



## Lifeline Household Worksheet

2417 Tongass Ave. Suite 119D  
 Ketchikan AK 99901  
 907-228-5474  
 888-478-5474

Name	
Physical Address	
KPU Telephone Number	

Lifeline is a government program that provides a monthly discount on home or mobile telephone services. Only ONE Lifeline discount is allowed per household. Members of a household are not permitted to receive Lifeline service from multiple telephone companies.

Your **household** is everyone who lives together at your address as one economic unit (including children and people who are not related to you).

The **adults** you live with are part of your **economic unit** if they contribute to and share in the income and expenses of the household. An **adult** is any person 18 years of age or older, or an emancipated minor (a person under age 18 who is legally considered to be an adult). Household **expenses** include food, health care expenses (such as medical bills) and the cost of renting or paying a mortgage on your place of residence (a house or apartment, for example) and utilities (including water, heat and electricity). **Income** includes salary, public assistance benefits, social security payments, pensions, unemployment compensation, veteran's benefits, inheritances, alimony, child support payments, worker's compensation benefits, gifts, and lottery winnings.

Spouses and domestic partners are considered to be part of the same household. Children under the age of 18 living with their parents or guardians are considered to be part of the same household as their parents or guardians. If an adult has no income, or minimal income, and lives with someone who provides financial support to that adult, both people are considered part of the same household.

*You have been asked to complete this Worksheet because someone else currently receives a Lifeline-supported service at your address. This other person may or may not be a part of your household. Answer the questions below to determine whether there is more than one household residing at your address.*

1. Does your spouse or domestic partner (that is, someone you are married to or in a relationship with) already receive a Lifeline-discounted phone? *(check no if you do not have a spouse or partner)*

\_\_\_\_\_ YES \_\_\_\_\_ NO

- If you checked YES, you may not sign up for Lifeline because someone in your household already receives Lifeline. Only ONE Lifeline discount is allowed per household.
- If you checked NO, please answer question #2.

2. Other than a spouse or partner, do other adults (people over the age of 18 or emancipated minors) live with you at your address?

- |  |                    |                      |                    |
|--|--------------------|----------------------|--------------------|
| A. A parent  | _____ YES _____ NO | D. An adult roommate | _____ YES _____ NO |
| B. An adult son or daughter  | _____ YES _____ NO | E. Other _____       | _____ YES _____ NO |
| C. Another adult relative<br>(such as a sibling, aunt, cousin,<br>grandparent, grandchild, etc.) | _____ YES _____ NO |                      |                    |

- If you checked NO for each statement in question 2, you do not need to answer the remaining questions. Please initial line B, below, and sign and date the worksheet.
- If you checked YES for any statement in question 2, please answer question #3.

3. Do you share living expenses (bills, food, rent, etc.) and share income (either your income, the other person's income or both incomes together) with at least one of the adults listed in question #2?

\_\_\_\_\_ YES \_\_\_\_\_ NO

- If you checked **NO**, then your address includes **more than one household**. Please initial lines A and B below, and sign and date the worksheet.
- If you checked **YES**, then your address includes only **one household**. You may not sign up for Lifeline because someone in your household already receives Lifeline.

### CERTIFICATION

Please initial the certifications below and sign and date this worksheet.

Submit this worksheet to KPU Telecommunications along with your Lifeline application.

A. \_\_\_\_\_ *I certify that I live at an address occupied by multiple households.*

B. \_\_\_\_\_ *I understand that violation of the one-per-household requirement is against the Federal Communication Commission's rules and may result in me losing my Lifeline benefits, and potentially, prosecution by the United States government.*

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

## Low-Income Telephone Assistance Program

### Lifeline

Lifeline is a Federal benefit that assists qualified low-income applicants by providing a monthly reduction on their local telephone bill.

You may only receive low-income assistance from one wireline or wireless telephone provider per household.\*

#### **\*NOTE:**

A "Household" is defined as any individual or group of individuals who are living together at the same address as one economic unit. An "economic unit" consists of all adult individuals contributing to and sharing in the income and expenses of a household.

### Eligibility Requirements

To be eligible for Lifeline assistance, you must meet income-based criterion currently defined as at or below 135 % of the Federal Poverty Guidelines (see table inside) **OR** participate in at least one of the following programs:

- Medicaid
- Supplemental Nutrition Assistance Program (SNAP)
- Supplemental Security Income (SSI)
- Federal Public Housing Assistance
- Low-Income Home Energy Assistance Program (LIHEAP)
- Temporary Assistance to Needy Families Program (TANF)
- National School Lunch Program (NSL)
- Alaska Adult Public Assistance Program
- Alaska State Housing Corp. Programs
- Alaska Temporary Assistance Program
- **Other programs apply – See Lifeline application for a complete list.**

In addition, you must not currently be receiving Lifeline assistance and no other person in your household can be subscribed to the Lifeline program.

### To Apply for Lifeline:

1. Complete a KPU Lifeline certification form, (please include any supporting documents) and submit it to the KPU Telecommunications Customer Service office at 2417 Tongass Ave - Suite 119D - at the Plaza.
2. Re-certification forms are mailed to all subscribers every year. When you receive a re-certification form, complete and return it to KPU Telecommunications within 30 days. KPU Telecommunications is required to suspend your eligibility for low-income assistance if you do not return the re-certification form.

## Federal Government Lifeline Program for Low-Income Telephone Assistance

Revised: Feb 2013



KPU Telecommunications  
2417 Tongass Ave  
Suite 119D  
At the Plaza  
Your Local Telephone Company

# 135 percent of Federal poverty guidelines

Alaska

(As of Jan 2013)

Number of people living in home	Household Income (at or below)
1	\$19,373
2	\$26,163
3	\$32,954
4	\$39,744
5	\$46,535
6	\$53,325
7	\$60,116
8	\$66,906
* For each additional person	Add \$6,791

## Application Checklist

Please provide the following information:

1. A signed and completed Lifeline assistance certification form.
2. A copy of one of the following if applying based on the size and income level of a customer's household:
  - Last year's federal or state income tax return
  - Current annual income statement from employer
  - Paycheck stubs for most recent three consecutive months
  - Social Security statement of benefits
  - Veteran's Administration statement of benefits
  - Retirement or pension statement of benefits
  - Unemployment or worker's compensation statement of benefits
  - Letter of participation in general assistance
  - Divorce decree or child support documentation

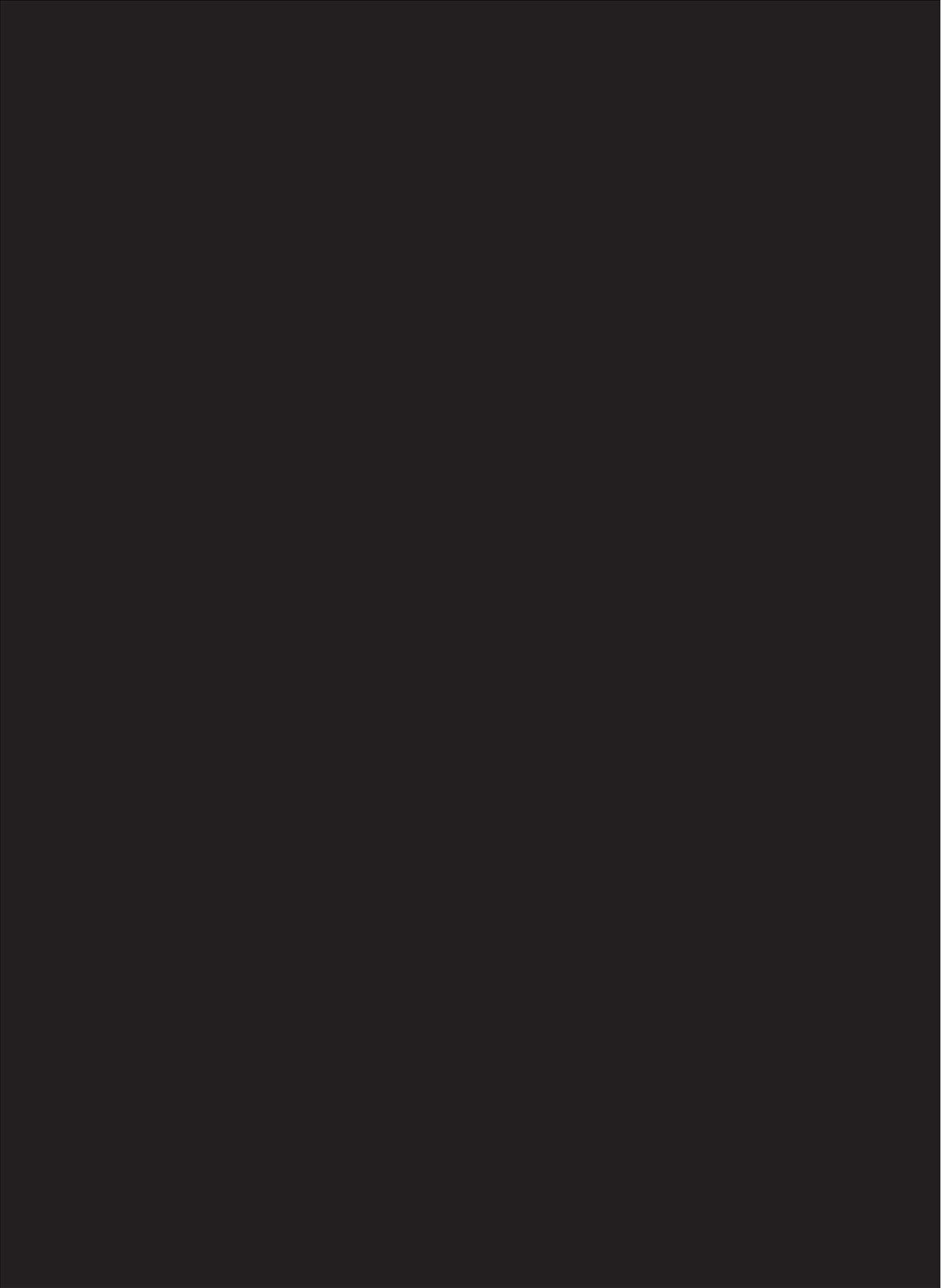
3. Supporting documentation of program-based eligibility if applying based on participation in any programs listed on the back of this brochure, or on the Lifeline application.

Acceptable documentation of program eligibility includes the current or prior year's statement of benefits from a qualifying assistance program, a recent notice, letter or documents of participation in a qualifying assistance program, or another official document demonstrating that you, or one or more of your dependents, or your household receives benefits from a qualifying assistance program. **These documents are needed for verification only and will not be kept or stored by KPU Telecommunications.**

For questions, please call  
**KPU Telecommunications**  
 (907) 228-5474 or  
 Toll-free (888) 478-5474











my name is [redacted] and I can unlock the doors and meet tech. my cell is 617.3128

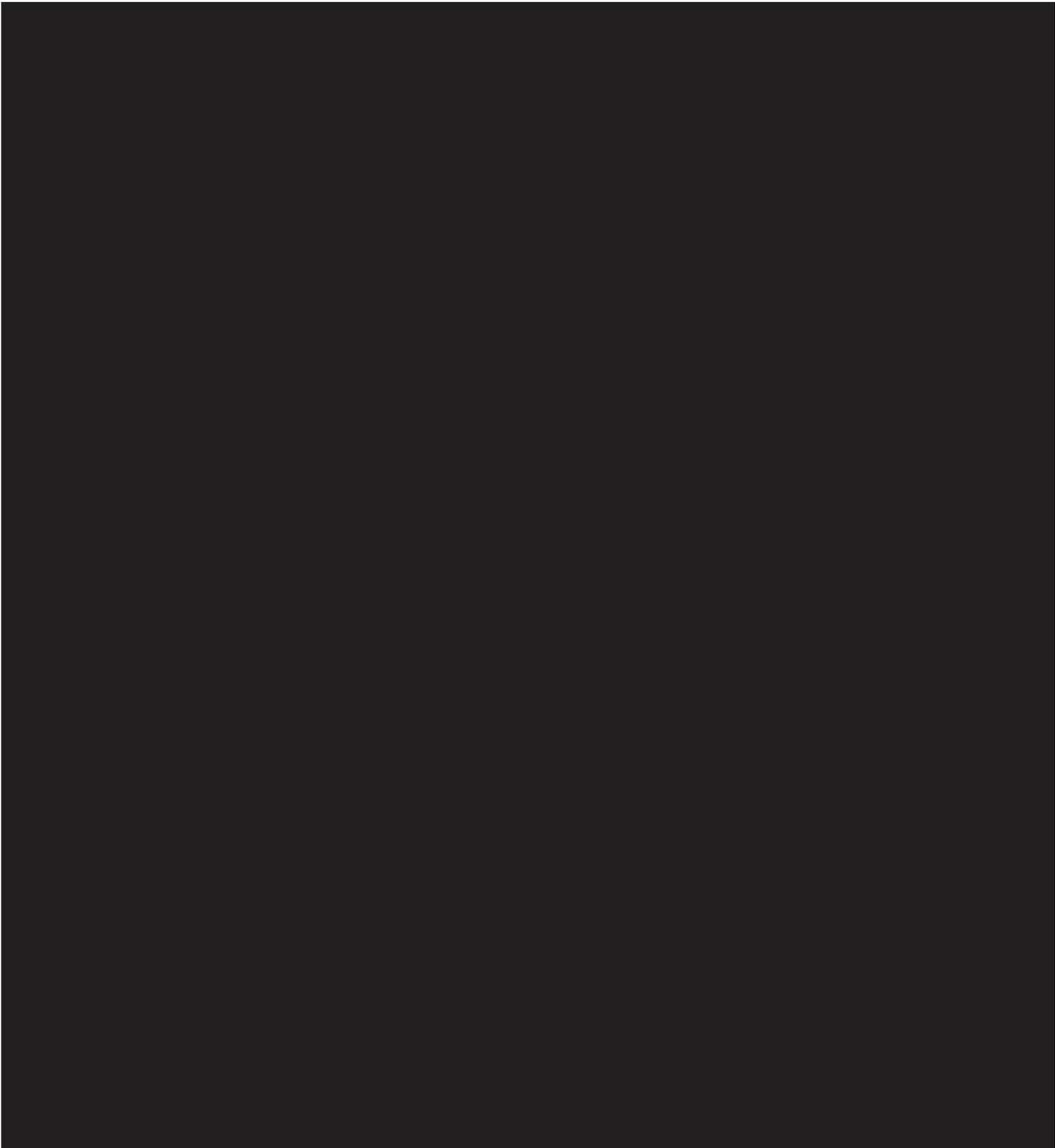




<http://www.fda.gov/oc/ohrt>









## Tina Bredehoft

---

**From:** mhoutcooper@gmail.com on behalf of Michelle O'Brien <mhoutcooper@gmail.com>  
**Sent:** Wednesday, June 03, 2015 3:25 PM  
**To:** Tina Bredehoft  
**Subject:** Fwd: Unheard Voices, Unheard Wisdom

----- Forwarded message -----

**From:** Lynn Quan <lquan@kietribe.org>  
**Date:** Fri, Mar 20, 2015 at 3:48 PM  
**Subject:** RE: Unheard Voices, Unheard Wisdom  
**To:** Michelle O'Brien <mobrien@kputel.net>

Congratulations!

I have just found out that the Deputy Director of the Department of Justice Bea Hanson, and the Director of Tribal Affairs Lorraine Edmo, from the Office on Violence Against Women coming on April 6<sup>th</sup>. it's a surprise visit and they want to hear from our collaborative partners! If you are in town, perhaps we can have you attend a meeting, and present them with a copy of the documentary or we could show part of it. It is kind of a big deal, and this documentary could go farther than you think in the Office on Violence Against Women! You really invested time and energy in this project, and we really want to thank you for that. It was an honor to be part of it.

Lynn Quan

**From:** mhoutcooper@gmail.com [mailto:mhoutcooper@gmail.com] On Behalf Of Michelle O'Brien  
**Sent:** Friday, March 20, 2015 9:58 AM  
**To:** Carmel Anderson; CARMEL ANDERSON; Lynn Quan  
**Subject:** Unheard Voices, Unheard Wisdom

I wanted to let you know that our documentary won an award at Best of the Northwest!

<http://acmnwr.org/2015/03/20/best-of-the-northwest-winners-announced/>

--

Michelle O'Brien

Sales and Marketing Manager

Host/Producer, Local Television

KPU Telecommunications

2417 Tongass Avenue

Ketchikan, Alaska 99901

(907) 228-5486 (direct)

(907) 254-8909 (cellular)

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--

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## Tina Bredehoft

---

**From:** mhoutcooper@gmail.com on behalf of Michelle O'Brien <mhoutcooper@gmail.com>  
**Sent:** Wednesday, June 03, 2015 3:40 PM  
**To:** Tina Bredehoft  
**Subject:** Native Interactions

Museum Show, featured artist Donny Varnell and Ken Decker  
3 Celebrity Chef Shows filmed at the KIC Elders Program  
Unheard Voices, Unheard Wisdom, KIC involved, and featured on state of Alaska website and won Best of the Northwest  
Ken Decker, native artist featured in Local Holiday Shopping Show  
Michelle was a featured speaker at the ANB/ANS/KIC Elizabeth Peratovich Day ceremony  
Cupeake Wars filmed for KIC Relay for Life team  
Three whole days throughout year educating students at Schoenbar, TSAS and Kayhi  
Natives appear in ALL of our events, and are prominently featured in our nationally award winning "This is Ketchikan"  
Michelle is a key community contributor for a KIC Wellness program  
Filmed 103rd Birthday of Henry Neligan at KIC

All videos are available on our You Tube, and award certificates are available. If you need to use a You Tube link, <https://youtu.be/xr1T2ePM13c>

--  
Michelle O'Brien  
Sales and Marketing Manager  
Host/Producer, Local Television  
KPU Telecommunications  
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Ketchikan, Alaska 99901  
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Are you interested in participating in this interview? If so, when can we meet and what time and where?

This interview will last about one hour. I know you have a very busy schedule.

Let us know if you can do this. Your input will be invaluable to our report in the Fall, and you can obtain a copy of

It when we are completed.

Thank you,

Leah H. Canfield, BA

Wellness Coordinator

2960 Tongass Ave.

Ketchikan, AK 99901

907-228-9363

lecanfield@kietribe.org

Quyana, Qagaasakung, Gunalchéesh, Quyanaqpuk, Spasciba, Chin'an, Igamsiqanaghalek, Quyanaq, Taikuu, Tsin'aen, Háw'aa, Mahsi, Tsen'ii, Quyanaa, Awa'ahdah, Dogedinh, Doyekshin, Maasee, Ana Baasee, Thank you

--

Michelle O'Brien  
Sales and Marketing Manager

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## Tina Bredehoft

---

**From:** mhoutcooper@gmail.com on behalf of Michelle O'Brien <mhoutcooper@gmail.com>  
**Sent:** Wednesday, June 03, 2015 3:28 PM  
**To:** Tina Bredehoft  
**Subject:** Dan Dodson, KIC Elders Program Meal Coordinator

We have filmed three times over there this year

- Michelle Morrow O'Brien

Would you like to film another show centering around Elizabeth Peratovich day and invite Irene Dundas to join us? I was thinking the week of January 20th so we could have it on the air for the holiday. Thanks, and hope you are well.



1/9, 11:13pm

Daniel Dodson

Sure that would be real good.



1/9, 11:14pm

Michelle Morrow O'Brien

Oh awesome, great to hear back from you!



1/9, 11:14pm

Daniel Dodson

Call me on Monday 617-9730



1/9, 11:15pm

Michelle Morrow O'Brien

Will do! In Seattle now for Rotary. Thanks again and enjoy your weekend.



1/9, 11:16pm

Daniel Dodson

You too



1/20, 7:31am

Daniel Dodson

I'm not feeling well today. Can we reschedule ?



1/20, 7:45am

Michelle Morrow O'Brien

Absolutely I'll message when I get to office



1/20, 2:42pm

Michelle Morrow O'Brien

We could do the 27th or the 29th. Let me know if those days work, and what time is good for you. Hope you're feeling better. This crud going around is the worst!



1/26, 3:32pm

Michelle Morrow O'Brien

Have you decided which day you might be available? Thanks!



1/27, 7:44pm

Daniel Dodson

Sorry I did get back to you. Thursday the 29th will work

We will have Indian tacos



1/27, 7:46pm

Michelle Morrow O'Brien

Awesome just let us know what time



1/28, 6:25am

Michelle Morrow O'Brien

And the only conflict that I have is a haircut at 12:30. smile emoticon



4/17, 3:46pm

Daniel Dodson

Henry Neligan will be 103 on May 3rd. We plan on a big celebration. Herring eggs and other native food for lunch. Thought you would like to know



4/17, 3:48pm

Michelle Morrow O'Brien

We wipuld like to be there!



4/17, 8:03pm

Daniel Dodson

Cool I'll update you with time of event



4/17, 8:11pm

Michelle Morrow O'Brien

Awesome. Thanks so much



4/24, 7:21am

Daniel Dodson

Good morning Henry neligan's birthday celebration is May 6th not May 3rd



4/24, 8:12am

Michelle Morrow O'Brien

OK. thanks for the update. Please let us know what time.



5/5, 1:06pm

Michelle Morrow O'Brien

Hi there! Checking in to see what time Henry's celebration is tomorrow? Also, if there is someone there that can be the interviewer, that would be fantastic, as I will be on a plane to Anchorage. Thanks!



5/5, 1:23pm

Michelle Morrow O'Brien

And, just in case you need to get a hold of someone Jacob's number is 2549440



5/5, 1:28pm

Daniel Dodson

Yes Henry's birthday party starts at 11:30

I know he will be here early. He's all excited

--  
Michelle O'Brien

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Host/Producer, Local Television  
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## Tina Bredehoft

---

**From:** mhoutcooper@gmail.com on behalf of Michelle O'Brien <mhoutcooper@gmail.com>  
**Sent:** Wednesday, June 03, 2015 3:42 PM  
**To:** Tina Bredehoft  
**Subject:** Fwd: Key Informant Interview  
**Attachments:** image001.png

----- Forwarded message -----

**From:** Michelle O'Brien <MichelleO@city.ketchikan.ak.us>  
**Date:** Wed, Jun 3, 2015 at 3:32 PM  
**Subject:** Fwd: Key Informant Interview  
**To:** michelle houtcooper <mhoutcooper@gmail.com>

Sent from my iPhone

Begin forwarded message:

**From:** Leah Canfield <leanfield@kictribe.org>  
**Date:** June 3, 2015 at 3:31:19 PM AKDT  
**To:** "MichelleO@city.ketchikan.ak.us" <MichelleO@city.ketchikan.ak.us>  
**Subject:** Key Informant Interview

Hello Ms. O'Brien:

I wanted to first thank you for giving your time and energy to filming our event, "Cupcake War against Cancer."

That was wonderful.

So, this email is really geared toward a key informant interview for gathering information for our Wellness grant

through the Center for Disease Control and Prevention. We have partnered up with PeaceHealth, Public Health,

Ketchikan Wellness Coalition and we are reaching out to key community members for interviews.

Attachment 613013ak3010.pdf



**KPU Telecommunications**  
2970 Tongass Avenue  
Ketchikan, AK 99901

Phone (907) 225-1000  
Fax (907) 225-1788

The City of Ketchikan d/b/a Ketchikan Public Utilities (KPU), study area code 613013 provides, upon reasonable request, a minimum of 10 mbps downstream and 1 mbps upstream with latency of 100mS or less, sufficient for real time applications, including Voice of Internet Protocol, and usage capacity that is reasonably comparable to comparable offerings in urban areas as determined in an annual survey, and that requests for such service are met within a reasonable amount of time.

Line (3010) Progress Report of 5 Year Plan Milestone Certification

KPU certifies that it complies with the requirements set out in 47 C.F.R §54.313(f)(1)(i), which states:

- (i) A letter certifying that it is taking reasonable steps to provide upon reasonable request broadband service at actual speeds of at least 4 Mbps downstream/1 Mbps upstream, with latency suitable for real-time applications, including Voice over Internet Protocol, and usage capacity that is reasonably comparable to comparable offerings in urban areas as determined in an annual survey, and that requests for such service are met within a reasonable amount of time

CITY OF

# *Ketchikan*

ALASKA

COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For the Fiscal Year Ended December 31, 2014

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**CITY OF KETCHIKAN, ALASKA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

For the Year Ended  
December 31, 2014

Prepared by:

**FINANCE DEPARTMENT**

Robert E. Newell, Jr., CPA  
Director of Finance

Michelle L. Johansen  
Accounting Manager



**City of Ketchikan, Alaska**  
**Comprehensive Annual Financial Report**  
**For The Year Ended December 31, 2014**

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# LETTER OF TRANSMITTAL



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June 25, 2015

Honorable Mayor, Members of the City Council, and the Citizens  
of the City of Ketchikan, Alaska

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the City of Ketchikan, Alaska for the year ended December 31, 2014. Section 5.2 of the City Charter requires an independent audit of the City's financial records and transactions by a certified public accountant within four months after the end of the City's fiscal year. The City Council was notified on May 7, 2015 that the audit would be delayed due to the implementation of the City's new utility billing system.

The CAFR was prepared by the City of Ketchikan Finance Department. The accuracy of the data in this financial report, and the completeness and the fairness of the presentation, including all disclosures is the responsibility of management. To provide a reasonable basis for making these representations, a comprehensive internal control framework has been established that is designed to protect the City's assets from loss, theft, or misuse and to maintain sufficient reliable information for the preparation of the City's financial statements in conformity with generally accepted accounting principles. Because the cost of internal controls should not outweigh the benefits, the framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we attest that to the best of our knowledge and belief that this financial report is complete and reliable in all material aspects.

The City's financial statements were audited by Mecham, Richardson and Company. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the year ended December 31, 2014, are free of material misstatement. The independent audit involved examining on a test basis, evidence supporting the amounts and significant estimates made by management; and evaluating the overall financial statement presentation. Based upon the audit, the independent auditor concluded that there was a reasonable basis for rendering an unmodified opinion that the City's financial statements for the year ended December 31, 2014 are fairly presented in conformity with generally accepted accounting principles. The independent auditor's report is presented as the first component of the financial section of this report.

As a recipient of federal and state financial assistance, the City is required as part of its annual audit to undergo a federal single audit and a state single audit. The federal single audit was performed in accordance with the provisions of the Single Audit Act Amendments of 1996, and the US Office of Management and Budget's Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The state single audit was performed in accordance with the State of Alaska Single Audit Regulation 2 AAC 45.010 and *Audit Guide and Compliance Supplement for State Single Audits*. These audits were designed to meet the special needs of federal and state grantor agencies. The standards governing single audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the City's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal and state awards. Information related to these single audits, including the Schedules of Expenditures of Federal Awards and State Financial Assistance, the auditor's reports on the internal control and compliance with applicable laws and regulations, and the schedules of findings and questioned costs are included in separately issued reports.

Generally accepted accounting principles require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the independent auditor's report.

## **Profile of the Government**

The City of Ketchikan, incorporated in 1900, is a community of 8,314 and is the fifth largest city in Alaska. Located on Revillagigedo Island in southern Southeast Alaska, and within the boundaries of the Tongass National Forest, Ketchikan is 680 miles north of Seattle, Washington, and 230 miles south of Alaska's capital, Juneau. Ketchikan is the largest city located within the Ketchikan Gateway Borough and occupies five square miles.

The City is a home rule municipality operating under the Council-Manager form of government. The Mayor and the seven-member City Council are elected for staggered three-year terms by the community at large. Local elections are held annually in October. The governing board is responsible for enacting ordinances, adopting the annual budget, establishing policy, and appointing a City Manager/Utility General Manager, a City Clerk and a City Attorney.

The City Manager/Utility General Manager serves at the pleasure of the City Council and is responsible for implementing the ordinances and policies of the governing board; and overseeing the daily operations of general government and the City's public utilities, including Ketchikan Public Utilities (KPU), the municipally owned electric, telecommunications and water utility.

The City provides a full range of general government services, including police and fire protection; emergency medical services; cemetery; library; museum; harbors; parking; street maintenance and improvements; and solid waste collection and disposal. The City also operates three enterprise funds that provide port, wastewater, and electric, telephone and water utility services.

The annual budget serves as the foundation for the City's financial planning and control. In the fall of each year, departments of the City are required to submit requests for appropriations and capital projects to the City Manager/KPU General Manager. The City Manager/KPU General Manager uses these requests as the basis for developing a proposed annual budget and five-year capital improvement plan and presents both spending plans to the City Council for review in November. The City Council is required to hold a public hearing on the proposed budget and to adopt a final budget no later than three days before the start of the City's fiscal year, which begins on January 1. The appropriated budget is prepared by fund, function and department. Department heads may make certain transfers of appropriations within a department. Transfers of appropriations between departments and reserves require approval of the City Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund and all major special revenue governmental funds of the City, this comparison is presented as required supplementary information. For nonmajor government funds with appropriated budgets, this comparison is presented in the governmental funds subsection of this report.

## **Local Economy**

The information presented in the City's annual financial report is perhaps best understood when it is considered in the context of the local economy in which the City is a participant. From the moment of the City's founding in 1900, the local economy has been based on natural resources. During the early 1900's mining and fishing were important area industries. At one point in its history, Ketchikan was known as the "Salmon Capital of the World". By the 1950's, mining's role in the local economy had diminished and fishing was in the process of being replaced by timber as the major industry that would drive the local economy for nearly fifty years. This transition occurred because two 50-year timber contracts to cut timber in the Tongass National Forest were awarded by the US Forest Service. The contracts resulted in the construction of two major pulp mill facilities, one of which was located in Ketchikan, and the development of several saw mills in and near Ketchikan.

For most of the second half of the 20<sup>th</sup> Century, the fishing and timber industries co-existed and the community enjoyed the benefits of a stable economy that grew at a slow, but consistent pace. By the time the 1990's arrived, both industries were under duress. The fishing industry was suffering from high operating costs, excessive inventories, low market prices and competition from farmed fish. The timber industry was faced with addressing environmental issues; changing government regulations that affected the supply of timber from the Tongass National Forest and impacted the cost of doing business; and the premature cancellation of the 50-year timber contracts. Overcoming these issues was difficult at best and eventually resulted in the closure of

the Ketchikan pulp mill facility in 1997 and the subsequent closure of a several local saw mills and other regional timber operations in Southeast Alaska.

Ketchikan's economy is still dependent on natural resources but it has transitioned from one that is based on the extraction and development of natural resources to one that is more focused on the preservation of natural resources so they can be shared with future generations from around the world. The fishing and timber industries continue to play an important role in the local economy, but Ketchikan's popularity as a major port of call for large cruise ships and their passengers continues to grow. As a result, tourism has surpassed fishing and timber as the most vibrant segment of the local economy. The number of visitors arriving by large cruise ship has increased from 236,000 in 1990 to a record 938,000 in 2013. The latest forecast for 2015 is projecting that 29 large cruise ships will make 462 stops and bring approximately 944,000 passengers to the community. The growth in tourism has led local government and private businesses to make significant investments in the land-based facilities and port infrastructure necessary to accommodate the needs of the industry. The City invested over \$40 million dollars in 2006 to expand and improve its port berthing facilities. Private companies have invested millions of dollars to develop a retail complex at the former Spruce Mill property and Berth IV and its adjacent ground transportation area. The City recently completed phase three of a \$26 million four-phase project to replace Berths I and II. Phase four will be completed in 2016. Upon completion of phase four, the City will have completely replaced its port infrastructure with four modern cruise ship berths capable of serving approximately 1.8 million passengers annually.

The City is a major contributor to the community's economy and has played an important role in planning and supporting economic development. The City is the community's sole provider of electric utility services; the largest provider of port and harbor services; a major provider of telecommunication services; the owner of the Ketchikan Medical Center, a major regional health care facility; and the lead local governmental agency responsible for constructing and maintaining a significant portion of the community's transportation infrastructure, all of which affect the overall direction and health of the local economy. The City is one of the community's top five employers with an annual payroll of \$20.4 million.

The City is located within the boundaries of the Ketchikan Gateway Borough, which had a population of 13,825 in 2014. Approximately 60 percent of the community's population, or 8,314 residents, make their home within the city limits. The City's population peaked in 1997 at 8,552, the last year of operations for the Ketchikan Pulp Company. School enrollment also peaked in 1997 at 2,782 pupils and has since followed a similar downward trend, until bottoming out at 2,110 students in 2009. In 2014, the Ketchikan Gateway Borough School District reported an enrollment of 2,360 pupils.

The shift in the local economy from timber to tourism has resulted in a labor force that has become more seasonal. In 2014, the monthly employment varied between 5,839 and 7,566. The average employed labor force in 2014 was 6,539 with employment peaking at 7,566 in July. The unemployment rate for 2014 was 7.6 percent, a slight increase from the 7.5 percent that was reported for 2013. Per capita income for 2011, 2012 and 2013 was \$54,824, \$56,045 and \$56,591, respectively. No figures were available for 2014.

In 2014, assessed values increased by 1.4% to \$869.8 million. The projected change in assessed values for 2015 is less than 1%. Assessed values appear to be entering another period of little or no appreciation in property values. Gross retail sales decreased from \$570.4 million in 2013 to \$558.7 million in 2014, or 2.1 percent and taxable retail sales declined by 3.4%. The City collected 10.8 million in sales tax revenues in 2014, or 5.7 percent more than 2013 but the increase was due to the City's decision to raise its sales tax rate from 3.5% to 4, effective April 1, 2014.

### **Long-Term Financial Planning and Relevant Financial Policies**

The mission of the City is to provide cost effective programs and services consistent with the goals of preserving and enhancing the current quality of life enjoyed by the citizens of Ketchikan. The long-term financial planning efforts of the City are directed towards identifying events and situations that may hinder the City's ability to achieve these goals, taking proactive or preemptive roles in developing strategic solutions to address the challenges that have been presented, and developing reasonable and prudent plans for ensuring that the City has the financial resources available to carry out its strategic solutions. In this context, the governing board and management of the City strive to promote policies and adopt plans that:

- Minimize the local tax burden and support reasonable and equitable fees for local government services.

- Encourage the development of reliable utility services that are adequate to meet the demands of the community at affordable rates that encourage private investment in the community.
- Actively address state mandates or regulatory issues that threaten to increase the cost of local government.
- Support full funding for the development and maintenance of infrastructure necessary to encourage economic development in the community and maintain Ketchikan's position as the major economic hub of Southern Southeast Alaska.

**Harbors Development** – The community's five harbors serve the boating public, commercial fishermen and other commercial marine enterprises. These harbors used to be owned and maintained by the State of Alaska until they were transferred to the City over the course of several years, with the first transfer taking place in 2001. Under State ownership, the harbors were not well maintained and many of the transferred harbors had fallen into disrepair. Included in the City's 2015-2019 Capital Improvement Program for the Harbor Department is \$6.6 million to correct the remaining deficiencies caused by deferring maintenance and to restore the harbor facilities so they can be operated safely. To finance these projects, the City plans to issue up to \$5 million in general obligation bonds and has already dedicated its share of the state raw fish tax for harbor improvements. In order to provide for the debt service on the general obligation bonds, the City Council has adopted a plan to increase harbor rates as the bonds are issued. In 2013, a 7% rate increase was approved and a second 7% rate increase for 2014 was recently approved. As of December 31, 2014 the City had issued \$2.72 million in general obligation bonds for improvements that are currently under construction. The City plans to issue up to \$2 million in general obligation bonds for additional improvements planned for 2015.

**Ketchikan Medical Center** – In 2009, the City Council approved a master plan for the Ketchikan Medical Center, which is owned by the City and operated by PeaceHealth of Bellingham, WA under a long-term lease agreement with the City. The master plan concluded that the current facility is outdated and recommended improvements totaling \$75 million. The plan recommended a new wing consisting of a surgical suite and clinical space; the relocation of the main and emergency room entrances; and renovations to the existing structure. In 2014, the City issued a \$41.3 million general obligation bond and secured a \$15 million state grant and began construction of the new wing. This phase is expected to cost approximately \$50 million. Debt service for the bond will be provided from the City's current 1% Hospital Sales Tax. The City has about \$8 million available for the remaining improvements recommended by the master plan and will need to seek \$12 million in additional funding before it can begin work on these improvements. The wing is expected to be completed in June 2016.

**Sale of the Telecommunications Utility** – On April 6, 2010, the qualified voters of the City passed a ballot proposition authorizing a sale of the City owned telecommunication utility by a vote of 388 to 375. This proposition was driven by growing concerns about KPU Telecommunications' long-term ability to participate financially in a very competitive industry that requires continuing investments in technology and infrastructure necessary to meet consumer demand for new and innovated telecommunication products and services. Since 2010, the City has been working with a broker specializing in purchasing and selling telecommunication properties. Discussions have been held with potential buyers but none of discussions resulted in an offer that could be presented to the City Council for consideration. The City's broker has recently identified several parties that have expressed an interest in acquiring the City's telecommunications utility. It is premature to say that an offer will be forthcoming but if a sale does occur, the City will face several fiscal challenges operating its electric and water utilities without the subsidies that have been provided by the telecommunications utilities.

**State Fiscal Crisis** – The State of Alaska is an oil producing state that relies heavily on taxes assessed against oil companies operating the oil fields located in the state to fund its operating and capital budgets. The recent decline in oil prices has had a dramatic impact on the State's revenue forecast for its upcoming fiscal year, which begins on July 1, 2015. Absent any significant reductions in spending, the State is facing a \$3 billion budgetary shortfall in Fiscal Year 2016. The fiscal health of the State is important to the City and other local governments around the State. The City relies on the State to provide revenue sharing of approximately \$500,000 annually to fund its General Fund and millions of dollars in grants to help pay for the cost of transportation and utility infrastructure improvements. In addition to the direct financial assistance the State provides to the City, it also provides employment opportunities for approximately 9% of the local labor force. The loss of employment opportunities with the State could have an adverse impact on the local economy.

Depending on the duration of the depressed oil prices, the City may have to adjust its long-term planning to account for the loss of revenues and employment opportunities from the State.

**Property Tax and Debt Policies** – The City currently subscribes to a policy of maintaining a stable property tax levy in order to promote Ketchikan as an attractive place to live and encourage economic development. Changes in the property tax levy are made in the context of a long-term perspective. As a result, increases or decreases in the property tax levy are made only if the long-term financial needs of the City warrant such changes. Short-term financial needs are addressed by making adjustments to the reserves of the City’s general fund. The policy has been successful for the 25 years. Since 1990, the City has lowered its mill rate six times and raised it twice.

The City Charter requires that the voters authorize all general obligation and revenue bonds issued by the City at either a special or regular municipal election. The City currently limits the issuance of revenue bonds to finance improvements for its electric, telecommunications, water and wastewater utilities and its port operations. In addition, revenue bonds can only be issued provided that the net revenue available from the pledged activities is equal to or greater than 1.25 times annual debt service after the issuance of the revenue bonds.

### **Major Initiatives**

The City is a part of a progressive community that seeks to improve the quality of life for its citizens. During 2014, a number of initiatives were undertaken by the City to improve the utility infrastructure, encourage economic development, enhance public safety and public health, promote the education and cultural experience of its citizens, and improve administrative efficiencies of city government. Some of the major initiatives are as follows:

- Issued a \$41.32 million general obligation bond to finance a new surgical suite and clinical offices for the Ketchikan Medical Center. This project is the cornerstone of the community’s strategic plan for improving the delivery of health care in Ketchikan and southern Southeast Alaska.
- Issued a \$2.72 million general obligation bond to finance harbor improvements planned for Bar Harbor. This project will replace two major floats that are in dire need of replacement.
- Implemented a community wide all hazards warning system.
- Completed the long overdue renovation of City Hall. The project included a new roof, new siding and completely revamped offices for the finance department and a customer service area on the first floor.
- Implemented a new utility billing system for utility and miscellaneous billing. This system is part of the City’s multi-year ERP project
- Placed the \$31 million Whitman Lake hydroelectric project in service. This project will reduce the community’s reliance on diesel generation and eventually result in lower rates for energy.
- Completed the \$5.8 million Bar Harbor drive down float facility. This new facility will allow vehicular access to marine vessels for the purpose of loading and unloading supplies and materials. The drive down float will be used by the general public and the commercial fishing fleet.
- Completed and placed in service a multi-million dollar 4G/LTE wireless telecommunication network.
- Completed and placed in service the third phase of the four phase Berths I and II Replacement Project. This \$8.8 million phase replaced the Front Street extension adjacent to the Port of Ketchikan and the ground transportation area for Berth II.
- Completed and placed in service the Jackson/Monroe sewer and water main replacement project. This \$8.1 million project will improve sewer and water services to a major residential area of Ketchikan.
- Hired a new Fire Chief and manager for the Ted Ferry Civic Center.

## Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (the "GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report for the fiscal year ended December 31, 2013. This was the thirty-fifth year that the City has received this prestigious award.

In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of the comprehensive annual financial report was a team effort on the part of the professional staff of the Finance Department. Without their efforts, it would not have been possible to produce this report. Each member worked many extra hours and exhibited an extraordinary effort to ensure the accuracy and timeliness of this report. We appreciate their dedication and the contributions they made to this effort. These individuals are:

Stan Aegerter	Joe Graham
Anita Beaudoin	Patty Keeley
Gretchen Blanchard	Camille Nelson
Vickie Boyd	Korry Olsen
Angie Delaney	Tracey Sader
Cristina Doyle	Terry Sivertsen

We would also like to express our appreciation to City Manager Karl Amylon and personnel from other City departments who assisted us in the preparation of this financial report. Finally, we would like to thank the Mayor and members of the City Council for their continued interest and support in planning and conducting the financial affairs of the City in a dedicated and responsible manner.

Respectfully submitted,



Robert E. Newell, Jr., CPA  
Finance Director



Michelle L. Johansen  
Accounting Manager



Government Finance Officers Association

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

Presented to

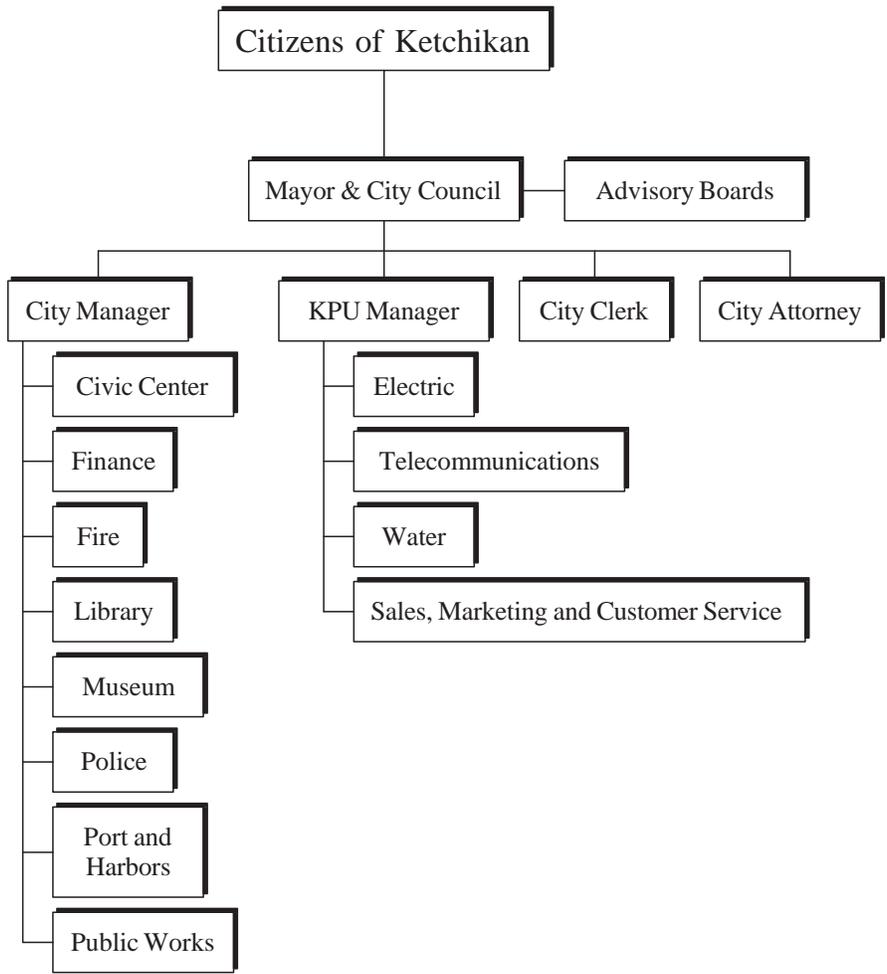
**City of Ketchikan  
Alaska**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**December 31, 2013**

  
Executive Director/CEO

**CITY OF KETCHIKAN, ALASKA**  
ORGANIZATIONAL CHART  
DECEMBER 31, 2014



# CITY OF KETCHIKAN, ALASKA

## PRINCIPAL CITY OFFICIALS

*December 31, 2014*

### MAYOR AND CITY COUNCIL

<i>City Mayor</i>	<i>Lew Williams III</i>
<i>City Councilmember</i>	<i>KJ Harris</i>
<i>City Councilmember</i>	<i>DeAnn Karlson</i>
<i>City Councilmember</i>	<i>Matt Olsen</i>
<i>City Councilmember</i>	<i>Robert Sivertsen</i>
<i>City Councilmember</i>	<i>David Kiffer</i>
<i>City Councilmember</i>	<i>Judy Zenge</i>
<i>City Councilmember</i>	<i>Richard Coose</i>

### CITY STAFF

<i>City Manager/KPU General Manager</i>	<i>Karl R. Amylon</i>
<i>City Clerk</i>	<i>Katherine M. Suiter</i>
<i>City Attorney</i>	<i>Mitchell A. Seaver</i>
<i>Finance Director</i>	<i>Robert E. Newell, Jr.</i>
<i>Police Chief</i>	<i>Alan W. Bengaard</i>
<i>Fire Chief</i>	<i>Abner L. Hoage</i>
<i>Acting Public Works Director/Engineering Mgr.</i>	<i>Steven R. Corporon</i>
<i>Library Director</i>	<i>Linda S. Lyshol</i>
<i>Museum Director</i>	<i>Lacey G. Simpson</i>
<i>Civic Center Manager</i>	<i>Alice M. Nelson</i>
<i>Port and Harbors Director</i>	<i>Steven R. Corporon</i>
<i>Telecommunications Utility Manager</i>	<i>Edward L. Cushing</i>
<i>Water Utility Manager</i>	<i>John C. Kleinegger</i>
<i>Electric Utility Manager</i>	<i>Andrew R. Donato</i>
<i>Sales, Marketing &amp; Customer Service Manager</i>	<i>Kim N. Simpson</i>



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# INDEPENDENT AUDITOR'S REPORT



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**MECHAM, RICHARDSON AND COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS**

Member of the AICPA Private Companies Practice Section

1734 TONGASS AVENUE  
KETCHIKAN, ALASKA 99901  
(907) 225-9688  
FAX (907) 225-9687

Partners  
Edward B. Mecham, CPA  
S. Dirk Richardson, CPA

**INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and  
Members of the City Council  
City of Ketchikan  
Ketchikan, Alaska

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ketchikan, Alaska as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

***Managements Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

### ***Opinions***

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

### ***Other Matters***

#### *Required Supplementary information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and budgetary comparison information on pages 19 through 33 and 77 through 80, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ketchikan, Alaska's basic financial statements. The combining and individual major and nonmajor fund financial statements, and schedules, as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual major and nonmajor fund financial statements, and schedules, as listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 combining and individual major and nonmajor fund financial statements,

**MECHAM, RICHARDSON AND COMPANY**  
**CERTIFIED PUBLIC ACCOUNTANTS**

To the Honorable Mayor and  
Members of the City Council  
City of Ketchikan, Alaska

and schedules, as listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

***Other Reporting required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2015 on our consideration of the City of Ketchikan'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 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 of Ketchikan's internal control over financial reporting and compliance.

*Mecham, Richardson and Company*

Ketchikan, Alaska  
June 25, 2015



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the City of Ketchikan is pleased to provide the users of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2014. We encourage users to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the information included in the notes to the financial statements.

### Financial Highlights

- The City's assets exceeded its liabilities by \$336.6 million (net position) for the calendar year reported.
- Total net position is comprised of the following:
  - 1) Net investment in capital assets of \$268.4 million, include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
  - 2) Resources of \$20.4 million are restricted by constraints imposed from outside the City such as debt covenants, granting agencies, laws, or regulations.
  - 3) Unrestricted resources of \$47.8 million are available to maintain the City's continuing obligations to its citizens and creditors.
- The City's governmental funds reported total ending fund balance of \$71.5 million this year. This compares to the prior year ending fund balance of \$26.9 million showing an increase of \$44.7 million during the current year.
- At the end of the current calendar year, unassigned fund balance for the General Fund was \$3.7 million, or 15 percent of total General Fund expenditures. This was an increase of \$372,906 from the prior year. The General Fund also reported an operating deficit of \$252,265.
- The City's proprietary funds reported total ending net position of \$164.5 million this year. This compares to the prior year ending net position of \$158.7 million, an increase of \$5.8 million.
- The City's mill rate remained at 6.7. The City has only increased its mill rate twice in past 24 years.

The above financial highlights are explained in more detail in the "financial analysis" section of this document.

### Overview of the Financial Statements

This discussion and analysis introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The City also includes in this report additional information to supplement the basic financial statements. Comparative data is presented when available.

### Government-wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall financial status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in accrual accounting and elimination or reclassification of activities between funds.

The first of these government-wide statements is the *Statement of Net Position*. This is the government-wide statement of position presenting information that includes all of the City's assets and liabilities, 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 as a whole is improving or deteriorating. Evaluation of the overall health of the City would extend to other

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nonfinancial factors such as the diversification of the taxpayer base or the condition of City infrastructure, in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities*, which reports how the City's net position changed during the current calendar year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both of the government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, public works, culture, harbors, and health and welfare. Business-type activities include Ketchikan Public Utilities (KPU), the Port of Ketchikan and wastewater utility services.

### ***Fund Financial Statements***

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund information for nonmajor funds is provided in the form of combining statements in a later section of this report.

The City has two kinds of funds:

*Governmental funds* are reported in the fund financial statements and encompass the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term calendar accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund operating statement provide a reconciliation to assist in understanding the differences between these two perspectives.

*Proprietary funds* are reported in the fund financial statements and generally report services for which the City charges customers a fee. The City has five proprietary funds; three are classified as enterprise funds and two are internal service funds. The enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the City organization for electric, water, telecommunications and wastewater utilities and port facilities.

Internal service funds are an accounting mechanism used to accumulate and allocate costs internally among the City's various functions. The City uses internal funds to account for its risk management and insurance programs and compensated absences. Internal service fund assets and liabilities are predominantly governmental and have been included in the governmental activities of the government-wide statements of net position.

### ***Notes to the Basic Financial Statements***

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

***Required Supplementary Information***

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budget presentations. A budgetary comparison schedule is included as "required supplementary information" for the general fund. The schedule demonstrates compliance with the City's adopted and final revised budget.

***Supplementary Information***

As discussed, the City reports major funds in the basic financial statements. Combining and individual statements and schedules for nonmajor funds are presented as supplementary information in this report.

**Government-wide Financial Analysis**

***Statement of Net Position***

The City's net position at December 31, 2014 and 2013 totaled \$336.6 million and \$310.6 million, respectively. The net position for the City as a whole increased by \$26 million. The following table summarizes the net position of the City's governmental and business-type activities:

*(This page continued on the subsequent page)*

City of Ketchikan's Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 83,084,963	\$ 35,712,438	\$ 45,129,957	\$ 47,595,777	\$ 128,214,920	\$ 83,308,215
Capital assets	157,351,713	136,879,120	188,432,159	185,691,495	345,783,872	322,570,615
Deferred outflows of resources	60,887	81,183	61,284	129,454	122,171	210,637
Total assets & def. outflows	<u>240,497,563</u>	<u>172,672,741</u>	<u>233,623,400</u>	<u>233,416,726</u>	<u>474,120,963</u>	<u>406,089,467</u>
Current and other liabilities	8,231,283	5,362,395	\$ 7,466,238	\$ 10,175,550	15,697,521	15,537,945
Long-term liabilities	<u>60,188,680</u>	<u>15,427,703</u>	<u>61,630,581</u>	<u>64,528,523</u>	<u>121,819,261</u>	<u>79,956,226</u>
Total liabilities	<u>68,419,963</u>	<u>20,790,098</u>	<u>69,096,819</u>	<u>74,704,073</u>	<u>137,516,782</u>	<u>95,494,171</u>
Net position:						
Net investment in capital assets	143,909,094	123,952,440	124,479,056	118,874,119	268,388,150	242,826,559
Restricted	8,922,032	8,148,212	11,494,674	9,098,473	20,416,706	17,246,685
Unrestricted	<u>19,246,474</u>	<u>19,781,991</u>	<u>28,552,851</u>	<u>30,740,061</u>	<u>47,799,325</u>	<u>50,522,052</u>
Total net position	<u>\$ 172,077,600</u>	<u>\$ 151,882,643</u>	<u>\$ 164,526,581</u>	<u>\$ 158,712,653</u>	<u>\$ 336,604,181</u>	<u>\$ 310,595,296</u>

The largest component of the City's net position is its net investment in capital assets. The City's net investment in capital assets accounts for 79.7 percent of its net position. These capital assets include land, buildings, equipment, vehicles, and infrastructure used to provide services to the citizens of the City. These assets are not available for future spending. For the City as a whole, its net investment in capital assets increased by \$25.6 million. The net investment in capital assets for the City's governmental activities increased by \$20 million and the net investment in capital assets for business-type activities increased by \$5.6 million.

Approximately 6.1 percent of the City's net position is restricted because of limitations placed on how these resources may be used. Included are resources restricted for debt service, bond proceeds for capital improvements, state grants for harbor improvements, Commercial Passenger Vessel Excise Tax funds for services provided to passengers and program specific resources accounted for in special revenue funds. The resources restricted for harbor improvements were awarded to the City at the time it assumed ownership of previously owned state harbor facilities. Programs provided by the City include solid waste collection and disposal, harbors, and cemetery services.

A portion of the City's net position is unrestricted and may be available to meet the City's ongoing financial obligations. This portion represents resources not restricted by external requirements nor invested in capital assets. The unrestricted portion of net position amounted to \$48.0 million, or 14.2 percent of total net position. This is a decrease of \$2.7 million from 2013. Unrestricted net position reported for the City's governmental activities decreased by \$536,000 and the unrestricted net position of the City's business-type activities decreased by \$2.2 million.

Net position may serve over time as a useful indicator of a government's financial position. Since the City began reporting its net position in 2003, it has increased from \$207.2 million to \$336.6 million. Over the past 11 years, the City's financial position has improved by \$129.4 million, or 62 percent.

**Changes in Net Position**

The City's net position increased \$26 million in 2014. The net position for governmental and business-type activities increased \$20.2 and \$5.8 million, respectively. The following table provides a summary of the changes in the City's net position:

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

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program:						
Charges for services	\$ 6,640,071	\$ 6,428,833	\$ 46,723,153	\$ 48,761,367	\$ 53,363,224	\$ 55,190,200
Operating grants and contributions	2,444,297	1,562,913	2,973,832	2,280,470	5,418,129	3,843,383
Capital grants and contributions	18,050,935	2,736,373	12,261,064	20,670,211	30,311,999	23,406,584
General:						
Taxes	16,897,495	16,099,913	-	-	16,897,495	16,099,913
Other	850,706	739,077	456,031	494,470	1,306,737	1,233,547
Total revenues	44,883,504	27,567,109	62,414,080	72,206,518	107,297,584	99,773,627
Expenses:						
General government	2,683,962	2,472,898	-	-	2,683,962	2,472,898
Public safety	9,723,428	8,807,683	-	-	9,723,428	8,807,683
Culture	3,300,295	3,445,959	-	-	3,300,295	3,445,959
Health and welfare	1,099,588	747,893	-	-	1,099,588	747,893
Public works	10,373,365	10,840,175	-	-	10,373,365	10,840,175
Harbor	2,192,468	1,851,082	-	-	2,192,468	1,851,082
Interest	1,519,245	655,947	-	-	1,519,245	655,947
KPU	-	-	36,906,790	38,140,800	36,906,790	38,140,800
Port	-	-	11,012,311	9,133,140	11,012,311	9,133,140
Wastewater	-	-	2,477,247	2,642,018	2,477,247	2,642,018
Total expenses	30,892,351	28,821,637	50,396,348	49,915,958	81,288,699	78,737,595
Increase in net position before transfers	13,991,153	(1,254,528)	12,017,732	22,290,560	26,008,885	21,036,032
Transfers	6,203,804	1,265,199	(6,203,804)	(1,265,199)	-	-
Increase in net position	20,194,957	10,671	5,813,928	21,025,361	26,008,885	21,036,032
Net position - January 1	151,882,643	151,871,972	158,712,653	137,687,292	310,595,296	289,559,264
Net position - December 31	\$ 172,077,600	\$ 151,882,643	\$ 164,526,581	\$ 158,712,653	\$ 336,604,181	\$ 310,595,296

**Governmental Activities.** The City's net position from governmental activities increased \$20.2 million. This increase is \$20,184,286 more than the increase that occurred in 2013. The key elements in the change in net position from the prior year are as follows:

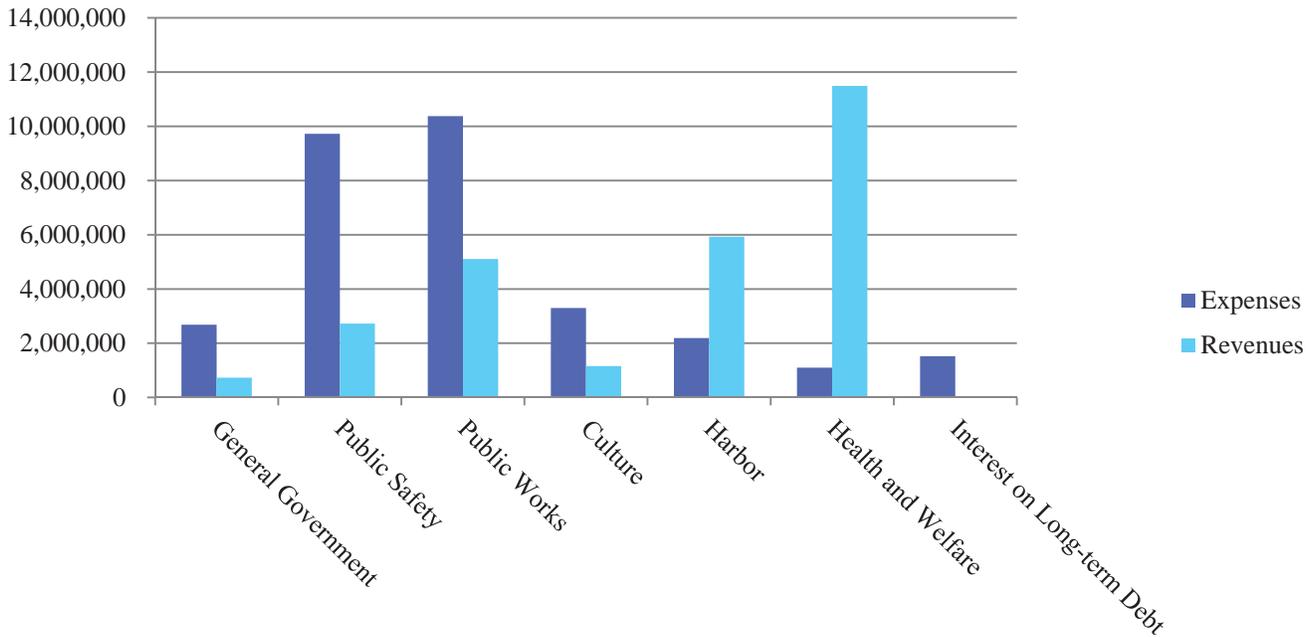
- Capital grants and contributions increased by \$15.3 million. Nearly \$9 million of the increase is attributable to a grant from the State of Alaska to fund the new addition for the Ketchikan Medical Center. The remaining balance of the increase came from a grant to fund harbor improvements at Bar Harbor and a grant for the construction of promenade located in downtown Ketchikan adjacent to Stedman Street.

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- Operating grants and contributions increased by \$881 thousand. The decision by the State of Alaska to increase its on-behalf retirement contributions to the Alaska Public Employees Retirement System (PERS) resulted in the City receiving \$1.3 million more than 2013. The on-behalf payments were allocated between governmental and business-type activities.
  - Tax revenues increased by \$798 thousand. The increase occurred because the City raised its consumer sales tax rate from 3.5% to 4%, effective April 1, 2014.
  - Public safety expenses increased by \$916 thousand. Approximately 62% of the increase was attributable to the increase in the on-behalf retirement contributions made by the State of Alaska to the PERS.
  - Health and welfare expenses increased \$352 thousand. Approximately 44% of the increase was for bond issuance costs associated with the issuance of a \$43.2 million general obligation bond to finance improvements for the Ketchikan Medical Center. The remaining balance was for increased maintenance costs associated with an aging facility.
  - Public works expenses decreased \$467 thousand. The decrease was driven primarily by vacancies and decreases in maintenance costs and costs associated with the abatement of abandoned buildings.
  - Interest expenses increased by \$863 thousand because the City issued \$44 million dollars of general obligation bonds to finance improvements for its healthcare and harbor facilities. The bonds were issued in June 2014.
  - Transfers increased by \$4.94 million due to transfers from the Port Enterprise Fund into the Major Capital Improvements Fund to fund the cost of the replacement of the Front Street Extension and the design for the reconstruction of the Thomas Basin Seawall.

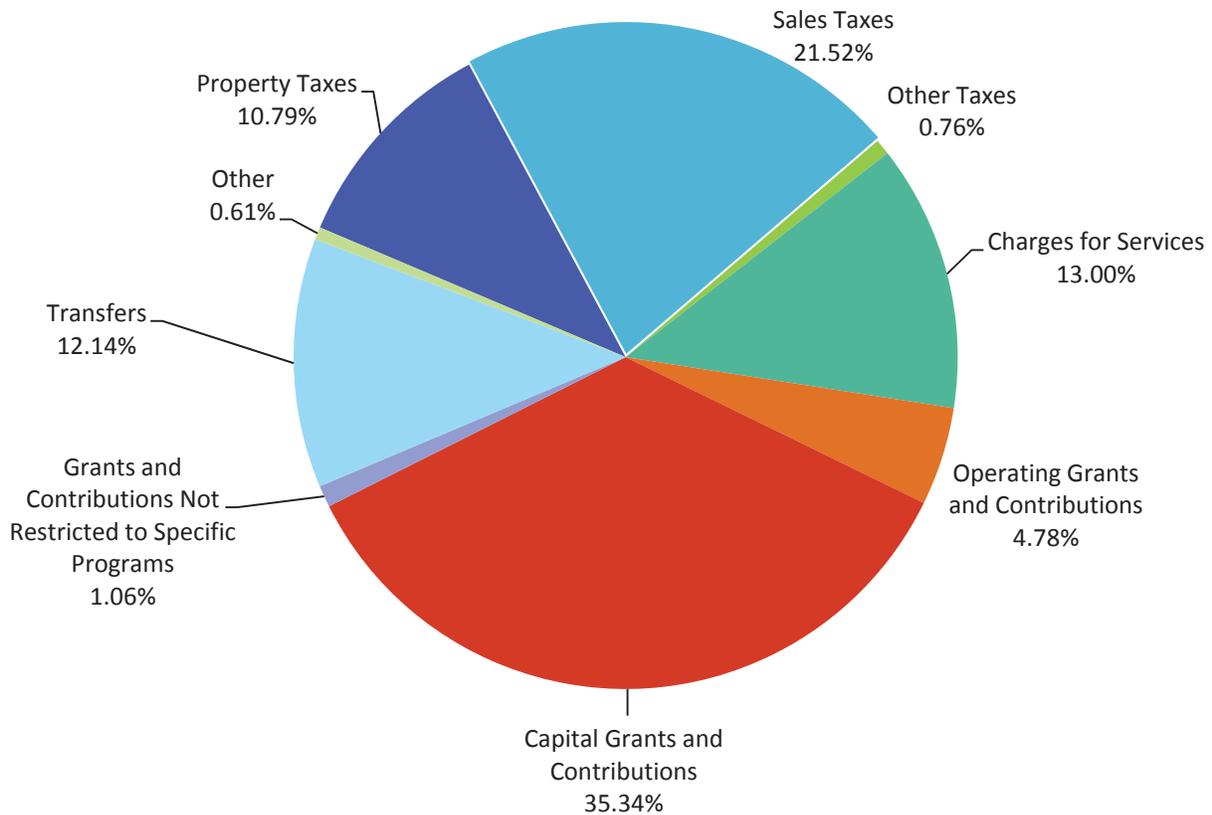
The following graphs compare program revenues with expenses and illustrate the revenues by source for governmental activities.

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**EXPENSES AND PROGRAM REVENUES –GOVERNMENTAL ACTIVITIES**



**REVENUE BY SOURCE – GOVERNMENTAL ACTIVITIES**



**Business-type Activities.** The City's net position from business-type activities increased \$5.8 million. This increase is \$15.2 million less than the increase that occurred in 2013. The City's business-type activities include electric, telecommunications, water and wastewater utilities; and port operations. The key elements in the change in net position from the prior year are as follows:

Charges for services decreased \$2 million. The table below summarizes charges of services by business-type activity.

	2014	2013
Electric	\$ 16,300,445	\$ 18,839,766
Telecommunications	16,097,808	15,241,977
Water	3,171,300	3,081,904
Port	8,578,059	9,145,920
Wastewater	2,575,541	2,451,800
	<u>\$ 46,723,153</u>	<u>\$ 48,761,367</u>

Electric utility revenues decreased \$2.5 million. This decrease was the result of suspending the surcharge implemented in 2013 to recover from the ratepayers the incremental costs of diesel generation and less demand for energy due to an unusually warm winter. Telecommunication utility revenues increased \$919,000 due to customer demand for non-regulated services such as internet and television, and special access revenues. In July 2014, the National Exchange Carriers Association, a not-for-profit association created to administer fees that long distance companies pay to access local telephone networks, increased special access tariff significantly. Water and wastewater revenues increased due to rate increases of 8% and 4%, respectively. Port revenues decreased \$568,000 primarily because of a decrease in the number of passengers arriving by cruise ship. The number of passengers decreased from 938,000 in 2013 to 878,000 in 2014, largely due the cancellation of sailings by a major cruise ship due to mechanical issues.

Capital grants and contributions decreased \$8.4 million due to the winding down of a number of multi-year utility and port capital improvements projects. In 2014, the City completed the Whitman Lake hydroelectric project, the third phase of the Berth I and II replacement project, and the Jackson and Monroe Streets sewer and water main replacement project.

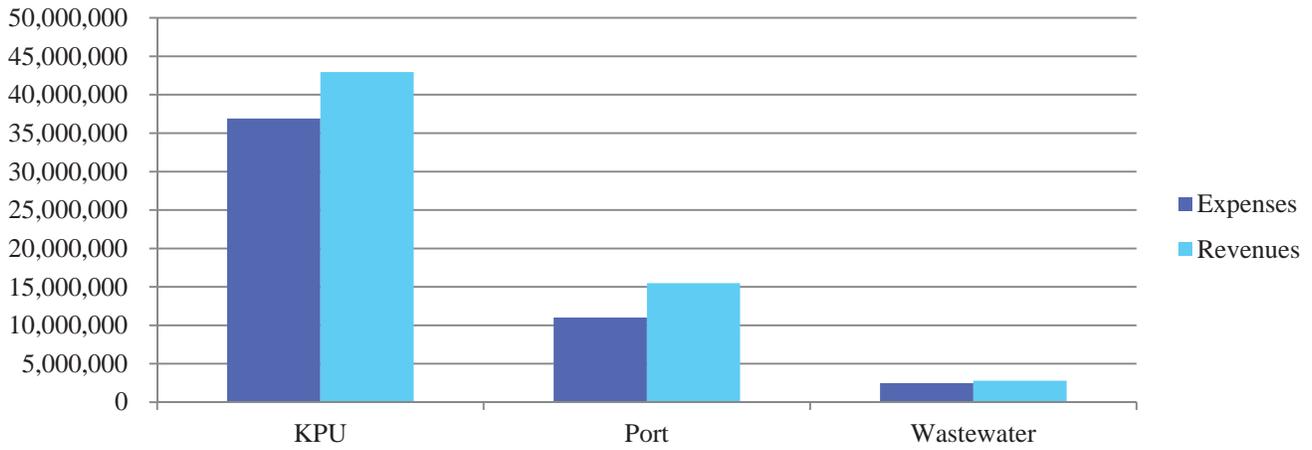
The overall expenses of the City's business-type activities for 2014 increased from \$49.9 million to \$50.4 million, or \$481 thousand. The table summarizes expenses by business-type activity

	2014	2013
Electric	\$17,352,078	\$19,685,532
Telecommunications	15,649,634	14,429,057
Water	3,905,078	4,026,211
Port	11,012,311	9,133,140
Wastewater	2,477,247	2,642,018
	<u>\$50,396,348</u>	<u>\$49,915,958</u>

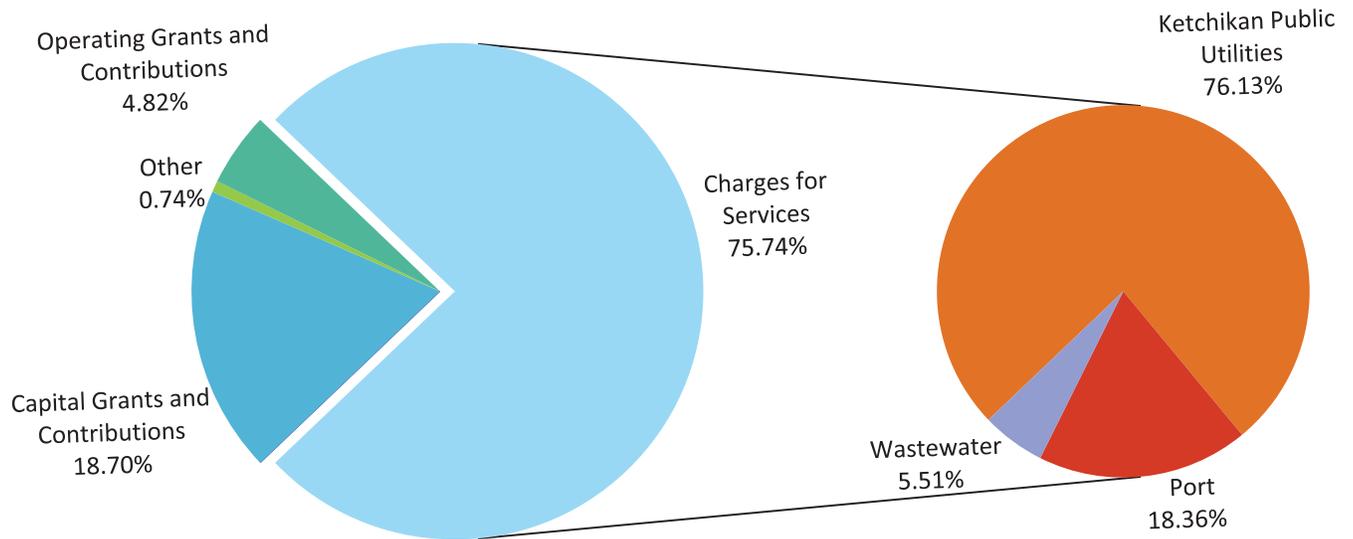
The expenses of the electric utility decreased in 2014 by \$2.3 million. Nearly 80% of the decrease was due to not needing to operate the diesel generators to meet consumer demand for electric energy in 2014. The expenses of the telecommunications utility increased \$1.3 million because of the growth of its non-regulated internet, IPTV and wireless operations. This growth has increased the cost of operations by \$680,000 and depreciation by \$344,000. The expenses of the port increased \$1.9 million due to the write-off of port assets that were replaced as part of the Berths I and II Replacement Project. In 2014, the City completed Phase III.

The following graphs compare program revenues with program expenses and illustrate the revenues by source for business-type activities.

**EXPENSES AND PROGRAM REVENUES –BUSINESS-TYPE ACTIVITIES**



**REVENUE BY SOURCE –BUSINESS-TYPE ACTIVITIES**



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**Financial Analysis of the City's Funds**

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The following is an analysis of the City major governmental funds and proprietary funds.

**Governmental Funds.** The financial statements of governmental funds show more detail than governmental activities in the government-wide financial statements and focus on near-term, inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

The City's governmental funds reported combined ending fund balances of \$71.5 million, an increase of \$44.7 million or 166.3%, from last year. Nonspendable fund balances total \$419,000 and consists entirely of land held for resale. Restricted fund balances total \$46.4 million. Assigned fund balances total \$21 million and includes \$2.4 million for subsequent year's budget deficit, \$6.2 million for streets and sidewalks maintenance and other public works projects, \$5.8 million for public health, \$2.5 million for solid waste, \$1.4 million for abatement of dangerous buildings and parking development, and \$1 million for harbors.

The general fund is the primary operating fund of the City through which all receipts of and payments for City operations are processed unless they are required to be accounted for in another fund. By definition, it is a major governmental fund under generally accepted accounting principles. Total general fund revenues for 2014 amounted to \$24.9 million, an increase of \$1.7 million from 2013. Raising the City's sales tax rate from 3.5% to 4% effective April 1, 2014 accounted for \$583 thousand of the increase and the balance is attributable to the increase in on-behalf retirement payments made by the State of Alaska to the Alaska Public Employees Retirement System (PERS). Total general fund expenditures for 2014 amounted to \$24.8 million, an increase of \$926 thousand from 2013. Most of the increase in expenditures was attributable to the on-behalf retirement payments made to PERS. The total fund balance of the general fund decreased from \$17.1 million in 2013 to \$16.8 million in 2014. The unassigned fund balance increased from \$3.35 million to \$3.72 million.

The Hospital Construction Fund is a new major fund established in 2014 to account for the proceeds from the City's \$41.3 million general obligation bond that was issued in May 2014 to finance the construction a major addition to the Ketchikan Medical Center, a health care facility owed by the City and operated by PeaceHealth of Bellingham, Washington. The fund also accounts for the proceeds from a \$15 million grant awarded by the State of Alaska. This grant will also be used to finance the new addition. In 2014, the fund reported intergovernmental revenues of \$8.9 million and construction expenses of \$9.2 million. The proceeds from the bond sale amounted to \$43.2 million including bond premiums of \$1.8 million. The fund ended the year with a restricted fund balance of \$42.7 million.

The Major Capital Improvements Fund is the primary capital project fund of the City. Its primary sources of revenues are federal and state grants and bond proceeds. In 2014, the fund reported intergovernmental revenues of \$1.7 million and a transfer of \$4.9 million from the Port Enterprise Fund. Construction expenses of \$6.4 million were incurred in 2014. The fund ended the year with a fund balance of \$271 thousand, of which \$197 thousand was restricted.

The Harbor Improvements Fund is the capital project fund of the City used to account for a multi-phased capital improvement program to modernize the City's harbor infrastructure. Its primary sources of revenues are federal and state grants and bond proceeds. In 2014, the fund reported intergovernmental revenues of \$4.4 million, proceeds from the issuance of a general obligation bond in an amount of \$3 million, and construction expenses of \$5.8 million. The fund ended the year with a fund balance of \$2.9 million, of which \$2.7 million was restricted.

**Proprietary Funds.** The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status. Factors concerning the finances of the City's three proprietary funds have already been addressed in the discussion of the City's business-type activities.

### General Fund Budgetary Highlights

The legally adopted 2014 budget for the general fund does not include all the City funds that must be accounted for as part of the General Fund as defined by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. For more information on the City's general fund, please see the combining statements for the general fund.

The adopted 2014 Budget for the general fund projected annual revenues of \$18.02 million and was subsequently amended to \$18.06 million. All the amendments involved the acceptance of grant awards for public safety and cultural activities. Actual revenues totaled \$16.6 million, which resulted in unfavorable budget variance of \$1.42 million. This was attributable to the City Council's decision to pursue a sales tax increase that was different from the one that was included in the adopted 2014 Budget.

The adopted 2014 Budget for general fund included appropriations for expenditures totaling \$19.95 million. During the year, the 2014 Budget was amended to increase appropriations for expenditures by \$33,914. The City Council also authorized transfers totaling \$34,645 from reserves to appropriations for expenditures. The amendments and the transfers increased appropriations for expenditures to 20.02 million. All of the amendments provided appropriations for spending the proceeds from grants awards for public safety and cultural activities. The transfers were used to providing additional funding for community promotion and professional services. Actual expenditures totaled \$18.32 million. Vacancies, mild winter weather and City departments generally spending less than the amount appropriated for their department contributed to a positive budget variance. In 2014, the general fund incurred a surplus of \$766 thousand. This was a significant improvement over the deficits of \$211 thousand and \$1.01 million reported in 2013 and 2012, respectively. The improvement was the result of a combination of the City Council's efforts to control spending and an increase in the City's sales tax rate from 3.5% to 4%.

### Capital Assets and Debt Administration

#### *Capital Assets*

The City's investment in capital assets for its governmental and business-type activities, net of accumulated depreciation as of December 31, 2014, amounts to \$345.8 million. This investment in capital assets includes land, buildings, improvements, utility plants, port facilities, machinery and equipment, and infrastructure. The total increase in the City's investment in capital assets, net of accumulated depreciation, was \$23.2 million or 7.2 percent. The City's investment in governmental activities increased \$20.5 million and business-type activities capital assets increased by \$2.7 million. See Note 3-E for additional information about changes in capital assets during the calendar year and the amount outstanding at the end of the year. The following table provides a summary of capital asset activity.

*(This page continued on the subsequent page)*

Capital Assets

	Governmental Activities		Business Activities		Total	
	2014	2013	2014	2013	2014	2013
Non-depreciable assets:						
Land	\$ 28,904,498	\$ 28,904,498	\$ 4,498,606	\$ 4,450,356	\$ 33,403,104	\$ 33,354,854
Easements	588,168					
Construction in progress	17,112,926	6,087,334	4,302,650	40,159,571	21,415,576	46,246,905
Intangibles and other	100,750	100,750	306,502	981,630	407,252	1,082,380
Total non-depreciable	\$ 46,706,342	\$ 35,092,582	\$ 9,107,758	\$ 45,591,557	\$ 55,814,100	\$ 80,684,139
Depreciable assets:						
Utility plants	\$ -	\$ -	\$ 259,508,125	\$ 215,603,673	\$ 259,508,125	\$ 215,603,673
Port facilities	-	-	66,593,985	67,104,874	66,593,985	67,104,874
Land improvements	1,554,203	1,554,203	-	-	1,554,203	1,554,203
Buildings	74,818,110	74,783,310	-	-	74,818,110	74,783,310
Machinery and equipment	15,502,452	15,462,000	-	-	15,502,452	15,462,000
Infrastructure	71,076,759	58,548,008	-	-	71,076,759	58,548,008
Software	624,705	624,705	-	-	624,705	624,705
Total depreciable assets	163,576,229	150,972,226	326,102,110	282,708,547	489,678,339	433,680,773
Less accum. depreciation	(52,930,858)	(49,185,688)	(146,777,709)	(142,608,609)	(199,708,567)	(191,794,297)
Net depreciable assets	\$ 110,645,371	\$ 101,786,538	\$ 179,324,401	\$ 140,099,938	\$ 289,969,772	\$ 241,886,476
Percentage depreciated	32%	33%	45%	50%	41%	44%
Book value - all assets	\$ 157,351,713	\$ 136,879,120	\$ 188,432,159	\$ 185,691,495	\$ 345,783,872	\$ 322,570,615

Major capital assets under construction during 2014 and included in construction in progress are as follows:

- Ketchikan Medical Center addition - \$12,900,000
- Bar Harbor South Floats 9 and 1N replacement - \$1,300,000
- Microwave transmission network - \$1,766,000

Major capital assets placed in service during 2014 are as follows:

- Whitman Lake hydroelectric project - \$30,900,000
- Jackson and Monroe Streets water main replacement - \$4,140,000
- Jackson and Monroe Streets wastewater main replacement - \$3,948,000
- Bar Harbor drive down float - \$5,825,000
- Ketchikan Visitors Bureau building replacement - \$2,092,000
- Berth I and II replacement – Phase III - \$4,398,000
- Waterfront Promenade – Phase III - \$1,818,000
- Front Street Extension replacement - \$4,398,000
- 4G/LTE wireless telecommunications network - \$2,991,000

At December 31, 2014, the depreciable capital assets for governmental activities were 32 percent depreciated. At December 31, 2013 and 2012, capital assets were 33 and 33 percent depreciated, respectively. This trend would suggest that the City has improved the maintenance of its governmental capital assets. A decrease in the percentage is an indicator that capital assets are being well maintained. No change in the percentage of assets depreciated implies that capital assets are being properly maintained. An increase in the percentage is an indicator that capital assets are not being maintained. The City's

business-type activities capital assets were 45 percent depreciated at December 31, 2014 compared to 50 and 51 percent for 2013 and 2012, respectively. This trend would suggest that the City has also improved the maintenance of its business-type capital assets.

**Long-term Debt**

At December 31, 2014, the City had \$121.7 million in outstanding bonded debt and other long-term debt, an increase of \$40.1 million from 2013. Total general obligation bonded debt increased from \$16.8 million to \$59.6 million, or 255.1 percent. Total revenue bonded debt decreased from \$61.7 million to \$59 million, or 4.4 percent. The following table provides a summary of outstanding long-term debt:

**Outstanding Long-term Debt**

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
General obligation bonds	\$56,895,000	\$14,035,000	\$2,711,970	\$2,750,427	\$59,606,970	\$16,785,427
Revenue bonds	-	-	58,976,805	61,714,415	58,976,805	61,714,415
Landfill closure costs	956,040	951,540	-	-	956,040	951,540
Compensated absences	1,327,291	1,300,924	844,602	852,444	2,171,893	2,153,368
Total	<u>\$ 59,178,331</u>	<u>\$ 16,287,464</u>	<u>\$ 62,533,377</u>	<u>\$ 65,317,286</u>	<u>\$ 121,711,708</u>	<u>\$ 81,604,750</u>

In August 2007, the City issued a \$6.5 million junior lien municipal utility revenue bond through the Alaska Department of Environmental Conservation's (ADEC) Drinking Water Loan Program to finance the construction of a disinfection treatment facility for the City's municipal water utility. The amount of the bond was subsequently reduced to \$5.5 million. The proceeds from this loan were disbursed to the City as it incurred construction costs. As of December 31, 2014, the City had incurred construction costs of \$3.53 million that were eligible for reimbursement from this loan program. The City does not expect to borrow more than \$5.5 million for this project. The final loan amount will be determined at the time the project is completed.

In January 2012, the City issued a \$2.6 million general obligation bond through the ADEC's Clean Water Loan Program for the Jackson/Monroe Avenue Sewer Main Replacement Project. The proceeds from this loan were distributed to the City as it incurred construction costs. As of December 31, 2014, City had incurred construction costs of \$1.28 million that were eligible for reimbursement from this loan program. The final loan amount will be determined at the time the project is completed.

In January 2012, the City issued a \$2.2 million of junior lien municipal utility revenue bond through the ADEC's Drinking Water Loan Program to finance the construction of Jackson/Monroe Avenue Water Main Replacement Project. The proceeds from this loan were distributed to the City as it incurred construction costs. As of December 31, 2014, the City had incurred construction costs of \$1.6 million that were eligible for reimbursement from this loan program. The final loan amount will be determined at the time the project is completed.

In June 2014, the City issued a \$41.32 million general obligation bond through the Alaska Municipal Bond Bank to finance the construction of an addition to the Ketchikan Medical Center. This \$50 million addition is also being funded in part by grants from the federal government and the State of Alaska. The annual debt service ranges between \$789,165 and \$2,534,300. The bond matures in 2044.

In June 2014, the City issued a \$2.72 million general obligation bond through the Alaska Municipal Bond Bank to finance the construction of improvements for the harbor facilities located at Bar Harbor. This \$5.4 million harbor improvement project is also being funded in part by a 50% matching grant from the State of Alaska. The annual debt service for this bond ranges between \$199,048 and \$209,800. The bond matures in 2034.

All of the City's general obligation and municipal revenue bonds have been issued through the Alaska Municipal Bond Bank, the Alaska Department of Environmental Conservation or Bank of America. The rating agencies have not separately rated these bonds. The City's general obligation bonded indebtedness is not subject to a legal debt ceiling. The City is required to maintain debt service coverage that generates net revenue from its utilities and port operations that is equal to or greater than 1.25 times annual debt service. The City has complied with all general obligation and revenue bond covenants. As of December 31, 2014, the City's total direct general obligation bond debt per capita was \$2,180.

See Note 3-I for additional information about the City's long-term debt. The landfill closure and postclosure care liability are discussed in Note 3-H.

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

Tourism is an important part of the local economy but the industry is particularly sensitive to consumer demand, which dictates the scheduling for cruise ships visiting Ketchikan. In 2013, a record 938,000 visitors arrived by cruise ship. This banner year was followed by a decline to 878,000 visitors in 2014. Local businesses and governments have made significant investments in infrastructure and other facilities to serve and support the visitors industry. The loss of visitors can have a significant impact on retail sales, employment opportunities, and local government revenues. The City expects the decline that occurred in 2014 to be an anomaly and the number of visitors arriving by cruise ship to increase to a new record of 944,000.

The collapse of oil prices in the United States and around the globe has had an immediate impact on the finances of state government because oil revenues fund about 90 percent of the State of Alaska's General Fund. For fiscal year 2016, the State of Alaska is projecting an operating budget deficit of \$3 billion that will require resources from the Constitutional Budget Reserve to cover the anticipated shortfall. Oil prices are expected to remain depressed for an extended period and may affect the State's ability to balance its future operating budgets. The development of a long-term strategy for addressing its future budget deficits is critical to the City and other local governments in the State of Alaska. Continuing budget deficits at the state level may affect state revenue sharing, on-behalf retirement contributions, capital grants, state employees residing in our communities and services that the communities have come to rely upon such as the management of state-owned airports and ferry systems. The failure of the Alaska Legislature to address adequately future budget deficits will affect the economies and finances of local governments across the state. Rural communities such as the City may be more adversely affected because of their heavy reliance on state government for services and financial support.

Work continues on a \$58 million addition for the Ketchikan Medical Center. Included in this project are a new surgical suite and clinical space. This project will improve health care services in Southern Southeast Alaska and attract new employers and residents. The project is being financed by a \$43.32 million general obligation bond and federal and state grants. The annual debt service for this bond will be paid from the proceeds of the City's 1% Hospital Sales Tax. The project will be completed in June 2016.

Looking to 2015, the City expects the local economy to continue to improve. Growth in the tourism sector is projected to continue although there may be periods of volatility. The public and private sectors continue to make significant investments in the infrastructure and services required to make Ketchikan a comfortable and attractive community to visit. The maritime industry is expanding. The shipyard operated by Vigor Alaska is under contract to construct two 280 foot day-boat ferries for the Alaska Marine Highway System at its facilities in Ketchikan. The local mining industry got a big boost when the Alaska Legislature recently authorized the Alaska Industrial Development and Export Authority to loan up to \$250 million to two companies that have been working to develop mine sites located on the Prince of Wales Island. Ketchikan would play a key role in supporting the development and operations of the mines. One of the companies is considering the development of an ore processing facility at the Gravina Island Industrial Complex, which would create about 80 jobs in Ketchikan.

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In January 2015, the City Council approved an 8% rate increase for the City's wastewater utilities. In February 2015, a 4% rate increase for water rates was approved for all customers except for seafood processors. The rate increase for seafood processors was 8%. Both the wastewater and water utility have begun to issue bonds to finance long overdue wastewater and water main replacements. The rate increases will help finance the debt service on the bonds.

In January 2015, the City Council approved a third 7% rate increase for the use of the City's harbor facilities. The rate increase will become effective September 1, 2015 and is part of a program to raise rates in order to finance the debt service on a \$5 million general obligation bond that the City plans to issue in phases over the next two years for the construction of new harbor facilities. As of December 31, 2014, the City had issued \$2.7 million against the \$5 million authorization. The City expects to issue \$2.3 million in late 2015.

The City will continue to monitor the local economy and follow a conservative approach in managing its fiscal affairs. The City Council recognizes that the community is still recovering from an economic downturn and the importance of a balanced approach to taxes and spending. The City Council is prepared to make necessary modifications to current and future fiscal plans to ensure that City's financial position remains strong and the cost of services provided to the City's citizens are reasonably priced.

### **Contacting the City's Financial Management**

This financial report is designed to provide our citizens, creditors, and investors with a general overview of the City's finances and to demonstrate the City's accountability for the financial resources it receives. Questions concerning the information provided in this report or requests for additional information should be addressed to the City of Ketchikan, Office of the Finance Director, 334 Front Street, Ketchikan, Alaska 99901 or call (907) 228-5621. This financial report and prior year financial reports are also available on our web site at [www.city.ketchikan.ak.us/departments/finance/index.html](http://www.city.ketchikan.ak.us/departments/finance/index.html).



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GOVERNMENT-WIDE  
FINANCIAL STATEMENTS

**City of Ketchikan, Alaska**  
**Statement of Net Position**  
**December 31, 2014**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
<b>Current assets:</b>			
Cash and temporary investments (Note 3A)	\$ 23,571,794	\$ 23,280,797	\$ 46,852,591
Restricted cash, cash equivalents and investments	46,434,570	3,791,431	50,226,001
Receivables:			
Accounts	781,642	2,270,693	3,052,335
Taxes	2,298,646	-	2,298,646
Intergovernmental	7,522,555	3,979,896	11,502,451
Interest	52,000	108,000	160,000
Unbilled	53,216	1,011,138	1,064,354
Advances	1,300,000	(1,300,000)	-
Inventory	-	3,012,369	3,012,369
Prepaid items	651,922	1,038,511	1,690,433
<b>Total current assets</b>	<b>82,666,345</b>	<b>37,192,835</b>	<b>119,859,180</b>
<b>Noncurrent assets:</b>			
Land for resale	418,618	-	418,618
Restricted investments	-	7,935,438	7,935,438
Accrued interest on restricted assets	-	1,684	1,684
Capital Assets (Note 3E)			
Nondepreciable capital assets	46,706,342	9,107,758	55,814,100
Depreciable capital assets, net	110,645,371	179,324,401	289,969,772
<b>Total noncurrent assets</b>	<b>157,770,331</b>	<b>196,369,281</b>	<b>354,139,612</b>
<b>Total Assets</b>	<b>240,436,676</b>	<b>233,562,116</b>	<b>473,998,792</b>
<b>Deferred Outflow of Resources</b>	<b>60,887</b>	<b>61,284</b>	<b>122,171</b>
<b>Total Assets and Deferred Outflow of Resources</b>	<b>240,497,563</b>	<b>233,623,400</b>	<b>474,120,963</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable	4,315,887	3,364,260	7,680,147
Payroll payable	1,671,483	-	1,671,483
Accrued interest payable	375,769	444,174	819,943
Customers deposits payable	9,701	363,508	373,209
Unearned revenue	179,347	54,310	233,657
Claims payable	143,000	-	143,000
Compensated absences payable	132,729	84,460	217,189
General obligation bonds payable	1,403,367	68,032	1,471,399
Revenue bonds payable	-	3,087,494	3,087,494
<b>Total current liabilities</b>	<b>8,231,283</b>	<b>7,466,238</b>	<b>15,697,521</b>
<b>Noncurrent liabilities</b>			
Accrued interest payable	-	11,579	11,579
Compensated absences payable (net of current portion)	1,194,561	760,141	1,954,702
Landfill closure costs (net of current portion)	956,040	-	956,040
General obligation bonds payable (net of current portion)	58,038,079	2,643,938	60,682,017
Revenue bonds payable (net of current portion)	-	58,214,923	58,214,923
<b>Total noncurrent liabilities</b>	<b>60,188,680</b>	<b>61,630,581</b>	<b>121,819,261</b>
<b>Total Liabilities</b>	<b>68,419,963</b>	<b>69,096,819</b>	<b>137,516,782</b>
<b>Net Position</b>			
Net investment in capital assets (Note 3K)	143,909,094	124,479,056	268,388,150
Restricted for:			
Capital and maintenance outlay	3,522,155	-	3,522,155
Repair and replacement funds	-	3,664,611	3,664,611
Commercial passenger excise tax funds	196,727	1,619,258	1,815,985
Bond construction funds	-	208,971	208,971
Debt service	-	6,001,834	6,001,834
Solid waste operations and maintenance	3,783,338	-	3,783,338
Harbor operations and maintenance	978,604	-	978,604
Cemetery operations and maintenance	141,305	-	141,305
Investigation and property seizure funds	299,903	-	299,903
Unrestricted	19,246,474	28,552,851	47,799,325
<b>Total Net Position</b>	<b>\$ 172,077,600</b>	<b>\$ 164,526,581</b>	<b>\$ 336,604,181</b>

See accompanying notes to the basic financial statements

**City of Ketchikan, Alaska**  
**Statement of Activities**  
**For the Year Ended December 31, 2014**

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
General government	\$ 2,683,962	\$ 61,030	\$ 667,977	\$ -
Public safety	9,723,428	1,348,377	1,335,313	41,807
Culture	3,300,295	862,362	293,628	-
Health and welfare	1,099,588	2,834	-	11,487,691
Public works	10,373,365	3,115,705	147,379	1,840,780
Harbor	2,192,468	1,249,763	-	4,680,657
Interest	1,519,245	-	-	-
<b>Total Governmental Activities</b>	<b>30,892,351</b>	<b>6,640,071</b>	<b>2,444,297</b>	<b>18,050,935</b>
<b>Business-Type Activities:</b>				
Electric, telecommunications and water	36,906,790	35,569,553	459,899	7,154,111
Port	11,012,311	8,578,059	2,491,297	4,407,753
Wastewater	2,477,247	2,575,541	22,636	699,200
<b>Total Business-Type Activities</b>	<b>50,396,348</b>	<b>46,723,153</b>	<b>2,973,832</b>	<b>12,261,064</b>
<b>Total</b>	<b>\$ 81,288,699</b>	<b>\$ 53,363,224</b>	<b>\$ 5,418,129</b>	<b>\$ 30,311,999</b>

**General Revenues:**

Property taxes  
Sales taxes  
Transient taxes  
Intergovernmental - unrestricted  
Investment earnings  
Miscellaneous

**Transfers**

**Total General Revenues and Transfers**

**Change in Net Position**

**Net Position Beginning of Year**

**Net Position End of Year**

See accompanying notes to the basic financial statements

<b>Net (Expense) Revenue and Changes in Net Position</b>		
<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (1,954,955)	\$ -	\$ (1,954,955)
(6,997,931)	-	(6,997,931)
(2,144,305)	-	(2,144,305)
10,390,937	-	10,390,937
(5,269,501)	-	(5,269,501)
3,737,952	-	3,737,952
(1,519,245)	-	(1,519,245)
<u>(3,757,048)</u>	<u>-</u>	<u>(3,757,048)</u>
-	6,276,773	6,276,773
-	4,464,798	4,464,798
-	820,130	820,130
<u>-</u>	<u>11,561,701</u>	<u>11,561,701</u>
<u>(3,757,048)</u>	<u>11,561,701</u>	<u>7,804,653</u>
5,513,202	-	5,513,202
10,995,570	-	10,995,570
388,723	-	388,723
539,771	-	539,771
89,179	129,167	218,346
221,756	326,864	548,620
6,203,804	(6,203,804)	-
<u>23,952,005</u>	<u>(5,747,773)</u>	<u>18,204,232</u>
20,194,957	5,813,928	26,008,885
<u>151,882,643</u>	<u>158,712,653</u>	<u>310,595,296</u>
<u>\$ 172,077,600</u>	<u>\$ 164,526,581</u>	<u>\$ 336,604,181</u>



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# FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS

City of Ketchikan, Alaska  
Balance Sheet  
Governmental Funds  
December 31, 2014

	General	Hospital Construction	Major Capital Improvements	Harbor Improvements	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and temporary investments	\$ 12,842,072	\$ -	\$ 144,640	\$ 1,206,738	\$ 7,369,929	\$ 21,563,379
Restricted cash:						
Bond construction funds	-	42,738,247	-	2,683,878	515,815	45,937,940
Investigation funds	137,151	-	-	-	-	137,151
Property seizure funds	-	-	-	-	162,752	162,752
Commercial passenger excise tax funds	-	-	196,727	-	-	196,727
Receivables:						
Accounts	473,494	-	-	-	308,148	781,642
Taxes	2,233,033	-	-	-	65,613	2,298,646
Intergovernmental	22,318	6,789,199	639	601,675	108,724	7,522,555
Interest	-	-	-	-	28,000	28,000
Interfund	4,302,147	-	-	-	-	4,302,147
Advances from other funds	1,161,547	-	-	-	700,000	1,861,547
Unbilled receivables	-	-	-	-	53,216	53,216
Land for resale	418,618	-	-	-	-	418,618
<b>Total Assets</b>	<u>\$ 21,590,380</u>	<u>\$ 49,527,446</u>	<u>\$ 342,006</u>	<u>\$ 4,492,291</u>	<u>\$ 9,312,197</u>	<u>\$ 85,264,320</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 898,282	\$ 2,512,129	\$ 71,168	\$ 400,840	\$ 318,069	\$ 4,200,488
Payroll payable	1,671,483	-	-	-	-	1,671,483
Customer deposits payable	-	-	-	-	9,701	9,701
Interfund payable	-	4,277,070	-	-	25,077	4,302,147
Unearned revenue	51,194	-	-	-	128,153	179,347
Advances to other funds	-	-	-	1,161,547	-	1,161,547
<b>Total Liabilities</b>	<u>2,620,959</u>	<u>6,789,199</u>	<u>71,168</u>	<u>1,562,387</u>	<u>481,000</u>	<u>11,524,713</u>
<b>Deferred Inflows of Resources</b>	<u>2,131,739</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>65,613</u>	<u>2,197,352</u>
<b>Fund Balances</b>						
Nonspendable - Land held for resale	418,618	-	-	-	-	418,618
Restricted for:						
Law enforcement	137,151	-	-	-	162,752	299,903
Commercial passenger excise tax	-	-	196,727	-	-	196,727
Bond construction funds	-	42,738,247	-	2,683,878	515,815	45,937,940
Assigned:						
Subsequent years budget	874,276	-	-	-	1,499,050	2,373,326
Parking development and abatement of dangerous buildings	1,351,593	-	-	-	-	1,351,593
Hospital development and expansion	5,765,997	-	-	-	-	5,765,997
General government	335,366	-	-	-	-	335,366
Public safety	448,185	-	-	-	-	448,185
Culture and tourism	736,587	-	31,127	-	178,479	946,193
Public works	84,923	-	-	-	-	84,923
Collection and disposal of solid waste	-	-	-	-	2,527,895	2,527,895
Cemetery operations	-	-	-	-	127,305	127,305
Harbor operations	-	-	-	-	748,997	748,997
Streets, sidewalks and other public projects	2,961,984	-	-	-	-	2,961,984
Harbor construction	-	-	-	246,026	-	246,026
Public works projects	-	-	42,984	-	3,005,291	3,048,275
Unassigned	3,723,002	-	-	-	-	3,723,002
<b>Total Fund Balances</b>	<u>16,837,682</u>	<u>42,738,247</u>	<u>270,838</u>	<u>2,929,904</u>	<u>8,765,584</u>	<u>71,542,255</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<u>\$ 21,590,380</u>	<u>\$ 49,527,446</u>	<u>\$ 342,006</u>	<u>\$ 4,492,291</u>	<u>\$ 9,312,197</u>	<u>\$ 85,264,320</u>

See accompanying notes to the basic financial statements

**City of Ketchikan, Alaska**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Position**  
**December 31, 2014**

<b>Total Governmental Fund Balances</b>		\$ 71,542,255
<b>Amounts reported for governmental activities in the statement of net position are different because:</b>		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds. However, in the statement of net position the cost of these assets are capitalized and expensed over their estimated lives through annual depreciation expense.		
Cost of capital assets	\$ 210,282,572	
Less accumulated depreciation	<u>(52,930,859)</u>	157,351,713
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Taxes		2,140,355
Services		56,997
Interfund receivables and payables between governmental funds are reported on the fund balance sheet but eliminated on the government-wide statement of net assets:		
Interfund receivables	\$ 4,302,147	
Interfund payables	<u>(4,302,147)</u>	-
An internal service fund is used by management to charge the costs of compensated absences, insurance and claims to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		
		1,692,676
Accrued interest is not reported at the fund financial reporting level		
		(375,769)
Deferred charges not reported at the fund financial reporting level		
Prepaid insurance on bonds	\$ 5,972	
Deferred amount on refunding	<u>60,887</u>	66,859
Liabilities that are not due in the current period and therefore are not reported in the funds:		
General obligation bonds	\$ (56,895,000)	
Premiums for GO bonds	(2,546,446)	
Landfill closure costs	<u>(956,040)</u>	<u>(60,397,486)</u>
<b>Net Position Of Governmental Activities</b>		<b><u>\$ 172,077,600</u></b>

See accompanying notes to the basic financial statements

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

	General	Hospital Construction	Major Capital Improvements	Harbor Improvements	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Taxes	\$ 16,315,077	\$ -	\$ -	\$ -	\$ 389,342	\$ 16,704,419
Licenses and permits	97,998	-	-	-	-	97,998
Intergovernmental	2,798,500	8,927,885	1,654,782	4,380,657	2,639,088	20,400,912
Charges for services	2,116,406	-	-	-	4,174,185	6,290,591
Fines and forfeitures	112,265	-	-	-	153,833	266,098
Investment earnings	40	34,687	16	2,456	27,980	65,179
Contributions	-	-	22,035	300,000	131,487	453,522
Interdepartmental charges	3,150,268	-	-	-	-	3,150,268
Miscellaneous	286,683	-	-	-	177,856	464,539
<b>Total Revenues</b>	<b>24,877,237</b>	<b>8,962,572</b>	<b>1,676,833</b>	<b>4,683,113</b>	<b>7,693,771</b>	<b>47,893,526</b>
<b>Expenditures</b>						
<b>Current:</b>						
General government	5,159,975	-	-	-	-	5,159,975
Public safety	9,898,690	-	-	-	79,282	9,977,972
Culture and tourism	3,066,565	-	334,618	-	-	3,401,183
Health and welfare	99,201	9,228,671	-	-	2,417,264	11,745,136
Public works	6,536,221	-	6,052,634	-	2,873,991	15,462,846
Harbor	-	-	-	5,791,231	1,284,723	7,075,954
<b>Debt Service:</b>						
Principal retirement	-	-	-	-	1,180,000	1,180,000
Interest and fiscal charges	-	-	-	-	1,444,671	1,444,671
<b>Total Expenditures</b>	<b>24,760,652</b>	<b>9,228,671</b>	<b>6,387,252</b>	<b>5,791,231</b>	<b>9,279,931</b>	<b>55,447,737</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>116,585</b>	<b>(266,099)</b>	<b>(4,710,419)</b>	<b>(1,108,118)</b>	<b>(1,586,160)</b>	<b>(7,554,211)</b>
<b>Other Financing Sources (Uses)</b>						
Sale of capital assets	17,696	-	-	-	76	17,772
Proceeds from sale of bonds	-	41,320,000	-	2,720,000	-	44,040,000
Premiums from sale of bonds	-	1,840,478	-	293,653	-	2,134,131
Bond issuance costs	-	(156,132)	-	(10,278)	-	(166,410)
Transfers in	1,613,691	-	4,907,162	-	2,488,967	9,009,820
Transfers out	(2,000,237)	-	-	-	(805,779)	(2,806,016)
<b>Total Other Financing Sources (Uses)</b>	<b>(368,850)</b>	<b>43,004,346</b>	<b>4,907,162</b>	<b>3,003,375</b>	<b>1,683,264</b>	<b>52,229,297</b>
<b>Net Change in Fund Balances</b>	<b>(252,265)</b>	<b>42,738,247</b>	<b>196,743</b>	<b>1,895,257</b>	<b>97,104</b>	<b>44,675,086</b>
<b>Fund Balances Beginning of Year</b>	<b>17,089,947</b>	<b>-</b>	<b>74,095</b>	<b>1,034,647</b>	<b>8,668,480</b>	<b>26,867,169</b>
<b>Fund Balances End of Year</b>	<b>\$ 16,837,682</b>	<b>\$ 42,738,247</b>	<b>\$ 270,838</b>	<b>\$ 2,929,904</b>	<b>\$ 8,765,584</b>	<b>\$ 71,542,255</b>

See accompanying notes to the basic financial statements

**City of Ketchikan, Alaska**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes**  
**in Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended December 31, 2014**

<b>Net Changes In Fund Balances - Total Governmental Funds</b>		<b>\$ 44,675,086</b>
<b>Amounts reported for governmental activities in the statement of activities are different because</b>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalized capital outlay exceeded depreciation expense in the current period.		
Depreciation expense	\$ (4,235,533)	
Capital outlay	24,785,440	20,549,907
The book value of capital assets relating to the disposition is not reported at the fund financial reporting level but is reported at the government-wide financial reporting level		(77,314)
Revenues of Internal Service Fund are included in the governmental statement of activities		24,000
Elimination of other financing sources to record net increase in payables associated with bond issuance		(46,174,131)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes		193,076
Charges for Services		(94,602)
Elimination of transfers between governmental funds:		
Transfers in	\$ (2,806,016)	
Transfers out	2,806,016	-
Interest expense 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.		(142,645)
The internal service fund is reported as a proprietary fund at the fund reporting level but the non-duplicated items are reported on the statement of activity within the governmental activities column.		
Repayment of general obligation debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
General obligation bonds	\$ 1,180,000	
Amortization of premiums and deferred charges	66,080	
Landfill closure costs	(4,500)	1,241,580
<b>Change In Net Position of Governmental Activities</b>		<b>\$ 20,194,957</b>

See accompanying notes to the basic financial statements



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# PROPRIETARY FUNDS



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City of Ketchikan, Alaska  
Statement of Net Position  
Proprietary Funds  
December 31, 2014

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Ketchikan Public Utilities	Ketchikan Port	Wastewater Service	Total	
<b>Assets</b>					
<b>Current Assets:</b>					
Cash and temporary investments	\$ 16,778,078	\$ 5,504,277	\$ 998,442	\$ 23,280,797	\$ 2,008,415
Restricted cash, cash equivalents and investments	1,308,419	2,465,020	17,992	3,791,431	-
Receivables:					
Accounts	2,123,406	-	147,287	2,270,693	-
Interest	-	108,000	-	108,000	24,000
Intergovernmental	3,245,323	95,333	639,240	3,979,896	-
Inventory	3,012,369	-	-	3,012,369	-
Prepaid items	17,165	1,021,346	-	1,038,511	645,950
Unbilled revenue	888,252	-	122,886	1,011,138	-
<b>Total Current Assets</b>	<b>27,373,012</b>	<b>9,193,976</b>	<b>1,925,847</b>	<b>38,492,835</b>	<b>2,678,365</b>
<b>Noncurrent Assets:</b>					
Restricted Assets:					
Investments	1,678,041	6,257,397	-	7,935,438	-
Accrued interest on restricted assets	-	1,684	-	1,684	-
Advances from other funds	-	2,700,000	-	2,700,000	600,000
Capital Assets:					
Nondepreciable capital assets	6,481,236	2,146,048	480,474	9,107,758	-
Depreciable capital assets, net	109,491,724	52,536,803	17,295,874	179,324,401	-
<b>Total Noncurrent Assets</b>	<b>117,651,001</b>	<b>63,641,932</b>	<b>17,776,348</b>	<b>199,069,281</b>	<b>600,000</b>
<b>Total Assets</b>	<b>145,024,013</b>	<b>72,835,908</b>	<b>19,702,195</b>	<b>237,562,116</b>	<b>3,278,365</b>
<b>Deferred Outflow of Resources</b>	<b>61,284</b>	<b>-</b>	<b>-</b>	<b>61,284</b>	<b>-</b>
<b>Total Assets and Deferred Outflow of Resources</b>	<b>145,085,297</b>	<b>72,835,908</b>	<b>19,702,195</b>	<b>237,623,400</b>	<b>3,278,365</b>
<b>Liabilities</b>					
<b>Current Liabilities:</b>					
Accounts payable	3,211,029	87,318	65,913	3,364,260	115,399
Accrued interest	295,856	144,021	4,297	444,174	-
Customer deposits	363,508	-	-	363,508	-
Advances to other funds	266,209	-	-	266,209	-
Compensated absences payable	77,833	3,130	3,497	84,460	132,729
Unearned revenue	54,310	-	-	54,310	-
General obligation bonds payable	-	-	68,032	68,032	-
Revenue bonds payable	2,160,385	913,561	13,548	3,087,494	-
Claims payable	-	-	-	-	143,000
<b>Total Current Liabilities</b>	<b>6,429,130</b>	<b>1,148,030</b>	<b>155,287</b>	<b>7,732,447</b>	<b>391,128</b>
<b>Long-Term Liabilities:</b>					
Accrued interest	4,498	-	7,081	11,579	-
Compensated absences payable (net of current portion)	700,494	28,173	31,474	760,141	1,194,561
Advances from other funds	3,733,791	-	-	3,733,791	-
Revenue bonds payable (net of current portion)	25,589,169	32,343,839	281,915	58,214,923	-
General obligation bonds payable (net of current portion)	-	-	2,643,938	2,643,938	-
<b>Total Long-Term Liabilities</b>	<b>30,027,952</b>	<b>32,372,012</b>	<b>2,964,408</b>	<b>65,364,372</b>	<b>1,194,561</b>
<b>Total Liabilities</b>	<b>36,457,082</b>	<b>33,520,042</b>	<b>3,119,695</b>	<b>73,096,819</b>	<b>1,585,689</b>
<b>Net Position</b>					
Net investment in capital assets	88,284,690	21,425,451	14,768,915	124,479,056	-
Restricted for bond retirement	2,699,009	3,296,211	6,614	6,001,834	-
Restricted for repair and replacement	-	3,664,611	-	3,664,611	-
Restricted commercial passenger excise tax funds	-	1,619,258	-	1,619,258	-
Restricted for bond construction	208,971	-	-	208,971	-
Unrestricted	17,435,545	9,310,335	1,806,971	28,552,851	1,692,676
<b>Total Net Position</b>	<b>\$ 108,628,215</b>	<b>\$ 39,315,866</b>	<b>\$ 16,582,500</b>	<b>\$ 164,526,581</b>	<b>\$ 1,692,676</b>

See accompanying notes to the basic financial statements



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

	<b>Business-type Activities - Enterprise Funds</b>			<b>Total</b>	<b>Governmental Activities - Internal Service Fund</b>
	<b>Ketchikan Public Utilities</b>	<b>Ketchikan Port</b>	<b>Wastewater Service</b>		
<b>Operating Revenues</b>					
Charges for services	\$ 35,659,553	\$ 8,578,059	\$ 2,575,541	\$ 46,813,153	\$ 2,273,691
Miscellaneous	327,364	-	(500)	326,864	118,911
<b>Total Operating Revenues</b>	<u>35,986,917</u>	<u>8,578,059</u>	<u>2,575,041</u>	<u>47,140,017</u>	<u>2,392,602</u>
<b>Operating Expenses</b>					
Operation and maintenance	23,307,990	4,726,515	2,020,133	30,054,638	-
Administration and general	5,754,985	-	-	5,754,985	-
Depreciation	6,908,978	1,587,253	427,712	8,923,943	-
Compensated absences	-	-	-	-	1,082,361
Insurance	-	-	-	-	1,249,013
Claims	-	-	-	-	37,228
<b>Total Operating Expenses</b>	<u>35,971,953</u>	<u>6,313,768</u>	<u>2,447,845</u>	<u>44,733,566</u>	<u>2,368,602</u>
<b>Operating Income (Loss)</b>	<u>14,964</u>	<u>2,264,291</u>	<u>127,196</u>	<u>2,406,451</u>	<u>24,000</u>
<b>Non-Operating Revenues (Expenses)</b>					
Operating grants - CPV funds	-	2,409,395	-	2,409,395	-
Operating grants	459,899	81,902	22,636	564,437	-
Interest and fiscal charges	(1,024,837)	(1,699,246)	(29,402)	(2,753,485)	-
Gain or (loss) on disposal of capital assets	-	(2,999,297)	-	(2,999,297)	-
Investment earnings	11,666	117,529	(28)	129,167	-
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(553,272)</u>	<u>(2,089,717)</u>	<u>(6,794)</u>	<u>(2,649,783)</u>	<u>-</u>
<b>Income (Loss) Before Capital Contributions, Grants and Transfers</b>	<u>(538,308)</u>	<u>174,574</u>	<u>120,402</u>	<u>(243,332)</u>	<u>24,000</u>
<b>Total Contributions and Capital Grants</b>	<u>7,154,111</u>	<u>4,407,753</u>	<u>699,200</u>	<u>12,261,064</u>	<u>-</u>
<b>Net Income before Transfers</b>	<u>6,615,803</u>	<u>4,582,327</u>	<u>819,602</u>	<u>12,017,732</u>	<u>-</u>
<b>Transfers Out</b>					
Payments in lieu of taxes	(786,000)	(319,000)	(80,000)	(1,185,000)	-
Transfer to general fund	-	(111,642)	-	(111,642)	-
Transfer to major capital improvements fund	-	(4,907,162)	-	(4,907,162)	-
<b>Total Transfers Out</b>	<u>(786,000)</u>	<u>(5,337,804)</u>	<u>(80,000)</u>	<u>(6,203,804)</u>	<u>-</u>
<b>Change in Net Position</b>	<u>5,829,803</u>	<u>(755,477)</u>	<u>739,602</u>	<u>5,813,928</u>	<u>24,000</u>
<b>Net Position Beginning of Year</b>	<u>102,798,412</u>	<u>40,071,343</u>	<u>15,842,898</u>	<u>158,712,653</u>	<u>1,668,676</u>
<b>Net Position End of Year</b>	<u>\$ 108,628,215</u>	<u>\$ 39,315,866</u>	<u>\$ 16,582,500</u>	<u>\$ 164,526,581</u>	<u>\$ 1,692,676</u>

See accompanying notes to the basic financial statements

City of Ketchikan, Alaska  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2014

	Business-type Activities - Enterprise Funds			Total	Governmental Activities - Internal Service Fund
	Ketchikan Public Utilities	Ketchikan Port	Wastewater Service		
<b>Cash Flows from Operating Activities</b>					
Cash received from customers and users	\$ 36,902,771	\$ 8,506,186	\$ 2,423,272	\$ 47,832,229	\$ 2,392,602
Cash payments to employees for services	(13,186,745)	(994,641)	(814,024)	(14,995,410)	-
Cash payments to suppliers for goods and services	(15,915,601)	(3,606,578)	(1,197,360)	(20,719,539)	-
Cash payments for insurance and claims	-	-	-	-	(1,352,309)
Cash payments for compensated absences	-	-	-	-	(1,055,994)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>7,800,425</u>	<u>3,904,967</u>	<u>411,888</u>	<u>12,117,280</u>	<u>(15,701)</u>
<b>Cash Flows from Noncapital Financing Activities</b>					
Operating grant from other governments	459,899	2,491,297	22,636	2,973,832	-
Transfers out	-	(5,018,804)	-	(5,018,804)	-
Payment in lieu of taxes to the general fund	(786,000)	(319,000)	(80,000)	(1,185,000)	-
<b>Net Cash Used by Noncapital Financing Activities</b>	<u>(326,101)</u>	<u>(2,846,507)</u>	<u>(57,364)</u>	<u>(3,229,972)</u>	<u>-</u>
<b>Cash Flows from Capital and Related Financing Activities</b>					
Capital grant received from other governments	7,274,085	7,230,723	1,275,257	15,780,065	-
Capital debt proceeds	243,052	-	28,564	271,616	-
Proceeds from disposition of capital assets	-	76	-	76	-
Principal paid on general obligation bonds	-	-	(80,371)	(80,371)	-
Interest paid on general obligation bonds	-	-	(38,995)	(38,995)	-
Principal paid on revenue bonds	(2,044,901)	(845,000)	-	(2,889,901)	-
Interest paid on revenue bonds	(1,106,833)	(1,731,226)	-	(2,838,059)	-
Payments for capital acquisitions and construction	(15,630,422)	(990,081)	(629,650)	(17,250,153)	-
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<u>(11,265,019)</u>	<u>3,664,492</u>	<u>554,805</u>	<u>(7,045,722)</u>	<u>-</u>
<b>Cash Flows from Investing Activities</b>					
Investment earnings	7,559	4,355	(28)	11,886	(24,000)
Proceeds from bond reserve fund investments	-	(3,495)	-	(3,495)	-
Purchase of bond reserve fund investments	80,637	(521,051)	-	(440,414)	-
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>88,196</u>	<u>(520,191)</u>	<u>(28)</u>	<u>(432,023)</u>	<u>(24,000)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>(3,702,499)</u>	<u>4,202,761</u>	<u>909,301</u>	<u>1,409,563</u>	<u>(39,701)</u>
<b>Cash and Cash Equivalents Beginning of Year (including \$1,142,670 for Ketchikan Public Utilities \$866,369 for Port and \$32,808 for Wastewater Services reported in restricted accounts)</b>	<u>21,788,996</u>	<u>3,766,536</u>	<u>107,133</u>	<u>25,662,665</u>	<u>2,048,116</u>
<b>Cash and Cash Equivalents End of Year (including \$1,308,419 for Ketchikan Public Utilities, \$845,762 for Port and \$17,992 for Wastewater Services reported in restricted accounts)</b>	<u>\$ 18,086,497</u>	<u>\$ 7,969,297</u>	<u>\$ 1,016,434</u>	<u>\$ 27,072,228</u>	<u>\$ 2,008,415</u>

(continued)

City of Ketchikan, Alaska  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2014

(continued)

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Ketchikan Public Utilities	Ketchikan Port	Wastewater Service	Total	
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>					
<b>Operating Income (Loss)</b>	\$ 14,964	\$ 2,264,291	\$ 127,196	\$ 2,406,451	\$ 24,000
<b>Adjustments:</b>					
Depreciation	6,908,978	1,587,253	427,712	8,923,943	-
Other	129,629	-	-	129,629	-
<b>(Increase) Decrease in Assets:</b>					
Accounts receivable	404,722	(71,873)	(147,287)	185,562	-
Unbilled revenue	443,818	-	(4,482)	439,336	-
Prepaid expenses	2,647	102,996	-	105,643	(68,844)
Inventory	105,514	-	-	105,514	-
Customer deposits	(3,152)	-	-	(3,152)	-
<b>Increase (Decrease) in Liabilities:</b>					
Accounts payable	(169,729)	22,521	1,886	(145,322)	109,776
Accrued expenses	-	-	-	-	-
Compensated absences payable	(14,485)	(221)	6,863	(7,843)	26,367
Unearned revenue	(22,481)	-	-	(22,481)	-
Claims payable	-	-	-	-	(107,000)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 7,800,425</u>	<u>\$ 3,904,967</u>	<u>\$ 411,888</u>	<u>\$ 12,117,280</u>	<u>\$ (15,701)</u>
<b>Noncash investing, capital and financing activities</b>					
Revenue bond arbitrage	\$ 4,107				

See accompanying notes to the basic financial statements



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# NOTES TO THE BASIC FINANCIAL STATEMENTS

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**Note 1 – Summary of Significant Accounting Policies**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) applicable to government entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting. A summary of the City of Ketchikan's significant accounting policies applied in the preparation of these financial statements follows.

**1-A. Reporting Entity**

The City of Ketchikan, Alaska (the "City") is a home rule municipality operating under the powers granted by the constitution and laws of the State of Alaska. The City operates under a Council-Manager form of government and provides a variety of municipal services including general administration; police; fire; library; museum; health; public works; cemetery; port and harbors; solid waste collection and disposal; wastewater collection and treatment; and electric, telecommunications and water utilities.

As required by U.S. GAAP, these financial statements present the City (primary government) and its component units. The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organizations; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units also may include organizations that are fiscally dependent on the City in that the City approves the budget, levies their taxes or issues their debt. Based upon this criterion, the reporting entity is limited to the City and no component units are included.

**1-B. Government-Wide and Fund Financial Statements**

The government-wide statements, which include the statement of net position and statement of activities report information on all the non-fiduciary activities of the primary government and its component units. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which are generally supported by taxes, intergovernmental revenues, and other non-exchange transactions, are reported separately from business-type activities, which rely generally on fees and charges to external parties.

The statement of net position reports all of the City's assets and liabilities, with the difference between the two presented as net position.

The statement of activities demonstrates the extent to which the direct expenses of a given function or business-type activity is offset by program revenues. Direct expenses are clearly identifiable with a specific function. The City does not allocate indirect expenses to functions in the statement of activities. Program revenues include: (1) charges to customers who purchase, use or directly benefit from goods and services provided by the programs, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental and proprietary funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each reported as a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

**1-C. Measurement Focus, Basis of Accounting and Statement Presentation**

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting as are the proprietary funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. On the accrual basis, property taxes are recognized as

**Note 1 - Summary of Significant Accounting Policies (Continued)**

revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental funds are reported using current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they are measurable and available. Available means collectible within the current period, or soon enough thereafter, to pay liabilities of the current period or when matured. The City considers most revenue as available if collected within 60 days after year end. Property taxes, sales taxes, and transient occupancy taxes, interest income, grant revenue and charges for services are susceptible to accrual. Sales tax revenue is considered available if it is collected within 30 days. Fines, licenses, permits and other receipts become measurable and available when cash is received by the City and are recognized as revenue at the time. Grant revenue is considered available if it is expected to be collected within one year and all eligibility requirements are met. Expenditures are recorded when the related liability is incurred except for debt service expenditures, which are recognized when the payment is due.

The City reports the following major funds:

**General Fund** – The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund’s fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of the State of Alaska.

**Hospital Construction Fund** – The hospital construction fund accounts for all financial resources related to construction of improvements to the Ketchikan Medical Center.

**Major Capital Improvements Fund** – This fund accounts for the improvement, acquisition and construction of major capital assets as determined by the City Council.

**Harbor Improvements Fund** – This fund is used to account for the improvement, acquisition and construction of harbor facilities.

The City reports the following proprietary funds:

**Ketchikan Public Utilities Fund** – This fund provides electric and telecommunication utility services to most residents of the Ketchikan Gateway Borough, which includes the City, and water utility services to the residents of the City.

**Ketchikan Port Fund** – This fund accounts for the operation and maintenance of the port facilities that are owned or operated by the City.

**Wastewater Services Fund** – This fund accounts for the collection, treatment and disposal of wastewater within the City.

Additionally, the City reports the following fund types:

**Internal Service Funds** – The internal service funds provide services to other funds on a cost-reimbursement basis. These services include paying the costs of compensated absences for the City’s employees and to pay for claims not covered by the City’s insurance plans. The City’s two internal services funds are the compensated absences fund and the self-insurance fund.

The effect of interfund activity generally has been eliminated from the government-wide financial statements. Exceptions to this practice include payments and other charges between the City’s enterprise funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions affected.

***Note 1 - Summary of Significant Accounting Policies (Continued)***

Proprietary funds distinguish operating revenues and expenses from non-operating 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 enterprise and internal service funds are charges to customers for services. Operating expenses for enterprise and internal services funds include administrative expenses, cost of services, and depreciation of capital assets. All revenues and expense not meeting this definition are reported as non-operating revenue and expenses.

When both restricted and unrestricted resources are available for use, the City uses the restricted resources first, then unrestricted resources as needed.

***1-D. Assets, Liabilities and Net Position and Fund Balances***

***1-D-1 Cash, Cash Equivalents, and Investments***

A central treasury is used to account for all cash and investments, except for restricted bond redemption, bond reserve, and bond construction cash and investments; and capital improvement fund investments.

Investments are recorded at fair value, which is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The exceptions are the City's nonparticipating contracts, and certificates of deposit, which are valued at cost. Investment revenue on cash pool investments is allocated to the various funds based on their month-end cash pool equity balances.

For purposes of the statement of cash flows, the City has defined cash and cash equivalents as the demand deposits and all investments maintained in the cash management pool, regardless of maturity period, since the various funds use the cash management pool essentially as a demand deposit account.

The City is authorized to invest in obligations of, or obligations issued or guaranteed by, the US Treasury, agencies or instrumentalities, negotiable certificates of deposit issued by rated banks, and certificates of deposit issued by banks located within the State of Alaska or issued by a rated bank. The City is also authorized to enter into repurchase agreements secured by obligations insured and guaranteed by US Treasury, agencies, or instrumentalities.

City bond ordinances require that funds in revenue bond reserve and redemption accounts be either deposited in demand deposits or invested in direct US Government obligations. The City policy requires that all certificates of deposits be collateralized to a level of 100 percent with federal, state or municipal obligations.

***1-D-2 Receivables***

All trade and property tax receivables are reported net of an allowance for uncollectibles, where applicable. Unbilled utility charges are accrued as receivables and revenue.

***1-D-3 Interfund Balances***

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/interfund payables." Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not expendable available financial resources and therefore are not available for appropriation.

The above amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are reclassified and presented as internal balances.

***1-D-4 Consumable Inventories***

Inventories included in the Ketchikan Public Utilities Fund are valued at cost, which approximates market, using average cost method. The cost of governmental fund-type inventories is recorded as expenditures when consumed, using the FIFO method.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**1-D-5 Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2014 are recorded as prepaid items using the consumption method by recording an asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed. At the fund reporting level, an equal amount of fund balance is reserved as this amount is not available for appropriation.

**1-D-6 Restricted Assets**

Certain cash and investments are restricted for the payment of revenue bond debt service and construction costs.

The Revenue Bond Redemption Fund and Revenue Bond Reserve Fund have been established in accordance with the provisions of the revenue bond indentures. These funds can only be used for the payment of principal and interest on revenue bonds outstanding and must be maintained in accordance with the provisions of the applicable revenue bond ordinances. As of December 31, 2014 the balance on hand in the KPU Revenue Bond Redemption Fund amounted to \$1,099,448, which was \$192 more than required. The KPU Revenue Bond Reserve Fund contained \$1,678,041, which was the required amount per applicable bond ordinances. The Port Revenue Bond Redemption Fund amounted to \$845,762, which was \$218 more than required. The Port Revenue Bond Reserve Fund contained \$2,592,786, which was \$14,594 more than required by applicable bond ordinances. The Wastewater Service Fund contained \$17,992 in the Bond Redemption Fund.

The KPU Bond Construction Fund, the Harbor Construction Fund and the Hospital Construction Fund have been established in accordance with the provisions of the bond indentures. These funds can only be used for the payment of costs incurred in the construction of the Whitman Hydroelectric project, improvements to Harbor facilities and the Ketchikan Medical Center addition, respectively. The total amount available as of December 31, 2014 is \$208,971 in the Whitman Construction Fund, \$2,683,878 in Harbor Construction Fund and \$42,738,247 in the Hospital Construction Fund. The City also has bond construction funds remaining from the Fire Station Replacement bond issue and the Library Facility bond issue in the amount of \$321,500 and \$194,315 respectively.

The Repair and Replacement Fund has been established in the Port Fund pursuant to the covenants of the Port Revenue Bonds, Series 2006 and the provisions of the long-term lease agreement for Berth IV. As of December 31, 2014 the amount required to satisfy the bond covenants and lease agreement was \$2,730,260 for the revenue bonds and \$934,351 for the long-term lease for a total of \$3,664,611.

The City received Commercial Passenger Vessel Excise Tax Funds from the State of Alaska. These funds are restricted for purposes established by the State. The City currently has \$196,727 in the Major Capital Improvements Fund and \$1,619,258 in the Port Enterprise fund to be spent in accordance with state statutes.

The City is holding funds related to police investigations as restricted assets. These funds total \$137,151. In addition to this the City also receives funds confiscated as a result of Ketchikan police investigations. These funds total \$162,752.

**1-D-7 Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in governmental funds. The City reports these assets in the governmental activities column of the government-wide statement of net position but does not report these assets in the government fund financial statements. Capital assets utilized by enterprise funds are reported both in the business-type activities column of the government-wide statement of net position and in the enterprise funds' statement of net position.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. Generally, the City maintains a capitalization threshold of five thousand dollars. However, the Telecommunications Division of the KPU Enterprise Fund follows the Federal Communications Commission's (FCC) capitalization rules which requires a lower capitalization limit for certain assets. The City's infrastructure consists of roads, bridges, sidewalks, storm drains, docks, and parking facilities. Improvements to capital assets are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. Interest incurred during the construction of capital assets utilized by the enterprise fund is capitalized.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

All reported capital assets are depreciated except for land, right-of-ways and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City’s historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

Asset Class	Estimated Lives	
	Governmental Activities	Business-type Activities
Land improvements	15-25 Years	---
Buildings and components	10-100 Years	20-60 Years
Machinery and equipment	3-25 Years	3-15 Years
Infrastructure	10-100 Years	30-85 Years
Dams, roads, bridges, docks, structures, water mains, and generators	30-40 Years	20-60 Years
Electric, telecommunications and water services, overhead and underground facilities, hydrants, fuel holders, poles and fixtures, meters and transformers	---	12-30 Years

At the inception of capital leases at the governmental fund reporting level, expenditures and an “other financing source” of an equal amount are reported at the net present value of future minimum lease payments.

**1-D-8 Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the City’s past experience of making termination payments.

The total compensated absence liability is reported on the government-wide financial statements. Proprietary funds report the total compensated liability in each individual fund at the fund reporting level. Governmental funds report the compensated absence liability at the fund reporting level only “when due.”

**1-D-9 Accrued Liabilities and Long-term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the these funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are “due for payment” during the current year. Bonds and capital leases are recognized as a liability in the governmental fund financial statements when due.

**1-D-10 Bond Premiums and Discounts, Debt Issuance Costs and Refunding Gains and Losses**

On the government-wide statement of net position and the proprietary fund type statement of net position, bond premiums and discounts are netted against bonds payable. On the government-wide and proprietary fund type statements of activities, bond premiums and discounts are deferred and amortized over the life of the bond using the straight-line method.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

Debt refunding gains and losses are reported as deferred inflows or outflows of resources on the statements of net position. These gains and losses are deferred and amortized over the shorter of the life of the refunding debt and the refunded debt.

Bond issuance costs are recognized as outflow of resources in the reporting period in which there are incurred.

At the governmental fund reporting level, bond premiums and discounts are reported as other financing sources and uses, separately from the face amount of the bonds issued. Bond issuance costs are reported as debt service expenditures.

**1-D-11 Fund Equity**

Fund equity at the governmental fund financial reporting level is classified as “fund balance.” Fund equity for all other reporting is classified as “net position.”

Fund Balance – Generally, fund balance represents the difference between the current assets and current liabilities. The City classifies its fund balance at the fund statement level based on one or more of the following categories:

**Non-spendable** – Fund balances that are classified as non-spendable includes amounts that cannot be spent because they are not in spendable form or not expected to be converted to cash.

**Restricted** – Fund balances that are classified as restricted includes amounts that have externally imposed restrictions on the use of the resources, such as creditors, grantors, laws or regulations of other governments.

**Committed** – Fund balances that are classified as committed includes amounts that can only be used for a specific purpose pursuant to constraints imposed by City Council’s formal action to establish and rescind committed funds is through passage of a motion, the highest level of decision-making authority in the City.

**Assigned** – Fund balances that are classified as assigned includes amounts that are constrained by the City’s intent to use the funds for a specific purpose, such as the subsequent years budget, encumbrances and special revenue fund balances that are not already classified as non-spendable, restricted or committed. The City Council and City Manager have the authority to take action provided in the Ketchikan Municipal Code or the City’s Charter that would cause the City to classify fund balances as assigned.

**Unassigned** – Fund balance that is classified as unassigned is the residual balance not already classified as non-spendable, restricted, committed or assigned in the general fund.

When unrestricted resources are spent, the order of spending is committed (if applicable), assigned (if applicable) and lastly, unassigned fund balance.

Net Position - Net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. This net position amount also is adjusted by any bond issuance deferral amounts. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net position amounts are reported as unrestricted.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**1-D-12 Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for wastewater, port, electricity, telecommunications and water. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of each fund. Any revenue and expense not meeting this definition is reported as non-operating revenue and expense.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**1-D-13 Contributions of Capital**

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction.

**1-D-14 Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after the non-operating revenues/expenses section in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements (i.e., they are netted).

Transfers between governmental and business-type activities on the government-wide statement of activities are reported as general revenues. Transfers between funds reported in the governmental activities column are eliminated. Transfers between funds reported in the business type activities column are eliminated.

**1-D-15 Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**1-D-16 Deferred Outflows/Inflows of Resources**

Deferred outflows of resources represents a consumption of net position that applies to future periods that will not be recognized as an outflow of resources, or expense/expenditures, until then. Deferred inflows of resources represents an acquisition of net position that applies to future periods that will not be recognized as an inflow of resources, or revenues, until then.

**Note 2 – Stewardship, Compliance and Accountability**

**2-A. Budgetary Information**

The City adopts an annual operating budget for the general fund, each of its special revenue funds, capital projects funds, debt service funds, enterprise funds and internal service funds. The budget resolution reflects the total of each department's appropriation in each fund. The budgets for the enterprise and internal service funds are adopted for management purposes and are not reported in these financial statements.

The budgets are adopted on a basis consistent with GAAP except that outstanding encumbrances are reported as expenditures on the budgetary basis. For budgetary reporting purposes, advances are classified as revenues and transfers are classified as expenditures.

The legal level of control (the level at which expenditures may not legally exceed appropriations) for each adopted annual operating budget generally is the department level within each individual fund.

The City Council may transfer unencumbered appropriation balances from any item of appropriation to any other item of appropriation. Council authorization is required to transfer appropriations from one department to another and from appropriated reserves. The total of expenditures and outstanding encumbrances for any department cannot exceed the amount legally appropriated for that department with the adoption of the annual budget, unless otherwise amended by the City Council.