

# *City of Kelso, Washington Comprehensive Annual Financial Report*



*2018 Kelso Youth Baseball Opening Ceremonies  
Tam O' Shanter Park*

*For the Fiscal Year Ended  
December 31, 2017*

# **City of Kelso, Washington**

## **Comprehensive Annual Financial Report**



**For the fiscal year ended December 31, 2017**

**Prepared by the Finance Department**

**Brian Butterfield  
Finance Director**

**Accounting Staff  
Sharry Hilton  
Lisa Wetle**

City of Kelso  
 Comprehensive Annual Financial Report  
 For the Fiscal Year Ended December 31, 2017

TABLE OF CONTENTS

INTRODUCTORY SECTION

Letter of Transmittal .....	3
GFOA Certificate of Achievement .....	8
Organization Chart.....	9
List of Elected and Appointed Officials .....	10

FINANCIAL SECTION

Independent Auditor’s Report.....	13
Management’s Discussion and Analysis .....	17
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position .....	30
Statement of Activities.....	31
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	32
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	33
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	34
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund.....	35
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Arterial Street Fund .....	36
Statement of Net Position – Proprietary Funds.....	38
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds.....	40
Statement of Cash Flows – Proprietary Funds.....	41
Statement of Fiduciary Net Position – Fiduciary Funds.....	42
Statement of Changes in Fiduciary Net Position – Fiduciary Funds.....	43
Notes to the Financial Statements.....	45
Required Supplementary Information:	
Schedules of Funding Progress and Employer Contributions – Other Post Employment Benefits Other Than Pensions .....	91
Schedules of Employer Contributions – Public Employees Retirement System .....	92
Schedules of Employer Contributions – Law Enforcement Officers and Firefighters Retirement Plans.....	94
Schedules of Proportionate Share of the Net Pension Liability – Public Employees Retirement System .....	95
Schedules of Proportionate Share of the Net Pension Liability – Law	

Enforcement Officers and Firefighters Retirement Plans .....	97
Combining Balance Sheet – Nonmajor Governmental Funds .....	100
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds .....	102
Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:	
Street Fund .....	104
Library Fund .....	105
Kelso Station Fund.....	106
Parks and Recreation Fund .....	107
Façade Improvement Fund .....	108
Paths and Trails Fund.....	109
Stadium Fund .....	110
Highlander Festival Fund.....	111
HUD Block Grant Fund .....	112
Criminal Justice Fund .....	113
Transportation Benefit District Fund.....	114
Non Voted GO Bond Debt Service Fund .....	115
City Hall Capital Projects Fund .....	116
Statement of Changes in Assets and Liabilities - Agency Fund.....	119

#### STATISTICAL SECTION

Net Position by Component .....	123
Changes in Net position .....	124
Governmental Activities Tax Revenues by Source .....	126
Fund Balances of Governmental Funds .....	127
Changes in Fund Balances of Governmental Funds .....	128
General Governmental Tax Revenues by Source .....	129
Assessed Value and Estimated Actual Value of Taxable Property .....	130
Property Tax Rates – Direct and Overlapping Governments .....	131
Principal Property Taxpayers.....	132
Principal Utility Taxpayers .....	133
Property Tax Levies and Collections .....	134
Ratio of Outstanding Debt by Type .....	135
Ratio of General Bonded Debt Outstanding.....	136
Direct and Overlapping Governmental Activities Debt.....	137
Legal Debt Margin Information.....	138
Pledged Revenue Coverage .....	139
Demographic and Economic Statistics .....	140
Principal Employers.....	141
Full-time Equivalent City Government Employees by Function .....	142
Operating Indicators by Function .....	143
Capital Asset Statistics by Function .....	144

# **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 27, 2018

To the Honorable Nancy Malone, 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, 2017.

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, 2017, 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, 2017, 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 11,980.

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 104.

### **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 Nippon Paper Industries Company, LTD (formerly 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 2017 was 6.1 percent compared with state and national rates of 4.8 percent and 4.4 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, 2016. 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**

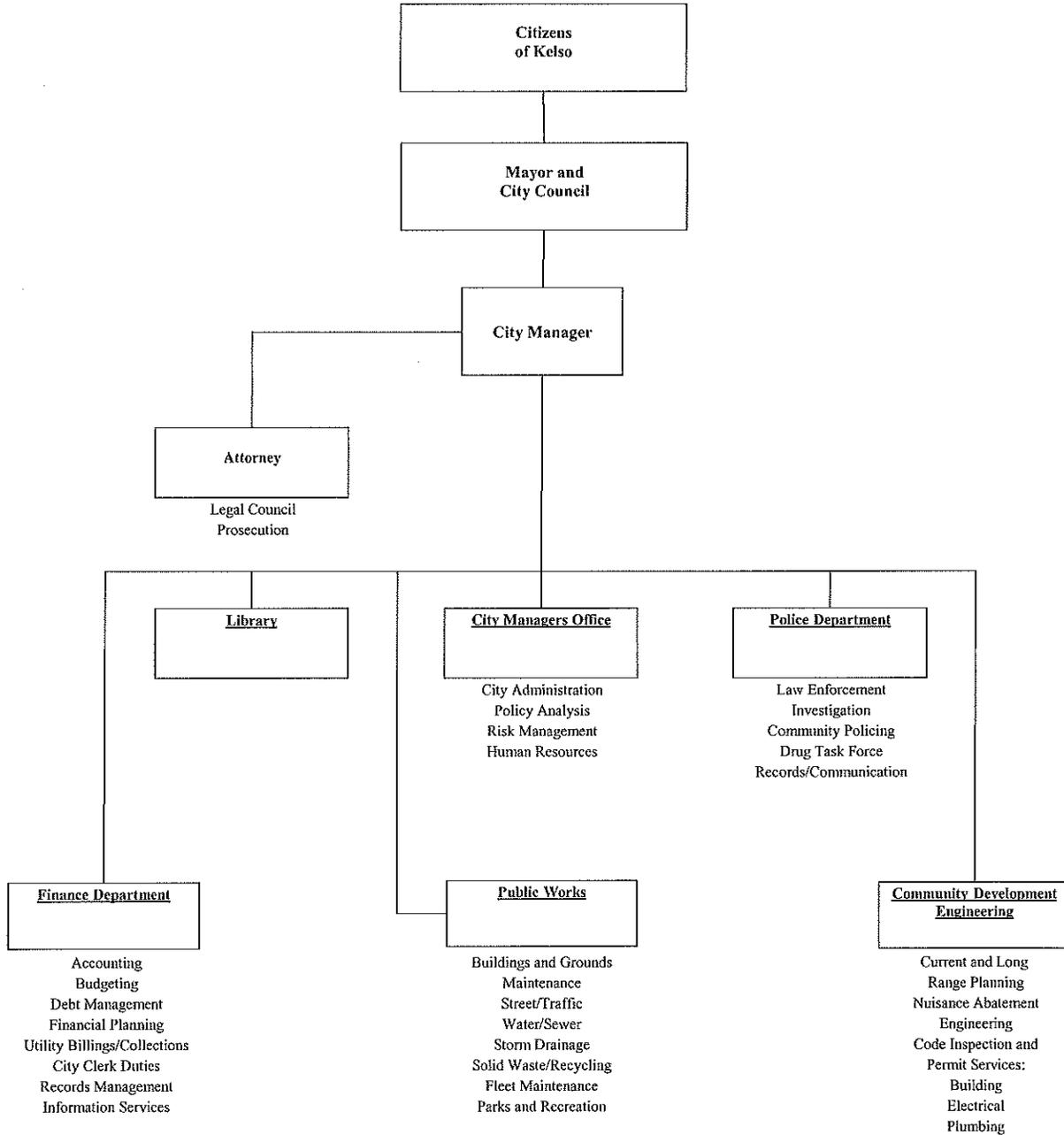
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**December 31, 2016**

*Christopher P. Morill*

Executive Director/CEO

# City Of Kelso Organizational Chart



# City of Kelso

Directory of Officials

December 31, 2017

## Elected Officials

Mayor

David Futcher

Council Members

Todd McDaniel  
Rick Von Rock\*  
Rick Roberson  
Kimberly Lefebvre  
Larry Alexander  
Jim Hill  
Nancy Malone

\* Finished Todd McDaniels term

## 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 27, 2018

Mayor and City Council  
City of Kelso  
Kelso, Washington

**REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Kelso, Cowlitz County, Washington, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed 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, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and Arterial Street funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed in the table of contents 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 combining financial statements and supplementary information are presented for the 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.

Our audit was conducted for the sole purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The Introductory and Statistical Sections are presented for purposes of additional analysis and is not a required part of the basic financial statements of the City. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we will also issue our report dated June 27, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report will be issued under separate cover in the City's Single Audit Report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

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, 2017. We encourage readers to consider the information presented in conjunction with additional information that we have furnished in our letter of transmittal. All amounts reported in the MD&A, unless otherwise indicated, are expressed in thousands of dollars.

### Financial Highlights

- The assets and deferred outflows of resources of the City of Kelso exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$97,607 (net position). Capital assets, net of depreciation and related debt, account for \$81,726 or 83.7% of total net position. \$14,287 or 14.6% of total net position (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position decreased by \$209 during 2017.
- As of the close of the current fiscal year, the City of Kelso's governmental funds reported combined ending fund balances of \$9,680, a decrease of \$2,174 in comparison with the prior year. Approximately 89% of this amount, \$8,577, is available for spending at the government's discretion (unrestricted fund balance).
- At the end of the current fiscal year, unrestricted fund balance (the total of the committed, assigned, and unassigned components of fund balance) for the general fund was \$5,794, or 57% of total general fund expenditures.
- The City of Kelso's total debt (exclusive of compensated absences, bond discounts/premiums, and pension obligations) decreased by \$412 during the current fiscal year.

### Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. In the case of the City of Kelso, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$97,607 at the close of the most recent fiscal year. The following is a condensed version of the Government-

Wide Statement of Net Position as of December 31, 2017 with comparable data provided for the previous year.

**City of Kelso's Net Position**

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

By far the largest portion of the City's net position (83.7 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Kelso's net position (1.6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$14,287 may be used to meet the City's ongoing obligations to citizens and creditors.

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

**Governmental activities.** Governmental activities decreased the City of Kelso's net position by \$1,414 in 2017. Revenues decreased by \$719 and expenditures increased by \$1,446 in 2017. Key elements for these changes are as follows:

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

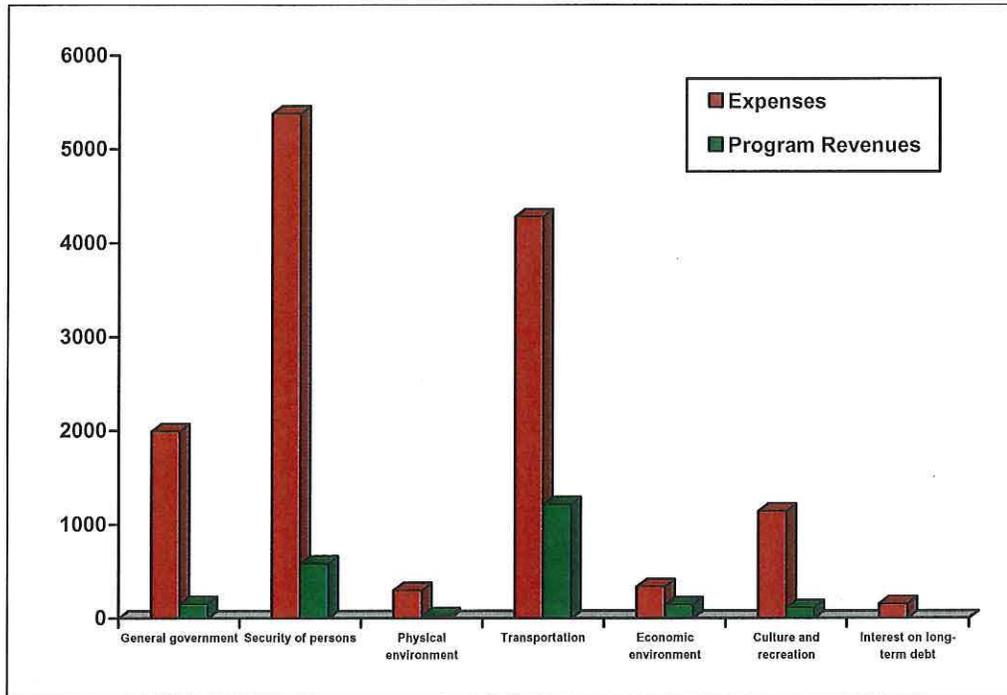
- Roadway maintenance expenditures increased by \$1,770 over prior year as the City completed some major street overlay projects.

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

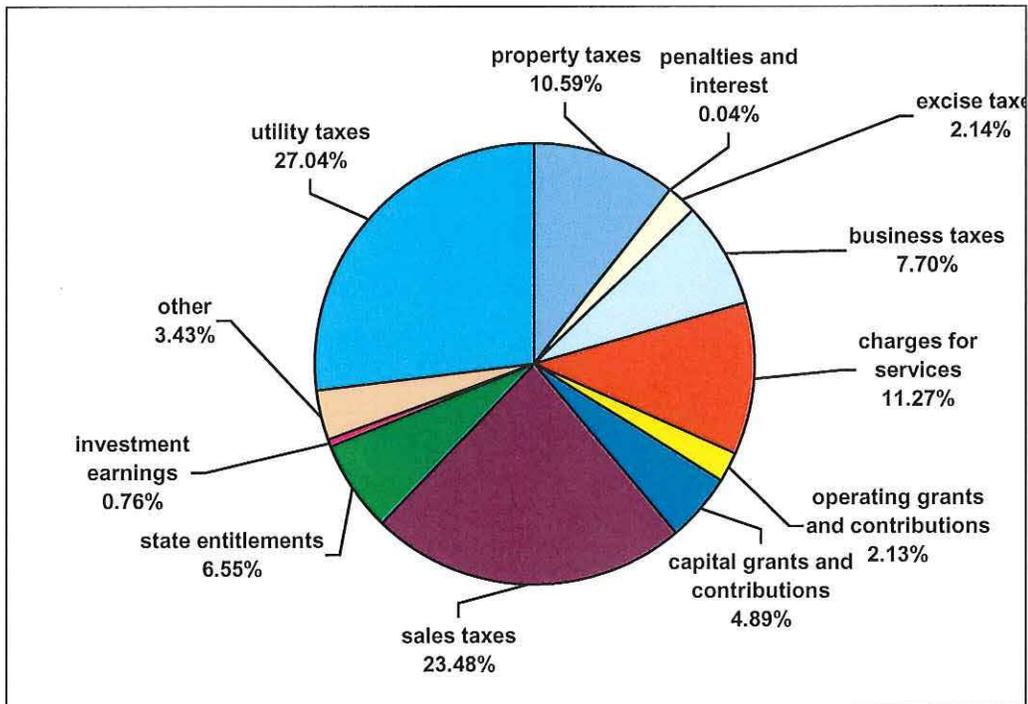
	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$1,384	\$1,320	\$11,437	\$11,314	\$12,821	\$12,634
Operating grants and contributions	261	192	44	25	305	217
Capital grants and contributions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

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

**Expenses and Program Revenues – Governmental Activities**

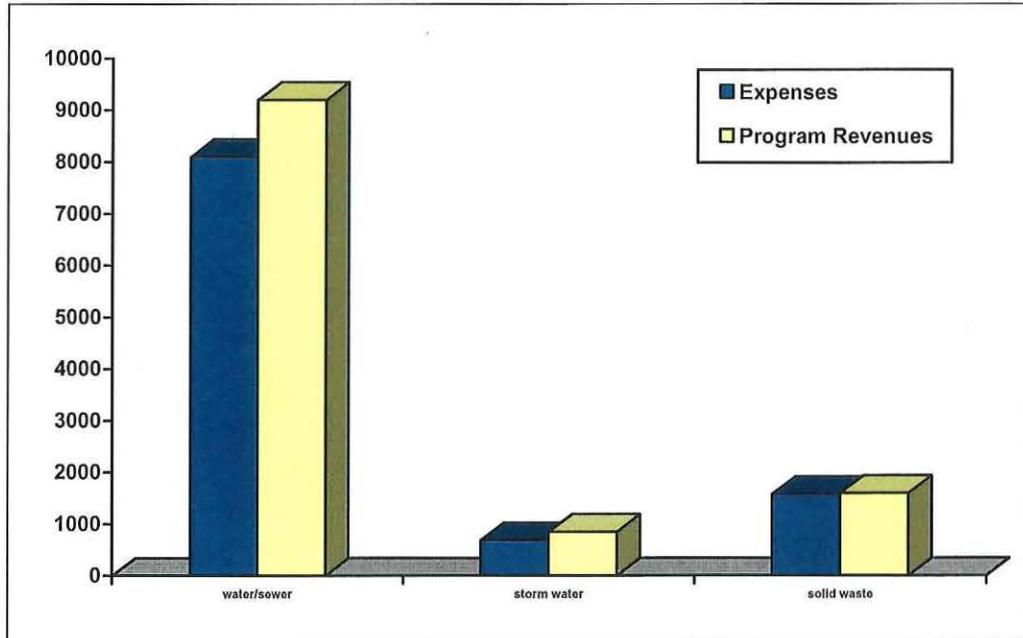


**Revenues by Source - Governmental Activities**

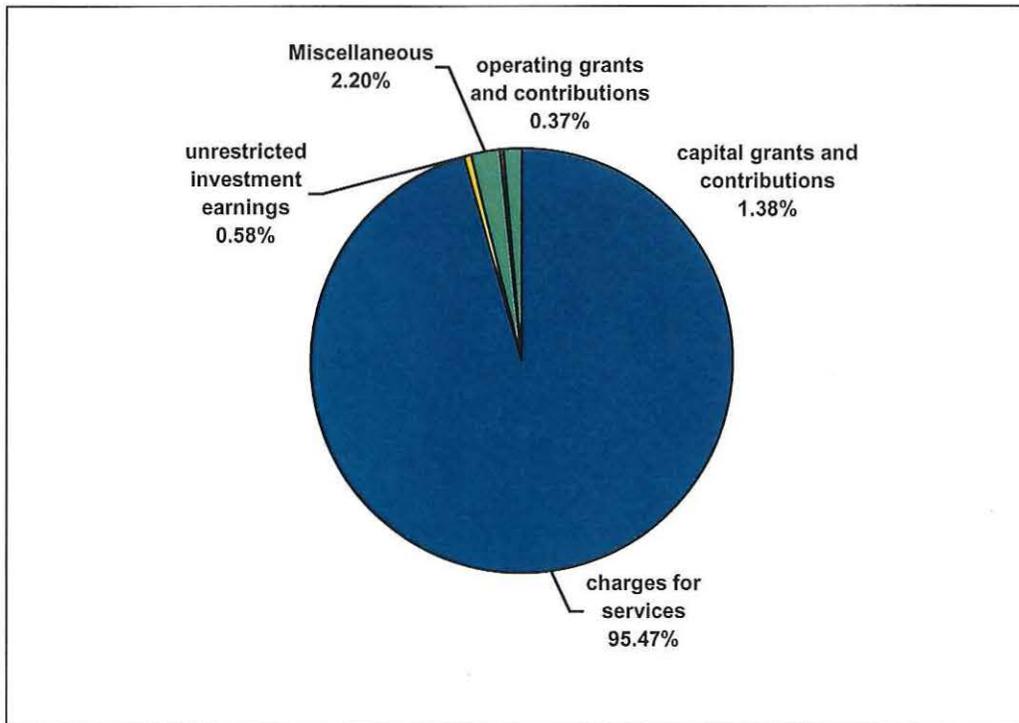


**Business-type activities.** Business-type activities increased the City of Kelso's net position by \$1,204. Business-type activity revenues decreased by \$1,055 and expenditures increased by \$418 in 2017. Operating revenues exceeded operating expenses in 2017 by \$1,134 in the water/sewer fund.

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



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



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

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

### **Financial Analysis of the Government's Funds**

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

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

As of the end of the current fiscal year, the City of Kelso's governmental funds reported combined ending fund balances of \$9,680 a decrease of \$2,174 in comparison with the prior year. Approximately 89% of ending fund balance (\$8,577) constitutes unrestricted fund balance (unassigned, assigned, and committed), which is available for spending at the City's discretion. The remainder of fund balance is restricted to indicate that it is not available for new spending because it is restricted 1) to pay for housing rehabilitation (\$612), 2) to pay for low income housing (\$53), 3) to pay for street maintenance & construction (\$35), 4) to pay for construction or debt service on certain capital projects (\$239), 5) for a variety of other restricted purposes (\$165)

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

The general fund is the chief operating fund of the City of Kelso. At the end of the current fiscal year, total fund balance of the general fund was \$5,913. All but \$432 of this fund balance is unassigned. \$119 is restricted for low income housing, criminal justice, and public education. \$312 has been assigned by the City for maintenance of City owned bridges. Unassigned fund balance represents 54.1 percent of total general fund operating expenditures (excludes capital expenditures and transfers).

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

The arterial street fund accounts for the receipt and expenditure of various grants, road maintenance fees, as well as transfers from the other funds. Revenues are designated for construction, improvement, chip sealing, seal coating, and repair of streets or for payment of related municipal indebtedness. In 2017, the arterial street fund expended in excess of \$3.3 million on roadway improvements.

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

Unrestricted net position of the water/sewer fund at the end of the year amounted to \$6,840, and for the solid waste fund amounted to \$298. The total net position for the water/sewer fund increased by \$962 and the total net position for the solid waste fund increased by \$23. Factors concerning the finances of these two funds have already been addressed in the discussion of the City of Kelso's business-type activities.

### **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget amounted to a \$337 increase in appropriations.

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

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

### **Capital Asset and Debt Administration**

**Capital Assets.** The City of Kelso's investment in capital assets for its governmental and business type activities as of December 31, 2017 amounts to \$81,726 (net of related debt and accumulated depreciation). This investment in capital assets includes land, buildings and structures, improvements, machinery and equipment, park facilities, and infrastructure (roads, highways, and bridges constructed after December 31, 1979).

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

- In 2017, the City of Kelso completed the West Main Revitalization Project improving approximately 850 feet of West Main Street in Kelso. The improvements included new sidewalks, enhanced decorative crosswalks, new pavement, new decorative street lighting, and water quality facilities for treating storm water. These project improvements have created an enhanced environment for existing retail, professional and service businesses in the West Kelso area. The project was funded primarily through federal and county grants, the Kelso Transportation Benefit District, State shared revenues, and a small percentage

being funded by the City. The total cost of this project through December 31, 2017 was \$1,502.

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

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

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

\*Restated (see note V.I.)

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

**Long-term debt.** At the end of the current fiscal year, the City of Kelso had total bonded G.O. debt outstanding of \$4,800. 100% of this amount is backed by the full faith and credit of the City. The remainder of the City of Kelso's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

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

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

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

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

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

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

### **Economic Factors and Next Year's Budgets and Rates**

- The annual average unemployment rate for the Kelso/Longview metropolitan area in 2017 was 6.1 percent, which is a decrease from a rate of 7.1 percent in 2016. This compares unfavorably to the State's average unemployment rate of 4.8 percent and the national average rate of 4.4 percent.
- In 2017, the City experienced a robust economy that provided higher than expected sales tax revenues. In addition, for the 2017/2018 biennium, the City increased utility taxes on water, sewer, and garbage by 2%.
- The City's ability to raise property taxes has been limited by Initiative 747. I-747 is a voter approved initiative that reduces the allowable property tax growth limit to the lower of 1 percent or the Implicit Price Deflator.

All of these factors were considered in preparing the City of Kelso's budget for the 2018 fiscal year.

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

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

### **Requests for Information**

This financial report is designed to provide a general overview of the City of Kelso's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information

should be addressed to the Office of the Finance Director, P.O. Box 819, Kelso, Washington 98626.

**BASIC  
FINANCIAL  
STATEMENTS**

**City of Kelso**  
**Statement of Net Position**  
**December 31, 2017**

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

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

**CITY OF KELSO**  
**Statement of Activities**  
**For the Year Ended December 31, 2017**

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

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

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

	General Fund	Arterial Street Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash & cash equivalents	\$ 3,481,350	\$ 280,356	\$ 2,242,077	\$ 6,003,783
Investments	997,453	-	784,662	1,782,115
Receivables (net):				
Taxes	1,547,173	-	20,548	1,567,721
Accounts	223,444	13,478	158,056	394,978
Assessments	-	13,089	-	13,089
Due from other funds	-	-	31,443	31,443
Due from other governments	192,164	26,101	8,606	226,871
Advances to other funds	-	-	257,561	257,561
Long-term notes receivable	-	-	467,640	467,640
Total assets	<u>\$ 6,441,584</u>	<u>\$ 333,024</u>	<u>\$ 3,970,593</u>	<u>\$ 10,745,201</u>
<b>LIABILITIES</b>				
Accounts payable	368,748	89,288	31,446	489,482
Due to other funds	-	31,443	-	31,443
Advances from other funds	-	257,561	-	257,561
Unearned revenue	-	13,089	87,897	100,986
Total liabilities	<u>368,748</u>	<u>391,381</u>	<u>119,343</u>	<u>879,472</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue-property tax	79,918	-	-	79,918
Unavailable revenue-municipal court	79,601	-	-	79,601
Unavailable revenue-grants	-	26,101	-	26,101
Total deferred inflows of resources	<u>159,519</u>	<u>26,101</u>	<u>-</u>	<u>185,620</u>
<b>FUND BALANCES (DEFICITS)</b>				
Restricted for:				
Paths and trails	-	-	1,786	1,786
Promotion of tourism	-	-	95,803	95,803
Housing/neighborhood rehabilitation	-	-	612,306	612,306
Low income housing	52,662	-	-	52,662
Criminal justice	40,912	-	-	40,912
Street maintenance/construction	-	-	35,221	35,221
Capital projects	-	-	239,074	239,074
Public education	25,769	-	-	25,769
Assigned to:				
Debt service	-	-	2,389,556	2,389,556
Bridge maintenance	312,322	-	-	312,322
Recreation	-	-	6,969	6,969
Neighborhood rehabilitation	-	-	387,031	387,031
Criminal justice	-	-	71,239	71,239
Promotion of tourism	-	-	12,265	12,265
Unassigned	5,481,652	(84,458)	-	5,397,194
Total fund balances	<u>5,913,317</u>	<u>(84,458)</u>	<u>3,851,250</u>	<u>9,680,109</u>
Total liabilities, deferred inflows of resources and fund balances (deficits)	<u>\$ 6,441,584</u>	<u>\$ 333,024</u>	<u>\$ 3,970,593</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	61,153,668
Other assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	185,620
Net Pension and Net OPEB Assets or Obligations are not considered to represent a financial resource or liability and, therefore, are not reported in the funds.	(2,381,467)
Internal service funds are used by management to charge the costs of fleet management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	930,694
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the fund	(5,517,083)
Net position of governmental activities	<u>\$ 64,051,541</u>

**City of Kelso**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended December 31, 2017**

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

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

**City of Kelso  
Reconciliation of the Statement of Revenues,  
Expenditures, and Changes In Fund Balances of Governmental Funds  
To the Statement of Activities  
For the Year Ended December 31, 2017**

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

Net change in fund balances - total governmental funds (page 33)	\$ (2,173,780)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(106,146)
The net effect of various miscellaneous transactions involving capital assets is to increase net assets.	508,092
The net effect of funding the City's annual required contribution to the State Pension Fund.	338,696
The net effect of underfunding the City's annual required contribution for post-retirement health care benefits for LEOFF 1 (Law Enforcement Officers and Fire Fighters) employees.	(356,842)
Some revenues reported in the governmental funds have already been reported in the statement of activities in prior years.	(12,313)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	71,056
The issuance of long-term debt (e.g. bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	270,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(20,020)
Some expenses reported in the governmental funds have already been reported in the statement of activities in prior years.	543
Internal service funds are used by management to charge the costs of fleet acquisition to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>67,218</u>
Change in net position of governmental activities (page 31)	<u>\$ (1,413,496)</u>

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

**City of Kelso**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended December 31, 2017**

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

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

**City of Kelso**  
**Arterial Street Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended December 31, 2017**

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

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, 2017**

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

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

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

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

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

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

**City of Kelso**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the year ended December 31, 2017**

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

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

**City of Kelso**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**December 31, 2017**

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

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

**City of Kelso**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**For the year ended December 31, 2017**

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

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, 2017

**I. Summary of significant accounting policies**

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

**A. Reporting Entity**

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

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

**B. Government-wide and fund financial statements**

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

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

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

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

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

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

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

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

The City reports the following major governmental funds:

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

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

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

The City reports the following major proprietary funds:

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

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

Additionally, the City reports the following fund types:

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

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

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

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

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

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

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

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

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

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

***1. Deposits and investments***

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

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

Investments of pension trust funds are not subject to the preceding limitations, however, all trust fund investments are in the State investment pool as of December 31, 2017.

Investments Measured at Amortized Cost

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

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

Investments Measured at Fair Value

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

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

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

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

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

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

### ***2. Receivables and payables***

Customer accounts receivable consist of amounts owed by private individuals or organizations for goods and services provided, as well as, court ordered fines. Taxes receivable consist of property, sales, and utility taxes and related interest and penalties (See Note V.B.). Special assessments consist of assessments which are recorded when levied and are liens against the property benefited. There is \$418 in delinquent special assessments as of December 31, 2017.

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

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

### ***3. Inventories***

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

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

**4. *Restricted assets***

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

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

**5. *Capital assets***

Capital assets – which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) – are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

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

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

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings	10 - 75
Improvements	10 - 75
Public domain infrastructure	10 - 75
System infrastructure	10 - 75
Vehicles	5 - 20
Office equipment	3 - 15
Computer equipment	3 - 10

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

**6. *Deferred outflows/inflows of resources***

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

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

**7. *Compensated absences***

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

**8. *Long-term obligations***

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or

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

proprietary fund type statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount.

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

***9. Net position/Fund balance***

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

***10. Fund balance components***

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

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

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

are neither restricted nor committed. The City Council is the only body authorized to assign fund balances and can delegate that authority to other body's or individuals.

- Unassigned fund balance is the residual amount of the General Fund not included in the four categories described above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

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

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

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

***11. Data reclassifications***

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

**II. Reconciliation of government-wide and fund financial statements**

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

The governmental funds balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$(5,517,083) difference are as follows:

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

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

Another element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.” The details of this \$61,153,668 difference are as follows:

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

Another element of that reconciliation explains that “Net Pension and Net OPEB Assets or Obligations are not considered to represent a financial resource or liability and, therefore, are not reported in the funds. The details of this \$(2,381,467) difference are as follows:

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

Another element of that reconciliation explains that “Other assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. The details of this \$185,619 difference are as follows:

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

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

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

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

useful lives and reported as depreciation expense.” The details of this \$(106,146) difference are as follows:

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

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

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

Another element of that reconciliation states that “Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this \$71,055 difference are as follows:

Property tax receivable	\$ 44,954
Grants receivable	<u>26,101</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i> .	<u>\$ 71,055</u>

Another element of that reconciliation states that “The issuance of long-term debt (e.g., bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$270,000 difference are as follows:

<u>Principal repayments:</u>	
General obligation debt	<u>270,000</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i> .	<u>\$ 270,000</u>

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

Another element of that reconciliation states that “The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.” The details of this \$508,092 difference are as follows:

Donations of capital assets	\$ 565,153
Loss on disposition of capital assets	<u>(57,061)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities.</i>	<u>\$ 508,092</u>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$(20,020) difference are as follows:

Compensated absences	\$ (34,452)
Amortization of issuance costs	(3,321)
Amortization of bond premium	<u>17,753</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities.</i>	<u>\$ (20,020)</u>

### III. Stewardship, compliance, and accountability

#### A. Budgetary information

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

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

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

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

The City Manager is authorized to transfer budgeted amounts between departments within any fund and object classes within departments; however, any revisions that alter the total expenditures of a fund or that effect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council. When the City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by a simple majority plus one upon second reading of the proposed ordinance amending the budget. The 2017 budget was amended two times. Budget amounts shown in the fund financial statements include the original budget amounts plus the revised budget amounts approved by the City Council.

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

**B. Budgetary/GAAP basis reconciliation**

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

<b>Revenues:</b>	
Street fund	\$ 703,376
Library fund	555,961
Kelso Station fund	57,797
Parks Fund	498,194
Façade Fund	4

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

**Expenditures:**

Street fund	(701,977)
Library fund	(545,473)
Kelso Station fund	(50,784)
Parks Fund	(495,790)
Façade Fund	<u>          -</u>
 Total General fund Basis difference	 <u>\$ 21,308</u>

**C. Deficit fund balance**

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

**IV. Detailed notes on all funds**

**A. Deposits and investments**

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

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

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

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

Interest Rate Risk

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

Credit Risk

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

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

Custodial Credit Risk – Investments

For investments, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy with regard to custodial credit risk, however, for all of 2017, the City's investments were either in the Washington State Local Government Investment Pool or held in a custodial safekeeping account with a bank.

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

Concentration of Credit Risk

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

**B. Receivables**

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

	<u>General</u>	<u>Arterial Street</u>	<u>Solid Waste</u>	<u>Water/ Sewer</u>	<u>Non- major Govt. Funds</u>	<u>Non- major Prop. Funds</u>	<u>Total</u>
Receivables:							
Taxes	\$1,547	\$ -	\$ -	\$ -	\$ 21	\$ -	\$1,568
Accounts	223	13	273	1,347	158	134	2,148
Special Assessments	-	13	-	-	-	-	13
Intergovernmental	192	26	-	-	9	44	271
Long-term notes	-	-	-	-	468	-	468
Net total receivables	<u>\$1,962</u>	<u>\$ 52</u>	<u>\$ 273</u>	<u>\$1,347</u>	<u>\$ 656</u>	<u>\$ 178</u>	<u>\$4,468</u>

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

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

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

**C. Capital assets**

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

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

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

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

Governmental activities:		
General government		\$ 102,661
Security of persons and property		3,569
Physical environment		1,292
Transportation		1,055,870
Culture and recreation		125,497
Capital assets held by the City's internal service funds are charged to various functions based on usage of assets.		<u>148,689</u>
Total depreciation expense – governmental activities		<u>\$1,437,578</u>
Business-type activities:		
Water		\$ 457,929
Sewer		296,139
Storm water drainage		15,459
Capital assets held by the City's internal service funds are charged to various functions based on usage of assets.		<u>67,571</u>
Total depreciation expense – business-type activities		<u>\$ 837,098</u>

Construction commitments

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

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

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

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

**Due to/from other funds:**

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

**Advances to/from other funds:**

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

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

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

Nonmajor govt.	General Fund	190,869	Park Improvements
	General Fund	60,000	Nuisance abatement
	Nonmajor govt.	165,000	Debt service
	Nonmajor govt.	130,000	Debt service
	Nonmajor govt.	<u>15,000</u>	Routine operating
<b>Sub-Total</b>		560,869	
<b>Total</b>		<u>\$ 1,146,319</u>	

**E. Long-term debt**

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as 20-year serial bonds with varying amounts of principal maturing each year. The debt service on general obligation bonds is paid from debt service funds. Debt service for voter approved issues is funded by special property tax levies. Debt service for City Council authorized or Councilmanic issues are funded from general government revenue sources. The original amount of general obligation bonds issued in prior years was \$5,910,000. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities – City Hall construction	.60% – 3.80%	\$1,890,000
Governmental activities – Roadway improvements	2.00% – 4.00%	<u>2,910,000</u>
		<u>\$4,800,000</u>

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

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

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

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

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

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

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

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

Revenue bonds

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

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

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

\* Interest rate shown is not net of federal subsidy

Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Water Sewer improvements – refunding	2.40% - 4.20%	\$ 105,000
Water improvements – tax exempt	1.10% - 3.25%	110,000
Water improvements – taxable	5.50% - 7.40%	<u>3,665,000</u>
		<u>\$3,880,000</u>

Revenue bond debt service requirements to maturity are as follows:

<u>Year ending</u> <u>December 31</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest*</u>
2018	\$ 215,000	\$ 259,290
2019	225,000	253,510
2020	225,000	241,135
2021	240,000	228,198
2022	250,000	212,238
2023-2027	1,395,000	797,668
2028-2032	<u>1,330,000</u>	<u>250,490</u>
Total	<u>\$3,880,000</u>	<u>\$2,242,529</u>

\*Interest is not net of Federal Subsidy

Changes in long-term liabilities

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

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

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

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

**V. Other information**

**A. Risk management**

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

**Washington Cities Insurance Authority**

The City of Kelso is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 161 members.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Unemployment Insurance**

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

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

**B. Property Taxes**

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

Property Tax Calendar

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

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

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

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

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

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

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

**C. Subsequent event**

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

**D. Contingent liabilities**

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

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's management and counsel, the City's insurance policies are adequate to pay all known or pending claims.

**E. Joint Municipal Utility Services Authority**

**Three Rivers Regional Waste Water Authority**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **F. Joint Venture**

### **Southwest Washington Regional Airport Board**

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

The Board formulates its preliminary annual budget and submits it to each participating jurisdiction prior to August 1, of each year. Estimated expenses for maintenance and operations, repairs and replacements to existing facilities, capital

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

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

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

As of December 31, 2017, the City's ongoing financial responsibility is minimal. In addition, the airport has no outstanding long-term obligations and is not accumulating significant resources or experiencing fiscal stress that would cause additional material financial benefit or burden on the City in the future. The airport does not issue stand-alone financial statements.

#### **G. Post employment benefits other than pension benefits**

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

*Plan description.* The City of Kelso administers a single-employer defined benefit healthcare plan. It is a closed plan that provides post-retirement health care benefits, in accordance with State statute to all LEOFF 1 (law enforcement officers and fire fighters hired prior to October 1, 1977) retirees. Currently, there are 15 LEOFF 1 retirees who are eligible to receive necessary medical and hospitalization coverage.

The City reimburses one hundred percent of the amount of validated claims for medical and hospitalization costs incurred by retirees. State statute provides that the City's responsibility for medical payments of LEOFF 1 retirees is secondary to any other coverage retirees receive or are eligible to receive. Therefore, upon reaching the eligible age for Medicare, the City requires the retirees to apply for and utilize Medicare Part B coverage. In 2017, the City's cost for these Medicare premiums was \$20,167. This expenditure represents a fixed amount of approximately \$112 per month for 15 LEOFF 1 retirees.

*Funding Policy.* Employer contributions are financed on a pay-as-you-go basis. Expenditures for post-retirement health care benefits are recognized as retirees report claims. During the year, expenditures of \$190,513 were recognized for post-retirement health care.

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

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

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

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

Three Year Trend Information:

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

*Funded Status and Funding Progress.* As of January 1, 2017, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits was \$7,210,365, all of which was unfunded. The covered payroll ratio is not applicable to this plan as all members are retired.

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

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

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

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

The following simplifying assumptions were made:

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

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

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

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

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

#### **Association of Washington Cities Employee Benefit Trust**

The City of Kelso is a participating Employer in the Association of Washington Cities Employee Benefit Trust (Trust), a cost-sharing multiple-employer welfare benefit plan administered by the Association of Washington Cities. The Trust provides medical benefits to certain eligible retired employees of Participating Employers and their eligible family members. Under Article VII of the Trust document, the Trustees have the authority and power to amend the amount and nature of medical and other benefits

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

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

The Trust provides that contribution requirements are established and may be amended by the Board of Trustees of the Trust. Retirees of the City receiving medical benefits from the Trust contribute \$734 per month for non-Medicare enrolled retiree only coverage, \$1,475 for non-Medicare enrolled retiree and spouse coverage, \$1,136 for Medicare enrolled retiree and non-Medicare enrolled spouse (or non-Medicare enrolled retiree and Medicare-enrolled spouse) and \$790 for Medicare-enrolled retiree and spouse coverage.

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

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

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

**State Sponsored Pension Plans**

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

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

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

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

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

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

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

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

Contributions

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

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

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

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

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

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

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

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

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

Contributions

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

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

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

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

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

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

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

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

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

#### Contributions

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

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

#### Contributions

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

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

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

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

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

The Legislature, by means of a special funding arrangement, appropriates money from the State General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the State constitution and could be changed by statute. For the State fiscal year ending June 30, 2017 the State contributed \$62,155,262 to LEOFF Plan 2.

**Actuarial Assumptions**

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

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

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

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

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

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

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

### **Discount Rate**

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

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

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

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

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

**Estimated Rates of Return by Asset Class**

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

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

**Sensitivity of NPL**

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

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

**Pension Plan Fiduciary Net Position**

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

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

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

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

	<b>Liability (or Asset)</b>
PERS 1	\$ 1,117,229
PERS 2/3	\$ 1,052,259
LEOFF 1	\$ (632,590)
LEOFF 2	\$(1,077,239)

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

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

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

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

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

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

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

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

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

**Pension Expense**

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

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

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

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

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

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

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

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

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

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

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

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

**Other Local Government Pension System**

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

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

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

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

**I. Direct Adjustments to Net Position**

Prior Period Adjustment

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

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

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

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

**J. Reporting Changes**

Implementation of GASB 74

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

Implementation of GASB 80

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

Implementation of GASB 81

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

Implementation of GASB 82

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

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

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
01/01/17	\$ 0	\$7,210,365	0%	\$7,210,365	N/A	N/A

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

The fair market value of plan assets at December 31, 2017 is \$0.

Schedule of Employer Contributions:

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

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

## Required Supplementary Information

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

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

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

\* Information not available prior to 2015

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

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

## Required Supplementary Information

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

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

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

\* Information not available prior to 2015

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

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

**Required Supplementary Information**

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

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

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

\* Information not available prior to 2015

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

## Required Supplementary Information

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

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

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

\* Information not available prior to 2015

## Required Supplementary Information

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

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

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

\* Information not available prior to 2015

## Required Supplementary Information

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

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

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

\* Information not available prior to 2015

## Required Supplementary Information

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

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

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

\* Information not available prior to 2015

## **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.

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 and roadway improvement 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, 2017**

	Special Revenue					Transportation Benefit District
	Paths/ Trails	Stadium	Highlander Festival	HUD Block Grant	Criminal Justice	
<b>Assets</b>						
Cash & cash equivalents	\$ 1,786	\$ 198,670	\$ 7,909	\$ 525,939	\$ 63,178	\$ 35,221
Investments	-	-	-	-	-	-
Receivables (net)						
Accounts	-	27,256	-	5,758	-	-
Assessments/taxes	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-
Due from other governments	-	-	-	-	8,606	-
Advances to other funds	-	-	-	-	-	-
Long-term notes receivable	-	-	-	467,640	-	-
<b>Total Assets</b>	<u>1,786</u>	<u>225,926</u>	<u>7,909</u>	<u>999,337</u>	<u>71,784</u>	<u>35,221</u>
<b>Liabilities</b>						
Accounts payable	-	29,961	940	-	545	-
Unearned revenue	-	87,897	-	-	-	-
<b>Total Liabilities</b>	<u>-</u>	<u>117,858</u>	<u>940</u>	<u>-</u>	<u>545</u>	<u>-</u>
<b>Fund Balances</b>						
Restricted for:						
Paths and trails	1,786	-	-	-	-	-
Promotion of tourism	-	95,803	-	-	-	-
Housing/neighborhood rehabilitation	-	-	-	612,306	-	-
Street maintenance/construction	-	-	-	-	-	35,221
Capital projects	-	-	-	-	-	-
Assigned to:						
Debt service	-	-	-	-	-	-
Other purposes	-	12,265	6,969	387,031	71,239	-
<b>Total Fund Balance</b>	<u>1,786</u>	<u>108,068</u>	<u>6,969</u>	<u>999,337</u>	<u>71,239</u>	<u>35,221</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 1,786</u>	<u>\$ 225,926</u>	<u>\$ 7,909</u>	<u>\$ 999,337</u>	<u>\$ 71,784</u>	<u>\$ 35,221</u>

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

	Total Non-Major Special Revenue Funds	Debt Service	Capital projects	Total Non-Major Governmental Funds
		Non Voted G.O. Bond	City Hall Fund	
<b>Assets</b>				
Cash & cash equivalents	\$ 832,703	\$ 1,190,848	\$ 218,526	\$ 2,242,077
Investments	-	784,662	-	784,662
Receivables (net)				
Accounts	33,014	125,042	-	158,056
Assessments/taxes	-	-	20,548	20,548
Due from other funds	-	31,443	-	31,443
Due from other governments	8,606	-	-	8,606
Advances to other funds	-	257,561	-	257,561
Long-term notes receivable	467,640	-	-	467,640
Total Assets	<u>1,341,963</u>	<u>2,389,556</u>	<u>239,074</u>	<u>3,970,593</u>
<b>Liabilities</b>				
Accounts payable	31,446	-	-	31,446
Unearned revenue	87,897	-	-	87,897
Total Liabilities	<u>119,343</u>	<u>-</u>	<u>-</u>	<u>119,343</u>
<b>Fund Balances</b>				
Restricted for:				
Paths and trails	1,786	-	-	1,786
Promotion of tourism	95,803	-	-	95,803
Housing/neighborhood rehabilitation	612,306	-	-	612,306
Street maintenance/construction	35,221	-	-	35,221
Capital projects	-	-	239,074	239,074
Assigned to:				
Debt service	-	2,389,556	-	2,389,556
Other purposes	477,504	-	-	477,504
Total Fund Balance	<u>1,222,620</u>	<u>2,389,556</u>	<u>239,074</u>	<u>3,851,250</u>
Total Liabilities and Fund Balances	<u>\$ 1,341,963</u>	<u>\$ 2,389,556</u>	<u>\$ 239,074</u>	<u>\$ 3,970,593</u>

**City of Kelso**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the fiscal year ended December 31, 2017**

	Special Revenue					Transportation Benefit District
	Paths and Trails	Stadium	Highlander Festival	Hud Block Grant	Criminal Justice	
<b>Revenues</b>						
Taxes	\$ -	\$ 207,833	\$ -	\$ -	\$ -	\$ 188,242
Intergovernmental	1,296	22,531	-	-	189,689	-
Charges for services	-	-	5,247	-	-	-
Fines	-	-	-	-	4,905	-
Investment earnings	2	1,317	-	4,600	149	-
Rental/lease income	-	10,920	-	-	-	-
Miscellaneous	-	28	13,370	8	-	-
Total revenues	<u>1,298</u>	<u>242,629</u>	<u>18,617</u>	<u>4,608</u>	<u>194,743</u>	<u>188,242</u>
<b>Expenditures</b>						
Security of persons and property	-	-	-	-	240,256	-
Culture and recreation	-	140,223	31,091	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	<u>-</u>	<u>140,223</u>	<u>31,091</u>	<u>-</u>	<u>240,256</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,298</u>	<u>102,406</u>	<u>(12,474)</u>	<u>4,608</u>	<u>(45,513)</u>	<u>188,242</u>
<b>Other financing sources (uses)</b>						
Transfers in	-	-	15,000	-	67,982	-
Transfers out	-	(115,000)	-	(60,000)	-	(165,000)
Sale of general capital assets	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>(115,000)</u>	<u>15,000</u>	<u>(60,000)</u>	<u>67,982</u>	<u>(165,000)</u>
Net change in fund balances	1,298	(12,594)	2,526	(55,392)	22,469	23,242
Fund balances - beginning	488	120,662	4,443	1,054,729	48,770	11,979
Fund balances - ending	<u>\$ 1,786</u>	<u>\$ 108,068</u>	<u>\$ 6,969</u>	<u>\$ 999,337</u>	<u>\$ 71,239</u>	<u>\$ 35,221</u>

**City of Kelso**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the fiscal year ended December 31, 2017**

	Total Non-Major Special Revenue Funds	Debt Service	Capital Projects	Total Non-Major Governmental Funds
		Non-Voted G.O. Bond	City Hall Fund	
<b>Revenues</b>				
Taxes	\$ 396,075	\$ -	\$ 237,737	\$ 633,812
Intergovernmental	213,516	-	-	213,516
Charges for services	5,247	-	-	5,247
Fines	4,905	-	-	4,905
Investment earnings	6,068	18,231	666	24,965
Rental/lease income	10,920	-	-	10,920
Miscellaneous	13,406	129,015	-	142,421
Total revenues	<u>650,137</u>	<u>147,246</u>	<u>238,403</u>	<u>1,035,786</u>
<b>Expenditures</b>				
Security of persons and property	240,256	-	-	240,256
Culture and recreation	171,314	-	-	171,314
Debt service:				
Principal	-	270,000	-	270,000
Interest and fiscal charges	-	167,067	-	167,067
Total expenditures	<u>411,570</u>	<u>437,067</u>	<u>-</u>	<u>848,637</u>
Excess (deficiency) of revenues over (under) expenditures	<u>238,567</u>	<u>(289,821)</u>	<u>238,403</u>	<u>187,149</u>
<b>Other financing sources (uses)</b>				
Transfers in	82,982	437,468	-	520,450
Transfers out	(340,000)	(90,869)	(130,000)	(560,869)
Sale of general capital assets	-	165,207	-	165,207
Total other financing sources (uses)	<u>(257,018)</u>	<u>511,806</u>	<u>(130,000)</u>	<u>124,788</u>
Net change in fund balances	(18,451)	221,985	108,403	311,937
Fund balances - beginning	1,241,071	2,167,571	130,671	3,539,313
Fund balances - ending	<u>\$ 1,222,620</u>	<u>\$ 2,389,556</u>	<u>\$ 239,074</u>	<u>\$ 3,851,250</u>

**City of Kelso**  
**Street Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended December 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 346,439	\$ 346,439	\$ 346,439	\$ -
Intergovernmental	273,036	273,036	271,829	(1,207)
Charges for services	2,500	2,500	7,926	5,426
Investment earnings	1,000	1,000	5,221	4,221
Contributions	-	-	8,252	8,252
Rental/lease income	20,900	20,900	20,904	4
Miscellaneous	-	-	42,805	42,805
Total revenues	<u>643,875</u>	<u>643,875</u>	<u>703,376</u>	<u>59,501</u>
<b>Expenditures</b>				
Transportation	719,875	744,875	684,571	60,304
Capital outlay	-	-	17,406	(17,406)
Total expenditures	<u>719,875</u>	<u>744,875</u>	<u>701,977</u>	<u>42,898</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(76,000)</u>	<u>(101,000)</u>	<u>1,399</u>	<u>102,399</u>
<b>Other financing sources (uses)</b>				
Transfers out	<u>(224,000)</u>	-	-	-
Total other financing sources (uses)	<u>(224,000)</u>	-	-	-
Net change in fund balances	<u>(300,000)</u>	<u>(101,000)</u>	<u>1,399</u>	<u>102,399</u>
Fund balances - beginning	495,548	495,548	721,927	226,379
Fund balances - ending	<u>\$ 195,548</u>	<u>\$ 394,548</u>	<u>\$ 723,326</u>	<u>\$ 328,778</u>

**City of Kelso**  
**Library Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended December 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 543,579	\$ 543,579	\$ 543,579	\$ -
Charges for services	7,100	7,100	8,989	1,889
Fines	4,000	4,000	3,172	(828)
Investment earnings	30	30	206	176
Miscellaneous	45	45	15	(30)
Total revenues	<u>554,754</u>	<u>554,754</u>	<u>555,961</u>	<u>1,207</u>
<b>Expenditures</b>				
Culture and recreation	518,754	532,254	513,686	18,568
Capital outlay	36,000	36,000	31,787	4,213
Total expenditures	<u>554,754</u>	<u>568,254</u>	<u>545,473</u>	<u>22,781</u>
Excess (deficiency) of revenues over (under) expenditures	-	(13,500)	10,488	23,988
Net change in fund balances	-	(13,500)	10,488	23,988
Fund balances - beginning	41,870	41,870	41,870	-
Fund balances - ending	<u>\$ 41,870</u>	<u>\$ 28,370</u>	<u>\$ 52,358</u>	<u>\$ 23,988</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, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Investment earnings	\$ -	\$ -	\$ 96	\$ 96
Rental/lease income	30,850	30,850	31,117	267
Miscellaneous	100	100	114	14
Total revenues	<u>30,950</u>	<u>30,950</u>	<u>31,327</u>	<u>377</u>
<b>Expenditures</b>				
Transportation	57,420	57,420	50,784	6,636
Total expenditures	<u>57,420</u>	<u>57,420</u>	<u>50,784</u>	<u>6,636</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(26,470)</u>	<u>(26,470)</u>	<u>(19,457)</u>	<u>7,013</u>
<b>Other financing sources (uses)</b>				
Transfers in	26,470	26,470	26,470	-
Total other financing sources (uses)	<u>26,470</u>	<u>26,470</u>	<u>26,470</u>	<u>-</u>
Net change in fund balances	-	-	7,013	7,013
Fund balances - beginning	14,486	14,486	14,486	-
Fund balances - ending	<u>\$ 14,486</u>	<u>\$ 14,486</u>	<u>\$ 21,499</u>	<u>\$ 7,013</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, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 234,146	\$ 234,146	\$ 234,146	\$ -
Charges for services	43,000	43,000	4,894	(38,106)
Investment earnings	100	100	648	548
Contributions	-	-	6,000	6,000
Rental/lease income	45,000	45,000	47,112	2,112
Miscellaneous	14,000	14,000	14,525	525
Total revenues	<u>336,246</u>	<u>336,246</u>	<u>307,325</u>	<u>(28,921)</u>
<b>Expenditures</b>				
Culture and recreation	396,206	396,206	348,362	47,844
Capital outlay	140,000	205,000	147,428	57,572
Total expenditures	<u>536,206</u>	<u>601,206</u>	<u>495,790</u>	<u>105,416</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(199,960)</u>	<u>(264,960)</u>	<u>(188,465)</u>	<u>76,495</u>
<b>Other financing sources (uses)</b>				
Transfers in	200,000	265,000	190,869	(74,131)
Total other financing sources (uses)	<u>200,000</u>	<u>265,000</u>	<u>190,869</u>	<u>(74,131)</u>
Net change in fund balances	40	40	2,404	2,364
Fund balances - beginning	104,691	104,691	104,691	-
Fund balances - ending	<u>\$ 104,731</u>	<u>\$ 104,731</u>	<u>\$ 107,095</u>	<u>\$ 2,364</u>

**City of Kelso**  
**Facade Improvement Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended December 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Investment earnings	\$ -	\$ -	\$ 4	\$ 4
Total revenues	<u>-</u>	<u>-</u>	<u>4</u>	<u>4</u>
<b>Expenditures</b>				
Economic Environment	\$ 10,000	\$ 10,000	\$ -	\$ 10,000
Total expenditures	<u>10,000</u>	<u>10,000</u>	<u>-</u>	<u>10,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(10,000)</u>	<u>(10,000)</u>	<u>4</u>	<u>10,004</u>
<b>Other financing sources (uses)</b>				
Transfers in	10,000	10,000	-	(10,000)
Total other financing sources (uses)	<u>10,000</u>	<u>10,000</u>	<u>-</u>	<u>(10,000)</u>
Net change in fund balances	-	-	4	4
Fund balances - beginning	448	448	448	-
Fund balances - ending	<u>\$ 448</u>	<u>\$ 448</u>	<u>\$ 452</u>	<u>\$ 4</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, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 1,200	\$ 1,200	\$ 1,296	\$ 96
Investment earnings	-	-	2	2
Total revenues	<u>1,200</u>	<u>1,200</u>	<u>1,298</u>	<u>98</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,200</u>	<u>1,200</u>	<u>1,298</u>	<u>98</u>
Net change in fund balances	<u>1,200</u>	<u>1,200</u>	<u>1,298</u>	<u>98</u>
Fund balances - beginning	488	488	488	-
Fund balances - ending	<u>\$ 1,688</u>	<u>\$ 1,688</u>	<u>\$ 1,786</u>	<u>\$ 98</u>

**City of Kelso**  
**Stadium Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended December 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 170,000	\$ 170,000	\$ 207,833	\$ 37,833
Intergovernmental	69,400	69,400	22,531	(46,869)
Investment earnings	250	250	1,317	1,067
Rental/lease income	-	-	10,920	10,920
Miscellaneous	100	100	28	(72)
Total revenues	239,750	239,750	242,629	2,879
<b>Expenditures</b>				
Culture and recreation	220,612	220,612	140,223	80,389
Total expenditures	220,612	220,612	140,223	80,389
Excess (deficiency) of revenues over (under) expenditures	19,138	19,138	102,406	83,268
<b>Other financing sources (uses)</b>				
Transfers out	(15,000)	(118,500)	(115,000)	3,500
Total other financing sources (uses)	(15,000)	(118,500)	(115,000)	3,500
Net change in fund balances	4,138	(99,362)	(12,594)	86,768
Fund balances - beginning	120,662	120,662	120,662	-
Fund balances - ending	\$ 124,800	\$ 21,300	\$ 108,068	\$ 86,768

**City of Kelso**  
**Highlander Festival Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended December 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Charges for services	\$ 6,800	\$ 6,800	\$ 5,247	\$ (1,553)
Miscellaneous	15,500	15,500	13,370	(2,130)
Total revenues	<u>22,300</u>	<u>22,300</u>	<u>18,617</u>	<u>(3,683)</u>
<b>Expenditures</b>				
Culture and recreation	<u>37,300</u>	<u>40,800</u>	<u>31,091</u>	<u>9,709</u>
Total expenditures	<u>37,300</u>	<u>40,800</u>	<u>31,091</u>	<u>9,709</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(15,000)</u>	<u>(18,500)</u>	<u>(12,474)</u>	<u>6,026</u>
<b>Other financing sources (uses)</b>				
Transfers in	<u>15,000</u>	<u>18,500</u>	<u>15,000</u>	<u>(3,500)</u>
Total other financing sources (uses)	<u>15,000</u>	<u>18,500</u>	<u>15,000</u>	<u>(3,500)</u>
Net change in fund balances	-	-	2,526	2,526
Fund balances - beginning	4,443	4,443	4,443	-
Fund balances - ending	<u>\$ 4,443</u>	<u>\$ 4,443</u>	<u>\$ 6,969</u>	<u>\$ 2,526</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, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Investment earnings	\$ 600	\$ 600	\$ 4,600	\$ 4,000
Miscellaneous	-	-	8	8
Total revenues	<u>600</u>	<u>600</u>	<u>4,608</u>	<u>4,008</u>
<b>Expenditures</b>				
Economic Environment:				
Neighborhood stabilization	150,000	150,000	-	150,000
Total expenditures	<u>150,000</u>	<u>150,000</u>	<u>-</u>	<u>150,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(149,400)</u>	<u>(149,400)</u>	<u>4,608</u>	<u>154,008</u>
<b>Other financing sources (uses)</b>				
Transfers out	(70,000)	(70,000)	(60,000)	10,000
Total other financing sources (uses)	<u>(70,000)</u>	<u>(70,000)</u>	<u>(60,000)</u>	<u>10,000</u>
Net change in fund balances	<u>(219,400)</u>	<u>(219,400)</u>	<u>(55,392)</u>	<u>164,008</u>
Fund balances - beginning	1,054,729	1,054,729	1,054,729	-
Fund balances - ending	<u>\$ 835,329</u>	<u>\$ 835,329</u>	<u>\$ 999,337</u>	<u>\$ 164,008</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, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 164,211	\$ 164,211	\$ 189,689	\$ 25,478
Fines	300	300	4,905	4,605
Investment earnings	-	-	149	149
Total revenues	<u>164,511</u>	<u>164,511</u>	<u>194,743</u>	<u>30,232</u>
<b>Expenditures</b>				
Security of persons and property	<u>255,154</u>	<u>255,154</u>	<u>240,256</u>	<u>14,898</u>
Total expenditures	<u>255,154</u>	<u>255,154</u>	<u>240,256</u>	<u>14,898</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(90,643)</u>	<u>(90,643)</u>	<u>(45,513)</u>	<u>45,130</u>
<b>Other financing sources (uses)</b>				
Transfers in	<u>90,643</u>	<u>90,643</u>	<u>67,982</u>	<u>(22,661)</u>
Total other financing sources (uses)	<u>90,643</u>	<u>90,643</u>	<u>67,982</u>	<u>(22,661)</u>
Net change in fund balances	-	-	22,469	22,469
Fund balances - beginning	48,770	48,770	48,770	-
Fund balances - ending	<u>\$ 48,770</u>	<u>\$ 48,770</u>	<u>\$ 71,239</u>	<u>\$ 22,469</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, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 175,000	\$ 175,000	\$ 188,242	\$ 13,242
Total revenues	<u>175,000</u>	<u>175,000</u>	<u>188,242</u>	<u>13,242</u>
Excess (deficiency) of revenues over (under) expenditures	175,000	175,000	188,242	13,242
Net change in fund balances	<u>175,000</u>	<u>175,000</u>	<u>188,242</u>	<u>13,242</u>
<b>Other financing sources (uses)</b>				
Transfers out	(165,000)	(165,000)	(165,000)	-
Total other financing sources (uses)	<u>(165,000)</u>	<u>(165,000)</u>	<u>(165,000)</u>	<u>-</u>
Net change in fund balances	10,000	10,000	23,242	13,242
Fund balances - beginning	11,979	11,979	11,979	-
Fund balances - ending	<u>\$ 21,979</u>	<u>\$ 21,979</u>	<u>\$ 35,221</u>	<u>\$ 13,242</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, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Investment earnings	\$ 10,000	\$ 10,000	\$ 18,231	\$ 8,231
Miscellaneous	3,682	3,682	129,015	125,333
Total revenues	<u>13,682</u>	<u>13,682</u>	<u>147,246</u>	<u>133,564</u>
<b>Expenditures</b>				
Debt service:				
Principal	270,000	270,000	270,000	-
Interest	167,468	167,468	167,067	401
Total expenditures	<u>437,468</u>	<u>437,468</u>	<u>437,067</u>	<u>401</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(423,786)</u>	<u>(423,786)</u>	<u>(289,821)</u>	<u>133,965</u>
<b>Other financing sources (uses)</b>				
Transfers in	437,468	437,468	437,468	-
Transfers out	(200,000)	(165,000)	(90,869)	74,131
Sale of general capital assets	-	-	165,207	165,207
Total other financing sources (uses)	<u>237,468</u>	<u>272,468</u>	<u>511,806</u>	<u>239,338</u>
Net change in fund balances	<u>(186,318)</u>	<u>(151,318)</u>	<u>221,985</u>	<u>373,303</u>
Fund balances - beginning	2,167,571	2,167,571	2,167,571	-
Fund balances - ending	<u>\$ 1,981,253</u>	<u>\$ 2,016,253</u>	<u>\$ 2,389,556</u>	<u>\$ 373,303</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, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 80,000	\$ 80,000	\$ 237,737	\$ 157,737
Investment earnings	50	50	666	616
Total revenues	<u>80,050</u>	<u>80,050</u>	<u>238,403</u>	<u>158,353</u>
Excess (deficiency) of revenues over (under) expenditures	<u>80,050</u>	<u>80,050</u>	<u>238,403</u>	<u>158,353</u>
<b>Other financing sources (uses)</b>				
Transfers out	(130,000)	(130,000)	(130,000)	-
Total other financing sources (uses)	<u>(130,000)</u>	<u>(130,000)</u>	<u>(130,000)</u>	<u>-</u>
Net change in fund balances	(49,950)	(49,950)	108,403	158,353
Fund balances - beginning	130,671	130,671	130,671	-
Fund balances - ending	<u>\$ 80,721</u>	<u>\$ 80,721</u>	<u>\$ 239,074</u>	<u>\$ 158,353</u>

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## **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, 2017**

	<u>Balance</u> <u>December 31, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>December 31, 2017</u>
<b>Assets</b>				
Cash & cash equivalents	\$ 651,450	\$ 494,279	\$ 544,823	\$ 600,906
Receivables	14,722	707,789	537,588	184,923
Total Assets	<u>\$ 666,172</u>	<u>\$ 1,202,068</u>	<u>\$ 1,082,411</u>	<u>\$ 785,829</u>
<b>Liabilities</b>				
Accounts payable	\$ 26,427	\$ 601,606	\$ 533,554	\$ 94,479
Due to other governments	150,000	-	-	150,000
Custodial accounts	489,745	600,462	548,857	541,350
Total Liabilities	<u>\$ 666,172</u>	<u>\$ 1,202,068</u>	<u>\$ 1,082,411</u>	<u>\$ 785,829</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.

<b>Contents</b>	<b>Page</b>
Financial Trends	123
<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	130
<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	135
<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	140
<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	143
<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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental activities										
Net investment in capital assets	\$ 47,405	\$ 47,642	\$ 48,034	\$ 47,753	\$ 48,199	\$ 54,754	\$ 57,203	\$ 56,455	\$ 56,985	\$ 56,850
Restricted	1,015	845	1,302	1,349	1,442	1,491	1,616	1,664	1,085	1,115
Unrestricted	4,480	4,021	2,801	2,936	4,494	4,342	4,481	4,680	5,496	6,086
Total governmental activities net position	<u>\$ 52,900</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>	<u>\$ 64,051</u>
Business-type activities										
Net investment in capital assets	\$ 19,499	\$ 20,013	\$ 20,893	\$ 20,809	\$ 21,989	\$ 19,683	\$ 20,307	\$ 21,087	\$ 22,337	\$ 24,876
Restricted	201	202	591	592	593	595	597	603	478	479
Unrestricted	5,787	5,747	5,119	6,216	7,128	7,219	7,957	7,224	8,626	8,201
Total business-type activities net position	<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>	<u>\$ 33,556</u>
Primary government										
Net investment in capital assets	\$ 66,904	\$ 67,655	\$ 68,927	\$ 68,562	\$ 70,188	\$ 74,437	\$ 77,510	\$ 77,542	\$ 79,322	\$ 81,726
Restricted	1,216	1,047	1,893	1,941	2,035	2,086	2,213	2,267	1,563	1,594
Unrestricted	10,267	9,768	7,920	9,152	11,622	11,561	12,438	11,904	14,122	14,287
Total primary government net position	<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>	<u>\$ 97,607</u>

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

Expenses	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental activities:										
General government	\$ 1,560	\$ 1,503	\$ 1,501	\$ 1,453	\$ 1,312	\$ 1,401	\$ 1,525	\$ 1,714	\$ 1,863	\$ 2,031
Security of persons and property	4,808	4,939	5,031	4,543	4,533	4,562	4,609	4,608	5,134	5,392
Physical environment	598	430	441	422	431	375	391	249	338	324
Transportation	1,695	1,747	1,783	1,703	1,722	2,180	2,323	2,654	3,322	4,287
Economic environment	493	442	695	396	590	754	308	374	325	343
Culture and recreation	1,192	993	1,091	1,054	1,066	985	1,121	1,107	1,087	1,161
Interest on long-term debt	136	135	140	173	117	114	122	109	179	156
Total governmental activities expenses	<u>10,482</u>	<u>10,189</u>	<u>10,682</u>	<u>9,744</u>	<u>9,771</u>	<u>10,371</u>	<u>10,399</u>	<u>10,815</u>	<u>12,248</u>	<u>13,694</u>
Business-type activities:										
Water/Sewer	5,912	6,889	6,634	6,578	6,610	7,079	7,186	7,645	7,672	8,008
Solid waste	1,087	1,091	1,247	1,235	1,294	1,317	1,457	1,481	1,549	665
Storm water	417	464	456	580	571	547	556	715	609	1,575
Airport	348	423	357	380	422	-	-	-	-	-
Total business-type activities expenses	<u>7,764</u>	<u>8,867</u>	<u>8,694</u>	<u>8,773</u>	<u>8,897</u>	<u>8,943</u>	<u>9,199</u>	<u>9,841</u>	<u>9,830</u>	<u>10,248</u>
Total primary government expenses	<u>\$ 18,246</u>	<u>\$ 19,056</u>	<u>\$ 19,376</u>	<u>\$ 18,517</u>	<u>\$ 18,668</u>	<u>\$ 19,314</u>	<u>\$ 19,598</u>	<u>\$ 20,656</u>	<u>\$ 22,078</u>	<u>\$ 23,942</u>
<b>Program Revenues</b>										
Governmental activities:										
Charges for services:										
General government	\$ 63	\$ 60	\$ 62	\$ 97	\$ 91	\$ 209	\$ 90	\$ 119	\$ 130	\$ 155
Security of persons and property	213	370	185	233	192	151	360	279	306	375
Physical environment	70	13	48	11	6	17	18	34	26	33
Transportation	119	75	191	210	231	298	532	655	599	577
Economic environment	224	119	119	127	127	147	163	76	160	145
Culture and recreation	71	56	76	104	100	80	140	94	99	99
Operating grants and contributions	492	585	691	624	894	848	172	317	192	261
Capital grants and contributions	596	1,262	867	822	1,455	4,895	3,525	663	1,460	601
Total governmental activities program revenues	<u>1,848</u>	<u>2,540</u>	<u>2,239</u>	<u>2,228</u>	<u>3,096</u>	<u>6,645</u>	<u>5,000</u>	<u>2,237</u>	<u>2,972</u>	<u>2,246</u>
Business-type activities:										
Charges for services:										
Water/Sewer	6,781	7,182	7,320	7,635	7,621	7,883	8,358	8,868	9,035	9,038
Solid waste	1,174	1,110	1,131	1,142	1,145	1,194	1,362	1,427	1,517	1,596
Storm water	267	446	559	623	579	591	623	714	762	803
Airport	118	125	131	138	126	-	-	-	-	-
Operating grants and contributions	227	256	129	238	193	19	75	7	25	44
Capital grants and contributions	75	163	10	-	457	2	112	-	1,144	165
Total business-type activities program revenues	<u>8,642</u>	<u>9,282</u>	<u>9,280</u>	<u>9,776</u>	<u>10,121</u>	<u>9,689</u>	<u>10,550</u>	<u>11,016</u>	<u>12,483</u>	<u>11,646</u>
Total primary government program revenues	<u>\$ 10,490</u>	<u>\$ 11,822</u>	<u>\$ 11,519</u>	<u>\$ 12,004</u>	<u>\$ 13,217</u>	<u>\$ 16,334</u>	<u>\$ 15,550</u>	<u>\$ 13,253</u>	<u>\$ 15,455</u>	<u>\$ 13,892</u>

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net (expense)/revenue										
Governmental activities	\$ (8,634)	\$ (7,649)	\$ (8,443)	\$ (7,516)	\$ (6,675)	\$ (3,726)	\$ (5,399)	\$ (8,578)	\$ (9,276)	\$ (11,448)
Business-type activities	878	415	586	1,003	1,224	746	1,351	1,175	2,653	1,398
Total primary government net expense	<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>	<u>\$ (10,050)</u>
<b>General Revenues and other Changes in Net Position</b>										
Governmental activities:										
Taxes										
Property taxes	\$ 1,007	\$ 1,146	\$ 1,139	\$ 1,159	\$ 1,175	\$ 1,191	\$ 1,206	\$ 1,243	\$ 1,280	\$ 1,300
Sales taxes	2,343	2,014	2,150	2,154	2,103	2,141	2,410	2,546	2,899	2,883
Utility taxes	2,487	2,534	2,542	2,611	2,827	2,748	2,809	3,099	3,265	3,320
Business taxes	722	659	671	713	755	772	821	875	944	945
Excise taxes	215	156	117	111	86	79	107	157	188	263
Penalties & interest	5	5	5	4	5	3	5	4	6	5
State entitlements	635	638	640	572	573	692	624	653	763	804
Investment earnings	177	65	50	68	64	29	37	55	51	93
Miscellaneous	29	60	12	21	26	66	93	68	631	286
Gain/(loss) on sale of capital assets	885	-	-	-	-	-	-	1	-	135
Special items	-	-	-	-	-	2,513	-	-	-	-
Transfers	(19)	(20)	(20)	4	(40)	(56)	-	-	17	-
Total governmental activities	<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>	<u>10,034</u>
Business-type activities:										
Investment earnings	137	39	15	15	11	11	13	18	23	70
Miscellaneous	-	-	20	-	-	-	-	4	1	-
Gain/(loss) on sale of capital assets	1	-	-	-	-	-	-	-	-	(264)
Special items	-	-	-	-	-	(3,026)	-	-	-	-
Transfers	19	20	20	(4)	40	56	-	-	(17)	-
Total business-type activities	<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>	<u>(194)</u>
Total primary government	<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>	<u>\$ 9,840</u>
<b>Change in Net Position</b>										
Governmental activities	\$ (148)	\$ (392)	\$ (1,137)	\$ (99)	\$ 899	\$ 6,452	\$ 2,713	\$ 123	\$ 768	\$ (1,414)
Business-type activities	1,035	474	641	1,014	1,275	(2,213)	1,364	1,197	2,660	1,204
Total primary government	<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>	<u>\$ (210)</u>

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

<b>Fiscal Year</b>	<b>Property Tax</b>	<b>Sales Tax</b>	<b>Utility Taxes</b>	<b>Business Taxes</b>	<b>Excise Taxes</b>
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
2017	1,300	2,883	3,320	945	263

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General fund (Per GASB 54)*										
Nonspendable	\$ -	\$ -	\$ -	55	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	54	93	171	100	92	118	119
Committed	-	-	-	178	213	242	-	-	-	-
Assigned	-	-	-	202	-	-	212	242	277	312
Unassigned	-	-	-	1,197	3,063	3,097	3,828	4,564	5,285	5,482
General fund (Prior to GASB 54)*										
Reserved	243	200	155	-	-	-	-	-	-	-
Unreserved	3,587	1,491**	1,022	-	-	-	-	-	-	-
Total general fund	<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>	<u>\$ 5,913</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	984
Assigned	-	-	-	1,078	1,215	1,350	2,032	2,105	2,607	2,867
Unassigned	-	-	-	(744)	(504)	(1,227)	(304)	(428)	(231)	(84)
All other governmental funds (Prior to GASB 54)*										
Reserved	837	811	155	-	-	-	-	-	-	-
Unreserved, reported in:										
Special revenue funds	773	802	379	-	-	-	-	-	-	-
Debt service funds	-	1,605**	1,597	-	-	-	-	-	-	-
Total all other governmental funds	<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>	<u>\$ 3,767</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.

**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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenues</b>										
Taxes	\$ 6,802	\$ 6,506	\$ 6,607	\$ 6,745	\$ 6,955	\$ 6,940	\$ 7,361	\$ 7,928	\$ 8,655	\$ 8,859
Licenses and permits	229	159	138	200	195	212	203	131	174	191
Intergovernmental	1,063	2,341	2,199	1,653	3,066	5,415	5,588	1,361	2,739	1,121
Charges for services	616	747	988	824	879	963	1,008	1,268	1,311	1,141
Fines	131	127	164	190	140	130	119	106	98	105
Investment earnings	165	61	49	69	64	29	37	55	53	96
Contributions	14	48	1	-	-	-	-	55	65	35
Rental/lease income	56	59	53	61	86	90	104	105	112	118
Miscellaneous	91	159	37	36	38	78	110	84	655	257
<b>Total revenues</b>	<b>9,167</b>	<b>10,207</b>	<b>10,236</b>	<b>9,778</b>	<b>11,423</b>	<b>13,857</b>	<b>14,530</b>	<b>11,093</b>	<b>13,862</b>	<b>11,923</b>
<b>Expenditures</b>										
General government	1,712	1,746	1,812	1,726	1,619	1,659	1,730	1,953	2,110	2,434
Security of persons and property	4,428	4,614	4,700	4,299	4,297	4,340	4,271	4,386	4,808	5,114
Physical environment	667	635	647	548	571	494	439	437	602	550
Transportation	734	657	605	495	479	742	851	928	1,589	3,186
Economic environment	491	441	709	398	585	752	313	381	317	345
Culture and recreation	844	717	758	774	781	709	842	827	885	1,033
Capital outlay	759	1,646	2,005	1,355	1,999	5,497	3,883	1,192	2,926	1,183
Debt service										
Principal	123	128	128	133	148	158	317	140	305	270
Interest	134	133	138	224	111	108	101	86	185	171
<b>Total expenditures</b>	<b>9,892</b>	<b>10,717</b>	<b>11,502</b>	<b>9,952</b>	<b>10,590</b>	<b>14,459</b>	<b>12,747</b>	<b>10,330</b>	<b>13,727</b>	<b>14,286</b>
Excess of revenues over (under) expenditures	(725)	(510)	(1,266)	(174)	833	(602)	1,783	763	135	(2,363)

**Other financing sources (uses)**

Transfers in	675	2,019	258	489	497	573	579	543	1,517	1,146
Transfers out	(694)	(2,039)	(278)	(485)	(537)	(628)	(579)	(543)	(1,500)	(1,146)
Bonds issued	-	-	-	2,710	-	-	-	-	3,200	-
Bonds refunded	-	-	-	(2,660)	-	-	-	-	-	-
Premium on bonds issued	-	-	-	-	-	-	-	-	355	-
Sale of capital assets	1,123	-	-	-	-	-	-	-	-	189
Total other financing sources (uses)	1,104	(20)	(20)	54	(40)	(55)	-	-	3,572	189
Net change in fund balances	\$ 379	\$ (530)	\$ (1,286)	\$ (120)	\$ 793	\$ (657)	\$ 1,783	\$ 763	\$ 3,707	\$ (2,174)
Debt service as a percentage of noncapital expenditures*	2.81%	2.88%	2.80%	4.15%	3.01%	2.97%	4.72%	2.47%	4.54%	3.37%

\* 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	\$ 1,030	\$ 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
2017	1,255	2,883	3,320	945	456	8,859

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

Fiscal Year	Utilities	Commercial Property <sup>1</sup>	Residential Property <sup>1</sup>	Industrial Property <sup>1</sup>	Real Property		Direct Tax Rate	Ratio of Assessed Value To Estimated Actual Value <sup>2</sup>
					Total Assessed Value <sup>1</sup>	Estimated Value		
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%
2017	13,628	349,659	358,693	40,348	765,621	834,919	1.9237%	91.7%

<sup>1</sup> Cowlitz County Assessor's Office

<sup>2</sup> 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**

<b>Fiscal Year</b>	<b>City Regular</b>	<b>Total City</b>	<b>School District</b>	<b>Port of Longview</b>	<b>Cowlitz County</b>	<b>State of Washington</b>	<b>Cowlitz 2 Fire District</b>	<b>Total</b>
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
2017	1.9237	1.9237	5.2598	0.3438	1.9155	2.1369	1.4830	13.0627

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

City of Kelso  
Principal Property Taxpayers  
December 31, 2017  
(amounts expressed in thousands)

Taxpayer	2017			2008		
	Rank	Assessed Valuation	Percentage of Total Assessed Valuation	Rank	Assessed Valuation	Percentage of Total Assessed Valuation
Foster Farms Poultry	1	\$ 35,827	4.38%	1	\$ 35,607	4.89%
Three Rivers Mall LLC	2	29,107	3.56%	2	22,481	3.09%
Burlington Northern Santa Fe	3	17,357	2.12%	10	5,917	0.81%
Mario Segale	4	14,664	1.79%			
C & C Logging	5	11,945	1.46%			
JMK Limited Partnership	6	10,486	1.28%	3	9,475	1.30%
Riverway SPE LLC	7	7,768	0.95%	11		
ALS Group USA	8	7,666	0.94%	6	7,156	0.98%
Allen Street Investments	9	6,940	0.84%	7	6,965	0.96%
SW Paper Inc.	10	6,844	0.96%	4	7,944	1.09%
Dayton Hudson	15	6,120	0.75%	5	7,338	1.01%
Summerwind Properties LLC	13	6,627	0.77%	8	6,947	0.95%
Expedient Enterprises LLC				9	6,152	0.85%
		<u>\$ 161,351</u>	<u>19.80%</u>		<u>\$ 115,982</u>	<u>15.93%</u>

Source: Cowlitz County Assessor's Office

**City of Kelso  
Principal Utility Taxpayers  
December 31, 2017**

Utility Tax Type	2017			2008		
	Rank	Tax	Percentage of Tax to Total	Rank	Tax	Percentage of Tax to Total
Electricity*	1	\$ 753,622	32.96%	1	\$ 560,597	32.44%
Sewer*	2	521,632	22.81%	2	343,592	19.88%
Water*	3	359,423	15.72%	4	184,794	10.69%
Cable Television*	4	217,117	9.49%	7	93,849	5.43%
Garbage*	5	158,597	6.94%	8	89,985	5.21%
Cell Phone**	6	124,853	5.46%	3	220,132	12.74%
Telephone**	7	85,936	3.76%	5	129,211	7.48%
Natural Gas*	8	65,538	2.87%	6	106,152	6.14%
		<u>2,286,718</u>	<u>100.00%</u>		<u>1,728,312</u>	<u>100.00%</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**

<b>Fiscal Year</b>	<b>Total Tax Levy</b>	<b>Current Tax Collections</b>	<b>Percent of Current Taxes Collected</b>	<b>Collections in Subsequent Years</b>	<b>Total Tax Collections</b>	<b>Ratio of Total Tax Collections to Total Tax Levy</b>	<b>Outstanding Delinquent Taxes</b>	<b>Ratio of Delinquent Taxes to Total Tax Levy</b>
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%	58,600	1,368,390	100.0%	-	0.0%
2014	1,393,874	1,335,634	95.8%	58,240	1,393,874	100.0%	-	0.0%
2015	1,412,682	1,361,171	96.4%	39,952	1,401,123	99.2%	11,559	0.8%
2016	1,450,135	1,397,191	96.3%	30,055	1,427,246	98.4%	22,889	1.6%
2017	1,472,804	1,423,709	96.7%	-	1,423,709	96.7%	49,095	3.3%

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 <sup>1</sup>	Per Capita <sup>2</sup>
	General Obligation Bonds	Miscellaneous Notes	Water/Sewer Revenue Bonds	Miscellaneous Notes			
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	5,407	-	4,085	909	10,401	2.16%	841
2017	5,120	-	3,880	972	9,972	N/A	840

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

N/A - Information not available.

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

<sup>2</sup> See the schedule of Demographic and Economic Statistics on page 140 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* <sub>1</sub>	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value of Property <sub>2</sub>	Per Capita <sub>3</sub>
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	5,407,314	-	5,407,314	0.67%	452
2017	765,621	5,119,561	-	5,119,561	0.61%	428

\*Amounts expressed in thousands

<sub>1</sub>Cowlitz County Assessor's Office

<sub>2</sub>See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property on Page 130 for property value data

<sub>3</sub>Population data can be found in the Schedule of Demographic and Economic Statistics on page 140.

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, 2017**

Jurisdiction	Debt Outstanding	Estimated Percentage Applicable <sup>1</sup>	Estimated Share of Overlapping Debt
<b>Direct:</b>			
City of Kelso	\$ 5,119,561	100%	\$ 5,119,561
<b>Overlapping:</b>			
Cowlitz County	38,180,416	8%	3,054,433
Kelso School District	13,795,122	41%	5,656,000
Port of Longview	9,155,000	10%	915,500
Cowlitz Fire District #2	10,198,433	32%	3,263,499
Subtotal, overlapping debt	71,328,971		12,889,431
Total direct and overlapping	<u>\$ 76,448,532</u>		<u>\$ 18,008,992</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.

<sup>1</sup> 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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Debt limit	\$ 48,670	\$ 54,595	\$ 54,615	\$ 56,505	\$ 55,744	\$ 51,020	\$ 50,853	\$ 51,766	\$ 52,766	\$ 57,422
Total net debt applicable to limit	<u>2,978</u>	<u>1,270</u>	<u>2,046</u>	<u>1,893</u>	<u>1,637</u>	<u>1,378</u>	<u>2,315</u>	<u>2,175</u>	<u>5,070</u>	<u>4,800</u>
Legal debt margin	<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>	<u>\$ 52,622</u>
Total net debt applicable to the limit as a percentage of debt limit	6.12%	2.33%	3.75%	3.35%	2.94%	2.70%	4.55%	4.20%	9.61%	8.36%

**Legal Debt Margin Calculation for Fiscal Year 2015**

Assessed value	\$ 765,621
Debt limit (7.5% of total assessed value)	57,422
Debt applicable to limit:	
General obligation bonds	4,800
Less: Amount set aside for repayment of general obligation debt	<u>-</u>
Total net debt applicable to limit	<u>4,800</u>
Legal debt margin	<u>\$ 52,622</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**

Fiscal Year	Water/Sewer Revenue Bonds					
	Water/Sewer Revenues <sup>1</sup>	Less:	Net	Debt Services <sup>3</sup>		Coverage
		Operating Expenses <sup>2</sup>	Available Revenue	Principal	Interest	
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
2016	8,982,591	6,894,648	2,087,943	205,000	161,159	5.70

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

<sup>2</sup>Total operating expenses exclusive of depreciation and interest.

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

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

<b>Fiscal Year</b>	<b>Population<sup>1</sup></b>	<b>Info available at County level only</b>			<b>School Enrollments<sup>3</sup></b>	<b>Metro/Area Unemployment Rate<sup>4</sup></b>
		<b>Personal Income<sup>2</sup></b>	<b>Per Capita Personal Income<sup>2</sup></b>	<b>County Median Age<sup>1</sup></b>		
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	4,358,825	41,449	N/A	5,030	7.1%
2017	11,980	N/A	N/A	N/A	5,045	6.1%

N/A - information not available.

<sup>1</sup>Source: Office of Financial Management

<sup>2</sup>Source: U.S. Department of Commerce, Bureau of Economic Analysis.

<sup>3</sup>Source: Kelso School District

<sup>4</sup>Source: 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	2017			2008		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
St John's Medical Center/Peace Health	1,681	1	3.9%	1,843	1	4.5%
Weyerhaeuser	1,500	2	3.5%	1,600	2	3.9%
Kapstone Paper & Packaging / Longview Fibre	1,000	3	2.3%	1,000	3	2.5%
Longview School District	908	4	2.1%	881	4	2.2%
Wal-Mart	750	5	1.8%			
Foster Farms	700	6	1.6%	730	6	1.8%
Kelso School District	646	7	1.5%	875	5	2.2%
JH Kelly	600	8	1.4%	600	8	1.5%
Cowlitz County	550	9	1.3%	594	9	1.5%
Safeway Grocery	450	10	1.1%			
Lower Columbia College				618	7	1.5%
NORPAC				442	10	1.1%
Total	<u>8,785</u>		<u>20.5%</u>	<u>9,183</u>		<u>22.7%</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	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>General Government</b>										
Community Development	5.0	5.0	5.0	2.3	3.0	3.0	2.5	1.5	3.0	3.0
Finance	8.0	8.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
City Attorney	1.0	1.0	1.0	0.3	0.3	0.4	0.4	0.4	0.4	0.4
Admin.	1.9	2.0	2.0	1.8	1.7	2.0	2.0	2.0	2.6	2.6
Engineering	8.0	6.9	6.1	6.1	6.1	4.1	4.1	4.6	5.0	5.0
Airport	-	0.0	0.0	0.0	0.0	1.0	1.0	1.0	1.0	1.0
<b>Public Safety</b>										
Police										
Officers	31.4	29.8	27.0	27.0	24.3	24.0	24.0	25.0	25.0	27.0
Civilians	3.4	3.4	3.4	3.4	3.4	4.4	4.4	4.4	4.4	4.4
<b>Highways &amp; Streets</b>										
Maintenance	2.5	1.4	1.0	0.0	0.0	0.0	1.0	1.0	1.0	1.0
Traffic	2.4	2.5	1.5	1.3	1.3	1.3	1.3	1.0	1.0	2.0
<b>Culture and recreation</b>	8.9	7.1	6.0	6.0	6.0	6.3	6.3	7.0	7.0	7.0
Water	8.1	8.7	7.5	7.5	7.5	8.8	8.8	8.0	8.5	9.0
Sewer	5.4	6.7	5.5	5.5	5.5	6.8	6.8	6.0	6.5	7.0
Drainage	2.2	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
<b>Total</b>	<b>88.2</b>	<b>85.6</b>	<b>76.0</b>	<b>71.1</b>	<b>69.1</b>	<b>72.1</b>	<b>72.6</b>	<b>71.9</b>	<b>75.4</b>	<b>79.4</b>

Source: City Payroll Department

**City of Kelso  
Operating Indicators by Function  
Last Ten Fiscal Years**

Function	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Police										
Physical arrests	1,586	1,668	1,608	1,435	1,309	1,163	1,065	1,227	1,169	1,204
Traffic violations	1,276	1,176	2,477	2,471	1,310	1,114	1,197	645	391	856
Fire (contracted with Cowlitz 2 Fire and Rescue)										
Number of calls answered	4,607	3,981	3,743	3,974	4,180	4,225	4,107	4,636	4,950	4,953
Highways and streets										
Street resurfacing (linear feet)	5,647	5,150	35,957	21,056	6,300	3,800	13,500	4,700	4,500	3,000
Sanitation (contracted with Waste Control Equipment Inc.)										
Residential refuse collected (tons monthly average)	562	519	495	507	524	513	641	642	677	696
Residential recyclables collected (tons monthly average)	49	50	51	46	50	41	40	41	38	41
Water										
Number of service connections	4,716	4,725	4,758	4,775	4,782	4,778	4,781	4,784	4,789	4,799
Water main breaks	11	6	11	9	5	7	7	3	6	6
Average daily consumption (millions of gallons)	2.3	2.3	2.2	2.2	2.0	2.1	2.1	2.3	2.19	2.19
Sewer										
Number of service connections	3,970	3,938	3,943	3,931	3,924	3,933	3,950	3,982	4,029	4,059
Average daily sewage treatment (millions of gallons)	2.6	2.4	2.6	2.7	2.9	2.3	2.5	2.7	2.7	2.7

Sources: Various City departments.

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

Function	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	8	8	8	8	9	9	9	9	9	9
Highways and streets										
Street (miles)	64	64	64	64	64	64	64	64	64	64
Streetlights	380	380	432	432	432	441	469	469	483	502
Traffic signals	12	12	13	13	13	13	15	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	73.56	73.56	73.56	73.85	74.28	56.30
Fire hydrants	550	550	550	554	554	554	556	605	606	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	56.00	56.00	56.52	56.52	56.52	56.80	57.02	44.84
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.