



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

City of Kelso

For the period January 1, 2021 through December 31, 2021

Published July 11, 2022

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

July 11, 2022

Mayor and City Council
City of Kelso
Kelso, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Kelso's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

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

Pat McCarthy, State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Kelso January 1, 2021 through December 31, 2021

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City’s compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

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

| <u>CFDA No.</u> | <u>Program or Cluster Title</u> |
|-----------------|---|
| 20.205 | Highway Planning and Construction Cluster – Highway Planning and Construction |

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

The City qualified as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

INDEPENDENT AUDITOR'S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

City of Kelso January 1, 2021 through December 31, 2021

Mayor and City Council
City of Kelso
Kelso, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Kelso, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 28, 2022.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy, State Auditor

Olympia, WA

June 28, 2022

INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

City of Kelso January 1, 2021 through December 31, 2021

Mayor and City Council
City of Kelso
Kelso, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the compliance of the City of Kelso, with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2021. The City's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

Performing an audit in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy, State Auditor

Olympia, WA

June 28, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

City of Kelso January 1, 2021 through December 31, 2021

Mayor and City Council
City of Kelso
Kelso, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

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, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Kelso, as of December 31, 2021, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Matters of Emphasis

As discussed in Note V to the 2021 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the City is unknown. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards*, includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to

the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2022 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large initial "P" and "M".

Pat McCarthy, State Auditor

Olympia, WA

June 28, 2022

**City of Kelso
January 1, 2021 through December 31, 2021**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2021

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2021

Statement of Activities – 2021

Balance Sheet – Governmental Funds – 2021

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental
Funds – 2021

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balances of Governmental Funds to the Statement of Activities – 2021

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual –
General Fund – 2021

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual –
Arterial Street Fund – 2021

Statement of Net Position – Proprietary Funds – 2021

Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds
– 2021

Statement of Cash Flows – Proprietary Funds – 2021

Statement of Fiduciary Net Position – Fiduciary Funds – 2021

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2021

Notes to Financial Statements – 2021

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Employer Contributions – PERS 1, PERS 2/3, LEOFF2 – 2021

Schedule of Proportionate Share of Net Pension Liability (Asset) – PERS 1, PERS 2/3,
LEOFF 1, LEOFF 2 – 2021

Schedule of Changes in OPEB Liability and Related Ratios – 2021

Information on Other Postemployment Benefits Other Than Pensions – 2021

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2021

Notes to the Schedule of Expenditures of Federal Awards – 2021

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, 2021. We encourage readers to consider the information presented in conjunction with additional information that we have furnished in our letter of transmittal. All amounts reported in the MD&A, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets and deferred outflows of resources of the City of Kelso exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$127,014 (net position). Capital assets, net of depreciation and related debt, account for \$98,702 or 77.7% of total net position. \$23,035 or 18% 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 \$13,944 during 2021.
- As of the close of the current fiscal year, the City of Kelso's governmental funds reported combined ending fund balances of \$14,327 an increase of \$1,570 in comparison with the prior year. Approximately 89% of this amount, \$12,742, 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 \$10,322, or 97% of total general fund expenditures.
- The City of Kelso's total debt (exclusive of compensated absences, bond discounts/premiums, and pension obligations) decreased by \$923 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, transportation, economic environment, and culture and recreation. The business-type activities of the City include a water/sewer enterprise, a solid waste enterprise, and a storm water drainage enterprise.

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

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

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

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

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

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

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

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

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

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

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. In the case of the City of Kelso, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$127,014 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, 2021 with comparable data provided for the previous year.

City of Kelso's Net Position

| | Governmental activities | | Business-type activities | | Total | |
|--------------------------------------|-------------------------|-----------------|--------------------------|-----------------|------------------|------------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Current and other assets | \$25,914 | \$16,457 | \$ 20,613 | \$ 17,130 | \$ 46,527 | \$ 33,587 |
| Capital assets (net) | <u>76,981</u> | <u>70,559</u> | <u>32,129</u> | <u>32,291</u> | <u>109,110</u> | <u>102,850</u> |
| Total assets | <u>102,895</u> | <u>87,016</u> | <u>52,742</u> | <u>49,421</u> | <u>155,637</u> | <u>136,437</u> |
| Total deferred outflows of resources | <u>856</u> | <u>994</u> | <u>466</u> | <u>416</u> | <u>1,322</u> | <u>1,410</u> |
| Long-term liabilities outstanding | 10,883 | 11,538 | 9,778 | 10,693 | 20,661 | 22,231 |
| Other liabilities | <u>2,307</u> | <u>936</u> | <u>992</u> | <u>855</u> | <u>3,299</u> | <u>1,791</u> |
| Total liabilities | <u>13,190</u> | <u>12,474</u> | <u>10,770</u> | <u>11,548</u> | <u>23,960</u> | <u>24,022</u> |
| Total deferred inflows of resources | <u>4,765</u> | <u>575</u> | <u>1,220</u> | <u>180</u> | <u>5,985</u> | <u>755</u> |
| Net position: | | | | | | |
| Net investment in capital assets | 72,897 | 66,459 | 25,805 | 25,522 | 98,702 | 91,981 |
| Restricted | 5,182 | 3,378 | 95 | 3,022 | 5,277 | 6,400 |
| Unrestricted | <u>7,717</u> | <u>5,124</u> | <u>15,318</u> | <u>9,565</u> | <u>23,035</u> | <u>14,689</u> |
| Total net position | <u>\$85,796</u> | <u>\$74,961</u> | <u>\$41,218</u> | <u>\$38,109</u> | <u>\$127,014</u> | <u>\$113,070</u> |

By far the largest portion of the City's net position (77.7 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Kelso's net position (4.2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$23,035 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 \$10,835 in 2021. Revenues increased by \$3,878 and expenses decreased by \$711 in 2021. Key elements for these changes include the following:

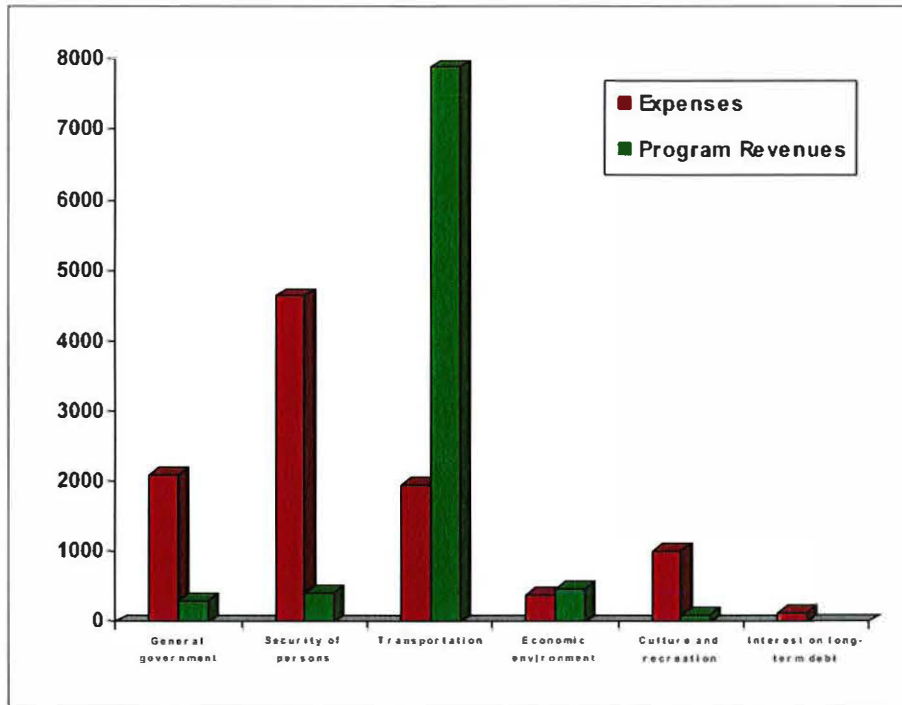
- The City received \$6,214 in grants for various roadway infrastructure projects.
- Increased sales and business taxes related to above normal construction activity throughout the City in 2021.

- Overall increased economic activity spurred by the COVID 19 related stimulus checks issued by the United States Treasury department.
- Actuarially determined pension expenses decreased by \$1,467 in 2021.

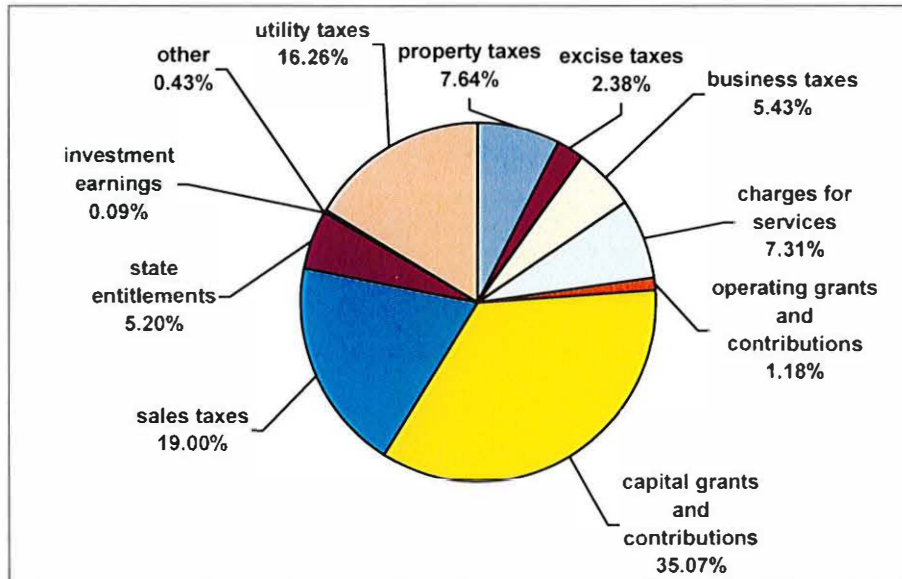
City of Kelso's Changes in Net Position

| | Governmental activities | | Business-type activities | | Total | |
|---------------------------------------|-------------------------|------------------|--------------------------|-----------------|------------------|------------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$1,538 | \$1,305 | \$13,208 | \$13,141 | \$14,746 | \$14,446 |
| Operating grants and contributions | 249 | 851 | 126 | 135 | 375 | 986 |
| Capital grants and contributions | 7,383 | 4,123 | 375 | 17 | 7,758 | 4,140 |
| General revenues: | | | | | | |
| Property taxes | 1,608 | 1,577 | - | - | 1,608 | 1,577 |
| Sales and use taxes | 4,000 | 3,419 | - | - | 4,000 | 3,419 |
| Utility taxes | 3,424 | 3,424 | - | - | 3,424 | 3,424 |
| Business taxes | 1,143 | 949 | - | - | 1,143 | 949 |
| Excise taxes | 502 | 387 | - | - | 502 | 387 |
| State entitlements | 1,095 | 943 | - | - | 1,095 | 943 |
| Investment earnings | 20 | 58 | 8 | 56 | 28 | 114 |
| Miscellaneous | 91 | 115 | - | - | 91 | 115 |
| Gain/(loss) on sale of capital assets | - | 24 | - | 67 | - | 91 |
| Total revenues | <u>21,053</u> | <u>17,175</u> | <u>13,717</u> | <u>13,416</u> | <u>34,770</u> | <u>30,591</u> |
| Expenses: | | | | | | |
| General government | 2,091 | 2,516 | - | - | 2,091 | 2,516 |
| Security of persons and property | 4,642 | 5,022 | - | - | 4,642 | 5,022 |
| Transportation | 1,952 | 1,851 | - | - | 1,952 | 1,851 |
| Economic environment | 387 | 378 | - | - | 387 | 378 |
| Culture and recreation | 1,022 | 1,021 | - | - | 1,022 | 1,021 |
| Interest on long-term debt | 124 | 141 | - | - | 124 | 141 |
| Water/Sewer | - | - | 8,317 | 8,886 | 8,317 | 8,886 |
| Storm water | - | - | 461 | 527 | 461 | 527 |
| Solid waste | - | - | 1,830 | 1,822 | 1,830 | 1,822 |
| Total expenses | <u>10,218</u> | <u>10,929</u> | <u>10,608</u> | <u>11,235</u> | <u>20,826</u> | <u>22,164</u> |
| Change in net position | 10,835 | 6,246 | 3,109 | 2,181 | 13,944 | 8,427 |
| Net position – beginning | <u>74,961</u> | <u>68,715</u> | <u>38,109</u> | <u>35,928</u> | <u>113,070</u> | <u>104,643</u> |
| Net position – ending | <u>\$ 85,796</u> | <u>\$ 74,961</u> | <u>\$41,218</u> | <u>\$38,109</u> | <u>\$127,014</u> | <u>\$113,070</u> |

Expenses and Program Revenues – Governmental Activities

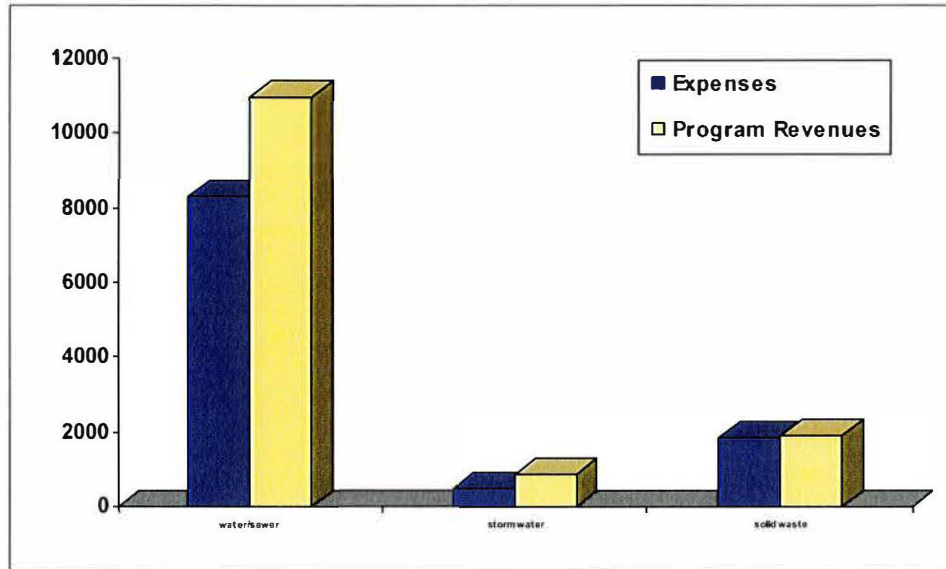


Revenues by Source - Governmental Activities

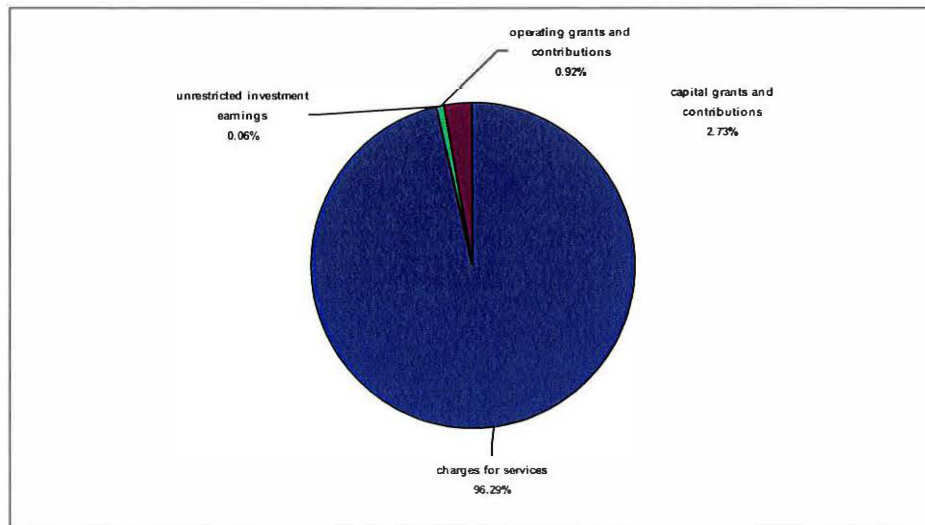


Business-type activities. Business-type activities increased the City of Kelso’s net position by \$3,109. Business-type activity revenues increased by \$301 and expenses decreased by \$627 in 2021. Operating revenues exceeded operating expenses in 2021 by \$2,286 in the water/sewer fund.

Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type Activities



The increase in net position reflects the City's commitment to accumulate sufficient reserves to fund future capital improvements in the water and sewer infrastructure.

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

- The City increased the water and sewer rates by 7% and 3%, respectively in 2021.
- Actuarially determined pension expenses decreased by \$452 in 2021.

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 \$14,327 an increase of \$1,570 in comparison with the prior year. Approximately 89% of ending fund balance (\$12,742) 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 (\$259), 2) to pay for low-income housing (\$81), 3) to pay for street maintenance & construction (\$80), 4) to pay for construction or debt service on certain capital projects (\$321), 5) for a variety of other restricted purposes (\$844).

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

The general fund is the chief operating fund of the City of Kelso. At the end of the current fiscal year, total fund balance of the general fund was \$11,098. All but \$1,173 of this fund balance is unassigned. \$775 is restricted for low-income housing, criminal justice, building permitting, and public education. \$398 has been assigned by the City for maintenance of City owned bridges. Unassigned fund balance represents 94.2 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 \$2,106 during the current fiscal year. Much of this increase can, most likely, be attributed to the overall

increased economic activity spurred by the COVID 19 related stimulus checks issued by the United States Treasury department. Other reasons for this increase are discussed in the General Fund Budgetary Highlights section below.

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 City streets. In 2021, the arterial street fund expended in excess of \$7.3 million on roadway improvements. These expenditures were offset by \$6,214 from various grantors.

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 \$12,342, and for the solid waste fund amounted to \$308. The total net position for the water/sewer fund increased by \$2,567 and the total net position for the solid waste fund increased by \$24. 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 \$474 increase in appropriations.

At the end of the year, operating revenues exceeded budgetary estimates by \$480 and operating expenditures and transfers were \$2,185 less than budgetary estimates.

Some of the factors that contributed to the increase in expected revenues are as follows:

- Sales and business tax receipts were \$940 higher than anticipated.
- Building permit related revenues exceeded budgetary amounts by \$323.
- Fees for engineering services exceeded budgetary amounts by \$146.
- Grants and State shared revenues were \$983 lower than anticipated.

The increases realized in sales tax and building permits are mostly attributed to above normal construction activity within the City in 2021.

Some of the factors that contributed to the decrease in expected expenditures are as follows:

- Grant pass-thru payment of \$915 to the Southwest Washington Regional Airport was postponed until 2022 or 2023.
- The replacement of the HVAC at City Hall for \$450 was postponed until 2022.
- Several positions within the City's police department remained vacant for the year due to shortage of qualified applicants.

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, 2021 amounts to \$98,754 (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:

- **Tam O' Shanter Park Improvements – Phase 2.** In 2019, the City began a series of improvements at Tam O' Shanter Park. This project consists of improving the parking, circulation and safety for vehicles and pedestrians by adding a two-way parking lot bypass road, adding sidewalks, adding new parking areas (paved and gravel), rehabilitating the roads and parking lots, restoring a portion of an existing baseball field, improving the landscaping, the stormwater management system and installing conduit and pullboxes for future lighting. Phase 1 of this project was completed in 2019. Phase 2, which began in 2020 and was completed in 2021, continued the improvement of the circulation and parking of the first phase. The total cost of Phase 2 was \$1,254,011.
- **The West Main Street Corridor – Phase 2.** This project provides a direct route from SR 4 to I-5 through Kelso and improves access to SR 411. Phase 2 completes the project and includes right-of-way acquisition, widening of the corridor, and intersection improvements at the SR 4 junction. Construction began in December of 2020 it is expected to be complete in 2022. The total cost of Phase 2 through December 31, 2021, was \$9,079,724.
- **South Kelso Railroad Crossing.** This project proposes to construct a grade separated crossing over the Burlington Northern Santa Fe Railroad in south Kelso. The project is currently in the design and right of way acquisition phases. The total cost of this project December 31, 2021, was \$5,321,322.

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

| | Governmental activities | | Business-type activities | | Total | |
|-----------------------------------|-------------------------|-----------------|--------------------------|-----------------|------------------|------------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Land | \$23,136 | \$23,136 | \$ 29 | \$ 29 | \$ 23,165 | \$ 23,165 |
| Buildings and structures | 6,655 | 6,812 | 12,241 | 12,562 | 18,896 | 19,374 |
| Improvements other than buildings | 6,626 | 5,563 | 17,055 | 17,568 | 23,681 | 23,131 |
| Machinery and equipment | 957 | 998 | 1,775 | 1,942 | 2,732 | 2,940 |
| Infrastructure | 25,034 | 25,764 | - | - | 25,034 | 25,764 |
| Construction in progress | 14,573 | 8,286 | 1,029 | 190 | 15,602 | 8,476 |
| Total | \$76,981 | \$70,559 | \$32,129 | \$32,291 | \$109,110 | \$102,850 |

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 \$3,665. 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 | |
|--------------------------|-------------------------|----------------|--------------------------|----------------|----------------|----------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| General obligation bonds | \$3,665 | \$3,960 | \$ - | \$ - | \$3,665 | \$3,960 |
| Revenue bonds | - | - | 5,095 | 5,405 | 5,095 | 5,405 |
| Total | \$3,665 | \$3,960 | \$5,095 | \$5,405 | \$8,760 | \$9,365 |

The City of Kelso’s total bonded debt decreased by \$605 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 \$3,649.

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 2021 was 6.4 percent, which is a decrease from a rate of 9.3 percent in 2020. This compares unfavorably to the State’s average unemployment rate of 5.2 percent and the national average rate of 5.3 percent.
- For the 2021/2022 biennium, the City will maintain the 2% increase for utility taxes on water, sewer, and garbage that was implemented in the 2017/2018 biennium.
- The City’s ability to raise property taxes has been limited by Initiative 747. I-747 is a voter approved initiative that reduces the allowable property tax growth limit to the lower of 1 percent or the Implicit Price Deflator.

All of these factors were considered in preparing the City of Kelso’s budget for the 2022 fiscal year.

At the end of the current fiscal year the unassigned fund balance in the general fund is \$9,924. In 2022, the City anticipates spending down \$1,551 of this unassigned fund balance. Most of the anticipated deficit stems from enhancements to the City's police department, maintenance of City Hall, as well as, conservative revenue projections.

In 2022, water and sewer rates will be increased by 7% and 3%, respectively. These rate increases are necessary to keep pace with inflation and for future capital upgrades.

Requests for Information

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

City of Kelso
Statement of Net Position
December 31, 2021

| | PRIMARY GOVERNMENT | | |
|---|------------------------------------|-------------------------------------|-----------------------|
| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
| ASSETS | | | |
| Cash & cash equivalents | \$ 14,409,075 | \$ 14,295,264 | \$ 28,704,339 |
| Receivables (net of allowance for uncollectible): | 3,768,781 | 2,082,830 | 5,851,611 |
| Net pension asset | 7,436,241 | 1,150,367 | 8,586,608 |
| Long-term notes receivable | 299,313 | - | 299,313 |
| Restricted assets | - | 3,084,062 | 3,084,062 |
| Capital assets not being depreciated: | | | |
| Land | 23,136,179 | 28,712 | 23,164,891 |
| Construction in progress | 14,573,265 | 1,028,688 | 15,601,953 |
| Capital assets net of accumulated depreciation: | | | |
| Buildings | 6,655,269 | 12,241,292 | 18,896,561 |
| Improvements other than buildings | 6,625,556 | 17,054,884 | 23,680,440 |
| Machinery and equipment | 956,978 | 1,775,627 | 2,732,605 |
| Infrastructure | 25,034,074 | - | 25,034,074 |
| Total assets | <u>102,894,731</u> | <u>52,741,726</u> | <u>155,636,457</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Related to charge on refunding | 23,249 | - | 23,249 |
| Related to pensions | 682,348 | 165,013 | 847,361 |
| Related to OPEB | 48,484 | - | 48,484 |
| Related to asset retirement obligations | 101,645 | 301,600 | 403,245 |
| Total deferred outflows of resources | <u>855,726</u> | <u>466,613</u> | <u>1,322,339</u> |
| LIABILITIES | | | |
| Accounts payable and other current liabilities | 554,100 | 665,869 | 1,219,969 |
| Interest payable | 10,892 | 26,201 | 37,093 |
| Unearned revenue | 1,741,937 | 54,563 | 1,796,500 |
| Liabilities payable from restricted assets | - | 245,309 | 245,309 |
| Long-term liabilities: | | | |
| Due within one year | 566,784 | 671,726 | 1,238,510 |
| Due in more than one year | 4,015,897 | 8,673,622 | 12,689,519 |
| Net pension liability | 176,940 | 97,386 | 274,326 |
| Total OPEB liability | 5,920,108 | - | 5,920,108 |
| Asset retirement obligation | 203,291 | 335,200 | 538,491 |
| Total liabilities | <u>13,189,949</u> | <u>10,769,876</u> | <u>23,959,825</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows related to pensions | 4,764,552 | 1,220,440 | 5,984,992 |
| Total deferred inflows of resources | <u>4,764,552</u> | <u>1,220,440</u> | <u>5,984,992</u> |
| NET POSITION | | | |
| Net investment in capital assets | 72,896,902 | 25,805,222 | 98,702,124 |
| Restricted for: | | | |
| Pensions | 3,596,947 | 94,940 | 3,691,887 |
| Capital projects | 321,312 | - | 321,312 |
| Promotion of tourism | 142,340 | - | 142,340 |
| Paths and trails | 6,691 | - | 6,691 |
| Street maintenance/construction | 80,091 | - | 80,091 |
| Criminal Justice | 57,316 | - | 57,316 |
| Affordable housing | 80,920 | - | 80,920 |
| Housing/neighborhood rehabilitation | 258,939 | - | 258,939 |
| Public education | 51,786 | - | 51,786 |
| Building permitting | 585,406 | - | 585,406 |
| Unrestricted | 7,717,306 | 15,317,861 | 23,035,167 |
| Total net position | <u>\$ 85,795,956</u> | <u>\$ 41,218,023</u> | <u>\$ 127,013,979</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, 2021

| Functions/Programs | Program Revenues | | | | Net (expense) Revenue and Changes in Net Position | | |
|-----------------------------------|------------------|----------------------|--------------------------|--------------------------------|---|--------------------------|----------------|
| | Expenses | Charges for Services | Operating | | Governmental Activities | Primary Government | |
| | | | Grants and Contributions | Capital Grants & Contributions | | Business-type Activities | Total |
| Primary government: | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 2,091,448 | \$ 245,817 | \$ 60,000 | \$ - | \$ (1,785,631) | \$ - | \$ (1,785,631) |
| Security of persons and property | 4,642,164 | 264,269 | 140,892 | - | (4,237,003) | - | (4,237,003) |
| Transportation | 1,951,938 | 474,588 | 33,696 | 7,372,438 | 5,928,784 | - | 5,928,784 |
| Economic environment | 386,791 | 451,588 | 14,328 | - | 79,125 | - | 79,125 |
| Culture and recreation | 1,021,550 | 101,412 | - | 10,322 | (909,816) | - | (909,816) |
| Interest on long-term debt | 124,422 | - | - | - | (124,422) | - | (124,422) |
| Total governmental activities | 10,218,313 | 1,537,674 | 248,916 | 7,382,760 | (1,048,963) | - | (1,048,963) |
| Business-type activities: | | | | | | | |
| Water/Sewer | 8,317,108 | 10,521,504 | 85,435 | 374,360 | - | 2,664,191 | 2,664,191 |
| Solid waste | 1,829,883 | 1,853,718 | - | - | - | 23,835 | 23,835 |
| Storm water | 460,617 | 833,071 | 40,725 | - | - | 413,179 | 413,179 |
| Total business-type activities | 10,607,608 | 13,208,293 | 126,160 | 374,360 | - | 3,101,205 | 3,101,205 |
| Total primary government | \$ 20,825,921 | \$ 14,745,967 | \$ 375,076 | \$ 7,757,120 | \$ (1,048,963) | \$ 3,101,205 | \$ 2,052,242 |
| General Revenues: | | | | | | | |
| Property taxes | | | | | 1,608,024 | - | 1,608,024 |
| Sales taxes | | | | | 4,000,231 | - | 4,000,231 |
| Utility taxes | | | | | 3,424,460 | - | 3,424,460 |
| Business taxes | | | | | 1,142,891 | - | 1,142,891 |
| Excise taxes | | | | | 502,390 | - | 502,390 |
| State entitlements (unrestricted) | | | | | 1,094,638 | - | 1,094,638 |
| Investment earnings | | | | | 19,994 | 7,970 | 27,964 |
| Miscellaneous | | | | | 91,184 | - | 91,184 |
| Total general revenues | | | | | 11,883,812 | 7,970 | 11,891,782 |
| Change in net position | | | | | 10,834,849 | 3,109,175 | 13,944,024 |
| Net position - beginning | | | | | 74,961,107 | 38,108,848 | 113,069,955 |
| Net position - ending | | | | | \$ 85,795,956 | \$ 41,218,023 | \$ 127,013,979 |

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

City of Kelso
Balance Sheet
Governmental Funds
December 31, 2021

| | General Fund | Arterial Street Fund | Other Governmental Funds | Total Governmental Funds |
|---|----------------------|-------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash & cash equivalents | \$ 11,183,734 | \$ 269,914 | \$ 2,418,211 | \$ 13,871,859 |
| Receivables (net): | | | | |
| Taxes | 1,848,519 | - | 63,561 | 1,912,080 |
| Accounts | 213,913 | - | 18,173 | 232,086 |
| Assessments | - | 5,388 | - | 5,388 |
| Due from other funds | - | - | 632,000 | 632,000 |
| Due from other governments | 45,679 | 1,562,661 | 10,607 | 1,618,947 |
| Advances to other funds | - | - | 129,004 | 129,004 |
| Long-term notes receivable | - | - | 299,313 | 299,313 |
| Total assets | <u>\$ 13,291,845</u> | <u>\$ 1,837,963</u> | <u>\$ 3,570,869</u> | <u>\$ 18,700,677</u> |
| LIABILITIES | | | | |
| Accounts payable | 301,506 | 244,222 | 8,372 | 554,100 |
| Due to other funds | - | 632,000 | - | 632,000 |
| Advances from other funds | - | 129,004 | - | 129,004 |
| Unearned revenue | 1,734,783 | 5,388 | 1,766 | 1,741,937 |
| Total liabilities | <u>2,036,289</u> | <u>1,010,614</u> | <u>10,138</u> | <u>3,057,041</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable revenue-property tax | 53,644 | - | - | 53,644 |
| Unavailable revenue-municipal court | 104,403 | - | - | 104,403 |
| Unavailable revenue-grants | - | 1,158,714 | - | 1,158,714 |
| Total deferred inflows of resources | <u>158,047</u> | <u>1,158,714</u> | <u>-</u> | <u>1,316,761</u> |
| FUND BALANCES (DEFICITS) | | | | |
| Restricted for: | | | | |
| Paths and trails | - | - | 6,691 | 6,691 |
| Promotion of tourism | - | - | 142,340 | 142,340 |
| Housing/neighborhood rehabilitation | - | - | 258,939 | 258,939 |
| Low income housing | 80,920 | - | - | 80,920 |
| Criminal justice | 57,316 | - | - | 57,316 |
| Street maintenance/construction | - | - | 80,091 | 80,091 |
| Capital projects | - | - | 321,312 | 321,312 |
| Public education | 51,786 | - | - | 51,786 |
| Building permitting | 585,406 | - | - | 585,406 |
| Assigned to: | | | | |
| Debt service | - | - | 2,264,147 | 2,264,147 |
| Bridge maintenance | 398,051 | - | - | 398,051 |
| Recreation | - | - | 11,152 | 11,152 |
| Neighborhood rehabilitation | - | - | 386,737 | 386,737 |
| Criminal justice | - | - | 34,122 | 34,122 |
| Promotion of tourism | - | - | 55,200 | 55,200 |
| Unassigned | 9,924,030 | (331,365) | - | 9,592,665 |
| Total fund balances | <u>11,097,509</u> | <u>(331,365)</u> | <u>3,560,731</u> | <u>14,326,875</u> |
| Total liabilities, deferred inflows of resources and fund balances (deficits) | <u>\$ 13,291,845</u> | <u>\$ 1,837,963</u> | <u>\$ 3,570,869</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. | 76,288,269 |
| Other assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. | 1,316,761 |
| Net Pension and Total OPEB Assets or Liabilities are not considered to represent a financial resource or liability and, therefore, are not reported in the funds. | (2,820,527) |
| 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. | 1,230,547 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | (4,545,969) |
| Net position of governmental activities | <u>\$ 85,795,956</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, 2021

| | General Fund | Arterial Street Fund | Other Governmental Funds | Total |
|--|----------------------|-------------------------|--------------------------------|----------------------|
| Revenues | | | | |
| Taxes | \$ 10,012,757 | \$ - | \$ 664,809 | \$ 10,677,566 |
| Licenses and permits | 341,570 | - | - | 341,570 |
| Intergovernmental | 1,075,657 | 6,213,724 | 180,564 | 7,469,945 |
| Charges for services | 1,417,214 | 176,529 | 13,939 | 1,607,682 |
| Fines | 144,981 | - | - | 144,981 |
| Investment earnings | 18,134 | 19 | 1,865 | 20,018 |
| Contributions | 13,840 | - | 1,120 | 14,960 |
| Rental/lease income | 99,012 | - | 10,920 | 109,932 |
| Miscellaneous | 50,186 | 2,182 | 38,816 | 91,184 |
| Total revenues | <u>13,173,351</u> | <u>6,392,454</u> | <u>912,033</u> | <u>20,477,838</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government | 3,302,049 | - | - | 3,302,049 |
| Security of persons and property | 5,000,430 | - | 298,941 | 5,299,371 |
| Transportation | 1,001,926 | 262 | - | 1,002,188 |
| Economic environment | 402,592 | - | - | 402,592 |
| Culture and recreation | 825,208 | - | 110,751 | 935,959 |
| Debt service: | | | | |
| Principal | - | - | 295,000 | 295,000 |
| Interest and bond issuance costs | - | 829 | 138,638 | 139,467 |
| Capital outlay: | | | | |
| General government | 7,490 | - | - | 7,490 |
| Security of persons and property | 35,142 | - | - | 35,142 |
| Transportation | - | 7,377,099 | - | 7,377,099 |
| Culture and recreation | 111,194 | - | - | 111,194 |
| Total expenditures | <u>10,686,031</u> | <u>7,378,190</u> | <u>843,330</u> | <u>18,907,551</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>2,487,320</u> | <u>(985,736)</u> | <u>68,703</u> | <u>1,570,287</u> |
| Other financing sources (uses) | | | | |
| Transfers in | 101,854 | 370,950 | 523,100 | 995,904 |
| Transfers out | (482,804) | - | (513,100) | (995,904) |
| Total other financing sources (uses) | <u>(380,950)</u> | <u>370,950</u> | <u>10,000</u> | <u>-</u> |
| Net change in fund balances | 2,106,370 | (614,786) | 78,703 | 1,570,287 |
| Fund balances - beginning | 8,991,139 | 283,421 | 3,482,028 | 12,756,588 |
| Fund balances - ending | <u>\$ 11,097,509</u> | <u>\$ (331,365)</u> | <u>\$ 3,560,731</u> | <u>\$ 14,326,875</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, 2021

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

| | |
|---|----------------------|
| Net change in fund balances - total governmental funds (page 33) | \$ 1,570,287 |
| 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. | 6,412,486 |
| The net effect of funding the City's annual required contribution to the State Pension Fund. | 1,564,411 |
| The net effect of funding the City's post-retirement health care benefits for LEOFF 1 (Law Enforcement Officers and Fire Fighters) employees. | (140,161) |
| Some revenues reported in the governmental funds have already been reported in the statement of activities in prior years. | (5,942) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | 1,158,714 |
| 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. | 309,433 |
| 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. | (108,075) |
| Some expenses reported in the governmental funds have already been reported in the statement of activities in prior years. | 612 |
| Internal service funds are used by management to charge the costs of fleet acquisition to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities. | <u>73,084</u> |
| Change in net position of governmental activities (page 31) | <u>\$ 10,834,849</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, 2021

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance With Final Budget</u> |
|--|-------------------------|-------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 7,129,636 | \$ 7,529,636 | \$ 8,535,435 | \$ 1,005,799 |
| Licenses and permits | 149,500 | 149,500 | 341,570 | 192,070 |
| Intergovernmental | 1,791,400 | 1,791,400 | 808,693 | (982,707) |
| Charges for services | 1,122,750 | 1,122,750 | 1,402,198 | 279,448 |
| Fines | 151,000 | 151,000 | 144,981 | (6,019) |
| Investment earnings | 27,000 | 27,000 | 17,619 | (9,381) |
| Contributions | 12,500 | 12,500 | 13,840 | 1,340 |
| Other miscellaneous | 17,500 | 17,500 | 17,108 | (392) |
| Total revenues | <u>10,401,286</u> | <u>10,801,286</u> | <u>11,281,444</u> | <u>480,158</u> |
| Expenditures | | | | |
| General government: | | | | |
| Council | 177,350 | 177,350 | 155,194 | 22,156 |
| Municipal court | 308,100 | 308,100 | 284,087 | 24,013 |
| Manager | 373,450 | 373,450 | 364,595 | 8,855 |
| Finance | 704,800 | 704,800 | 694,827 | 9,973 |
| Attorney | 238,800 | 238,800 | 235,546 | 3,254 |
| Police | 77,000 | 77,000 | 77,278 | (278) |
| Fire | 104,000 | 104,000 | 76,860 | 27,140 |
| Engineering | 746,000 | 746,000 | 668,422 | 77,578 |
| Other - unclassified | 772,550 | 1,172,550 | 745,240 | 427,310 |
| Total general government | <u>3,502,050</u> | <u>3,902,050</u> | <u>3,302,049</u> | <u>600,001</u> |
| Security of persons and property: | | | | |
| Police | 4,758,450 | 4,822,150 | 4,498,785 | 323,365 |
| Jail | 340,000 | 340,000 | 223,025 | 116,975 |
| Fire | 171,000 | 171,000 | 170,952 | 48 |
| Other | 119,750 | 119,750 | 107,668 | 12,082 |
| Total security of persons and property | <u>5,389,200</u> | <u>5,452,900</u> | <u>5,000,430</u> | <u>452,470</u> |
| Transportation | 1,122,750 | 1,122,750 | 241,717 | 881,033 |
| Economic environment | 645,200 | 655,500 | 402,592 | 252,908 |
| Culture and recreation | 7,500 | 7,500 | 7,112 | 388 |
| Capital outlay | 40,500 | 40,500 | 42,632 | (2,132) |
| Total expenditures | <u>10,707,200</u> | <u>11,181,200</u> | <u>8,996,532</u> | <u>2,184,668</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(305,914)</u> | <u>(379,914)</u> | <u>2,284,912</u> | <u>2,664,826</u> |
| Other financing sources (uses) | | | | |
| Transfers in | 60,000 | 60,000 | 60,000 | - |
| Transfers out | (482,804) | (482,804) | (482,804) | - |
| Total other financing sources (uses) | <u>(422,804)</u> | <u>(422,804)</u> | <u>(422,804)</u> | <u>-</u> |
| Net change in fund balances budgetary basis | <u>(728,718)</u> | <u>(802,718)</u> | <u>1,862,108</u> | <u>2,664,826</u> |
| Reconciliation of budgetary/GAAP basis: | | | | |
| Basis difference (See note III.B.) | | | <u>244,262</u> | |
| Net change in fund balance GAAP basis | | | <u>2,106,370</u> | |
| Fund balance - beginning | | | <u>8,991,139</u> | |
| Fund balance - ending | | | <u>\$ 11,097,509</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, 2021

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance With Final Budget</u> |
|--|-------------------------|-------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Intergovernmental | \$ 10,910,000 | \$ 10,910,000 | \$ 6,213,724 | \$ (4,696,276) |
| Charges for services | 175,000 | 175,000 | 176,529 | 1,529 |
| Investment earnings | 1,000 | 1,000 | 19 | (981) |
| Miscellaneous | 1,550 | 1,550 | 2,182 | 632 |
| Total revenues | <u>11,087,550</u> | <u>11,087,550</u> | <u>6,392,454</u> | <u>(4,695,096)</u> |
| Expenditures | | | | |
| Transportation | - | - | 262 | (262) |
| Capital outlay | 11,425,000 | 11,425,000 | 7,377,099 | 4,047,901 |
| Debt Service: | | | | |
| Principal | 32,000 | 32,000 | - | 32,000 |
| Interest and bond issuance costs | 1,500 | 1,500 | 829 | 671 |
| Total expenditures | <u>11,458,500</u> | <u>11,458,500</u> | <u>7,378,190</u> | <u>4,080,310</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(370,950)</u> | <u>(370,950)</u> | <u>(985,736)</u> | <u>(614,786)</u> |
| Other financing sources (uses) | | | | |
| Transfers in | 370,950 | 370,950 | 370,950 | - |
| Total other financing sources (uses) | <u>370,950</u> | <u>370,950</u> | <u>370,950</u> | <u>-</u> |
| Net change in fund balance | - | - | (614,786) | (614,786) |
| Fund balance - beginning | 283,421 | 283,421 | 283,421 | - |
| Fund balance - ending | <u>\$ 283,421</u> | <u>\$ 283,421</u> | <u>\$ (331,365)</u> | <u>\$ (614,786)</u> |

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

City of Kelso
Statement of Net Position
Proprietary Funds
December 31, 2021

| | 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 | \$ 165,698 | \$ 11,608,782 | \$ 1,160,481 | \$ 12,934,961 | \$ 1,897,519 |
| Restricted cash, cash equivalents, and investments: | | | | | |
| Customer deposits | - | 245,309 | - | 245,309 | - |
| Unspent revenue bond proceeds | - | 2,838,753 | - | 2,838,753 | - |
| Accounts receivable | 317,631 | 1,555,130 | 158,069 | 2,030,830 | 280 |
| Due from other governments | - | 52,000 | - | 52,000 | - |
| Total current assets | <u>483,329</u> | <u>16,299,974</u> | <u>1,318,550</u> | <u>18,101,853</u> | <u>1,897,799</u> |
| Noncurrent assets: | | | | | |
| Capital Assets: | | | | | |
| Land | - | 28,712 | - | 28,712 | - |
| Buildings and structures | - | 16,072,243 | - | 16,072,243 | - |
| Improvements other than buildings | - | 29,558,799 | 1,307,160 | 30,865,959 | - |
| Machinery and equipment | - | 2,629,431 | - | 2,629,431 | 4,032,929 |
| Construction in progress | - | 1,018,530 | 10,158 | 1,028,688 | 52,804 |
| Less accumulated depreciation | - | (18,997,861) | (430,492) | (19,428,353) | (2,460,158) |
| Total capital assets (net of accumulated depreciation) | - | 30,309,854 | 886,826 | 31,196,680 | 1,625,575 |
| Net pension asset | - | 1,006,571 | 143,796 | 1,150,367 | - |
| Total noncurrent assets | <u>-</u> | <u>31,316,425</u> | <u>1,030,622</u> | <u>32,347,047</u> | <u>1,625,575</u> |
| Total Assets | <u>483,329</u> | <u>47,616,399</u> | <u>2,349,172</u> | <u>50,448,900</u> | <u>3,523,374</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | |
| Related to pensions | - | 144,386 | 20,627 | 165,013 | - |
| Related to asset retirement obligations | - | 301,600 | - | 301,600 | - |
| Total Deferred Outflows of Resources | <u>-</u> | <u>445,986</u> | <u>20,627</u> | <u>466,613</u> | <u>-</u> |

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

City of Kelso
Statement of Net Position
Proprietary Funds
December 31, 2021

| | 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 | 175,474 | 485,702 | 4,693 | 665,869 | - |
| Compensated absences | - | 21,058 | 1,103 | 22,161 | - |
| Customer deposits | - | 245,309 | - | 245,309 | - |
| Accrued interest payable | - | 26,201 | - | 26,201 | - |
| Unearned revenue | - | 54,563 | - | 54,563 | - |
| Current revenue bonds payable | - | 315,000 | - | 315,000 | - |
| Current portion notes payable | - | 334,565 | - | 334,565 | - |
| Total current liabilities | <u>175,474</u> | <u>1,482,398</u> | <u>5,796</u> | <u>1,663,668</u> | <u>-</u> |
| Noncurrent liabilities: | | | | | |
| Compensated absences | - | 63,174 | 3,309 | 66,483 | - |
| Revenue bonds payable | - | 5,292,493 | - | 5,292,493 | - |
| Notes payable | - | 3,314,646 | - | 3,314,646 | - |
| Net pension liability | - | 96,014 | 1,372 | 97,386 | - |
| Asset retirement obligations | - | 335,200 | - | 335,200 | - |
| Total noncurrent liabilities | <u>-</u> | <u>9,101,527</u> | <u>4,681</u> | <u>9,106,208</u> | <u>-</u> |
| Total Liabilities | <u>175,474</u> | <u>10,583,925</u> | <u>10,477</u> | <u>10,769,876</u> | <u>-</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Related to pensions | - | 1,067,885 | 152,555 | 1,220,440 | - |
| Total Deferred Inflows of Resources | <u>-</u> | <u>1,067,885</u> | <u>152,555</u> | <u>1,220,440</u> | <u>-</u> |
| NET POSITION | | | | | |
| Net investment in capital assets | - | 23,985,873 | 886,826 | 24,872,699 | 1,625,575 |
| Restricted for pensions | - | 83,072 | 11,868 | 94,940 | - |
| Unrestricted | 307,855 | 12,341,630 | 1,308,073 | 13,957,558 | 1,897,799 |
| Total net position | <u>\$ 307,855</u> | <u>\$ 36,410,575</u> | <u>\$ 2,206,767</u> | <u>38,925,197</u> | <u>\$ 3,523,374</u> |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds: | | | | <u>2,292,826</u> | |
| Net position of business-type activities | | | | <u>\$ 41,218,023</u> | |

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

City of Kelso
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2021

| | 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 | \$ 1,851,997 | \$ 10,305,207 | \$ 806,753 | \$ 12,963,957 | \$ 442,915 |
| Other operating revenue | 1,721 | 73,439 | 23,764 | 98,924 | 6,941 |
| Total operating revenues | <u>1,853,718</u> | <u>10,378,646</u> | <u>830,517</u> | <u>13,062,881</u> | <u>449,856</u> |
| Operating expenses: | | | | | |
| General operations | 938,897 | 3,209,618 | 426,437 | 4,574,952 | - |
| Contracted processing operations | 595,352 | 2,353,189 | - | 2,948,541 | - |
| Maintenance | 9,330 | 248,554 | 21,525 | 279,409 | - |
| Depreciation | - | 913,126 | 19,939 | 933,065 | 246,088 |
| Taxes | 286,304 | 1,367,720 | 13,162 | 1,667,186 | - |
| Total operating expenses | <u>1,829,883</u> | <u>8,092,207</u> | <u>481,063</u> | <u>10,403,153</u> | <u>246,088</u> |
| Operating income (loss) | <u>23,835</u> | <u>2,286,439</u> | <u>349,454</u> | <u>2,659,728</u> | <u>203,768</u> |
| Nonoperating revenues (expenses): | | | | | |
| Investment earnings | 97 | 6,903 | 343 | 7,343 | 914 |
| Intergovernmental | - | - | 33,067 | 33,067 | - |
| Other | - | 85,435 | 7,658 | 93,093 | - |
| Gain (loss) on capital asset disposition | - | - | - | - | (3,626) |
| Interest expense | - | (186,388) | - | (186,388) | - |
| Total nonoperating revenues (expenses) | <u>97</u> | <u>(94,050)</u> | <u>41,068</u> | <u>(52,885)</u> | <u>(2,712)</u> |
| Income (loss) before capital contributions and transfers | <u>23,932</u> | <u>2,192,389</u> | <u>390,522</u> | <u>2,606,843</u> | <u>201,056</u> |
| Capital contributions | - | 374,360 | - | 374,360 | - |
| Change in net position | <u>23,932</u> | <u>2,566,749</u> | <u>390,522</u> | <u>2,981,203</u> | <u>201,056</u> |
| Total net position - beginning | <u>283,923</u> | <u>33,843,826</u> | <u>1,816,245</u> | | <u>3,322,318</u> |
| Total net position - ending | <u>\$ 307,855</u> | <u>\$ 36,410,575</u> | <u>\$ 2,206,767</u> | | <u>\$ 3,523,374</u> |
| | | | | 127,972 | |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds: | | | | <u>\$ 3,109,175</u> | |
| Change in net position of business-type activities | | | | | |

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, 2021

| | Business-type Activities - Enterprise Funds | | | | |
|--|---|----------------------|---------------------|----------------------|---|
| | Major Funds | | Non-Major Fund | Totals | Equipment Reserve Internal Service Fund |
| | Solid Waste | Water- Sewer | Storm Water | | |
| Cash flows from operating activities | | | | | |
| Receipts from customers and users | \$ 1,856,567 | \$ 10,276,389 | \$ 812,947 | \$ 12,945,903 | \$ - |
| Receipts from other sources | 1,721 | 11,487 | 23,764 | 36,972 | - |
| Receipts from interfund services provided | - | 62,252 | - | 62,252 | 454,657 |
| Payments to suppliers and service providers | (1,722,564) | (5,258,574) | (206,748) | (7,187,886) | - |
| Payments to employees | (9,355) | (1,699,219) | (249,060) | (1,957,634) | - |
| Payments for interfund services used | (98,821) | (586,751) | (109,105) | (794,677) | - |
| Net cash provided (used) by operating activities | <u>27,548</u> | <u>2,805,584</u> | <u>271,798</u> | <u>3,104,930</u> | <u>454,657</u> |
| Cash flows from noncapital financing activities | | | | | |
| Operating grants received | - | 26,000 | 95,000 | 121,000 | - |
| Net cash provided (used) by noncapital financing activities | <u>-</u> | <u>26,000</u> | <u>95,000</u> | <u>121,000</u> | <u>-</u> |
| Cash flows from capital and related financing activities | | | | | |
| Proceeds from capital recovery fees | - | 85,435 | 7,658 | 93,093 | - |
| Proceeds from sale of capital assets | - | - | - | - | 5,747 |
| Acquisition and construction of capital assets | - | (743,845) | (10,158) | (754,003) | (164,216) |
| Principal paid on capital debt | - | (627,567) | - | (627,567) | - |
| Interest paid on capital debt | - | (167,452) | - | (167,452) | - |
| Capital grants received | - | 391,288 | - | 391,288 | - |
| Net cash provided (used) by capital financing activities | <u>-</u> | <u>(1,062,141)</u> | <u>(2,500)</u> | <u>(1,064,641)</u> | <u>(158,469)</u> |
| Cash flows from investing activities | | | | | |
| Interest received | 97 | 6,903 | 343 | 7,343 | 914 |
| Net cash provided (used) by investing activities | <u>97</u> | <u>6,903</u> | <u>343</u> | <u>7,343</u> | <u>914</u> |
| Net increase (decrease) in cash and cash equivalents | 27,645 | 1,776,346 | 364,641 | 2,168,632 | 297,102 |
| Cash and cash equivalents, January 1 | 138,053 | 12,916,498 | 795,840 | 13,850,391 | 1,600,417 |
| Cash and cash equivalents, December 31 | <u>\$ 165,698</u> | <u>\$ 14,692,844</u> | <u>\$ 1,160,481</u> | <u>\$ 16,019,023</u> | <u>\$ 1,897,519</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | | | | |
| Operating income (loss) | \$ 23,835 | \$ 2,286,439 | \$ 349,454 | \$ 2,659,728 | \$ 203,768 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | | |
| Depreciation expense | - | 913,126 | 19,939 | 933,065 | 246,088 |
| (Increase) decrease in accounts receivable | 4,570 | (102,218) | 6,194 | (91,454) | 4,801 |
| Increase (decrease) in customer deposits | - | 12,042 | - | 12,042 | - |
| Increase (decrease) in accounts payable | (857) | 72,988 | (24,465) | 47,666 | - |
| Increase (decrease) in compensated absences | - | (500) | (2,373) | (2,873) | - |
| Increase (decrease) in unearned revenues | - | (1,575) | - | (1,575) | - |
| Increase (decrease) in pension expense | - | (374,718) | (76,951) | (451,669) | - |
| Total adjustments | <u>3,713</u> | <u>519,145</u> | <u>(77,656)</u> | <u>445,202</u> | <u>250,889</u> |
| Net cash provided (used) by operating activities | <u>\$ 27,548</u> | <u>\$ 2,805,584</u> | <u>\$ 271,798</u> | <u>\$ 3,104,930</u> | <u>\$ 454,657</u> |

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, 2021

| | Airport Custodial Fund |
|-------------------------|---------------------------------------|
| Assets | |
| Cash & cash equivalents | \$ 858,928 |
| Receivables | 14,607 |
| Other assets | 45,503 |
| Total assets | 919,038 |
| Liabilities | |
| Accounts payable | 33,817 |
| Other Liabilities | 218,189 |
| Total liabilities | 252,006 |
| Net Position | |
| Restricted for: | |
| Regional airport | 667,032 |
| Total net position | \$ 667,032 |

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, 2021

| | <u>Airport Custodial Fund</u> |
|--|--|
| Additions | |
| Collections from regional airport tenants | \$ 194,196 |
| Governmental grants and subsidies received | 314,403 |
| Miscellaneous | 7,029 |
| Total contributions | <u>515,628</u> |
| Investment earnings: | |
| Interest | 125 |
| Total investment earnings | <u>125</u> |
| Total additions | <u>515,753</u> |
| Deductions | |
| Payments to vendors for airport operations | 448,859 |
| Total deductions | <u>448,859</u> |
| Change in net position | 66,894 |
| Net position - beginning | <u>600,138</u> |
| Net position - ending | <u><u>\$ 667,032</u></u> |

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

CITY OF KELSO
Notes to the Financial Statements
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I. Summary of significant accounting policies

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

A. Reporting Entity

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

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

B. Government-wide and fund financial statements

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

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

CITY OF KELSO
Notes to the Financial Statements
December 31, 2021

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 and custodial 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 120 days of year-end). Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

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

CITY OF KELSO
Notes to the Financial Statements
December 31, 2021

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 *custodial fund* reports assets held for the Southwest Washington Regional Airport.

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 utility functions 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 stormwater drainage enterprise fund and the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Employee retirement systems and pension plans

For purposes of measuring the net pension liability, net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all State sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including

CITY OF KELSO
Notes to the Financial Statements
December 31, 2021

refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For purposes of calculating the restricted net position related to the net pension asset, the City includes the net pension asset and the related deferred outflows and deferred inflows.

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

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 Measured at Amortized Cost

As of December 31, 2021, the City has \$14,110,646 invested in the Washington State Treasurer's Investment Pool. These investments are reported at amortized cost. The State Treasurer's Investment Pool operates in accordance with appropriate State laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. The portfolio is invested in a manner that meets the maturity, quality, diversification, and liquidity requirements set forth by the GASB for external investment pools who wish to measure all of its investments at amortized cost.

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

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

As of December 31, 2021, all of the City's Investments were in the Washington State Treasurer's Investment Pool.

CITY OF KELSO
Notes to the Financial Statements
December 31, 2021

2. Receivables and payables

Customer accounts receivable consist of amounts owed by private individuals or organizations for goods and services provided, as well as, court ordered fines. Taxes receivable consist of property, sales, and utility taxes and related interest and penalties (See Note V.B.). Special assessments consist of assessments which are recorded when levied and are liens against the property benefited. There are no delinquent special assessments as of December 31, 2021.

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

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

3. Inventories

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

4. Restricted assets

Certain proceeds of the City’s water/sewer fund revenue bonds, as well as, certain proceeds received from customers deposits for water service are classified as restricted assets.

The restricted assets of the enterprise funds consist of \$245,309 which is cash and investments held for customer deposit refunds and \$2,838,753 which represents unspent bond proceeds earmarked for infrastructure upgrades in the water/sewer fund.

5. Capital assets

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

CITY OF KELSO
Notes to the Financial Statements
December 31, 2021

purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

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

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

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

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

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

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

CITY OF KELSO
Notes to the Financial Statements
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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 assets that applies to future periods and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then.

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

7. *Compensated absences*

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

8. *Long-term obligations*

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

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

9. *Net position/Fund balance*

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

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

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

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

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

CITY OF KELSO
Notes to the Financial Statements
December 31, 2021

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 \$(4,545,969) difference are as follows:

| | |
|--|--------------------------|
| Bonds payable | \$(3,665,000) |
| Deferred charges/loss on issuance (to be amortized over life of debt) | 23,249 |
| Premium on G.O. Bond (to be amortized over life of debt) | (248,547) |
| Accrued interest payable | (10,892) |
| Compensated absences | (543,134) |
| Net asset retirement obligation | <u>(101,645)</u> |
| Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i> | <u>\$(4,545,969)</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 \$76,288,269 difference are as follows:

| | |
|--|-------------------------|
| Capital assets used in governmental fund operations | \$104,137,223 |
| Less: Accumulated depreciation | <u>(27,848,954)</u> |
| Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i> | <u>\$76,288,269</u> |

Another element of that reconciliation explains that “Net Pension and Total OPEB Assets or Liabilities are not considered to represent a financial resource or liability and, therefore, are not reported in the funds. The details of this \$(2,820,527) difference are as follows:

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Notes to the Financial Statements
December 31, 2021

| | |
|--|--------------------------|
| Total OPEB liability | \$(6,046,108) |
| Net pension liability | (176,940) |
| Net pension asset | 7,436,241 |
| Deferred inflows related to pensions | (4,764,552) |
| Deferred outflows related to OPEB | 48,484 |
| Deferred outflows related to pensions | <u>682,348</u> |
| Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i> | <u>\$(2,820,527)</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 \$1,316,731 difference are as follows:

| | |
|--|-------------------------|
| Property taxes receivable | \$ 53,644 |
| Court ordered fines receivable – net | 104,403 |
| Grants receivable | <u>1,158,714</u> |
| Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i> | <u>\$ 1,316,761</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 \$6,412,486 difference are as follows:

| | |
|--|-------------------------|
| Capital outlay | \$ 7,530,925 |
| Depreciation expense | <u>(1,118,439)</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>\$ 6,412,486</u> |

Another element of that reconciliation states that “Some revenues/expenditures reported in the governmental funds have already been reported in the statement of activities in prior years.” The details of this \$(5,942) difference are as follows:

CITY OF KELSO
Notes to the Financial Statements
December 31, 2021

| | |
|--|--------------------|
| Property tax receivable | \$ 429 |
| Court ordered fines | <u>(6,371)</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>\$ (5,942)</u> |

Another element of that reconciliation states that “Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this \$1,158,448 difference are as follows:

| | |
|--|---------------------|
| Grants receivable | \$ <u>1,158,448</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>\$ 1,158,448</u> |

Another element of that reconciliation states that “The issuance of long-term debt (e.g., bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$309,433 difference are as follows:

| | |
|--|-------------------|
| Principal repayments general obligation debt | \$ 295,000 |
| Amortization of gain on the refunding of a bond | (3,321) |
| Amortization of bond premium | <u>17,754</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>\$ 309,433</u> |

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$(108,075) difference are as follows:

| | |
|--|---------------------|
| Compensated absences | \$ (6,429) |
| Amortization of Asset Retirement Obligation | <u>(101,646)</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>\$ (108,075)</u> |

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Notes to the Financial Statements
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III. Stewardship, compliance, and accountability

A. Budgetary information

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

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 2021 budget was amended two times. Budget amounts shown in the fund financial statements include the original budget amounts plus the revised budget amounts approved by the City Council. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City of Kelso.

B. Budgetary/GAAP basis reconciliation

In accordance with GASB Statement No. 54, the City reclassified certain funds within the governmental fund types for reporting purposes. For budgetary and internal reporting, the City classifies its street, library, parks, façade, and Kelso station funds as special revenue funds. (See pages 100-104 for budget-to-actual comparisons). 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:

CITY OF KELSO
Notes to the Financial Statements
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| | |
|-------------------------------------|-------------------|
| Revenues: | |
| Street fund | \$ 787,723 |
| Library fund | 534,734 |
| Kelso Station fund | 73,011 |
| Parks Fund | 538,293 |
| Facade Fund | - |
| | |
| Expenditures: | |
| Street fund | (704,334) |
| Library fund | (440,282) |
| Kelso Station fund | (55,875) |
| Parks Fund | (489,008) |
| Facade Fund | - |
| | |
| Total General fund Basis difference | <u>\$ 244,262</u> |

IV. Detailed notes on all funds

A. Deposits and investments

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

As of December 31, 2021 the City had the following deposits and investments:

| <u>Investment type</u> | <u>Maturities</u> | <u>Fair Value</u> |
|--|-------------------|----------------------|
| Cash | | |
| FDIC or WPDPC insured deposits | | \$ 18,696,938 |
| In-transit items | | (285,505) |
| Held for Custodial Fund | | (739,728) |
| Petty cash on hand | | <u>6,050</u> |
| Total Cash | | <u>17,677,755</u> |
| | | |
| Investments | | |
| State Treasurer's investment pool | < 90 days | 14,229,846 |
| Held for Custodial Fund | < 90 days | <u>(119,200)</u> |
| Total investments | | <u>14,110,646</u> |
| Total Cash, Cash Equivalents, Investments | | <u>\$ 31,788,401</u> |

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Interest Rate Risk

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

Credit Risk

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

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

Custodial Credit Risk – Investments

For investments, this is the risk that in the event of the failure of a depository financial institution, the City would not be able to recover deposits 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 2021, the City's investments were in the Washington State Local Government Investment Pool.

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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Notes to the Financial Statements
December 31, 2021

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 | \$1,849 | \$ - | \$ - | \$ - | \$ 64 | \$ - | \$1,913 |
| Accounts | 214 | - | 318 | 1,555 | 18 | 158 | 2,263 |
| Special Assessments | - | 5 | - | - | - | - | 5 |
| Intergovernmental | 46 | 1,563 | - | 52 | 11 | - | 1,672 |
| Long-term notes | - | - | - | - | 299 | - | 299 |
| Net total receivables | <u>\$2,109</u> | <u>\$1,568</u> | <u>\$ 318</u> | <u>\$1,607</u> | <u>\$ 392</u> | <u>\$ 158</u> | <u>\$6,152</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) | \$ 53,644 | \$ - |
| Delinquent Court ordered fines receivable (general fund) | 104,403 | - |
| Grant received (arterial street fund) | 1,158,714 | - |
| Grant received (general fund) | - | 1,734,783 |
| Special assessments not due yet (arterial street fund) | - | 5,388 |
| Prepaid lease (non-major fund) | - | 1,766 |
| Total deferred/unearned revenue for governmental funds | <u>\$1,316,761</u> | <u>\$ 1,741,937</u> |

CITY OF KELSO
Notes to the Financial Statements
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C. Capital assets

Capital asset activity for the year ended December 31, 2021, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|---------------------|---------------------|---------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$23,136,179 | \$ - | \$ - | \$23,136,179 |
| Construction in progress | <u>8,286,179</u> | <u>7,541,097</u> | <u>1,254,011</u> | <u>14,573,265</u> |
| Total capital assets, not being depreciated | 31,422,358 | 7,541,097 | 1,254,011 | 37,709,444 |
| Capital assets, being depreciated: | | | | |
| Buildings | 12,065,913 | - | - | 12,065,913 |
| Improvements other than buildings | 8,891,890 | 1,254,011 | - | 10,145,901 |
| Machinery and equipment | 2,735,732 | 154,044 | 70,343 | 2,819,433 |
| Infrastructure | <u>43,861,208</u> | <u>-</u> | <u>279,799</u> | <u>43,581,409</u> |
| Total capital assets being depreciated | <u>67,554,743</u> | <u>1,408,055</u> | <u>350,142</u> | <u>68,612,656</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 5,254,065 | 156,579 | - | 5,410,644 |
| Improvements other than buildings | 3,328,721 | 191,624 | - | 3,520,345 |
| Machinery and equipment | 1,737,829 | 185,596 | 60,970 | 1,862,455 |
| Infrastructure | <u>18,097,172</u> | <u>729,962</u> | <u>279,799</u> | <u>18,547,335</u> |
| Total accumulated depreciation | <u>28,417,787</u> | <u>1,263,761</u> | <u>340,769</u> | <u>29,340,779</u> |
| Total capital assets, being depreciated, net | <u>39,136,956</u> | <u>144,294</u> | <u>9,373</u> | <u>39,271,877</u> |
| Governmental activities capital assets, net | <u>\$70,559,314</u> | <u>\$ 7,685,391</u> | <u>\$ 1,263,384</u> | <u>\$76,981,321</u> |
| | | | | |
| | Beginning Balance | Increases | Decreases | Ending Balance |
| Business-type activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 28,712 | \$ - | \$ - | \$ 28,712 |
| Construction in progress | <u>190,513</u> | <u>838,175</u> | <u>-</u> | <u>1,028,688</u> |
| Total capital assets, not being depreciated | <u>219,225</u> | <u>838,175</u> | <u>-</u> | <u>1,057,400</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and structures | 16,072,243 | - | - | 16,072,243 |
| Improvements other than buildings | 30,865,959 | - | - | 30,865,959 |
| Machinery and equipment | <u>4,530,287</u> | <u>-</u> | <u>-</u> | <u>4,530,287</u> |
| Total capital assets being depreciated | <u>51,468,489</u> | <u>-</u> | <u>-</u> | <u>51,468,489</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and structures | 3,509,573 | 321,378 | - | 3,830,951 |
| Improvements other than buildings | 13,298,273 | 512,802 | - | 13,811,075 |
| Machinery and equipment | <u>2,588,609</u> | <u>166,051</u> | <u>-</u> | <u>2,754,660</u> |
| Total accumulated depreciation | <u>19,396,455</u> | <u>1,000,231</u> | <u>-</u> | <u>20,396,686</u> |
| Total capital assets, being depreciated, net | <u>32,072,034</u> | <u>(1,000,231)</u> | <u>-</u> | <u>31,071,803</u> |
| Business-type activities capital assets, net | <u>\$32,291,259</u> | <u>\$ (162,056)</u> | <u>\$ -</u> | <u>\$32,129,203</u> |

CITY OF KELSO
Notes to the Financial Statements
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Depreciation expense was charged to functions/programs of the City as follows:

| | |
|---|---------------------------|
| Governmental activities: | |
| General government | \$ 88,380 |
| Security of persons and property | 10,763 |
| Transportation | 832,796 |
| Culture and recreation | 186,500 |
| Capital assets held by the City's internal service funds are charged to various functions based on usage of assets. | <u>145,322</u> |
| Total depreciation expense – governmental activities | <u>\$1,263,761</u> |
| Business-type activities: | |
| Water | \$ 577,566 |
| Sewer | 301,960 |
| Storm water drainage | 19,939 |
| Capital assets held by the City's internal service funds are charged to various functions based on usage of assets. | <u>100,766</u> |
| Total depreciation expense – business-type activities | <u>\$1,000,231</u> |

D. Interfund receivables, payables, and transfers

The composition of interfund balances as of December 31, 2021 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 | \$ 632,000 | Roadway Improvements |

Advances to/from other funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> | <u>Purpose</u> |
|------------------------|---------------------|---------------|----------------------|
| Nonmajor govt. | Arterial Street | 129,004 | Roadway Improvements |

Transfers:

| <u>Transfer out</u> | <u>Transfer in</u> | <u>Amount</u> | <u>Purpose</u> |
|---------------------|--------------------|----------------|----------------------|
| General fund | Arterial Street | 370,950 | Roadway Improvements |
| General fund | Nonmajor govt. | <u>111,854</u> | Routine operating |
| Sub-Total | | 482,804 | |

| | | | |
|----------------|----------------|----------------|--------------------|
| Nonmajor govt. | General Fund | 60,000 | Nuisance abatement |
| | Nonmajor govt. | 20,000 | Routine operating |
| | Nonmajor govt. | <u>433,100</u> | Debt service |

Sub-Total **513,100**

Total **\$ 995,904**

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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 \$5,910,000. General obligation bonds currently outstanding are as follows:

| <u>Purpose</u> | <u>Interest Rates</u> | <u>Amount</u> |
|--|-----------------------|--------------------|
| Governmental activities – City Hall construction | .60% – 3.80% | \$1,280,000 |
| Governmental activities – Roadway improvements | 2.00% – 4.00% | <u>2,385,000</u> |
| | | <u>\$3,665,000</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> |
| 2022 | \$ 305,000 | \$ 130,698 |
| 2023 | 310,000 | 122,535 |
| 2024 | 320,000 | 114,210 |
| 2025 | 335,000 | 104,660 |
| 2026 | 335,000 | 94,630 |
| 2027-2031 | 1,250,000 | 289,790 |
| 2032-2036 | <u>810,000</u> | <u>82,600</u> |
| Total | <u>\$3,665,000</u> | <u>\$ 939,123</u> |

The City of Kelso has been awarded two Drinking Water State Revolving Fund Loans (DWSRF) in the amount of \$6,029,850 for the replacement of a reservoir and the addition of a transmission line associated with the reservoir and for the reconstruction of the City's water treatment plant.

Government loans outstanding at year-end are as follows:

| <u>Issuance</u> | <u>Purpose</u> | <u>Interest Rate</u> | <u>Amount</u> |
|--------------------------|--------------------------|----------------------|--------------------|
| 2001 DWSRF – \$1,500,000 | Business-type activities | 1.50% | \$ 79,592 |
| 2016 DWSRF – \$4,529,850 | Business-type activities | 1.50% | <u>3,569,619</u> |
| Total government loans | | | <u>\$3,649,211</u> |

CITY OF KELSO
Notes to the Financial Statements
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Annual debt service requirements to maturity for governmental loans are as follows:

| Year ending December 31 | Business-type Activities | |
|----------------------------|--------------------------|-------------------|
| | Principal | Interest |
| 2022 | 334,565 | 54,738 |
| 2023 | 254,973 | 49,720 |
| 2024 | 254,973 | 45,895 |
| 2025 | 254,973 | 42,071 |
| 2026 | 254,973 | 38,246 |
| 2027-2031 | 1,274,863 | 133,861 |
| 2032-2036 | <u>1,019,891</u> | <u>38,245</u> |
| Total | <u>\$3,649,211</u> | <u>\$ 402,776</u> |

Revenue bonds

The City also issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. The original amount of revenue bonds issued in prior years was \$5,405,000. Water/Sewer revenue bond covenants require that revenue available for debt service (defined as operating and nonoperating revenues less expenses requiring payment to outside entities) exceed the annual debt payment of both principal and interest by a ratio of 1.25 to 1. The City remains in compliance with that provision with a current ratio of 6.84 to 1 coverage. See page 131.

Revenue bonds outstanding at year end are as follows:

| <u>Purpose</u> | <u>Interest Rates</u> | <u>Amount</u> |
|--|-----------------------|--------------------|
| Water/Sewer Refunding and Improvements | 2.25 - 3.00% | <u>\$5,095,000</u> |
| | | <u>\$5,095,000</u> |

Revenue bond debt service requirements to maturity are as follows:

| Year ending December 31 | Business-type Activities | |
|----------------------------|--------------------------|--------------------|
| | Principal | Interest |
| 2022 | \$ 315,000 | \$ 150,188 |
| 2023 | 325,000 | 140,737 |
| 2024 | 340,000 | 130,988 |
| 2025 | 345,000 | 120,787 |
| 2026 | 360,000 | 110,438 |
| 2027-2031 | 1,945,000 | 384,488 |
| 2032-2036 | 775,000 | 161,437 |
| 2037-2041 | <u>690,000</u> | <u>43,162</u> |
| Total | <u>\$5,095,000</u> | <u>\$1,242,225</u> |

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Notes to the Financial Statements
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Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2021, was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|---------------------------------|------------------------------|-------------------|---------------------|---------------------------|--------------------------------|
| Governmental activities: | | | | | |
| General obligation bonds | \$ 3,960,000 | \$ - | \$ 295,000 | \$ 3,665,000 | \$ 305,000 |
| G.O. bond premium | 266,301 | - | 17,754 | 248,547 | - |
| Compensated absences | 536,705 | 543,134 | 536,705 | 543,134 | 135,784 |
| Net Pension liability | 655,056 | - | 478,116 | 176,940 | - |
| Total OPEB liability | 5,916,821 | 416,323 | 287,036 | 6,046,108 | 126,000 |
| Asset retirement obligations | <u>203,291</u> | <u>-</u> | <u>-</u> | <u>203,291</u> | <u>-</u> |
| Governmental activity | | | | | |
| Long-term liabilities | <u>\$11,538,174</u> | <u>\$ 959,457</u> | <u>\$1,614,611</u> | <u>\$10,883,020</u> | <u>\$ 566,784</u> |
| | | | | | |
| Revenue bonds | \$ 5,405,000 | \$ - | \$ 310,000 | \$ 5,095,000 | \$ 315,000 |
| Revenue bond premium | 539,585 | - | 27,092 | 512,493 | - |
| Drinking Water State | | | | | |
| Revolving Fund | 3,966,778 | - | 317,567 | 3,649,211 | 334,565 |
| Compensated absences | 91,517 | 88,644 | 91,517 | 88,644 | 22,161 |
| Net Pension liability | 455,208 | - | 357,822 | 97,386 | - |
| Asset retirement obligations | <u>235,200</u> | <u>100,000</u> | <u>-</u> | <u>335,200</u> | <u>-</u> |
| Business-type activity | | | | | |
| Long-term liabilities | <u>\$10,693,288</u> | <u>\$ 188,644</u> | <u>\$ 1,103,998</u> | <u>\$ 9,777,934</u> | <u>\$ 671,726</u> |

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

Other Debt Disclosures

The City recognizes a liability relative to GASB Statement No. 83 pertaining to the eventual disposition of underground fuel storage tanks located at the Southwest Washington Regional Airport and various sewage treatment plants throughout the City. The City has also recognized a liability for the eventual disposition of one of its wells. These obligations, imposed by the Washington State Department of Ecology under the requirements of WAC 173-360A-0810, were estimated through consulting professionals and or the City Engineer. The remaining useful life of these asset/obligations range from 1 to 10 years and there are no legally required funding or assurance provisions associated with the obligations. As a result, a liability of \$335,200 has been recorded in the proprietary fund financial statements and a liability of \$538,491 has been recorded in the government-wide financial statements.

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V. Other information

A. Risk management

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

Washington Cities Insurance Authority

The City of Kelso is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 166 members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices, prior wrongful acts, and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$400 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

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

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

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

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

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

Association of Washington Cities Employee Benefit Trust Health Care Program

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

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

As of December 31, 2021, 262 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.

In April 2020, the Board of Trustees adopted a large employer policy, requiring newly enrolling groups with 600 or more employees to submit medical claims experience data in order to receive a quote for medical coverage. Outside of this, the AWC Trust HCP pools claims without regard to individual member experience. The pool is

CITY OF KELSO
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actuarially rated each year with the assumption of projected claims run-out for all current members.

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

Participating employers pay monthly premiums to the AWC Trust HCP. The City's contribution to the Trust for the year ended December 31, 2021 was \$427,093. The AWC Trust HCP is responsible for payment of all covered claims. In 2020, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Commencement Bay Risk Management, and Kaiser ISL at \$1 million with Companion Life through Intermediary Insurance Services. The aggregate policy is for 200% of expected medical claims.

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

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

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The accounting records of the AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor’s office under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board (“GASB”). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for fiscal year ending December 31, 2018. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110-WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor’s office.

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:

| | |
|------|----------|
| 2021 | \$11,743 |
| 2020 | \$16,798 |
| 2019 | \$ 3,682 |

B. Property Taxes

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

Property Tax Calendar

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

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

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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 2021 was \$1.4683 per \$1,000 on an assessed valuation of \$1,095,923,749 for a total regular levy of \$1,609,180.

C. COVID-19 Pandemic

In February, 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions.

Because of the pandemic the City has realized reductions in admissions, lodging, and fuel taxes, as well as interest from investments. However, these reductions were not substantial in 2021 and were offset from business and sales taxes received due to the above normal construction activity that occurred within the City in 2021.

At this time, the full extent of any future financial impact on the City is unknown.

D. Contingent liabilities

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

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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.

E. Joint Municipal Utility Services Authority

Three Rivers Regional Waste Water Authority

The City of Kelso entered into an interlocal agreement with Cowlitz County, the City of Longview and Beacon Hill Sewer District in 1996 to form the Three Rivers Regional Waste Water Authority (TRRWA). The TRRWA is governed by a four-member board, one from each entity, and was established to provide sewage treatment services to the citizenry of the respective participating entities. Financing of the central sewage facility is funded based on each participant's proportionate share of flow to the facility along with additional funds forwarded from the participants as system development charges are assessed to new customers. During 2021, The City of Kelso paid TRRWA a total of \$2,348,499. This agreement may not be terminated as long as there are debt obligations of the TRRWA. Upon termination, each participant's interest in the net position shall be equal to their proportionate share of payments over the previous 12 calendar months. The City does not have an equity interest in the TRRWA beyond the termination agreement. Financial statements for the TRRWA can be obtained from the City of Longview at, 1525 Broadway, Longview, WA 98632.

F. Joint Venture

Southwest Washington Regional Airport Board

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

The Board formulates its preliminary annual budget and submits it to each participating jurisdiction prior to August 1, of each year. Estimated expenses for maintenance and operations, repairs and replacements to existing facilities, capital projects, and debt service are netted against estimated airport operating revenues to determine the amount of annual subsidy required by the participating jurisdictions. Payments made to the airport by the City in 2021, were \$76,000.

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

As of December 31, 2021, the City’s ongoing financial responsibility is minimal. In addition, the airport has no outstanding long-term obligations and is not accumulating significant resources or experiencing fiscal stress that would cause additional material financial benefit or burden on the City in the future. The airport does not issue stand-alone financial statements.

G. Related Party

In January, 2019, the Cowlitz 911 Public Authority was formed to facilitate the public function of providing 911 emergency and non-emergency communications and dispatch services including an emergency communications system, and perform other system related functions. Representatives from the cities of Longview and Kelso, Longview police and fire, Cowlitz 2 Fire and Rescue, Cowlitz County Sheriff, a county commissioner, and representatives from small fire and police agencies make up the nine-member Board of Directors that oversee the center. The City of Kelso contributed \$195,787 toward the costs of services provided by Cowlitz 911 in 2021. Financial statements for Cowlitz 911 may be obtained by inquiry through the Cowlitz County Auditor’s Office at 207 North Fourth Avenue, Kelso, WA 98626.

H. Other Post Employment Benefits (OPEB)

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

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of the GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for the year 2021:

| <u>Aggregate Pension Amounts – All Plans</u> | |
|--|----------------|
| OPEB liabilities | \$ (6,046,108) |
| Deferred outflows of resources | \$ 48,484 |
| OPEB expenditures | \$ 234,099 |

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 retirees. As of December 31, 2021 there are 12 LEOFF 1 retirees covered by the benefit terms. There are no active employees

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or inactive employees not receiving benefits covered under this plan. This plan was closed to new entrants on October 1, 1977.

Benefits provided. The City reimburses one hundred percent of the amount of validated claims for medical and hospitalization costs incurred by retirees. State statute provides that the City's responsibility for medical payments of LEOFF 1 retirees is secondary to any other coverage retirees receive or are eligible to receive. Therefore, upon reaching the eligible age for Medicare, the City requires the retirees to apply for and utilize Medicare Part B coverage.

Funding Policy. Employer contributions are financed on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust. Expenditures for post-retirement health care benefits are recognized as retirees report claims. During the year, expenditures of \$93,938 were recognized for post-retirement health care.

Total OPEB Liability. The City has elected to calculate the total OPEB liability using the alternative measurement method permitted by GASB Statement 75 for employers with plans that have fewer than one hundred total plan members. The City's total OPEB liability of \$6,046,108 was measured as of June 30, 2021, and was determined using the entry age valuation method on that date.

Valuation assumptions and other inputs. The total OPEB liability in the June 30, 2021 valuation was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified. Unless noted otherwise, assumptions and inputs are consistent with the 2020 LEOFF 1 OPEB Actuarial Valuation Report published by the Washington State Actuary's Office:

- **Inflation:** 2.75 percent
- **Discount rate:** 2.16 percent
- **Healthcare cost trend rates:** Initial medical costs rate is approximately 5.3% and trends down to about 5.0% in the 2020's. Long-term care is 4.5%. Medicare Part B premiums is approximately 5.0%, varies by year.

A 2.75% general inflation rate was used based on the CPI for Urban Wage Earners and Clerical Workers, Seattle-Tacoma-Bremerton, WA – All Items.

The discount rate is based on the Bond Buyer General Obligation 20-Bond Municipal Index.

Mortality rates were based on the RP-2000 Mortality Table for males with adjustments for mortality improvements based on Scale BB.

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Sensitivity of the Total OPEB Liability

Healthcare Cost Trend Rate. The following presents the total OPEB liability of the City of Kelso calculated using the current healthcare cost trend rate of 5.3 percent, as well as what the OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage point lower (4.3%) or 1-percentage point higher (6.3%) than the current rate.

| | 1% Decrease (4.3%) | Current Healthcare Cost Trend Rate (5.3%) | 1% Increase (6.3%) |
|----------------------|--------------------------|--|--------------------------|
| Total OPEB Liability | \$5,474,435 | \$6,046,108 | \$6,706,672 |

Discount Rate. The following presents the total OPEB liability of the City of Kelso calculated using the current discount rate of 2.16 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (1.16%) or 1-percentage point higher (3.16%) than the current rate.

| | 1% Decrease (1.16%) | Current Discount Rate (2.16%) | 1% Increase (3.16%) |
|----------------------|---------------------------|-------------------------------------|---------------------------|
| Total OPEB Liability | \$6,760,557 | \$6,046,108 | \$5,443,363 |

Change in the Total OPEB Liability

| | |
|--|-------------------------|
| | Total OPEB Liability |
| Balance at 6/30/2020 | <u>\$ 5,916,821</u> |
| Changes for the year: | |
| Interest cost | 127,607 |
| Changes in Experience Data and Assumptions | 288,716 |
| Estimated Benefit payments | <u>(287,036)</u> |
| Net changes | <u>129,287</u> |
| Balance at 6/30/2021 | <u>\$ 6,046,108</u> |

Changes in experience data and assumptions reflect a change in the discount rate from 3.87 percent in 2018 to 2.21 percent in 2020 and 2.16 percent in 2021. In addition, Recent federal legislation H.R. 1865, also referred to as the Further Consolidations Appropriations Act of 2020, repealed the excise or "Cadillac" tax from the Patient Protection and Affordable Care Act. It is estimated that the exclusion of the excise tax will on average reduce OPEB liabilities by roughly 6 percent.

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Deferred outflows of resources of \$48,484 resulting from payments subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended December 31, 2022.

I. Employee retirement systems and pension plans

The following table represents the aggregate pension amounts for all plans for the year 2021:

| <u>Aggregate Pension Amounts – All Plans</u> | |
|--|----------------|
| Pension liabilities | \$ (274,326) |
| Pension assets | \$ 8,586,608 |
| Deferred outflows of resources | \$ 847,361 |
| Deferred inflows of resources | \$ (5,984,992) |
| Pension expense/expenditures | \$ (1,398,775) |

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

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benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the State Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

| PERS Plan 1 | | |
|-----------------------------------|-----------------|-----------------|
| Actual Contribution Rates: | Employer | Employee |
| January – June 2021 | | |
| PERS Plan 1 | 7.92% | 6.00% |
| PERS Plan 1 UAAL | 4.76% | - |
| Administrative Fee | .18% | - |
| Total | 12.97% | 6.00% |
| July – December 2021 | | |
| PERS Plan 1 | 10.07% | 6.00% |
| Administrative Fee | .18% | - |
| Total | 10.25% | 6.00% |

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

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65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the State Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

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| PERS Plan 2/3 | | |
|-----------------------------------|---------------------|-------------------|
| Actual Contribution Rates: | Employer 2/3 | Employee 2 |
| January – June 2021 | | |
| PERS Plan 2/3 | 7.92% | 7.90% |
| PERS Plan 1 UAAL | 4.87% | - |
| Administrative Fee | .18% | - |
| Employee PERS Plan 3 | | Varies |
| Total | 12.97% | 7.90% |
| July – December 2021 | | |
| PERS Plan 2/3 | 6.36% | 6.36% |
| PERS Plan 1 UAAL | 3.71% | - |
| Administrative Fee | .18% | - |
| Employee PERS Plan 3 | | Varies |
| Total | 10.25% | 6.36% |

The City’s actual plan contributions were \$142,423 to PERS Plan 1 and \$237,013 to PERS Plan 2/3 for the year ended December 31, 2021.

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

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

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

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

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

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan 1 had no required

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employer or employee contributions for fiscal year 2021. Employers paid only the administrative expense of 0.18 percent of covered payroll.

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

Contributions

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

Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and state contributions on the LEOFF 2 basic salary earned for those services. The state contribution rate (expressed as a percentage of covered payroll) was 3.41% in 2021.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

| LEOFF Plan 2 | | |
|-----------------------------------|-----------------|-----------------|
| Actual Contribution Rates: | Employer | Employee |
| January – June 2021 | | |
| State and local governments | 5.15% | 8.59% |
| Administrative Fee | .18% | - |
| Total | 5.33% | 8.59% |
| July – December 2021 | | |
| January – June 2021 | 5.12% | 8.53% |
| Administrative Fee | .18% | - |
| Total | 5.30% | 8.53% |

The City's actual contributions to the plan were \$140,215 for the year ended December 31, 2021.

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The Legislature, by means of a special funding arrangement, appropriates money from the State General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the State constitution and could be changed by statute. For the State fiscal year ending June 30, 2021, the State contributed \$78,170,320 to LEOFF Plan 2. The amount recognized by the City as its proportionate of this amount is \$97,656.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2021 with a valuation date of June 30, 2020. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Experience Study* and the *2019 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2020 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2021. Plan liabilities were rolled forward from June 30, 2020, to June 30, 2021, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were no changes in assumptions since the last valuation. There were changes in methods since the last valuation.

- For purposes of the June 30, 2020 Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability measures as of the valuation date. See high-level summary

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below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.

- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020, assets by relying on the fiscal year end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020. OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2021, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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| Asset Class | Target Allocation | % Long-Term Expected Real Rate of Return Arithmetic |
|-----------------|-------------------|---|
| Fixed Income | 20% | 2.20% |
| Tangible Assets | 7% | 5.10% |
| Real Estate | 18% | 5.80% |
| Global Equity | 32% | 6.30% |
| Private Equity | 23% | 9.30% |
| | 100% | |

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the City's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.4 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

| | 1% Decrease (6.4%) | Current Discount Rate (7.4%) | 1% Increase (8.4%) |
|----------|-----------------------|------------------------------------|-----------------------|
| PERS 1 | \$ 467,329 | \$ 274,326 | \$ 106,007 |
| PERS 2/3 | (819,293) | (2,875,917) | (4,569,547) |
| LEOFF 1 | (1,170,252) | (1,299,898) | (1,412,064) |
| LEOFF 2 | (2,781,449) | (4,410,793) | (5,744,901) |

Pension Plan Fiduciary Net Position

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

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

At June 30, 2021, the City reported a total pension liability of \$274,326 for its proportionate share of the net pension liabilities as follows:

| | Liability (or Asset) |
|----------|----------------------|
| PERS 1 | \$ 274,326 |
| PERS 2/3 | \$ (2,875,917) |
| LEOFF 1 | \$ (1,299,898) |
| LEOFF 2 | \$ (4,410,793) |

The amount of the assets reported above for the LEOFF Plan's reflect reductions for State pension support provided to the City. The amount recognized by the City as its

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proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the City were as follows:

| | LEOFF 1 Asset |
|---|-------------------------------|
| LEOFF 1 – employer’s proportionate share | \$ (1,299,898) |
| LEOFF 1 – State’s proportionate share of the net pension liability/(asset) associated with the employer | <u>(8,792,478)</u> |
| TOTAL | <u>\$ (10,092,376)</u> |
| LEOFF 2 Asset | |
| LEOFF 2 – employer’s proportionate share | \$ (4,410,794) |
| LEOFF 2 – State’s proportionate share of the net pension liability/(asset) associated with the employer | <u>(2,845,443)</u> |
| TOTAL | <u>\$ (7,256,237)</u> |

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

| Plan | Proportionate Share 6/30/20 | Proportionate Share 6/30/21 | Change in Proportion |
|----------|-----------------------------|-----------------------------|----------------------|
| PERS 1 | % .021408 | % .022463 | % .001055 |
| PERS 2/3 | .027714 | .028870 | .001156 |
| LEOFF 1 | .040699 | .037947 | (.002752) |
| LEOFF 2 | .067139 | .075938 | .008799 |

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2021 are used as the basis for determining each employer’s proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2021. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). The State of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

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In fiscal year 2021, the State of Washington contributed 39 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 61 percent of employer contributions.

Pension Expense

For the year ended December 31, 2021, the City recognized pension expense as follows:

| Plan | Pension Expense |
|----------|----------------------|
| PERS 1 | \$ (26,088) |
| PERS 2/3 | (665,098) |
| LEOFF 1 | (142,134) |
| LEOFF 2 | <u>(565,455)</u> |
| TOTAL | <u>\$(1,398,775)</u> |

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| PERS Plan 1 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Net difference between projected and actual investment earnings on pension plan investments | \$ - | \$ (304,410) |
| Contributions subsequent to the measurement date | <u>61,501</u> | <u>-</u> |
| TOTAL PERS Plan 1 | <u>\$ 61,501</u> | <u>\$ (304,410)</u> |
| | | |
| PERS Plan 2/3 | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 139,679 | \$ (35,256) |
| Net difference between projected and actual investment earnings on pension plan investments | - | (2,403,592) |
| Changes of assumptions | 4,203 | (204,238) |
| Changes in proportion and differences between contributions and proportionate share of contributions | 101,738 | (103,602) |
| Contributions subsequent to the measurement date | <u>105,410</u> | <u>-</u> |
| TOTAL PERS Plan 2 | <u>\$ 351,030</u> | <u>\$ (2,746,688)</u> |

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| LEOFF Plan 1 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Net difference between projected and actual investment earnings on pension plan investments | \$ - | \$ (397,199) |
| TOTAL LEOFF Plan 1 | \$ - | \$ (397,199) |
| LEOFF Plan 2 | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 200,057 | \$ (23,311) |
| Net difference between projected and actual investment earnings on pension plan investments | - | (2,103,097) |
| Changes in assumptions | 1,907 | (209,778) |
| Changes in proportion and differences between contributions and proportionate share of contributions | 161,516 | (200,509) |
| Contributions subsequent to the measurement date | <u>71,350</u> | <u>-</u> |
| TOTAL LEOFF Plan 2 | \$ 434,830 | \$ (2,536,695) |

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended December 31: | PERS 1 | PERS 2/3 | LEOFF 1 | LEOFF 2 |
|--------------------------------|---------------------|-----------------------|---------------------|-----------------------|
| 2022 | \$ (80,638) | \$ (650,054) | \$ (105,510) | \$ (563,850) |
| 2023 | (73,894) | (606,870) | (96,509) | (525,597) |
| 2024 | (69,870) | (589,539) | (91,065) | (496,696) |
| 2025 | (80,008) | (652,564) | (104,115) | (558,935) |
| 2026 | - | (6,559) | - | (10,495) |
| Thereafter | <u>-</u> | <u>4,518</u> | <u>-</u> | <u>(17,642)</u> |
| Total | \$ (304,410) | \$ (2,501,068) | \$ (397,199) | \$ (2,173,215) |

Other Local Government Pension System

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

CITY OF KELSO
Notes to the Financial Statements
December 31, 2021

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 \$629,349 with the investment portion held in the State investment pool as of December 31, 2021.

A recent actuarial survey has not been done because annual benefits are approximately \$52,000 and the of cash available to pay pension benefits is over \$629,000 and the average age of current retirees is 83. However, the last actuarial survey indicated that there was a net accrued liability of \$225,000 in the system that will be fully amortized with annual contributions to the plan of \$26,616 through 2024. Furthermore, there was no preparation of the schedules or required supplementary information required by GASB's 67 and 68 because, in management's opinion, future funding and contributions by the City are not material and the cost of future actuarials would outweigh the benefits.

In 2021, the City also received on behalf payments from taxes on fire insurance premiums in the amount of \$14,222.

Required Supplementary Information

City of Kelso
 Schedule of Employer Contributions
 Public Employees Retirement System Plan 1
 As of December 31, 2021
 Last Ten Fiscal Years

| | <u>Fiscal Year</u> <u>2015*</u> | <u>Fiscal Year</u> <u>2016</u> | <u>Fiscal Year</u> <u>2017</u> | <u>Fiscal Year</u> <u>2018</u> | <u>Fiscal Year</u> <u>2019</u> | <u>Fiscal Year</u> <u>2020</u> | <u>Fiscal Year</u> <u>2021</u> |
|---|------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Statutorily required contributions | \$ 119,722 | \$ 135,433 | \$ 149,623 | \$ 165,771 | \$ 164,182 | \$ 148,333 | \$ 142,423 |
| Contributions in relation to the statutorily required contributions*** | <u>(119,722)</u> | <u>(135,433)</u> | <u>(149,623)</u> | <u>(165,771)</u> | <u>(164,182)</u> | <u>(148,333)</u> | <u>(142,423)</u> |
| Contribution deficiency/(excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll** | \$2,653,280 | \$2,824,028 | \$3,053,518 | \$3,274,719 | \$3,319,903 | \$3,092,506 | \$3,317,887 |
| Contributions as a percentage of employee payroll | 4.51% | 4.80% | 4.90% | 5.06% | 4.95% | 4.80% | 4.29% |

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

* Information not available prior to 2015

** Covered payroll is the payroll on which contributions to a pension plan are based.

*** Contributions are actual employer contributions to the plan. For PERS 1 this includes the portion of PERS 2/3 contributions that fund the PERS 1 UAAL.

Required Supplementary Information

City of Kelso
 Schedule of Employer Contributions
 Public Employees Retirement System Plan 2/3
 As of December 31, 2021
 Last Ten Fiscal Years

| | <u>Fiscal Year</u> <u>2015*</u> | <u>Fiscal Year</u> <u>2016</u> | <u>Fiscal Year</u> <u>2017</u> | <u>Fiscal Year</u> <u>2018</u> | <u>Fiscal Year</u> <u>2019</u> | <u>Fiscal Year</u> <u>2020</u> | <u>Fiscal Year</u> <u>2021</u> |
|---|------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Statutorily required contributions | \$ 146,061 | \$ 175,210 | \$ 209,473 | \$ 244,652 | \$ 256,283 | \$ 244,927 | \$ 237,013 |
| Contributions in relation to the statutorily required contributions*** | <u>(146,061)</u> | <u>(175,210)</u> | <u>(209,473)</u> | <u>(244,652)</u> | <u>(256,283)</u> | <u>(244,927)</u> | <u>(237,013)</u> |
| Contribution deficiency/(excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll** | \$2,593,780 | \$2,812,358 | \$3,053,518 | \$3,274,719 | \$3,319,903 | \$3,092,506 | \$3,317,887 |
| Contributions as a percentage of covered payroll | 5.63% | 6.23% | 6.86% | 7.47% | 7.72% | 7.92% | 7.14% |

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

* Information not available prior to 2015

** Covered payroll is the payroll on which contributions to a pension plan are based.

*** Contributions are actual employer contributions to the plan.

Required Supplementary Information

City of Kelso
 Schedule of Employer Contributions
 Law Enforcement Officers and Fire Fighters Retirement Plan 2
 As of December 31, 2021
 Last Ten Fiscal Years

| | <u>Fiscal Year</u> <u>2015*</u> | <u>Fiscal Year</u> <u>2016</u> | <u>Fiscal Year</u> <u>2017</u> | <u>Fiscal Year</u> <u>2018</u> | <u>Fiscal Year</u> <u>2019</u> | <u>Fiscal Year</u> <u>2020</u> | <u>Fiscal Year</u> <u>2021</u> |
|---|------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Statutorily required contributions | \$ 110,458 | \$ 121,594 | \$ 128,018 | \$ 131,270 | \$ 134,931 | \$ 136,101 | \$ 140,215 |
| Contributions in relation to the statutorily required contributions*** | <u>(110,458)</u> | <u>(121,594)</u> | <u>(128,018)</u> | <u>(131,270)</u> | <u>(134,931)</u> | <u>(136,101)</u> | <u>(140,215)</u> |
| Contribution deficiency/(excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll** | \$2,187,286 | \$2,407,794 | \$2,485,109 | \$2,452,607 | \$2,541,980 | \$2,599,613 | \$2,682,185 |
| Contributions as a percentage of covered payroll | 5.05% | 5.05% | 5.15% | 5.35% | 5.31% | 5.24% | 5.23% |

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

* Information not available prior to 2015

** Covered payroll is the payroll on which contributions to a pension plan are based.

*** Contributions are actual employer contributions to the plan.

Required Supplementary Information

City of Kelso
Schedule of Proportionate Share of the Net Pension Liability (Asset)
Public Employees Retirement System Plan I
As of June 30, 2021
Last Ten Fiscal Years

| | <u>Fiscal Year</u> <u>2015*</u> | <u>Fiscal Year</u> <u>2016</u> | <u>Fiscal Year</u> <u>2017</u> | <u>Fiscal Year</u> <u>2018</u> | <u>Fiscal Year</u> <u>2019</u> | <u>Fiscal Year</u> <u>2020</u> | <u>Fiscal Year</u> <u>2021</u> |
|--|------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Employer's proportion of the net pension liability (asset) | 0.023210% | 0.022776% | 0.023545% | 0.025809% | 0.021371% | 0.021408% | 0.022463% |
| Employer's proportionate share of the net pension liability (asset) | <u>\$ 1,214,099</u> | <u>\$ 1,223,179</u> | <u>\$ 1,117,229</u> | <u>\$ 1,152,639</u> | <u>\$ 821,791</u> | <u>\$ 755,818</u> | <u>\$ 274,326</u> |
| Total | <u>\$ 1,214,099</u> | <u>\$ 1,223,179</u> | <u>\$ 1,117,229</u> | <u>\$ 1,152,639</u> | <u>\$ 821,791</u> | <u>\$ 755,818</u> | <u>\$ 274,326</u> |
| Employer's covered payroll | \$ 2,609,568 | \$ 2,691,098 | \$ 2,986,773 | \$ 3,190,174 | \$ 3,276,484 | \$ 3,213,903 | \$ 3,198,419 |
| Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll | 46.52% | 45.45% | 37.41% | 36.13% | 25.08% | 23.52% | 8.58% |
| Plan fiduciary net position as a percentage of the total pension liability (asset) | 59.10% | 57.03% | 61.24% | 63.22% | 67.12% | 68.64% | 88.74% |

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

* Information not available prior to 2015

Required Supplementary Information

City of Kelso
Schedule of Proportionate Share of the Net Pension Liability (Asset)
 Public Employees Retirement System Plan 2/3
 As of June 30, 2021
 Last Ten Fiscal Years

| | <u>Fiscal Year</u> <u>2015*</u> | <u>Fiscal Year</u> <u>2016</u> | <u>Fiscal Year</u> <u>2017</u> | <u>Fiscal Year</u> <u>2018</u> | <u>Fiscal Year</u> <u>2019</u> | <u>Fiscal Year</u> <u>2020</u> | <u>Fiscal Year</u> <u>2021</u> |
|--|------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Employer's proportion of the net pension liability (asset) | 0.028465% | 0.028007% | 0.030285% | 0.033002% | 0.027583% | 0.027714% | 0.028870% |
| Employer's proportionate share of the net pension liability (asset) | <u>\$1,017,071</u> | <u>\$1,410,130</u> | <u>\$1,052,259</u> | <u>\$ 563,480</u> | <u>\$ 267,925</u> | <u>\$ 354,446</u> | <u>\$(2,875,917)</u> |
| Total | <u>\$1,017,071</u> | <u>\$1,410,130</u> | <u>\$1,052,259</u> | <u>\$ 563,480</u> | <u>\$ 267,925</u> | <u>\$ 354,446</u> | <u>\$(2,875,917)</u> |
| Employer's covered payroll | \$2,549,530 | \$2,649,405 | \$2,986,773 | \$3,190,174 | \$3,276,484 | \$3,213,903 | \$ 3,198,419 |
| Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll | 39.89% | 53.22% | 35.23% | 17.66% | 8.18% | 11.03% | 89.92% |
| Plan fiduciary net position as a percentage of the total pension liability (asset) | 89.20% | 85.82% | 90.97% | 95.77% | 97.77% | 97.22% | 120.29% |

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

* Information not available prior to 2015

Required Supplementary Information

City of Kelse
Schedule of Proportionate Share of the Net Pension Liability (Asset)
Law Enforcement Officers and Fire Fighters Retirement Plan 1
As of June 30, 2021
Last Ten Fiscal Years

| | <u>Fiscal Year</u> <u>2015*</u> | <u>Fiscal Year</u> <u>2016</u> | <u>Fiscal Year</u> <u>2017</u> | <u>Fiscal Year</u> <u>2018</u> | <u>Fiscal Year</u> <u>2019</u> | <u>Fiscal Year</u> <u>2020</u> | <u>Fiscal Year</u> <u>2021</u> |
|--|------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Employer's proportion of the net pension liability (asset) | 0.042208% | 0.042555% | 0.041694% | 0.042411% | 0.041496% | 0.040699% | 0.037947% |
| Employer's proportionate share of the net pension liability (asset) | \$ (508,700) | \$ (438,438) | \$ (632,590) | \$ (769,973) | \$ (820,215) | \$ (768,604) | \$ (1,299,898) |
| State's proportionate share of the net pension liability (asset) associated with the employer** | \$ - | \$ - | \$ - | \$ (5,208,075) | \$ (5,547,911) | \$ (5,198,820) | \$ (8,792,478) |
| Total | \$ (508,700) | \$ (438,438) | \$ (632,590) | \$ (5,978,048) | \$ (6,368,126) | \$ (5,967,424) | \$ (10,092,376) |
| Employer's covered payroll | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Plan fiduciary net position as a percentage of the total pension liability (asset) | 127.36% | 123.74% | 135.96% | 144.42% | 148.78% | 146.88% | 187.45% |

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

* Information not available prior to 2015

** Information not available prior to 2018

Required Supplementary Information

City of Kelso
Schedule of Proportionate Share of the Net Pension Liability (Asset)
Law Enforcement Officers and Fire Fighters Retirement Plan 2
As of June 30, 2021
Last Ten Fiscal Years

| | <u>Fiscal Year</u> <u>2015*</u> | <u>Fiscal Year</u> <u>2016</u> | <u>Fiscal Year</u> <u>2017</u> | <u>Fiscal Year</u> <u>2018</u> | <u>Fiscal Year</u> <u>2019</u> | <u>Fiscal Year</u> <u>2020</u> | <u>Fiscal Year</u> <u>2021</u> |
|--|------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Employer's proportion of the net pension liability (asset) | 0.072194% | 0.075802% | 0.077629% | 0.082534% | 0.066839% | 0.067139% | 0.075938% |
| Employer's proportionate share of the net pension liability (asset) | \$ (742,010) | \$ (440,887) | \$ (1,077,239) | \$ (1,675,620) | \$ (1,548,454) | \$ (1,369,538) | \$ (4,410,793) |
| State's proportionate share of the net pension liability (asset) associated with the employer | <u>\$ (490,624)</u> | <u>\$ (287,426)</u> | <u>\$ (698,785)</u> | <u>\$ (1,084,932)</u> | <u>\$ (1,014,030)</u> | <u>\$ (875,716)</u> | <u>\$ (2,845,443)</u> |
| Total | <u>\$ (1,232,634)</u> | <u>\$ (728,313)</u> | <u>\$ (1,776,024)</u> | <u>\$ (2,760,552)</u> | <u>\$ (2,562,484)</u> | <u>\$ (2,245,254)</u> | <u>\$ (7,256,236)</u> |
| Employer's covered payroll | \$ 2,120,860 | \$ 2,294,917 | \$ 2,439,577 | \$ 2,503,122 | \$ 2,495,368 | \$ 2,522,992 | \$ 2,655,371 |
| Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll | 34.99% | 19.21% | 44.16% | 66.94% | 62.05% | 54.28% | 166.11% |
| Plan fiduciary net position as a percentage of the total pension liability (asset) | 111.67% | 106.04% | 113.36% | 118.50% | 119.43% | 115.83% | 142.00% |

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

* Information not available prior to 2015

Required Supplementary Information

City of Kelso
Schedule of Changes in OPEB Liability and Related Ratios
 As of June 30, 2021
 Last Ten Fiscal Years

| | <u>Fiscal Year</u> <u>2018</u> | <u>Fiscal Year</u> <u>2019</u> | <u>Fiscal Year</u> <u>2020</u> | <u>Fiscal Year</u> <u>2021</u> |
|---|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Total OPEB liability | | | | |
| Interest | \$ 213,947 | \$ 223,278 | \$ 216,071 | \$ 127,607 |
| Changes in experience data and assumptions | (187,842) | 450,600 | (308,016) | 288,716 |
| Estimated benefit payments | <u>(251,437)</u> | <u>(214,013)</u> | <u>(326,559)</u> | <u>(287,036)</u> |
| Net change in total OPEB liability | (225,332) | 459,865 | (418,504) | 129,287 |
| Total OPEB liability - beginning | <u>6,100,792</u> | <u>5,875,460</u> | <u>6,335,325</u> | <u>5,916,821</u> |
| Net OPEB liability - Ending | <u>\$ 5,875,460</u> | <u>\$ 6,335,325</u> | <u>\$ 5,916,821</u> | <u>\$ 6,046,108</u> |
| Covered employee payroll | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Total OPEB liability, as a percentage of covered employee payroll | N/A | N/A | N/A | N/A |

Note: The amounts presented for each fiscal year were determined as of June 30. Additional years will be added to the schedule as information becomes available.

**CITY OF KELSO
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2021**

Other Postemployment Benefits Other Than Pensions

Changes in experience data and assumptions reflect a change in the discount rate from 3.87 percent in 2018 to 2.21 percent in 2020 and 2.16 percent in 2021. In addition, Recent federal legislation H.R. 1865, also referred to as the Further Consolidations Appropriations Act of 2020, repealed the excise or "Cadillac" tax from the Patient Protection and Affordable Care Act. It is estimated that the exclusion of the excise tax will on average reduce OPEB liabilities by roughly 6 percent.

Deferred outflows of resources of \$48,484 resulting from payments subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended December 31, 2022.

There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB 75 to pay related benefits for the OPEB plan.

City of Kelso
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2021

| Federal Agency (Pass-Through Agency) | Federal Program | CFDA Number | Other Award Number | Expenditures | | | Passed through to Subrecipients | Note |
|--|---|----------------|-----------------------|---------------------------------|-----------------------|----------------|---------------------------------------|---------|
| | | | | From Pass- Through Awards | From Direct Awards | Total | | |
| ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via Washington State Department of Commerce) | Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii | 14.228 | 1-96-745-005 | 45,345 | - | 45,345 | - | 2, 4, 5 |
| OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF | Bulletproof Vest Partnership Program | 16.607 | N/A | - | 2,233 | 2,233 | - | 2, 5 |
| OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF (via Cowlitz County, Washington) | Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | F18-31440-004 | 58,768 | - | 58,768 | - | 2, 5 |
| OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF (via Cowlitz County, Washington) | Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | F17-31440-204 | 43,676 | - | 43,676 | - | 2, 5 |
| Total CFDA 16.738: | | | | 102,444 | - | 102,444 | - | |
| OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF (via Washington State Office of the Attorney General) | National Sexual Assault Kit Initiative | 16.833 | RU-22-38 | 1,156 | - | 1,156 | - | 2, 5 |
| U.S. Dept of Justice (via Washington State Patrol Marijuana Eradication) | Domestic Cannabis Eradication/Suppression Program | 16.U01 | N/A | 1,237 | - | 1,237 | - | 2, 5 |

The accompanying notes are an integral part of this schedule.

City of Kelso
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2021

| Federal Agency (Pass-Through Agency) | Federal Program | CFDA Number | Other Award Number | Expenditures | | | Passed through to Subrecipients | Note |
|--|--|----------------|-----------------------|---------------------------------|-----------------------|------------------|---------------------------------------|---------|
| | | | | From Pass- Through Awards | From Direct Awards | Total | | |
| FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF | Airport Improvement Program and COVID-19 Airports Programs | 20.106 | 3-53-0034-017 | - | 32,760 | 32,760 | 32,760 | 2, 3, 5 |
| FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF | Airport Improvement Program and COVID-19 Airports Programs | 20.106 | 3-53-0034-018 | - | 389 | 389 | 389 | 2, 3, 5 |
| Total CFDA 20.106: | | | | - | 33,149 | 33,149 | 33,149 | |
| Highway Planning and Construction Cluster | | | | | | | | |
| FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation) | Highway Planning and Construction | 20.205 | HSIP-000S (593) | 6,006 | - | 6,006 | - | 2, 5 |
| FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation) | Highway Planning and Construction | 20.205 | STPUS-6728 (007) | 2,917,918 | - | 2,917,918 | - | 2, 5 |
| FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation) | Highway Planning and Construction | 20.205 | TAP-6749(002) | 14,449 | - | 14,449 | - | 2, 5 |
| Total Highway Planning and Construction Cluster: | | | | 2,938,373 | - | 2,938,373 | - | |
| EXECUTIVE OFFICE OF THE PRESIDENT, EXECUTIVE OFFICE OF THE PRESIDENT (via Cowlitz County, Washington) | High Intensity Drug Trafficking Areas Program | 95.001 | G21NW0011A | 3,354 | - | 3,354 | - | 2, 5 |

City of Kelso
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2021

| Federal Agency (Pass-Through Agency) | Federal Program | CFDA Number | Other Award Number | Expenditures | | | Passed through to Subrecipients | Note |
|--|---|----------------|---------------------------------------|---------------------------------|-----------------------|------------------|---------------------------------------|------|
| | | | | From Pass- Through Awards | From Direct Awards | Total | | |
| EXECUTIVE OFFICE OF THE PRESIDENT, EXECUTIVE OFFICE OF THE PRESIDENT (via Cowlitz County, Washington) | High Intensity Drug Trafficking Areas Program | 95.001 | G20NW0011A | 2,228 | - | 2,228 | - | 2, 5 |
| | | | Total CFDA 95.001: | 5,582 | - | 5,582 | - | |
| | | | Total Federal Awards Expended: | 3,094,137 | 35,382 | 3,129,519 | 33,149 | |

The accompanying notes are an integral part of this schedule.

City of Kelso
Notes to the Schedule of Expenditures of Federal Awards
December 31, 2021

Note 1 - Basis of Accounting

The Schedule of Financial Assistance is prepared on the same basis of accounting as the City of Kelso's financial statements. The City of Kelso uses the modified accrual basis of accounting for all Governmental Funds and the accrual basis of accounting for all Proprietary Funds.

Note 2 - Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City of Kelso's portion, may be more than shown.

Note 3 – Amounts Awarded to Subrecipients

All amounts expended for this program were passed through to a subrecipient that administered its own project.

Note 4 – Revolving Loan - Program Income

The City has a revolving loan program for low-income housing renovation. Under this federal program, repayments and interest (in excess of \$35,000) received by the City are considered program revenues (income) and disbursements of such funds to eligible recipients are considered expenditures. The City did not disperse any program revenues to program participants for the year 2021. The amount of principal and interest received in loan repayments for the year was \$45,345.

Note 5 – Indirect Cost Rate

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

Not Applicable (N/A)

Information is not applicable or available for this grant.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

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