

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



THIS PAGE INTENTIONALLY LEFT BLANK

**NOTES TO THE BASIC  
FINANCIAL STATEMENTS**

Index

<b>Summary of Significant Accounting Policies .....</b>	<b>1</b>
Reporting Entity .....	1-A
Government-Wide and Fund Financial Statements .....	1-B
Measurement Focus, Basis of Accounting and Statement Presentation .....	1-C
Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position or Fund Balances .....	1-D
Cash, Cash Equivalents and Investments.....	1-D-1
Receivables.....	1-D-2
Interfund Balances.....	1-D-3
Consumable Inventories.....	1-D-4
Prepaid Items.....	1-D-5
Restricted Assets .....	1-D-6
Capital Assets.....	1-D-7
Compensated Absences.....	1-D-8
Accrued Liabilities and Long-term Obligations.....	1-D-9
Bond Premiums and Discounts, Debt Issuance Costs, and Refunding Gains and Losses.....	1-D-10
Fund Equity.....	1-D-11
Operating Revenues and Expenses.....	1-D-12
Contributions of Capital.....	1-D-13
Interfund Activity.....	1-D-14
Estimates .....	1-D-15
Deferred Outflows/Inflows of Resources.....	1-D-16
 <b>Stewardship, Compliance and Accountability .....</b>	 <b>2</b>
Budgetary Information .....	2-A
Excess Expenditures Over Authorizations .....	2-B
 <b>Detailed Notes on All Funds.....</b>	 <b>3</b>
Deposits and Investments.....	3-A
Receivables .....	3-B
Property Taxes .....	3-C
Operating Leases .....	3-D
Capital Assets.....	3-E
Commitments.....	3-F
Interfund Balances and Transfers.....	3-G
Landfill Closure and Post-closure Care.....	3-H
Long-Term Debt.....	3-I
Pensions .....	3-J
Net Investment in Capital Assets.....	3-K
Deferred Outflows of Resources.....	3-L
 <b>Other Notes .....</b>	 <b>4</b>
Risk Management.....	4-A
Contingent Liabilities.....	4-B
Swan Lake Hydroelectric Facility and Related Party Transactions.....	4-C
Ketchikan Public Utilities-Sale of the Telecommunications Division .....	4-D
Violation of Stage I Disinfectants/Disinfection Byproducts Rule.....	4-E
Issuance of Debt.....	4-F

### **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.

**Note 2 – Stewardship, Compliance and Accountability (Continued)**

On December 19, 2013, the 2014 General Government Operating and Capital Budget and the 2014 Ketchikan Public Utilities Operating and Capital Budget were adopted by the City Council with the passage of Resolution 13-2530 and Resolution 13-2531, respectively. During the year, the 2014 General Government Operating and Capital Budget was amended to provide for supplemental appropriations as follows:

- Increase appropriations of the risk management department in the amount of \$22,000.
- Acceptance of a grant for the fire department in the amount of \$3,500.
- Acceptance of a grant for the fire department in the amount of \$80,000.
- Acceptance of a grant for the fire department in the amount of \$5,000.
- Acceptance of a grant for the fire department in the amount of \$8,500.
- Acceptance of a grant for the fire department in the amount of \$18,448.
- Acceptance of a grant for the fire department in the amount of \$215.
- Acceptance of a grant for the police department in the amount of \$4,000.
- Increase appropriations for the health and welfare department in the amount of \$36,665.
- Acceptance of a grant for the library department in the amount of \$1,000.
- Acceptance of a grant for the museum department in the amount of \$8,780.
- Acceptance of a grant for the tourism and economic development department in the amount of \$350,657.
- Acceptance of a grant for the tourism and economic development department in the amount of \$37,422.
- Acceptance of a grant for the tourism and economic development department in the amount of \$122,387.
- Acceptance of a private contribution for the tourism and economic development department in the amount of \$22,035.
- Issuance of bonds for the harbor department in the amount of \$149,928.
- Increase appropriations for the port department in the amount of \$45,000.

During the year, the 2014 Ketchikan Public Utilities Operating and Capital Budget was amended as follows:

- Increase appropriations for the electric department in the amount of \$96,300.
- Issuance of bonds for the water department in the amount of \$100,000.

In addition, transfers of funds between budget accounts, within departments, which did not increase appropriations, were made for both General Government and Ketchikan Public Utilities. The effects of these transfers were not significant in relation to the budgets taken as a whole.

All unencumbered appropriations lapse at the end of each fiscal year, but encumbered appropriation balances carry forward automatically and may be expended after year-end. All unencumbered, unexpended annual appropriations lapse at year-end. Payments made against prior year purchase orders result in current year expenditures being increased and current year encumbrance balances being reduced so that these payments do not reduce current year appropriations. Under this system, prior year encumbrances, on which payments have been made, are netted with current year encumbrances. This sometimes results in negative encumbrance balances appearing on budgetary statements.

**Note 3 - Detailed Notes on All Funds**

**3-A. Deposits and Investments**

Cash and investments for the City are comprised of governmental and business-type activities. The balances at December 31, 2014 were:

Cash on hand	\$ 9,570
Deposits with financial institutions	52,842,794
Investments	52,161,666
Total	<u>\$ 105,014,030</u>

**Note 3 - Detailed Notes on All Funds (Continued)**

Cash and investments for the City include both governmental and business-type activities as follows:

	Governmental Activities	Business-type Activities	Total
Unrestricted	\$ 23,571,794	\$ 23,280,797	\$ 46,852,591
Restricted	46,434,570	11,726,869	58,161,439
Total	<u>\$ 70,006,364</u>	<u>\$ 35,007,666</u>	<u>\$ 105,014,030</u>

The restricted cash and investments are comprised entirely of \$2,777,489, \$17,992 and \$3,438,548 for bond reserve accounts established for the City's municipal utility, wastewater services and port revenue bonds, respectively, \$45,937,940 for bond construction accounts, \$208,971 for City utility bond constructions accounts, \$3,664,611 for the Port repair and replacement accounts, \$1,815,985 for commercial passenger excise tax fund accounts and \$299,903 for public safety confiscated funds.

**Deposits**

**Custodial credit risk-deposits.** This is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's deposit policy is in accordance with guidelines established by the City Charter, the City Council and its bond ordinances. All deposits were covered by federal depository insurance up to \$250,000 and collateralized with eligible securities in amounts equal at least 100 percent of the book value of deposits. As of December 31, 2014, the book value of all the City deposits was \$52,842,794. All collateral securities were held by third parties in the City's name, and consequently were not exposed to custodial credit risk.

**Investments.** All investment pool cash purchases and sales are part of the City's cash management activity and considered cash and cash equivalents. Interest earned from the pooled investments is allocated to each fund based on average earnings rate and monthly cash balance of each fund. The City has recorded investments at fair value. The City's investment policy is in accordance with guidelines established by the City Charter, the City Council and its bond ordinances.

The following investments are permitted under the City's investment policy:

- United States Treasury Debt Obligations
- United States Agency Debt Obligations
- Alaska Municipal Debt Obligations
- Repurchase Agreements Secured by U.S. Treasury and Agency Debt Obligations

**Interest rate risk.** As of December 31, 2014, the weighted average maturity of the City's investment portfolio was .40 years. To minimize interest rate risk, the City's investment policy limits the portfolio to a maximum weighted average of maturity of 24 months. With the exception of bond reserve accounts, all other funds must be invested in less than two-year maturities and must meet the City's cash flow requirements.

**Credit risk.** Most of the City's investments are direct obligations of the U. S. government and are not considered to have credit risk. As of December 31, 2014, the City had investments in money market funds totaling \$49,850,265. The money market funds were invested primarily in U.S. Treasury and Agency obligations.

**Concentration of credit risk.** Of the City's total investments as of December 31, 2014, .4 percent were invested in direct obligations of the U. S. Government. All other investments not explicitly guaranteed by the U.S. Government were less than 95 percent of the City's total investments.

**Custodial credit risk.** This is the risk that, in the event of the failure of a counterparty, the City would not be able to recover the value of its investments or collateral securities that are in possession of an outside party. At December 31, 2014, the City had no investments that were held by either a counterparty or a counterparty's trust department or agent. The City did have funds on deposit with Bank of New York Mellon in the amount of \$1,758,678 of which \$1,508,678 were uncollateralized.

**Note 3 - Detailed Notes on All Funds (Continued)**

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

Investment Type	Fair Value	Non Maturity Rated	Investment Maturity (in years)			Average Maturity (Years)
			Less Than 1	1 - 5	6 - 10	
US Treasury Notes	\$ 2,311,401	\$ -	\$ 1,883,449	\$ 427,952	\$ -	0.4
Cash in Mutual Funds	49,850,265	49,850,265	-	-	-	0
	<u>\$ 52,161,666</u>	<u>\$ 49,850,265</u>	<u>\$ 1,883,449</u>	<u>\$ 427,952</u>	<u>\$ -</u>	

Portfolio weighted average maturity .4

**3-B. Receivables**

Receivables at December 31, 2014, consisted of taxes, interest, accounts (billings for user charges, including unbilled utility receivables), and intergovernmental receivables arising from grants.

Receivables are recorded on the City's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and in the case of receivables, collectability. Receivables for the year ended December 31, 2014, consisted of the following:

	Governmental Activities	Business-type Activities	Total
Accounts receivable	\$ 10,855,659	\$ 7,447,727	\$ 18,303,386
Allowance for doubtful accounts	(147,600)	(78,000)	(225,600)
Net accounts receivable	<u>\$ 10,708,059</u>	<u>\$ 7,369,727</u>	<u>\$ 18,077,786</u>

**3-C. Property Taxes**

Under Alaska Statutes, boroughs are required to bill and collect property taxes for cities located within its boundaries. The Ketchikan Gateway Borough performs these functions for the City. The City must set the rate of levy by June 15 of each year. Property taxes are levied on July 1 and are based on the assessed valuation of real and personal property as of January 1. Property taxes are due and payable immediately upon levy and become delinquent if not paid on or before September 30 of the year in which they are levied. The lien date is October 1. Foreclosure proceedings are initiated by the Ketchikan Gateway Borough the following January on properties for which property taxes has not been paid by December 31. Upon the issuance of a judgment by the court, properties with delinquent taxes are transferred to the Borough and held for at least one year in order to permit the property owner with an option to redeem the property. At the end of the redemption period, all unredeemed property located within the City is deeded to the City by the court subject to the payment by the City of all unpaid borough taxes and the costs of foreclosure levied against the property.

**3-D. Leases**

**3-D-1 Operating Leases**

The City is a lessor in a number of operating leases as follows:

In 1988, the City entered into an agreement with the United States of America, Forest Service to lease City owned land for 50 years for a Southeast Alaska visitor's information center. The terms of the lease agreement require annual lease payments of \$1 per year.

**Note 3 - Detailed Notes on All Funds (Continued)**

In 1981, the City entered into an agreement with Peace Health to lease the City owned hospital for 10 years. The terms of the lease require annual payments of \$1 per year. In 1992, 2003 and 2013, the agreement was amended to provide for 10-year extensions.

In 2000, the City entered into an agreement with the State of Alaska to lease City owned land for the Ketchikan Youth Detention and Treatment Facility for a period of 55 years and at a total cost of \$550.

In 2004, the State of Alaska transferred, at no cost, to the City of Ketchikan thirteen tidelands leases. The following is a schedule of investment in property held for lease and the minimum future rentals as of December 31, 2014:

	Schedule of Investment in Property Held For Lease
Tidelands	\$ 941,500
Total	941,500
Less: Accumulated Depreciation	-
Net Investment	\$ 941,500

Years Ending December 31	Amount
2015	\$ 51,339
2016	51,338
2017	41,539
2018	41,538
2019	41,539
2020-2024	199,637
2025-2029	164,511
2030-2039	163,299
2035-2039	89,900
2040-2044	71,615
2045-2049	67,250
2050-2054	37,450
2055-2059	30,000
2060-2064	24,000
Total minimum future lease rentals	\$ 1,074,955

Nine of the leases have a scheduled rate change after 25 years and then every 10 years thereafter, three of the leases have a scheduled rate change in the sixth year and every five years thereafter and one lease has no future rate changes at the date of transfer from the State. The expiration of the lease with the shortest remaining term expires in 2016 while the lease with the longest remaining term expires in 2063.

The City is a lessee in the following operating lease:

The City is under contract to lease a panamax class cruise ship berth and adjacent ground transportation areas, which will be used in its port operations, under a 30-year non-cancelable operating lease. The lease agreement includes two ten-year options to renew.

**Note 3 - Detailed Notes on All Funds (Continued)**

The future minimum lease payments for this lease are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2015	\$ 1,800,000
2016	1,800,000
2017	1,800,000
2018	1,800,000
2019	1,800,000
2020-2024	9,000,000
2025-2029	9,000,000
2030-2034	9,000,000
2035-2037	5,400,000
Total future minimum lease payments	<u>\$ 41,400,000</u>

The future minimum lease payments do not include contingent lease payments that will be paid if the number of cruise ship passengers paying the City's passenger wharfage fee exceeds 820,000 passengers. Various formulas are used to determine the contingent lease payments and all are dependent on passenger volume. Contingent lease payments will be decreased if passenger volume decreases. In 2014, the City paid the minimum lease of \$1,800,000 plus a contingent lease payment of \$550,270 for a total of \$2,350,270

**3-E. Capital Assets**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Nondepreciable capital assets				
Land	\$ 28,904,498	\$ -	\$ -	\$ 28,904,498
Easements	-	588,168	-	588,168
Construction in progress	6,087,334	14,061,923	3,036,331	17,112,926
Other capital assets	100,750	-	-	100,750
Total nondepreciable capital assets	<u>35,092,582</u>	<u>14,650,091</u>	<u>3,036,331</u>	<u>46,706,342</u>
Depreciable capital assets:				
Land improvements	1,554,203	-	-	1,554,203
Buildings	74,783,310	34,800	-	74,818,110
Machinery and equipment	15,462,000	608,128	567,676	15,502,452
Infrastructure	58,548,008	12,528,752	-	71,076,760
Software	624,705	-	-	624,705
Total depreciable capital assets	<u>150,972,226</u>	<u>13,171,680</u>	<u>567,676</u>	<u>163,576,230</u>
Total capital assets	<u>186,064,808</u>	<u>27,821,771</u>	<u>3,604,007</u>	<u>210,282,572</u>
Accumulated depreciation:				
Land improvements	1,194,482	95,528	-	1,290,010
Buildings	17,924,468	1,264,014	-	19,188,482
Machinery and equipment	8,584,921	962,311	490,362	9,056,870
Infrastructure	21,015,168	1,854,805	-	22,869,973
Software	466,649	58,875	-	525,524
Total accumulated depreciation	<u>49,185,688</u>	<u>4,235,533</u>	<u>490,362</u>	<u>52,930,859</u>
Governmental activities capital assets, net	<u>\$ 136,879,120</u>	<u>\$ 23,586,238</u>	<u>\$ 3,113,645</u>	<u>\$ 157,351,713</u>

Note 3 - Detailed Notes on All Funds (Continued)

Governmental activities depreciation expense

General government	\$ 69,987
Public safety	706,731
Public works	1,834,907
Health and welfare	562,945
Harbor	814,950
Culture	<u>246,013</u>
Total governmental activities depreciation expense	<u>\$ 4,235,533</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Nondepreciable capital assets:				
Land	\$ 4,450,356	\$ 48,250	\$ -	\$ 4,498,606
Other capital assets	981,630		675,128	306,502
Construction in progress	<u>40,159,571</u>	<u>2,439,065</u>	<u>38,295,986</u>	<u>4,302,650</u>
Total non-depreciable capital assets	<u>45,591,557</u>	<u>2,487,315</u>	<u>38,971,114</u>	<u>9,107,758</u>
Depreciable capital assets:				
Electric utility plant	90,023,191	31,874,651	296,744	121,601,098
Telecommunications utility plant	55,825,736	5,265,376	845,675	60,245,437
Water utility plant	48,924,405	4,660,228	571,912	53,012,721
Wastewater utility plant	20,830,341	3,948,166	129,638	24,648,869
Port facilities	<u>67,104,874</u>	<u>5,408,627</u>	<u>5,919,516</u>	<u>66,593,985</u>
Total depreciable capital assets	<u>282,708,547</u>	<u>51,157,048</u>	<u>7,763,485</u>	<u>326,102,110</u>
Total capital assets	<u>328,300,104</u>	<u>53,644,363</u>	<u>46,734,599</u>	<u>335,209,868</u>
Accumulated depreciation:				
Electric utility plant	61,641,491	2,769,401	296,744	64,114,148
Telecommunications utility plant	43,445,845	2,873,290	845,675	45,473,460
Water utility plant	15,076,281	1,266,287	562,643	15,779,925
Wastewater utility plant	7,054,922	427,711	129,638	7,352,995
Port facilities	<u>15,390,070</u>	<u>1,587,253</u>	<u>2,920,142</u>	<u>14,057,181</u>
Total accumulated depreciation	<u>142,608,609</u>	<u>8,923,942</u>	<u>4,754,842</u>	<u>146,777,709</u>
Business-type activities capital assets, net	<u>\$ 185,691,495</u>	<u>\$ 44,720,421</u>	<u>\$ 41,979,757</u>	<u>\$ 188,432,159</u>

**Note 3 - Detailed Notes on All Funds (Continued)**

**3-F. Commitments**

The City has the following commitments as of December 31, 2014:

	Operational	Capital	Total
<b>Governmental Funds</b>			
General	\$ 285,778	\$ 1,383,724	\$ 1,669,502
Hospital construction fund	-	38,729,042	38,729,042
Major capital improvements fund	-	470,886	470,886
Harbor improvements fund	-	4,450,000	4,450,000
Non-major special revenue funds	30,339	74,218	104,557
<b>Total Governmental Funds</b>	<b>\$ 316,117</b>	<b>\$ 45,107,870</b>	<b>\$ 45,423,987</b>
<b>Enterprise Funds</b>			
KPU	\$ 859,655	\$ 2,199,962	\$ 3,059,617
Port	-	197,079	197,079
Wastewater	38,226	111,426	149,652
<b>Total Enterprise Funds</b>	<b>\$ 897,881</b>	<b>\$ 2,508,467</b>	<b>\$ 3,406,348</b>

**3-G. Interfund Balances and Transfers**

Interfund balances at December 31, 2014, consisted of the \$4,302,147 for governmental activities and represents reimbursable expenses. These remaining balances resulted from the time lag between the dates that (1) interfund goods or services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting period, and (3) payments between funds are made. The City expects to repay all interfund balances within one year except where noted.

Interfund transfers for the year ended December 31, 2014, consisted of the following:

Transfers from	Transfers to:		
	General fund	Nonmajor governmental funds	Total
General fund	\$ -	\$ 2,000,237	\$ 2,000,237
KPU Fund	786,000	-	786,000
Port Fund	430,642	4,907,162	5,337,804
Wastewater Fund	80,000	-	80,000
Nonmajor governmental funds	317,049	488,730	805,779
<b>Total</b>	<b>\$ 1,613,691</b>	<b>\$ 7,396,129</b>	<b>\$ 9,009,820</b>

Transfers are used to report revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; to return money to the fund from which it was originally provided once a project is completed; and for payments in lieu of taxes.

**3-H. Landfill Closure and Postclosure Care**

State and federal laws and regulations require the City to place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for up to thirty years after closure. Operating and capital expenditures related to current activities of the landfill are recorded in the Solid Waste Services special revenue fund. During 2014, the City did not have any current expenditures for landfill closure costs nor any post-closure care costs. The total estimated liability for

**Note 3 - Detailed Notes on All Funds (Continued)**

landfill closure and postclosure care costs are reported on the government-wide statement of net position.

During 2014, the future closure and postclosure costs were reevaluated and adjusted to reflect current conditions. As of December 31, 2014, the estimated liability for landfill closure and postclosure care costs totaled \$956,040, an increase of \$4,500 from the estimated liability as of December 31, 2013.

The estimated liability is based on an engineer's estimate taking into account various factors including used capacity. As of December 31, 2014 used capacity was approximately 59.34%. It is estimated that an additional \$743,960 will be recognized as closure and postclosure care expenses between the date of the balance sheet, and the year 2037, in 24 years, the date the landfill is expected to reach full capacity. The estimated total current cost of the landfill closure and postclosure care is \$1,700,000 and is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of December 31, 2014. The actual cost of closure and postclosure care may be higher due to inflation, changes in technology, and/or changes in the landfill laws and regulations.

The City is required by state and federal laws and regulations to demonstrate financial responsibility for closure and postclosure care costs. The City was in compliance with the requirements for inert landfills at December 31, 2014.

**3-1. Long-Term Debt**

**General Obligation Bonds** - The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities.

General obligation bonds are secured by the full faith and credit of the City. These bonds are payable from taxes levied on all property located within the City, sales taxes collected within the City, and from proprietary revenues, if the bonds were issued for proprietary activities. General obligation bonds currently outstanding are as follows:

**1997 Hospital General Obligation Bonds** – issued to finance improvements for the Ketchikan General Hospital, refunded March 22, 2005, due in annual installments through October 1, 2017, bearing interest rates of 2.75-5.00%.

**2010 Fire Station General Obligation Bonds** – issued to finance construction of a new fire station for the Ketchikan Fire Department, issued December 9, 2010, due in annual installments through August 1, 2030, bearing interest rates of 1.422 – 6.256%.

**2012 Library Facilities General Obligation Bonds** – issued to finance construction of a new library for the Ketchikan area, issued May 1, 2012, due in annual installments through September 1, 2031, bearing interest rates of 2.00 – 5.00%.

**2014 Harbor General Obligation Bonds** – issued to finance harbor improvements for Bar Harbor South, issued June 19, 2014, due in annual installments through June 1, 2034, bearing interest rates of 3.00 – 5.00%.

**2014 Hospital General Obligation Bonds** – issued to finance construction of an addition to the Ketchikan Medical Center, issued June 19, 2014, due in annual installments through June 1, 2044, bearing interest rates of 4.00 – 5.00%.

**Wastewater General Obligation Bonds, ADEC Clean Water Fund 481011** – issued to finance the replacement of a portion of the Tongass Avenue sewer main, due in semiannual installments through May 1, 2032 bearing an interest rate of 1.5%.

**Wastewater General Obligation Bonds, ADEC Clean Water Fund 481071** – issued to finance the replacement of a portion of the Tongass Avenue sewer main, bearing an interest rate of 1.5%, due in semiannual installments through November 1, 2033.

**Wastewater General Obligation Bonds, ADEC Clean Water Fund 481072** – issued to finance the replacement of a portion of the Tongass Avenue sewer main, bearing an interest rate of 1.5%, due in semiannual installments through November 1, 2033.

**Note 3 - Detailed Notes on All Funds (Continued)**

**Wastewater General Obligation Bonds, ADEC Clean Water Fund 481101** – issued to finance the replacement of a portion of the Jackson/Monroe Avenue sewer main, bearing an interest rate of 1.5%. The amount authorized is \$2,603,505. As of December 31, 2014, the City had incurred \$1,307,579 of construction costs eligible for funding from this loan program. The amount to be borrowed and the loan amortization schedule will be finalized upon completion of the project.

Annual debt service requirements to amortize general obligation bonds outstanding, as of December 31, 2014 follow:

Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 1,315,000	\$ 2,480,700	\$ 3,795,700	\$ 68,032	\$ 20,812	\$ 88,844
2016	1,365,000	2,424,650	3,789,650	69,056	19,787	88,843
2017	1,420,000	2,364,493	3,784,493	70,096	18,748	88,844
2018	1,430,000	2,279,568	3,709,568	71,152	17,692	88,844
2019	1,495,000	2,209,224	3,704,224	72,223	16,621	88,844
2020-2024	8,555,000	9,857,224	18,412,224	377,756	66,463	444,219
2025-2029	10,675,000	7,510,006	18,185,006	407,063	37,156	444,219
2030-2034	9,775,000	5,128,041	14,903,041	269,013	7,692	276,705
2035-2039	9,395,000	3,263,500	12,658,500	-	-	-
2040-2044	11,470,000	1,183,600	12,653,600	-	-	-
Total	\$ 56,895,000	\$ 38,701,006	\$ 95,596,006	\$ 1,404,391	\$ 204,971	\$ 1,609,362

This amortization schedule does not include \$1,307,579 for Wastewater Clean Water Loan Funds because the projects are not complete.

**Revenue Bonds** - The City issues revenue bonds where the City pledges income derived from the acquired or constructed assets to pay for debt service. All revenue bonds issued by the City have been recorded in the Ketchikan Public Utilities, Port or Wastewater Enterprise Funds and are described below:

**KPU Revenue Bonds, 1997, Series T –Amended** – issued to finance the expansion of diesel generation capacity, refunded October 20, 2005, due in annual installments through June 1, 2017, bearing interest rates of 3.00 – 5.75%.

**KPU Revenue Bonds, 2008, Series W, Clean Renewable Energy Tax Credit** – issued to finance a hydroelectric modernization project, dated July 10, 2008, due in annual installments through December 15, 2022 bearing an interest rate of .750%.

**KPU Revenue Bonds, 2013, Series X**– issued to finance a hydroelectric project, dated June 19, 2013, due in annual installments through June 1, 2033 bearing an interest rates of 2.00 – 5.00%.

**KPU Revenue Bonds, ADEC Drinking Water Fund 481021**– issued a taxable junior lien municipal utility revenue bond bearing an interest rate of 1.5% to finance the replacement of a portion of the Tongass Avenue water main, due in semiannual installments through May 1, 2032.

**KPU Revenue Bonds, ADEC Drinking Water Fund 481051**– issued a taxable junior lien municipal utility revenue bond bearing an interest rate of 1.5% to finance the construction of a water treatment facility, due in semiannual installments through November 1, 2033. The amount authorized is \$5.5 million. As of December 31, 2014 the City had incurred \$3,745,005 in constructions costs of which \$3,531,178 has been put into a loan schedule. An additional \$213,827 in construction costs eligible for funding from this loan program has been incurred as of December 31, 2014. The additional amount to be borrowed and loan amortization schedule will be finalized upon completion of the project.

**Note 3 - Detailed Notes on All Funds (Continued)**

**KPU Revenue Bonds, ADEC Drinking Water Fund 481061**– issued a taxable junior lien municipal utility revenue bond bearing an interest rate of 1.5% to finance the replacement of a portion of Tongass Avenue water main, due in semiannual installments through November 1, 2033.

**KPU Revenue Bonds, ADEC Drinking Water Fund 481091**– issued a taxable junior lien municipal utility revenue bond bearing an interest rate of 1.5% to finance the construction of the Baranof reservoir replacement, due in semiannual installments through November 1, 2033.

**KPU Revenue Bonds, ADEC Drinking Water Fund 481121**– issued a taxable junior lien municipal utility revenue bond bearing an interest rate of 1.5% to finance the construction of the Baranof reservoir replacement, due in semiannual installments through November 1, 2033.

**KPU Revenue Bonds, ADEC Drinking Water Fund 481141**– issued a taxable junior lien municipal utility revenue bond bearing an interest rate of 1.5% to finance the construction of the Jackson/Monroe replacement. The amount authorized is \$2,217,795. As of December 31, 2014 the City incurred \$1,616,031 in construction costs eligible for funding from this loan program. The amount to be borrowed and the loan amortization schedule will be finalized upon completion of the project.

**Port Revenue Bonds, 2006 Series** – issued to finance the port expansion and reconfiguration project, dated July 26, 2006, due in annual installments through December 1, 2035, bearing interest rates of 4.25 – 5.50%.

**Wastewater Revenue Bonds, ADEC Clean Water Fund 481111** – issued a taxable junior lien municipal utility revenue bond bearing an interest rate of 1.5% to finance the replacement of a portion of the Alaska Avenue sewer main, due in semiannual installments through November 1, 2033.

Annual debt service requirements to amortize revenue bonds outstanding, as of December 31, 2014 follow:

Year	Principal	Interest	Total
2015	\$ 2,943,450	\$ 2,503,238	\$ 5,446,688
2016	3,063,319	2,392,081	5,455,400
2017	3,178,263	2,278,923	5,457,186
2018	1,968,280	2,177,915	4,146,195
2019	2,048,374	2,099,872	4,148,246
2020-2024	11,440,992	9,113,135	20,554,127
2025-2029	14,080,330	6,234,997	20,315,327
2030-2034	15,968,940	2,704,491	18,673,431
2035	2,455,000	122,750	2,577,750
<b>Total</b>	<b>\$ 57,146,948</b>	<b>\$ 29,627,402</b>	<b>\$ 86,774,350</b>

This amortization schedule does not include \$1,829,858 for KPU Water Drinking Water Loan Funds because the projects are not complete.

*(This page continued on the subsequent page)*

**Note 3 - Detailed Notes on All Funds (Continued)**

**Changes in Long-term Debt** - Changes in the City's long-term obligations consisted of the following for the year ended December 31, 2014:

	Beginning Balance	Additions	Reductions	Ending Balance	in One Year
<b>Governmental Activities</b>					
Bonds payable:					
General obligation bonds	\$ 14,035,000	\$ 44,040,000	\$ 1,180,000	\$ 56,895,000	\$ 1,315,000
Plus deferred amounts:					
For issuance premiums	500,682	2,134,130	88,367	2,546,445	88,367
Total bonds payable	14,535,682	46,174,130	1,268,367	59,441,445	1,403,367
Landfill closure costs	951,540	4,500		956,040	-
Compensated absences	1,300,924	1,082,361	1,055,994	1,327,291	132,729
<b>Total Governmental Activities</b>	<b>\$ 16,788,146</b>	<b>\$ 47,260,991</b>	<b>\$ 2,324,361</b>	<b>\$ 61,724,776</b>	<b>\$ 1,536,096</b>
<b>Business-Type Activities</b>					
Bonds payable:					
General obligation bonds	\$ 2,750,427	\$ 28,564	\$ 67,021	\$ 2,711,970	\$ 68,030
Revenue bonds	61,714,415	237,444	2,975,054	58,976,805	2,943,450
Plus deferred amounts:					
For issuance premiums	2,481,988		156,376	2,325,612	144,045
Total bonds payable	66,946,830	266,008	3,198,451	64,014,387	3,155,525
Compensated absences	852,444	1,102,809	1,110,651	844,602	84,460
<b>Total Business-Type Activities</b>	<b>\$ 67,799,274</b>	<b>\$ 1,368,817</b>	<b>\$ 4,309,102</b>	<b>\$ 64,858,989</b>	<b>\$ 3,239,985</b>

The general obligation bonds for governmental activities are being retired by the general obligation bond debt service fund.

The landfill closure costs are being paid from the solid waste services fund. Principal and interest payments related to the City's revenue bonds are financed from income derived from the operations of the Ketchikan Public Utilities and Port Enterprise funds. The general obligation bonds for business-type activities are being retired from resources derived from the operations of the Port enterprise fund. The compensated absences liability is being liquidated from the compensated absences fund.

**Defeased Bonds Outstanding** - In prior years, the City issued general obligation and municipal utility revenue refunding bonds to defease certain outstanding general obligation and municipal utility revenue bonds to achieve debt service savings. The City has placed the proceeds from the refunding issues in irrevocable escrow accounts with a trust agent to insure payment of debt service on the refunded bonds. Accordingly, the trust assets and liabilities for the defeased bonds are not included in the City's financial statements. Although defeased, the refunded debt from these earlier issues will not be actually retired until the call dates have come due or until maturity if they are not callable issues. As of December 31, 2014, \$6,035,000 of the bonds outstanding was considered defeased.

**3-J. Pensions**

Substantially, all regular full-time and part-time (regular part-time is defined as an employee who regularly works at least 15 but less than 30 hours per week) employees of the City are members of the Alaska Public Employees' Retirement System (PERS) except for employees who are members of the International Brotherhood of Electrical Workers (IBEW). IBEW members participate in a union sponsored defined benefit plan.

**Note 3 - Detailed Notes on All Funds (Continued)**

**Alaska Public Employees' Retirement System**

**Plan Description**

The State of Alaska Public Employees Retirement System (PERS) is a cost sharing multiple employer plan established and administered by the State of Alaska. The retirement system provides pension, post-employment health care, death and disability benefits to eligible employees, and includes a defined benefit plan (Tiers I, II, and III) and a defined contribution plan (Tier IV). All new employees hired after June 30, 2006 who are participating for the first time in the PERS must enroll in the defined contribution plan. Benefits and contribution provisions are established by State law and may be amended only by the Alaska State Legislature.

The Division of Retirements and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to:

Department of Administration  
Division of Retirements and Benefits  
P.O. Box 110203  
Juneau, AK 99811-0203

Or by calling (907) 465-4460

**Funding**

**Defined Benefit Plan** - Employee contribution rates are required by State statute. The funding policy for PERS provides for employer contributions at actuarially determined rates that are sufficient to accumulate sufficient assets to pay benefits when due.

	Pension and Postemployment	
	1/1/14 - 6/30/14	7/1/14 - 12/31/14
Contribution Rates		
Employee Rate:		
Police Officers and Firefighters	7.50%	7.50%
Other Employees	6.75%	6.75%
Actuarially Required Employer Rate:		
Police Officers and Firefighters	35.68%	44.03%
Other Employees	35.68%	44.03%
Adjusted Actual Employer Rate:		
Police Officers and Firefighters	22.00%	22.00%
Other Employees	22.00%	22.00%

The actuarially determined 2014 employer contribution rate for the City was 35.68% percent from January 1 to June 30, 2014 and 44.03% percent from July 1 to December 31, 2014. The City's actual employer contribution was 22 percent, established by Alaska State Legislature with the adoption of Senate Bill 125. The State of Alaska is currently contributing the difference between the actuarial required contributions and the amount employers are required to contribute. The City accounts for the contributions from the State as on-behalf payments for fringe benefits. In 2014, the State contributed \$2,632,399, \$2,330,922 for pension and \$301,477 for post-employment healthcare, to the PERS on behalf of the City. These amounts were reported as intergovernmental revenues and pension related expenditures/expenses.

**Note 3 - Detailed Notes on All Funds (Continued)**

The annual pension and other post-employment benefit costs for the year ended December 31, 2014 and the amounts actually contributed by the City are listed below:

<u>Annual Contribution</u>	<u>Pension</u>	<u>Postemployment</u>	<u>Total</u>	<u>Percentage of Required Contribution</u>
2014	\$ 955,643	\$ 720,924	\$ 1,676,567	100%
2013	993,937	679,357	1,673,294	100%
2012	880,061	812,364	1,692,425	100%

**Defined Contribution Plan** – Funding, as required by state statute are as follows:

	<u>Pension and Postemployment</u>	
	<u>1/1/14 - 6/30/14</u>	<u>7/1/14 - 12/31/14</u>
<b>Pension Contribution Rates</b>		
Employee Rate:		
Police Officers and Firefighters	8.00%	8.00%
Other Employees	8.00%	8.00%
Employer Rate:		
Police Officers and Firefighters	5.00%	5.00%
Other Employees	5.00%	5.00%
<b>Health Contribution Rates</b>		
Employer Health Rate*:		
Police Officers and Firefighters	0.48%	1.66%
Other Employees	0.48%	1.66%
Employer Occupational Disability & Death Rate*:		
Police Officers and Firefighters	1.14%	1.06%
Other Employees	0.20%	0.22%
<b>Health Reimbursement Account:</b>		
Police Officers and Firefighters	\$158.05/month**	\$163.38/month**
Other Employees	\$158.05/month**	\$163.38/month**

\* Actuarial determined rates.

\*\* Flat dollar amount per employee based on 3% of the employer's average annual employee compensation, calculated by PERS administrator. Rate letters to be distributed annually. (Per AS39.30.370.)

Total defined contribution wages were \$3,396,993 in 2014, members contributed \$272,066 and the City contributed \$315,509 to fund the defined contribution retirement plan.

**International Brotherhood of Electrical Workers**

The International Brotherhood of Electrical Workers (IBEW) retirement plan is a union sponsored defined benefit plan. The plan is funded entirely by employer contributions based upon hourly rates, which are determined by a collective bargaining process. The City's obligation for retirement under the IBEW plan is limited to the amount paid to the Alaska Electrical Trust Fund. The City exercises no fiduciary responsibility over the IBEW plan. Accordingly, the City accounts for the IBEW retirement plan as if it were a defined contribution plan. Employees who are members of the IBEW are eligible to participate immediately upon employment and are fully vested after ten years of service.

Contributions for employees covered under the public works and clerical workers collective bargaining agreement range from \$2.50 to \$4.07 per hour worked; contributions for employees covered under the Ketchikan Public Utilities collective bargaining agreement range from \$3.09 to \$5.64 per hour for craft employees and \$2.75 to \$4.32 for non-craft employees. The City's total payroll for the year ended December 31, 2014 was \$20,804,144 and payroll for covered employees totaled \$10,390,118. The total amount contributed to the IBEW plan in 2014 was \$1,534,101, which represents 14.76% of the City's current covered payroll.

**Note 3 - Detailed Notes on All Funds (Continued)**

**3-K. Net Investment in Capital Assets**

Net Investment in capital assets on the government-wide statement of net position as of December 31, 2014 are as follows:

	Governmental Activities	Business-type Activities
Cost of capital assets	\$ 210,282,572	\$ 335,209,868
Less accumulated depreciation	(52,930,859)	(146,777,709)
Book value	157,351,713	188,432,159
Less capital related debt	(13,503,506)	(64,014,387)
Plus bond discount and refunding amounts	60,887	61,284
Net investment in capital assets	<u>\$ 143,909,094</u>	<u>\$ 124,479,056</u>

**3-L. Deferred Inflows and Outflows of Resources**

Deferred inflows of resources consist of revenues earned but unavailable for use. The City's deferred inflows of resources consist of taxes in the amount of \$2,140,355 and charges for services in the amount of \$56,997.

Deferred outflows of resources consist of deferred charges on debt refundings resulting from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt and totaled \$122,171.

**Note 4- Other Notes**

**4-A. Risk Management**

The City is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; and natural disasters. The City utilizes a self-insurance fund to account for and finance its uninsured risks of loss and insurance deductibles. The Self-Insurance Fund provides coverage up to a maximum of \$25,000 for each property claim, \$75,000 for each general liability claim, and \$100,000 for each employment practices claim. The City purchases commercial insurance for claims in excess of coverage provided by the Fund. Settled claims have not exceeded this commercial coverage in two of the past three fiscal years. All funds of the City participate in the risk management program and make payments to the Self-Insurance Fund based on the amounts needed to pay insurance and related risk management services, claims paid, claims incurred, but not reported, and to maintain adequate reserves for losses not covered by insurance. As of December 31, 2014, the City had a net position of \$1,692,676 in the Self-Insurance Fund. Claims payable represents estimates of claims incurred but not settled and claims incurred but not reported based upon past experience modified for current trends and information, which approximates the actuarial estimates of the amounts needed to pay the claims. At December 31, 2014 pending claims in the amount of \$143,000 and unpaid incurred claims in the amount of \$115,399 are included as a liability of the self-insurance fund. Amounts due within one year are \$115,399.

Changes in the balances of claims liabilities for the years ended December 31, 2014, 2013 and 2012 are as follows:

Date	(1) Beginning of Fiscal Year Liability	(2) Current Year Claims and Changes in Estimates	(3) Claim Payments	(4) End of Fiscal Year Liability
2012	\$ 269,204	\$ 164,823	\$ 99,972	\$ 334,055
2013	334,055	39,066	117,498	255,623
2014	255,623	115,399	112,623	258,399

There were no significant reductions in insurance coverage from the prior year.