

*City of Kelso, Washington
Comprehensive Annual
Financial Report*



West Kelso Revitalization Project

*FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2014*

City of Kelso, Washington
Comprehensive Annual Financial Report



For the fiscal year ended December 31, 2014

Prepared by the Finance Department

Brian Butterfield
Finance Director

Accounting Staff
Patty Murray
Lisa Wetle

City of Kelso
 Comprehensive Annual Financial Report
 For the Fiscal Year Ended December 31, 2014

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INTRODUCTORY SECTION

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City of Kelso

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



May 27, 2015

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

State law requires that all local governments publish within 150 days of the close of each fiscal year financial statements covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the Washington State Auditor's Office. In addition to the State reporting requirements, the City has chosen to issue our financial report in conformity with generally accepted accounting practices (GAAP) and hereby submit this comprehensive annual financial report (CAFR) of the City of Kelso for the fiscal year ended December 31, 2014.

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, 2014, 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, 2014, 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 11,960.

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 88.

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 three anchor stores; Macy's, Sportsman's Warehouse, and J.C. Penney. Additional employment is provided by regional employers such as KapStone Paper and Packaging Corp. (formerly Longview Fibre Company), PeaceHealth/St. John Hospital, and Weyerhaeuser Company which are located in neighboring Longview, Washington and in Cowlitz County, Washington.

The economy of the region is based on a mixture of industrial, commercial and service activity. Wood and paper products processing, steel processing, trade and port activity, as well as healthcare, make up the economic foundation of the area. The economy as a whole has become more diversified in recent years, but remains materially dependent on the forest products industry and, as a result, is relatively vulnerable to the cyclical downturns of that industry. The average unemployment rate for the Kelso/Longview metropolitan area in 2014 was 8.4 percent compared with state and national rates of 6.2 percent.

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, 2013. This was the tenth 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

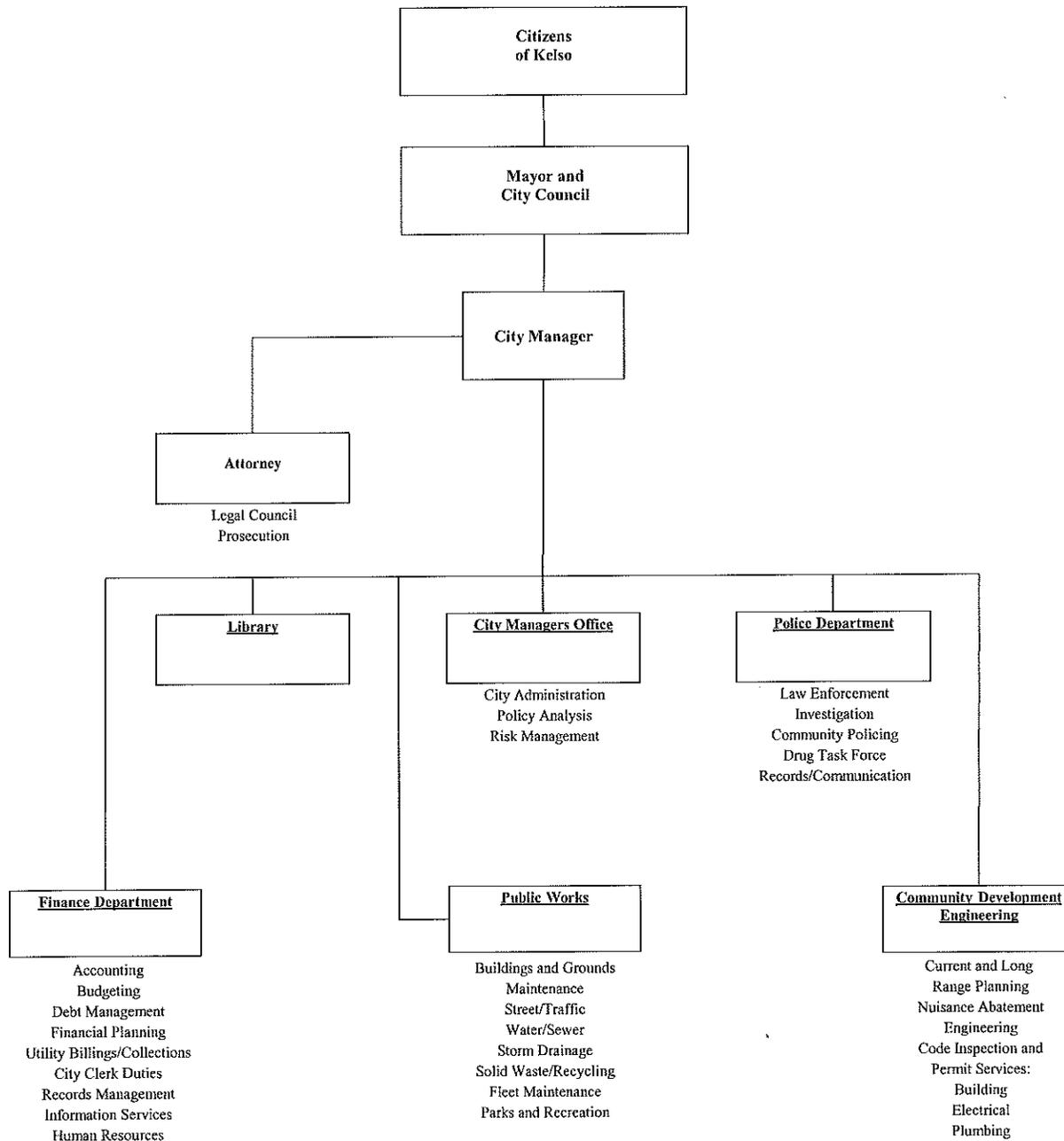
**City of Kelso
Washington**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2013

Executive Director/CEO

City Of Kelso Organizational Chart



City of Kelso

Directory of Officials

December 31, 2014

Elected Officials

Mayor

David Futcher

Council Members

Todd McDaniel
Dan Myers
Rick Roberson
Gary Schimmel
Gary Archer
Jared Franklin

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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Washington State Auditor

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

May 27, 2015

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Kelso, Cowlitz County, Washington, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and Arterial Street funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 27 and information on postemployment benefits other than pensions on page 85 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying information listed as combining financial statements and supplementary information on pages 88 through 107 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated May 27, 2015, 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 "Jan M. Jutte". The signature is written in black ink and is positioned above the typed name.

JAN M. JUTTE, CPA, CGFM

ACTING 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, 2014. We encourage readers to consider the information presented in conjunction with additional information that we have furnished in our letter of transmittal. All amounts reported in the MD&A, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets and deferred outflows of resources of the City of Kelso exceeded its liabilities at the close of the most recent fiscal year by \$92,161 (net position). Capital assets, net of depreciation and related debt, account for \$77,510 or 84% of total net position. \$12,438 or 13.5% of total net position (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$4,077 during 2014.
- As of the close of the current fiscal year, the City of Kelso's governmental funds reported combined ending fund balances of \$7,384, an increase of \$1,783 in comparison with the prior year. Approximately 79% of this amount, \$5,768, 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 \$4,040, or 46% of total general fund expenditures.
- The City of Kelso's total debt (exclusive of compensated absences, bond discounts, and pension obligations) decreased by \$699 during the current fiscal year.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. In the case of the City of Kelso, assets and deferred outflows of resources exceeded liabilities by \$92,161 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, 2014 with comparable data provided for the previous year.

City of Kelso's Net Position						
	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$8,594	\$8,878	\$ 9,648	\$ 8,772	\$ 18,242	\$ 17,650
Capital assets (net)	<u>59,451</u>	<u>57,386</u>	<u>26,033</u>	<u>25,829</u>	<u>85,484</u>	<u>83,215</u>
Total assets	<u>68,045</u>	<u>66,264</u>	<u>35,681</u>	<u>34,601</u>	<u>103,726</u>	<u>100,865</u>
Total deferred outflows of resources	<u>46</u>	<u>50</u>	<u>-</u>	<u>-</u>	<u>46</u>	<u>50</u>
Long-term liabilities outstanding	4,203	4,235	5,820	6,171	10,023	10,406
Other liabilities	<u>588</u>	<u>1,492</u>	<u>1,000</u>	<u>933</u>	<u>1,588</u>	<u>2,425</u>
Total liabilities	<u>4,791</u>	<u>5,727</u>	<u>6,820</u>	<u>7,104</u>	<u>11,611</u>	<u>12,831</u>
Net assets:						
Net investment in capital assets	57,203	54,754	20,307	19,683	77,510	74,437
Restricted	1,616	1,491	597	595	2,213	2,086
Unrestricted	<u>4,481</u>	<u>4,342</u>	<u>7,957</u>	<u>7,219</u>	<u>12,438</u>	<u>11,561</u>
Total net position	<u>\$63,300</u>	<u>\$60,587</u>	<u>\$28,861</u>	<u>\$27,497</u>	<u>\$92,161</u>	<u>\$88,084</u>

By far the largest portion of the City's net position (84 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Kelso's net position (2.4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$12,438 may be used to meet the City's ongoing obligations to citizens and creditors.

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

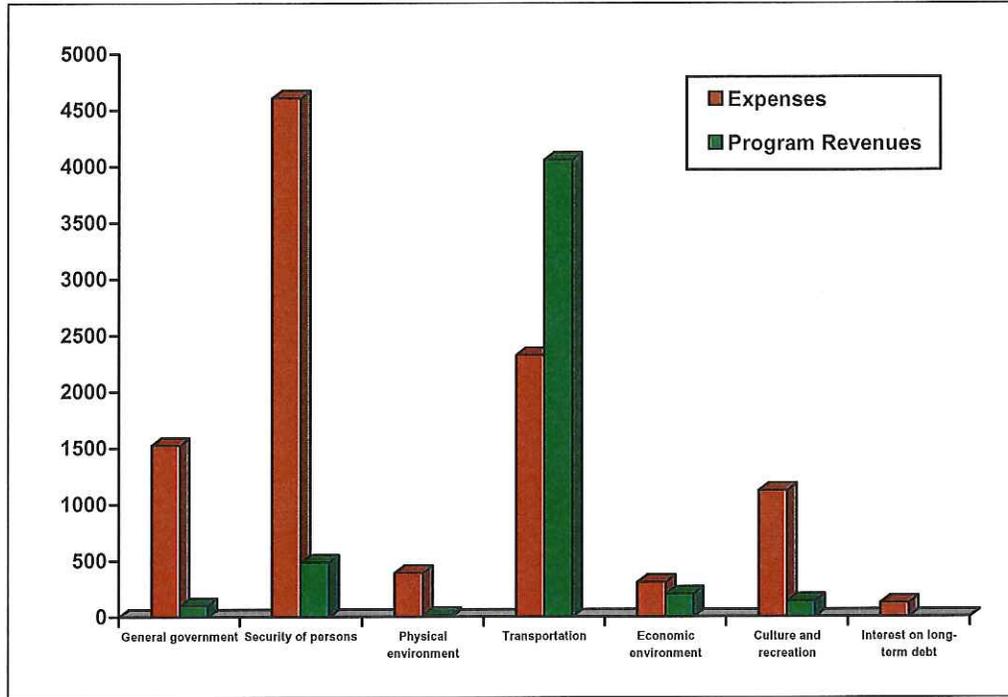
Governmental activities. Governmental activities increased the City of Kelso's net position by \$2,713 in 2014. Revenues decreased by \$1,254 in 2014, while expenditures increased by \$28 in 2014. Key elements for these changes are as follows:

- Increased tax collections of \$394 due to improved economic conditions.
- Increased fees collected for various services provided by the City of \$400.

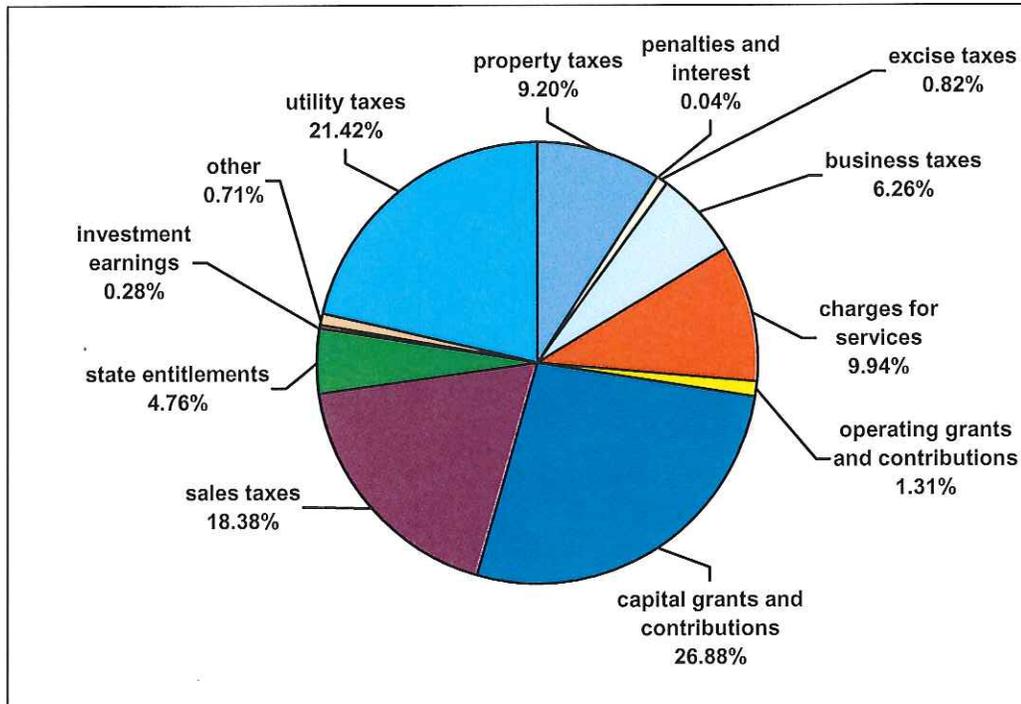
City of Kelso's Changes in Net Position

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$1,303	\$902	\$10,363	\$9,668	\$11,666	\$10,570
Operating grants and contributions	172	848	75	19	247	867
Capital grants and contributions	3,525	4,895	112	2	3,637	4,897
General revenues:						
Property taxes	1,206	1,191	-	-	1,206	1,191
Sales and use taxes	2,410	2,141	-	-	2,410	2,141
Utility taxes	2,809	2,748	-	-	2,809	2,748
Business taxes	821	772	-	-	821	772
Excise taxes	107	79	-	-	107	79
Penalties and interest	5	3	-	-	5	3
State entitlements	624	692	-	-	624	692
Investment earnings	37	29	13	11	50	40
Other	93	66	-	-	93	66
Total revenues	<u>13,112</u>	<u>14,366</u>	<u>10,563</u>	<u>9,700</u>	<u>23,675</u>	<u>24,066</u>
Expenses:						
General government	1,525	1,401	-	-	1,525	1,401
Security of persons and property	4,609	4,562	-	-	4,609	4,562
Physical environment	391	375	-	-	391	375
Transportation	2,323	2,180	-	-	2,323	2,180
Economic environment	308	754	-	-	308	754
Culture and recreation	1,121	985	-	-	1,121	985
Interest on long-term debt	122	114	-	-	122	114
Water/Sewer	-	-	7,186	7,079	7,186	7,079
Storm water	-	-	556	547	556	547
Solid waste	-	-	1,457	1,317	1,457	1,317
Total expenses	<u>10,399</u>	<u>10,371</u>	<u>9,199</u>	<u>8,943</u>	<u>19,598</u>	<u>19,314</u>
Change in net position before transfers and special items	2,713	3,995	1,364	757	4,077	4,752
Special items	-	2,513	-	(3,026)	-	(513)
Transfers	-	(56)	-	56	-	-
Change in net position	2,713	6,452	1,364	(2,213)	4,077	4,239
Net position -- beginning	<u>60,587</u>	<u>54,135</u>	<u>27,497</u>	<u>29,710</u>	<u>88,084</u>	<u>83,845</u>
Net position -- ending	<u>\$63,300</u>	<u>\$60,587</u>	<u>\$28,861</u>	<u>\$27,497</u>	<u>\$92,161</u>	<u>\$88,084</u>

Expenses and Program Revenues – Governmental Activities

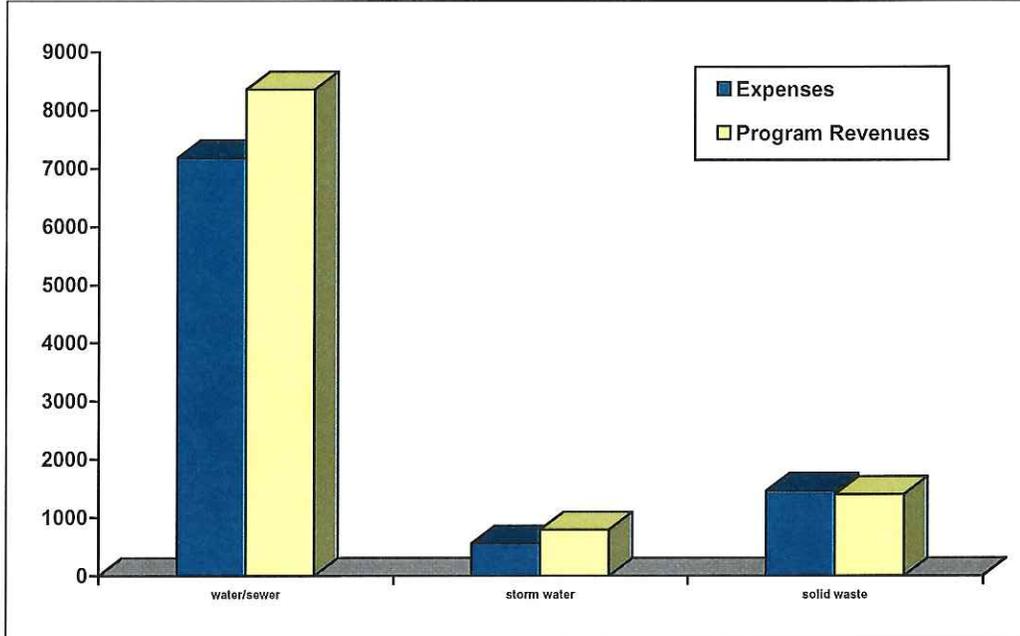


Revenues by Source - Governmental Activities

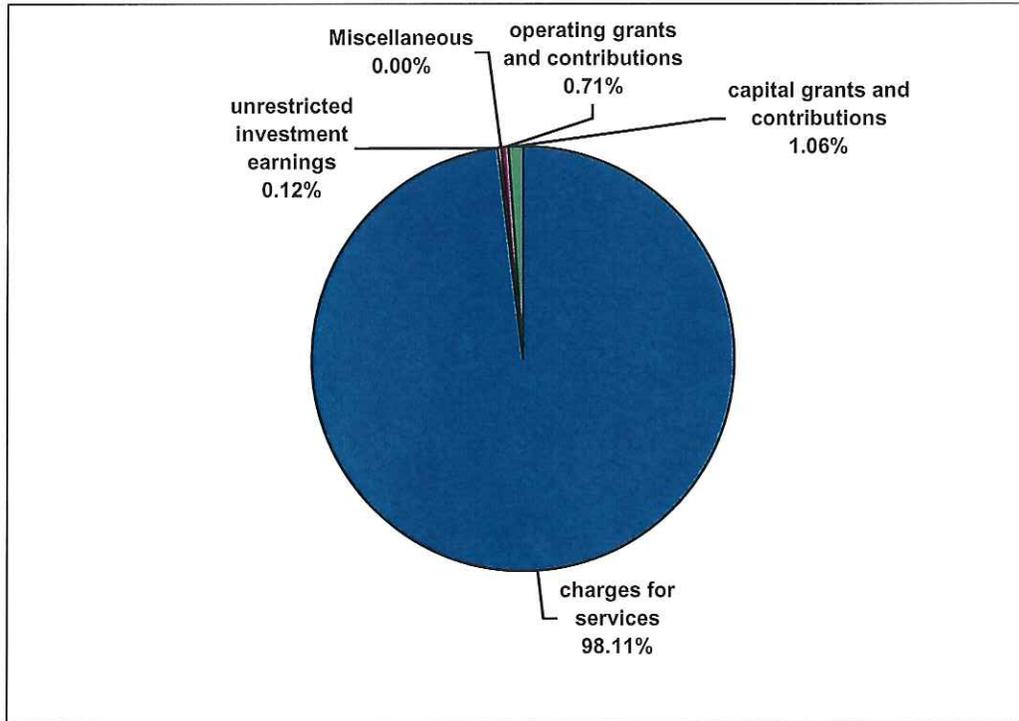


Business-type activities. Business-type activities increased the City of Kelso’s net position by \$1,364. Business-type activity revenues and expenses increased in 2014 by \$863 and \$256, respectively. Operating revenues exceeded operating expenses in 2014 by \$1,394 in the water/sewer fund.

Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type Activities



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

- The City increased the water and sewer rates by 7.5% and 1.2%, respectively, in 2014.
- The City increased the garbage collection rates by 16.5% in 2014.
- Payments made to the regional sewage treatment plant increased by \$76 in 2014. (See Note V. section D).

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of Kelso's governmental funds reported combined ending fund balances of \$7,384, an increase of \$1,783 in comparison with the prior year. However, in 2014 the City recognized \$1,212 in grant revenues that had been deferred in the prior year as they were not collected soon enough after year end (90 days) to be available to liquidate liabilities of the current period. Approximately 79% of ending fund balance (\$5,768) 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 (\$1,109), 2) to pay for low income housing (\$54), 3) to pass through grant receipts for airport improvements (\$7), 4) for a variety of other restricted purposes (\$692)

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

The general fund is the chief operating fund of the City of Kelso. At the end of the current fiscal year, total fund balance of the general fund was \$4,140. All but \$312 of this fund balance is unassigned. \$54 is restricted for low income housing, \$39 is restricted for the maintenance of City streets, \$7 is restricted for grants to airport, and \$212 has been assigned by the City for maintenance of City owned bridges. Unassigned fund balance represents 48 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 \$630 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 2014, the arterial street fund expended in excess of \$3.6 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 \$6,456, and for the solid waste fund amounted to \$358. The total net position for the water/sewer fund increased by \$1,138 and the total net position for the solid waste fund decreased by \$57. Residential and commercial water rates were increased by 7.5% and sewer rates were increased by 1.2% in 2014. Garbage rates were increased by 16.5% in 2014. 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 \$63 increase in appropriations.

At the end of the year, operating revenues exceeded budgetary estimates by \$571. Operating expenditures and transfers were \$331 less than budgetary estimates.

Capital Asset and Debt Administration

Capital Assets. The City of Kelso's investment in capital assets for its governmental and business type activities as of December 31, 2014 amounts to \$77,464 (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 2014, the City of Kelso substantially completed the right-of-way acquisition and construction phases of the West Main Street Realignment project in West Kelso. The West Main Street Realignment project runs from the Allen Street Bridge on the west end of Allen Street, to the west city limits of Kelso at West Cowlitz Way. The Realignment Project stems from growing traffic, congestion and accidents along the corridor. The goal of the project is to redevelop the streets in the area to deal with those issues, and at the same time provide a desirable

business friendly environment. During the planning phase the city decided on the final alignment option, developing the supporting environmental documents and developing engineering plans, estimates and specifications for construction. The project is being funded primarily through federal and state grants with a small percentage being funded by the City. The total cost of this project through December 31, 2014 was \$10,181.

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

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$18,589	\$18,588	\$ 29	\$ 29	\$18,618	\$18,617
Buildings and structures	7,586	7,856	8,466	8,644	16,052	16,500
Improvements other than buildings	3,045	3,291	15,605	15,330	18,650	18,621
Machinery and equipment	537	541	853	860	1,390	1,401
Infrastructure	18,558	19,195	-	-	18,558	19,195
Construction in progress	<u>11,136</u>	<u>7,915</u>	<u>1,080</u>	<u>966</u>	<u>12,216</u>	<u>8,881</u>
Total	<u>\$59,451</u>	<u>\$57,386</u>	<u>\$26,033</u>	<u>\$25,829</u>	<u>\$85,484</u>	<u>\$83,215</u>

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

Long-term debt. At the end of the current fiscal year, the City of Kelso had total bonded G.O. debt outstanding of \$2,315. 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	
	2014	2013	2014	2013	2014	2013
General obligation bonds	\$2,315	\$2,450	\$-	\$-	\$2,315	\$2,450
Revenue bonds	-	-	<u>4,480</u>	<u>4,675</u>	<u>4,480</u>	<u>4,675</u>
Total	<u>\$2,315</u>	<u>\$2,450</u>	<u>\$4,480</u>	<u>\$4,675</u>	<u>\$6,795</u>	<u>\$7,125</u>

The City of Kelso's total bonded debt decreased by \$330 during the current fiscal year.

In addition to the bonded debt mentioned above, the City has two Drinking Water State Revolving Fund loans outstanding at year end. The total amount outstanding at year end for these loans is \$1,284.

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 2014 was 8.4 percent, which is a decrease from a rate of 10.1 percent in 2013. This compares unfavorably to the State and national average unemployment rate of 6.2 percent for each.
- In 2014, the City experienced an upturn in economic activity which has manifested itself with increased sales and business taxes as well as increased permitting fees.
- 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 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 2015 fiscal year.

At the end of the current fiscal year the unassigned fund balance in the general fund is \$3,828. In 2015, the City anticipates spending down \$483 of this unassigned fund balance.

In 2015, water and sewer non-industrial rates will be increased by 2.0%. Garbage will increase by 5% and drainage rates by 18%. These rate increases are necessary to keep pace with inflation and for future capital upgrades.

Requests for Information

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

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**BASIC
FINANCIAL
STATEMENTS**

City of Kelso
Statement of Net Position
December 31, 2014

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash & cash equivalents	\$ 4,463,460	\$ 6,271,792	\$ 10,735,252
Investments	1,790,088	796,401	2,586,489
Receivables (net of allowance for uncollectible):	1,693,421	1,640,212	3,333,633
Long-term notes receivable	647,193	-	647,193
Restricted assets	-	940,111	940,111
Capital assets net of accumulated depreciation:			
Land	18,588,751	28,712	18,617,463
Buildings	7,585,895	8,466,005	16,051,900
Improvements other than buildings	3,044,397	15,605,300	18,649,697
Machinery and equipment	537,289	853,021	1,390,310
Infrastructure	18,558,264	-	18,558,264
Construction in progress	11,136,119	1,079,715	12,215,834
Total assets	<u>68,044,877</u>	<u>35,681,269</u>	<u>103,726,146</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	46,496	-	46,496
Total assets	<u>46,496</u>	<u>-</u>	<u>46,496</u>
LIABILITIES			
Accounts payable and other current liabilities	369,012	636,979	1,005,991
Interest payable	5,877	20,332	26,209
Unearned revenue	212,739	-	212,739
Liabilities payable from restricted assets	-	343,187	343,187
Long-term liabilities:			
Due within one year	225,883	406,132	632,015
Due in more than one year	3,977,876	5,413,890	9,391,766
Total liabilities	<u>4,791,387</u>	<u>6,820,520</u>	<u>11,611,907</u>
NET POSITION			
Net investment in capital assets	57,202,855	20,307,232	77,510,087
Restricted for:			
Debt service	-	596,924	596,924
Capital projects	82,133	-	82,133
Paths and trails	39,773	-	39,773
Street maintenance	253,398	-	253,398
Parks	14,840	-	14,840
Criminal Justice	55,891	-	55,891
Affordable housing	54,490	-	54,490
Housing rehabilitation	1,108,803	-	1,108,803
Grant pass-thru	6,707	-	6,707
Unrestricted	4,481,096	7,956,593	12,437,689
Total net position	<u>\$ 63,299,986</u>	<u>\$ 28,860,749</u>	<u>\$ 92,160,735</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, 2014

Functions/Programs	Program Revenues			Net (expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities:							
General government	\$ 1,525,177	\$ 90,248	\$ 9,655	\$ -	\$ (1,425,274)	\$ -	\$ (1,425,274)
Security of persons and property	4,608,882	359,550	125,330	-	(4,124,002)	-	(4,124,002)
Physical environment	391,436	17,489	-	-	(373,947)	-	(373,947)
Transportation	2,323,499	532,399	-	3,525,305	1,734,205	-	1,734,205
Economic environment	307,658	163,413	37,353	-	(106,892)	-	(106,892)
Culture and recreation	1,120,950	140,157	-	-	(980,793)	-	(980,793)
Interest on long-term debt	121,658	-	-	-	(121,658)	-	(121,658)
Total governmental activities	10,399,260	1,303,256	172,338	3,525,305	(5,398,361)	-	(5,398,361)
Business-type activities:							
Water/Sewer	7,186,124	8,357,909	-	-	-	1,171,785	1,171,785
Solid waste	1,457,059	1,382,062	18,141	-	-	(56,866)	(56,866)
Storm water	555,939	623,277	56,699	112,162	-	236,199	236,199
Airport	-	-	-	-	-	-	-
Total business-type activities	9,199,122	10,363,248	74,840	112,162	-	1,351,128	1,351,128
Total primary government	\$ 19,598,382	\$ 11,666,504	\$ 247,178	\$ 3,637,467	\$ (5,398,361)	\$ 1,351,128	\$ (4,047,233)
General Revenues:							
Property taxes					1,205,574		1,205,574
Sales taxes					2,410,373		2,410,373
Utility taxes					2,809,219		2,809,219
Business taxes					821,436		821,436
Excise taxes					106,722		106,722
Penalties & interest					5,018		5,018
State entitlements (unrestricted)					623,697		623,697
Investment earnings					36,500	13,090	49,590
Miscellaneous					92,542		92,542
Total general revenues					8,111,081	13,090	8,124,171
Change in net position					2,712,720	1,364,218	4,076,938
Net position - beginning					60,587,266	27,496,531	88,083,797
Net position - ending					\$ 63,299,986	\$ 28,860,749	\$ 92,160,735

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

City of Kelso
Balance Sheet
Governmental Funds
December 31, 2014

	General Fund	Arterial Street Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash & cash equivalents	\$ 2,049,631	\$ 212,391	\$ 1,803,946	\$ 4,065,968
Investments	995,138	-	794,950	1,790,088
Receivables (net):				
Taxes	1,379,571	-	-	1,379,571
Accounts	196,383	13,227	-	209,610
Assessments	-	18,509	-	18,509
Due from other funds	-	-	135,449	135,449
Due from other governments	51,749	16,735	17,247	85,731
Advances to other funds	-	-	252,181	252,181
Long-term notes receivable	-	-	647,193	647,193
Total assets	<u>\$ 4,672,472</u>	<u>\$ 260,862</u>	<u>\$ 3,650,966</u>	<u>\$ 8,584,300</u>
LIABILITIES				
Accounts payable	234,540	109,126	15,781	359,447
Due to other funds	-	135,449	-	135,449
Due to other governments	9,565	-	-	9,565
Advances from other funds	-	252,181	-	252,181
Unearned revenue	57,395	68,509	86,835	212,739
Total liabilities	<u>301,500</u>	<u>565,265</u>	<u>102,616</u>	<u>969,381</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue-property tax	111,386	-	-	111,386
Unavailable revenue-municipal court	119,339	-	-	119,339
Total deferred inflows of resources	<u>230,725</u>	<u>-</u>	<u>-</u>	<u>230,725</u>
FUND BALANCES (DEFICITS)				
Restricted for:				
Paths and trails	-	-	39,773	39,773
Housing/neighborhood rehabilitation	-	-	1,108,803	1,108,803
Low income housing	54,490	-	-	54,490
Criminal justice	-	-	55,891	55,891
Parks	-	-	14,840	14,840
Street maintenance/construction	39,019	-	214,379	253,398
Grant pass-thru	6,707	-	-	6,707
Capital projects	-	-	82,133	82,133
Assigned to:				
Debt service	-	-	1,594,589	1,594,589
Other purposes	212,039	-	437,942	649,981
Unassigned	3,827,992	(304,403)	-	3,523,589
Total fund balances	<u>4,140,247</u>	<u>(304,403)</u>	<u>3,548,350</u>	<u>7,384,194</u>
Total liabilities, deferred inflows of resources and fund balances (deficits)	<u>\$ 4,672,472</u>	<u>\$ 260,862</u>	<u>\$ 3,650,966</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	59,095,437
Other assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	230,725
Net Pension and Net OPEB Assets or Obligations are not considered to represent a financial resource or liability and, therefore, are not reported in the funds.	(1,565,871)
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.	752,770
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the fund	(2,597,269)
Net position of governmental activities	<u>\$ 63,299,986</u>

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

City of Kelso
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2014

	<u>General Fund</u>	<u>Arterial Street Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Revenues				
Taxes	\$ 7,131,159	\$ -	\$ 229,807	\$ 7,360,966
Licenses and permits	203,315	-	-	203,315
Intergovernmental	1,075,903	4,311,595	200,523	5,588,021
Charges for services	662,897	157,068	187,843	1,007,808
Fines	119,357	-	-	119,357
Investment earnings	31,528	15	5,445	36,988
Rental/lease income	93,179	-	10,920	104,099
Miscellaneous	65,897	2,708	41,034	109,639
Total revenues	<u>9,383,235</u>	<u>4,471,386</u>	<u>675,572</u>	<u>14,530,193</u>
Expenditures				
Current:				
General government	1,729,634	-	-	1,729,634
Security of persons and property	4,047,356	-	223,645	4,271,001
Physical environment	439,622	-	-	439,622
Transportation	849,605	571	938	851,114
Economic environment	313,262	-	72	313,334
Culture and recreation	670,007	-	172,395	842,402
Debt service:				
Principal	-	181,775	135,000	316,775
Interest and bond issuance costs	-	28,360	72,434	100,794
Capital outlay:				
General government	37,271	-	-	37,271
Transportation	117,921	3,677,835	-	3,795,756
Culture and recreation	24,603	-	25,000	49,603
Total expenditures	<u>8,229,281</u>	<u>3,888,541</u>	<u>629,484</u>	<u>12,747,306</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,153,954</u>	<u>582,845</u>	<u>46,088</u>	<u>1,782,887</u>
Other financing sources (uses)				
Transfers in	-	329,550	249,358	578,908
Transfers out	(523,908)	-	(55,000)	(578,908)
Total other financing sources (uses)	<u>(523,908)</u>	<u>329,550</u>	<u>194,358</u>	<u>-</u>
Net change in fund balances	630,046	912,395	240,446	1,782,887
Fund balances - beginning	3,510,201	(1,216,798)	3,307,904	5,601,307
Fund balances - ending	<u>\$ 4,140,247</u>	<u>\$ (304,403)</u>	<u>\$ 3,548,350</u>	<u>\$ 7,384,194</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, 2014

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

Net change in fund balances - total governmental funds (page 33)	\$ 1,782,887
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	1,986,421
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to increase net position.	77,330
The net effect of underfunding the City's annual required contribution to the Firemen's Pension Fund.	33,677
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.	(320,772)
Some revenues reported in the governmental funds have already been reported in the statement of activities in prior years.	(1,234,878)
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.	316,775
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.	(1,872)
Some expenses reported in the governmental funds have already been reported in the statement of activities in prior years.	3,625
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.	69,527
Change in net position of governmental activities (page 31)	<u>\$ 2,712,720</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, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 5,817,986	\$ 5,817,986	\$ 6,174,522	\$ 356,536
Licenses and permits	194,000	194,000	203,315	9,315
Intergovernmental	537,550	503,519	831,160	327,641
Charges for services	823,509	788,661	652,044	(136,617)
Fines	130,500	130,500	114,917	(15,583)
Investment earnings	8,400	8,400	30,134	21,734
Other miscellaneous	14,500	14,500	22,477	7,977
Total revenues	<u>7,526,445</u>	<u>7,457,566</u>	<u>8,028,569</u>	<u>571,003</u>
Expenditures				
General government:				
Council	83,482	80,238	80,224	14
Municipal court	208,100	208,100	165,055	43,045
Manager	204,857	201,483	203,228	(1,745)
Finance	578,260	551,150	552,312	(1,162)
Attorney	107,766	121,342	110,555	10,787
Other - unclassified	641,687	636,687	618,260	18,427
Total general government	<u>1,824,152</u>	<u>1,799,000</u>	<u>1,729,634</u>	<u>69,366</u>
Security of persons and property:				
Police	3,500,918	3,600,740	3,545,029	55,711
Jail	312,000	312,000	246,834	65,166
Fire	300,000	170,000	170,952	(952)
Other	86,000	86,000	84,541	1,459
Total security of persons and property	<u>4,198,918</u>	<u>4,168,740</u>	<u>4,047,356</u>	<u>121,384</u>
Physical environment	<u>656,733</u>	<u>588,190</u>	<u>439,622</u>	<u>148,568</u>
Transportation	<u>60,000</u>	<u>165,000</u>	<u>265,369</u>	<u>(100,369)</u>
Economic environment	<u>328,550</u>	<u>325,510</u>	<u>313,262</u>	<u>12,248</u>
Capital outlay	<u>20,000</u>	<u>40,000</u>	<u>37,271</u>	<u>2,729</u>
Total expenditures	<u>7,088,353</u>	<u>7,086,440</u>	<u>6,832,514</u>	<u>253,926</u>
Excess (deficiency) of revenues over (under) expenditures	<u>438,092</u>	<u>371,126</u>	<u>1,196,055</u>	<u>824,929</u>
Other financing sources (uses)				
Transfers out	<u>(554,642)</u>	<u>(619,642)</u>	<u>(542,271)</u>	<u>77,371</u>
Total other financing sources (uses)	<u>(554,642)</u>	<u>(619,642)</u>	<u>(542,271)</u>	<u>77,371</u>
Net change in fund balances budgetary basis	<u>(116,550)</u>	<u>(248,516)</u>	653,784	<u>902,300</u>
Reconciliation of budgetary/GAAP basis:				
Basis difference (See note III.B.)			<u>(23,738)</u>	
Net change in fund balance GAAP basis			630,046	
Fund balance - beginning			<u>3,510,201</u>	
Fund balance - ending			<u>\$ 4,140,247</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, 2014

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 775,000	\$ 5,845,560	\$ 4,311,595	\$ (1,533,965)
Charges for services	158,000	158,000	157,068	(932)
Investment earnings	-	-	15	15
Miscellaneous	2,150	2,150	2,708	558
Total revenues	935,150	6,005,710	4,471,386	(1,534,324)
Expenditures				
Transportation	-	-	571	(571)
Capital outlay	1,134,877	6,412,877	3,677,835	2,735,042
Debt Service:				
Principal	22,713	182,713	181,775	938
Interest	27,610	27,610	28,360	(750)
Total expenditures	1,185,200	6,623,200	3,888,541	2,734,659
Excess (deficiency) of revenues over (under) expenditures	(250,050)	(617,490)	582,845	1,200,335
Other financing sources (uses)				
Transfers in	379,550	379,550	329,550	(50,000)
Total other financing sources (uses)	379,550	379,550	329,550	(50,000)
Net change in fund balance	129,500	(237,940)	912,395	1,150,335
Fund balance - beginning	(1,216,798)	(1,216,798)	(1,216,798)	-
Fund balance - ending	\$ (1,087,298)	\$ (1,454,738)	\$ (304,403)	\$ 1,150,335

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, 2014

	Business-type Activities - Enterprise Funds				Equipment Reserve Internal Service Fund
	Major Funds		Non-Major Fund	Total	
	Solid Waste	Water- Sewer	Storm Water		
ASSETS					
Current Assets:					
Cash & cash equivalents	\$ 249,310	\$ 5,003,276	\$ 524,550	\$ 5,777,136	\$ 892,148
Investments	-	796,401	-	796,401	-
Restricted cash, cash equivalents, and investments:					
Customer deposits	-	343,187	-	343,187	-
Accounts receivable	239,297	1,225,216	104,530	1,569,043	-
Due from other governments	4,999	-	66,170	71,169	-
Total current assets	<u>493,606</u>	<u>7,368,080</u>	<u>695,250</u>	<u>8,556,936</u>	<u>892,148</u>
Noncurrent assets:					
Restricted cash, cash equivalents, and investments:					
Revenue bond covenant accounts	-	199,449	-	199,449	-
Investments	-	397,475	-	397,475	-
Capital Assets:					
Land	-	28,712	-	28,712	-
Buildings and structures	-	10,679,914	-	10,679,914	-
Improvements other than buildings	-	27,473,026	727,472	28,200,498	-
Machinery and equipment	-	2,961,693	43,401	3,005,094	2,833,327
Construction in progress	-	824,608	255,107	1,079,715	-
Less accumulated depreciation	-	(16,821,444)	(322,058)	(17,143,502)	(2,295,727)
Total capital assets (net of accumulated depreciation)	<u>-</u>	<u>25,146,509</u>	<u>703,922</u>	<u>25,850,431</u>	<u>537,600</u>
Total noncurrent assets	<u>-</u>	<u>25,743,433</u>	<u>703,922</u>	<u>26,447,355</u>	<u>537,600</u>
Total Assets	<u>493,606</u>	<u>33,111,513</u>	<u>1,399,172</u>	<u>35,004,291</u>	<u>1,429,748</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		
LIABILITIES					
Current Liabilities:					
Accounts payable	136,065	465,056	35,858	636,979	-
Compensated absences	-	20,775	2,850	23,625	-
Customer deposits	-	343,187	-	343,187	-
Accrued interest payable	-	20,332	-	20,332	-
Current revenue bonds payable	-	195,000	-	195,000	-
Current portion notes payable	-	187,507	-	187,507	-
Total current liabilities	<u>136,065</u>	<u>1,231,857</u>	<u>38,708</u>	<u>1,406,630</u>	-
Noncurrent liabilities:					
Compensated absences	-	62,326	8,550	70,876	-
Revenue bonds payable	-	4,246,299	-	4,246,299	-
Notes payable	-	1,096,715	-	1,096,715	-
Total noncurrent liabilities	-	<u>5,405,340</u>	<u>8,550</u>	<u>5,413,890</u>	-
Total Liabilities	<u>136,065</u>	<u>6,637,197</u>	<u>47,258</u>	<u>6,820,520</u>	-
NET POSITION					
Net investment in capital assets	-	19,420,988	703,922	20,124,910	537,600
Restricted for debt service	-	596,924	-	596,924	-
Unrestricted	357,541	6,456,404	647,992	7,461,937	892,148
Total net position	<u>\$ 357,541</u>	<u>\$ 26,474,316</u>	<u>\$ 1,351,914</u>	<u>\$ 28,183,771</u>	<u>\$ 1,429,748</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:				676,978	
Net position of business-type activities				<u>\$ 28,860,749</u>	

City of Kelso
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2014

	Business-type Activities - Enterprise Funds				Equipment Reserve Internal Service Fund
	Major Funds		Non-Major Fund	Total	
	Solid Waste	Water- Sewer	Storm Water		
Operating revenues:					
Charges for services	\$ 1,372,630	\$ 8,176,846	\$ 622,730	\$ 10,172,206	\$ 303,320
Other operating revenue	9,432	91,578	547	101,557	-
Total operating revenues	<u>1,382,062</u>	<u>8,268,424</u>	<u>623,277</u>	<u>10,273,763</u>	<u>303,320</u>
Operating expenses:					
General operations	820,006	2,456,430	482,235	3,758,671	35
Contracted processing operations	447,453	2,629,574	-	3,077,027	-
Maintenance	9,666	86,550	26,516	122,732	-
Depreciation	-	782,048	24,249	806,297	183,890
Taxes	179,934	919,941	8,464	1,108,339	-
Total operating expenses	<u>1,457,059</u>	<u>6,874,543</u>	<u>541,464</u>	<u>8,873,066</u>	<u>183,925</u>
Operating income (loss)	<u>(74,997)</u>	<u>1,393,881</u>	<u>81,813</u>	<u>1,400,697</u>	<u>119,395</u>
Nonoperating revenues (expenses):					
Investment earnings	268	11,845	437	12,550	766
Intergovernmental	18,141	-	56,699	74,840	-
Other	-	30,961	-	30,961	-
Gain (loss) on capital asset disposition	-	(53,394)	(14,475)	(67,869)	(4,327)
Interest expense	-	(245,430)	-	(245,430)	-
Total nonoperating revenues (expenses)	<u>18,409</u>	<u>(256,018)</u>	<u>42,661</u>	<u>(194,948)</u>	<u>(3,561)</u>
Income (loss) before capital contributions,	<u>(56,588)</u>	<u>1,137,863</u>	<u>124,474</u>	<u>1,205,749</u>	<u>115,834</u>
Capital contributions	-	-	112,162	112,162	-
Change in net position	<u>(56,588)</u>	<u>1,137,863</u>	<u>236,636</u>	<u>1,317,911</u>	<u>115,834</u>
Total net position - beginning	<u>414,129</u>	<u>25,336,453</u>	<u>1,115,278</u>	<u>26,866,860</u>	<u>1,313,914</u>
Total net position - ending	<u>\$ 357,541</u>	<u>\$ 26,474,316</u>	<u>\$ 1,351,914</u>	<u>\$ 28,183,771</u>	<u>\$ 1,429,748</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:				46,307	
Change in net position of business-type activities				<u>\$ 1,364,218</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, 2014

	Business-type Activities - Enterprise Funds				Equipment Reserve Internal Service Fund
	Major Funds		Non-Major Fund	Totals	
	Solid Waste	Water- Sewer	Storm Water		
Cash flows from operating activities					
Receipts from customers and users	\$ 1,352,419	\$ 8,177,959	\$ 592,835	\$ 10,123,213	\$ -
Receipts from other sources	9,432	91,578	-	101,010	-
Receipts from interfund services provided	-	49,584	27,112	76,696	303,320
Payments to suppliers and service providers	(1,369,929)	(4,038,497)	(157,769)	(5,566,195)	(35)
Payments to employees	(7,163)	(1,501,286)	(272,749)	(1,781,198)	-
Payments for interfund services used	(68,930)	(367,522)	(74,791)	(511,243)	-
Net cash provided (used) by operating activities	<u>(84,171)</u>	<u>2,411,816</u>	<u>114,638</u>	<u>2,442,283</u>	<u>303,285</u>
Cash flows from noncapital financing activities					
Advances to other funds	-	-	-	-	250,000
Operating grants received	18,778	-	4,809	23,587	-
Net cash provided (used) by noncapital financing activities	<u>18,778</u>	<u>-</u>	<u>4,809</u>	<u>23,587</u>	<u>250,000</u>
Cash flows from capital and related financing activities					
Proceeds from capital recovery fees	-	31,424	-	31,424	-
Capital grants received	-	-	100,269	100,269	-
Proceeds from sale of capital assets	-	-	-	-	13,886
Acquisition and construction of capital assets	-	(862,181)	(234,108)	(1,096,289)	(228,344)
Principal paid on capital debt	-	(382,506)	-	(382,506)	-
Interest paid on capital debt	-	(213,759)	-	(213,759)	-
Net cash provided (used) by capital financing activities	<u>-</u>	<u>(1,427,022)</u>	<u>(133,839)</u>	<u>(1,560,861)</u>	<u>(214,458)</u>
Cash flows from investing activities					
Interest received	268	12,878	437	13,583	766
Purchase of investments	-	(796,401)	-	(796,401)	-
Proceeds from sale of investments	-	799,574	-	799,574	-
Net cash provided (used) by investing activities	<u>268</u>	<u>16,051</u>	<u>437</u>	<u>16,756</u>	<u>766</u>
Net increase (decrease) in cash and cash equivalents	(65,125)	1,000,845	(13,955)	921,765	339,593
Cash and cash equivalents, January 1	314,435	4,545,067	538,505	5,398,007	552,555
Cash and cash equivalents, December 31	<u>\$ 249,310</u>	<u>\$ 5,545,912</u>	<u>\$ 524,550</u>	<u>\$ 6,319,772</u>	<u>\$ 892,148</u>
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ (74,997)	\$ 1,393,881	\$ 81,813	\$ 1,400,697	\$ 119,395
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	-	782,048	24,249	806,297	183,890
(Increase) decrease in accounts receivable	(20,211)	16,784	(3,330)	(6,757)	-
(Increase) decrease in inventory	-	161,631	-	161,631	-
Increase (decrease) in customer deposits	-	33,913	-	33,913	-
Increase (decrease) in accounts payable	11,037	30,083	12,440	53,560	-
Increase (decrease) in compensated absences	-	(1,632)	(534)	(2,166)	-
Increase (decrease) in intergovernmental payables	-	(4,892)	-	(4,892)	-
Total adjustments	<u>(9,174)</u>	<u>1,017,935</u>	<u>32,825</u>	<u>1,041,586</u>	<u>183,890</u>
Net cash provided (used) by operating activities	<u>\$ (84,171)</u>	<u>\$ 2,411,816</u>	<u>\$ 114,638</u>	<u>\$ 2,442,283</u>	<u>\$ 303,285</u>
Schedule of non-cash capital and related financing activities:					
Loss on disposition of capital assets	-	53,394	14,475	67,869	4,327

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, 2014

	Firemen's Pension Fund	Airport Agency Fund
	<u> </u>	<u> </u>
Assets		
Cash & cash equivalents	\$ 423,559	\$ 486,739
Receivables	6,445	26,848
Total assets	<u>430,004</u>	<u>513,587</u>
Liabilities		
Accounts payable	18,327	46,765
Custodial accounts	-	466,822
Total liabilities	<u>18,327</u>	<u>\$ 513,587</u>
Net Position		
Held in trust for pension benefits	<u>\$ 411,677</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, 2014

	<u>Firemen's Pension Fund</u>
Additions	
Contributions:	
Employer	\$ 230,759
Total contributions	<u>230,759</u>
Investment earnings:	
Interest	310
Total investment earnings	<u>310</u>
Total additions	<u>231,069</u>
Deductions	
Pension benefits	56,156
Healthcare benefits	107,923
Administrative expenses	518
Total deductions	<u>164,597</u>
Change in net position	<u>66,472</u>
Net position - beginning	<u>345,205</u>
Net position - ending	<u><u>\$ 411,677</u></u>

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

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CITY OF KELSO
Notes to the Financial Statements
December 31, 2014

I. Summary of significant accounting policies

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

A. Reporting Entity

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

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

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

B. Government-wide and fund financial statements

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

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

CITY OF KELSO
Notes to the Financial Statements
December 31, 2014

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues generally are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers 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.

CITY OF KELSO
Notes to the Financial Statements
December 31, 2014

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

The City reports the following major proprietary funds:

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

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

Additionally, the City reports the following fund types:

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.

CITY OF KELSO
Notes to the Financial Statements
December 31, 2014

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

1. Deposits and investments

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

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

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

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

2. Receivables and payables

Customer accounts receivable consist of amounts owed by private individuals or organizations for goods and services provided, as well as, court ordered fines. Taxes receivable consist of property, sales, and utility taxes and related interest and penalties (See Note V. section B.). Special assessments consist of assessments which are recorded when levied and are liens against the property benefited. There are no delinquent special assessments as of December 31, 2014.

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."

CITY OF KELSO
Notes to the Financial Statements
December 31, 2014

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.

4. Restricted assets

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

5. Capital assets

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

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

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

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

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

CITY OF KELSO
Notes to the Financial Statements
December 31, 2014

6. *Deferred outflows/inflows of resources*

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

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

7. *Compensated absences*

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

8. *Long-term obligations*

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

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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 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.

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

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

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

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

11. Data reclassifications

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

II. Reconciliation of government-wide and fund financial statements

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

The governmental funds balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$2,597,269 difference are as follows:

Bonds payable	\$(2,315,000)
Less: Deferred charges/loss on issuance (to be amortized over life of debt)	67,140
Accrued interest payable	(5,877)
Compensated absences	<u>(343,532)</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$(2,597,269)</u>

Another element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.” The details of this \$59,095,437 difference are as follows:

Capital assets used in governmental fund operations	\$84,780,575
Less: Accumulated depreciation	<u>(25,685,138)</u>

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Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$59,095,437</u>
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Another element of that reconciliation explains that “Net Pension and Net OPEB Assets or Obligations are not considered to represent a financial resource or liability and, therefore, are not reported in the funds. The details of this \$1,565,871 difference are as follows:

Net OPEB obligation	<u>\$(1,565,871)</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$(1,565,871)</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 \$230,725 difference are as follows:

Property taxes receivable	\$ 111,386
Court ordered fines receivable – net	<u>119,339</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$ 230,725</u>

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

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$1,986,421 difference are as follows:

Capital outlay	\$ 3,882,630
Depreciation expense	<u>(1,896,209)</u>
Net adjustment to increase <i>net changes in funds balances- total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 1,986,421</u>

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Another element of that reconciliation states that “The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.” The details of this \$77,330 difference are as follows:

Donations of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	\$ 77,330
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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>\$ 77,330</u>
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Another element of that reconciliation states that “Some revenues reported in the governmental funds have already been reported in the statement of activities in prior years.” The details of this \$1,234,878 difference are as follows:

Property taxes	\$ (2,624)
Miscellaneous grants	(1,211,766)
Court ordered fines	<u>(20,488)</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>\$(1,234,878)</u>
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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 \$316,775 difference are as follows:

Principal repayments:	
General obligation debt	\$135,000
Note payable	<u>181,775</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>\$ 316,775</u>
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Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$1,872 difference are as follows:

Compensated absences	\$ 22,617
Amortization of issuance costs	(19,693)
Amortization of deferred charge on refunding	<u>(4,796)</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>\$ (1,872)</u>

III. Stewardship, compliance, and accountability

A. Budgetary information

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

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

Prior to November 1, of even-numbered years, the City Manager submits a proposed budget to the City Council. This budget is based on priorities established by the Council and estimates provided by City departments during the preceding months, and balanced with revenue estimates made by the City Manager. The Council conducts public hearings on the proposed budget in November and December. The Council makes its adjustments to the proposed budget and adopts by ordinance a final balanced

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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 2014 budget was amended four times. Budget amounts shown in the fund financial statements include the original budget amounts plus the revised budget amounts approved by the City Council.

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

B. Budgetary/GAAP basis reconciliation

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

Revenues:	
Street fund	\$ 645,396
Library fund	451,423
Kelso Station fund	47,929
Parks Fund	228,280
Façade Fund	1
Expenditures:	
Street fund	(665,716)
Library fund	(438,499)
Kelso Station fund	(47,441)
Parks Fund	(245,111)
Façade Fund	<u>-</u>
Total General fund Basis difference	<u>\$ (23,738)</u>

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C. Deficit fund balance

The Arterial Street Fund deficit of \$304,403 is due to accounting for an interfund loan in this fund while the capital assets constructed with the loan proceeds are not. A deficit balance is normal for this type of situation.

IV. Detailed notes on all funds

A. Deposits and investments

The City of Kelso's deposits are entirely covered by Federal Depository Insurance or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (WPDPC). Under State statute, members of WPDPC may be assessed losses on a prorated basis if the pool's collateral provides insufficient coverage. Deposits collateralized in the collateral pool are considered insured, and therefore not exposed to custodial credit risk. At year end, the City's carrying amount of deposits was \$5,617,044 and the bank balance was \$5,498,803.

As of December 31, 2014, the City had the following investments:

Investment	Maturities	Fair Value
Federal Farm Credit Bank	2/21/2017	\$ 1,391,162
Federal National Mortgage Association	3/28/2016	\$ 1,592,801
State Treasurer's investment pool	< 90 days	\$ <u>6,872,934</u>
Total investments		\$ <u>9,856,897</u>

Interest Rate Risk

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

Credit Risk

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

- Investment deposits, including certificates of deposit, with qualified public depositories.
- Certificates, notes, or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the

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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.

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

Custodial Credit Risk – Investments

For investments, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy with regard to custodial credit risk, however, for all of 2014, the City's investments were either in the Washington State Local Government Investment Pool or held in a custodial safekeeping account with a bank.

Concentration of Credit Risk

The City's investment policy states that no more than 90% of the total portfolio may be invested in certificates of deposits, federal agency securities, or U.S. Treasuries. Further, no more than 25% of the total portfolio will be invested in obligations of the

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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	\$1,380	\$ -	\$ -	\$ -	\$ -	\$ -	\$1,380
Accounts	196	13	239	1,225	-	105	1,778
Special Assessments	-	18	-	-	-	-	18
Intergovernmental	52	17	5	-	17	66	157
Long-term notes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>647</u>	<u>-</u>	<u>647</u>
Net total receivables	<u>\$1,628</u>	<u>\$ 48</u>	<u>\$ 244</u>	<u>\$1,225</u>	<u>\$ 664</u>	<u>\$ 171</u>	<u>\$3,980</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)	\$ 111,386	\$ -
Delinquent Court ordered fines receivable (general fund)	119,339	-
Grants received (general fund)	-	57,395
Grants received (arterial street fund)	-	50,000
Special assessments not due yet (arterial street fund)	-	18,509
Prepaid lease (Non-major fund)	<u>-</u>	<u>86,835</u>
Total deferred/unearned revenue for governmental funds	<u>\$ 230,725</u>	<u>\$212,739</u>

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C. Capital assets

Capital asset activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$18,588,751	\$ -	\$ -	\$18,588,751
Construction in progress	<u>7,915,083</u>	<u>3,746,904</u>	<u>525,868</u>	<u>11,136,119</u>
Total capital assets, not being depreciated	<u>26,503,834</u>	<u>3,746,904</u>	<u>525,868</u>	<u>29,724,870</u>
Capital assets, being depreciated:				
Buildings	12,227,680	52,636	-	12,280,316
Improvements other than buildings	6,192,950	49,694	-	6,242,644
Machinery and equipment	2,988,464	202,499	249,757	2,941,206
Infrastructure	<u>34,621,876</u>	<u>574,720</u>	<u>-</u>	<u>35,196,596</u>
Total capital assets being depreciated	<u>56,030,970</u>	<u>879,549</u>	<u>249,757</u>	<u>56,660,762</u>
Less accumulated depreciation for:				
Buildings	4,371,318	323,103	-	4,694,421
Improvements other than buildings	2,902,393	295,854	-	3,198,247
Machinery and equipment	2,447,700	187,760	231,543	2,403,917
Infrastructure	<u>15,427,291</u>	<u>1,211,041</u>	<u>-</u>	<u>16,638,332</u>
Total accumulated depreciation	<u>25,148,702</u>	<u>2,017,758</u>	<u>231,543</u>	<u>26,934,917</u>
Total capital assets, being depreciated, net	<u>30,882,268</u>	<u>(1,138,209)</u>	<u>18,214</u>	<u>29,725,845</u>
Governmental activities capital assets, net	<u>\$57,386,102</u>	<u>\$ 2,608,695</u>	<u>\$ 544,082</u>	<u>\$59,450,715</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 28,712	\$ -	\$ -	\$ 28,712
Construction in progress	<u>965,682</u>	<u>1,019,910</u>	<u>905,877</u>	<u>1,079,715</u>
Total capital assets, not being depreciated	<u>994,394</u>	<u>1,019,910</u>	<u>905,877</u>	<u>1,108,427</u>
Capital assets, being depreciated:				
Buildings and structures	10,638,948	40,966	-	10,679,914
Improvements other than buildings	27,402,276	798,480	258	28,200,498
Machinery and equipment	<u>4,114,850</u>	<u>118,515</u>	<u>-</u>	<u>4,233,365</u>
Total capital assets being depreciated	<u>42,156,074</u>	<u>957,961</u>	<u>258</u>	<u>43,113,777</u>
Less accumulated depreciation for:				
Buildings and structures	1,994,761	219,148	-	2,213,909
Improvements other than buildings	12,071,968	523,488	258	12,595,198
Machinery and equipment	<u>3,254,342</u>	<u>126,003</u>	<u>-</u>	<u>3,380,344</u>
Total accumulated depreciation	<u>17,321,071</u>	<u>868,638</u>	<u>258</u>	<u>18,189,451</u>
Total capital assets, being depreciated, net	<u>24,835,003</u>	<u>89,323</u>	<u>-</u>	<u>24,924,326</u>
Business-type activities capital assets, net	<u>\$25,829,397</u>	<u>\$ 1,109,233</u>	<u>\$ 905,877</u>	<u>\$26,032,753</u>

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

Governmental activities:	
General government	\$ 193,263
Security of persons and property	10,734
Physical environment	1,292
Transportation	1,416,333
Culture and recreation	274,587
Capital assets held by the City's internal service funds are charged to various functions based on usage of assets.	<u>121,549</u>
Total depreciation expense – governmental activities	<u>\$2,017,758</u>
Business-type activities:	
Water	\$ 459,341
Sewer	322,707
Storm water drainage	24,249
Capital assets held by the City's internal service funds are charged to various functions based on usage of assets.	<u>62,341</u>
Total depreciation expense – business-type activities	<u>\$ 868,638</u>

D. Interfund receivables, payables, and transfers

The composition of interfund balances as of December 31, 2014, 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	135,449	2010 overlay project

Advances to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
Nonmajor govt.	Arterial Street	252,181	2010 overlay project

Interfund transfers:

<u>Transfer out</u>	<u>Transfer in</u>	<u>Amount</u>	<u>Purpose</u>
General fund	Arterial Street	\$ 329,550	2014 overlay project
	Nonmajor govt.	145,608	Debt service
	Nonmajor govt.	48,750	Routine operating
Nonmajor govt.	Nonmajor govt.	40,000	Debt service
Nonmajor govt.	Nonmajor govt.	<u>15,000</u>	Routine operating
Total		<u>\$ 578,908</u>	

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E. Long-term debt

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as 20-year serial bonds with varying amounts of principal maturing each year. The debt service on general obligation bonds is paid from debt service funds. Debt service for voter approved issues is funded by special property tax levies. Debt service for City Council authorized or Councilmanic issues are funded from general government revenue sources. The original amount of general obligation bonds issued in prior years was \$2,710,000. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities – City Hall construction	.60% – 3.80%	\$2,315,000
		<u>\$2,315,000</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>
2015	\$ 140,000	\$ 70,528
2016	140,000	68,428
2017	145,000	65,768
2018	145,000	63,013
2019	150,000	59,533
2020-2024	825,000	231,514
2025-2029	<u>770,000</u>	<u>74,480</u>
Total	<u>\$2,315,000</u>	<u>\$ 633,264</u>

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

<u>Issuance</u>	<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
1999 DWSRF – water treatment plant	Business-type activities	2.50%	647,484
2001 DWSRF – water treatment plant	Business-type activities	1.50%	<u>636,738</u>
Total government loans			<u>\$1,284,222</u>

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

Year ending <u>December 31</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 187,506	\$ 25,738
2016	187,506	21,846
2017	187,506	17,955
2018	187,506	14,063
2019	187,506	10,172
2020-2024	<u>346,692</u>	<u>9,861</u>
Total	<u>\$1,284,222</u>	<u>\$ 99,635</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 5.31 to 1 coverage. See page 127.

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

* Interest rate shown is not net of federal subsidy

Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Water Sewer improvements – refunding	2.40% - 4.20%	\$ 405,000
Water improvements – tax exempt	1.10% - 3.25%	410,000
Water improvements – taxable	5.50% - 7.40%	<u>3,665,000</u>
		<u>\$4,480,000</u>

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Revenue bond debt service requirements to maturity are as follows:

Year ending <u>December 31</u>	Business-type Activities	
	<u>Principal</u>	<u>Interest*</u>
2015	195,000	280,850
2016	200,000	274,255
2017	205,000	266,950
2018	215,000	259,290
2019	225,000	253,510
2020-2024	1,240,000	1,055,839
2025-2029	1,510,000	596,930
2030-2034	690,000	76,960
Total	<u>\$4,480,000</u>	<u>\$3,064,584</u>

*Interest is not net of Federal Subsidy

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$2,450,000	\$ -	\$ 135,000	\$2,315,000	\$ 140,000
Discount	(41,811)	-	(21,167)	(20,644)	-
Public Works Trust Fund	181,775	-	181,775	-	-
Compensated absences	366,149	343,532	366,149	343,532	85,883
Net Pension/OPEB obligation	<u>1,278,776</u>	<u>320,772</u>	<u>33,677</u>	<u>1,565,871</u>	<u>-</u>
Governmental activity Long-term liabilities	<u>\$4,234,889</u>	<u>\$ 664,304</u>	<u>\$ 695,434</u>	<u>\$4,203,759</u>	<u>\$ 225,883</u>
Business-type activities:					
Revenue bonds	\$4,675,000	\$ -	\$ 195,000	\$4,480,000	\$ 195,000
Discount	(71,874)	-	(33,173)	(38,701)	-
Drinking Water State Revolving Fund	1,471,728	-	187,506	1,284,222	187,507
Compensated absences	<u>96,667</u>	<u>94,501</u>	<u>96,667</u>	<u>94,501</u>	<u>23,625</u>
Business-type activity Long-term liabilities	<u>\$6,171,521</u>	<u>\$ 94,501</u>	<u>\$ 446,000</u>	<u>\$5,820,022</u>	<u>\$ 406,132</u>

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

V. Other information

A. Risk management

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

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Washington Cities Insurance Authority

The City of Kelso is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 175 members.

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

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

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

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

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

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

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and

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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, 2014, 263 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 Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

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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 under 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 the AWC Board of Directors President and Vice President. 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 Auditors Office.

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:

2014	\$17,450
2013	\$6,565
2012	\$26,993

B. Property Taxes

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

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Property Tax Calendar

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

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

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

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

Washington State law in RCW 84.55.010 limits the growth of regular property taxes to the lesser of 1 percent per year, or the Implicit Price Deflator. Adjustments for new 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 2014 was \$2.0557 per \$1,000 on an assessed valuation of \$678,036,777 for a total regular levy of \$1,393,874.

C. Contingent liabilities

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

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

D. Other Property and Investments

Three Rivers Regional Waste Water Authority

In 1996 the City of Kelso entered into an interlocal agreement with Cowlitz County, the City of Longview, and Beacon Hill Sewer District, to form the Three Rivers Regional Waste Water Authority (TRRWA). The TRRWA was created so that the participating entities can equitably share in the operations and improvements of the central sewage treatment facility. The TRRWA is governed by a four member board. This board is made up of an appointed representative from each jurisdiction. The TRRWA does not have separate legal status and is intended to be an ongoing, long term relationship. Therefore, it is not a joint venture.

Each entity is obligated to make monthly payments to the TRRWA based on the following criteria: TRRWA formulates its preliminary annual budget by the last working day of September each year. Each entity's appointed representative then submits its proportionate share of TRRWA's budget to their respective jurisdiction for incorporation of the expense into the entity's sewer enterprise fund budget. Expenses for maintenance and operations, repairs and replacements to existing facilities, and debt service are funded by the participating entities based on their proportionate share of flow to the Facilities as determined by the TRRWA. Capital improvements to the Facility are funded by System Development Charges by each entity's sewage utility fund or in proportion to each jurisdictions respective flow to the facilities. Payments made to TRRWA by the City in 2014 were \$2,627,229.

This agreement may not be terminated so long as there remains outstanding any bonds or other debt or loan obligations payable from the TRRWA rates described above. Upon termination of the agreement, each entity's interest in the net position shall be deemed to be equal to their proportionate share of payments over the then previous 12 calendar months. The City does not have an equity interest in the TRRWA. Complete financial statements for the TRRWA can be obtained from the TRRWA at 207 4th Avenue North, Kelso, WA 98626.

E. 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

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decisions as may be required of a sponsor by the Federal Aviation Administration (FAA) under the grant assurances included in Kelso's previous and future grant agreements. The Board is governed by a five member board. This board is made up of an appointed representative from each jurisdiction plus one at large member.

The Board formulates its preliminary annual budget and submits it to each participating jurisdiction prior to August 1, of each year. Estimated expenses for maintenance and operations, repairs and replacements to existing facilities, capital projects, and debt service are netted against estimated airport operating revenues to determine the amount of annual subsidy required by the participating jurisdictions. Each jurisdiction is responsible for 25% of the estimated subsidy. Payments made to the airport by the City in 2014 were \$65,000.

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, 2014, the City's ongoing financial responsibility is minimal. In addition, the airport has less than \$25,000 in outstanding long-term obligations and is not accumulating significant resources or experiencing fiscal stress that would cause additional material financial benefit or burden on the City in the future. The airport does not issue stand-alone financial statements.

F. Post employment benefits other than pension benefits

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

Plan description. The City of Kelso administers a single-employer defined benefit healthcare plan. It is a closed plan that provides post-retirement health care benefits, in accordance with State statute to all LEOFF 1 (law enforcement officers and fire fighters hired prior to October 1, 1977) retirees. Currently, there are 18 LEOFF 1 retirees who are eligible to receive necessary medical and hospitalization coverage.

The City reimburses one hundred percent of the amount of validated claims for medical and hospitalization costs incurred by retirees. State statute provides that the City's responsibility for medical payments of LEOFF 1 retirees is secondary to any other coverage retirees receive or are eligible to receive. Therefore, upon reaching age 65, the City requires the retirees to apply for and utilize Medicare Part B coverage. In 2014, the City's cost for these Medicare premiums was \$18,925. This expenditure represents a fixed amount of approximately \$105 per month for 15 LEOFF 1 retirees.

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Funding Policy. Employer contributions are financed on a pay-as-you-go basis. Expenditures for post-retirement health care benefits are recognized as retirees report claims. During the year, expenditures of \$238,052 were recognized for post-retirement health care.

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

Annual required contribution	\$ 621,006
Interest on net OPEB obligation	49,804
Adjustment to annual required contribution	<u>(111,986)</u>
 Annual OPEB cost	 558,824
Contributions made	<u>238,052</u>
 Increase in net OPEB obligation	 320,772
Net OPEB obligation beginning of year	<u>1,245,099</u>
Net OPEB obligation end of year	<u>\$1,565,871</u>

Three Year Trend Information:

<u>Annual OPEB Percentage Contributed</u>			
<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB Obligation</u>
12/31/12	\$456,194	71.67%	\$1,073,667
12/31/13	\$447,464	61.69%	\$1,245,099
12/31/14	\$558,824	42.60%	\$1,565,871

Funded Status and Funding Progress. As of December 31, 2013, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits was \$6,904,580, all of which was unfunded. The covered payroll ratio is not applicable to this plan as all members are retired.

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

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

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

The following simplifying assumptions were made:

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

Termination and Mortality- Termination and mortality rates were assumed to follow the LEOFF 1 termination and mortality rates used in the June 30, 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, 2014, is fourteen years.

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

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

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

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

AWC HealthFirst 1000

- \$830.01 for non-Medicare enrolled retiree coverage
- \$837.26 for non-Medicare enrolled spouse coverage
- \$443.30 for Medicare enrolled retiree coverage
- \$456.13 for Medicare enrolled spouse coverage

AWC HealthFirst 2500

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

Participating employers are contractually required to contribute an assessed rate each year by the Trust. The City’s contribution to the Trust for the year ended December 31, 2014 was \$160,451 which equaled the required contributions for the year.

G. Employee retirement systems and pension plans

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

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Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; State employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; higher education employees not participating in higher education programs; employees of district and municipal courts; and employees of local governments. Approximately 49 percent of PERS salaries are accounted for by State employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

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

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

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2

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can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

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

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

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

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

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

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

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

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

PERS Plan 2 members who have at least 20 years of service credit, and are 55 years of age or older, are eligible for early retirement with a reduced benefit. The benefit is

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reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

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

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

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

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

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

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

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

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

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

CITY OF KELSO
Notes to the Financial Statements
December 31, 2014

PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

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

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

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

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

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

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

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There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Terminated Plan Members Nonvested	<u>101,191</u>
Total	<u>368,272</u>

Funding Policy

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

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

The required contribution rates expressed as a percentage of covered payroll, as of December 31, 2014 were:

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

- * The employer rates include the employer administrative expense fee currently set at 0.18%
- ** The employer rate for State elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
- *** Plan 3 defined benefit portion only
- **** The employee rate for State elected officials is 7.50% for Plan 1 and 4.92% for Plan 2
- ***** Variable from 5% minimum to 15% maximum based on rate selected by the PERS 3 member

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	\$9,086	\$321,118	\$35,313
2013	\$8,276	\$296,163	\$36,716
2012	\$7,952	\$244,662	\$38,430

CITY OF KELSO
Notes to the Financial Statements
December 31, 2014

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

Plan Description

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

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

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

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

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

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

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

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary

CITY OF KELSO
Notes to the Financial Statements
December 31, 2014

within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

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

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

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

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

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

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

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to

CITY OF KELSO
Notes to the Financial Statements
December 31, 2014

those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

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

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

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

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

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

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

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	10,511
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	699
Active Plan Members Vested	16,830
Terminated Plan Members Nonvested	<u>1,600</u>
Total	<u>29,640</u>

CITY OF KELSO
Notes to the Financial Statements
December 31, 2014

Funding Policy

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

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For DRS' Fiscal Year 2014, the state contributed \$55.6 million to LEOFF Plan 2.

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	.18%	5.23%**
Employee	0%	8.41%
State	N/A	3.36%

* The employer rates include the employer administrative expense currently set at 0.18%
** The employer rates for ports and universities is 8.59%

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

	LEOFF Plan 1	LEOFF Plan 2
2014	\$0	\$279,549
2013	\$0	\$283,557
2012	\$0	\$271,196

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. The plan presently has ten individuals retired under the LEOFF plan, but drawing excess benefits from this plan.

CITY OF KELSO
Notes to the Financial Statements
December 31, 2014

There are no current retirees for 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 \$423,559 with the investment portion held in the State investment pool as of December 31, 2014.

A recent actuarial survey has not been done because annual benefits are approximately \$56,000 and the net position held in trust for pension benefits is over \$410,000 and the average age of current retirees is 80. 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 of funding progress and employer contributions required by GASB's 25 (amended by GASB 67) and 27 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.

H. Blended Component Unit

Kelso Transportation Benefit District

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

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

The Transportation Benefit District is accounted for in a Special Revenue Fund. Financial reporting for this fund can be found in the combining statements located in the governmental subsection of this report, which starts on Page 88.

I. Reporting Changes

Implementation of GASB 67

For fiscal years that begin after June 15, 2013, GASB 67, *Financial Reporting for Pension Plans; an amendment of GASB Statement No. 25*, became effective. This GASB became effective for the City of Kelso in 2014.

CITY OF KELSO
Notes to the Financial Statements
December 31, 2014

Implementation of GASB 69

For fiscal years that begin after December 15, 2013, GASB 69, *Government Combinations and Disposals of Government Operations*, became effective. This GASB became effective for the City of Kelso in 2014.

Implementation of GASB 70

For fiscal years that begin after June 15, 2013, GASB 70, *Accounting and Reporting for Nonexchange Financial Guarantees*, became effective. This GASB became effective for the City of Kelso in 2014.

**CITY OF KELSO
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2014**

Other Postemployment Benefits Other Than Pensions

Schedule of Funding Progress:

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Funding Ratio	Unfunded AAL	Total Pay	Unfunded AAL/Total Pay
12/31/07	\$ 0	\$5,910,503	0%	\$5,910,503	N/A	N/A
12/31/10	\$ 0	\$5,394,230	0%	\$5,394,230	N/A	N/A
12/31/13	\$ 0	\$6,904,580	0%	\$6,904,580	N/A	N/A

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

The fair market value of plan assets at December 31, 2014 is \$0.

Schedule of Employer Contributions:

Fiscal Year	Total Employer Contributions	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2010	\$ 296,071	\$550,349	53.8%
2011	\$ 306,262	\$502,277	61.0%
2012	\$ 326,962	\$502,277	65.1%
2013	\$ 276,032	\$502,277	55.0%
2014	\$ 238,052	\$621,006	38.3%

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

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Nonmajor Governmental Funds

Special Revenue Funds

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

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

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

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

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

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

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

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

Debt Service Funds

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

Capital Projects Fund

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

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

City of Kelso
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2014

	Special Revenue					
	Paths/ Trails	Stadium	Highlander Festival	Tam O'Shanter Park	HUD Block Grant	Criminal Justice
Assets						
Cash & cash equivalents	\$ 39,773	\$ 101,057	\$ 6,453	\$ 14,840	\$ 867,302	\$ 65,946
Investments	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-
Due from other governments	-	-	-	-	-	17,247
Advances to other funds	-	-	-	-	-	-
Long-term notes receivable	-	-	-	-	647,193	-
Total Assets	<u>39,773</u>	<u>101,057</u>	<u>6,453</u>	<u>14,840</u>	<u>1,514,495</u>	<u>83,193</u>
Liabilities						
Accounts payable	-	11,689	2,940	-	808	290
Unearned revenue	-	86,835	-	-	-	-
Total Liabilities	<u>-</u>	<u>98,524</u>	<u>2,940</u>	<u>-</u>	<u>808</u>	<u>290</u>
Fund Balances						
Restricted for:						
Street maintenance/construction	-	-	-	-	-	-
Paths and trails	39,773	-	-	-	-	-
Capital projects	-	-	-	-	-	-
Housing/neighborhood rehabilitation	-	-	-	-	1,108,803	-
Criminal justice	-	-	-	-	-	55,891
Parks	-	-	-	14,840	-	-
Assigned to:						
Debt service	-	-	-	-	-	-
Other purposes	-	2,533	3,513	-	404,884	27,012
Total Fund Balance	<u>39,773</u>	<u>2,533</u>	<u>3,513</u>	<u>14,840</u>	<u>1,513,687</u>	<u>82,903</u>
Total Liabilities and Fund Balances	<u>\$ 39,773</u>	<u>\$ 101,057</u>	<u>\$ 6,453</u>	<u>\$ 14,840</u>	<u>\$ 1,514,495</u>	<u>\$ 83,193</u>

City of Kelso
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2014

	<u>Transportation Benefit District</u>	<u>Total Non-Major Special Revenue Funds</u>	<u>Debt Service Non Voted G.O. Bond</u>	<u>Capital projects City Hall Fund</u>	<u>Total Non-Major Governmental Funds</u>
Assets					
Cash & cash equivalents	\$ 214,379	\$ 1,309,750	\$ 412,063	\$ 82,133	\$ 1,803,946
Investments	-	-	794,950	-	794,950
Due from other funds	-	-	135,449	-	135,449
Due from other governments	-	17,247	-	-	17,247
Advances to other funds	-	-	252,181	-	252,181
Long-term notes receivable	-	647,193	-	-	647,193
Total Assets	<u>214,379</u>	<u>1,974,190</u>	<u>1,594,643</u>	<u>82,133</u>	<u>3,650,966</u>
Liabilities					
Accounts payable	-	15,727	54	-	15,781
Unearned revenue	-	86,835	-	-	86,835
Total Liabilities	<u>-</u>	<u>102,562</u>	<u>54</u>	<u>-</u>	<u>102,616</u>
Fund Balances					
Restricted for:					
Street maintenance/construction	214,379	214,379	-	-	214,379
Paths and trails	-	39,773	-	-	39,773
Capital projects	-	-	-	82,133	82,133
Housing/neighborhood rehabilitation	-	1,108,803	-	-	1,108,803
Criminal justice	-	55,891	-	-	55,891
Parks	-	14,840	-	-	14,840
Assigned to:					
Debt service	-	-	1,594,589	-	1,594,589
Other purposes	-	437,942	-	-	437,942
Total Fund Balance	<u>214,379</u>	<u>1,871,628</u>	<u>1,594,589</u>	<u>82,133</u>	<u>3,548,350</u>
Total Liabilities and Fund Balances	<u>\$ 214,379</u>	<u>\$ 1,974,190</u>	<u>\$ 1,594,643</u>	<u>\$ 82,133</u>	<u>\$ 3,650,966</u>

City of Kelso
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the fiscal year ended December 31, 2014

	Special Revenue					
	Paths and Trails	Stadium	Highlander Festival	Tam O'Shanter Park	Hud Block Grant	
Revenues						
Taxes	\$ -	\$ 156,007	\$ -	\$ -	\$ -	\$ -
Intergovernmental	1,231	-	-	-	-	199,292
Charges for services	-	-	27,760	-	-	-
Investment earnings	28	85	-	14	714	5
Rental/lease income	-	10,920	-	-	-	-
Miscellaneous	-	5,032	12,698	-	72	2,610
Total revenues	<u>1,259</u>	<u>172,044</u>	<u>40,458</u>	<u>14</u>	<u>786</u>	<u>201,907</u>
Expenditures						
Security of persons and property	-	-	-	-	-	223,645
Transportation	-	-	-	-	-	-
Economic Environment	-	-	-	-	72	-
Culture and recreation	-	118,960	53,435	-	-	-
Capital outlay	-	25,000	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	<u>-</u>	<u>143,960</u>	<u>53,435</u>	<u>-</u>	<u>72</u>	<u>223,645</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,259</u>	<u>28,084</u>	<u>(12,977)</u>	<u>14</u>	<u>714</u>	<u>(21,738)</u>
Other financing sources (uses)						
Transfers in	-	-	15,000	-	-	48,750
Transfers out	-	(15,000)	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>(15,000)</u>	<u>15,000</u>	<u>-</u>	<u>-</u>	<u>48,750</u>
Net change in fund balances	1,259	13,084	2,023	14	714	27,012
Fund balances - beginning	38,514	(10,551)	1,490	14,826	1,512,973	55,891
Fund balances - ending	<u>\$ 39,773</u>	<u>\$ 2,533</u>	<u>\$ 3,513</u>	<u>\$ 14,840</u>	<u>\$ 1,513,687</u>	<u>\$ 82,903</u>

City of Kelso
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the fiscal year ended December 31, 2014

	<u>Transportation Benefit District</u>	<u>Total Non-Major Special Revenue Funds</u>	<u>Debt Service Non-Voted G.O. Bond</u>	<u>Capital Projects City Hall Fund</u>	<u>Total Non-Major Governmental Funds</u>
Revenues					
Taxes	\$ -	\$ 156,007	\$ -	\$ 73,800	\$ 229,807
Intergovernmental	-	200,523	-	-	200,523
Charges for services	160,083	187,843	-	-	187,843
Investment earnings	-	846	4,568	31	5,445
Rental/lease income	-	10,920	-	-	10,920
Miscellaneous	-	20,412	20,622	-	41,034
Total revenues	<u>160,083</u>	<u>576,551</u>	<u>25,190</u>	<u>73,831</u>	<u>675,572</u>
Expenditures					
Security of persons and property	-	223,645	-	-	223,645
Transportation	938	938	-	-	938
Economic Environment	-	72	-	-	72
Culture and recreation	-	172,395	-	-	172,395
Capital outlay	-	25,000	-	-	25,000
Debt service:					
Principal	-	-	135,000	-	135,000
Interest and fiscal charges	-	-	72,434	-	72,434
Total expenditures	<u>938</u>	<u>422,050</u>	<u>207,434</u>	<u>-</u>	<u>629,484</u>
Excess (deficiency) of revenues over (under) expenditures	<u>159,145</u>	<u>154,501</u>	<u>(182,244)</u>	<u>73,831</u>	<u>46,088</u>
Other financing sources (uses)					
Transfers in	-	63,750	185,608	-	249,358
Transfers out	-	(15,000)	-	(40,000)	(55,000)
Total other financing sources (uses)	<u>-</u>	<u>48,750</u>	<u>185,608</u>	<u>(40,000)</u>	<u>194,358</u>
Net change in fund balances	159,145	203,251	3,364	33,831	240,446
Fund balances - beginning	55,234	1,668,377	1,591,225	48,302	3,307,904
Fund balances - ending	<u>\$ 214,379</u>	<u>\$ 1,871,628</u>	<u>\$ 1,594,589</u>	<u>\$ 82,133</u>	<u>\$ 3,548,350</u>

City of Kelso
Street Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 347,285	\$ 347,285	\$ 347,285	\$ -
Intergovernmental	252,000	252,000	244,743	(7,257)
Charges for services	-	-	1,365	1,365
Investment earnings	400	400	1,351	951
Rental/lease income	19,909	19,909	19,909	-
Miscellaneous	-	-	30,743	30,743
Total revenues	<u>619,594</u>	<u>619,594</u>	<u>645,396</u>	<u>25,802</u>
Expenditures				
Transportation	509,594	593,594	536,795	56,799
Culture and recreation	-	-	11,000	(11,000)
Capital outlay	110,000	170,000	117,921	52,079
Total expenditures	<u>619,594</u>	<u>763,594</u>	<u>665,716</u>	<u>97,878</u>
Excess (deficiency) of revenues over (under) expenditures	-	(144,000)	(20,320)	123,680
Net change in fund balances	-	(144,000)	(20,320)	123,680
Fund balances - beginning	418,368	418,368	418,368	-
Fund balances - ending	<u>\$ 418,368</u>	<u>\$ 274,368</u>	<u>\$ 398,048</u>	<u>\$ 123,680</u>

City of Kelso
Library Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2014

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues				
Taxes	\$ 441,406	\$ 441,406	\$ 441,406	\$ -
Charges for services	5,700	5,700	5,488	(212)
Fines	5,100	5,100	4,440	(660)
Investment earnings	-	-	29	29
Miscellaneous	320	320	60	(260)
Total revenues	452,526	452,526	451,423	(1,103)
Expenditures				
Culture and recreation	417,526	425,226	413,896	11,330
Capital outlay	35,000	35,000	24,603	10,397
Total expenditures	452,526	460,226	438,499	21,727
Excess (deficiency) of revenues over (under) expenditures	-	(7,700)	12,924	20,624
Net change in fund balances	-	(7,700)	12,924	20,624
Fund balances - beginning	65,723	65,723	65,723	-
Fund balances - ending	\$ 65,723	\$ 58,023	\$ 78,647	\$ 20,624

City of Kelso
Kelso Station Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2014

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues				
Investment earnings	\$ -	\$ -	\$ 7	\$ 7
Rental/lease income	23,316	23,316	29,423	6,107
Miscellaneous	-	-	136	136
Total revenues	23,316	23,316	29,566	6,250
Expenditures				
Transportation	47,800	47,800	47,441	359
Total expenditures	47,800	47,800	47,441	359
Excess (deficiency) of revenues over (under) expenditures	(24,484)	(24,484)	(17,875)	6,609
Other financing sources (uses)				
Transfers in	24,484	24,484	18,363	(6,121)
Total other financing sources (uses)	24,484	24,484	18,363	(6,121)
Net change in fund balances	-	-	488	488
Fund balances - beginning	13,328	13,328	13,328	-
Fund balances - ending	\$ 13,328	\$ 13,328	\$ 13,816	\$ 488

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, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 167,946	\$ 167,946	\$ 167,946	\$ -
Charges for services	4,000	4,000	4,000	-
Investment earnings	100	100	6	(94)
Rental/lease income	42,600	42,600	43,847	1,247
Miscellaneous	-	-	12,481	12,481
Total revenues	<u>214,646</u>	<u>214,646</u>	<u>228,280</u>	<u>13,634</u>
Expenditures				
Culture and recreation	214,646	254,946	245,111	9,835
Total expenditures	<u>214,646</u>	<u>254,946</u>	<u>245,111</u>	<u>9,835</u>
Excess (deficiency) of revenues over (under) expenditures	-	(40,300)	(16,831)	23,469
Net change in fund balances	-	(40,300)	(16,831)	23,469
Fund balances - beginning	50,306	50,306	50,306	-
Fund balances - ending	<u>\$ 50,306</u>	<u>\$ 10,006</u>	<u>\$ 33,475</u>	<u>\$ 23,469</u>

City of Kelso
Façade Improvement Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment earnings	\$ -	\$ -	\$ 1	\$ 1
Total revenues	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>
Expenditures				
Culture and recreation	\$ 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>1</u>	<u>10,001</u>
Other financing sources (uses)				
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	-	-	1	1
Fund balances - beginning	444	444	444	-
Fund balances - ending	<u>\$ 444</u>	<u>\$ 444</u>	<u>\$ 445</u>	<u>\$ 1</u>

City of Kelso
Paths and Trails Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2014

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 1,100	\$ 1,100	\$ 1,231	\$ 131
Investment earnings	-	-	28	28
Total revenues	1,100	1,100	1,259	159
Excess (deficiency) of revenues over (under) expenditures	1,100	1,100	1,259	159
Net change in fund balances	1,100	1,100	1,259	159
Fund balances - beginning	38,514	38,514	38,514	-
Fund balances - ending	\$ 39,614	\$ 39,614	\$ 39,773	\$ 159

City of Kelso
Stadium Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 135,000	\$ 135,000	\$ 156,007	\$ 21,007
Investment earnings	450	450	85	(365)
Rental/lease income	-	-	10,920	10,920
Miscellaneous	100	100	5,032	4,932
Total revenues	<u>135,550</u>	<u>135,550</u>	<u>172,044</u>	<u>36,494</u>
Expenditures				
Culture and recreation	118,800	127,400	118,960	8,440
Capital outlay	-	25,000	25,000	-
Total expenditures	<u>118,800</u>	<u>152,400</u>	<u>143,960</u>	<u>8,440</u>
Excess (deficiency) of revenues over (under) expenditures	<u>16,750</u>	<u>(16,850)</u>	<u>28,084</u>	<u>44,934</u>
Other financing sources (uses)				
Transfers out	(15,000)	(15,000)	(15,000)	-
Total other financing sources (uses)	<u>(15,000)</u>	<u>(15,000)</u>	<u>(15,000)</u>	<u>-</u>
Net change in fund balances	1,750	(31,850)	13,084	44,934
Fund balances - beginning	(10,551)	(10,551)	(10,551)	-
Fund balances - ending	<u>\$ (8,801)</u>	<u>\$ (42,401)</u>	<u>\$ 2,533</u>	<u>\$ 44,934</u>

City of Kelso
Highlander Festival Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2014

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues				
Charges for services	\$ 32,100	\$ 32,100	\$ 27,760	\$ (4,340)
Miscellaneous	13,900	13,900	12,698	(1,202)
Total revenues	46,000	46,000	40,458	(5,542)
Expenditures				
Culture and recreation	66,000	66,000	53,435	12,565
Total expenditures	66,000	66,000	53,435	12,565
Excess (deficiency) of revenues over (under) expenditures	(20,000)	(20,000)	(12,977)	7,023
Other financing sources (uses)				
Transfers in	20,000	20,000	15,000	(5,000)
Total other financing sources (uses)	20,000	20,000	15,000	(5,000)
Net change in fund balances	-	-	2,023	2,023
Fund balances - beginning	935	935	1,490	555
Fund balances - ending	\$ 935	\$ 935	\$ 3,513	\$ 2,578

City of Kelso
Tam O'Shanter Park Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment earnings	\$ -	\$ -	\$ 14	\$ 14
Total revenues	<u>-</u>	<u>-</u>	<u>14</u>	<u>14</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>14</u>	<u>14</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>14</u>	<u>14</u>
Fund balances - beginning	14,826	14,826	14,826	-
Fund balances - ending	<u>\$ 14,826</u>	<u>\$ 14,826</u>	<u>\$ 14,840</u>	<u>\$ 14</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, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 60,000	\$ 60,000	\$ -	\$ (60,000)
Investment earnings	1,250	1,250	714	(536)
Miscellaneous	-	-	72	72
Total revenues	<u>61,250</u>	<u>61,250</u>	<u>786</u>	<u>(60,464)</u>
Expenditures				
Economic Environment:				
Neighborhood stabilization	60,000	60,000	-	60,000
Housing rehabilitation	111,000	111,000	72	110,928
Total expenditures	<u>171,000</u>	<u>171,000</u>	<u>72</u>	<u>170,928</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(109,750)</u>	<u>(109,750)</u>	<u>714</u>	<u>110,464</u>
Other financing sources (uses)				
Transfers out	(60,000)	(60,000)	-	60,000
Total other financing sources (uses)	<u>(60,000)</u>	<u>(60,000)</u>	<u>-</u>	<u>60,000</u>
Net change in fund balances	<u>(169,750)</u>	<u>(169,750)</u>	<u>714</u>	<u>170,464</u>
Fund balances - beginning	1,512,973	1,512,973	1,512,973	-
Fund balances - ending	<u>\$ 1,343,223</u>	<u>\$ 1,343,223</u>	<u>\$ 1,513,687</u>	<u>\$ 170,464</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, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 320,437	\$ 189,100	\$ 199,292	\$ 10,192
Investment earnings	-	-	5	5
Miscellaneous	300	300	2,610	2,310
Total revenues	<u>320,737</u>	<u>189,400</u>	<u>201,907</u>	<u>12,507</u>
Expenditures				
Security of persons and property	323,737	253,659	223,645	30,014
Total expenditures	<u>323,737</u>	<u>253,659</u>	<u>223,645</u>	<u>30,014</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,000)</u>	<u>(64,259)</u>	<u>(21,738)</u>	<u>42,521</u>
Other financing sources (uses)				
Transfers in	-	65,000	48,750	(16,250)
Total other financing sources (uses)	<u>-</u>	<u>65,000</u>	<u>48,750</u>	<u>(16,250)</u>
Net change in fund balances	<u>(3,000)</u>	<u>741</u>	<u>27,012</u>	<u>26,271</u>
Fund balances - beginning	55,891	55,891	55,891	-
Fund balances - ending	<u>\$ 52,891</u>	<u>\$ 56,632</u>	<u>\$ 82,903</u>	<u>\$ 26,271</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, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for services	\$ 175,000	\$ 175,000	\$ 160,083	\$ (14,917)
Total revenues	<u>175,000</u>	<u>175,000</u>	<u>160,083</u>	<u>(14,917)</u>
Expenditures				
Transportation	-	-	938	(938)
Capital outlay	175,000	175,000	-	175,000
Total expenditures	<u>175,000</u>	<u>175,000</u>	<u>938</u>	<u>174,062</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>159,145</u>	<u>159,145</u>
Net change in fund balances	-	-	159,145	159,145
Fund balances - beginning	55,234	55,234	55,234	-
Fund balances - ending	<u>\$ 55,234</u>	<u>\$ 55,234</u>	<u>\$ 214,379</u>	<u>\$ 159,145</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, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment earnings	\$ 1,350	\$ 1,350	\$ 4,568	\$ 3,218
Miscellaneous	20,622	20,622	20,622	-
Total revenues	<u>21,972</u>	<u>21,972</u>	<u>25,190</u>	<u>3,218</u>
Expenditures				
Debt service:				
Principal	135,000	135,000	135,000	-
Interest	72,580	72,580	72,434	146
Total expenditures	<u>207,580</u>	<u>207,580</u>	<u>207,434</u>	<u>146</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(185,608)</u>	<u>(185,608)</u>	<u>(182,244)</u>	<u>3,364</u>
Other financing sources (uses)				
Transfers in/(out)	185,608	185,608	185,608	-
Total other financing sources (uses)	<u>185,608</u>	<u>185,608</u>	<u>185,608</u>	<u>-</u>
Net change in fund balances	-	-	3,364	3,364
Fund balances - beginning	1,591,225	1,591,225	1,591,225	-
Fund balances - ending	<u>\$ 1,591,225</u>	<u>\$ 1,591,225</u>	<u>\$ 1,594,589</u>	<u>\$ 3,364</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, 2014

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues				
Taxes	\$ 40,000	\$ 40,000	\$ 73,800	\$ 33,800
Investment earnings	-	-	31	31
Total revenues	40,000	40,000	73,831	33,831
Excess (deficiency) of revenues over (under) expenditures	40,000	40,000	73,831	33,831
Other financing sources (uses)				
Transfers out	(40,000)	(40,000)	(40,000)	-
Total other financing sources (uses)	(40,000)	(40,000)	(40,000)	-
Net change in fund balances	-	-	33,831	33,831
Fund balances - beginning	48,302	48,302	48,302	-
Fund balances - ending	\$ 48,302	\$ 48,302	\$ 82,133	\$ 33,831

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
December 31, 2014

	<u>Balance</u> <u>December 31, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>December 31, 2014</u>
Assets				
Cash & cash equivalents	\$ 412,963	\$ 685,471	\$ 611,695	\$ 486,739
Receivables	99,550	394,454	467,156	26,848
Total Assets	<u>\$ 512,513</u>	<u>\$ 1,079,925</u>	<u>\$ 1,078,851</u>	<u>\$ 513,587</u>
Liabilities				
Accounts payable	\$ 124,742	\$ 446,674	\$ 524,651	\$ 46,765
Custodial accounts	387,771	633,251	554,200	466,822
Total Liabilities	<u>\$ 512,513</u>	<u>\$ 1,079,925</u>	<u>\$ 1,078,851</u>	<u>\$ 513,587</u>

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STATISTICAL SECTION

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

Contents	Page
Financial Trends	111
<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	118
<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	123
<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	128
<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	131
<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									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Governmental activities										
Net investment in capital assets	\$ 23,450	\$ 27,053	\$ 47,636	\$ 47,405	\$ 47,642	\$ 48,034	\$ 47,753	\$ 48,199	\$ 54,754	\$ 57,203
Restricted	1,196	1,169	1,181	1,015	845	1,302	1,349	1,442	1,491	1,616
Unrestricted	3,060	3,067	4,231	4,480	4,021	2,801	2,936	4,494	4,342	4,481
Total governmental activities net position	\$ 27,706	\$ 31,289	\$ 53,048	\$ 52,900	\$ 52,508	\$ 52,137	\$ 52,038	\$ 54,135	\$ 60,587	\$ 63,300
Business-type activities										
Net investment in capital assets	\$ 18,238	\$ 18,750	\$ 19,488	\$ 19,499	\$ 20,013	\$ 20,893	\$ 20,809	\$ 21,989	\$ 19,683	\$ 20,307
Restricted	508	534	563	201	202	591	592	593	595	597
Unrestricted	3,483	3,698	4,402	5,787	5,747	5,119	6,216	7,128	7,219	7,957
Total business-type activities net position	\$ 22,229	\$ 22,982	\$ 24,453	\$ 25,487	\$ 25,962	\$ 26,603	\$ 27,617	\$ 29,710	\$ 27,497	\$ 28,861
Primary government										
Net investment in capital assets	\$ 41,688	\$ 45,803	\$ 67,124	\$ 66,904	\$ 67,655	\$ 68,927	\$ 68,562	\$ 70,188	\$ 74,437	\$ 77,510
Restricted	1,704	1,703	1,744	1,216	1,047	1,893	1,941	2,035	2,086	2,213
Unrestricted	6,543	6,765	8,633	10,267	9,768	7,920	9,152	11,622	11,561	12,438
Total primary government net position	\$ 49,935	\$ 54,271	\$ 77,501	\$ 78,387	\$ 78,470	\$ 78,740	\$ 79,655	\$ 83,845	\$ 88,084	\$ 92,161

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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Expenses										
Governmental activities:										
General government	\$ 1,368	\$ 1,512	\$ 1,645	\$ 1,560	\$ 1,503	\$ 1,501	\$ 1,453	\$ 1,312	\$ 1,401	\$ 1,525
Security of persons and property	3,887	4,136	4,388	4,808	4,939	5,031	4,543	4,533	4,562	4,609
Physical environment	266	321	603	598	430	441	422	431	375	391
Transportation	850	835	1,652	1,695	1,747	1,783	1,703	1,722	2,180	2,323
Economic environment	354	365	849	493	442	695	396	590	754	308
Culture and recreation	710	921	1,095	1,192	993	1,091	1,054	1,066	985	1,121
Interest on long-term debt	150	143	137	136	135	140	173	117	114	122
Total governmental activities expenses	7,585	8,233	10,369	10,482	10,189	10,682	9,744	9,771	10,371	10,399
Business-type activities:										
Water/Sewer	4,842	5,753	6,045	5,912	6,889	6,634	6,578	6,610	7,079	7,186
Solid waste	1,059	1,065	1,099	1,087	1,091	1,247	1,235	1,294	1,317	1,457
Storm water	243	283	295	417	464	456	580	571	547	556
Airport	218	290	224	348	423	357	380	422	-	-
Total business-type activities expenses	6,362	7,411	7,663	7,764	8,867	8,694	8,773	8,897	8,943	9,199
Total primary government expenses	\$ 13,947	\$ 15,644	\$ 18,032	\$ 18,246	\$ 19,056	\$ 19,376	\$ 18,517	\$ 18,668	\$ 19,314	\$ 19,598
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 82	\$ 85	\$ 82	\$ 63	\$ 60	\$ 62	\$ 97	\$ 91	\$ 209	\$ 90
Security of persons and property	185	212	170	213	370	185	233	192	151	360
Physical environment	4	8	49	70	13	48	11	6	17	18
Transportation	67	52	34	119	75	191	210	231	298	532
Economic environment	205	262	263	224	119	119	127	127	147	163
Culture and recreation	35	63	56	71	56	76	104	100	80	140
Operating grants and contributions	444	588	908	492	585	691	624	894	848	172
Capital grants and contributions	298	2,958	113	596	1,262	867	822	1,455	4,895	3,525
Total governmental activities program revenues	1,320	4,228	1,675	1,848	2,540	2,239	2,228	3,096	6,845	5,000
Business-type activities:										
Charges for services:										
Water/Sewer	5,389	5,804	6,425	6,781	7,182	7,320	7,635	7,621	7,883	8,358
Solid waste	1,105	1,115	1,110	1,174	1,110	1,131	1,142	1,145	1,194	1,382
Storm water	255	249	254	267	446	569	623	579	591	623
Airport	106	109	109	118	125	131	138	126	-	-
Operating grants and contributions	66	112	72	227	256	129	238	193	19	75
Capital grants and contributions	550	610	849	75	163	10	-	457	2	112
Total business-type activities program revenues	7,471	7,999	8,819	8,642	9,282	9,280	9,776	10,121	9,889	10,550
Total primary government program revenues	\$ 8,791	\$ 12,227	\$ 10,494	\$ 10,490	\$ 11,822	\$ 11,519	\$ 12,004	\$ 13,217	\$ 16,334	\$ 15,550

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net (expense)/revenue	\$ (6,265)	\$ (4,005)	\$ (8,694)	\$ (8,634)	\$ (7,649)	\$ (8,443)	\$ (7,516)	\$ (6,875)	\$ (3,726)	\$ (5,399)
Governmental activities	1,109	588	1,156	878	415	586	1,003	1,224	746	1,351
Business-type activities	\$ (5,156)	\$ (3,417)	\$ (7,538)	\$ (7,756)	\$ (7,234)	\$ (7,857)	\$ (6,513)	\$ (5,451)	\$ (2,980)	\$ (4,048)
Total primary government net expense										
General Revenues and other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes	\$ 1,078	\$ 1,081	\$ 1,018	\$ 1,007	\$ 1,146	\$ 1,139	\$ 1,159	\$ 1,175	\$ 1,191	\$ 1,206
Sales taxes	2,080	2,281	2,439	2,343	2,014	2,150	2,154	2,103	2,141	2,410
Utility taxes	2,120	2,323	2,426	2,487	2,534	2,542	2,611	2,827	2,748	2,809
Business taxes	648	679	716	722	659	671	713	755	772	821
Excise taxes	446	427	387	215	156	117	111	86	79	107
Penalties & interest	9	7	5	5	5	5	4	5	3	5
State entitlements	582	549	597	635	638	640	572	573	692	624
Investment earnings	143	212	286	177	65	50	68	64	29	37
Miscellaneous	35	5	67	29	60	12	21	26	66	93
Gain/(loss) on sale of capital assets	-	46	716	885	-	-	-	-	-	-
Special items	-	-	-	-	-	-	-	-	2,513	-
Transfers	72	(22)	(111)	(19)	(20)	(20)	4	(40)	(56)	-
Total governmental activities	7,213	7,588	8,546	8,486	7,257	7,306	7,417	7,574	10,178	8,112
Business-type activities:										
Investment earnings	112	165	203	137	39	15	15	11	11	13
Miscellaneous	-	-	-	-	-	20	-	-	-	-
Gain/(loss) on sale of capital assets	(29)	(21)	-	1	-	-	-	-	-	-
Special items	-	-	-	-	-	-	-	-	(3,026)	-
Transfers	(72)	22	111	19	20	20	(4)	40	56	-
Total business-type activities	11	166	314	157	59	55	11	51	(2,959)	13
Total primary government	\$ 7,224	\$ 7,754	\$ 8,860	\$ 8,643	\$ 7,316	\$ 7,361	\$ 7,428	\$ 7,625	\$ 7,219	\$ 8,125
Change in Net Position										
Governmental activities	\$ 948	\$ 3,583	\$ (148)	\$ (148)	\$ (392)	\$ (1,137)	\$ (99)	\$ 899	\$ 6,452	\$ 2,713
Business-type activities	1,120	754	1,470	1,035	474	641	1,014	1,275	(2,213)	1,364
Total primary government	\$ 2,068	\$ 4,337	\$ 1,322	\$ 887	\$ 82	\$ (496)	\$ 915	\$ 2,174	\$ 4,239	\$ 4,077

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

Fiscal Year	Property Tax	Sales Tax	Utility Taxes	Business Taxes	Excise Taxes
2005	\$ 1,078	\$ 2,080	\$ 2,120	\$ 648	\$ 446
2006	1,081	2,281	2,323	679	427
2007	1,018	2,439	2,426	716	387
2008	1,007	2,343	2,487	722	214
2009	1,146	2,014	2,534	659	156
2010	1,139	2,150	2,542	671	117
2011	1,159	2,154	2,611	713	111
2012	1,175	2,103	2,827	755	86
2013	1,191	2,141	2,748	772	79
2014	1,206	2,410	2,809	821	107

City of Kelso

Fund Balances of Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)
(amounts expressed in thousands)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General fund (Per GASB 54)*										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55	\$ -	\$ -	\$ -
Restricted	-	-	-	-	-	-	54	93	171	100
Committed	-	-	-	-	-	-	178	213	242	-
Assigned	-	-	-	-	-	-	202	-	-	212
Unassigned	-	-	-	-	-	-	1,197	3,063	3,097	3,828
General fund (Prior to GASB 54)*										
Reserved	140	185	51	243	200	155	-	-	-	-
Unreserved	1,684	1,528	3,175	3,587	1,491***	1,022	-	-	-	-
Total general fund	\$ 1,824	\$ 1,713	\$ 3,226	\$ 3,830	\$ 1,691	\$ 1,177	\$ 1,686	\$ 3,369	\$ 3,510	\$ 4,140
All other governmental funds (Per GASB 54)**										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 953	\$ 829	\$ 647	\$ -
Restricted	-	-	-	-	-	-	1,295	1,350	1,321	1,516
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	1,078	1,215	1,350	2,032
Unassigned	-	-	-	-	-	-	(744)	(504)	(1,227)	(304)
All other governmental funds (Prior to GASB 54)*										
Reserved	1,068	987	1,130	837	811	155	-	-	-	-
Unreserved, reported in:										
Special revenue funds	996	832	705	773	802	379****	-	-	-	-
Debt service funds	-	-	-	-	1,605****	1,597	-	-	-	-
Capital projects funds	-	-	-	-	-	-	-	-	-	-
Total all other governmental funds	\$ 2,064	\$ 1,819	\$ 1,835	\$ 1,610	\$ 3,218	\$ 2,131	\$ 2,582	\$ 2,890	\$ 2,091	\$ 3,244

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

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

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

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

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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenues										
Taxes	\$ 6,367	\$ 6,818	\$ 6,988	\$ 6,802	\$ 6,506	\$ 6,607	\$ 6,745	\$ 6,955	\$ 6,940	\$ 7,361
Licenses and permits	272	325	290	229	159	138	200	195	212	203
Intergovernmental	1,094	2,370	1,540	1,063	2,341	2,199	1,653	3,066	5,415	5,588
Charges for services	540	621	625	616	747	988	824	879	963	1,008
Fines	120	139	163	131	127	164	190	140	130	119
Investment earnings	132	192	262	165	61	49	69	64	29	37
Contributions	120	7	15	14	48	1	-	-	-	-
Rental/lease income	53	40	38	56	59	53	61	86	90	104
Miscellaneous	226	154	140	91	159	37	36	38	78	110
Total revenues	8,924	10,666	10,061	9,167	10,207	10,236	9,778	11,423	13,857	14,530
Expenditures										
General government	1,543	1,571	1,808	1,712	1,746	1,812	1,726	1,619	1,659	1,730
Security of persons and property	3,867	4,091	4,297	4,428	4,614	4,700	4,299	4,297	4,340	4,271
Physical environment	415	492	650	667	635	647	548	571	494	439
Transportation	766	676	701	734	657	605	495	479	742	851
Economic environment	352	372	839	491	441	709	398	585	752	313
Culture and recreation	651	697	764	844	717	758	774	781	709	842
Capital outlay	910	2,757	519	759	1,646	2,005	1,355	1,999	5,497	3,883
Debt service										
Principal	98	103	23	123	128	128	133	148	158	317
Interest	149	142	135	134	133	138	224	111	108	101
Total expenditures	8,751	10,901	9,736	9,892	10,717	11,502	9,952	10,590	14,459	12,747
Excess of revenues over (under) expenditures	173	(235)	325	(725)	(510)	(1,266)	(174)	833	(602)	1,783

Other financing sources (uses)

Transfers in	557	243	279	675	2,019	258	489	497	573	579
Transfers out	(560)	(411)	(503)	(694)	(2,039)	(278)	(485)	(537)	(628)	(579)
Bonds issued	-	-	-	-	-	-	2,710	-	-	-
Bonds refunded	-	-	-	-	-	-	(2,660)	-	-	-
Sale of capital assets	-	46	1,427	1,123	-	-	-	-	-	-
Total other financing sources (uses)	(3)	(122)	1,203	1,104	(20)	(20)	54	(40)	(55)	-
Net change in fund balances	\$ 170	\$ (357)	\$ 1,528	\$ 379	\$ (530)	\$ (1,286)	\$ (120)	\$ 793	\$ (657)	\$ 1,783

Debt service as a percentage of noncapital expenditures* 3.15% 3.01% 1.71% 2.81% 2.88% 2.80% 4.15% 3.01% 2.97% 4.72%

* 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
2005	\$ 1,064	\$ 2,080	\$ 2,120	\$ 648	\$ 455	\$ 6,367
2006	1,101	2,281	2,323	679	434	6,818
2007	1,015	2,439	2,426	716	392	6,988
2008	1,030	2,343	2,487	722	220	6,802
2009	1,138	2,014	2,534	659	161	6,506
2010	1,121	2,150	2,542	671	123	6,607
2011	1,152	2,154	2,611	713	115	6,745
2012	1,178	2,103	2,827	755	92	6,955
2013	1,197	2,141	2,748	772	82	6,940
2014	1,209	2,410	2,809	821	112	7,361

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

Fiscal Year	Tax-Exempt Property ¹	Commercial Property ¹	Industrial Property ¹	Residential Property ¹	Real Property		Direct Tax Rate	Ratio of Assessed Value To Estimated Actual Value ²
					Total Assessed Value ¹	Estimated Value		
2005	\$ -	\$ -	\$ -	\$ -	\$ 561,334	\$ 628,594	2.1529%	89.3%
2006	-	-	-	-	564,395	672,700	2.1496%	83.9%
2007	-	-	-	-	606,625	770,807	1.9095%	78.7%
2008	-	-	-	-	648,929	775,303	1.8219%	83.7%
2009	-	-	-	-	727,939	830,033	1.8102%	87.7%
2010	-	-	-	-	728,204	812,728	1.7985%	89.6%
2011	-	-	-	-	753,399	817,136	1.7643%	92.2%
2012	-	-	-	-	743,257	793,231	1.8131%	93.7%
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%

¹ Cowlitz County Assessor's Office

² Department of Revenue - Property Tax Division

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

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

Fiscal Year	City Regular		City Debt		Total City	School District	Port of Longview	Cowlitz County	State of Washington		Cowlitz 2 Fire District		Total
	Regular	Debt	Washington	Fire District									
2005	1.9962	0.1567	2.1529	5.68	0.4500	1.8715	2.7639	1.6595	14.5778				
2006	2.0127	0.1369	2.1496	5.5473	0.4509	1.8714	2.5686	1.6551	14.2429				
2007	1.9095	0	1.9095	5.2332	0.4503	1.7564	2.3887	1.5608	13.2989				
2008	1.8219	0	1.8219	4.9324	0.4143	1.6756	2.2277	1.5000	12.5719				
2009	1.8102	0	1.8102	4.3766	0.4037	1.6629	2.0593	1.4044	11.7171				
2010	1.7985	0	1.7985	4.4339	0.3906	1.6904	2.1058	1.4643	11.8835				
2011	1.7643	0	1.7643	5.1213	0.3933	1.7304	2.2954	1.5000	12.8047				
2012	1.8131	0	1.8131	5.1967	0.2192	1.8647	2.3733	1.5000	12.9670				
2013	2.0116	0	2.0116	5.7004	0.2164	1.9408	2.4478	1.5000	13.8170				
2014	2.0557	0	2.0557	5.6506	0.4500	2.0423	2.3356	1.5000	14.0342				

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

City of Kelso
Principal Property Taxpayers
December 31, 2014
(amounts expressed in thousands)

Taxpayer	2014			2005		
	Rank	Assessed Valuation	Percentage of Total Assessed Valuation	Rank	Assessed Valuation	Percentage of Total Assessed Valuation
Foster Farms Poultry	1	\$ 28,835	4.18%	1	\$ 34,300	6.16%
Three Rivers Mall LLC	2	19,781	2.87%	2	28,342	5.09%
Mario Segale	3	14,664	2.12%			
Burlington Northern Santa Fe	4	13,069	1.89%	6	5,495	0.99%
Safeway Inc.	5	10,314	1.49%	4	7,820	1.40%
SW Paper Inc.	6	8,093	1.17%	3	8,306	1.49%
C & C Logging	7	8,062	1.17%			
ALS Group USA	8	7,431	1.08%			
Storedahl Enterprises LLC	9	6,995	1.01%			
Allen Street Investments	10	6,940	1.01%	7	5,492	0.99%
Dayton Hudson				5	7,583	1.36%
Brookhollow partners LP				8	4,963	0.89%
Riverway Plaza				9	4,545	0.82%
Kelso Elks 1482				10	3,812	0.68%
		<u>\$ 124,184</u>	<u>17.99%</u>		<u>\$ 110,658</u>	<u>19.87%</u>

Source: Cowlitz County Assessor's Office

**City of Kelso
Principal Utility Taxpayers
December 31, 2014**

Utility Tax Type	2014			2005		
	Rank	Tax	Percentage of Tax to Total	Rank	Tax	Percentage of Tax to Total
Electricity*	1	\$ 662,019	23.57%	1	\$ 519,142	24.49%
Sewer*	2	383,932	13.67%	2	263,456	12.43%
Water*	3	270,267	9.62%	3	152,631	7.20%
Cell Phone**	4	152,510	5.43%	4	147,267	6.95%
Cable Television*	5	115,378	4.11%	8	62,838	2.96%
Garbage*	6	108,402	3.86%	7	87,818	4.14%
Telephone**	7	99,176	3.53%	5	138,376	6.53%
Natural Gas*	8	67,265	2.39%	6	110,260	5.20%
		<u>1,858,949</u>	<u>66.17%</u>		<u>1,481,788</u>	<u>69.90%</u>

* Taxes paid by single utility provider

**Taxes paid by multiple providers

Source: City of Kelso

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

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Current Taxes Collected	Collections in Subsequent Years	Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy	Outstanding Delinquent Taxes	Ratio of Delinquent Taxes to Total Tax Levy
2005	\$ 1,120,558	\$ 1,057,770	94.4%	\$ 62,788	\$ 1,120,558	100.0%	-	0.0%
2006	1,135,972	1,078,134	94.9%	57,440	1,135,574	100.0%	398	0.0%
2007	1,158,144	1,098,560	94.9%	59,584	1,158,144	100.0%	-	0.0%
2008	1,182,285	1,136,819	96.2%	45,163	1,181,982	100.0%	271	0.0%
2009	1,316,848	1,254,188	95.2%	62,383	1,316,571	100.0%	277	0.0%
2010	1,309,655	1,242,802	94.9%	66,295	1,309,097	100.0%	558	0.0%
2011	1,329,252	1,262,544	95.0%	65,874	1,328,418	99.9%	835	0.1%
2012	1,347,579	1,285,794	95.4%	50,807	1,336,601	99.2%	10,978	0.8%
2013	1,368,390	1,309,790	95.7%	37,056	1,346,846	98.4%	21,544	1.6%
2014	1,393,874	1,335,634	95.8%	-	1,335,634	95.8%	58,240	4.2%

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

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

Fiscal Year	Governmental Activities				Business-Type Activities				Total Primary Government	Percentage of Personal Income ¹	Per Capita ²	
	General		Miscellaneous	Capital Leases	Water/Sewer		Miscellaneous	Notes				
	Obligation Bonds				Revenue Bonds							
2005	3,160		363	-		1,565		3,273		8,361	2.58%	707
2006	3,080		341	-		1,400		2,997		7,818	2.34%	660
2007	3,080		318	-		1,230		2,735		7,363	2.05%	622
2008	2,980		295	-		915		2,524		6,714	1.78%	564
2009	2,875		273	-		840		2,322		6,310	1.68%	533
2010	2,770		250	-		5,235*		2,119		5,139	1.35%	436
2011	2,710		227	-		5,050		1,916		9,903	2.48%	831
2012	2,585		204	-		4,865		1,714		9,368	2.25%	785
2013	2,408		182	-		4,603		1,472		8,665	2.02%	735
2014	2,294		-	-		4,441		1,284		8,019	N/A	N/A

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

N/A - Information not available.

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

² See the schedule of Demographic and Economic Statistics on page 128 for personal income and population data.

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

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

Fiscal Year	Assessed Value*₁	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value of Property₂	Per Capita₃
2005	561,334	3,160,000	-	3,160,000	0.56%	267
2006	564,395	3,080,000	-	3,080,000	0.49%	260
2007	606,625	3,080,000	-	3,080,000	0.46%	260
2008	648,929	2,980,000	-	2,980,000	0.39%	250
2009	727,939	2,875,000	-	2,875,000	0.37%	243
2010	728,204	2,770,000	-	2,770,000	0.33%	235
2011	753,399	2,710,000	-	2,710,000	0.33%	227
2012	743,257	2,585,000	-	2,585,000	0.33%	217
2013	680,264	2,408,189	-	2,408,189	0.34%	202
2014	678,037	2,294,356	-	2,294,356	0.32%	192

*Amounts expressed in thousands

₁Cowlitz County Assessor's Office

₂See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property on Page 118 for property value data

₃Population data can be found in the Schedule of Demographic and Economic Statistics on page 128.

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, 2014

Jurisdiction	Debt Outstanding	Estimated Percentage Applicable [†]	Estimated Share of Overlapping Debt
Direct:			
City of Kelso	\$ 2,294,356	100%	\$ 2,294,356
Overlapping:			
Cowlitz County	46,675,547	8%	3,734,044
Kelso School District	18,802,789	41%	7,709,143
Port of Longview	12,030,000	10%	1,203,000
Cowlitz Fire District #2	209,220	32%	66,950
Subtotal, overlapping debt	77,717,556		12,713,137
Total direct and overlapping	<u>\$ 80,011,912</u>		<u>\$ 15,007,493</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.

[†] 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									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Debt limit	\$ 42,100	\$ 42,330	\$ 45,497	\$ 48,670	\$ 54,595	\$ 54,615	\$ 56,505	\$ 55,744	\$ 51,020	\$ 50,853
Total net debt applicable to limit	3,145	3,079	3,079	2,978	1,270	2,046	1,893	1,637	1,378	2,315
Legal debt margin	<u>\$ 38,955</u>	<u>\$ 39,251</u>	<u>\$ 42,418</u>	<u>\$ 45,692</u>	<u>\$ 53,325</u>	<u>\$ 52,569</u>	<u>\$ 54,612</u>	<u>\$ 54,107</u>	<u>\$ 49,642</u>	<u>\$ 48,538</u>
Total net debt applicable to the limit as a percentage of debt limit	7.47%	7.27%	6.77%	6.12%	2.33%	3.75%	3.35%	2.94%	2.70%	4.55%

Legal Debt Margin Calculation for Fiscal Year 2014

Assessed value	\$ 678,037
Debt limit (7.5% of total assessed value)	50,853
Debt applicable to limit:	
General obligation bonds	2,315
Less: Amount set aside for repayment of general obligation debt	-
Total net debt applicable to limit	<u>2,315</u>
Legal debt margin	<u>\$ 48,538</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 ¹	Less: Operating Expenses ²	Net Available Revenue	Debt Services ³		Coverage
				Principal	Interest	
2005	\$ 5,475,244	\$ 4,036,836	\$ 1,438,408	\$ 155,000	\$ 78,946	6.15
2006	5,925,889	4,936,770	989,119	165,000	73,014	4.16
2007	6,576,208	5,205,623	1,370,585	170,000	66,709	5.79
2008	6,701,592	5,101,568	1,600,024	255,000	79,839	4.78
2009	7,124,034	6,102,630	1,021,404	75,000	35,291	9.26
2010	7,256,265	5,871,745	1,384,520	80,000	33,454	12.20
2011	7,569,205	5,664,324	1,904,881	185,000	194,836	5.02
2012	7,584,880	5,740,359	1,844,521	185,000	189,738	4.92
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

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

²Total operating expenses exclusive of depreciation and interest.

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

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

Fiscal Year	Population¹	Info available at County level only			School Enrollment³	Metro/Area Unemployment Rate⁴
		Personal Income²	Per Capita Personal Income²	County Median Age¹		
2005	11,820	2,646,058	27,410	38.48	5,245	7.2%
2006	11,840	2,795,471	28,191	38.67	5,174	6.5%
2007	11,840	3,059,557	30,370	38.82	4,921	6.3%
2008	11,900	3,227,830	31,742	38.99	5,089	8.2%
2009	11,840	3,235,488	31,681	39.25	5,022	13.4%
2010	11,780	3,314,467	32,368	40.19	5,034	13.0%
2011	11,920	3,426,188	33,479	40.55	4,970	12.1%
2012	11,930	3,557,907	34,941	40.71	4,091	10.9%
2013	11,940	3,667,139	36,002	40.89	4,908	10.1%
2014	11,960	N/A	N/A	41.16	4,974	8.4%

N/A - information not available.

¹Source: Office of Financial Management

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

³Source: Kelso School District

⁴Source: Bureau of Labor Statistics

Personal income amounts are expressed in thousands of dollars.

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

Employer	2014			2005		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
St John's Medical Center/Peace Health	1,650	1	4.1%	1,535	3	3.9%
Kapstone Paper & Packaging / Longview Fibre	1,600	2	4.0%	1,729	2	4.4%
Weyerhaeuser	1,539	3	3.8%	1,746	1	4.4%
Kelso School District	832	4	2.1%	732	6	1.8%
Longview School District	812	5	2.0%	900	4	2.3%
Foster Farms	707	6	1.8%	753	5	1.9%
JH Kelly	600	7	1.5%	633	7	1.6%
Cowlitz County	549	8	1.4%	563	8	1.4%
Safeway Grocery	454	9	1.1%	501	9	1.3%
NORPAC	450	10	1.1%			
City of Longview				291	10	0.7%
Total	9,193		22.9%	9,383		23.7%

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

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

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

Function	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Government									
Community Development	5.0	5.0	5.0	5.0	5.0	2.3	3.0	3.0	2.5
Finance	8.0	8.0	8.0	8.0	7.0	7.0	7.0	7.0	7.0
City Attorney	1.5	1.5	1.0	1.0	1.0	0.3	0.3	0.4	0.4
Admin.	1.5	1.5	1.9	2.0	2.0	1.8	1.7	2.0	2.0
Engineering	6.0	6.0	8.0	6.9	6.1	6.1	6.1	4.1	4.1
Airport Maintenance	-	-	0.0	0.0	0.0	0.0	0.0	1.0	1.0
Public Safety									
Police									
Officers	28.0	28.0	31.4	29.8	27.0	27.0	24.3	24.0	24.0
Civilians	4.0	4.0	3.4	3.4	3.4	3.4	3.4	4.4	4.4
Highways & Streets									
Maintenance	2.0	2.0	2.5	1.4	1.0	0.0	0.0	0.0	1.0
Traffic	2.0	2.0	2.4	2.5	1.5	1.3	1.3	1.3	1.3
Culture and recreation	7.0	7.0	8.9	7.1	6.0	6.0	6.0	6.3	6.3
Water	7.0	7.0	8.1	8.7	7.5	7.5	7.5	8.8	8.8
Sewer	6.0	6.0	5.4	6.7	5.5	5.5	5.5	6.8	6.8
Drainage	2.0	2.0	2.2	3.0	3.0	3.0	3.0	3.0	3.0
Total	80.0	80.0	88.2	85.6	76.0	71.1	69.1	72.1	72.6

Source: City Payroll Department

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

City of Kelso
Operating Indicators by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Police										
Physical arrests	1,549	2,026	1,824	1,586	1,668	1,608	1,435	1,309	1,163	1,065
Traffic violations	1,033	1,211	1,135	1,276	1,176	2,477	2,471	1,310	1,114	1,197
Fire (contracted with Cowiitz 2 Fire and Rescue)										
Number of calls answered	4,627	4,911	4,996	4,607	3,981	3,743	3,974	4,180	4,225	4,107
Highways and streets										
Street resurfacing (linear feet)	10,439	17,536	6,600	5,647	5,150	35,957	21,056	6,300	3,800	13,500
Sanitation (contracted with Waste Control Equipment Inc.)										
Residential refuse collected (tons monthly average)	567	533	573	562	519	495	507	524	513	641
Residential recyclables collected (tons monthly average)	51	52	52	49	50	51	46	50	41	40
Water										
Number of service connections	4,640	4,660	4,704	4,716	4,725	4,758	4,775	4,782	4,778	4,781
Water main breaks	19	11	3	11	6	11	9	5	7	7
Average daily consumption (millions of gallons)	2.3	2.4	2.2	2.3	2.3	2.2	2.2	2.0	2.1	2.1
Sewer										
Number of service connections	3,990	3,954	3,961	3,970	3,938	3,943	3,931	3,924	3,933	3,950
Average daily sewage treatment (millions of gallons)	2.8	3.0	2.6	2.6	2.4	2.6	2.7	2.9	2.3	2.5

Sources: Various City departments.

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

Function	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	8	8	8	8	8	8	8	9	9	9
Highways and streets										
Street (miles)	64	64	64	64	64	64	64	64	64	64
Streetlights	300	300	300	380	380	432	432	432	441	469
Traffic signals	12	12	12	12	12	13	13	13	13	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
Swimming pools	-	-	-	-	-	-	-	-	-	-
Water										
Water mains (miles)	72.71	72.99	73.00	73.00	73.00	73.00	73.00	73.56	73.56	73.56
Fire hydrants	604	605	605	550	550	550	554	554	554	556
Maximum daily capacity (millions of gallons)	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60
Sewer										
Sanitary sewers (miles)	54.99	55.06	52.00	52.00	52.00	56.00	56.00	56.52	56.52	56.52
Storm sewers (miles)	55	55	55	55	55	55	55	34	34	34
Maximum daily treatment capacity (millions of gallons)	26	26	26	26	26	26	26	26	26	26

Sources: Various City departments.