



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Kelso

For the period January 1, 2023 through December 31, 2023

Published July 1, 2024

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

July 1, 2024

City Council
City of Kelso
Kelso, Washington

Report on Financial Statements

Please find attached our report on the City of Kelso's financial statements.

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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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, 2023 through December 31, 2023

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, 2023, 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 25, 2024.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

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 25, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

City of Kelso January 1, 2023 through December 31, 2023

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, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the financial section of our report.

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, 2023, 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.

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 financial section of our report 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2024 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, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

June 25, 2024

**City of Kelso
January 1, 2023 through December 31, 2023**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2023

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2023

Statement of Activities – 2023

Balance Sheet – Governmental Funds – 2023

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2023

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances of Governmental Funds to the Statement of Activities – 2023

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual –
General Fund – 2023

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual –
Arterial Street Fund – 2023

Statement of Net Position – Proprietary Funds – 2023

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2023

Statement of Cash Flows – Proprietary Funds – 2023

Statement of Fiduciary Net Position – Fiduciary Funds – 2023

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2023

Notes to Financial Statements – 2023

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Employer Contributions – PERS 1, PERS 2/3, LEOFF 2 – 2023

Schedule of Proportionate Share of Net Pension Liability (Asset) – PERS 1, PERS 2/3,
LEOFF 1, LEOFF 2 – 2023

Schedule of Changes in OPEB Liability and Related Ratios – 2023

Information on Other Postemployment Benefits Other Than Pensions – 2023

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, 2023. 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 \$140,545 (net position). Capital assets, net of depreciation and related debt, account for \$103,248 or 73.5% of total net position. \$30,034 or 21.4% 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 \$6,375 during 2023.
- As of the close of the current fiscal year, the City of Kelso's governmental funds reported combined ending fund balances of \$18,494 an increase of \$2,130 in comparison with the prior year. Approximately 88% of this amount, \$16,264 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 \$13,126, 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 \$751 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 nine 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 seven 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 \$140,545 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, 2023 with comparable data provided for the previous year.

City of Kelso's Net Position

	Governmental activities		Business-type activities		Total	
	2023	2022	2023	2022	2023	2022
Current and other assets	\$27,922	\$25,936	\$ 21,435	\$ 19,802	\$ 49,357	\$ 45,738
Capital assets (net)	79,410	79,349	35,593	34,090	115,003	113,439
Total assets	107,332	105,285	57,028	53,892	164,360	159,177
Total deferred outflows of resources	2,154	2,130	489	601	2,643	2,731
Long-term liabilities outstanding	10,093	10,057	8,669	9,237	18,762	19,294
Other liabilities	4,186	4,396	1,449	1,218	5,635	5,614
Total liabilities	14,279	14,453	10,118	10,455	24,397	24,908
Total deferred inflows of resources	1,804	2,383	257	447	2,061	2,830
Net position:						
Net investment in capital assets	76,041	75,746	27,207	28,053	103,248	103,799
Restricted	6,741	5,493	522	325	7,263	5,818
Unrestricted	10,621	9,340	19,413	15,213	30,034	24,553
Total net position	\$93,403	\$90,579	\$47,142	\$43,591	\$140,545	\$134,170

By far the largest portion of the City's net position (73.5 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The city uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Kelso's net position (5.2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$30,034 may be used to meet the City's ongoing obligations to citizens and creditors.

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

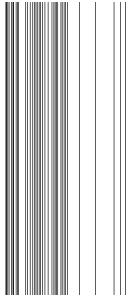
Governmental activities. Governmental activities increased the City of Kelso's net position by \$2,824 in 2023. Revenues increased by \$414 and expenses increased by \$2,373 in 2023. Key elements for these changes include the following:

- The increase in revenues from the prior was because the city received \$644 more in interest on investments in 2023. The average interest rate went from 1.7% to 5.1% from 2022 to 2023.

- Sales and business taxes remained historically elevated due to above normal construction activity throughout the city, as well as, increased economic activity spurred by COVID 19 related stimulus programs in 2023.
- The increase in expenditures was due to increased staffing in the police and planning departments as well as cost of living adjustments for all employees.
- The city increased spending on street overlays in 2023 by \$762. In addition, the City spent \$292 on the Allen Street Corridor study which was funded 100% from federal grant.

City of Kelso's Changes in Net Position

	Governmental activities		Business-type activities		Total	
	2023	2022	2023	2022	2023	2022
Revenues:						
Program revenues:						
Charges for services	\$2,022	\$1,896	\$14,111	\$13,896	\$16,133	\$15,792
Operating grants and contributions	659	207	132	158	791	365
Capital grants and contributions	1,083	2,283	320	-	1,403	2,283
General revenues:						
Property taxes	1,672	1,603			1,672	1,603
Sales and use taxes	4,411	4,391			4,411	4,391
Utility taxes	3,727	3,723			3,727	3,723
Business taxes	1,402	1,137			1,402	1,137
Excise taxes	786	490			786	490
State entitlements	736	797			736	797
Investment earnings	830	186	682	156	1,512	342
Miscellaneous	136	363			136	363
Gain/(loss) on sale of capital assets	36	10			36	10
Total revenues	<u>17,500</u>	<u>17,086</u>	<u>15,245</u>	<u>14,210</u>	<u>32,745</u>	<u>31,296</u>
Expenses:						
General government	2,891	2,746			2,891	2,746
Security of persons and property	6,286	5,338			6,286	5,338
Transportation	3,239	2,024			3,239	2,024
Economic environment	729	529			729	529
Culture and recreation	1,399	1,542			1,399	1,542
Interest on long-term debt	132	124			132	124
Water/Sewer			9,157	9,158	9,157	9,158
Storm water			608	769	608	769
Solid waste			1,929	1,910	1,929	1,910
Total expenses	14,676	12,303	<u>11,694</u>	<u>11,837</u>	<u>26,370</u>	<u>24,140</u>
Change in net position	2,824	4,783	3,551	2,373	6,375	7,156
Net position – beginning	<u>90,579</u>	85,796	<u>43,591</u>	<u>41,218</u>	134,170	127,014
Net position – ending	<u>\$ 93,403</u>	\$ 90,579	<u>\$47,142</u>	<u>\$43,591</u>	\$140,545	\$134,170



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