



COMPREHENSIVE ANNUAL FINANCIAL REPORT



Fiscal Year:

July 1, 2011 – June 30, 2012



**COMPREHENSIVE ANNUAL
FINANCIAL REPORT
OF THE
CITY OF KENAI, ALASKA
Year Ended June 30, 2012**

Pat Porter
Mayor

Rick R. Koch
City Manager

Prepared by
Finance Department

Terry A. Eubank, CPA
Finance Director

**CITY OF KENAI, ALASKA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2012**

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"Village with a Past, City with a Future"

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November 12, 2012

Honorable Mayor Pat Porter,
City Council Members and Citizens of
the City of Kenai, Alaska

In accordance with Section 29.35.120 of the Alaska Statutes and the City Charter, we are pleased to submit the Comprehensive Annual Financial Report for the year ended June 30, 2012. The financial statements were prepared in conformance with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

This report consists of management's representations concerning the finances of the City of Kenai. Consequently, management assumes full responsibility for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Mikunda, Cottrell & Co., a firm of independent certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2012 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2012, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of broader State and federally mandated "Single Audits" designed to meet the special needs of State and federal 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 audited government's internal controls and compliance with certain legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal and state awards. These reports are available in the City's separately issued Single Audit Reports.

GAAP requires 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 report of the independent auditors.

Profile of the City of Kenai

The City was incorporated in 1960 as a home rule city and its charter was adopted May 20, 1963. The City occupies a geographic area of approximately 45 square miles located in the south central part of the state of Alaska. Major city services include police, fire, ambulance, airport, street maintenance, recreation, parks, building inspection, water and sewer, dock, cemetery and library. Funding for the City's General Fund, by order of financial significance, is provided from sales tax, property tax, charges for services, intergovernmental revenue, other sources and interest earnings. Other funds rely on charges for services, interest earnings, grants and other sources.

The City operates under a council - manager form of government. Policy-making and legislative authority are vested in a governing council consisting of six members and the mayor. The city manager, attorney and clerk are appointed by the council. The council and mayor are elected on a non-partisan basis. Council members serve three-year staggered terms, with 2 members elected each year and are elected at large. The mayor is elected at large and serves a three-year term. The city manager is the City's chief executive officer and is responsible for carrying out the policies and ordinances of the City, for overseeing the day-to-day operations of the government and for hiring the heads of the various departments.

Budgetary Control

The annual budget serves as the foundation for the City's financial planning and control. All departments submit budgets to the city manager on or about the last Monday in February. The city manager uses these requests for developing a proposed budget. The city manager submits the proposed budget to the council at the first regular council meeting in April. The council is required to hold public hearings on the proposed budget and generally adopts the budget by ordinance at the first meeting in June. The city manager is authorized to make budget transfers within a fund for amounts less than \$5,000. Council action is required for transfers between funds, for transfers exceeding \$5,000 and for new appropriations. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an annual budget has been adopted.

Factors Affecting Financial Condition

Economy

The primary private sector portions of Kenai's economy are oil and gas, commercial fishing, tourism and retail sales. The future holds challenges for oil and gas and commercial fishing in the Cook Inlet region. Gas supplies in quantities needed for liquefied natural gas (LNG), home heating and electrical power generation are projected to run out in this decade if new supplies are not made available through discovery or pipelines from other production areas. A gas pipeline from the North Slope to Cook Inlet would greatly enhance the viability of the industrial complex. The State of Alaska is working with the gas producers and other interested entities to develop a gas pipeline, but when a gas line will be built is not known at this time. Chevron, Shell and Forest Oil are all making significant investments in this region. Cook Inlet Natural Gas Storage Alaska is completing construction of a \$180.0 million natural gas storage facility within the City. The facility will greatly enhance the availability of gas within the Cook Inlet Basin during all seasons of the year and will produce an estimated \$481,250 in property tax revenue to the City at its current 3.85 mill rate when complete.

The proposed Pebble Mine, which is across Cook Inlet from Kenai, continues to be in the news for its world class prospects for copper, gold and molybdenum. Actual production will be years in the future, but Kenai's airport could be a much busier place if the project gets all of the permits required for operation.

Commercial fishing has had some good years recently in terms of production. Raw fish prices were maintained for the 2012 fishing season with an exceptional return of sockeye salmon to the fishery. Fishing is expected to continue to be an important component of the Kenai economy.

With the current state of the United States economy, tourism remained below historic levels in the summer months. The unique dipnet fishery at the mouth of the Kenai River, where tens of thousands of Alaskans catch a year's supply of sockeye salmon in July, makes Kenai a busy and very popular place. Accessible beaches, beautiful scenery, fishing and abundant historic sites all make Kenai a great destination for tourists on the Kenai Peninsula. Tourism is expected to remain a vital component of the Kenai economy.

Sales tax is the largest revenue source for the City. Retail sales businesses generate the largest share of sales tax revenue. This sector is vibrant and growing in Kenai with opening of new businesses in the City.

Overall, the projection for the economy of Kenai is optimistic. Kenai is situated in a beautiful area with abundant land and natural resources, an accommodative business climate, and a stable population base.

Long term financial planning

General Fund, fund balance decreased \$81,336 in FY 2012 to \$11.9 million which represents approximately 90% of one year's of expenditures. This healthy fund balance provides options for the City and generates interest income that can be used for operations.

One of the larger financial challenges facing the City is our contribution to the Public Employees Retirement System (PERS). Beginning in FY 2008, employers paid a maximum of 22% of payroll and the State is paying the difference to the actuarially required rate. Employer members of the PERS system worked with the State legislature for a long term solution to this problem. In April 2008 the Alaska Legislature passed Senate Bill 125 which converts the existing Public Employees Retirement System (PERS) from an agent-multiple employer plan to a cost-sharing plan. Under the cost-sharing arrangement, the State of Alaska Division of Retirement and Benefits will no longer track individual employer assets and liabilities. Rather, all plan costs and past service liabilities will be shared among all participating employers. The cost-sharing plan will require a uniform employer contribution rate of 22% or less of active member wages, subject to a wage floor. In addition, the legislation provides for state contributions in the event that the annually calculated and board adopted rate, which includes a provision to pay down the past-service liability, exceeds 22%. Any such additional contributions would be recognized by each employer as an on-behalf payment. In FY12 the State on-behalf contribution of 11.46% of covered payroll exceeded the actuarial required contribution of 8.796%.

The City is actively pursuing economic development opportunities and the long-term financial outlook is positive.

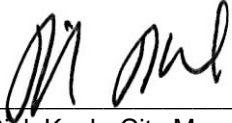
Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Kenai for its comprehensive annual financial report for the fiscal year ended June 30, 2011. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

Acknowledgment

The preparation of this Comprehensive Annual Financial Report in a timely manner was accomplished with the efficient and dedicated service of the entire staff of the Finance Department. Due credit should also be given to the City Council for their efforts in planning and conducting the financial operations of the City in a responsible manner.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Rick Koch", written above a horizontal line.

Rick Koch, City Manager

A handwritten signature in black ink, appearing to read "Terry Eubank", written above a horizontal line.

Terry A. Eubank, CPA
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Kenai
Alaska

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



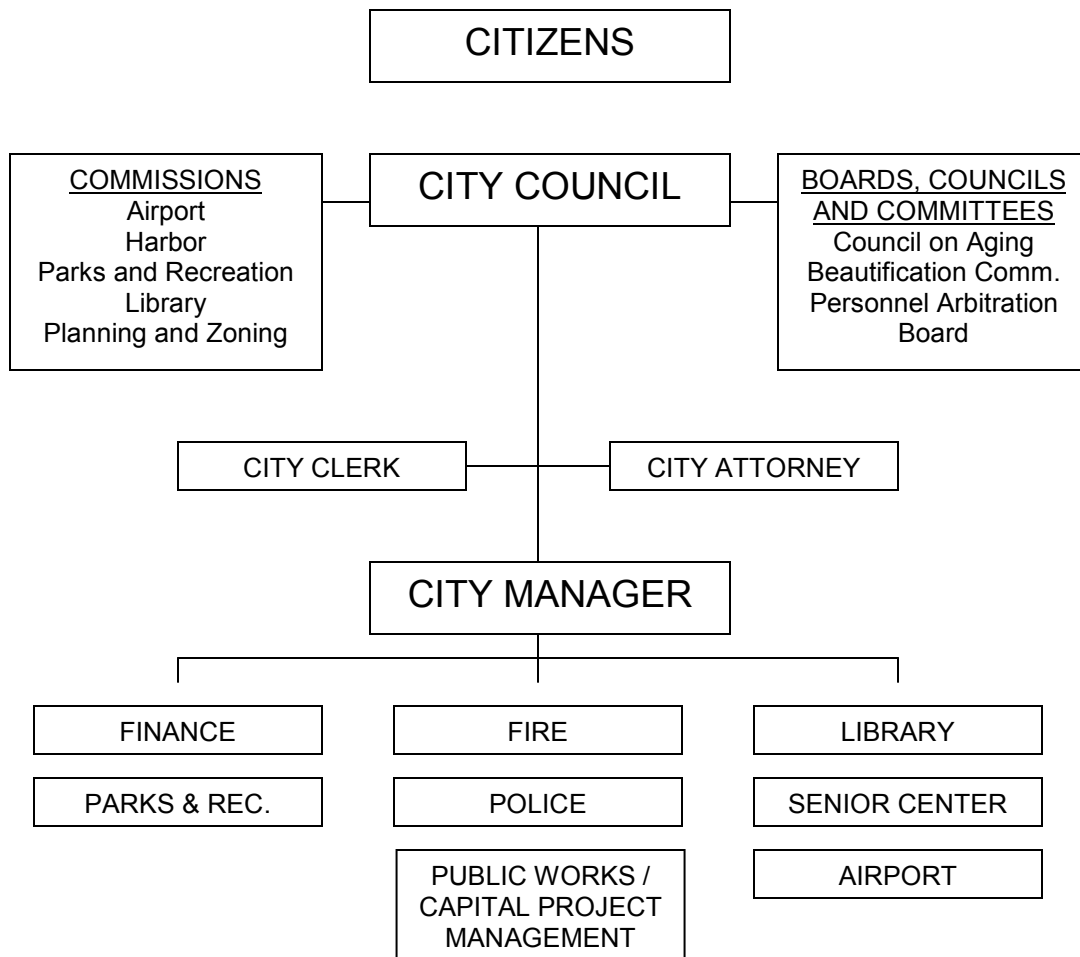
Linda C. Sandson

President

Jeffrey R. Enen

Executive Director

City of Kenai Organization Chart



CITY OF KENAI, ALASKA ORGANIZATION AND PRINCIPAL CITY OFFICIALS

Kenai was founded in 1791. It is located south of Anchorage on Cook Inlet in the Central Kenai Peninsula. The City is 161 highway miles from Anchorage. By air, Kenai is three hours from Seattle and thirty minutes from Anchorage.

Kenai was the site of the first major oil strike in 1957 and has served as a center for exploration and production since that time. Commercial fishing and processing contribute to the economy.

Kenai adopted the Council Manager form of government in 1963 and has been operating under this form since that time.

The City Council, together with appointed City officials, meets the first and third Wednesday of each month in the City Administration Building for regular Council sessions. In addition, numerous special meetings and work sessions are scheduled throughout the year. The Council, which consists of the Mayor and six council members, is elected at large and on a non-partisan basis. Annual elections are held in October. The terms of office are three years but are overlapping so that the City is provided with a continuity of knowledge in City business and legislative matters.

	<u>City Council</u>	<u>Term Ends</u>
Mayor	Pat Porter	2013
Council Members	Robert Molloy	2012
	Ryan Marquis	2012
	Terry Bookey	2013
	Brian Gabriel, Sr.	2013
	Mike Boyle	2014
	Tim Navarre	2014

City Administration

City Manager	Rick R. Koch
Finance Director	Terry A. Eubank
City Clerk	Sandra Modigh
City Attorney	Krista S. Stearns
Police Chief	Gus Sandahl
Fire Chief	Mike Tilly
Public Works Manager	Kevin Lyon
Librarian	Mary Jo Joiner
Parks & Recreation Director	Robert Frates
Airport Manager	Mary Bondurant
Senior Center Project Director	Rachael Craig

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AUDITOR REPORT

Independent Auditor's Report

Honorable Mayor and City Council
City of Kenai, Alaska

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 City of Kenai, Alaska, as of and for the year ended June 30, 2012 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously 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 Kenai, Alaska, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2012, on our consideration of City of Kenai's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Honorable Mayor and City Council
City of Kenai, Alaska

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 11 through 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kenai's basic financial statements. The accompanying combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary 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 supplementary information is 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 audited by us and accordingly, we express no opinion on them.

Mikunda, Cottrell & Co.

Anchorage, Alaska
November 15, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of Kenai, we offer readers of our financial statements this narrative overview and analysis of the financial activities of the City of Kenai for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

- The assets of the City of Kenai exceeded its liabilities at June 30, 2012 by \$182,415,198. Of this amount, unrestricted net assets of \$18,601,246 may be used to meet the government's ongoing obligations to citizens and creditors. A significant portion of this legally unrestricted amount has been designated for specific purposes.
- The City's total net assets increased by \$1,135,940. Governmental type activities increased by \$1,201,891 and business type activities decreased by \$65,951.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$41,038,871, a decrease of \$2,317,318 from the prior year. The fund balances of the two permanent funds, which cannot be spent, account for \$23.5 million of total fund balance. About \$8.4 million of the remaining fund balance is restricted, committed, or assigned. The remaining \$9.1 million is unassigned and available for spending.
- At the end of the current fiscal year, fund balance for the General Fund was \$11,945,528. Of this amount \$9,130,415 was unassigned and available for spending.
- The City has a long-term liability for compensated absences and general obligation debt of \$801,040 and \$1,850,000 respectively. The general obligation bonds were issued on March 11, 2010 for an addition to the City's library.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Kenai's basic financial statements. The City of Kenai's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The basic financial statements include two kinds of statements that present different views of the City's activities:

- *Government-wide financial statements* provide both short-term and long-term information about the City's overall financial condition in a summary format.
- *Fund financial statements* focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements. The form of fund financial statements presented herein is only slightly changed from the reporting model that we have used for many years.

Government-wide financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the City of Kenai's finances in a manner similar to a business enterprise. The statement of net assets presents information on all of the City's assets and liabilities. Net assets – the difference between assets and liabilities - is one way to measure the City's financial position. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. There are other non-financial factors, such as the condition of facilities, roads and other infrastructure that should be considered in the evaluation of overall financial condition.

The statement of activities presents information showing how a government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Kenai include general government, public safety, public works, parks, recreation and cultural, airport, water and sewer, and social services. The business-type activities of the City include the congregate housing facility.

Fund financial statements.

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

Governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the two. Four of the City's governmental funds are considered major funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the major funds including: the General Fund; the Airport Land Sales Fund, which is a permanent fund; the Airport Improvement Capital Project Fund, and the Water and Sewer Capital Project Fund. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the Fiscal Year (FY) 2012 budget.

Proprietary funds.

The City of Kenai maintains two different types of proprietary funds: enterprise and internal service. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for the Congregate Housing Facility. Information for this fund is presented in the proprietary statement of net assets and the proprietary statement of revenues, expenses and changes in fund net assets. Internal service funds are used to accumulate and allocate costs internally among the City's various functions. The City of Kenai uses an internal service fund to account for the purchase of heavy equipment that is primarily used by the General Fund and for the cost in managing major capital projects of the City. Because these services predominantly benefit governmental rather than business type functions, they have been included within governmental activities in the government-wide financial statements but are presented separately in the proprietary fund financial statements.

Fiduciary funds.

Through a management agreement, the City manages the donations of the Kenai Community Foundation, a 501(c)(3) not-for-profit entity, whose purpose is to support museums, parks and recreation, music, fine arts, library, and historic purposes within Kenai's city limits. The City's sole purpose is management of the Foundation's donations; all decisions regarding Foundation awards are made by the Foundation and not the City.

Notes to the financial statements.

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

Other information.

In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information. The combining statements referred to earlier in connection with non-major funds are presented immediately after the basic financial statements. Also included are budget comparisons for governmental funds other than the General Fund.

Government-wide Financial Analysis.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At June 30, 2012, the City's assets exceeded liabilities by \$182,415,198. By far the largest portion of the City's net assets reflects its investment in capital assets.

The following table provides a summary of the City's net assets:

	Net Assets (in thousands)					
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 44,091	\$ 47,123	\$ 557	\$ 462	\$ 44,648	\$ 47,585
Capital assets	<u>138,685</u>	<u>135,189</u>	<u>3,110</u>	<u>3,236</u>	<u>141,795</u>	<u>138,425</u>
Total assets	<u>182,776</u>	<u>182,312</u>	<u>3,667</u>	<u>3,698</u>	<u>186,443</u>	<u>186,010</u>
Long-term liabilities outstanding	2,650	2,721	1	5	2,651	2,726
Other liabilities	<u>1,304</u>	<u>1,970</u>	<u>73</u>	<u>34</u>	<u>1,377</u>	<u>2,004</u>
Total liabilities	<u>3,954</u>	<u>4,691</u>	<u>74</u>	<u>39</u>	<u>4,028</u>	<u>4,730</u>
Net assets:						
Invested in capital assets, net of debt	136,834	133,264	3,110	3,236	139,944	136,500
Nonspendable	23,541	24,318	-	-	23,541	24,318
Restricted	329	279	-	-	329	279
Unrestricted	<u>18,118</u>	<u>19,760</u>	<u>483</u>	<u>423</u>	<u>18,601</u>	<u>20,183</u>
Total net assets	<u>\$178,822</u>	<u>\$177,621</u>	<u>\$ 3,593</u>	<u>\$ 3,659</u>	<u>\$182,415</u>	<u>\$181,280</u>

Governmental activities.

Governmental activities increased the City's net assets by \$1,201,891. The key element of this increase is the difference between capital expenditures by governmental funds and depreciation expense recorded but not budgeted in the governmental funds.

Business-type activities.

Business-type activities decreased the net assets of the City by \$65,951. Rental rates of the Congregate Housing Facility are insufficient to cover depreciation on the facility which was built primarily with grant funds. Absent a rate increase, future declines in net assets are expected.

Changes in Net Assets.

The City's total revenues and expenses for governmental and business-type activities are reflected in the following table:

	Changes in Net Assets (in thousands)					
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 5,005	\$ 4,886	\$ 322	\$ 289	\$ 5,327	\$ 5,175
Operating grants and contributions	2,716	1,938	23	2	2,739	1,940
Capital grants and contributions	4,986	8,605	-	-	4,986	8,605
General revenues:						
Property taxes	2,658	2,614	-	-	2,658	2,614
Sales taxes	6,576	6,261	-	-	6,576	6,261
Other	251	3,890	3	4	254	3,894
Insurance settlement	-	-	24	175	24	175
Total revenues	<u>22,192</u>	<u>28,194</u>	<u>372</u>	<u>470</u>	<u>22,564</u>	<u>28,664</u>
Expenses:						
General government	2,207	2,033	-	-	2,207	2,033
Public safety	6,924	6,355	-	-	6,924	6,355
Public works	2,978	3,079	-	-	2,978	3,079
Parks, recreation, and cultural	2,189	1,778	-	-	2,189	1,778
Water and sewer services	2,382	2,290	-	-	2,382	2,290
Airport	3,521	3,293	-	-	3,521	3,293
Social welfare services	688	627	-	-	688	627
Interest on long-term debt	102	101	-	-	102	101
Senior Housing	-	-	438	407	438	407
Total expenses	<u>20,991</u>	<u>19,556</u>	<u>438</u>	<u>407</u>	<u>21,429</u>	<u>19,963</u>
Increase (decrease) in net assets	1,201	8,638	(66)	63	1,135	8,701
Net assets beginning	<u>177,621</u>	<u>168,983</u>	<u>3,659</u>	<u>3,596</u>	<u>181,280</u>	<u>172,579</u>
Net assets ending	<u>\$178,822</u>	<u>\$177,621</u>	<u>\$ 3,593</u>	<u>\$ 3,659</u>	<u>\$182,415</u>	<u>\$181,280</u>

Financial Analysis of the City's Funds

The City of Kenai uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds.

The purpose of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The total fund balance of governmental funds is \$41,038,871, which is down \$2,317,318 from last year. About \$9.1 million of fund balance is unassigned fund balance, which is available for spending at the City Council's discretion. The remainder of fund balance, \$31.9 million, is nonspendable, restricted, committed or assigned to indicate that it is not available for new spending. Nonspendable is the largest portion of this. \$23.5 million is in the two permanent funds, which do not allow spending of fund balance.

The General Fund is the chief operating fund of the City of Kenai. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$9,130,415, and total fund balance was \$11,945,528. Fund balance decreased \$81,336 in the current year. As a measure of liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures and transfers out. Unassigned fund balance represents 65% of total expenditures and transfers, while total fund balance represents 86% of that same amount.

General Fund expenditures are up \$814,235 (6.5%) over last year. Personal services increased \$875,653, 9.8% with the addition of an information technology manager, three additional fire fighters, and a 1.0% cost of living allowance increase for all employees.

General Fund revenues increased \$711,087 from last year. The primary revenue sources of the General Fund include property tax of \$2,638,783, sales tax of \$6,576,657, intergovernmental revenues of \$1,991,171, and charges to other funds of \$1,304,600. Sales tax revenue increased \$316,254 (5.1%) over last year despite the overall condition of the national economy. The local economy has not seen the declines as the national economy. Property taxes are nearly unchanged increasing by \$9,459 (0.4%). Interest revenue decreased \$15,684 due to sustained low interest rates. The City's investment portfolio has experienced the maturity or calling of its higher yielding investments requiring reinvestment at lower rates with the result being lower returns. Intergovernmental revenues increased \$607,149 from last year with notable increases in PERS Relief, Revenue Sharing, and Fish Tax. PERS Relief increased \$234,811, (51.1%) due to the increase in the actuarial required contribution and the Alaska Legislature providing funding in excess of the actuarial required contribution. Revenue Sharing increased \$145,806, (32.2%) with the addition of one time funding by the Alaska Legislature. Fish Tax increased \$130,555, (85.8%) with strong salmon catches and a recovery in prices during the 2010 fish season.

Tax revenues support General Fund operations exclusively and represent 39% of all governmental funds revenue. Other funds rely heavily on charges for services and interest/investment revenue. Interest/investment revenue in the governmental funds is down \$3,637,637, (93.4%) from the prior year due to sustained lower interest rates and the performance of the City's Airport Land Sales and General Land Sales Permanent Funds. Equity markets did not see the same gains during FY12 which were the primary driver in FY11's higher than normal interest/investment revenue. Capital projects funds and the senior services related funds are largely financed by grants from the federal, state and borough governments.

The Airport Improvement Capital Project Fund accounts for all capital acquisitions and projects at the Kenai Airport. During FY12 major projects included completion of the Apron Rehabilitation project \$0.13 million, purchase of new snow removal equipment \$0.87 million, and preparation for improvements near the airport's float plane basin and hazardous tree removal.

The Water and Sewer Capital Project Fund accounts for all capital acquisitions and projects of the Kenai Water and Sewer Utility. The \$3.98 million water and sewer extension from the Kenai Spur Highway to Beaver Loop

Road was completed in FY12. The remaining project, drilling of a new production well and construction of a water treatment facility continues. The water and sewer extension project was 90% funded by American Recovery and Reinvestment Act (ARRA) funds passed through the State of Alaska. Local funds account for the remaining 10% project funding. Drilling of production well 4 and construction of a water treatment facility is being funded with a combination of Federal and State grants as well as local funding. The project is scheduled for completion in late 2012.

Proprietary funds.

The City of Kenai maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Congregate Housing Fund is the only enterprise fund. It is reported in the proprietary fund financial statements and as a business type activity in the government-wide financial statements. Internal service funds are used to accumulate and allocate costs among the City's various functions. The City of Kenai has two internal service funds, the Equipment Replacement Fund and the Capital Project Management Fund. The Equipment Replacement Fund is used to account for the purchase of equipment costing more than \$50,000. The Equipment Replacement Fund charges the primary user department in the General Fund such that the General Fund reimburses the Equipment Replacement Fund over the useful life of the asset. The Capital Project Management Fund is used to account for the management of the City's major capital projects. Each capital project reimburses the Capital Project Management Fund at a billing rate determined annually during the City's budget process. Because the services of both the Equipment Replacement Fund and the Capital Project Management Fund predominantly benefit governmental rather than business type functions, they have been included within governmental activities in the government-wide financial statements but are presented in single columns in the proprietary fund financial statements.

At year-end, Congregate Housing Fund net assets totaled \$3,592,602 and unrestricted net assets were \$483,277. Net assets decreased \$65,951 for the year. Current revenues are simply insufficient to cover expenses – especially considering depreciation. It is anticipated that net assets will decline in future years without an increase in tenant rents.

General Fund Budgetary Highlights

The General Fund appropriations budget was amended by the City Council during the year by \$751,068. \$41,000 of the increase was funding to complete the Library Expansion project and \$158,014 of the increase was for the excess overtime of the fire and streets departments. Appropriations associated with grants and donations totaled \$349,578. Actual revenues were \$196,745 more than the final budget, with State of Alaska Public Employees Retirement System on-behalf payments exceeding budget by \$170,625, fish tax exceeding projections by \$82,804, ambulance fees exceeding projections by \$93,637 and interest revenue less than projected by \$191,030.

The actual expenditures and transfers out were \$861,764 less than budgeted. The City typically does not spend the entire authorized appropriation. The variance this year was about 5.8% of final budget compared to 5.6% last year. \$252,274, (29.3%) of the lapse, occurred in personal services despite State of Alaska Public Employees Retirement System on-behalf payments exceeding budget by \$170,625. Position vacancies and the replacement of retiring employees with those lower on the City's pay scale contributed to these savings.

Capital Assets and Debt Administration

Capital assets.

At June 30, 2012 the City's capital assets had a total net book value of \$141,793,854. Governmental activities totaled \$138,684,529 and business-type activities totaled \$3,109,325. Additional information on the City's capital assets can be found in the notes to the financial statements on pages 44-45 Section III. Detailed Notes on All Funds' C. Capital Assets. Major capital additions for FY12 included \$4.3 million in Water & Sewer assets including construction and tie-in of the City's new water treatment facility and \$1.3 million in Airport assets including the purchase of new snow removal equipment and performance of an airport master plan.

Debt administration.

No new debt was issued by the City in FY12. At June 30, 2012 \$1,850,000 of Library Expansion bonds remain outstanding and \$2,000,000 of Bluff Erosion Control bonds remain authorized but unissued. There are long-term liabilities for compensated absences totaling \$801,040. Additional information on the City's long-term debt can be found in the notes to the financial statements on pages 47-48.

Requests for information.

This financial report is designed to provide a general overview of the City of Kenai's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Director, City of Kenai, 210 Fidalgo Avenue, Kenai, Alaska 99611.

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BASIC FINANCIAL STATEMENTS

CITY OF KENAI, ALASKA
STATEMENT OF NET ASSETS
JUNE 30, 2012

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Equity in central treasury (cash and investments)	\$ 39,331,158	\$ 535,704	\$ 39,866,862
Receivables (net of allowances for uncollectibles)	4,760,313	21,551	4,781,864
Land	6,001,559	274,500	6,276,059
Property and equipment in service	190,028,501	5,292,668	195,321,169
Accumulated depreciation	(65,737,406)	(2,485,674)	(68,223,080)
Construction in progress	<u>8,391,875</u>	<u>27,831</u>	<u>8,419,706</u>
Total assets	<u>\$ 182,776,000</u>	<u>\$ 3,666,580</u>	<u>\$ 186,442,580</u>
LIABILITIES			
Accounts payable	\$ 1,005,767	\$ 37,702	\$ 1,043,469
Unearned revenue	144,987	4,907	149,894
Other liabilities	137,165	29,984	167,149
Accrued interest	15,830	-	15,830
Long-term liabilities:			
Due within one year	274,247	346	274,593
Due in more than one year	<u>2,375,408</u>	<u>1,039</u>	<u>2,376,447</u>
Total liabilities	<u>3,953,404</u>	<u>73,978</u>	<u>4,027,382</u>
NET ASSETS			
Invested in capital assets, net of related debt	136,834,529	3,109,325	139,943,854
Nonexpendable:			
Airport Land Sale Permanent Fund	20,983,776	-	20,983,776
General Government Land Sale Permanent Fund	2,557,158	-	2,557,158
Restricted - youth athletics	329,164	-	329,164
Unrestricted	<u>18,117,969</u>	<u>483,277</u>	<u>18,601,246</u>
Total net assets	<u>\$ 178,822,596</u>	<u>\$ 3,592,602</u>	<u>\$ 182,415,198</u>

See Accompanying Notes to Financial Statements

**CITY OF KENAI, ALASKA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 2,206,779	395,389	\$ 1,179,248	\$ 49,449
Public safety	6,923,478	511,855	598,689	8,047
Public works	2,978,015	88,904	102,984	435,417
Parks, recreation, and cultural	2,188,839	308,624	119,133	155,024
Water and sewer services	2,382,284	1,862,807	53,235	3,072,460
Airport	3,520,577	1,728,173	57,730	1,266,209
Social welfare services	688,467	109,051	604,628	-
Interest on long-term debt	101,973	-	-	-
Total governmental activities	<u>20,990,412</u>	<u>5,004,803</u>	<u>2,715,647</u>	<u>4,986,606</u>
Business-type activities:				
Senior Housing	<u>437,943</u>	<u>322,355</u>	<u>23,189</u>	<u>-</u>
Total Government	<u>\$ 21,428,355</u>	<u>\$ 5,327,158</u>	<u>\$ 2,738,836</u>	<u>\$ 4,986,606</u>

General revenues:
Property taxes
Sales taxes
Unrestricted investment earnings
Insurance settlement
Total general revenues
Change in net assets
Net assets - beginning
Net assets - ending

See Accompanying Notes to Financial Statements

**Net (Expenses) Revenues and
Changes in Net Assets**

Governmental Activities	Business-type Activities	Total
\$ (582,693)	\$ -	\$ (582,693)
(5,804,887)	-	(5,804,887)
(2,350,710)	-	(2,350,710)
(1,606,058)	-	(1,606,058)
2,606,218	-	2,606,218
(468,465)	-	(468,465)
25,212	-	25,212
(101,973)	-	(101,973)
(8,283,356)	-	(8,283,356)
-	(92,399)	(92,399)
(8,283,356)	(92,399)	(8,375,755)
2,657,670	-	2,657,670
6,576,657	-	6,576,657
250,920	2,436	253,356
-	24,012	24,012
9,485,247	26,448	9,511,695
1,201,891	(65,951)	1,135,940
177,620,705	3,658,553	181,279,258
<u>\$ 178,822,596</u>	<u>\$ 3,592,602</u>	<u>\$ 182,415,198</u>

**CITY OF KENAI, ALASKA
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2012**

	General	Airport Land Sales Permanent
ASSETS		
Equity in central treasury (cash and investments)	\$ 9,534,095	\$ 20,896,047
Receivables (net of allowances for uncollectibles)	2,045,999	227,680
Due from other funds	<u>1,164,700</u>	<u>-</u>
Total assets	<u>\$ 12,744,794</u>	<u>\$ 21,123,727</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 166,093	\$ 4,743
Due to other funds	-	-
Deferred revenue	595,688	135,208
Other liabilities	<u>37,485</u>	<u>-</u>
Total liabilities	<u>799,266</u>	<u>139,951</u>
Fund balances:		
Nonspendable	-	20,983,776
Restricted	329,164	-
Committed	1,021,790	-
Assigned	1,464,159	-
Unassigned	<u>9,130,415</u>	<u>-</u>
Total fund balances	<u>11,945,528</u>	<u>20,983,776</u>
Total liabilities and fund balances	<u>\$ 12,744,794</u>	<u>\$ 21,123,727</u>

See Accompanying Notes to Financial Statements

Airport Improvement Capital Project	Water and Sewer Capital Project	Other Governmental	Total Governmental Funds
\$ -	\$ -	\$ 7,782,950	\$ 38,213,092
902,044	1,184,538	400,052	4,760,313
-	-	-	1,164,700
<u>\$ 902,044</u>	<u>\$ 1,184,538</u>	<u>\$ 8,183,002</u>	<u>\$ 44,138,105</u>
\$ -	\$ 680,524	\$ 154,404	\$ 1,005,764
841,136	245,771	628	1,087,535
27,179	-	110,695	868,770
-	-	99,680	137,165
<u>868,315</u>	<u>926,295</u>	<u>365,407</u>	<u>3,099,234</u>
-	-	2,557,158	23,540,934
-	-	-	329,164
33,729	258,243	224,468	1,538,230
-	-	5,035,969	6,500,128
-	-	-	9,130,415
<u>33,729</u>	<u>258,243</u>	<u>7,817,595</u>	<u>41,038,871</u>
<u>\$ 902,044</u>	<u>\$ 1,184,538</u>	<u>\$ 8,183,002</u>	

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds.

137,454,679

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.

723,783

Some liabilities, including bonds payable, interest payable on bonds (net of related interest subsidy), and compensated absences are not payable in the current period so they are not reported in the funds.

Bonds payable	\$ (1,850,000)	
Compensated absences	(796,986)	
Accrued interest (net of related interest subsidy)	<u>(15,830)</u>	(2,662,816)

Internal Service Funds are used by management to charge the cost of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the statement of net assets.

2,268,079

Net assets of governmental activities

\$ 178,822,596

**CITY OF KENAI, ALASKA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2012**

	General	Airport Land Sales Permanent	Airport Improvement Capital Project	Water and Sewer Capital Project
Revenues:				
Taxes	\$ 9,215,440	\$ -	\$ -	\$ -
Intergovernmental revenues	1,991,171	-	1,266,210	3,072,459
Charges for services	2,094,142	-	-	-
Interest revenue	58,970	171,068	-	-
Miscellaneous revenues	498,925	42,071	-	-
Total revenues	13,858,648	213,139	1,266,210	3,072,459
Expenditures:				
Current:				
General government	2,701,605	-	-	-
Public safety	6,441,968	-	-	-
Public works	2,334,315	-	-	-
Parks, recreation, and cultural	1,931,141	-	-	-
Water and sewer services	-	-	-	-
Airport	-	-	-	-
Social welfare services	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Capital outlay	-	-	1,335,311	4,338,469
Total expenditures	13,409,029	-	1,335,311	4,338,469
Excess of revenues over (under) expenditures	449,619	213,139	(69,101)	(1,266,010)
Other financing sources (uses):				
Transfers in	-	-	45,442	-
Transfers out	(530,955)	(1,011,485)	-	-
Net other financing sources (uses)	(530,955)	(1,011,485)	45,442	-
Net changes in fund balances	(81,336)	(798,346)	(23,659)	(1,266,010)
Fund balances - July 1	12,026,864	21,782,122	57,388	1,524,253
Fund balances - June 30	\$ 11,945,528	\$ 20,983,776	\$ 33,729	\$ 258,243

See Accompanying Notes to Financial Statements

Other Governmental	Total Governmental Funds
\$ -	\$ 9,215,440
1,341,089	7,670,929
2,187,781	4,281,923
26,943	256,981
<u>1,532,899</u>	<u>2,073,895</u>
 <u>5,088,712</u>	 <u>23,499,168</u>
 -	2,701,605
-	6,441,968
-	2,334,315
-	1,931,141
1,940,343	1,940,343
2,575,613	2,575,613
791,214	791,214
 75,000	 75,000
102,348	102,348
<u>1,249,159</u>	<u>6,922,939</u>
 <u>6,733,677</u>	 <u>25,816,486</u>
 (1,644,965)	 (2,317,318)
 1,600,820	 1,646,262
<u>(103,822)</u>	<u>(1,646,262)</u>
 <u>1,496,998</u>	 <u>-</u>
 (147,967)	 (2,317,318)
<u>7,965,562</u>	<u>43,356,189</u>
<u>\$ 7,817,595</u>	<u>\$ 41,038,871</u>

**CITY OF KENAI, ALASKA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

Net changes in fund balances - total governmental funds \$ (2,317,318)

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

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.

Expenditures for capital assets	\$ 6,911,849	
Loss on disposal of capital assets	(31,336)	
Current year depreciation	<u>(3,514,301)</u>	3,366,212

Special assessments, taxes, land sales and ambulance services receivable reported in the governmental funds are not revenues of the current period using the flow of financial resources basis. This is the decrease in other long-term assets. (49,039)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This is the amount of the (increase) decrease in:

Accrued leave	\$ (6,903)	
Bond interest payable	<u>374</u>	(6,529)

Repayment of the principal of long-term debt consumes current financial resources of governmental funds but does not have any effect on net assets. 75,000

Internal Service Funds are used by management to charge the cost of certain activities to individual funds. The net revenue of certain activities of the Internal Service Funds is reported with governmental activities. 133,565

Change in net assets of governmental activities \$ 1,201,891

CITY OF KENAI, ALASKA

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES,

AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues:				
Taxes:				
General property	\$ 2,617,254	\$ 2,617,254	\$ 2,616,718	\$ (536)
General sales	6,489,149	6,489,149	6,576,657	87,508
Penalty and interest on taxes	10,000	10,000	22,065	12,065
Total taxes	<u>9,116,403</u>	<u>9,116,403</u>	<u>9,215,440</u>	<u>99,037</u>
Intergovernmental revenues:				
Federal grants	-	20,827	45,746	24,919
Kenai Peninsula Borough	49,920	49,920	50,400	480
State of Alaska shared revenues:				
Electric utility tax	30,000	30,000	32,966	2,966
Fish tax	200,000	200,000	282,804	82,804
Liquor licenses	20,000	20,000	25,575	5,575
Revenue sharing	446,474	595,563	598,635	3,072
State of Alaska grants:				
Library grants	-	8,166	10,666	2,500
Police grants	122,436	258,594	250,773	(7,821)
PERS relief	507,745	522,981	693,606	170,625
Total intergovernmental revenues	<u>1,376,575</u>	<u>1,706,051</u>	<u>1,991,171</u>	<u>285,120</u>
Charges for services:				
Fees and charges:				
Ambulance fees	300,000	300,000	393,637	93,637
Multipurpose facility charges	80,000	80,000	65,243	(14,757)
Administrative and service fees	1,304,600	1,304,600	1,304,600	-
Other	86,500	91,500	94,833	3,333
Total fees and charges	<u>1,771,100</u>	<u>1,776,100</u>	<u>1,858,313</u>	<u>82,213</u>
Licenses and permits:				
Building permits	50,000	50,000	65,467	15,467
Animal control licenses and fees	19,000	19,000	28,794	9,794
Other	12,000	12,000	5,447	(6,553)
Total licenses and permits	<u>81,000</u>	<u>81,000</u>	<u>99,708</u>	<u>18,708</u>
Fines and forfeits:				
Court fines	65,000	65,000	57,904	(7,096)
Library fines	15,000	15,000	14,307	(693)
Other forfeitures	26,000	83,484	63,910	(19,574)
Total fines and forfeits	<u>106,000</u>	<u>163,484</u>	<u>136,121</u>	<u>(27,363)</u>
Total charges for services	<u>1,958,100</u>	<u>2,020,584</u>	<u>2,094,142</u>	<u>73,558</u>

See Accompanying Notes to Financial Statements

CITY OF KENAI, ALASKA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL, continued**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues, continued:				
Interest revenue	\$ 250,000	\$ 250,000	\$ 58,970	\$ (191,030)
Miscellaneous revenues:				
Rents and leases	49,975	49,975	110,607	60,632
Oil and gas royalties	100,000	100,000	48,097	(51,903)
Special assessments	76,000	76,000	50,088	(25,912)
Other	260,285	342,890	290,133	(52,757)
Total miscellaneous revenues	486,260	568,865	498,925	(69,940)
 Total revenues	 13,187,338	 13,661,903	 13,858,648	 196,745
Expenditures:				
General government:				
Legislative:				
Personal services	51,929	51,929	51,940	(11)
Supplies	3,875	8,875	6,242	2,633
Other services and charges	114,967	113,967	98,644	15,323
Total legislative	170,771	174,771	156,826	17,945
City clerk:				
Personal services	178,543	167,043	130,578	36,465
Supplies	15,630	16,435	15,345	1,090
Other services and charges	51,387	56,082	37,051	19,031
Capital outlays	5,035	2,535	478	2,057
Total city clerk	250,595	242,095	183,452	58,643
City attorney:				
Personal services	247,385	247,385	243,638	3,747
Supplies	1,575	1,575	1,348	227
Other services and charges	30,830	30,705	20,046	10,659
Capital outlays	-	125	125	-
Total city attorney	279,790	279,790	265,157	14,633
City manager:				
Personal services	246,780	253,289	249,137	4,152
Supplies	1,750	1,750	852	898
Other services and charges	36,580	157,085	110,622	46,463
Total city manager	285,110	412,124	360,611	51,513

See Accompanying Notes to Financial Statements

CITY OF KENAI, ALASKA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL, continued**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Expenditures, continued:				
General government, continued:				
Finance:				
Personal services	\$ 510,551	\$ 510,551	\$ 492,522	\$ 18,029
Supplies	15,400	15,400	10,031	5,369
Other services and charges	33,681	33,681	21,480	12,201
Total finance	<u>559,632</u>	<u>559,632</u>	<u>524,033</u>	<u>35,599</u>
Non-departmental:				
Personal services	507,745	522,981	693,606	(170,625)
Supplies	13,575	15,575	12,276	3,299
Other services and charges	412,106	309,994	230,754	79,240
Pass-through grants	-	20,000	10,982	9,018
Total non-departmental	<u>933,426</u>	<u>868,550</u>	<u>947,618</u>	<u>(79,068)</u>
Planning and zoning:				
Personal services	207,894	207,894	202,924	4,970
Supplies	7,450	9,650	6,545	3,105
Other services and charges	42,450	32,650	26,117	6,533
Capital outlays	-	7,600	7,269	331
Total planning and zoning	<u>257,794</u>	<u>257,794</u>	<u>242,855</u>	<u>14,939</u>
Safety:				
Supplies	1,650	1,590	152	1,438
Other services and charges	7,500	7,560	3,444	4,116
Total safety	<u>9,150</u>	<u>9,150</u>	<u>3,596</u>	<u>5,554</u>
Land administration:				
Supplies	800	800	223	577
Other services and charges	34,750	34,750	14,934	19,816
Capital outlays	-	3,837	2,300	1,537
Total land administration	<u>35,550</u>	<u>39,387</u>	<u>17,457</u>	<u>21,930</u>
 Total general government	<u>2,781,818</u>	<u>2,843,293</u>	<u>2,701,605</u>	<u>141,688</u>
Public safety:				
Police:				
Personal services	2,444,528	2,465,638	2,379,161	86,477
Supplies	84,925	116,971	113,833	3,138
Other services and charges	148,426	151,758	145,699	6,059
Capital outlays	56,447	110,797	107,422	3,375
Total police	<u>2,734,326</u>	<u>2,845,164</u>	<u>2,746,115</u>	<u>99,049</u>

See Accompanying Notes to Financial Statements

CITY OF KENAI, ALASKA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL, continued**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Expenditures, continued:				
Public safety, continued:				
Fire:				
Personal services	\$ 2,255,679	\$ 2,369,534	\$ 2,316,599	\$ 52,935
Supplies	89,525	89,525	85,437	4,088
Other services and charges	264,781	264,781	249,685	15,096
Total fire	<u>2,609,985</u>	<u>2,723,840</u>	<u>2,651,721</u>	<u>72,119</u>
Communications:				
Personal services	689,095	693,416	666,298	27,118
Supplies	8,970	36,485	34,211	2,274
Other services and charges	45,682	44,682	40,950	3,732
Total communications	<u>743,747</u>	<u>774,583</u>	<u>741,459</u>	<u>33,124</u>
Animal control:				
Personal services	224,486	224,486	215,585	8,901
Supplies	16,905	16,905	12,841	4,064
Other services and charges	79,547	79,547	74,247	5,300
Total animal control	<u>320,938</u>	<u>320,938</u>	<u>302,673</u>	<u>18,265</u>
Total public safety	<u>6,408,996</u>	<u>6,664,525</u>	<u>6,441,968</u>	<u>222,557</u>
Public works:				
Public works administration:				
Personal services	148,692	154,085	149,156	4,929
Supplies	3,250	3,545	2,434	1,111
Other services and charges	12,325	12,030	7,786	4,244
Total public works administration	<u>164,267</u>	<u>169,660</u>	<u>159,376</u>	<u>10,284</u>
Shop:				
Personal services	325,405	329,905	313,870	16,035
Supplies	181,828	186,328	184,491	1,837
Other services and charges	107,132	98,132	94,757	3,375
Total shop	<u>614,365</u>	<u>614,365</u>	<u>593,118</u>	<u>21,247</u>
Streets:				
Personal services	581,563	605,722	563,787	41,935
Supplies	185,300	222,218	163,727	58,491
Other services and charges	217,233	217,255	181,879	35,376
Capital outlays	16,400	25,960	25,956	4
Total streets	<u>1,000,496</u>	<u>1,071,155</u>	<u>935,349</u>	<u>135,806</u>

See Accompanying Notes to Financial Statements

CITY OF KENAI, ALASKA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL, continued

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Expenditures, continued:				
Public works, continued:				
Dock:				
Personal services	\$ 69,618	\$ 76,898	\$ 70,730	\$ 6,168
Supplies	12,900	12,900	6,773	6,127
Other services and charges	106,124	106,124	83,045	23,079
Total dock	188,642	195,922	160,548	35,374
Buildings:				
Personal services	227,999	234,759	220,766	13,993
Supplies	42,350	34,820	22,833	11,987
Other services and charges	60,500	84,826	65,629	19,197
Capital outlays	72,750	74,536	58,817	15,719
Total buildings	403,599	428,941	368,045	60,896
Street lighting:				
Supplies	12,000	12,000	-	12,000
Other services and charges	130,851	130,851	117,879	12,972
Total street lighting	142,851	142,851	117,879	24,972
Total public works	2,514,220	2,622,894	2,334,315	288,579
Parks, recreation, and cultural:				
Library:				
Personal services	557,630	564,234	533,295	30,939
Supplies	20,050	22,050	19,812	2,238
Other services and charges	183,508	209,774	209,027	747
Total library	761,188	796,058	762,134	33,924
Visitors center:				
Supplies	1,800	1,600	1,256	344
Other services and charges	177,480	179,555	175,666	3,889
Total visitors center	179,280	181,155	176,922	4,233
Recreation:				
Personal services	102,379	119,535	114,095	5,440
Supplies	8,600	8,600	7,184	1,416
Other services and charges	316,895	316,895	303,813	13,082
Total recreation	427,874	445,030	425,092	19,938

See Accompanying Notes to Financial Statements

CITY OF KENAI, ALASKA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL, continued

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Expenditures, continued:				
Parks, recreation, and cultural, continued:				
Parks:				
Personal services	\$ 181,129	\$ 199,568	\$ 179,074	\$ 20,494
Supplies	59,500	63,600	62,463	1,137
Other services and charges	101,010	181,458	170,173	11,285
Capital outlays	80,000	94,500	51,185	43,315
Total parks	<u>421,639</u>	<u>539,126</u>	<u>462,895</u>	<u>76,231</u>
Beautification:				
Personal services	57,345	86,774	46,591	40,183
Supplies	43,500	43,500	42,269	1,231
Other services and charges	22,835	18,438	15,238	3,200
Capital outlays	30,000	30,000	-	30,000
Total beautification	<u>153,680</u>	<u>178,712</u>	<u>104,098</u>	<u>74,614</u>
Total parks, recreation, and cultural	<u>1,943,661</u>	<u>2,140,081</u>	<u>1,931,141</u>	<u>208,940</u>
Total expenditures	<u>13,648,695</u>	<u>14,270,793</u>	<u>13,409,029</u>	<u>861,764</u>
Excess of revenues over (under) expenditures	<u>(461,357)</u>	<u>(608,890)</u>	<u>449,619</u>	<u>1,058,509</u>
Other financing sources (uses):				
Transfers in	125,000	125,000	-	(125,000)
Transfers out	<u>(401,985)</u>	<u>(530,955)</u>	<u>(530,955)</u>	<u>-</u>
Net other financing sources (uses)	<u>(276,985)</u>	<u>(405,955)</u>	<u>(530,955)</u>	<u>(125,000)</u>
Net changes in fund balance	<u>\$ (738,342)</u>	<u>\$ (1,014,845)</u>	<u>(81,336)</u>	<u>\$ 933,509</u>
Fund balance - July 1			<u>12,026,864</u>	
Fund balance - June 30			<u>\$ 11,945,528</u>	

See Accompanying Notes to Financial Statements

CITY OF KENAI, ALASKA
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Business-type Activities - Enterprise Fund Congregate Housing	Governmental Activities - Internal Service Funds
ASSETS		
Current assets:		
Equity in central treasury	\$ 535,704	\$ 1,118,066
Accounts receivable	21,551	-
Total current assets	<u>557,255</u>	<u>1,118,066</u>
Noncurrent assets:		
Land	<u>274,500</u>	<u>-</u>
Property and equipment in service, at cost:		
Buildings	5,292,668	-
Equipment	<u>-</u>	<u>1,852,052</u>
Total property and equipment in service	5,292,668	1,852,052
Less accumulated depreciation	<u>(2,485,674)</u>	<u>(622,202)</u>
Net property and equipment in service	2,806,994	1,229,850
Construction work in progress	<u>27,831</u>	<u>-</u>
Total assets	<u>\$ 3,666,580</u>	<u>\$ 2,347,916</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 37,702	\$ 3
Due to General Fund	-	77,165
Unearned revenue	4,907	-
Other liabilities	<u>29,984</u>	<u>-</u>
Total current liabilities	<u>72,593</u>	<u>77,168</u>
Noncurrent liabilities - compensated absences	<u>1,385</u>	<u>2,669</u>
Total liabilities	<u>73,978</u>	<u>79,837</u>
NET ASSETS		
Invested in capital assets	3,109,325	1,229,850
Unrestricted	<u>483,277</u>	<u>1,038,229</u>
Total net assets	<u>\$ 3,592,602</u>	<u>\$ 2,268,079</u>

See Accompanying Notes to Financial Statements

CITY OF KENAI, ALASKA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2012

	Business-type Activities - Enterprise Fund Congregate Housing	Governmental Activities - Internal Service Funds
Operating revenues:		
Rents and leases	\$ 320,832	\$ -
Charges for services	-	54,542
Other revenue	<u>1,523</u>	<u>250,505</u>
Total operating revenues	<u>322,355</u>	<u>305,047</u>
Operating expenses:		
Personal services	38,425	69,283
Supplies	13,136	613
Utilities	75,079	132
Repair and maintenance	100,373	-
Insurance	7,472	972
Depreciation	132,438	99,707
Manager's fee	36,300	-
Miscellaneous	3,420	-
Expenses chargeable from other funds	<u>31,300</u>	<u>10,800</u>
Total operating expenses	<u>437,943</u>	<u>181,507</u>
Operating income (loss)	<u>(115,588)</u>	<u>123,540</u>
Nonoperating revenues (expenses):		
Intergovernmental grants	23,189	5,351
Interest revenue	2,436	4,674
Insurance settlement	<u>24,012</u>	<u>-</u>
Total nonoperating revenues	<u>49,637</u>	<u>10,025</u>
Change in net assets	(65,951)	133,565
Net assets - July 1	<u>3,658,553</u>	<u>2,134,514</u>
Net assets - June 30	<u>\$ 3,592,602</u>	<u>\$ 2,268,079</u>

See Accompanying Notes to Financial Statements

CITY OF KENAI, ALASKA

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012**

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Funds
	<u>Congregate Housing</u>	
Cash flows from operating activities:		
Receipts from customers	\$ 326,823	\$ 54,542
Payments to suppliers	(201,937)	(12,751)
Payments to employees	(42,214)	(72,444)
Receipts (payments) for interfund services	<u>(31,300)</u>	<u>250,505</u>
Net cash provided by operating activities	<u>51,372</u>	<u>219,852</u>
Cash flows from noncapital financing activities:		
Increase in Due to General Fund	-	25,302
Insurance settlement	24,012	-
State grant	<u>3,031</u>	<u>5,351</u>
Net cash provided by noncapital financing activities	<u>27,043</u>	<u>30,653</u>
Cash flows from capital and related financing activities -		
Acquisition and construction of capital assets	<u>(5,826)</u>	<u>(229,170)</u>
Cash flows from investing activities:		
Interest on investments	<u>2,436</u>	<u>4,674</u>
Net increase in cash and cash equivalents	75,025	26,009
Cash and cash equivalents, beginning	<u>460,679</u>	<u>1,092,057</u>
Cash and cash equivalents, ending	<u><u>\$ 535,704</u></u>	<u><u>\$ 1,118,066</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (115,588)	\$ 123,540
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	132,438	99,707
Accounts receivable	(439)	-
Accounts payable	31,621	(234)
Compensated absences	(3,789)	(3,161)
Other liabilities	<u>7,129</u>	<u>-</u>
Net cash provided by operating activities	<u><u>\$ 51,372</u></u>	<u><u>\$ 219,852</u></u>

See Accompanying Notes to Financial Statements

CITY OF KENAI, ALASKA
KENAI COMMUNITY FOUNDATION AGENCY FUND
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2012

ASSETS

Equity in central treasury	<u>\$ 56,157</u>
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LIABILITIES

Due to Kenai Community Foundation	<u>\$ 56,157</u>
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See Accompanying Notes to Financial Statements

FOOTNOTES TO FINANCIAL STATEMENTS

CITY OF KENAI, ALASKA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The City of Kenai (City) was formed by a Home Rule Charter on May 20, 1963 under the provisions of Alaska Statute, Title 29, as amended. The City operates under a council-manager form of government and provides the following services: public safety (police, fire, animal control, and 911 communications), public improvements, airport, dock facility, water and sewer, library, senior citizen, recreation, parks, planning and general administrative services.

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

B. Government-wide and fund financial statements

The Government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all activities of the City. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues along with user fees, are reported separately from the *business-type activities*, which rely to a significant extent on fees and charges for support. The effect of any interfund activity, for the most part, has been removed from these statements. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include charges to customers or applicants who use, purchase, or directly benefit from the goods, services or privileges provided by a given segment or function and includes restricted grants and contributions that are restricted to meeting the operations or capital requirements of a particular function or segment. Taxes and other items not properly included in program revenues are reported as *general revenues*. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

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

The Government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting as are the proprietary fund statements*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar programs are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net assets are reported as restricted when constraints placed on the net asset use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislations.

Governmental fund type financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible in the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments and compensated absences, are recorded only when payment is due.

Taxes, charge for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivables due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measured and available only when received by the government.

The City reports the following major governmental funds based on the quantitative criteria:

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

The Airport Land Sales Permanent Fund accounts for sales of airport land. With the passage of Ordinance 2326-2008 during fiscal year 2009 all proceeds from airport land sales are deposited into this account and invested with up to 5% of the fund's balance at December 31st of each year being available for transfer to the Airport Special Revenue Fund for operations.

The Airport Improvement Capital Project Fund accounts for capital projects that are airport related. Primary funding sources are federal grants and transfers from the Airport Special Revenue Fund.

The Water and Sewer Capital Project Fund accounts for the capital projects that are water and sewer related. Primary funding sources are federal and state grants and transfers from the Water and Sewer Special Revenue Fund.

The Congregate Housing Enterprise Fund accounts for the activities of the senior housing project. Primary funding source is rents from its tenants.

Additionally the City reports the following fund types:

Internal Service Funds – the Equipment Replacement Fund is an internal service fund. It accounts for the purchase of equipment costing more than \$50,000 that will be used by General Fund departments on a cost-reimbursement basis. The Capital Project Management Fund is an internal service fund that accounts for the management of the City's capital projects on a cost-reimbursement basis.

Agency Fund – the City utilizes this fund to account for the resources invested by the City, under a management agreement, for the Kenai Community Foundation, a not-for-profit organization devoted to supporting museums, parks and recreation, music, fine arts, library, and historic purposes within Kenai's city limits.

As a general rule the effect of interfund activity has been eliminated from the Government-wide financial statements. Exceptions to this general rule are charges between the City's enterprise functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *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 fund and of the City's internal service funds are charges to customers for sales and services. Operating expenses for the enterprise fund and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Use of accounting estimates: The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Assets, liabilities and net assets or equity

1. Cash and cash equivalents

The City maintains a central treasury for most of its cash and cash equivalents, which is utilized by all funds. For the purposes of these financial statements, the City of Kenai considers highly liquid investments that are readily convertible to cash, with an original maturity of three months or less, to be cash equivalents.

Investment income is recorded in the General Fund, except that interest earned on cash held in the Water and Sewer Special Revenue Fund (including cash in water and sewer related capital project funds), the Airport Special Revenue Fund (including cash in the Airport Land Sales Permanent Fund and airport related capital project funds), the Congregate Housing Enterprise Fund, Library Expansion Capital Project Fund, and the Equipment Replacement Internal Service Fund is recorded in these funds.

2. Receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to other funds” or “due from other funds” (i.e., the current portion of interfund loans).

3. Restricted assets

Monies or other resources, the use of which is restricted by legal or contractual requirements are recorded as restricted assets.

4. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business type activities columns in the Government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000. All infrastructure assets, including those acquired prior to June 30, 1980, are reported. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant, and equipment of the City, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings costing more than \$50,000	50
Buildings costing less than \$50,000	25
Building improvements	25
Water and sewer infrastructure	50
Street infrastructure	30
Heavy equipment	20
Other equipment	10
Office equipment	5

5. Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation benefits. The City makes annual appropriations for the amount of leave expected to be used, which is available to employees at essentially their discretion. Each employee is allowed to accumulate up to 80 days of annual leave at the end of a calendar year, with any excess accumulation paid in cash in the following January. All vacation pay is accrued when incurred in the Government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee terminations or in situations where the leave is used but not yet paid. Most funds, except the capital project funds, will be utilized to liquidate the liability for compensated absences. The most significant, due to the fact that it has the largest payroll, is the General Fund.

6. Long-term obligations

In the Government-wide financial statements and proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. In the fund financial statements, governmental fund types recognize long-term debt obligations only when due.

7. Fund balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form—prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of fund balances comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the City Council—the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the City Council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance. This classification reflects the amounts constrained by the City's "intent" to be used for specific purposes, but are neither restricted nor committed. The City Council has the authority to assign amounts to be used for specific purposes by resolution. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to use externally restricted resources first, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental fund types, except the Capital Project Funds which adopt project-length budgets. All annual appropriations lapse at a fiscal year end.

Budgets for the general fund, special revenue funds, debt service funds, permanent funds and enterprise funds are annual budgets. Capital project fund budgets are project-length budgets. The Equipment Replacement Fund, which is an internal service fund, is not required to have a budget. The City Council approves all asset acquisitions from this fund by resolution.

Annual budgets must be submitted to the City Council by the City Manager during or prior to the sixth week preceding the first day of each fiscal year. The City Council must adopt an annual budget and set the tax rates not later than the tenth day of June for the following fiscal year.

Budgetary control (the level at which expenditures may not exceed budget) is maintained at the object class level by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders which would result in an overrun of object class balances are not released until additional appropriations are made available.

Amendments to appropriations may be made by the city administration by transfers within a fund in amounts less than \$5,000. Other amendments, including supplemental appropriations, may be made by the City Council. The City Council authorized supplemental appropriations during the year in capital projects funds, special revenue funds and the general fund. General fund supplemental appropriations were \$751,068. The majority of this was to appropriate state and federal grants received during the year and for transfers to capital project funds.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as appropriate constraints of fund balances if they meet the definitions and criteria as outlined above. These commitments will be reappropriated and honored during the subsequent year. At June 30, 2012 no significant encumbrances existed.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

The City maintains a central treasury that is available for use by all funds. Each fund type's portion of the central treasury is displayed on the balance sheet or statement of net assets as "Equity in Central Treasury" unless there is a deficit which is then shown as "Due to Other Funds".

At year-end, all of the City's bank deposits were either insured or collateralized with securities held by the City's agent in the City's name.

The City's general investment policy authorizes investment in: (a) obligations of the United States or an agency or instrumentality of the United States; (b) certificates of deposit with banks and savings and loan associations; (c) repurchase agreements; (d) money market mutual funds consisting primarily of obligations of the United States or an agency or instrumentality of the United States, or repurchase agreements collateralized with such obligations; and (e) the Alaska Municipal League Investment Pool (AMLIP). Generally, investment maturities cannot exceed five years from the date of purchase. Repurchase agreements must be collateralized with United States government obligations. Certificates of deposit must be insured or collateralized with obligations of the United States or its agencies or instrumentalities. Collateral must be held by a third party trustee. The City complied with its investment policy throughout the year.

The City's Airport Land Sales Permanent Fund investment policy authorizes investment in: (a) Corporate obligations of investment grade quality as recognized by a nationally recognized rating organization; (b) Domestic Equities, which taken as a whole, attempt to mirror the characteristics or replicate the Standard & Poor's 500 Index, including both mutual funds and exchange traded funds (ETF's); (c) Domestic Equities, which taken as a whole, attempt to replicate the Standard & Poor's 400 Mid-Cap Index, including both mutual funds and exchange traded funds; (d) Domestic Equities, which taken as a whole, attempt to replicate the Standard & Poor's 600 Small-Cap Index, including both mutual funds and exchange traded funds; (e) International Equities, which taken as a whole, attempt to replicate the Morgan Stanley Europe, Australia, Far East (EAFE) Index, including both mutual funds and exchange traded funds; (f) Equities, which taken as a whole, attempt to replicate the universe of domestic real-estate investment trusts as represented by the Standard & Poor's REIT composite index, including both mutual funds and exchange traded funds; and (g) Emerging Market Equities, which taken as a whole, attempt to replicate the Morgan Stanley Emerging Market Index including both mutual funds and exchange traded funds. Repurchase agreements must be collateralized with United States government obligations. Certificates of deposit must be insured or collateralized with obligations of the United States or its agencies or instrumentalities. The City complied with its investment policy throughout the year.

The Alaska Municipal League Investment Pool (AMLIP) is an external investment pool which is rated AAAM for credit risk purposes. Alaska Statute 37.23 establishes regulatory oversight of the pool. The law sets forth numerous requirements regarding authorized investments and reporting. On a monthly basis the investments in the pool are reviewed for fair value by an independent pricing service. The values of investments in the AML pool are approximately equal to fair value.

The fair value of the City's investments at year-end are shown below. All of the City's remaining investments are in the category of least risk and include investments that are insured or registered in the City's name, or securities that are held by the City or its agent in the City's name. All of the United States treasury bills, treasury notes, and United States agency securities are held in a custodial account in the Wells Fargo Trust Department, and are recorded in its internal records in the City's name in accordance with a safekeeping agreement. Wells Fargo is not a counter party to security transactions.

The City maintains an interest bearing checking account, which had a bank balance of \$1,058,857 and a carrying value of \$638,514 at year-end. The City also holds a \$20,000 certificate of deposit and cash on hand of \$2,259. These deposits are insured for the first \$250,000 and the balance is collateralized by securities held by a third party custodian in the City's name.

As of June 30, 2012, the City had the following investments and maturities.

General City investments:

<u>Investment</u>	<u>Fair Value</u>	<u>Less than 1 year</u>	<u>1 to 2 years</u>	<u>2 to 5 years</u>
U.S. Agencies	\$10,010,290	\$ -	\$6,004,420	\$4,005,870
Wells Fargo Money Market	3,564,171	3,564,171	-	-
Certificates of Deposit	1,956,722	-	1,956,722	-
AMLIP	<u>295,049</u>	<u>295,049</u>	<u>-</u>	<u>-</u>
Total	<u>\$15,826,232</u>	<u>\$3,859,220</u>	<u>\$7,961,142</u>	<u>\$4,005,870</u>

General and Airport Land Sales Permanent Funds investments:

<u>Investment</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
U.S. Treasury/Agencies	\$ 3,925,382	16.76%
Corporate Bonds	4,589,806	19.58
Wells Fargo Money Market	829,664	3.54
U.S. equity securities	8,955,383	38.21
International securities	3,980,089	16.98
Real estate equities	<u>1,155,690</u>	<u>4.93</u>
Total	<u>\$23,436,014</u>	<u>100.00%</u>

The following is a reconciliation of the City's deposit and investment balances to the financial statements at June 30, 2012.

	<u>Pooled Cash and Investments</u>	<u>Kenai Community Foundation</u>	<u>Totals</u>
Bank deposits and cash on hand	\$ 660,773	\$ -	\$ 660,773
Investments	<u>39,206,089</u>	<u>56,157</u>	<u>39,262,246</u>
	<u>\$39,866,862</u>	<u>\$56,157</u>	<u>\$39,923,019</u>

Interest Rate Risk. The fair values of the City's general fixed-income investments fluctuate in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair values of those instruments. Fair values of interest rate sensitive instruments may be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, the liquidity of the instrument, and other general market conditions. The City manages interest rate risk by requiring specific percentages of the portfolio to be invested within certain time periods and the policy limits the longest maturity to five years. The policy requires 20% of the portfolio to be invested for less than one year and no more than 30% of the portfolio can be invested longer than two years.

The fair values of the City's Airport Land Sales Permanent Fund fixed income investments fluctuate in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair values of those instruments. Fair values of interest rate sensitive instruments may be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, the liquidity of the instrument, and other general market conditions. Duration of a financial asset measures the sensitivity of the asset's price to changes in interest rates. The benchmark index for the fixed income component of the fund is the Barclays Intermediate Government/Credit Index. The index allows for maturities of 1 to 10 years. At June 30, 2012 the index had an average duration of 3.92 while the fund's fixed income component had an average duration of 3.59.

Concentration Risk. The City's general investment policy places no limit on the amount that can be invested in any one issuer. More than 5% of the total portfolio is invested in securities issued by the Federal National Mortgage Association – 31.7% and Federal Home Loan Mortgage Corporation – 31.6%.

The City's Permanent Fund investment policy places no limits on the amount that can be invested in any one issuer but rather establishes limits by asset class. The following is a list of asset classes allowed, their benchmark index, their appropriate target weighting, and the actual weighting at June 30, 2012.

<u>Asset Class</u>	<u>Benchmark Index</u>	<u>Target % Weighting</u>	<u>Actual % Weighting</u>
Fixed income	Barclays Intermediate Government/Credit Index	45-65%	40%
Large-Cap domestic equities	Standard & Poor's 500 Index	20-25	23
International equities	Vanguard Europe Pacific ETF	10-15	10
Mid-Cap equities	Standard & Poor's 400 Mid-Cap Index	10-15	10
Small-Cap equities	Standard & Poor's 600 Small-Cap Index	5-10	5
International emerging markets	Vanguard Emerging Market ETF	5-10	7
Real-estate equities	Vanguard REIT ETF	5-10	<u>5</u>
Total			<u>100%</u>

Credit Risk. The City's general investment policy specifies the types of investments that can be purchased. The intent of this is to limit the credit risk, or the risk that the issuer of the investment securities purchased will default at maturity of the investment. The City may invest only in obligations of the United States government, its instrumentalities and agencies; insured or collateralized certificates of deposit, savings accounts; collateralized repurchase agreements; money market funds and the State investment pool. Credit risk is effectively limited by limiting the eligible investment options. All of the U.S.

Agency securities in the portfolio at year-end are rated Aaa by Moody's Investors Service and AAA by Standard and Poor's.

The Barclays Intermediate Government/Credit Index is utilized as the benchmark by the City's Permanent Fund investment policy requires investment in securities of investment grade or higher (rated Baa or higher by Moody's Investor Service or rated BBB or higher by Standard and Poor's. At June 30, 2012 all fixed income investments were rated BBB or better by Standard and Poor's.

B. Receivables

Receivables at June 30, 2012, for the City's individual major funds, the nonmajor and other governmental funds in the aggregate are as follows:

	<u>General</u>	<u>Airport Land Sales Permanent</u>	<u>Airport Improvement Capital Proj.</u>	<u>Water & Sewer Capital Proj.</u>	<u>Nonmajor and Other Funds</u>
Taxes	\$1,371,335	\$ -	\$ -	\$ -	\$ -
Intergovernmental	10,861	-	902,044	1,184,538	109,929
Notes	-	-	-	-	15,567
Customer and other	209,513	135,208	-	-	273,278
Special assessments	414,385	-	-	-	-
Land contracts	20,860	-	-	-	-
Accrued interest	<u>19,045</u>	<u>92,472</u>	<u>-</u>	<u>-</u>	<u>11,278</u>
Total receivables	2,045,999	227,680	902,044	1,184,538	410,052
Less allowance for uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,000)</u>
Net receivables	<u>\$2,045,999</u>	<u>\$227,680</u>	<u>\$902,044</u>	<u>\$1,184,538</u>	<u>\$400,052</u>

C. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Balance July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2012</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 6,001,559	\$ -	\$ -	\$ 6,001,559
Construction in progress	<u>23,113,544</u>	<u>6,922,939</u>	<u>(21,644,608)</u>	<u>8,391,875</u>
Total capital assets not being depreciated	<u>29,115,103</u>	<u>6,922,939</u>	<u>(21,644,608)</u>	<u>14,393,434</u>
Capital assets being depreciated:				
Buildings	47,923,121	6,450,245	-	54,373,366
Improvements other than buildings	44,884,763	-	-	44,884,763
Machinery and equipment	16,502,759	1,370,012	(107,422)	17,765,349
Infrastructure	<u>58,962,592</u>	<u>14,042,431</u>	<u>-</u>	<u>73,005,023</u>
Total capital assets being depreciated	<u>168,273,235</u>	<u>21,862,688</u>	<u>(107,422)</u>	<u>190,028,501</u>
Less accumulated depreciation for:				
Buildings	(15,387,843)	(804,870)	-	(16,192,713)
Improvements other than buildings	(14,576,387)	(1,192,477)	-	(15,768,864)
Machinery and equipment	(9,273,007)	(758,822)	76,086	(9,955,743)
Infrastructure	<u>(22,962,247)</u>	<u>(857,839)</u>	<u>-</u>	<u>(23,820,086)</u>
Total accumulated depreciation	<u>(62,199,484)</u>	<u>(3,614,008)</u>	<u>76,086</u>	<u>(65,737,406)</u>
Total capital assets being depreciated, net	<u>106,073,751</u>	<u>18,248,680</u>	<u>(31,336)</u>	<u>124,291,095</u>
Governmental activities capital assets, net	<u>\$135,188,854</u>	<u>\$25,171,619</u>	<u>\$(21,675,944)</u>	<u>\$138,684,529</u>

The Internal Service Funds serve the governmental funds; therefore, their capital assets are included as part of the above totals for governmental activities.

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Business-type Activities:				
Capital assets not being depreciated:				
Land	\$ 274,500	\$ -	\$ -	\$ 274,500
Construction in progress	<u>22,005</u>	<u>5,826</u>	<u>-</u>	<u>27,831</u>
Total capital assets not being depreciated	<u>296,505</u>	<u>5,826</u>	<u>-</u>	<u>302,331</u>
Capital assets being depreciated –				
Buildings	5,292,668	-	-	5,292,668
Less accumulated depreciation for –				
Buildings	<u>(2,353,236)</u>	<u>(132,438)</u>	<u>-</u>	<u>(2,485,674)</u>
Total capital assets being depreciated, net	<u>2,939,432</u>	<u>(132,438)</u>	<u>-</u>	<u>2,806,994</u>
Business-type activities capital assets, net	<u>\$ 3,235,937</u>	<u>\$(126,612)</u>	<u>\$ -</u>	<u>\$ 3,109,325</u>

Depreciation expense charged to each governmental function is as follows:

General government	\$ 57,294
Public safety	245,094
Public works	708,358
Park, recreation and cultural	246,789
Water and sewer services	670,246
Airport	1,634,397
Social welfare services	<u>51,830</u>
	<u>\$ 3,614,008</u>

D. Pension Plans

Defined Benefit Pension Plan

The City participates in the Public Employees' Retirement System (PERS). PERS is a cost-sharing multiple employer plan which covers eligible State and local government employees, other than teachers. The Plan was established and is administered by the State of Alaska Department of Administration to provide pension, postemployment healthcare, death, and disability benefits. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

The Plan is included in a comprehensive annual financial report that includes financial statements and other required supplemental information. The report is available at the following address:

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

Conversion to Cost Sharing

In April 2008 the Alaska Legislature passed Senate Bill (SB) 125 which converted the existing Public Employees Retirement System (PERS) from an agent-multiple employer plan to a cost-sharing plan with an effective date of July 1, 2008. Under the cost-sharing arrangement, the State of Alaska Division of Retirement and Benefits will no longer track individual employer assets and liabilities. Rather, all plan costs and past service liabilities will be shared among all participating employers. The cost-sharing plan

will require a uniform employer contribution rate of 22% of active member wages, subject to a wage floor. In addition, the legislation provides for State contributions in the event that the annually calculated and board adopted rate, which includes a provision to pay down the past-service liability, exceeds 22%. Any such additional contributions will be recognized by each employer as an on-behalf payment.

In addition, in fiscal year 2008, the State of Alaska passed legislation (SB 123) which requires that the employer contribution be calculated on all PERS eligible wages, including wages attributable to the defined contribution plan described later in these footnotes.

Funding Policy

Regular employees are required to contribute 6.75% of their annual covered salary (3.21% for pension and 3.54% for healthcare). Police and firefighters are required to contribute 7.5% of their annual covered salary (3.57% for pension and 3.93% for healthcare).

The funding policy provides for periodic employer contributions based on actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay both pension and postemployment healthcare benefits when due.

Under current legislation, the employer contribution rate is statutorily capped at 22%, however the State of Alaska contributes any amount over 22% such that the total contribution equals the Alaska Retirement Management Board adopted rate which is generally consistent with the actuarial determined rate.

The City's contribution rates for 2012 were determined as part of the June 30, 2009 actuarial valuation and are as follows:

	<u>Contractual Rate</u>	<u>ARM Board Adopted Rate</u>	<u>GASB 45* Rate</u>
Pension	9.92%	14.65%	13.72%
Postemployment healthcare	<u>12.08%</u>	<u>16.11%</u>	<u>49.98%</u>
Total contribution rate	<u>22.00%</u>	<u>30.76%</u>	<u>63.70%</u>

* This rate uses a 4.7% OPEB discount rate and disregards future Medicare Part D payments.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the plan members at that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial values of assets.

Projected benefits for financial reporting purposes do not incorporate any potential effects of legal or contractual funding limitations.

Annual Pension and Postemployment Healthcare Cost

The City is required to contribute 22% of covered payroll, subject to a wage floor. In addition, the State of Alaska contributed approximately 11.46% (2.70 percentage points more than the statutorily required 8.76%) of covered payroll to the Plan. In accordance with the provisions of GASB Statement Number 24, the City has recorded the State PERS on-behalf payment in the amount of \$825,794 as revenues and expenditures. However, because the City is not statutorily obligated for these payments, this amount is excluded from pension and OPEB cost as described here.

<u>Year Ended June 30</u>	<u>Annual Pension Cost</u>	<u>Annual OPEB Cost</u>	<u>Total Benefit Cost (TBC)</u>	<u>City Contri- butions</u>	<u>% of TBC Contributed</u>
2012	\$481,047	\$867,111	\$1,348,158	\$1,348,158	100%
2011	\$470,170	\$847,505	\$1,317,675	\$1,317,675	100%
2010	\$478,247	\$811,144	\$1,289,391	\$1,289,391	100%

Defined Contribution Pension Plan

The State of Alaska Legislature approved Senate Bill 141 to create the Public Employees' Retirement System (PERS) Tier IV for employees hired after July 1, 2006 or for employees converting from the PERS Tier I, II or III defined benefit plans. The plan is administered by the State of Alaska, Department of Administration, and benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Alaska Retirement Management Board may also amend contribution requirements. Included in the plan are individual pension accounts, retiree medical insurance plan and a separate Health Reimbursement Arrangement account that will help retired members pay medical premiums and other eligible medical expenses not covered by the medical plan. Employees are required to contribute 8.0% of their annual covered salary and the City is required to make the following contributions:

	<u>Others Tier IV</u>	<u>Police/Fire Tier IV</u>
Individual account	5.00%	5.00%
Health reimbursement arrangement (HRA) *	3.00	3.00
Retiree medical plan	0.51	0.51
Occupational death and disability benefits	<u>0.20</u>	<u>0.97</u>
	<u>8.71 %</u>	<u>9.48%</u>

*Health Reimbursement Arrangement – AS 39.30.370 requires that the employer contribute “an amount equal to three percent of the average employer’s average annual employee compensation.” For actual remittance, this amount is calculated as a flat rate for each full time or part-time employee per pay period.

Employees are immediately vested in their own contributions and vest 25% per year in employer contributions. The City and employee contributions to PERS including the HRA contribution for the year ended June 30, 2012 were \$189,363 and \$167,023, respectively.

E. Changes in Long-Term Obligations

Activity in long-term liabilities in governmental activities is as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2012</u>	<u>Due within one year</u>
Compensated absences	\$ 795,913	\$762,884	\$759,142	\$ 799,655	\$ 199,247
Library expansion bonds	<u>1,925,000</u>	<u>-</u>	<u>75,000</u>	<u>1,850,000</u>	<u>75,000</u>
Total governmental activities	<u>\$2,720,913</u>	<u>\$762,884</u>	<u>\$834,142</u>	<u>\$2,649,655</u>	<u>\$274,247</u>

Activity in long-term liabilities in business-type activities is as follows:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Due within</u> <u>one year</u>
Compensated absences	<u>\$5,174</u>	<u>\$3,563</u>	<u>\$7,352</u>	<u>\$1,385</u>	<u>\$346</u>

The City of Kenai has issued general obligation bonds for the expansion of the Kenai Community Library. The general obligation bonds pledge the full faith and credit of the City. Bonds in the amount of \$2,000,000 were issued on March 11, 2010. \$1,355,000 of the total was issued under the American Recovery and Reinvestment Act (ARRA) Recovery Zone Economic Development Bond Program and the remaining \$645,000 were issued utilizing traditional tax exempt bonds.

A summary of bonds payable (in thousands) at June 30, 2012, is as follows:

<u>Date of</u> <u>Issue</u>	<u>Issued</u>	<u>Interest</u> <u>Rate</u>	<u>Federal</u> <u>Interest</u> <u>Subsidy</u>	<u>Maturity</u> <u>Dates</u>	<u>Annual</u> <u>Installments</u>	<u>Federal</u> <u>Interest</u> <u>Subsidy</u>	<u>Net</u> <u>Installments</u>	<u>Outstanding</u> <u>June 30, 2012</u>
3/11/10	\$1,355	5.99 - 6.34	2.70 - 2.85	2019 - 2030	\$81 - \$178	\$9 - \$83	\$45 - \$138	\$1,355
3/11/10	<u>645</u>	2.00 - 5.00	-	2012 - 2018	92 - 95	-	92 - 95	<u>495</u>
	<u>\$2,000</u>							<u>\$1,850</u>

Debt service requirements (not including compensated absences) at June 30, 2012 are as follows:

	<u>Governmental Activities</u>			
<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest</u> <u>Subsidy</u>	<u>Net</u> <u>Interest</u>
2013	\$ 75,000	\$ 100,848	\$ 37,529	\$ 63,319
2014	80,000	98,598	37,529	61,069
2015	80,000	96,197	37,529	58,668
2016	85,000	93,798	37,529	56,269
2017	85,000	90,398	37,529	52,869
2018-2022	485,000	386,128	172,138	213,990
2023-2027	570,000	232,285	104,528	127,757
2028-2030	<u>390,000</u>	<u>50,094</u>	<u>22,542</u>	<u>27,552</u>
Total	<u>\$1,850,000</u>	<u>\$1,148,346</u>	<u>\$486,853</u>	<u>\$661,493</u>

Remaining unissued are \$2,000,000 in general obligation bonds authorized by City voters for the City's Kenai River Bluff Erosion Project.

The City has a legal debt limit equal to twenty percent of the assessed value of all real and personal property in the City. The 2011 Certified Main and Supplemental Tax Roles for the City showed total taxable assessed for real and personal property of \$659,452,061, making the legal debt limit \$131,890,412 for the City.

F. Interfund receivables, payables and transfers

Amounts due from other funds are as follows:

Due to General Fund from:

Airport Improvement Capital Project Fund for short-term capital advances	\$ 841,136
Water and Sewer Capital Project Fund for short-term capital advances	245,771
Nonmajor governmental funds for short-term capital advances	628
Internal service funds for short-term capital advances	<u>77,165</u>
Total amounts due from other funds	<u>\$1,164,700</u>

Transfers between funds were as follows:

From General Fund to:	
Nonmajor governmental funds for operating costs	\$ 119,666
Nonmajor governmental funds for capital costs	271,470
Nonmajor governmental funds for debt service	139,819
From Airport Land Sales Permanent Fund to –	
Airport Special Revenue Fund for operating costs	1,011,485
From Nonmajor governmental funds to –	
Airport Improvement Capital Project Fund for capital costs	45,442
Nonmajor governmental funds to close a fund	<u>58,380</u>
Total transfers to other funds	<u>\$1,646,262</u>

G. Fund balance designations

Pursuant to GASB Statement Number 45, fund balances reported for the major funds and the nonmajor funds in the aggregate on the governmental funds balance sheet is subject to the following constraints:

	<u>General</u>	<u>Airport Land Sales Permanent</u>	<u>Airport Improvement Capital Proj</u>	<u>Water and Sewer Capital Proj</u>	<u>Nonmajor and Other Funds</u>	<u>Totals</u>
Nonspendable – Permanent funds	\$ _____ -	<u>\$20,983,776</u>	\$ _____ -	\$ _____ -	<u>\$2,557,158</u>	<u>\$23,540,934</u>
Restricted –Athletics	<u>329,164</u>	_____ -	_____ -	_____ -	_____ -	<u>329,164</u>
Committed:						
Capital Imp.	509,746	-	33,729	258,243	224,468	1,026,186
Working capital	400,000	-	-	-	-	400,000
Senior citizens programs	<u>112,044</u>	_____ -	_____ -	_____ -	_____ -	<u>112,044</u>
	<u>1,021,790</u>	_____ -	<u>33,729</u>	<u>258,243</u>	<u>224,468</u>	<u>1,538,230</u>
Assigned:						
Self-Insurance	103,475	-	-	-	-	103,475
Compensated abs.	695,328	-	-	-	101,658	796,986
Subsequent years expenditures	665,356	-	-	-	99,320	764,676
Airport operations	-	-	-	-	3,801,933	3,801,933
Senior programs	-	-	-	-	92,650	92,650
Water & sewer operations	_____ -	_____ -	_____ -	_____ -	<u>940,408</u>	<u>940,408</u>
	<u>1,464,159</u>	_____ -	_____ -	_____ -	<u>5,035,969</u>	<u>6,500,128</u>
Unassigned	<u>9,130,415</u>	_____ -	_____ -	_____ -	_____ -	<u>9,130,415</u>
Total fund balances	<u>\$11,945,528</u>	<u>\$20,983,776</u>	<u>\$33,729</u>	<u>\$258,243</u>	<u>\$7,817,595</u>	<u>\$41,038,871</u>

H. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; environmental contamination; and natural disasters. Risk financing activities are accounted for in various operating funds, with unallocated or Citywide activities being accounted for in the general fund. The City purchases commercial insurance to transfer a substantial portion of the above risks of loss. Property insurance is purchased to provide coverage for buildings and heavy equipment, generally with deductibles of \$25,000. Various liability insurance policies are purchased to provide protection against torts, injuries, and errors and omissions. Most liability policies are written with low or zero deductibles. In addition to the deductibles on insurance policies, the City retains risk of loss related to certain potential liabilities and property damages. These include

environmental liabilities, employment discrimination, and vehicle property losses. Settled claims have not exceeded commercial coverage in any of the past three fiscal years. The City analyzes potential losses on a case-by-case basis to determine amounts that should be accrued or disclosed in the financial statements.

I. Contingencies

The City is involved in several lawsuits arising in the ordinary course of operations, including actions commenced and claims asserted against it. Management of the City does not believe that the ultimate resolution of these lawsuits and claims will have any material effect on its financial position or results of operations, and therefore, no provision has been made in the accompanying financial statements.

J. New Accounting Pronouncements

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates as follows. The statements are being reviewed by management for potential financial reporting impacts.

GASB 60 – Service Concession Arrangements – Effective for year end June 30, 2013 – This statement provides guidance on proper accounting for service concession arrangements, a type of public private partnership associated with the operation of a public facility.

GASB 61 – The Financial Reporting Entity – Effective for year end June 30, 2013 – This statement will require a review of all entities reported as component units.

GASB 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position – Effective for year end June 30, 2013 – This statement will result in a change to the government's presentation of proprietary fund statements and government-wide statements from a traditional "Balance Sheet" format to a new "Statement of Net Position" format which will segregate deferred inflows and deferred outflows from assets and liabilities respectively.

GASB 65 – Items Previously Reported as Assets and Liabilities – Effective for year end June 30, 2014 – This statement is a companion to GASB Statement 63 and establishes accounts to be reclassified as deferred inflows and outflows. In addition, certain items previously reported as assets or liabilities will be moved to the income statement. For example, debt issuance costs will no longer be capitalized and amortized but will be expensed as incurred, and certain regulatory assets and liabilities will be reclassified to deferred inflows and outflows.

GASB 66 – Technical Corrections – 2012 – Effective for year end June 30, 2014 – This statement contains certain technical corrections to prior GASB statements on the topics of Risk Financing, Operating Leases, Loan Purchases, and Servicing Fees.

GASB 68 – Accounting and Financial Reporting for Pensions – Effective for year end June 30, 2015 – This statement will require all governments that participate in defined benefit pension plans to report any "net pension liability" (as newly defined). An additional GASB statement provides guidance for the Plan reporting with a one year earlier implementation.

Other Governmental Funds

This section includes the Statement of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual, for the Airport Land Sales Permanent Fund, which is a major fund, as well as the Nonmajor Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances. It also includes a Statement of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual for each nonmajor governmental fund that adopted an annual budget.

Special Revenue Funds

Special Revenue funds are used for specific revenues that are legally restricted to expenditures for a specific purpose.

Airport Fund - This fund accounts for operations at the airport and rental and lease of surrounding airport owned lands. Significant revenue sources include, rents from leases of airport owned lands and terminal spaces, as well as car rental commissions, vehicle parking, landing fees and transfers from the airport land sales Permanent Fund.

Council On Aging Fund - This fund accounts for the activities of the Senior Citizen Title III Grant Program which is substantially financed by intergovernmental revenues. Activities include social services and a nutrition program.

Water and Sewer Fund – This fund accounts for revenues and expenditures in the water and sewer fund. The primary source of revenue is from user fees.

Capital Project Funds

Capital Project Funds are established to account for the resources expended to acquire assets of a relatively permanent nature. These funds evolved from the need for special accounting for bond proceeds, grants and contributions for the acquisition of capital assets. Capital Project Funds provide a formal mechanism which enables administrators to ensure that revenues dedicated to a certain purpose are used only for that purpose and further enables them to report to creditors and other grantors of capital projects fund revenue, that their requirements regarding the use of the revenue were fully satisfied.

Parks and Recreation - to account for capital improvements to City parks and recreation facilities. Financing is primarily from general fund transfers and State grants.

Street Improvement – to account for capital improvements to City streets. Financing is primarily by State grants.

Miscellaneous - to account for capital projects which do not fit in one of the other fund categories. These projects are generally smaller projects, which may be funded through transfers from other funds or by State or Federal grants.

Library Expansion – to account for the project to expand the Kenai Community Library.

City Shop Construction – to account for the project to construct a new City Maintenance Shop.

Debt Service Fund

The Debt Service Fund is used to accumulate monies for payment of general obligation bonds issued for construction, improvements, and equipping public facilities throughout the City.

Permanent Funds

Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used.

General Government Land Sales - to account for the proceeds of general government land sales, including principal and interest on long-term notes. By City Charter, the principal cannot be spent. Interest revenue is transferred to the General Fund in the amount of 5% of the funds balance or calendar year actual earnings as measured at December 31st of each year.

Airport Land Sales - to account for the proceeds of airport land sales, including principal and interest on long-term notes. By ordinance, 5% of the calendar year end five year average balance is transferred to the Airport Special Revenue Fund for operations. Note that this is a major fund and is therefore not included in the NonMajor Governmental Funds Combining Statements.

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**CITY OF KENAI, ALASKA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2012**

ASSETS	Special Revenue			
	Airport	Council on Aging	Water and Sewer	Parks and Recreation
Equity in central treasury (cash and investments)	\$ 3,886,317	\$ 173,141	\$ 974,896	\$ 143,106
Intergovernmental receivables	13,035	57,613	-	20,982
Notes receivable	-	-	-	-
Other accounts receivable, net	94,903	-	168,375	-
Total assets	<u>\$ 3,994,255</u>	<u>\$ 230,754</u>	<u>\$ 1,143,271</u>	<u>\$ 164,088</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 41,338	\$ 9,556	\$ 86,609	\$ 2,883
Customer deposits	9,799	14,554	75,327	-
Due to General Fund	-	-	-	-
Deferred revenue	95,128	-	-	-
Total liabilities	<u>146,265</u>	<u>24,110</u>	<u>161,936</u>	<u>2,883</u>
Fund balances:				
Nonspendable	-	-	-	-
Committed	-	-	-	161,205
Assigned	3,847,990	206,644	981,335	-
Total fund balances	<u>3,847,990</u>	<u>206,644</u>	<u>981,335</u>	<u>161,205</u>
Total liabilities and fund balances	<u>\$ 3,994,255</u>	<u>\$ 230,754</u>	<u>\$ 1,143,271</u>	<u>\$ 164,088</u>

Capital Project				Debt Service	Permanent	Total
Street Improvement	Miscellaneous	Library Expansion	City Shop Construction	2010 Bond Debt Service	General Government Land Sales	Nonmajor Governmental Funds
\$ -	\$ 46,571	\$ 12,461	\$ -	\$ -	\$ 2,546,458	\$ 7,782,950
413	17,671	-	215	-	-	109,929
-	-	-	-	-	15,567	15,567
-	-	-	-	-	11,278	274,556
<u>\$ 413</u>	<u>\$ 64,242</u>	<u>\$ 12,461</u>	<u>\$ 215</u>	<u>\$ -</u>	<u>\$ 2,573,303</u>	<u>\$ 8,183,002</u>
\$ -	\$ 13,440	\$ -	\$ -	\$ -	\$ 578	\$ 154,404
-	-	-	-	-	-	99,680
413	-	-	215	-	-	628
-	-	-	-	-	15,567	110,695
<u>413</u>	<u>13,440</u>	<u>-</u>	<u>215</u>	<u>-</u>	<u>16,145</u>	<u>365,407</u>
-	-	-	-	-	2,557,158	2,557,158
-	50,802	12,461	-	-	-	224,468
-	-	-	-	-	-	5,035,969
-	50,802	12,461	-	-	2,557,158	7,817,595
<u>\$ 413</u>	<u>\$ 64,242</u>	<u>\$ 12,461</u>	<u>\$ 215</u>	<u>\$ -</u>	<u>\$ 2,573,303</u>	<u>\$ 8,183,002</u>

**CITY OF KENAI, ALASKA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2012**

	Special Revenue				
	Airport	Senior Citizens	Council on Aging	Water and Sewer	Parks and Recreation
Revenues:					
Intergovernmental revenues	\$ 57,730	\$ -	\$ 573,304	\$ 53,235	\$ 134,425
Charges for services	358,010	-	-	1,829,771	-
Interest revenue	13,296	-	-	5,755	-
Miscellaneous revenues	<u>1,346,183</u>	<u>-</u>	<u>140,375</u>	<u>33,036</u>	<u>-</u>
Total revenues	<u>1,775,219</u>	<u>-</u>	<u>713,679</u>	<u>1,921,797</u>	<u>134,425</u>
Expenditures:					
General government	-	-	-	-	-
Water and sewer services	-	-	-	1,940,343	-
Airport	2,575,613	-	-	-	-
Social welfare services	-	-	791,214	-	-
Parks, recreation and cultural	-	-	-	-	193,331
Public works	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>2,575,613</u>	<u>-</u>	<u>791,214</u>	<u>1,940,343</u>	<u>193,331</u>
Excess of revenues over (under) expenditures	(800,394)	-	(77,535)	(18,546)	(58,906)
Other financing sources (uses):					
Transfers in	1,011,485	-	178,046	-	150,000
Transfers out	<u>(45,442)</u>	<u>(58,380)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net other financing sources (uses)	<u>966,043</u>	<u>(58,380)</u>	<u>178,046</u>	<u>-</u>	<u>150,000</u>
Net changes in fund balances	165,649	(58,380)	100,511	(18,546)	91,094
Fund balances - July 1	<u>3,682,341</u>	<u>58,380</u>	<u>106,133</u>	<u>999,881</u>	<u>70,111</u>
Fund balances - June 30	<u>\$ 3,847,990</u>	<u>\$ -</u>	<u>\$ 206,644</u>	<u>\$ 981,335</u>	<u>\$ 161,205</u>

Capital Project				Debt Service	Permanent	Total Nonmajor Governmental Funds
Street Improvement	Miscellaneous	Library Expansion	City Shop Construction	2010 Bond Debt Service	General Government Land Sales	
\$ 435,417	\$ 45,170	\$ -	\$ 4,279	37,529	\$ -	\$ 1,341,089
-	-	-	-	-	-	2,187,781
-	-	-	-	-	21,188	40,239
-	-	9	-	-	-	1,519,603
<u>435,417</u>	<u>45,170</u>	<u>9</u>	<u>4,279</u>	<u>37,529</u>	<u>21,188</u>	<u>5,088,712</u>
-	164,097	-	-	-	-	164,097
-	-	-	-	-	-	1,940,343
-	-	-	-	-	-	2,575,613
-	-	-	-	-	-	791,214
-	-	452,035	-	-	-	645,366
435,417	-	-	4,279	-	-	439,696
-	-	-	-	75,000	-	75,000
-	-	-	-	<u>102,348</u>	-	<u>102,348</u>
<u>435,417</u>	<u>164,097</u>	<u>452,035</u>	<u>4,279</u>	<u>177,348</u>	-	<u>6,733,677</u>
-	(118,927)	(452,026)	-	(139,819)	21,188	(1,644,965)
-	80,470	41,000	-	139,819	-	1,600,820
-	-	-	-	-	-	(103,822)
-	<u>80,470</u>	<u>41,000</u>	-	<u>139,819</u>	-	<u>1,496,998</u>
-	(38,457)	(411,026)	-	-	21,188	(147,967)
-	<u>89,259</u>	<u>423,487</u>	-	-	<u>2,535,970</u>	<u>7,965,562</u>
<u>\$ -</u>	<u>\$ 50,802</u>	<u>\$ 12,461</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,557,158</u>	<u>\$ 7,817,595</u>

CITY OF KENAI, ALASKA
AIRPORT SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues:			
Intergovernmental revenues - State grant	\$ 34,985	\$ 57,730	\$ 22,745
Charge for services - landing fees	299,475	358,010	58,535
Interest revenue	55,000	13,296	(41,704)
Miscellaneous revenues:			
Rents and leases, including penalty and interest	744,565	800,660	56,095
Fish hauling rents	7,000	836	(6,164)
Parking fees	190,000	200,909	10,909
Car rental commissions	180,000	180,243	243
Advertising commissions	5,000	3,534	(1,466)
Fuel flowage	25,000	80,376	55,376
Other	57,800	79,625	21,825
Total miscellaneous revenues	<u>1,209,365</u>	<u>1,346,183</u>	<u>136,818</u>
Total revenues	<u>1,598,825</u>	<u>1,775,219</u>	<u>176,394</u>
Expenditures:			
Maintenance and operation:			
Personal services	284,869	279,392	5,477
Supplies	193,374	185,870	7,504
Other services and charges	313,567	290,980	22,587
Capital outlays	12,000	-	12,000
	803,810	756,242	47,568
Expenditures chargeable from other funds	794,900	794,900	-
Total maintenance and operation	<u>1,598,710</u>	<u>1,551,142</u>	<u>47,568</u>
Administration:			
Personal services	195,233	187,980	7,253
Supplies	7,050	4,876	2,174
Other services and charges	42,901	28,428	14,473
	245,184	221,284	23,900
Expenditures chargeable from other funds	53,700	53,700	-
Total administration	<u>298,884</u>	<u>274,984</u>	<u>23,900</u>

CITY OF KENAI, ALASKA
AIRPORT SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL, continued

	Final		Variance With
	Budget	Actual	Final Budget
Expenditures, continued:			Positive
Land:			(Negative)
Personal services	\$ 80,447	\$ 78,794	\$ 1,653
Supplies	19,499	18,985	514
Other services and charges	66,479	34,576	31,903
Total land	<u>166,425</u>	<u>132,355</u>	<u>34,070</u>
Training facility -			
Other services and charges	70,000	41,373	28,627
Total training facility	<u>70,000</u>	<u>41,373</u>	<u>28,627</u>
Terminal:			
Personal services	107,747	111,022	(3,275)
Supplies	28,066	22,484	5,582
Other services and charges	356,171	349,729	6,442
Capital outlays	30,000	29,024	976
	521,984	512,259	9,725
Expenditures chargeable from			
other funds	63,500	63,500	-
Total terminal	<u>585,484</u>	<u>575,759</u>	<u>9,725</u>
Total expenditures	<u>2,719,503</u>	<u>2,575,613</u>	<u>143,890</u>
Excess of revenues over (under)			
expenditures	<u>(1,120,678)</u>	<u>(800,394)</u>	<u>320,284</u>
Other financing sources (uses):			
Transfers in	1,037,483	1,011,485	(25,998)
Transfers out	(45,442)	(45,442)	-
Net other financing sources (uses)	<u>992,041</u>	<u>966,043</u>	<u>(25,998)</u>
Net changes in fund balance	<u>\$ (128,637)</u>	165,649	<u>\$ 294,286</u>
Fund balance - July 1		<u>3,682,341</u>	
Fund balance - June 30		<u><u>\$ 3,847,990</u></u>	

CITY OF KENAI, ALASKA
SENIOR CITIZENS SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget Positive (Negative)
Other financing sources -			
Transfers out	<u>(106,133)</u>	<u>(58,380)</u>	<u>47,753</u>
Net changes in fund balance	<u>\$ (106,133)</u>	<u>(58,380)</u>	<u>\$ 47,753</u>
Fund balance - July 1		<u>58,380</u>	
Fund balance - June 30		<u>\$ -</u>	

CITY OF KENAI, ALASKA
COUNCIL ON AGING SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget Positive (Negative)
Revenues:			
Intergovernmental revenues:			
State grants	\$ 187,469	\$ 204,757	\$ 17,288
Federal grants	171,248	244,705	73,457
Kenai Peninsula Borough grant	<u>115,337</u>	<u>123,842</u>	<u>8,505</u>
Total intergovernmental revenues	<u>474,054</u>	<u>573,304</u>	<u>99,250</u>
Miscellaneous revenues:			
United Way grants	22,600	16,812	(5,788)
Rents and leases	12,000	18,748	6,748
Donations	88,000	83,249	(4,751)
Other	<u>20,000</u>	<u>21,566</u>	<u>1,566</u>
Total miscellaneous revenues	<u>142,600</u>	<u>140,375</u>	<u>(2,225)</u>
Total revenues	<u>616,654</u>	<u>713,679</u>	<u>97,025</u>
Expenditures - social welfare services:			
Social services:			
Personal services	145,712	149,557	(3,845)
Supplies	2,801	2,383	418
Other services and charges	<u>29,342</u>	<u>25,962</u>	<u>3,380</u>
	177,855	177,902	(47)
Expenditures chargeable from other funds	<u>35,942</u>	<u>35,942</u>	<u>-</u>
Total social services	<u>213,797</u>	<u>213,844</u>	<u>(47)</u>
Congregate meals:			
Personal services	76,160	80,492	(4,332)
Supplies	45,063	44,941	122
Other services and charges	<u>29,284</u>	<u>22,452</u>	<u>6,832</u>
	150,507	147,885	2,622
Expenditures chargeable from other funds	<u>29,462</u>	<u>29,462</u>	<u>-</u>
Total congregate meals	<u>179,969</u>	<u>177,347</u>	<u>2,622</u>
Home delivered meals:			
Personal services	60,590	68,451	(7,861)
Supplies	50,763	33,406	17,357
Other services and charges	6,912	5,846	1,066
Capital outlay	<u>27,500</u>	<u>22,429</u>	<u>5,071</u>
	145,765	130,132	15,633
Expenditures chargeable from other funds	<u>22,912</u>	<u>22,912</u>	<u>-</u>
Total home delivered meals	<u>168,677</u>	<u>153,044</u>	<u>15,633</u>

CITY OF KENAI, ALASKA

**COUNCIL ON AGING SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL, continued**

	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget Positive (Negative)
Expenditures - continued:			
Transportation:			
Personal services	\$ 36,578	\$ 37,597	\$ (1,019)
Supplies	8,004	8,576	(572)
Other services and charges	<u>7,189</u>	<u>6,348</u>	<u>841</u>
	51,771	52,521	(750)
Expenditures chargeable from other funds	<u>12,062</u>	<u>12,062</u>	<u>-</u>
Total transportation	<u>63,833</u>	<u>64,583</u>	<u>(750)</u>
Choice Waiver:			
Personal services	93,314	97,073	(3,759)
Supplies	53,741	43,872	9,869
Other services and charges	<u>11,666</u>	<u>10,529</u>	<u>1,137</u>
	158,721	151,474	7,247
Expenditures chargeable from other funds	<u>30,922</u>	<u>30,922</u>	<u>-</u>
Total Choice Waiver	<u>189,643</u>	<u>182,396</u>	<u>7,247</u>
Total expenditures	<u>815,919</u>	<u>791,214</u>	<u>24,705</u>
Excess of revenues over (under) expenditures	(199,265)	(77,535)	121,730
Other financing sources -			
Transfers in	<u>119,666</u>	<u>178,046</u>	<u>58,380</u>
Net changes in fund balance	<u>\$ (79,599)</u>	100,511	<u>\$ 180,110</u>
Fund balance - July 1		<u>106,133</u>	
Fund balance - June 30		<u>\$ 206,644</u>	

CITY OF KENAI, ALASKA

**WATER AND SEWER SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2012**

	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget Positive <u>(Negative)</u>
Revenues:			
Intergovernmental revenues -			
State grant	\$ 41,764	\$ 53,235	\$ 11,471
Charges for services:			
Residential water	319,260	321,276	2,016
Commercial water	148,569	144,048	(4,521)
Residential sewer	933,300	940,005	6,705
Commercial sewer	401,594	379,626	(21,968)
Hook-up fees	5,000	8,728	3,728
Other	26,000	36,088	10,088
Total charges for services	<u>1,833,723</u>	<u>1,829,771</u>	<u>(3,952)</u>
Interest revenue	25,000	5,755	(19,245)
Miscellaneous revenues	<u>3,000</u>	<u>33,036</u>	<u>30,036</u>
Total revenues	<u>1,903,487</u>	<u>1,921,797</u>	<u>18,310</u>
Expenditures - water and sewer services:			
Water:			
Personal services	220,722	194,487	26,235
Supplies	116,780	95,952	20,828
Other services and charges	362,047	301,429	60,618
Capital outlays	15,000	10,800	4,200
	<u>714,549</u>	<u>602,668</u>	<u>111,881</u>
Expenditures chargeable from other funds	<u>74,200</u>	<u>74,200</u>	<u>-</u>
Total water	<u>788,749</u>	<u>676,868</u>	<u>111,881</u>
Sewer:			
Personal services	219,134	189,996	29,138
Supplies	43,900	34,739	9,161
Other services and charges	99,322	58,951	40,371
Capital outlays	34,000	28,087	5,913
	<u>396,356</u>	<u>311,773</u>	<u>84,583</u>
Expenditures chargeable from other funds	<u>47,500</u>	<u>47,500</u>	<u>-</u>
Total sewer	<u>443,856</u>	<u>359,273</u>	<u>84,583</u>

CITY OF KENAI, ALASKA

WATER AND SEWER SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL, continued

	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures - continued:			
Sewer treatment plant:			
Personal services	\$ 357,509	\$ 354,403	\$ 3,106
Supplies	130,435	116,593	13,842
Other services and charges	384,562	335,806	48,756
	<u>872,506</u>	<u>806,802</u>	<u>65,704</u>
Expenditures chargeable from other funds	<u>97,400</u>	<u>97,400</u>	<u>-</u>
Total sewer treatment plant	<u>969,906</u>	<u>904,202</u>	<u>65,704</u>
 Total expenditures	 <u>2,202,511</u>	 <u>1,940,343</u>	 <u>262,168</u>
 Net changes in fund balance	 <u>\$ (299,024)</u>	 (18,546)	 <u>\$ 280,478</u>
 Fund balance - July 1		<u>999,881</u>	
 Fund balance - June 30		<u>\$ 981,335</u>	

CITY OF KENAI, ALASKA
2010 BOND DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget Positive (Negative)
Revenues - intergovernmental	\$ 37,529	\$ 37,529	\$ -
Expenditures - debt service:			
Principal	75,000	75,000	-
Interest	<u>102,348</u>	<u>102,348</u>	<u>-</u>
Total expenditures	<u>177,348</u>	<u>177,348</u>	<u>-</u>
Excess of revenues over (under) expenditures	(139,819)	(139,819)	-
Other financing sources -			
Transfers in	<u>139,819</u>	<u>139,819</u>	<u>-</u>
Net changes in fund balance	<u>\$ -</u>	-	<u>\$ -</u>
Fund balance - July 1		<u>-</u>	
Fund balance - June 30		<u><u>\$ -</u></u>	

CITY OF KENAI, ALASKA
GENERAL GOVERNMENT LAND SALES PERMANENT FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget Positive (Negative)
Revenues -			
Interest revenue	\$ 253,000	\$ 21,188	\$ (231,812)
Other financing uses -			
Transfers out	<u>(125,000)</u>	<u>-</u>	<u>125,000</u>
Net changes in fund balance	<u>\$ 128,000</u>	21,188	<u>\$ (106,812)</u>
Fund balance - July 1		<u>2,535,970</u>	
Fund balance - June 30		<u>\$ 2,557,158</u>	

CITY OF KENAI, ALASKA
AIRPORT LAND SALES PERMANENT FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget Positive (Negative)
Revenues:			
Interest revenue	\$ 1,540,788	\$ 171,068	\$ (1,369,720)
Land sales	<u>-</u>	<u>42,071</u>	<u>42,071</u>
Total revenues	<u>1,540,788</u>	<u>213,139</u>	<u>(1,327,649)</u>
Excess of revenues over expenditures	1,540,788	213,139	(1,327,649)
Other financing uses -			
Transfers out	<u>(1,037,483)</u>	<u>(1,011,485)</u>	<u>25,998</u>
Net changes in fund balance	<u>\$ 503,305</u>	(798,346)	<u>\$ (1,301,651)</u>
Fund balance - July 1		<u>21,782,122</u>	
Fund balance - June 30		<u><u>\$ 20,983,776</u></u>	

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Internal Service Funds

This section includes the Combining Statement of Net Assets – Internal Service Funds, Combining Statement of Revenues, Expenses, and Changes in Net Assets – Internal Service Funds, and Combining Statement of Cash Flows – Internal Service Funds.

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, on a cost reimbursement basis.

Equipment Replacement Fund – This fund accounts for the purchase of equipment costing more than \$50,000 that will be used by the General Fund departments on a cost-reimbursement basis.

Capital Project Management Fund – This fund provides concept evaluation, cost estimation, direct project administration, engineering criteria review, grant writing, and project reporting. The department serves the needs of our community by delivering and providing the most efficient sustainable design and quality construction for all City projects.

CITY OF KENAI, ALASKA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities - Internal Service Funds		
	<u>Equipment Replacement</u>	<u>Capital Project Management</u>	<u>Total</u>
ASSETS			
Current assets -			
Equity in central treasury	\$ 1,118,066	\$ -	\$ 1,118,066
Noncurrent assets -			
Property and equipment in service, at cost -			
Equipment	1,832,268	19,784	1,852,052
Less accumulated depreciation	(618,240)	(3,962)	(622,202)
Net property and equipment in service	<u>1,214,028</u>	<u>15,822</u>	<u>1,229,850</u>
Total assets	<u>\$ 2,332,094</u>	<u>\$ 15,822</u>	<u>\$ 2,347,916</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ -	\$ 3	\$ 3
Due to General Fund	-	77,165	77,165
Total current liabilities	<u>-</u>	<u>77,168</u>	<u>77,168</u>
Noncurrent liabilities - compensated absences	<u>-</u>	<u>2,669</u>	<u>2,669</u>
Total liabilities	<u>-</u>	<u>79,837</u>	<u>79,837</u>
NET ASSETS			
Invested in capital assets	1,214,028	15,822	1,229,850
Unrestricted (deficit)	<u>1,118,066</u>	<u>(79,837)</u>	<u>1,038,229</u>
Total net assets (deficit)	<u>\$ 2,332,094</u>	<u>\$ (64,015)</u>	<u>\$ 2,268,079</u>

CITY OF KENAI, ALASKA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2012

	Governmental Activities - Internal Service Funds		
	<u>Equipment Replacement</u>	<u>Capital Project Management</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$ -	\$ 54,542	\$ 54,542
Other revenue	250,505	-	250,505
Total operating revenues	<u>250,505</u>	<u>54,542</u>	<u>305,047</u>
Operating expenses:			
Personal services	-	69,283	69,283
Supplies	-	613	613
Utilities	-	132	132
Insurance	-	972	972
Depreciation	97,729	1,978	99,707
Expenses chargeable from other funds	-	10,800	10,800
Total operating expenses	<u>97,729</u>	<u>83,778</u>	<u>181,507</u>
Operating income (loss)	<u>152,776</u>	<u>(29,236)</u>	<u>123,540</u>
Nonoperating revenues:			
Intergovernmental grants	-	5,351	5,351
Interest revenue	4,674	-	4,674
Total nonoperating revenues	<u>4,674</u>	<u>5,351</u>	<u>10,025</u>
Change in net assets	157,450	(23,885)	133,565
Net assets (deficit) - July 1	<u>2,174,644</u>	<u>(40,130)</u>	<u>2,134,514</u>
Net assets (deficit) - June 30	<u>\$ 2,332,094</u>	<u>\$ (64,015)</u>	<u>\$ 2,268,079</u>

CITY OF KENAI, ALASKA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012

	Governmental Activities - Internal Service Funds		
	<u>Equipment Replacement</u>	<u>Capital Project Management</u>	<u>Total</u>
Cash flows from operating activities:			
Receipts from customers	\$ -	\$ 54,542	\$ 54,542
Payments to suppliers	-	(12,751)	(12,751)
Payments to employees	-	(72,444)	(72,444)
Receipts for interfund services	250,505	-	250,505
Net cash provided (used) by operating activities	250,505	(30,653)	219,852
Cash flows from noncapital financing activities:			
Increase in Due to General Fund	-	25,302	25,302
State grant	-	5,351	5,351
Net cash provided by noncapital financing activities	-	30,653	30,653
Cash flows from capital and related financing activities -			
Acquisition and construction of capital assets	(229,170)	-	(229,170)
Cash flows from investing activities:			
Interest on investments	4,674	-	4,674
Net increase in cash and cash equivalents	26,009	-	26,009
Cash and cash equivalents, beginning	1,092,057	-	1,092,057
Cash and cash equivalents, ending	\$ 1,118,066	\$ -	\$ 1,118,066
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 152,776	\$ (29,236)	\$ 123,540
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	97,729	1,978	99,707
Accounts payable	-	(234)	(234)
Compensated absences	-	(3,161)	(3,161)
Net cash provided (used) by operating activities	\$ 250,505	\$ (30,653)	\$ 219,852

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Fiduciary Fund

Through a management agreement, the City manages the donations of the Kenai Community Foundation, a 501(c)(3) not-for-profit entity, whose purpose is to support museums, parks and recreation, music, fine arts, library, and historic purposes within Kenai's city limits. The City's sole purpose is management of the Foundation's donations; all decisions regarding Foundation awards are made by the Foundation and not the City.

CITY OF KENAI, ALASKA
KENAI COMMUNITY FOUNDATION AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED JUNE 30, 2012

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2012</u>
Assets				
Equity in central treasury	<u>\$ 55,887</u>	<u>\$ 270</u>	<u>\$ -</u>	<u>\$ 56,157</u>
Liabilities				
Due to Kenai Community Foundation	<u>\$ 55,887</u>	<u>\$ 270</u>	<u>\$ -</u>	<u>\$ 56,157</u>

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City of Kenai, Alaska

Statistical Section

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

Contents:

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Table I	Net Assets by Component
Table II	Change in Net Assets
Table III	Governmental Activities Tax Revenues by Source
Table IV	Fund Balances of Governmental Funds
Table V	Changes in Fund Balances of Governmental Funds
Table VI	General Governmental Tax Revenues by Source

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source, the sales tax.

Table VII	Taxable Sales by Category
Table VIII	Sales Tax Rates – Direct and Overlapping Governments

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current level of outstanding debt and the City's ability to issue additional debt in the future.

Table IX	Ratio of Outstanding Debt by Type
Table X	Computation of Direct and Overlapping Debt
Table XI	Legal Debt Margin Information

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Table XII	Demographic and Economic Statistics
Table XIII	Principal Employers

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the government provides and the activities it performs.

Table XIV	Full-time Equivalent City Government Employees by Fund
Table XV	Operating Indicators by Function
Table XVI	Capital Asset Statistics by Function

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY OF KENAI, ALASKA

TABLE I

NET ASSETS BY COMPONENT
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(AMOUNTS EXPRESSED IN THOUSANDS)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities:										
Invested in capital assets, net of related debt	\$102,448	\$101,414	\$101,904	\$102,452	\$109,806	\$115,402	\$118,816	\$126,700	\$133,264	\$136,834
Nonspendable	13,812	13,887	14,095	14,468	14,478	20,041	20,198	21,541	24,317	23,541
Restricted	35	55	138	0	19	116	217	312	279	329
Unrestricted	16,822	17,005	16,543	15,699	17,652	18,667	20,683	20,430	19,760	18,118
Total governmental activities net assets	<u>\$133,117</u>	<u>\$132,361</u>	<u>\$132,680</u>	<u>\$132,619</u>	<u>\$141,955</u>	<u>\$154,226</u>	<u>\$159,914</u>	<u>\$168,983</u>	<u>\$177,620</u>	<u>\$178,822</u>
Business-type activities:										
Invested in capital assets, net of related debt	\$5,587	\$5,396	\$5,196	\$4,978	\$3,337	\$3,212	\$3,159	\$3,154	\$3,236	\$3,110
Restricted	-	-	-	-	-	-	-	-	-	-
Unrestricted	2,646	2,585	2,439	2,512	532	588	491	442	423	483
Total business-type activities net assets	<u>\$8,233</u>	<u>\$7,981</u>	<u>\$7,635</u>	<u>\$7,490</u>	<u>\$3,869</u>	<u>\$3,800</u>	<u>\$3,650</u>	<u>\$3,596</u>	<u>\$3,659</u>	<u>\$3,593</u>
Primary government:										
Invested in capital assets, net of related debt	\$108,035	\$106,810	\$107,100	\$107,430	\$113,143	\$118,614	\$121,975	\$129,854	\$136,500	\$139,944
Nonspendable	13,812	13,887	14,095	14,468	14,478	20,041	20,198	21,541	24,317	23,541
Restricted	35	55	138	0	19	116	217	312	279	329
Unrestricted	19,468	19,590	18,982	18,211	18,184	19,255	21,391	21,184	20,183	18,601
Total primary government net assets	<u>\$141,350</u>	<u>\$140,342</u>	<u>\$140,315</u>	<u>\$140,109</u>	<u>\$145,824</u>	<u>\$158,026</u>	<u>\$163,781</u>	<u>\$172,579</u>	<u>\$181,279</u>	<u>\$182,415</u>

CITY OF KENAI, ALASKA

TABLE II

CHANGE IN NET ASSETS
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental activities:										
General government	\$ 1,113,592	\$ 962,874	\$ 1,147,616	\$ 1,239,137	\$ 1,386,573	\$ 1,949,905	\$ 1,936,810	\$ 2,068,752	\$ 2,032,773	\$ 2,206,779
Public safety	3,192,795	3,116,020	3,991,072	4,365,553	4,538,951	4,802,816	5,616,605	5,890,361	6,355,308	6,923,478
Public works	2,108,212	1,929,409	2,290,114	2,717,511	2,394,624	2,198,822	2,951,318	3,077,068	3,078,924	2,978,015
Parks, recreation, and cultural	1,447,484	1,247,500	1,396,794	1,463,932	1,576,963	1,572,995	1,849,567	1,858,898	1,778,405	2,188,839
Water and sewer services	1,945,498	1,774,176	1,840,935	1,957,032	2,644,033	2,199,983	2,188,552	2,174,151	2,289,895	2,382,284
Airport	2,084,722	2,195,047	2,403,729	2,511,021	3,415,986	3,492,213	2,925,011	2,641,049	3,292,821	3,520,577
Interest on long-term debt	189,702	11,962	4,012	-	-	-	-	-	100,963	101,973
Social welfare services	452,778	416,885	459,641	505,230	528,348	598,497	604,021	592,512	627,053	688,467
Total governmental activities expenses	12,534,783	11,653,873	13,533,913	14,759,416	16,485,478	16,815,231	18,071,884	18,302,791	19,556,142	20,990,412
Business-type activities:										
Airport terminal	503,431	453,410	477,593	506,006	-	-	-	-	-	-
Senior housing	297,664	327,863	480,219	354,514	364,688	369,565	414,869	383,585	406,950	437,943
Total business-type activities	801,095	781,273	957,812	860,520	364,688	369,565	414,869	383,585	406,950	437,943
Total primary government expenses	\$ 13,335,878	\$ 12,435,146	\$ 14,491,725	\$ 15,619,936	\$ 16,850,166	\$ 17,184,796	\$ 18,486,753	\$ 18,686,376	\$ 19,963,092	\$ 21,428,355
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 182,699	\$ 54,988	\$ 153,378	\$ 366,530	\$ 283,372	\$ 145,697	\$ 612,908	\$ 527,144	\$ 462,713	\$ 395,389
Public safety	265,210	345,632	336,981	315,570	398,147	417,328	303,122	364,957	560,938	511,855
Public works	418,776	242,056	312,140	592,461	290,535	522,968	277,425	139,212	159,821	88,904
Parks, recreation, and cultural	208,771	120,408	193,296	193,186	216,473	206,615	350,708	264,128	281,098	308,624
Water and sewer services	1,294,836	1,433,681	1,621,038	1,826,621	1,789,881	1,789,965	1,796,459	1,752,854	1,774,376	1,862,807
Airport	431,159	418,927	504,503	463,795	1,136,245	1,388,440	1,421,325	1,363,671	1,543,493	1,728,173
Interest on long-term debt	80,028	-	-	-	-	-	-	-	-	-
Social welfare services	191,828	187,614	110,251	114,607	123,644	127,746	74,644	97,611	103,870	109,051
Operating grants and contributions	792,646	802,467	794,847	1,035,392	1,198,362	1,982,816	1,996,377	2,109,637	1,938,335	2,715,647
Capital grants and contributions	794,157	1,010,956	2,544,629	2,442,601	8,064,426	7,545,119	4,781,161	9,892,148	8,604,886	4,986,606
Total governmental activities program revenues	4,660,110	4,616,729	6,573,063	7,350,753	13,501,085	14,126,694	11,614,129	16,511,362	15,429,530	12,707,056

Business-type activities:									
Charges for services:									
Airport terminal	285,018	275,913	294,251	367,911	-	-	-	-	-
Senior housing	240,970	251,881	255,396	275,185	279,102	299,563	321,045	323,105	322,355
Operating grants and contributions	-	-	-	800	714	2,342	3,004	1,335	23,189
Capital grants and contributions	-	30,720	-	2,737	-	-	-	-	-
Total business-type activities program revenues	525,988	558,514	549,647	646,633	279,816	301,905	324,049	324,440	345,544
Total primary government program revenues	\$ 5,186,098	\$ 5,175,243	\$ 7,122,710	\$ 7,997,386	\$ 13,780,901	\$ 14,428,599	\$ 11,938,178	\$ 16,835,802	\$ 15,720,953
Net (expenses)/revenue:									
Governmental activities	\$ (7,874,673)	\$ (7,037,144)	\$ (6,960,850)	\$ (7,408,663)	\$ (2,984,393)	\$ (2,688,537)	\$ (6,457,755)	\$ (1,791,429)	\$ (4,126,612)
Business-type activities	(275,107)	(222,759)	(408,165)	(213,887)	(84,872)	(67,660)	(90,820)	(59,145)	(115,527)
Total primary government net expense	\$ (8,149,780)	\$ (7,259,903)	\$ (7,369,015)	\$ (7,622,550)	\$ (3,069,265)	\$ (2,756,197)	\$ (6,548,575)	\$ (1,850,574)	\$ (4,242,139)
General Revenues and Other									
Changes in Net Assets									
Governmental activities:									
Taxes:									
Property taxes	\$ 1,424,644	\$ 2,026,789	\$ 1,900,788	\$ 2,024,502	\$ 2,156,373	\$ 2,347,063	\$ 2,694,872	\$ 2,614,768	\$ 2,613,756
Sales taxes	3,953,561	3,790,644	4,090,468	4,404,158	4,631,812	5,196,046	5,372,499	5,561,970	6,260,403
Sales of capital assets	-	74,700	84,954	452,766	105,320	5,473,871	166,411	11,183	-
Investment earnings	988,431	334,166	789,721	880,307	1,861,472	1,910,080	1,213,186	2,666,417	3,889,899
Other	-	-	-	-	-	-	-	6,054	-
Transfers	69,946	54,801	-	-	2,062,870	31,500	88,044	-	-
Fund conversion	-	-	-	-	1,502,513	-	-	-	-
Write off of NPO/OPEB	-	-	-	-	-	-	1,211,646	-	-
Write off of Soil Contamination Liability	-	-	-	-	-	-	1,400,000	-	-
Total governmental activities	6,436,582	6,281,100	6,865,931	7,761,733	12,320,360	14,958,560	12,146,658	10,860,392	12,764,058
Business-type activities:									
Investment earnings	84,766	25,899	62,765	68,411	29,312	30,371	24,672	4,896	3,642
Insurance settlement	-	-	-	-	-	-	-	-	175,000
Transfers	(69,946)	(54,801)	-	-	(2,062,870)	(31,500)	(88,044)	-	-
Fund conversion	-	-	-	-	(1,502,513)	-	-	-	-
Write off of NPO/OPEB	-	-	-	-	-	-	3,634	-	-
Total business-type activities	14,820	(28,902)	62,765	68,411	(3,536,071)	(1,129)	(59,738)	4,896	178,642
Total primary government	\$ 6,451,402	\$ 6,252,198	\$ 6,928,696	\$ 7,830,144	\$ 8,784,289	\$ 14,957,431	\$ 12,086,920	\$ 10,865,288	\$ 12,942,700
Changes in Net Assets									
Governmental activities	\$ (600,562)	\$ (756,044)	\$ (94,919)	\$ 353,070	\$ 9,335,967	\$ 12,270,023	\$ 5,688,903	\$ 9,068,963	\$ 8,637,446
Business-type activities	(207,939)	(251,661)	(345,400)	(145,476)	(3,620,943)	(68,789)	(150,558)	(54,249)	63,115
Total primary government	\$ (808,501)	\$ (1,007,705)	\$ (440,319)	\$ 207,594	\$ 5,715,024	\$ 12,201,234	\$ 5,538,345	\$ 9,014,714	\$ 8,700,561
Changes in Net Assets									
Governmental activities	\$ (600,562)	\$ (756,044)	\$ (94,919)	\$ 353,070	\$ 9,335,967	\$ 12,270,023	\$ 5,688,903	\$ 9,068,963	\$ 8,637,446
Business-type activities	(207,939)	(251,661)	(345,400)	(145,476)	(3,620,943)	(68,789)	(150,558)	(54,249)	63,115
Total primary government	\$ (808,501)	\$ (1,007,705)	\$ (440,319)	\$ 207,594	\$ 5,715,024	\$ 12,201,234	\$ 5,538,345	\$ 9,014,714	\$ 8,700,561

CITY OF KENAI, ALASKA

Table III

**GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)**

<u>Fiscal Year</u>	<u>Property Tax</u>	<u>Sales Tax</u>	<u>Total</u>
2003	\$1,424,644	\$3,953,561	\$5,378,205
2004	2,026,789	3,790,644	5,817,433
2005	1,900,788	4,090,468	5,991,256
2006	2,024,502	4,404,158	6,428,660
2007	2,156,373	4,631,812	6,788,185
2008	2,347,063	5,196,046	7,543,109
2009	2,694,872	5,372,499	8,067,371
2010	2,614,768	5,561,970	8,176,738
2011	2,613,756	6,260,403	8,874,159
2012	2,657,670	6,576,657	9,234,327

CITY OF KENAI, ALASKA

Table IV

**FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General fund:										
Reserved	\$ 1,113,800	\$ 1,181,188	\$ 1,165,042	\$ 1,131,084	\$ 1,045,148	\$ 1,083,083	\$ 115,125	\$ 128,209	\$ -	\$ -
Unreserved	7,088,834	8,159,200	8,296,361	8,262,530	8,919,959	9,921,136	11,570,484	12,027,857	-	-
Restricted	-	-	-	-	-	-	-	-	279,486	329,164
Committed	-	-	-	-	-	-	-	-	1,070,290	1,021,790
Assigned	-	-	-	-	-	-	-	-	859,454	1,464,159
Unassigned	-	-	-	-	-	-	-	-	9,817,634	9,130,415
Total general fund	<u>\$ 8,202,634</u>	<u>\$ 9,340,388</u>	<u>\$ 9,461,403</u>	<u>\$ 9,393,614</u>	<u>\$ 9,965,107</u>	<u>\$ 11,004,219</u>	<u>\$ 11,685,609</u>	<u>\$ 12,156,066</u>	<u>\$ 12,026,864</u>	<u>\$ 11,945,528</u>
All other governmental funds:										
Reserved - other funds	\$ 91,449	\$ 59,688	\$ 25,676	\$ 17,568	\$ 31,321	\$ 150,004	\$ 49,754	\$ 32,278	\$ -	\$ -
Reserved - permanent funds	13,283,927	13,588,684	13,745,851	14,196,885	14,275,769	19,909,589	19,981,306	21,541,598	-	-
Unreserved, reported in:										
Special revenue funds	6,824,159	6,345,842	5,997,669	5,752,322	7,432,637	7,012,509	5,776,646	5,263,203	-	-
Debt service funds	317,488	160,944	-	-	-	-	-	6,054	-	-
Capital projects funds	1,619,817	1,404,840	1,517,142	1,468,341	1,540,849	1,855,592	2,254,439	3,995,084	-	-
Nonspendable -										
Permanent funds	-	-	-	-	-	-	-	-	24,318,092	23,540,934
Committed -										
Capital projects funds	-	-	-	-	-	-	-	-	2,164,498	516,440
Assigned -										
Special revenue funds	-	-	-	-	-	-	-	-	4,846,735	5,035,969
Total all other governmental funds	<u>\$ 22,136,840</u>	<u>\$ 21,559,998</u>	<u>\$ 21,286,338</u>	<u>\$ 21,435,116</u>	<u>\$ 23,280,576</u>	<u>\$ 28,927,694</u>	<u>\$ 28,062,145</u>	<u>\$ 30,838,217</u>	<u>\$ 31,329,325</u>	<u>\$ 29,093,343</u>

CITY OF KENAI, ALASKA

Table V

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Revenues										
Property taxes	\$ 1,410,203	\$ 2,048,176	\$ 1,912,376	\$ 2,019,203	\$ 2,160,687	\$ 2,331,712	\$ 2,728,764	\$ 2,601,588	\$ 2,629,324	\$ 2,638,783
Sales tax	3,953,561	3,790,644	4,090,468	4,404,158	4,631,812	5,196,046	5,372,499	5,561,970	6,260,403	6,576,657
Intergovernmental	1,586,803	1,639,178	3,272,955	3,538,563	9,253,053	9,527,285	6,573,138	10,694,840	9,844,736	7,670,929
Investment earnings	951,307	323,090	762,367	849,479	1,796,387	1,842,390	1,169,576	2,667,857	3,894,618	256,981
Other revenues	4,506,229	4,285,566	4,547,155	5,623,128	5,470,069	11,281,281	6,302,510	6,988,316	6,920,678	6,355,818
Total revenues	12,408,103	12,086,654	14,585,321	16,434,531	23,312,008	30,178,714	22,146,487	28,514,571	29,549,759	23,499,168
Expenditures										
General government	1,330,143	1,378,300	1,482,143	1,561,001	1,679,077	2,586,591	2,472,535	2,254,837	2,612,702	2,701,605
Public safety	3,437,169	3,419,295	4,262,592	4,377,829	4,706,966	4,899,317	5,100,217	5,681,548	5,915,902	6,441,968
Public works	1,723,629	1,471,479	1,753,030	2,164,213	2,150,727	2,106,810	2,208,353	2,150,658	2,375,566	2,334,315
Parks, recreation and cultural	1,363,247	1,112,203	1,211,094	1,300,974	1,411,775	1,404,077	1,681,800	1,676,717	1,690,624	1,931,141
Water and sewer services	1,291,503	1,124,781	1,208,570	1,325,564	1,707,216	1,539,907	1,777,188	1,793,887	1,822,654	1,940,343
Airport	1,358,227	1,471,865	1,657,105	1,643,896	2,708,534	2,527,099	2,986,200	2,324,204	2,504,670	2,575,613
Social welfare services	451,317	386,031	410,770	461,847	507,578	603,771	683,560	682,393	723,984	791,214
Capital outlay	1,062,516	1,054,627	2,598,650	3,518,219	8,086,052	7,856,412	5,508,837	10,733,142	11,365,788	6,922,939
Debt service										
Principal	160,000	150,000	150,000	-	-	-	-	-	75,000	75,000
Interest	20,020	11,962	4,012	-	-	-	-	-	100,963	102,348
Total expenditures	12,197,771	11,580,543	14,737,966	16,353,543	22,957,925	23,523,984	22,418,690	27,297,386	29,187,853	25,816,486
Excess of revenues over (under) expenditures	210,332	506,111	(152,645)	80,988	354,083	6,654,730	(272,203)	1,217,185	361,906	(2,317,318)
Other financing sources (uses)										
Transfers in	1,942,313	269,822	356,830	1,061,044	2,277,280	1,279,329	1,603,049	3,801,117	2,330,145	1,646,262
Proceeds from debt issuance	-	-	-	-	-	-	-	2,000,000	-	-
Proceeds from bond premium	-	-	-	-	-	-	-	29,344	-	-
Transfers out	(1,872,367)	(215,021)	(356,830)	(1,061,044)	(214,410)	(1,247,829)	(1,515,005)	(3,801,117)	(2,330,145)	(1,646,262)
Total other financing sources (uses)	69,946	54,801	-	-	2,062,870	31,500	88,044	2,029,344	-	-
Net change in fund balances	\$ 280,278	\$ 560,912	\$ (152,645)	\$ 80,988	\$ 2,416,953	\$ 6,686,230	\$ (184,159)	\$ 3,246,529	\$ 361,906	\$ (2,317,318)
Debt service as a percentage of noncapital expenditures	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total non-capital expenditures	\$ 10,955,235	\$ 10,363,954	\$ 11,985,304	\$ 12,835,324	\$ 14,871,873	\$ 15,667,572	\$ 16,909,853	\$ 16,564,244	\$ 17,035,394	\$ 18,904,637

CITY OF KENAI, ALASKA

TABLE VI

**GENERAL GOVERNMENTAL TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

<u>Fiscal Year Ended June 30</u>	<u>Total Taxes</u>	<u>Property Taxes</u>	<u>Sales Tax</u>
2003	\$ 5,363,764	\$ 1,410,203	\$ 3,953,561
2004	5,838,820	2,048,176	3,790,644
2005	6,002,844	1,912,376	4,090,468
2006	6,423,361	2,019,203	4,404,158
2007	6,792,499	2,160,687	4,631,812
2008	7,527,758	2,331,712	5,196,046
2009	8,101,263	2,728,764	5,372,499
2010	8,163,558	2,601,588	5,561,970
2011	8,889,727	2,629,324	6,260,403
2012	9,215,440	2,638,783	6,576,657

CITY OF KENAI, ALASKA

Table VII

TAXABLE SALES BY CATEGORY
CURRENT FISCAL YEAR

Administrative, Waste Management,	\$ 1,185,547
Agriculture, Forestry, Fishing & Hunting	293,105
Arts and Entertainment	677,806
Construction Contracting	1,593,488
Educational Services	230,116
Finance and Insurance	392,788
Guiding Land	7,829
Guiding Water	386,206
Health Care and Social Assistance	180,023
Hotel/Motel/Bed & Breakfast	8,322,718
Information	8,690,768
Management of Companies	8,218
Manufacturing	1,112,623
Mining/Quarrying	56,994
Professional, Scientific and Technical Services	2,667,408
Public Administration	2,539,852
Remediation Services	2,974
Rental Commercial Property	387,138
Rental Non-Residential Property	2,640,326
Rental of Self-storage & Miniwarehouses	21,845
Rental Personal Property	479,827
Rental Residential Property	5,094,374
Restaurant/Bar	13,739,616
Retail Trade	149,406,404
Services	4,210,918
Telecommunications	1,707,848
Telecommunications - Cable	4,074
Timbering	-
Transportation and Warehousing	2,131,063
Utilities	9,709,308
Wholesale Trade	2,511,682

Total **\$ 220,392,886**

City direct sales tax rate 3.00%

Source: The Kenai Peninsula Borough Sales Tax Department.

CITY OF KENAI, ALASKA

TABLE VIII

SALES TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS

Fiscal Year	City of Kenai	Overlapping Rates		Total
		Kenai	Peninsula Borough	
2003	3.00	2.00		5.00
2004	3.00	2.00		5.00
2005	3.00	2.00		5.00
2006	3.00	2.00		5.00
2007	3.00	2.00		5.00
2008	3.00	3.00		6.00
2009	3.00	3.00		6.00
2010	3.00	3.00		6.00
2011	3.00	3.00		6.00
2012	3.00	3.00		6.00

Source: The Kenai Peninsula Borough Sales Tax Department.

CITY OF KENAI, ALASKA

TABLE IX

RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities	Estimated Percentage of Personal Income *	Percentage of Estimated Actual Taxable Value of Property	Debt Per Capita **
	General Obligation Bonds			
2003	300,000	0.15%	0.06%	40.76
2004	150,000	0.07%	0.03%	20.25
2005	-	0.00%	0.00%	-
2006	-	0.00%	0.00%	-
2007	-	0.00%	0.00%	-
2008	-	0.00%	0.00%	-
2009	-	0.00%	0.00%	-
2010	2,000,000	0.64%	0.32%	281.69
2011	1,925,000	0.69%	0.29%	271.13
2012	1,850,000	0.64%	0.28%	256.30

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

* Personal income is estimated by using Kenai Peninsula Borough income to calculate per capita income and total income for City of Kenai.

** Population data can be found on Table 12.

CITY OF KENAI, ALASKA

TABLE X

COMPUTATION OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2012

<u>Name of Governmental Unit</u>	<u>Net Debt Outstanding</u>	<u>Percentage Applicable to this Governmental Unit (1)</u>	<u>City of Kenai's Share of Debt</u>
Direct debt - City of Kenai, Alaska	<u>\$ 1,850,000</u>	100.00%	<u>\$ 1,850,000</u>
Overlapping debt: Kenai Peninsula Borough	30,835,000	9.94%	3,064,999
Central Peninsula Hospital	<u>33,965,000</u>	14.78%	<u>5,020,027</u>
Total overlapping debt	<u>64,800,000</u>		<u>8,085,026</u>
Total Direct and Overlapping	<u>\$ 66,650,000</u>		<u>\$ 9,935,026</u>

Source: The Kenai Peninsula Borough.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Kenai.

(1) The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by dividing the City's taxable assessed property values by those of the Borough.

CITY OF KENAI, ALASKA

TABLE XI

LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(AMOUNTS EXPRESSED IN THOUSANDS)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Debt limit	\$ 75,836	\$ 77,262	\$ 79,698	\$ 85,120	\$ 91,230	\$ 98,827	\$ 119,838	\$ 126,104	\$ 131,828	\$ 131,890
Total net debt applicable to limit	<u>460</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000</u>	<u>1,925</u>	<u>1,850</u>
Legal debt margin	<u>\$ 75,376</u>	<u>\$ 77,262</u>	<u>\$ 79,698</u>	<u>\$ 85,120</u>	<u>\$ 91,230</u>	<u>\$ 98,827</u>	<u>\$ 119,838</u>	<u>\$ 124,104</u>	<u>\$ 129,903</u>	<u>\$ 130,040</u>

COMPUTATION OF LEGAL DEBT MARGIN

June 30, 2012

Assessed value	\$ 659,452
Debt limit, 20% of assessed value	131,890
Total amount of debt applicable to debt limit	<u>1,850</u>
Legal debt margin	<u>\$ 130,040</u>

CITY OF KENAI, ALASKA

TABLE XII

DEMOGRAPHIC AND ECONOMIC STATISTICS

LAST TEN FISCAL YEARS

Fiscal Year	City of Kenai		For the Kenai Peninsula Borough (A)					
	Population	School Enrollment	Population	Personal Income (amount expressed in thousands)	Per Capita Personal Income	Median Age	School Enrollment	Unemployment Rate (1)
2003	7,282	1,819	50,928	\$ 1,505,864	\$ 28,244	36.6	9,636	9.40%
2004	7,360	1,775	51,325	1,519,711	29,376	37.4	9,384	10.10%
2005	7,407	1,688	51,529	1,616,263	31,366	38.0	9,534	9.70%
2006	7,495	1,655	52,117	1,753,889	33,653	39.7	9,392	8.60%
2007	7,674	1,628	53,084	1,879,960	35,415	39.1	9,388	8.40%
2008	7,742	1,784	53,409	2,145,309	40,168	39.2	9,245	7.70%
2009	7,742	1,848	54,665	2,148,001	39,294	39.2	9,266	8.20%
2010	7,100	1,835	53,578	2,145,309	40,041	39.4	9,144	7.90%
2011	7,100	1,835	55,400	2,148,001	38,773	39.4	9,148	10.00%
2012	7,218	1,831	56,369	2,271,490	40,297	33.8	9,083	8.82%

Sources: The Bureau of Economic Analysis, the State of Alaska and the Kenai Peninsula Borough.

Note: Information for prior years is revised yearly until a census is completed.

(A) Data for the City of Kenai is not available, but should be comparable to this data which is for the Kenai Peninsula Borough.

(1) Data is provided by the State of Alaska Department of Labor and is the average rate for the previous calendar year.

CITY OF KENAI, ALASKA
KENAI AREA PRINCIPAL EMPLOYERS

TABLE XIII

The State of Alaska has passed legislation that prevents disclosure of the number of employees for each employer. Although specific employee counts are available for 2008, because that information was released prior to the legislation being implemented, the State will not provide detail information for 1999.

CITY OF KENAI, ALASKA

TABLE XIV

FULL-TIME EQUIVALENT EMPLOYEES BY FUND
LAST TEN FISCAL YEARS

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Fund										
City Clerk	1.50	1.00	1.00	1.00	1.50	1.50	1.50	1.50	1.50	1.50
City Manager	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Legal	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.25	2.00	2.00
Finance	5.00	4.63	4.63	4.63	3.75	3.75	3.75	3.75	3.75	4.75
Police	17.37	17.38	18.40	18.45	18.45	18.62	19.83	20.83	20.88	20.88
Fire	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	19.00	19.00
Dispatch	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Animal Control	2.19	2.19	2.19	2.12	2.60	2.60	2.60	2.60	2.80	2.80
Public Works Administration	3.00	3.00	3.00	3.00	3.00	2.00	2.00	2.00	2.00	1.50
Planning	1.63	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Maintenance	12.00	12.00	12.00	12.06	11.64	11.64	11.64	11.64	11.64	11.64
Library	6.22	5.60	6.60	6.64	6.14	6.34	6.55	6.68	6.68	7.88
Parks & Recreation	13.73	5.77	5.77	5.77	6.51	6.51	6.99	6.99	6.99	7.61
General Fund Total	90.14	81.07	83.09	83.17	83.09	82.46	84.36	85.74	88.74	91.06
Special Revenue Funds										
Water & Sewer Operations	6.00	6.00	6.00	6.00	6.76	6.76	6.76	6.76	6.76	6.76
Airport Operations	4.98	5.00	5.00	5.50	5.18	5.18	5.18	5.18	5.18	5.18
Senior Citizen Programs	6.57	6.44	6.56	8.06	8.06	8.06	8.19	8.19	6.69	6.85
Special Revenue Funds Total	17.55	17.44	17.56	19.56	20.00	20.00	20.13	20.13	18.63	18.79
Enterprise Fund										
Congregate Housing	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35
Internal Service Fund										
Capital Project Management	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.50
Total All Funds	108.04	98.86	101.00	103.08	103.44	102.81	104.84	106.22	107.72	110.70

Source: The City of Kenai Finance Department.

CITY OF KENAI, ALASKA

TABLE XV

OPERATING INDICATORS BY FUNCTION
LAST TEN CALENDAR YEARS

Function	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Public Safety										
Police Services:										
Police requests for service	6,761	6,411	7,083	7,364	7,789	7,593	7,120	7,626	7,385	7,665
Criminal arrests	1,173	1,179	1,115	1,063	991	716	970	1,103	926	894
Fire and Emergency Services:										
Number of calls responded to	922	1,101	1,200	1,212	1,297	1,382	1,469	1,599	1,230 *	1,328
Inspections	161	195	206	156	104	200	256	289	232	319
Animal Control:										
Total Calls	7,988	8,422	7,959	7,515	8,258	9,180	10,697	7,811	6,619	6,695
Animals Handled	1,361	1,477	1,595	1,767	1,828	1,837	1,571	1,417	1,476	1,673
Water and Wastewater										
Water Production Avg gallons per day	1,053,838	1,069,258	1,109,236	1,084,000	1,069,299	964,373	939,107	1,016,608	918,345	961,564
Wastewater Treatment Avg. gallons per day	610,645	545,265	569,836	591,000	579,000	573,000	575,500	569,916	528,667	470,417
Airport Passenger Enplanements	86,656	76,729	82,009	83,523	94,163	94,720	99,884	84,133	87,589	94,010

* During calendar year 2010 the fire department transitioned to a new reporting system that no longer counts responses to the same incident from both fire stations as multiple calls. Elimination of this duplication gives the impression call volumes have reduced when in fact call volumes continue to increase at 8-10% annually.

Source: Various City Departments.

CITY OF KENAI, ALASKA

TABLE XVI

CAPITAL ASSET STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Miles of Streets	62	62	62	62	62	62	62	62	62	62
Miles of Sewer:										
Storm	10	10	10	10	10	10	10	10	10	10
Sanitary	68	68	68	68	68	68	68	68	68	68
Fire Protection:										
Number of Stations	1	2	2	2	2	2	2	2	2	2
Police Protection:										
Number of Stations	1	1	1	1	1	1	1	1	1	1
Recreation:										
Number of Facilities:										
Parks	9	9	9	9	9	9	9	9	9	9
Baseball and Softball Fields	11	11	11	11	11	11	8	8	8	8
Soccer Fields	0	0	0	0	0	2	6	6	6	6
Recreation Center	1	1	1	1	1	1	1	1	1	1
Fitness Trails	2	2	2	2	2	2	2	2	2	3
Cross Country Ski Trails	1	1	1	1	1	1	1	1	1	1
Multi-Purpose Facility	1	1	1	1	1	1	1	1	1	1

Source: Various City Departments.

