several occasions and on January 15, 2016, TRRWA was incorporated with the Washington Secretary of State as a Joint Municipal Utility Services Authority.

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

Board of Directors. TRRWA's board of directors consists of one director and any alternate directors appointed by each member. Directors and alternates must be elected officials of the appointing member. The members may appoint and remove their appointee directors and alternates in such manner as they individually determine. Each director will have one vote on issues that come before the board of directors. The following board of directors actions require both (i) a majority vote of the board of

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directors and (ii) approval by directors representing a member paying more than 50% of the maintenance and operations (M&O) component, unadjusted for the prior flow portion period:

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

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

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

Budget Formulation. The operating board adopts TRRWA's budget, which must be formulated in a manner consistent with the relevant budget processes employed by each member. The budget adopted by the operating board is subject to ratification by the board of directors. TRRWA will submit each member's proportionate share of TRRWA's budget to that member's legislative authority for incorporation into the member's sewer enterprise fund budget.

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

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

Monthly Payments. Each member must make monthly payments to TRRWA for the rates, charges, fees or other payments established by TRRWA. The M&O component of monthly payments must include one twelfth of the member's proportionate share of the M&O costs adopted in TRRWA's annual budget for the facilities. The City paid \$2,839,525 to TRRWA in 2016.

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

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

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

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

As of December 31, 2016, TRRWA had \$17,829,115 of outstanding debt. In addition, the City is not aware of whether or not TRRWA is accumulating significant resources or experiencing fiscal stress that would cause additional material financial benefit or burden on the City in the future.

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

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

E. Joint Venture

Southwest Washington Regional Airport Board

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

The Board formulates its preliminary annual budget and submits it to each participating jurisdiction prior to August 1, of each year. Estimated expenses for maintenance and operations, repairs and replacements to existing facilities, capital projects, and debt service are netted against estimated airport operating revenues to determine the amount of annual subsidy required by the participating jurisdictions. Each jurisdiction is responsible for 25% of the estimated subsidy. Payments made to the airport by the City in 2016 were \$76,000.

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

As of December 31, 2016, the City's ongoing financial responsibility is minimal. In addition, the airport has no outstanding long-term obligations and is not accumulating significant resources or experiencing fiscal stress that would cause additional material financial benefit or burden on the City in the future. The airport does not issue stand-alone financial statements.

F. 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 17 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 2016, the City's cost for these Medicare premiums was \$20,275. This expenditure represents a fixed amount of approximately \$113 per month for 15 LEOFF 1 retirees.

Funding Policy. Employer contributions are financed on a pay-as-you-go basis. Expenditures for post-retirement health care benefits are recognized as retirees report claims. During the year, expenditures of \$228,574 were recognized for post-retirement health care.

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

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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	\$ 621,006
Interest on net OPEB obligation	75,564
Adjustment to annual required contribution	<u>(181,993)</u>
Annual OPEB cost	514,577
Contributions made	<u>228,574</u>
Increase in net OPEB obligation	286,003
Net OPEB obligation beginning of year	<u>1,889,089</u>
Net OPEB obligation end of year	<u>\$2,175,092</u>

Three Year Trend Information:

	<u>Annual OPEB Percentage Contributed</u>		
<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB Obligation</u>
12/31/14	\$558,824	42.60%	\$1,565,871
12/31/15	\$537,024	39.81%	\$1,889,089
12/31/16	\$514,577	44.42%	\$2,175,092

Funded Status and Funding Progress. As of January 1, 2014, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits was \$6,904,580, all of which was unfunded. The covered payroll ratio is not applicable to this plan as all members are retired.

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

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

Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical patterns of benefit costs incurred by the employer to that point. The

CITY OF KELSO
Notes to the Financial Statements
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methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

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

Termination and Mortality- Termination and mortality rates were assumed to follow the LEOFF 1 termination and mortality rates used in the June 30, 2011 actuarial valuation report issued by the Office of the Washington State Actuary (OSA). A single retirement age of 56.24 was assumed for all active members for the purposes of determining the actuarial accrued liability and normal cost.

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

Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 4.0 percent was used. A 3% general inflation rate was used based on the CPI for Urban Wage Earners and Clerical Workers, Seattle-Tacoma-Bremerton, WA – All Items. In addition, the projected unit credit actuarial cost method was used to determine the AAL, with results based on grouped data of 4 active and 4 inactive groupings. The AAL and NOO are amortized on an open basis as a level dollar amount over 15 years. The remaining amortization period at December 31, 2016, is twelve years.

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

G. Employee retirement systems and pension plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2016:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ 2,633,309
Pension assets	\$ 879,325
Deferred outflows of resources	\$ 781,275
Deferred inflows of resources	\$ 112,813
Pension expense/expenditures	\$ 310,976

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State Sponsored Pension Plans

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

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

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

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

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

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

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Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the State Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	.18%	-
Total	11.18%	6.00%

The City's actual contributions to the plan were \$1,284 for the year ended December 31, 2016.

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

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

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

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Notes to the Financial Statements
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benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the State Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	-
Administrative Fee	.18%	-
Employee PERS Plan 3		varies
Total	11.18%	6.12%

The City's actual plan contributions were \$134,149 to PERS Plan 1 and \$175,210 to PERS Plan 2/3 for the year ended December 31, 2016.

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

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

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

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

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan 1 had no required employer or employee contributions for fiscal year 2016. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

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

CITY OF KELSO
Notes to the Financial Statements
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Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
State and local governments	5.05%	8.41%
Administrative Fee	.18%	-
Total	5.23%	8.41%

The City's actual contributions to the plan were \$121,594 for the year ended December 31, 2016.

The Legislature, by means of a special funding arrangement, appropriates money from the State General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the State constitution and could be changed by statute. For the State fiscal year ending June 30, 2016, the State contributed \$60,375,158 to LEOFF Plan 2.

Actuarial Assumptions

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

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

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

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.
- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

Discount Rate

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

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

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the

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Notes to the Financial Statements
December 31, 2016

table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	<u>23%</u>	9.60%
	100%	

Sensitivity of NPL

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$1,475,030	\$1,223,179	\$ 1,006,445
PERS 2/3	2,596,304	1,410,130	(734,054)
LEOFF 1	(260,450)	(438,438)	(590,578)
LEOFF 2	1,236,369	(440,887)	(1,705,052)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2016, the City reported a total pension liability of \$2,633,309 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$1,223,179
PERS 2/3	\$1,410,130
LEOFF 1	\$(438,438)
LEOFF 2	\$(440,887)

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

	<u>Liability (or Asset)</u>
LEOFF 2 – employer’s proportionate share	\$ (440,887)
LEOFF 2 – State’s proportionate share of the net pension liability/(asset) associated with the employer	<u>(287,426)</u>
TOTAL	<u>\$ (728,313)</u>

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

<u>Plan</u>	<u>Proportionate Share 6/30/15</u>	<u>Proportionate Share 6/30/16</u>	<u>Change in Proportion</u>
PERS 1	% .023210	% .022776	% (.000434)
PERS 2/3	.028465	.028007	(.000458)
LEOFF 1	.042208	.042555	.000347
LEOFF 2	.072194	.075802	.003608

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2016. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2016, the State of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2016, the State of Washington contributed 39.46 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.54 percent of employer contributions.

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Notes to the Financial Statements
December 31, 2016

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2016, the City recognized pension expense as follows:

Plan	Pension Expense
PERS 1	\$ 42,867
PERS 2/3	186,019
LEOFF 1	(60,184)
LEOFF 2	<u>142,274</u>
TOTAL	<u>\$ 310,976</u>

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ 30,798	\$ -
Contributions subsequent to the measurement date	<u>69,808</u>	<u>-</u>
TOTAL PERS Plan 1	<u>\$ 100,606</u>	<u>\$ -</u>
PERS Plan 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 75,088	\$ (46,551)
Net difference between projected and actual investment earnings on pension plan investments	172,559	-
Changes of assumptions	14,575	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	(41,935)
Contributions subsequent to the measurement date	<u>91,176</u>	<u>-</u>
TOTAL PERS Plan 2	<u>\$ 353,398</u>	<u>\$ (88,486)</u>

CITY OF KELSO
Notes to the Financial Statements
December 31, 2016

LEOFF Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ 44,567	\$ -
TOTAL LEOFF Plan 1	<u>\$ 44,567</u>	<u>\$ -</u>

LEOFF Plan 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 60,413	\$ -
Net difference between projected and actual investment earnings on pension plan investments	158,428	-
Changes in assumptions	1,662	
Changes in proportion and differences between contributions and proportionate share of contributions	-	(24,327)
Contributions subsequent to the measurement date	<u>62,201</u>	<u>-</u>
TOTAL LEOFF Plan 2	<u>\$ 282,704</u>	<u>\$ (24,327)</u>

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2	LEOFF 1	LEOFF 2
2017	\$ (7,582)	\$ (14,993)	\$ (9,210)	\$ (7,016)
2018	(7,583)	(14,993)	(9,210)	(7,016)
2019	28,284	122,843	38,598	126,044
2020	17,679	80,879	24,389	85,264
2021	-	-	-	(1,100)
Thereafter	-	-	-	-

Other Local Government Pension System

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

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Notes to the Financial Statements
December 31, 2016

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

The Fireman's Pension Fund cash and investment balance consists of \$448,213 with the investment portion held in the State investment pool as of December 31, 2016.

A recent actuarial survey has not been done because annual benefits are approximately \$56,000 and the net position held in trust for pension benefits is over \$438,000 and the average age of current retirees is 82. However, the last actuarial survey indicated that there was a net accrued liability of \$225,000 in the system that will be fully amortized with annual contributions to the plan of \$26,616 through 2024. Furthermore, there was no preparation of the schedules or required supplementary information required by GASB's 67 and 68 because, in management's opinion, future funding and contributions by the City are not material and the cost of future actuarials would outweigh the benefits.

In 2016, the City also received on behalf payments from taxes on fire insurance premiums in the amount of \$12,251.

H. Direct Adjustments to Net Position

Prior Period Adjustment

In 2013, the City's stormwater fund began accumulating costs for the design phase of the Chestnut Street Drainage project. The project included the installation 2,800 feet of storm drain on Chestnut Street in South Kelso. The design phase was completed in early 2016 and the costs were capitalized as construction in progress. In 2016, it was determined that the construction phase of the project was not economically feasible and the project was abandoned. Costs accumulated through 2016 amounted to \$133,960.

I. Reporting Changes

Implementation of GASB 72

For fiscal years that begin after June 15, 2015, GASB 72, *Fair Value Measurement and Application*, became effective. This GASB became effective for the City of Kelso in 2016.

Implementation of GASB 73

For fiscal years that begin after June 15, 2015, GASB 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, became effective. This GASB became effective for the City of Kelso in 2016.

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Notes to the Financial Statements
December 31, 2016

Implementation of GASB 76

For fiscal years that begin after June 15, 2015, GASB 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, became effective. This GASB became effective for the City of Kelso in 2016.

Implementation of GASB 77

For fiscal years that begin after June 15, 2015, GASB 77, *Tax Abatement Disclosures*, became effective. This GASB became effective for the City of Kelso in 2016.

Implementation of GASB 78

For fiscal years that begin after December 15, 2015, GASB 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, became effective. This GASB became effective for the City of Kelso in 2016.

Implementation of GASB 79

For fiscal years that begin after June 15, 2015, GASB 79, *Certain External Investment Pools and Pool Participants*, became effective. This GASB became effective for the City of Kelso in 2016.

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REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2016

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
01/01/08	\$ 0	\$5,910,503	0%	\$5,910,503	N/A	N/A
01/01/11	\$ 0	\$5,394,230	0%	\$5,394,230	N/A	N/A
01/01/14	\$ 0	\$6,904,580	0%	\$6,904,580	N/A	N/A

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, 2016 is \$0.

Schedule of Employer Contributions:

Fiscal Year	Total Employer Contributions	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2012	\$ 326,962	\$502,277	65.1%
2013	\$ 276,032	\$502,277	55.0%
2014	\$ 238,052	\$621,006	38.3%
2015	\$ 213,806	\$621,006	34.5%
2016	\$ 228,574	\$621,006	36.8%

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

Required Supplementary Information

City of Kelso Schedule of Employer Contributions Public Employees Retirement System Plan 1 As of December 31, 2016 Last Ten Fiscal Years

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

* Information not available prior to 2015

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

Required Supplementary Information

City of Kelso
Schedule of Employer Contributions
Public Employees Retirement System Plan 2/3
As of December 31, 2016
Last Ten Fiscal Years

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

* Information not available prior to 2015

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

Required Supplementary Information

City of Kelso
Schedule of Employer Contributions
Law Enforcement Officers and Fire Fighters Retirement Plan 2
As of December 31, 2016
Last Ten Fiscal Years

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

* Information not available prior to 2015

Required Supplementary Information

City of Kelso
Schedule of Proportionate Share of the Net Pension Liability
Public Employees Retirement System Plan 1
As of June 30, 2016
Last Ten Fiscal Years

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

* Information not available prior to 2015

Required Supplementary Information

City of Kelso
Schedule of Proportionate Share of the Net Pension Liability
Public Employees Retirement System Plan 2/3
As of June 30, 2016
Last Ten Fiscal Years

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

* Information not available prior to 2015

Required Supplementary Information

City of Kelso
Schedule of Proportionate Share of the Net Pension Liability
Law Enforcement officers and Fire Fighters Retirement Plan 1
As of June 30, 2016
Last Ten Fiscal Years

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

* Information not available prior to 2015

Required Supplementary Information

City of Kelso
Schedule of Proportionate Share of the Net Pension Liability
Law Enforcement officers and Fire Fighters Retirement Plan 2
As of June 30, 2016
Last Ten Fiscal Years

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

* Information not available prior to 2015

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.

Transportation Benefit District Fund – This fund also accounts for revenues and expenditures associated with the City's Transportation Benefit District.

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, 2016

	Special Revenue					
	Paths/ Trails	Stadium	Highlander Festival	Tam O'Shanter Park	HUD Block Grant	Criminal Justice
Assets						
Cash & cash equivalents	\$ 488	\$ 216,333	\$ 5,556	\$ -	\$ 544,451	\$ 40,348
Investments	-	-	-	-	-	-
Receivables (net)						
Accounts	-	-	-	-	5,758	-
Assessments/taxes	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-
Due from other governments	-	-	-	-	-	8,828
Advances to other funds	-	-	-	-	-	-
Long-term notes receivable	-	-	-	-	505,745	-
Total Assets	<u>488</u>	<u>216,333</u>	<u>5,556</u>	<u>-</u>	<u>1,055,954</u>	<u>49,176</u>
Liabilities						
Accounts payable	-	33,142	1,113	-	1,225	406
Unearned revenue	-	62,529	-	-	-	-
Total Liabilities	<u>-</u>	<u>95,671</u>	<u>1,113</u>	<u>-</u>	<u>1,225</u>	<u>406</u>
Fund Balances						
Restricted for:						
Paths and trails	488	-	-	-	-	-
Promotion of tourism	-	120,662	-	-	-	-
Housing/neighborhood rehabilitation	-	-	-	-	668,959	-
Street maintenance/construction	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-
Assigned to:						
Debt service	-	-	-	-	-	-
Other purposes	-	-	4,443	-	385,770	48,770
Total Fund Balance	<u>488</u>	<u>120,662</u>	<u>4,443</u>	<u>-</u>	<u>1,054,729</u>	<u>48,770</u>
Total Liabilities and Fund Balances	<u>\$ 488</u>	<u>\$ 216,333</u>	<u>\$ 5,556</u>	<u>\$ -</u>	<u>\$ 1,055,954</u>	<u>\$ 49,176</u>

City of Kelso
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2016

	Transportation Benefit District	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	\$ 11,979	\$ 819,155	\$ 953,708	\$ 122,750	\$ 1,895,613
Investments	-	-	783,355	-	783,355
Receivables (net)					
Accounts	-	5,758	-	-	5,758
Assessments/taxes	-	-	-	7,921	7,921
Due from other funds	-	-	141,795	-	141,795
Due from other governments	-	8,828	-	-	8,828
Advances to other funds	-	-	288,713	-	288,713
Long-term notes receivable	-	505,745	-	-	505,745
Total Assets	<u>11,979</u>	<u>1,339,486</u>	<u>2,167,571</u>	<u>130,671</u>	<u>3,637,728</u>
Liabilities					
Accounts payable	-	35,886	-	-	35,886
Unearned revenue	-	62,529	-	-	62,529
Total Liabilities	<u>-</u>	<u>98,415</u>	<u>-</u>	<u>-</u>	<u>98,415</u>
Fund Balances					
Restricted for:					
Paths and trails	-	488	-	-	488
Promotion of tourism	-	120,662	-	-	120,662
Housing/neighborhood rehabilitation	-	668,959	-	-	668,959
Street maintenance/construction	11,979	11,979	-	-	11,979
Capital projects	-	-	-	130,671	130,671
Assigned to:					
Debt service	-	-	2,167,571	-	2,167,571
Other purposes	-	438,983	-	-	438,983
Total Fund Balance	<u>11,979</u>	<u>1,241,071</u>	<u>2,167,571</u>	<u>130,671</u>	<u>3,539,313</u>
Total Liabilities and Fund Balances	<u>\$ 11,979</u>	<u>\$ 1,339,486</u>	<u>\$ 2,167,571</u>	<u>\$ 130,671</u>	<u>\$ 3,637,728</u>

City of Kelso
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the fiscal year ended December 31, 2016

	Special Revenue					
	Paths and Trails	Stadium	Highlander Festival	Tam O'Shanter Park	Hud Block Grant	Criminal Justice
Revenues						
Taxes	\$ -	\$ 180,027	\$ -	\$ -	\$ -	\$ -
Intergovernmental	1,290	-	-	-	-	162,241
Charges for services	-	-	4,872	-	-	-
Investment earnings	119	314	-	66	3,329	24
Rental/lease income	-	10,920	-	-	-	-
Miscellaneous	-	39	12,975	-	-	3,649
Total revenues	<u>1,409</u>	<u>191,300</u>	<u>17,847</u>	<u>66</u>	<u>3,329</u>	<u>165,914</u>
Expenditures						
Security of persons and property	-	-	-	-	-	237,420
Economic Environment	-	-	-	-	73,308	-
Culture and recreation	-	121,206	31,898	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	<u>-</u>	<u>121,206</u>	<u>31,898</u>	<u>-</u>	<u>73,308</u>	<u>237,420</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,409</u>	<u>70,094</u>	<u>(14,051)</u>	<u>66</u>	<u>(69,979)</u>	<u>(71,506)</u>
Other financing sources (uses)						
Transfers in	-	-	15,000	-	-	27,550
Transfers out	(42,000)	(40,000)	-	(14,930)	(335,000)	-
Total other financing sources (uses)	<u>(42,000)</u>	<u>(40,000)</u>	<u>15,000</u>	<u>(14,930)</u>	<u>(335,000)</u>	<u>27,550</u>
Net change in fund balances	(40,591)	30,094	949	(14,864)	(404,979)	(43,956)
Fund balances - beginning	41,079	90,568	3,494	14,864	1,459,708	92,726
Fund balances - ending	<u>\$ 488</u>	<u>\$ 120,662</u>	<u>\$ 4,443</u>	<u>\$ -</u>	<u>\$ 1,054,729</u>	<u>\$ 48,770</u>

City of Kelso
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the fiscal year ended December 31, 2016

	Transportation Benefit District	Total Non-Major Special Revenue Funds	Debt Service Non-Voted G.O. Bond	Capital Projects City Hall Fund	Total Non-Major Governmental Funds
Revenues					
Taxes	\$ -	\$ 180,027	\$ -	\$ 162,555	\$ 342,582
Intergovernmental	-	163,531	-	-	163,531
Charges for services	174,535	179,407	-	-	179,407
Investment earnings	-	3,852	2,453	144	6,449
Rental/lease income	-	10,920	-	-	10,920
Miscellaneous	430	17,093	570,274	-	587,367
Total revenues	174,965	554,830	572,727	162,699	1,290,256
Expenditures					
Security of persons and property	-	237,420	-	-	237,420
Economic Environment	-	73,308	-	-	73,308
Culture and recreation	-	153,104	-	-	153,104
Debt service:					
Principal	-	-	305,000	-	305,000
Interest and fiscal charges	-	-	124,494	-	124,494
Total expenditures	-	463,832	429,494	-	893,326
Excess (deficiency) of revenues over (under) expenditures	174,965	90,998	143,233	162,699	396,930
Other financing sources (uses)					
Transfers in	-	42,550	419,695	-	462,245
Transfers out	(405,000)	(836,930)	-	(160,000)	(996,930)
Total other financing sources (uses)	(405,000)	(794,380)	419,695	(160,000)	(534,685)
Net change in fund balances	(230,035)	(703,382)	562,928	2,699	(137,755)
Fund balances - beginning	242,014	1,944,453	1,604,643	127,972	3,677,068
Fund balances - ending	\$ 11,979	\$ 1,241,071	\$ 2,167,571	\$ 130,671	\$ 3,539,313

City of Kelso
Street Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 427,157	\$ 427,157	\$ 475,113	\$ 47,956
Intergovernmental	240,000	240,000	266,961	26,961
Charges for services	-	-	19,098	19,098
Investment earnings	400	400	994	594
Rental/lease income	19,909	19,909	20,904	995
Miscellaneous	-	-	40,066	40,066
Total revenues	<u>687,466</u>	<u>687,466</u>	<u>823,136</u>	<u>135,670</u>
Expenditures				
Transportation	696,466	703,466	571,851	131,615
Capital outlay	11,000	11,000	24,906	(13,906)
Total expenditures	<u>707,466</u>	<u>714,466</u>	<u>596,757</u>	<u>117,709</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(20,000)</u>	<u>(27,000)</u>	<u>226,379</u>	<u>253,379</u>
Other financing sources (uses)				
Transfers out	-	(100,000)	-	100,000
Total other financing sources (uses)	<u>-</u>	<u>(100,000)</u>	<u>-</u>	<u>100,000</u>
Net change in fund balances	<u>(20,000)</u>	<u>(127,000)</u>	<u>226,379</u>	<u>353,379</u>
Fund balances - beginning	495,548	495,548	495,548	-
Fund balances - ending	<u>\$ 475,548</u>	<u>\$ 368,548</u>	<u>\$ 721,927</u>	<u>\$ 353,379</u>

City of Kelso
Library Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>With Final</u>
				<u>Budget</u>
Revenues				
Taxes	\$ 446,436	\$ 490,936	\$ 535,636	\$ 44,700
Charges for services	5,750	5,750	9,091	3,341
Fines	4,650	4,650	4,191	(459)
Investment earnings	40	40	40	-
Miscellaneous	115	115	36	(79)
Total revenues	<u>456,991</u>	<u>501,491</u>	<u>548,994</u>	<u>47,503</u>
Expenditures				
Culture and recreation	446,491	490,991	492,041	(1,050)
Capital outlay	35,500	35,500	32,793	2,707
Total expenditures	<u>481,991</u>	<u>526,491</u>	<u>524,834</u>	<u>1,657</u>
Excess (deficiency) of revenues				
over (under) expenditures	<u>(25,000)</u>	<u>(25,000)</u>	<u>24,160</u>	<u>49,160</u>
Net change in fund balances	<u>(25,000)</u>	<u>(25,000)</u>	<u>24,160</u>	<u>49,160</u>
Fund balances - beginning	17,710	17,710	17,710	-
Fund balances - ending	<u>\$ (7,290)</u>	<u>\$ (7,290)</u>	<u>\$ 41,870</u>	<u>\$ 49,160</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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>With Final</u>
				<u>Budget</u>
Revenues				
Investment earnings	\$ -	\$ -	\$ 34	\$ 34
Rental/lease income	29,200	29,200	30,964	1,764
Miscellaneous	-	-	70	70
Total revenues	<u>29,200</u>	<u>29,200</u>	<u>31,068</u>	<u>1,868</u>
Expenditures				
Transportation	<u>53,780</u>	<u>59,780</u>	<u>59,115</u>	<u>665</u>
Total expenditures	<u>53,780</u>	<u>59,780</u>	<u>59,115</u>	<u>665</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(24,580)</u>	<u>(30,580)</u>	<u>(28,047)</u>	<u>2,533</u>
Other financing sources (uses)				
Transfers in	<u>24,580</u>	<u>30,580</u>	<u>30,580</u>	<u>-</u>
Total other financing sources (uses)	<u>24,580</u>	<u>30,580</u>	<u>30,580</u>	<u>-</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>2,533</u>	<u>2,533</u>
Fund balances - beginning	<u>11,953</u>	<u>11,953</u>	<u>11,953</u>	<u>-</u>
Fund balances - ending	<u>\$ 11,953</u>	<u>\$ 11,953</u>	<u>\$ 14,486</u>	<u>\$ 2,533</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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>With Final</u>
				<u>Budget</u>
Revenues				
Taxes	\$ 188,056	\$ 213,056	\$ 236,975	\$ 23,919
Charges for services	4,000	4,000	3,300	(700)
Investment earnings	100	100	29	(71)
Contributions	-	-	10,000	10,000
Rental/lease income	42,600	42,600	49,168	6,568
Miscellaneous	-	-	14,666	14,666
Total revenues	<u>234,756</u>	<u>259,756</u>	<u>314,138</u>	<u>54,382</u>
Expenditures				
Culture and recreation	244,293	244,293	239,411	4,882
Capital outlay	-	65,000	66,279	(1,279)
Total expenditures	<u>244,293</u>	<u>309,293</u>	<u>305,690</u>	<u>3,603</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(9,537)</u>	<u>(49,537)</u>	<u>8,448</u>	<u>57,985</u>
Other financing sources (uses)				
Transfers in	-	40,000	39,930	(70)
Total other financing sources (uses)	<u>-</u>	<u>40,000</u>	<u>39,930</u>	<u>(70)</u>
Net change in fund balances	<u>(9,537)</u>	<u>(9,537)</u>	<u>48,378</u>	<u>57,915</u>
Fund balances - beginning	56,313	56,313	56,313	-
Fund balances - ending	<u>\$ 46,776</u>	<u>\$ 46,776</u>	<u>\$ 104,691</u>	<u>\$ 57,915</u>

City of Kelso
Façade Improvement Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>With Final</u>
				<u>Budget</u>
Revenues				
Investment earnings	\$ -	\$ -	\$ 2	\$ 2
Total revenues	-	-	2	2
 Excess (deficiency) of revenues over (under) expenditures	 -	 -	 2	 2
 Other financing sources (uses)				
Transfers in	10,000	10,000	-	(10,000)
Total other financing sources (uses)	10,000	10,000	-	(10,000)
Net change in fund balances	10,000	10,000	2	(9,998)
 Fund balances - beginning	 446	 446	 446	 -
Fund balances - ending	<u>\$ 10,446</u>	<u>\$ 10,446</u>	<u>\$ 448</u>	<u>\$ (9,998)</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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>With Final</u>
				<u>Budget</u>
Revenues				
Intergovernmental	\$ 1,200	\$ 1,200	\$ 1,290	\$ 90
Investment earnings	-	-	119	119
Total revenues	<u>1,200</u>	<u>1,200</u>	<u>1,409</u>	<u>209</u>
Expenditures				
Capital projects	-	45,000	-	45,000
Total expenditures	<u>-</u>	<u>45,000</u>	<u>-</u>	<u>45,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,200</u>	<u>(43,800)</u>	<u>1,409</u>	<u>45,209</u>
Other financing sources (uses)				
Transfers out	-	-	(42,000)	(42,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(42,000)</u>	<u>(42,000)</u>
Net change in fund balances	<u>1,200</u>	<u>(43,800)</u>	<u>(40,591)</u>	<u>3,209</u>
Fund balances - beginning	41,079	41,079	41,079	-
Fund balances - ending	<u>\$ 42,279</u>	<u>\$ (2,721)</u>	<u>\$ 488</u>	<u>\$ 3,209</u>

City of Kelso
Stadium Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 138,000	\$ 138,000	\$ 180,027	\$ 42,027
Investment earnings	450	450	314	(136)
Rental/lease income	10,920	10,920	10,920	-
Miscellaneous	100	100	39	(61)
Total revenues	<u>149,470</u>	<u>149,470</u>	<u>191,300</u>	<u>41,830</u>
Expenditures				
Culture and recreation	<u>108,025</u>	<u>118,450</u>	<u>121,206</u>	<u>(2,756)</u>
Total expenditures	<u>108,025</u>	<u>118,450</u>	<u>121,206</u>	<u>(2,756)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>41,445</u>	<u>31,020</u>	<u>70,094</u>	<u>39,074</u>
Other financing sources (uses)				
Transfers out	<u>(15,000)</u>	<u>(40,000)</u>	<u>(40,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(15,000)</u>	<u>(40,000)</u>	<u>(40,000)</u>	<u>-</u>
Net change in fund balances	<u>26,445</u>	<u>(8,980)</u>	<u>30,094</u>	<u>39,074</u>
Fund balances - beginning	<u>90,568</u>	<u>90,568</u>	<u>90,568</u>	<u>0</u>
Fund balances - ending	<u>\$ 117,013</u>	<u>\$ 81,588</u>	<u>\$ 120,662</u>	<u>\$ 39,074</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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>With Final</u>
				<u>Budget</u>
Revenues				
Charges for services	\$ 32,300	\$ 32,300	\$ 4,872	\$ (27,428)
Miscellaneous	13,600	13,600	12,975	(625)
Total revenues	<u>45,900</u>	<u>45,900</u>	<u>17,847</u>	<u>(28,053)</u>
Expenditures				
Culture and recreation	60,900	60,900	31,898	29,002
Total expenditures	<u>60,900</u>	<u>60,900</u>	<u>31,898</u>	<u>29,002</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(15,000)</u>	<u>(15,000)</u>	<u>(14,051)</u>	<u>949</u>
Other financing sources (uses)				
Transfers in	15,000	15,000	15,000	-
Total other financing sources (uses)	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>-</u>
Net change in fund balances	-	-	949	949
Fund balances - beginning	3,494	3,494	3,494	-
Fund balances - ending	<u>\$ 3,494</u>	<u>\$ 3,494</u>	<u>\$ 4,443</u>	<u>\$ 949</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, 2016

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues				
Investment earnings	\$ -	\$ -	\$ 66	\$ 66
Total revenues	-	-	66	66
Excess (deficiency) of revenues over (under) expenditures	-	-	66	66
Other financing sources (uses)				
Transfers out	-	(15,000)	(14,930)	70
Total other financing sources (uses)	-	(15,000)	(14,930)	70
Net change in fund balances	-	(15,000)	(14,864)	136
Fund balances - beginning	14,864	14,864	14,864	-
Fund balances - ending	<u>\$ 14,864</u>	<u>\$ (136)</u>	<u>\$ -</u>	<u>\$ 136</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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>With Final</u>
				<u>Budget</u>
Revenues				
Investment earnings	\$ 500	\$ 500	\$ 3,329	\$ 2,829
Expenditures				
Economic Environment:				
Neighborhood stabilization	-	150,000	15,990	134,010
Housing rehabilitation	-	-	57,318	(57,318)
Total expenditures	-	150,000	73,308	76,692
Excess (deficiency) of revenues over (under) expenditures	500	(149,500)	(69,979)	79,521
Other financing sources (uses)				
Transfers out	(10,000)	(310,000)	(335,000)	(25,000)
Total other financing sources (uses)	(10,000)	(310,000)	(335,000)	(25,000)
Net change in fund balances	(9,500)	(459,500)	(404,979)	54,521
Fund balances - beginning	1,459,708	1,459,708	1,459,708	-
Fund balances - ending	<u>\$ 1,450,208</u>	<u>\$ 1,000,208</u>	<u>\$ 1,054,729</u>	<u>\$ 54,521</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, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 189,100	\$ 189,100	\$ 162,241	\$ (26,859)
Fines	300	300	-	(300)
Investment earnings	-	-	24	24
Miscellaneous	-	-	3,649	3,649
Total revenues	<u>189,400</u>	<u>189,400</u>	<u>165,914</u>	<u>(23,486)</u>
Expenditures				
Security of persons and property	<u>264,950</u>	<u>264,950</u>	<u>237,420</u>	<u>27,530</u>
Total expenditures	<u>264,950</u>	<u>264,950</u>	<u>237,420</u>	<u>27,530</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(75,550)</u>	<u>(75,550)</u>	<u>(71,506)</u>	<u>4,044</u>
Other financing sources (uses)				
Transfers in	<u>72,550</u>	<u>72,550</u>	<u>27,550</u>	<u>(45,000)</u>
Total other financing sources (uses)	<u>72,550</u>	<u>72,550</u>	<u>27,550</u>	<u>(45,000)</u>
Net change in fund balances	<u>(3,000)</u>	<u>(3,000)</u>	<u>(43,956)</u>	<u>(40,956)</u>
Fund balances - beginning	<u>92,726</u>	<u>92,726</u>	<u>92,726</u>	<u>-</u>
Fund balances - ending	<u>\$ 89,726</u>	<u>\$ 89,726</u>	<u>\$ 48,770</u>	<u>\$ (40,956)</u>

City of Kelso
Transportation Benefit District Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for services	\$ 175,000	\$ 175,000	\$ 174,535	\$ (465)
Miscellaneous	-	-	430	430
Total revenues	<u>175,000</u>	<u>175,000</u>	<u>174,965</u>	<u>(35)</u>
Expenditures				
Transportation	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Total expenditures	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>174,000</u>	<u>174,000</u>	<u>174,965</u>	<u>965</u>
Net change in fund balances	<u>174,000</u>	<u>174,000</u>	<u>174,965</u>	<u>965</u>
Other financing sources (uses)				
Transfers out	<u>(300,000)</u>	<u>(405,000)</u>	<u>(405,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(300,000)</u>	<u>(405,000)</u>	<u>(405,000)</u>	<u>-</u>
Net change in fund balances	<u>(126,000)</u>	<u>(231,000)</u>	<u>(230,035)</u>	<u>965</u>
Fund balances - beginning	<u>242,014</u>	<u>242,014</u>	<u>242,014</u>	<u>-</u>
Fund balances - ending	<u>\$ 116,014</u>	<u>\$ 11,014</u>	<u>\$ 11,979</u>	<u>\$ 965</u>

City of Kelso
Non-Voted 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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>With Final</u>
				<u>Budget</u>
Revenues				
Investment earnings	\$ 9,800	\$ 9,800	\$ 2,453	\$ (7,347)
Miscellaneous	-	-	570,274	570,274
Total revenues	<u>9,800</u>	<u>9,800</u>	<u>572,727</u>	<u>562,927</u>
Expenditures				
Debt service:				
Principal	140,000	305,000	305,000	-
Interest	69,028	124,495	124,494	1
Total expenditures	<u>209,028</u>	<u>429,495</u>	<u>429,494</u>	<u>1</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(199,228)</u>	<u>(419,695)</u>	<u>143,233</u>	<u>562,928</u>
Other financing sources (uses)				
Transfers in/(out)	199,228	419,695	419,695	-
Total other financing sources (uses)	<u>199,228</u>	<u>419,695</u>	<u>419,695</u>	<u>-</u>
Net change in fund balances	-	-	562,928	562,928
Fund balances - beginning	1,604,643	1,604,643	1,604,643	-
Fund balances - ending	<u>\$1,604,643</u>	<u>\$1,604,643</u>	<u>\$2,167,571</u>	<u>\$ 562,928</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, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 60,000	\$ 60,000	\$ 162,555	\$ 102,555
Investment earnings	-	-	144	144
Total revenues	<u>60,000</u>	<u>60,000</u>	<u>162,699</u>	<u>102,699</u>
Excess (deficiency) of revenues over (under) expenditures	<u>60,000</u>	<u>60,000</u>	<u>162,699</u>	<u>102,699</u>
Other financing sources (uses)				
Transfers out	(80,000)	(160,000)	(160,000)	-
Total other financing sources (uses)	<u>(80,000)</u>	<u>(160,000)</u>	<u>(160,000)</u>	<u>-</u>
Net change in fund balances	(20,000)	(100,000)	2,699	102,699
Fund balances - beginning	127,972	127,972	127,972	-
Fund balances - ending	<u>\$ 107,972</u>	<u>\$ 27,972</u>	<u>\$ 130,671</u>	<u>\$ 102,699</u>

Fiduciary Funds

Agency Fund

Agency funds are used to account for short-term custodial collections of resources on behalf of another individual, entity, or government.

Southwest Washington Regional Airport Fund – this fund is a separate entity jointly operated by various entities in Cowlitz County, Washington. The purpose of this agency is 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. The City acts as the treasurer for this agency. In addition, the City of Kelso has been contracted to maintain the financial records and reports as required by the laws of the State of Washington.

City of Kelso
Airport Agency Fund
Statement of Changes in Assets and Liabilities
For the Fiscal Year ended December 31, 2016

	Balance December 31, 2015	Additions	Deductions	Balance December 31, 2016
Assets				
Cash & cash equivalents	\$ 420,397	\$ 1,509,492	\$ 1,278,439	\$ 651,450
Receivables	122,956	476,727	584,961	14,722
Total Assets	<u>\$ 543,353</u>	<u>\$ 1,986,219</u>	<u>\$ 1,863,400</u>	<u>\$ 666,172</u>
Liabilities				
Accounts payable	\$ 140,353	\$ 686,220	\$ 800,146	\$ 26,427
Due to other governments	-	150,000	-	150,000
Custodial accounts	403,000	1,149,999	1,063,254	489,745
Total Liabilities	<u>\$ 543,353</u>	<u>\$ 1,986,219</u>	<u>\$ 1,863,400</u>	<u>\$ 666,172</u>

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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	121
<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	128
<i>These schedules contain trend information to help the reader assess some of the City's most significant local revenue sources, various taxes.</i>	
Debt Capacity	133
<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	138
<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	141
<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									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Governmental activities										
Net investment in capital assets	\$ 47,636	\$ 47,405	\$ 47,642	\$ 48,034	\$ 47,753	\$ 48,199	\$ 54,754	\$ 57,203	\$ 56,455	\$ 56,985
Restricted	1,181	1,015	845	1,302	1,349	1,442	1,491	1,616	1,664	1,085
Unrestricted	4,231	4,480	4,021	2,801	2,936	4,494	4,342	4,481	4,680	5,496
Total governmental activities net position	<u>\$ 53,048</u>	<u>\$ 62,900</u>	<u>\$ 52,508</u>	<u>\$ 52,137</u>	<u>\$ 52,038</u>	<u>\$ 54,135</u>	<u>\$ 60,587</u>	<u>\$ 63,300</u>	<u>\$ 62,799</u>	<u>\$ 63,566</u>
Business-type activities										
Net investment in capital assets	\$ 19,488	\$ 19,499	\$ 20,013	\$ 20,893	\$ 20,809	\$ 21,989	\$ 19,683	\$ 20,307	\$ 21,087	\$ 22,337
Restricted	563	201	202	591	592	593	595	597	603	478
Unrestricted	4,402	5,787	5,747	5,119	6,216	7,128	7,219	7,957	7,224	8,626
Total business-type activities net position	<u>\$ 24,453</u>	<u>\$ 25,487</u>	<u>\$ 25,962</u>	<u>\$ 26,603</u>	<u>\$ 27,617</u>	<u>\$ 29,710</u>	<u>\$ 27,497</u>	<u>\$ 28,861</u>	<u>\$ 28,914</u>	<u>\$ 31,441</u>
Primary government										
Net investment in capital assets	\$ 67,124	\$ 66,904	\$ 67,655	\$ 68,927	\$ 68,562	\$ 70,188	\$ 74,437	\$ 77,510	\$ 77,542	\$ 79,322
Restricted	1,744	1,216	1,047	1,893	1,941	2,035	2,086	2,213	2,267	1,563
Unrestricted	8,633	10,267	9,768	7,920	9,152	11,622	11,561	12,438	11,904	14,122
Total primary government net position	<u>\$ 77,501</u>	<u>\$ 78,387</u>	<u>\$ 78,470</u>	<u>\$ 78,740</u>	<u>\$ 79,655</u>	<u>\$ 83,845</u>	<u>\$ 88,084</u>	<u>\$ 92,161</u>	<u>\$ 91,713</u>	<u>\$ 95,007</u>

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

	Fiscal Year									
Expenses	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Governmental activities:										
General government	\$ 1,645	\$ 1,560	\$ 1,503	\$ 1,501	\$ 1,453	\$ 1,312	\$ 1,401	\$ 1,525	\$ 1,714	\$ 1,863
Security of persons and property	4,388	4,808	4,939	5,031	4,543	4,533	4,562	4,609	4,608	5,134
Physical environment	603	598	430	441	422	431	375	391	249	338
Transportation	1,652	1,695	1,747	1,783	1,703	1,722	2,180	2,323	2,654	3,322
Economic environment	849	493	442	695	396	590	754	308	374	325
Culture and recreation	1,095	1,192	993	1,091	1,054	1,066	985	1,121	1,107	1,087
Interest on long-term debt	137	136	135	140	173	117	114	122	109	179
Total governmental activities expenses	10,369	10,482	10,189	10,682	9,744	9,771	10,371	10,399	10,815	12,248
Business-type activities:										
Water/Sewer	6,045	5,912	6,889	6,634	6,578	6,610	7,079	7,186	7,645	7,672
Solid waste	1,099	1,087	1,091	1,247	1,235	1,294	1,317	1,457	1,481	1,549
Storm water	295	417	464	456	580	571	547	556	715	609
Airport	224	348	423	357	380	422	-	-	-	-
Total business-type activities expenses	7,663	7,764	8,867	8,694	8,773	8,897	8,943	9,199	9,841	9,830
Total primary government expenses	\$ 18,032	\$ 18,246	\$ 19,056	\$ 19,376	\$ 18,517	\$ 18,668	\$ 19,314	\$ 19,598	\$ 20,656	\$ 22,078
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 82	\$ 63	\$ 60	\$ 62	\$ 97	\$ 91	\$ 209	\$ 90	\$ 119	\$ 130
Security of persons and property	170	213	370	185	233	192	151	360	279	306
Physical environment	49	70	13	48	11	6	17	18	34	26
Transportation	34	119	75	191	210	231	298	532	655	599
Economic environment	263	224	119	119	127	127	147	163	76	160
Culture and recreation	56	71	56	76	104	100	80	140	94	99
Operating grants and contributions	908	492	585	691	624	894	848	172	317	192
Capital grants and contributions	113	596	1,262	867	822	1,455	4,895	3,525	663	1,460
Total governmental activities program revenues	1,675	1,848	2,540	2,239	2,228	3,096	6,645	5,000	2,237	2,972
Business-type activities:										
Charges for services:										
Water/Sewer	6,425	6,781	7,182	7,320	7,635	7,621	7,883	8,358	8,868	9,035
Solid waste	1,110	1,174	1,110	1,131	1,142	1,145	1,194	1,382	1,427	1,517
Storm water	254	267	446	559	623	579	591	623	714	762
Airport	109	118	125	131	138	126	-	-	-	-
Operating grants and contributions	72	227	256	129	238	193	19	75	7	25
Capital grants and contributions	849	75	163	10	-	457	2	112	-	1,144
Total business-type activities program revenues	8,819	8,642	9,282	9,280	9,776	10,121	9,689	10,550	11,016	12,483
Total primary government program revenues	\$ 10,494	\$ 10,490	\$ 11,822	\$ 11,519	\$ 12,004	\$ 13,217	\$ 16,334	\$ 15,550	\$ 13,253	\$ 15,455

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net (expense)/revenue										
Governmental activities	\$ (8,694)	\$ (8,634)	\$ (7,649)	\$ (8,443)	\$ (7,516)	\$ (6,675)	\$ (3,726)	\$ (5,399)	\$ (8,578)	\$ (9,276)
Business-type activities	1,156	878	415	586	1,003	1,224	746	1,351	1,175	2,653
Total primary government net expense	<u>\$ (7,538)</u>	<u>\$ (7,756)</u>	<u>\$ (7,234)</u>	<u>\$ (7,857)</u>	<u>\$ (6,513)</u>	<u>\$ (5,451)</u>	<u>\$ (2,980)</u>	<u>\$ (4,048)</u>	<u>\$ (7,403)</u>	<u>\$ (6,623)</u>
General Revenues and other Changes in										
Net Position										
Governmental activities:										
Taxes										
Property taxes	\$ 1,018	\$ 1,007	\$ 1,146	\$ 1,139	\$ 1,159	\$ 1,175	\$ 1,191	\$ 1,206	\$ 1,243	\$ 1,280
Sales taxes	2,439	2,343	2,014	2,150	2,154	2,103	2,141	2,410	2,546	2,899
Utility taxes	2,426	2,487	2,534	2,542	2,611	2,827	2,748	2,809	3,099	3,265
Business taxes	716	722	659	671	713	755	772	821	875	944
Excise taxes	387	215	156	117	111	86	79	107	157	188
Penalties & interest	5	5	5	5	4	5	3	5	4	6
State entitlements	597	635	638	640	572	573	692	624	653	763
Investment earnings	286	177	65	50	68	64	29	37	55	51
Miscellaneous	67	29	60	12	21	26	66	93	68	631
Gain/(loss) on sale of capital assets	716	885	-	-	-	-	-	-	1	-
Special items	-	-	-	-	-	-	2,513	-	-	-
Transfers	(111)	(19)	(20)	(20)	4	(40)	(56)	-	-	17
Total governmental activities	<u>8,546</u>	<u>8,486</u>	<u>7,257</u>	<u>7,306</u>	<u>7,417</u>	<u>7,574</u>	<u>10,178</u>	<u>8,112</u>	<u>8,701</u>	<u>10,044</u>
Business-type activities:										
Investment earnings	203	137	39	15	15	11	11	13	18	23
Miscellaneous	-	-	-	20	-	-	-	-	4	1
Gain/(loss) on sale of capital assets	-	1	-	-	-	-	-	-	-	-
Special items	-	-	-	-	-	-	(3,026)	-	-	-
Transfers	111	19	20	20	(4)	40	56	-	-	(17)
Total business-type activities	<u>314</u>	<u>157</u>	<u>59</u>	<u>55</u>	<u>11</u>	<u>51</u>	<u>(2,959)</u>	<u>13</u>	<u>22</u>	<u>7</u>
Total primary government	<u>\$ 8,860</u>	<u>\$ 8,643</u>	<u>\$ 7,316</u>	<u>\$ 7,361</u>	<u>\$ 7,428</u>	<u>\$ 7,625</u>	<u>\$ 7,219</u>	<u>\$ 8,125</u>	<u>\$ 8,723</u>	<u>\$ 10,051</u>
Change in Net Position										
Governmental activities	\$ (148)	\$ (148)	\$ (392)	\$ (1,137)	\$ (99)	\$ 899	\$ 6,452	\$ 2,713	\$ 123	\$ 768
Business-type activities	1,470	1,035	474	641	1,014	1,275	(2,213)	1,364	1,197	2,660
Total primary government	<u>\$ 1,322</u>	<u>\$ 887</u>	<u>\$ 82</u>	<u>\$ (496)</u>	<u>\$ 915</u>	<u>\$ 2,174</u>	<u>\$ 4,239</u>	<u>\$ 4,077</u>	<u>\$ 1,320</u>	<u>\$ 3,428</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
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
2013	1,191	2,141	2,748	772	79
2014	1,206	2,410	2,809	821	107
2015	1,243	2,546	3,099	875	157
2016	1,280	2,899	3,265	944	188

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General fund (Per GASB 54)*										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ 55	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-	54	93	171	100	92	118
Committed	-	-	-	-	178	213	242	-	-	-
Assigned	-	-	-	-	202	-	-	212	242	277
Unassigned	-	-	-	-	1,197	3,063	3,097	3,828	4,564	5,285
General fund (Prior to GASB 54)*										
Reserved	51	243	200	155	-	-	-	-	-	-
Unreserved	3,175	3,587	1,491**	1,022	-	-	-	-	-	-
Total general fund	<u>\$ 3,226</u>	<u>\$ 3,830</u>	<u>\$ 1,691</u>	<u>\$ 1,177</u>	<u>\$ 1,686</u>	<u>\$ 3,369</u>	<u>\$ 3,510</u>	<u>\$ 4,140</u>	<u>\$ 4,898</u>	<u>\$ 5,680</u>
All other governmental funds (Per GASB 54)*										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ 953	\$ 829	\$ 647	\$ -	\$ -	\$ -
Restricted	-	-	-	-	1,295	1,350	1,321	1,516	1,572	3,798
Assigned	-	-	-	-	1,078	1,215	1,350	2,032	2,105	2,607
Unassigned	-	-	-	-	(744)	(504)	(1,227)	(304)	(428)	(231)
All other governmental funds (Prior to GASB 54)*										
Reserved	1,130	837	811	155	-	-	-	-	-	-
Unreserved, reported in:										
Special revenue funds	705	773	802	379***	-	-	-	-	-	-
Debt service funds	-	-	1,605**	1,597	-	-	-	-	-	-
Total all other governmental funds	<u>\$ 1,835</u>	<u>\$ 1,610</u>	<u>\$ 3,218</u>	<u>\$ 2,131</u>	<u>\$ 2,582</u>	<u>\$ 2,890</u>	<u>\$ 2,091</u>	<u>\$ 3,244</u>	<u>\$ 3,249</u>	<u>\$ 6,174</u>

* 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.

** 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									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenues										
Taxes	\$ 6,988	\$ 6,802	\$ 6,506	\$ 6,607	\$ 6,745	\$ 6,955	\$ 6,940	\$ 7,361	\$ 7,928	\$ 8,655
Licenses and permits	290	229	159	138	200	195	212	203	131	174
Intergovernmental	1,540	1,063	2,341	2,199	1,653	3,066	5,415	5,588	1,361	2,739
Charges for services	625	616	747	988	824	879	963	1,008	1,268	1,311
Fines	163	131	127	164	190	140	130	119	106	98
Investment earnings	262	165	61	49	69	64	29	37	55	53
Contributions	15	14	48	1	-	-	-	-	55	65
Rental/lease income	38	56	59	53	61	86	90	104	105	112
Miscellaneous	140	91	159	37	36	38	78	110	84	655
Total revenues	10,061	9,167	10,207	10,236	9,778	11,423	13,857	14,530	11,093	13,862
Expenditures										
General government	1,808	1,712	1,746	1,812	1,726	1,619	1,659	1,730	1,953	2,110
Security of persons and property	4,297	4,428	4,614	4,700	4,299	4,297	4,340	4,271	4,386	4,808
Physical environment	650	667	635	647	548	571	494	439	437	602
Transportation	701	734	657	605	495	479	742	851	928	1,589
Economic environment	839	491	441	709	398	585	752	313	381	317
Culture and recreation	764	844	717	758	774	781	709	842	827	885
Capital outlay	519	759	1,646	2,005	1,355	1,999	5,497	3,883	1,192	2,926
Debt service										
Principal	23	123	128	128	133	148	158	317	140	305
Interest	135	134	133	138	224	111	108	101	86	185
Total expenditures	9,736	9,892	10,717	11,502	9,952	10,590	14,459	12,747	10,330	13,727
Excess of revenues over (under) expenditures	325	(725)	(510)	(1,266)	(174)	833	(602)	1,783	763	135

Other financing sources (uses)

Transfers in	279	675	2,019	258	489	497	573	579	543	1,517
Transfers out	(503)	(694)	(2,039)	(278)	(485)	(537)	(628)	(579)	(543)	(1,500)
Bonds issued	-	-	-	-	2,710	-	-	-	-	3,200
Bonds refunded	-	-	-	-	(2,660)	-	-	-	-	-
Premium on bonds issued	-	-	-	-	-	-	-	-	-	355
Sale of capital assets	1,427	1,123	-	-	-	-	-	-	-	-
Total other financing sources (uses)	1,203	1,104	(20)	(20)	54	(40)	(55)	-	-	3,572
Net change in fund balances	<u>\$ 1,528</u>	<u>\$ 379</u>	<u>\$ (530)</u>	<u>\$ (1,286)</u>	<u>\$ (120)</u>	<u>\$ 793</u>	<u>\$ (657)</u>	<u>\$ 1,783</u>	<u>\$ 763</u>	<u>\$ 3,707</u>
Debt service as a percentage of noncapital expenditures*	1.71%	2.81%	2.88%	2.80%	4.15%	3.01%	2.97%	4.72%	2.47%	4.54%

* 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.

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

Fiscal Year	Property Tax	Sales Tax	Utility Taxes	Business Taxes	Other Taxes	Total
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
2013	1,197	2,141	2,748	772	82	6,940
2014	1,209	2,410	2,809	821	112	7,361
2015	1,247	2,546	3,099	875	161	7,928
2016	1,353	2,899	3,265	944	194	8,655

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

Fiscal Year	Utilities	Commercial Property ¹	Residential Property ¹	Industrial Property ¹	Real Property		Direct Tax Rate	Ratio of Assessed Value To Estimated Actual Value ²
					Total Assessed Value ¹	Estimated Value		
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%
2013	-	-	-	-	680,264	707,871	2.0116%	96.1%
2014	13,832	306,405	320,779	37,021	678,037	723,625	2.0557%	93.7%
2015	14,080	311,906	326,538	37,685	690,210	723,491	2.0467%	95.4%
2016	13,930	321,312	331,232	37,077	703,552	805,901	2.0612%	87.3%

¹ Cowlitz County Assessor's Office

² Department of Revenue - Property Tax Division

Note - personal property information is not currently available. Certain other information was not available prior to 2014.

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

Fiscal Year	City Regular	Total City	School District	Port of Longview	Cowlitz County	State of Washington	Cowlitz 2 Fire District	Total
2007	\$ 1.9095	\$ 1.9095	\$ 5.2332	\$ 0.4503	\$ 1.7564	\$ 2.3887	\$ 1.5608	\$ 13.2989
2008	1.8219	1.8219	4.9324	0.4143	1.6756	2.2277	1.5000	12.5719
2009	1.8102	1.8102	4.3766	0.4037	1.6629	2.0593	1.4044	11.7171
2010	1.7985	1.7985	4.4339	0.3906	1.6904	2.1058	1.4643	11.8835
2011	1.7643	1.7643	5.1213	0.3933	1.7304	2.2954	1.5000	12.8047
2012	1.8131	1.8131	5.1967	0.2192	1.8647	2.3733	1.5000	12.9670
2013	2.0116	2.0116	5.7004	0.2164	1.9408	2.4478	1.5000	13.8170
2014	2.0557	2.0557	5.6506	0.4500	2.0423	2.3356	1.5000	14.0342
2015	2.0467	2.0467	5.6186	0.4500	2.1404	2.2824	1.5000	14.0381
2016	2.0612	2.0612	5.5153	0.4177	1.9728	2.0837	1.4982	13.5489

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

City of Kelso
Principal Property Taxpayers
December 31, 2016
(amounts expressed in thousands)

Taxpayer	2016			2007		
	Rank	Assessed Valuation	Percentage of Total Assessed Valuation	Rank	Assessed Valuation	Percentage of Total Assessed Valuation
Foster Farms Poultry	1	\$ 29,040	3.79%	1	\$ 33,138	5.11%
Three Rivers Mall LLC	2	28,455	3.72%	2	18,773	2.89%
Burlington Northern Santa Fe	3	14,770	1.93%	7	5,658	0.87%
Mario Segale	4	14,664	1.92%			
Safeway Inc.	5	10,536	1.38%	3	8,488	1.31%
C & C Logging	6	9,717	1.27%			
ALS Group USA	7	7,666	1.00%			
SW Paper Inc.	8	7,316	0.96%	4	7,796	1.20%
Allen Street Investments	9	6,937	0.91%	9	5,425	0.84%
Storedahl Enterprises LLC	10	6,921	0.90%			
Dayton Hudson				5	7,280	1.12%
CAS Holdings Inc.				6	6,390	0.98%
Expedient Enterprises LLC				8	5,552	0.86%
Olson Manufacturing				10	4,567	0.70%
		<u>\$ 136,022</u>	<u>17.78%</u>		<u>\$ 103,067</u>	<u>15.88%</u>

Source: Cowlitz County Assessor's Office

**City of Kelso
Principal Utility Taxpayers
December 31, 2016**

Utility Tax Type	2016			2007		
	Rank	Tax	Percentage of Tax to Total	Rank	Tax	Percentage of Tax to Total
Electricity*	1	\$ 707,058	21.65%	1	\$ 545,469	22.48%
Sewer*	2	519,703	15.92%	2	321,026	13.23%
Water*	3	351,059	10.75%	4	177,962	7.34%
Cable Television*	4	242,407	7.42%	8	65,899	2.72%
Garbage*	5	152,409	4.67%	7	89,243	3.68%
Cell Phone**	6	133,384	4.08%	3	211,269	8.71%
Telephone**	7	85,173	2.61%	5	152,318	6.28%
Natural Gas*	8	58,976	1.81%	6	132,374	5.46%
		<u>2,250,169</u>	<u>68.91%</u>		<u>1,695,560</u>	<u>69.89%</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
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%	45,466	1,182,285	100.0%	-	0.0%
2009	1,316,848	1,254,188	95.2%	62,660	1,316,848	100.0%	-	0.0%
2010	1,309,655	1,242,802	94.9%	66,853	1,309,655	100.0%	-	0.0%
2011	1,329,252	1,262,544	95.0%	66,708	1,329,252	100.0%	-	0.0%
2012	1,347,579	1,285,794	95.4%	61,785	1,347,579	100.0%	-	0.0%
2013	1,368,390	1,309,790	95.7%	58,516	1,368,306	100.0%	84	0.0%
2014	1,393,874	1,335,634	95.8%	45,145	1,380,779	99.1%	13,095	0.9%
2015	1,412,682	1,361,171	96.4%	28,057	1,389,228	98.3%	51,511	3.6%
2016	1,450,135	1,397,191	96.3%	-	1,397,191	96.3%	52,944	3.7%

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 ¹	Per Capita ²
	General Obligation Bonds	Miscellaneous Notes	Water/Sewer Revenue Bonds	Miscellaneous Notes			
2007	\$ 3,080	\$ 318	\$ 1,230	\$ 2,735	\$ 7,363	2.05%	\$ 622
2008	2,980	295	915	2,524	6,714	1.78%	564
2009	2,875	273	840	2,322	6,310	1.68%	533
2010	2,770	250	5,235*	2,119	5,139	1.35%	436
2011	2,710	227	5,050	1,916	9,903	2.48%	831
2012	2,585	204	4,865	1,714	9,368	2.25%	785
2013	2,408	182	4,603	1,472	8,665	2.02%	726
2014	2,294	-	4,441	1,284	8,019	1.76%	670
2015	2,175	-	4,285	1,097	7,557	1.57%	632
2016	5,070	-	4,085	909	10,064	N/A	841

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 138 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
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
2013	680,264	2,408,189	-	2,408,189	0.34%	202
2014	678,037	2,294,356	-	2,294,356	0.32%	192
2015	690,210	2,175,000	-	2,175,000	0.30%	182
2016	703,552	5,070,000	-	5,070,000	0.63%	424

*Amounts expressed in thousands

₁Cowlitz County Assessor's Office

₂See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property on Page 128 for property value data

₃Population data can be found in the Schedule of Demographic and Economic Statistics on page 138.

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, 2016

<u>Jurisdiction</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable¹</u>	<u>Estimated Share of Overlapping Debt</u>
Direct:			
City of Kelso	\$ 5,070,000	100%	\$ 5,070,000
Overlapping:			
Cowlitz County	41,060,526	8%	3,284,842
Kelso School District	14,219,402	41%	5,829,955
Port of Longview	10,225,000	10%	1,022,500
Cowlitz Fire District #2	10,731,613	32%	3,434,116
Subtotal, overlapping debt	76,236,541		13,571,412
Total direct and overlapping	<u>\$ 81,306,541</u>		<u>\$ 18,641,412</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									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Debt limit	\$ 45,497	\$ 48,670	\$ 54,595	\$ 54,615	\$ 56,505	\$ 55,744	\$ 51,020	\$ 50,853	\$ 51,766	\$ 52,766
Total net debt applicable to limit	3,079	2,978	1,270	2,046	1,893	1,637	1,378	2,315	2,175	5,070
Legal debt margin	<u>\$ 42,418</u>	<u>\$ 45,692</u>	<u>\$ 53,325</u>	<u>\$ 52,569</u>	<u>\$ 54,612</u>	<u>\$ 54,107</u>	<u>\$ 49,642</u>	<u>\$ 48,538</u>	<u>\$ 49,591</u>	<u>\$ 47,696</u>
Total net debt applicable to the limit as a percentage of debt limit	6.77%	6.12%	2.33%	3.75%	3.35%	2.94%	2.70%	4.55%	4.20%	9.61%

Legal Debt Margin Calculation for Fiscal Year 2015

Assessed value	\$ 703,552
Debt limit (7.5% of total assessed value)	52,766
Debt applicable to limit:	
General obligation bonds	5,070
Less: Amount set aside for repayment of general obligation debt	-
Total net debt applicable to limit	<u>5,070</u>
Legal debt margin	<u>\$ 47,696</u>

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: Operating Expenses²	Net Available Revenue	Debt Services³		Coverage
				Principal	Interest	
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
2013	7,805,929	6,125,903	1,680,026	190,000	193,409	4.38
2014	8,280,269	6,092,495	2,187,774	195,000	216,772	5.31
2015	8,796,003	6,599,416	2,196,587	195,000	214,992	5.36
2016	8,985,892	6,658,143	2,327,749	200,000	167,381	6.34

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

²Total operating expenses exclusive of depreciation and interest.

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

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

Fiscal Year	Population¹	Info available at County level only			School Enrollment³	Metro/Area Unemployment Rate⁴
		Personal Income²	Per Capita Personal Income²	County Median Age¹		
2007	11,840	\$ 3,059,557	\$ 30,370	38.82	4,921	6.3%
2008	11,900	3,227,830	31,742	38.99	5,089	8.2%
2009	11,840	3,235,488	31,681	39.25	5,022	13.4%
2010	11,780	3,314,467	32,368	40.19	5,034	13.0%
2011	11,920	3,426,188	33,479	40.55	4,970	12.1%
2012	11,930	3,557,907	34,941	40.71	4,091	10.9%
2013	11,940	3,667,139	36,002	40.89	4,908	10.1%
2014	11,960	3,894,794	38,135	41.16	4,974	8.4%
2015	11,950	4,177,087	40,371	41.65	4,951	7.6%
2016	11,970	N/A	N/A	N/A	5,030	7.4%

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

Personal income amounts are expressed in thousands of dollars.

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

Employer	2016			2007		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
St John's Medical Center/Peace Health	1,650	1	3.9%	1,771	2	4.7%
Weyerhaeuser	1,539	2	3.6%	1,850	1	4.9%
Kapstone Paper & Packaging / Longview Fibre	1,028	3	2.4%	1,387	3	3.7%
Wal-Mart	750	4	1.8%			
Longview School District	735	5	1.7%	881	4	2.3%
Foster Farms	707	6	1.7%	730	6	1.9%
Kelso School District	637	7	1.5%	875	5	2.3%
JH Kelly	600	8	1.4%	600	8	1.6%
Cowlitz County	549	9	1.3%	594	9	1.6%
Safeway Grocery	454	10	1.1%			
Lower Columbia College				618	7	1.6%
NORPAC				442	10	1.2%
Total	<u>8,649</u>		<u>20.5%</u>	<u>9,748</u>		<u>25.7%</u>

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

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

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

Function	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Government										
Community Development	5.0	5.0	5.0	5.0	2.3	3.0	3.0	2.5	1.5	3.0
Finance	8.0	8.0	8.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
City Attorney	1.5	1.0	1.0	1.0	0.3	0.3	0.4	0.4	0.4	0.4
Admin.	1.5	1.9	2.0	2.0	1.8	1.7	2.0	2.0	2.0	2.6
Engineering	6.0	8.0	6.9	6.1	6.1	6.1	4.1	4.1	4.6	5.0
Airport	-	0.0	0.0	0.0	0.0	0.0	1.0	1.0	1.0	1.0
Public Safety										
Police										
Officers	28.0	31.4	29.8	27.0	27.0	24.3	24.0	24.0	25.0	25.0
Civilians	4.0	3.4	3.4	3.4	3.4	3.4	4.4	4.4	4.4	4.4
Highways & Streets										
Maintenance	2.0	2.5	1.4	1.0	0.0	0.0	0.0	1.0	1.0	1.0
Traffic	2.0	2.4	2.5	1.5	1.3	1.3	1.3	1.3	1.0	1.0
Culture and recreation	7.0	8.9	7.1	6.0	6.0	6.0	6.3	6.3	7.0	7.0
Water	7.0	8.1	8.7	7.5	7.5	7.5	8.8	8.8	8.0	8.5
Sewer	6.0	5.4	6.7	5.5	5.5	5.5	6.8	6.8	6.0	6.5
Drainage	2.0	2.2	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Total	80.0	88.2	85.6	76.0	71.1	69.1	72.1	72.6	71.9	75.4

Source: City Payroll Department

City of Kelso
Operating Indicators by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Police										
Physical arrests	1,824	1,586	1,668	1,608	1,435	1,309	1,163	1,065	1,227	1,169
Traffic violations	1,135	1,276	1,176	2,477	2,471	1,310	1,114	1,197	645	391
Fire (contracted with Cowlitz 2 Fire and Rescue)										
Number of calls answered	4,996	4,607	3,981	3,743	3,974	4,180	4,225	4,107	4,636	4,950
Highways and streets										
Street resurfacing (linear feet)	6,600	5,647	5,150	35,957	21,056	6,300	3,800	13,500	4,700	4,500
Sanitation (contracted with Waste Control Equipment Inc.)										
Residential refuse collected (tons monthly average)	573	562	519	495	507	524	513	641	642	677
Residential recyclables collected (tons monthly average)	52	49	50	51	46	50	41	40	41	38
Water										
Number of service connections	4,704	4,716	4,725	4,758	4,775	4,782	4,778	4,781	4,784	4,789
Water main breaks	3	11	6	11	9	5	7	7	3	6
Average daily consumption (millions of gallons)	2.2	2.3	2.3	2.2	2.2	2.0	2.1	2.1	2.25	2.19
Sewer										
Number of service connections	3,961	3,970	3,938	3,943	3,931	3,924	3,933	3,950	3,982	4,029
Average daily sewage treatment (millions of gallons)	2.6	2.6	2.4	2.6	2.7	2.9	2.3	2.5	2.7	2.7

Sources: Various City departments.

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

Function	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	8	8	8	8	8	9	9	9	9	9
Highways and streets										
Street (miles)	64	64	64	64	64	64	64	64	64	64
Streetlights	300	380	380	432	432	432	441	469	469	483
Traffic signals	12	12	12	13	13	13	13	15	15	15
Culture and recreation										
Libraries	1	1	1	1	1	1	1	1	1	1
Park acreage	50	50	50	50	50	50	50	50	50	50
Water										
Water mains (miles)	73.00	73.00	73.00	73.00	73.00	73.56	73.56	73.56	73.85	74.28
Fire hydrants	605	550	550	550	554	554	554	556	605	606
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)	52.00	52.00	52.00	56.00	56.00	56.52	56.52	56.52	56.80	57.02
Storm sewers (miles)	55	55	55	55	55	55	55	55	55	55
Maximum daily treatment capacity (millions of gallons)	26	26	26	26	26	26	26	26	26	26

Sources: Various City departments.