

COMPREHENSIVE ANNUAL FINANCIAL REPORT



Fiscal Year:

July 1, 2013 – June 30, 2014

**CITY OF KENAI, ALASKA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2014**

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**COMPREHENSIVE ANNUAL
FINANCIAL REPORT
OF THE
CITY OF KENAI, ALASKA
Year Ended June 30, 2014**

Pat Porter
Mayor

Rick R. Koch
City Manager

Prepared by
Finance Department

Terry A. Eubank, CPA
Finance Director



"Village with a Past, City with a Future"

210 Fidalgo Avenue, Kenai, Alaska 99611-7794
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www.ci.kenai.ak.us

December 5, 2014

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, 2014. 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 BDO USA, LLP., 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, 2014 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 unmodified opinion that the City's financial statements for the fiscal year ended June 30, 2014, 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 completed 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.

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 2014 fishing season with a strong 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 remained nearly unchanged at \$9.9 million with a minor increase of \$8,376 in FY 2014. A General Fund, Fund Balance of \$9.9 million represents approximately 70% 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.

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

Award

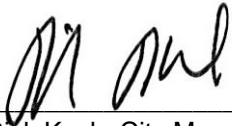
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Kenai for its comprehensive annual financial report for the fiscal year ended June 30, 2013. In order to be awarded a Certificate 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. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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 over a horizontal line.

Rick Koch, City Manager

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

Terry A. Eubank, CPA
Finance Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
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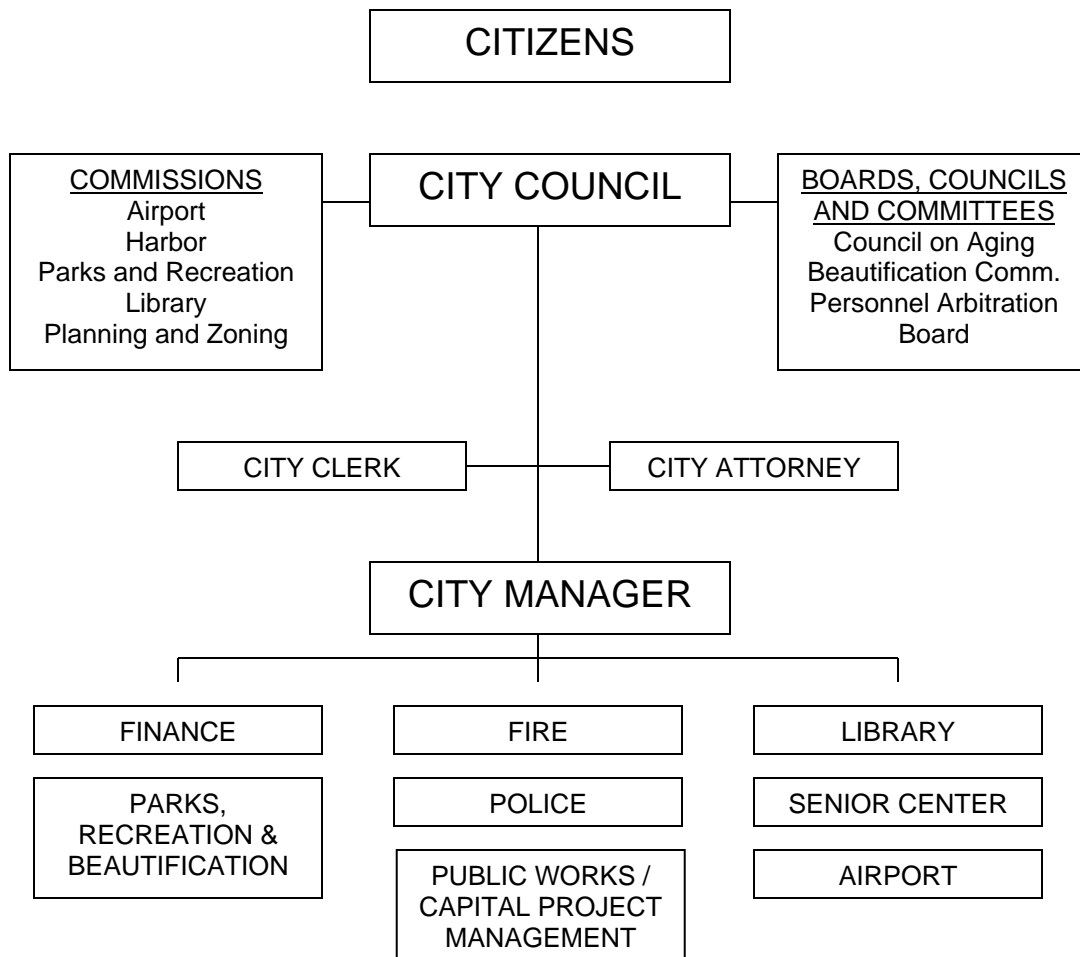
**City of Kenai
Alaska**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

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	2016
Council Members	Robert Molloy	2015
	Ryan Marquis	2015
	Terry Bookey	2016
	Brian Gabriel, Sr.	2016
	Mike Boyle	2014
	Tim Navarre	2014

City Administration

City Manager	Rick R. Koch
Finance Director	Terry A. Eubank
City Clerk	Sandra Modigh
City Attorney	Scott Bloom
Police Chief	Gus Sandahl
Fire Chief	Jeff Tucker
Public Works Manager	Sean Wedemeyer
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



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3601 C Street, Suite 600
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Independent Auditor's Report

Honorable Mayor and City Council
City of Kenai, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Kenai, Alaska, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Kenai's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Kenai as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund and Airport Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 13 through 19 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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.

The supplementary 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements for 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 accompanying introductory and statistical sections, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2014, 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* in considering City of Kenai's internal control over financial reporting and compliance.

BDO USA, LLP

Anchorage, Alaska
December 4, 2014

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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, 2014. 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, 2014 by \$186,323,429. Of this amount, unrestricted net position of \$17,303,764, 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 position increased by \$3,431,662. Governmental type activities increased by \$3,399,816 and business type activities increased by \$31,846.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$43,229,828, an increase of \$585,211 from the prior year. The fund balances of the two permanent funds, which cannot be spent, account for \$27.1 million of total fund balance. About \$8.6 million of the remaining fund balance is restricted, committed, or assigned. The remaining \$7.5 million is unassigned and available for spending.
- At the end of the current fiscal year, fund balance for the General Fund was \$9,902,026. Of this amount \$7,493,858 was unassigned and available for spending.
- The City has a long-term liability for compensated absences and general obligation debt of \$822,740 and \$1,695,000 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.

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 position presents information on all of the City's assets and liabilities. Net position – the difference between the City's assets and deferred outflows and its liabilities and deferred inflows - is one way to measure the City's financial position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. 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 position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the

change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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 Special Revenue Fund; the Airport Land Sales Permanent Fund; and the Kenai New City Shop 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 and Airport Special Revenue Fund to demonstrate compliance with the Fiscal Year (FY) 2014 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 position and the proprietary statement of revenues, expenses and changes in fund net position. 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 and Airport Special Revenue Fund.

Government-wide Financial Analysis.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At June 30, 2014, the City's position exceeded liabilities by \$186,323,429. By far the largest portion of the City's net position reflects its investment in capital assets.

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

	Net Position (in thousands)					
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 46,863	\$ 45,971	\$ 608	\$ 574	\$ 47,471	\$ 46,545
Capital Assets	<u>140,028</u>	<u>137,555</u>	<u>3,071</u>	<u>2,983</u>	<u>143,099</u>	<u>140,538</u>
Total Assets	<u>186,891</u>	<u>183,526</u>	<u>3,679</u>	<u>3,557</u>	<u>190,570</u>	<u>187,083</u>
Long-term liabilities outstanding	2,515	2,630	2	2	2,517	2,632
Other liabilities	<u>1,345</u>	<u>1,506</u>	<u>137</u>	<u>47</u>	<u>1,482</u>	<u>1,553</u>
Total liabilities	<u>3,860</u>	<u>4,136</u>	<u>139</u>	<u>49</u>	<u>3,999</u>	<u>4,185</u>
Deferred inflows of resources	<u>248</u>	<u>6</u>	<u>-</u>	<u>-</u>	<u>248</u>	<u>6</u>
Net position:						
Net Investment in capital assets	138,334	135,780	3,071	2,983	141,405	138,763
Nonspendable	27,135	24,862	-	-	27,135	24,862
Restricted	480	409	-	-	480	409
Unrestricted	<u>16,834</u>	<u>18,333</u>	<u>469</u>	<u>525</u>	<u>17,303</u>	<u>18,858</u>
Total net position	<u>\$182,783</u>	<u>\$179,384</u>	<u>\$3,540</u>	<u>\$3,508</u>	<u>\$186,323</u>	<u>\$182,892</u>

minor arithmetic differences are due to rounding

Governmental activities.

Governmental activities increased the City's net position by \$3,399,816. 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 increased the net position of the City by \$31,846. A transfer from the City's General Fund in the amount of \$112,044, to return Enterprise Fund Capital previously transfer to the General Fund, led to the Funds first increase in net position in many years. 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 position are expected.

Changes in Net Position.

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

	Changes in Net Position (in thousands)					
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 5,867	\$ 5,825	\$ 346	\$ 327	\$ 6,213	\$ 6,152
Operating grants and contributions	2,817	3,019	5	8	2,822	3,027
Capital grants and contributions	4,799	3,550	-	-	4,799	3,550
General revenues:						
Property taxes	3,156	2,898	-	-	3,156	2,898
Sales taxes	6,669	6,588	-	-	6,669	6,588
Other	<u>3,495</u>	<u>2,423</u>	<u>5</u>	<u>(2)</u>	<u>3,500</u>	<u>2,421</u>
Total revenues	<u>26,803</u>	<u>24,303</u>	<u>356</u>	<u>333</u>	<u>27,159</u>	<u>24,636</u>
Expenses:						
General government	2,277	2,439	-	-	2,277	2,439
Public safety	7,291	7,227	-	-	7,227	7,227
Public works	3,393	3,239	-	-	3,393	3,239
Parks, recreation, and cultural	2,631	2,463	-	-	2,631	2,463
Water and sewer services	2,711	3,466	-	-	3,466	3,466
Airport	4,126	4,071	-	-	4,071	4,071
Interest on long-term debt	98	100	-	-	100	100
Social welfare services	765	736	-	-	736	736
Senior Housing	<u>- -</u>	<u>- -</u>	<u>436</u>	<u>418</u>	<u>418</u>	<u>418</u>
Total expenses	<u>23,292</u>	<u>23,741</u>	<u>436</u>	<u>418</u>	<u>24,159</u>	<u>24,159</u>
Increase (decrease) in net position before transfers	3,511	562	(80)	(85)	3,431	477
Transfers	<u>(112)</u>	<u>-</u>	<u>112</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase in net position	3,399	562	32	(85)	3,431	477
Net position beginning	<u>179,384</u>	<u>178,822</u>	<u>3,508</u>	<u>3,593</u>	<u>182,892</u>	<u>182,415</u>
Net position ending	<u>\$182,783</u>	<u>\$179,384</u>	<u>\$3,540</u>	<u>\$3,508</u>	<u>\$186,323</u>	<u>\$182,892</u>

minor arithmetic differences are due to rounding

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 \$43,229,828, which is up \$585,211 from last year. About \$7.5 million of fund balance is unassigned fund balance, which is available for spending at the City Council's discretion. The remainder of fund balance, \$35.7 million, is nonspendable, restricted, committed or assigned to indicate that it is not available for new spending. Nonspendable is the largest portion of this \$27.1 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 \$7,493,858, and total fund balance was \$9,902,026. Fund balance increased \$8,376 in the current year. The City's reserves remain healthy and stable. 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 52% of total expenditures and transfers, while total fund balance represents 69% of that same amount.

General Fund expenditures are down \$18,854 (0.13%) over last year. General Fund revenues decreased \$56,979 from last year. The primary revenue sources of the General Fund include property tax of \$3,149,024, sales tax of \$6,669,426, intergovernmental revenues of \$1,794,918, and charges to other funds of \$1,495,800. Sales tax revenue increased \$81,851 an amount less than inflation and a reflection of the overall condition of the national economy. Property taxes increased by \$254,975 (8.81%). The completion of the Cook Inlet Natural Gas Storage Alaska facility and a 62.33% increase in Oil and Gas Properties values is predominately responsible for the increase. Interest revenue increased \$122,458 as interest rates remained steady resulting in no negative market value adjustments as seen in the prior fiscal year. Intergovernmental revenues increased \$193,743 from last year with notable decreases in federal grants and State of Alaska Municipal Revenue Sharing.

Tax revenues support General Fund operations exclusively and represent 34.71% of all governmental funds revenue. Other funds rely heavily on charges for services and investment earnings. Investment earnings in governmental funds is up \$1,103,300, (45.44%) from the prior year. Despite continuation of historic low interest rates, positive returns of equity markets, which approximately 45% of the City's permanent funds are invested in, led to the significant increase in investment earnings. Capital projects funds and the senior services related funds are largely financed by grants from the federal, state and borough governments.

The Airport Special Revenue Fund accounts for the operation of the airport. Fund balance increased by \$31,479. New land leases accounted for the majority of the \$85,680 increase in fund revenues. Transfer from the Airport Land Sale Permanent Fund continues to be the major funding source for airport operations totaling \$1,094,473 (36.21%) for FY14.

The Airport Land Sales Permanent Fund accounts for the investment of proceeds from the sale of airport lands originally deeded to the City by the federal government for operations of the airport. City code calls for the transfer of 5% of the funds five year average balance at December 31st to the Airport Special Revenue Fund to fund airport operations. Solid returns in equity markets resulted in an increase in fund balance even after the FY14 transfer of \$1,094,473 to the Airport Special Revenue Fund.

The Kenai New City Shop Capital Project Fund accounts for the construction of the City's new public works repair and maintenance shop. Construction of the Shop includes subdivision of property, installation of utilities, and construction of the facility. The Shop is being funded with State grants, a transfer from the City's General Fund, and funding from the City's Airport.

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 position totaled \$3,540,094 and unrestricted net position was \$469,418. Net position increased \$31,846 for the year with a return of \$112,044 in capital from the City's General Fund. Current revenues are simply insufficient to cover expenses – especially considering depreciation. It is anticipated that net position 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 \$460,943. \$158,450 of the increase was funding for the City's Senior Center Siding Replacement Project and \$112,044 of the increase was the return of capital to the City's Congregate Housing Fund that had been previously transferred to the General Fund. Appropriations associated with grants and donations totaled \$108,584. Actual revenues were \$209,933 less than the final budget, with general sales tax \$139,555 less than projected, and ambulance fees less than projected by \$44,274.

The actual expenditures and transfers out were \$1,355,265 less than budgeted. The City typically does not spend the entire authorized appropriation. The variance this year was about 8.6% of final budget compared to 6.1% last year. \$582,968, (43.0%) of the lapse, occurred in personal services. Position vacancies and the replacement of retiring employees with those lower on the City's pay scale contributed to these savings. A switch in employee health insurance provider resulted in a budgetary savings of \$257,774.

Capital Assets and Debt Administration

Capital assets.

At June 30, 2014 the City's capital assets had a total net book value of \$143,099,247. Governmental activities totaled \$140,028,571 and business-type activities totaled \$3,070,676. Additional information on the City's capital assets can be found in the notes to the financial statements on pages 51-52 Section III. Detailed Notes on All Funds' D. Capital Assets. Major capital additions for FY14 included \$0.5 million in street infrastructure.

Debt administration.

No new debt was issued by the City in FY14. At June 30, 2014 \$1,695,000 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 \$822,740. Additional information on the City's long-term liabilities can be found in the notes to the financial statements on page 55.

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 POSITION
JUNE 30, 2014

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Equity in central treasury (cash and investments)	\$ 43,301,364	\$ 608,577	\$ 43,909,941
Receivables (net of allowances for uncollectibles)	3,561,544	31	3,561,575
Land	6,001,559	274,500	6,276,059
Property and equipment in service	200,093,319	5,292,668	205,385,987
Accumulated depreciation	(73,837,813)	(2,750,551)	(76,588,364)
Construction in progress	<u>7,771,506</u>	<u>254,059</u>	<u>8,025,565</u>
Total assets	<u>\$ 186,891,479</u>	<u>\$ 3,679,284</u>	<u>\$ 190,570,763</u>
LIABILITIES			
Accounts payable	\$ 836,235	\$ 99,459	\$ 935,694
Accrued payroll and payroll liabilities	204,429	896	205,325
Unearned revenue	109,632	3,778	113,410
Other liabilities	179,749	32,602	212,351
Accrued interest	14,667	-	14,667
Long-term liabilities:			
Due within one year	285,071	614	285,685
Due in more than one year	<u>2,230,214</u>	<u>1,841</u>	<u>2,232,055</u>
Total liabilities	<u>3,859,997</u>	<u>139,190</u>	<u>3,999,187</u>
DEFERRED INFLOWS OF RESOURCES			
Prepaid property taxes	<u>248,147</u>	<u>-</u>	<u>248,147</u>
NET POSITION			
Net investment in capital assets	138,333,571	3,070,676	141,404,247
Nonexpendable:			
Airport Land Sale Permanent Fund	24,223,069	-	24,223,069
General Government Land Sale Permanent Fund	2,912,111	-	2,912,111
Restricted - youth athletics	480,238	-	480,238
Unrestricted	<u>16,834,346</u>	<u>469,418</u>	<u>17,303,764</u>
Total net position	<u>\$ 182,783,335</u>	<u>\$ 3,540,094</u>	<u>\$ 186,323,429</u>

See Accompanying Notes to Financial Statements

**CITY OF KENAI, ALASKA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 2,276,930	\$ 423,213	\$ 961,512	\$ 1,875,369
Public safety	7,290,465	490,679	583,144	3,911
Public works	3,393,308	109,243	124,908	1,220,945
Parks, recreation, and cultural	2,630,547	584,368	215,512	343,905
Water and sewer services	2,711,305	2,296,383	77,799	436,106
Airport	4,126,256	1,881,848	64,532	642,866
Social welfare services	764,903	81,482	789,403	276,592
Interest on long-term debt	97,997	-	-	-
Total governmental activities	<u>23,291,711</u>	<u>5,867,216</u>	<u>2,816,810</u>	<u>4,799,694</u>
Business-type activities:				
Senior Housing	<u>436,635</u>	<u>346,435</u>	<u>4,940</u>	<u>-</u>
Total Government	<u>\$ 23,728,346</u>	<u>\$ 6,213,651</u>	<u>\$ 2,821,750</u>	<u>\$ 4,799,694</u>

General revenues:
 Property taxes
 Sales taxes
 Unrestricted investment earnings
 Transfers
 Total general revenues
 Change in net position
Net position - beginning
Net position - ending

See Accompanying Notes to Financial Statements

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

Governmental Activities	Business-type Activities	Total
\$ 983,164	\$ -	\$ 983,164
(6,212,731)	-	(6,212,731)
(1,938,212)	-	(1,938,212)
(1,486,762)	-	(1,486,762)
98,983	-	98,983
(1,537,010)	-	(1,537,010)
382,574	-	382,574
(97,997)	-	(97,997)
<u>(9,807,991)</u>	<u>-</u>	<u>(9,807,991)</u>
 -	 (85,260)	 (85,260)
<u>(9,807,991)</u>	<u>(85,260)</u>	<u>(9,893,251)</u>
 3,155,662	 -	 3,155,662
6,669,426	-	6,669,426
3,494,763	5,062	3,499,825
(112,044)	112,044	-
<u>13,207,807</u>	<u>117,106</u>	<u>13,324,913</u>
3,399,816	31,846	3,431,662
179,383,519	3,508,248	182,891,767
<u>\$ 182,783,335</u>	<u>\$ 3,540,094</u>	<u>\$ 186,323,429</u>

**CITY OF KENAI, ALASKA
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2014**

ASSETS	General
Equity in central treasury (cash and investments)	\$ 8,850,164
Receivables (net of allowances for uncollectibles)	2,227,883
Due from other funds	<u>231,799</u>
Total assets	<u>\$ 11,309,846</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 255,467
Accrued payroll and payroll liabilities	171,546
Due to other funds	-
Unearned revenue	18,249
Other liabilities	<u>35,926</u>
Total liabilities	<u>481,188</u>
Deferred Inflows of resources:	
Special assessments receivable - unavailable	421,961
Ambulance billing receivable - unavailable	234,825
Land sales - unavailable	21,699
Prepaid property taxes	<u>248,147</u>
Total deferred inflows of resources	<u>926,632</u>
Fund balances:	
Nonspendable	-
Restricted	480,238
Committed	409,746
Assigned	1,518,184
Unassigned	<u>7,493,858</u>
Total fund balances	<u>9,902,026</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 11,309,846</u>

See Accompanying Notes to Financial Statements

Airport Special Revenue	Airport Land Sales Permanent	Kenai New City Shop Capital Project	Other Governmental	Total Governmental Funds
\$ 4,087,887	\$ 24,121,069	\$ 331,037	\$ 4,653,767	\$ 42,043,924
98,852	303,727	-	931,082	3,561,544
-	-	-	-	231,799
<u>\$ 4,186,739</u>	<u>\$ 24,424,796</u>	<u>\$ 331,037</u>	<u>\$ 5,584,849</u>	<u>\$ 45,837,267</u>
\$ 68,205	\$ 5,392	\$ 226,018	\$ 281,080	\$ 836,162
9,714	-	-	20,982	202,242
-	-	-	150,688	150,688
77,404	-	-	13,979	109,632
20,608	-	-	123,215	179,749
<u>175,931</u>	<u>5,392</u>	<u>226,018</u>	<u>589,944</u>	<u>1,478,473</u>
-	-	-	-	421,961
-	196,335	-	5,999	234,825
-	-	-	-	224,033
-	196,335	-	5,999	248,147
-	24,223,069	-	2,912,111	1,128,966
-	-	-	-	27,135,180
-	-	105,019	638,634	480,238
4,010,808	-	-	1,438,161	1,153,399
-	-	-	-	6,967,153
<u>4,010,808</u>	<u>24,223,069</u>	<u>105,019</u>	<u>4,988,906</u>	<u>7,493,858</u>
<u>\$ 4,186,739</u>	<u>\$ 24,424,796</u>	<u>\$ 331,037</u>	<u>\$ 5,584,849</u>	<u>43,229,828</u>

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds. 138,633,127

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 880,819

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	\$ (1,695,000)	
Compensated absences	(815,373)	
Accrued interest (net of related interest subsidy)	(14,667)	(2,525,040)

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 position.

	2,564,601
Net position of governmental activities	<u>\$ 182,783,335</u>

**CITY OF KENAI, ALASKA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2014**

	General	Airport Special Revenue	Airport Land Sales Permanent	Kenai New City Shop Capital Project	Other Governmental
Revenues:					
Taxes	\$ 9,831,956	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenues	1,794,918	64,532	-	1,875,369	3,866,109
Charges for services	2,252,329	356,685	-	-	2,736,189
Interest revenue	82,629	27,402	3,044,320	-	376,822
Miscellaneous revenues	329,647	1,479,774	100,791	-	107,835
Total revenues	14,291,479	1,928,393	3,145,111	1,875,369	7,086,955
Expenditures:					
Current:					
General government	3,034,793	-	-	-	-
Public safety	6,737,967	-	-	-	103,528
Public works	2,284,744	-	-	-	137,698
Parks, recreation, and cultural	1,995,849	-	-	-	170,283
Water and sewer services	-	-	-	-	2,149,174
Airport	-	2,587,591	-	-	-
Social welfare services	-	-	-	-	849,376
Debt service:					
Principal	-	-	-	-	80,000
Interest	-	-	-	-	98,598
Capital outlay	81,826	-	-	4,178,940	3,139,685
Total expenditures	14,135,179	2,587,591	-	4,178,940	6,728,342
Excess of revenues over (under) expenditures	156,300	(659,198)	3,145,111	(2,303,571)	358,613
Other financing sources (uses):					
Transfers in	146,172	1,094,473	-	408,590	400,758
Transfers out	(294,096)	(403,796)	(1,094,473)	-	(369,672)
Net other financing sources (uses)	(147,924)	690,677	(1,094,473)	408,590	31,086
Net changes in fund balances	8,376	31,479	2,050,638	(1,894,981)	389,699
Fund balances - July 1	9,893,650	3,979,329	22,172,431	2,000,000	4,599,207
Fund balances - June 30	<u>\$ 9,902,026</u>	<u>\$ 4,010,808</u>	<u>\$ 24,223,069</u>	<u>\$ 105,019</u>	<u>\$ 4,988,906</u>

See Accompanying Notes to Financial Statements

**Total
Governmental
Funds**

\$ 9,831,956
7,600,928
5,345,203
3,531,173
2,018,047

28,327,307

3,034,793
6,841,495
2,422,442
2,166,132
2,149,174
2,587,591
849,376

80,000
98,598
7,400,451

27,630,052

697,255

2,049,993
(2,162,037)

(112,044)

585,211

42,644,617

\$ 43,229,828

**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, 2014**

Net changes in fund balances - total governmental funds	\$	585,211
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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	\$ 6,860,072		
Loss on disposal of capital assets	(52,908)		
Current year depreciation	<u>(4,189,611)</u>		2,617,553

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 current financial resources basis. This is the decrease in other long-term assets.			(83,543)
---	--	--	----------

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	\$ 36,131		
Bond interest payable	<u>601</u>		36,732

Repayment of the principal of long-term debt consumes current financial resources of governmental funds but does not have any effect on net position.			80,000
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Internal Service Funds are used by management to charge the cost of certain activities to individual funds. The net revenue of Internal Service Funds activities is reported with governmental activities.			<u>163,863</u>
--	--	--	----------------

Change in net position of governmental activities	\$	<u><u>3,399,816</u></u>
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CITY OF KENAI, ALASKA

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES,

AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues:				
Taxes:				
General property	\$ 3,139,274	\$ 3,139,274	\$ 3,149,024	\$ 9,750
General sales	6,808,981	6,808,981	6,669,426	(139,555)
Penalty and interest on taxes	10,000	10,000	13,506	3,506
Total taxes	<u>9,958,255</u>	<u>9,958,255</u>	<u>9,831,956</u>	<u>(126,299)</u>
Intergovernmental revenues:				
Federal grants	-	32,871	29,864	(3,007)
Kenai Peninsula Borough	50,880	50,880	51,360	480
State of Alaska shared revenues:				
Electric utility tax	30,000	30,000	32,361	2,361
Fish tax	250,000	250,000	202,044	(47,956)
Liquor licenses	20,000	20,000	14,100	(5,900)
Revenue sharing	433,538	433,538	435,888	2,350
State of Alaska grants:				
Library grants	-	11,884	14,873	2,989
Police grants	130,545	99,001	100,156	1,155
PERS relief	887,741	889,890	914,272	24,382
Total intergovernmental revenues	<u>1,802,704</u>	<u>1,818,064</u>	<u>1,794,918</u>	<u>(23,146)</u>
Charges for services:				
Fees and charges:				
Ambulance fees	400,000	400,000	355,726	(44,274)
Multipurpose facility charges	80,000	107,500	119,319	11,819
Administrative and service fees	1,495,800	1,495,800	1,495,800	-
Other	16,500	16,500	35,156	18,656
Total fees and charges	<u>1,992,300</u>	<u>2,019,800</u>	<u>2,006,001</u>	<u>(13,799)</u>
Licenses and permits:				
Building permits	50,000	50,000	79,445	29,445
Animal control licenses and fees	21,500	21,500	28,703	7,203
Other	6,000	6,000	4,804	(1,196)
Total licenses and permits	<u>77,500</u>	<u>77,500</u>	<u>112,952</u>	<u>35,452</u>
Fines and forfeits:				
Court fines	60,000	60,000	59,590	(410)
Library fines	15,000	15,000	13,127	(1,873)
Other forfeitures	26,000	65,559	60,659	(4,900)
Total fines and forfeits	<u>101,000</u>	<u>140,559</u>	<u>133,376</u>	<u>(7,183)</u>
Total charges for services	<u>2,170,800</u>	<u>2,237,859</u>	<u>2,252,329</u>	<u>14,470</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</u>
Revenues, continued:				
Interest earnings	\$ 75,000	\$ 75,000	\$ 82,629	\$ 7,629
Miscellaneous revenues:				
Rents and leases	112,284	112,284	126,051	13,767
Oil and gas royalties	85,000	85,000	68,400	(16,600)
Special assessments	66,000	66,000	32,253	(33,747)
Other	95,285	148,950	102,943	(46,007)
Total miscellaneous revenues	358,569	412,234	329,647	(82,587)
 Total revenues	 14,365,328	 14,501,412	 14,291,479	 (209,933)
 Expenditures:				
General government:				
Legislative:				
Personal services	51,855	51,855	51,825	30
Supplies	11,178	11,178	6,027	5,151
Other services and charges	112,220	107,221	96,484	10,737
Total legislative	175,253	170,254	154,336	15,918
City clerk:				
Personal services	176,004	176,004	161,520	14,484
Supplies	21,645	21,645	16,669	4,976
Other services and charges	56,700	56,700	46,075	10,625
Total city clerk	254,349	254,349	224,264	30,085
City attorney:				
Personal services	256,688	256,688	256,494	194
Supplies	3,050	3,050	2,220	830
Other services and charges	53,690	53,690	18,786	34,904
Total city attorney	313,428	313,428	277,500	35,928
City manager:				
Personal services	306,773	309,870	298,592	11,278
Supplies	1,930	1,930	781	1,149
Other services and charges	99,600	149,600	119,681	29,919
Total city manager	408,303	461,400	419,054	42,346

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</u>
Expenditures, continued:				
General government, continued:				
Finance:				
Personal services	\$ 564,005	\$ 564,005	\$ 528,663	\$ 35,342
Supplies	39,898	38,978	26,879	12,099
Other services and charges	28,320	29,940	18,237	11,703
Total finance	<u>632,223</u>	<u>632,923</u>	<u>573,779</u>	<u>59,144</u>
Non-departmental:				
Personal services	887,741	889,890	914,272	(24,382)
Supplies	11,650	9,650	7,831	1,819
Other services and charges	398,448	357,048	257,436	99,612
Capital outlays	-	9,800	9,350	450
Total non-departmental	<u>1,297,839</u>	<u>1,266,388</u>	<u>1,188,889</u>	<u>77,499</u>
Planning and zoning:				
Personal services	222,775	222,775	155,925	66,850
Supplies	6,550	6,550	3,365	3,185
Other services and charges	38,179	38,179	31,137	7,042
Total planning and zoning	<u>267,504</u>	<u>267,504</u>	<u>190,427</u>	<u>77,077</u>
Safety:				
Supplies	1,250	1,250	-	1,250
Other services and charges	6,575	6,575	4,733	1,842
Total safety	<u>7,825</u>	<u>7,825</u>	<u>4,733</u>	<u>3,092</u>
Land administration:				
Supplies	990	990	351	639
Other services and charges	17,216	17,216	1,460	15,756
Total land administration	<u>18,206</u>	<u>18,206</u>	<u>1,811</u>	<u>16,395</u>
Total general government	<u>3,374,930</u>	<u>3,392,277</u>	<u>3,034,793</u>	<u>357,484</u>
Public safety:				
Police:				
Personal services	2,670,463	2,538,287	2,497,561	40,726
Supplies	107,059	122,408	110,955	11,453
Other services and charges	158,305	160,631	141,378	19,253
Capital outlays	75,666	103,520	75,750	27,770
Total police	<u>3,011,493</u>	<u>2,924,846</u>	<u>2,825,644</u>	<u>99,202</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</u>
Expenditures, continued:				
Public safety, continued:				
Fire:				
Personal services	\$ 2,599,100	\$ 2,635,465	\$ 2,500,131	\$ 135,334
Supplies	104,250	98,987	98,359	628
Other services and charges	274,718	263,605	243,168	20,437
Capital outlays	6,102	6,102	4,674	1,428
Total fire	<u>2,984,170</u>	<u>3,004,159</u>	<u>2,846,332</u>	<u>157,827</u>
Communications:				
Personal services	749,595	749,595	694,795	54,800
Supplies	18,949	21,609	18,413	3,196
Other services and charges	42,534	39,874	25,992	13,882
Total communications	<u>811,078</u>	<u>811,078</u>	<u>739,200</u>	<u>71,878</u>
Animal control:				
Personal services	256,992	270,992	231,519	39,473
Supplies	21,400	22,291	16,048	6,243
Other services and charges	83,186	83,604	79,224	4,380
Total animal control	<u>361,578</u>	<u>376,887</u>	<u>326,791</u>	<u>50,096</u>
Total public safety	<u>7,168,319</u>	<u>7,116,970</u>	<u>6,737,967</u>	<u>379,003</u>
Public works:				
Public works administration:				
Personal services	164,740	165,034	158,491	6,543
Supplies	3,600	3,589	3,061	528
Other services and charges	8,235	7,952	6,349	1,603
Total public works administration	<u>176,575</u>	<u>176,575</u>	<u>167,901</u>	<u>8,674</u>
Shop:				
Personal services	355,008	364,160	358,653	5,507
Supplies	201,239	171,628	156,714	14,914
Other services and charges	131,203	113,662	111,911	1,751
Total shop	<u>687,450</u>	<u>649,450</u>	<u>627,278</u>	<u>22,172</u>
Streets:				
Personal services	574,610	581,734	515,572	66,162
Supplies	172,620	166,443	146,503	19,940
Other services and charges	240,858	268,364	218,941	49,423
Capital outlays	18,053	49,103	38,090	11,013
Total streets	<u>1,006,141</u>	<u>1,065,644</u>	<u>919,106</u>	<u>146,538</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</u>
Expenditures, continued:				
Public works, continued:				
Dock:				
Personal services	\$ 40,139	\$ 40,139	\$ 21,451	\$ 18,688
Supplies	12,700	12,500	9,172	3,328
Other services and charges	46,143	46,343	28,635	17,708
Total dock	98,982	98,982	59,258	39,724
Buildings:				
Personal services	238,404	238,404	227,517	10,887
Supplies	50,997	49,730	36,726	13,004
Other services and charges	54,069	55,336	50,373	4,963
Capital outlays	69,900	228,350	144,332	84,018
Total buildings	413,370	571,820	458,948	112,872
Street lighting:				
Supplies	6,000	6,000	-	6,000
Other services and charges	141,909	141,909	134,079	7,830
Total street lighting	147,909	147,909	134,079	13,830
Total public works	2,530,427	2,710,380	2,366,570	343,810
Parks, recreation, and cultural:				
Library:				
Personal services	591,735	591,735	565,911	25,824
Supplies	20,825	58,476	53,487	4,989
Other services and charges	219,025	229,825	211,022	18,803
Total library	831,585	880,036	830,420	49,616
Visitors center:				
Supplies	1,800	1,500	-	1,500
Other services and charges	183,503	186,203	177,294	8,909
Total visitors center	185,303	187,703	177,294	10,409
Parks, recreation & beautification:				
Personal services	444,750	444,750	369,522	75,228
Supplies	118,808	128,307	116,753	11,554
Other services and charges	433,641	538,239	491,945	46,294
Capital outlays	91,500	61,500	9,915	51,585
Total parks, recreation & beautification	1,088,699	1,172,796	988,135	184,661

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</u>
Expenditures, continued:				
Parks, recreation, and cultural, continued:				
Total parks, recreation, and cultural	<u>\$ 2,105,587</u>	<u>\$ 2,240,535</u>	<u>\$ 1,995,849</u>	<u>\$ 244,686</u>
Total expenditures	<u>15,179,263</u>	<u>15,460,162</u>	<u>14,135,179</u>	<u>1,324,983</u>
Excess of revenues over (under) expenditures	<u>(813,935)</u>	<u>(958,750)</u>	<u>156,300</u>	<u>1,115,050</u>
Other financing sources (uses):				
Transfers in	144,486	144,486	146,172	1,686
Transfers out	<u>(144,334)</u>	<u>(324,378)</u>	<u>(294,096)</u>	<u>30,282</u>
Net other financing sources (uses)	<u>152</u>	<u>(179,892)</u>	<u>(147,924)</u>	<u>31,968</u>
Net changes in fund balance	<u>\$ (813,783)</u>	<u>\$ (1,138,642)</u>	8,376	<u>\$ 1,147,018</u>
Fund balance - July 1			<u>9,893,650</u>	
Fund balance - June 30			<u>\$ 9,902,026</u>	

See Accompanying Notes to Financial Statements

CITY OF KENAI, ALASKA
AIRPORT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues:				
Intergovernmental revenues - State grant	\$ 71,943	\$ 71,943	\$ 64,532	\$ (7,411)
Charge for services - landing fees	336,011	336,011	356,685	20,674
Investment earnings (loss)	30,833	30,833	27,402	(3,431)
Miscellaneous revenues:				
Rents and leases, including penalty and interest	1,002,258	1,002,258	1,015,887	13,629
Fish hauling rents	1,000	1,000	-	(1,000)
Parking fees	240,000	240,000	201,256	(38,744)
Car rental commissions	195,000	195,000	199,432	4,432
Advertising commissions	3,500	3,500	5,552	2,052
Fuel flowage	60,000	60,000	30,350	(29,650)
Other	41,500	41,500	27,297	(14,203)
Total miscellaneous revenues	1,543,258	1,543,258	1,479,774	(63,484)
Total revenues	1,982,045	1,982,045	1,928,393	(53,652)
Expenditures:				
Maintenance and operation:				
Personal services	325,711	325,711	304,614	21,097
Supplies	183,145	183,145	137,697	45,448
Other services and charges	358,226	358,226	305,530	52,696
	867,082	867,082	747,841	119,241
Expenditures chargeable from other funds	813,300	813,300	813,300	-
Total maintenance and operation	1,680,382	1,680,382	1,561,141	119,241
Administration:				
Personal services	218,535	218,535	212,438	6,097
Supplies	5,265	5,265	4,773	492
Other services and charges	37,119	42,019	27,666	14,353
	260,919	265,819	244,877	20,942
Expenditures chargeable from other funds	54,200	54,200	54,200	-
Total administration	315,119	320,019	299,077	20,942

See Accompanying Notes to Financial Statements

CITY OF KENAI, ALASKA
AIRPORT SPECIAL REVENUE FUND
SCHEDULE 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</u>
Expenditures, continued:				
Land:				
Personal services	\$ 72,822	\$ 72,822	\$ 70,464	\$ 2,358
Supplies	13,200	13,200	9,828	3,372
Other services and charges	51,027	46,527	23,890	22,637
Total land	<u>137,049</u>	<u>132,549</u>	<u>104,182</u>	<u>28,367</u>
Training facility -				
Other services and charges	34,664	39,164	29,127	10,037
Total training facility	<u>34,664</u>	<u>39,164</u>	<u>29,127</u>	<u>10,037</u>
Terminal:				
Personal services	122,586	122,586	114,756	7,830
Supplies	36,750	36,750	30,827	5,923
Other services and charges	383,416	438,516	374,681	63,835
Capital outlays	60,000	-	-	-
Total terminal	<u>602,752</u>	<u>597,852</u>	<u>520,264</u>	<u>77,588</u>
Expenditures chargeable from other funds	<u>73,800</u>	<u>73,800</u>	<u>73,800</u>	<u>-</u>
Total terminal	<u>676,552</u>	<u>671,652</u>	<u>594,064</u>	<u>77,588</u>
Total expenditures	<u>2,843,766</u>	<u>2,843,766</u>	<u>2,587,591</u>	<u>256,175</u>
Excess of revenues over (under) expenditures	<u>(861,721)</u>	<u>(861,721)</u>	<u>(659,198)</u>	<u>202,523</u>
Other financing sources (uses):				
Transfers in	1,090,572	1,090,572	1,094,473	3,901
Transfers out	-	(403,796)	(403,796)	-
Net other financing sources (uses)	<u>1,090,572</u>	<u>686,776</u>	<u>690,677</u>	<u>3,901</u>
Net changes in fund balance	<u>\$ 228,851</u>	<u>\$ (174,945)</u>	31,479	<u>\$ 206,424</u>
Fund balance - July 1			<u>3,979,329</u>	
Fund balance - June 30			<u>\$ 4,010,808</u>	

See Accompanying Notes to Financial Statements

CITY OF KENAI, ALASKA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2014

	Business-type Activities - Enterprise Fund Congregate Housing	Governmental Activities - Internal Service Funds
ASSETS		
Current assets:		
Equity in central treasury	\$ 608,577	\$ 1,257,440
Accounts receivable	31	-
Total current assets	<u>608,608</u>	<u>1,257,440</u>
Noncurrent assets:		
Land	<u>274,500</u>	-
Property and equipment in service, at cost:		
Buildings	5,292,668	-
Equipment	<u>-</u>	<u>2,290,673</u>
Total property and equipment in service	5,292,668	2,290,673
Less accumulated depreciation	<u>(2,750,551)</u>	<u>(895,229)</u>
Net property and equipment in service	2,542,117	1,395,444
Construction work in progress	<u>254,059</u>	-
Total assets	<u>\$ 3,679,284</u>	<u>\$ 2,652,884</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 99,459	\$ 73
Accrued payroll and payroll liabilities	896	2,187
Unearned revenue	3,778	-
Due to General Fund	-	81,111
Other liabilities	<u>32,602</u>	<u>-</u>
Total current liabilities	<u>136,735</u>	<u>83,371</u>
Noncurrent liabilities - compensated absences	<u>2,455</u>	<u>4,912</u>
Total liabilities	<u>139,190</u>	<u>88,283</u>
NET POSITION		
Investment in capital assets	3,070,676	1,395,444
Unrestricted	<u>469,418</u>	<u>1,169,157</u>
Total net position	<u>\$ 3,540,094</u>	<u>\$ 2,564,601</u>

See Accompanying Notes to Financial Statements

CITY OF KENAI, ALASKA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2014

	Business-type Activities - Enterprise Fund Congregate Housing	Governmental Activities - Internal Service Funds
Operating revenues:		
Rents and leases	\$ 346,424	\$ -
Charges for services	-	100,749
Other revenue	11	285,592
Total operating revenues	<u>346,435</u>	<u>386,341</u>
Operating expenses:		
Personal services	55,461	81,643
Supplies	11,524	1,560
Utilities	76,359	622
Repair and maintenance	76,448	-
Insurance	8,994	930
Depreciation	132,439	143,821
Manager's fee	34,530	-
Miscellaneous	3,280	-
Expenses chargeable from other funds	37,600	9,700
Total operating expenses	<u>436,635</u>	<u>238,276</u>
Operating income (loss)	<u>(90,200)</u>	<u>148,065</u>
Nonoperating revenues:		
Intergovernmental grants	4,940	7,491
Investment earnings	5,062	8,307
Total nonoperating revenues	<u>10,002</u>	<u>15,798</u>
Income (loss) before transfers	(80,198)	163,863
Transfer in	<u>112,044</u>	<u>-</u>
Change in net position	31,846	163,863
Net position - July 1	<u>3,508,248</u>	<u>2,400,738</u>
Net position - June 30	<u>\$ 3,540,094</u>	<u>\$ 2,564,601</u>

See Accompanying Notes to Financial Statements

CITY OF KENAI, ALASKA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Funds
	<u>Congregate Housing</u>	
Cash flows from operating activities:		
Receipts from customers	\$ 347,279	\$ 100,749
Payments to suppliers	(122,250)	(12,750)
Payments to employees	(53,581)	(77,563)
Receipts (payments) for interfund services	(37,600)	285,592
Net cash provided by operating activities	<u>133,848</u>	<u>296,028</u>
Cash flows from noncapital financing activities:		
Decrease in Due (to) General Fund	-	(17,927)
Transfer in	112,044	-
State grant	4,940	7,491
Net cash provided (used) by noncapital financing activities	<u>116,984</u>	<u>(10,436)</u>
Cash flows from capital and related financing activities -		
Acquisition and construction of capital assets	<u>(220,326)</u>	<u>-</u>
Cash flows from investing activities -		
Gain on investments	<u>5,062</u>	<u>8,307</u>
Net increase in cash and cash equivalents	35,568	293,899
Cash and cash equivalents, beginning	<u>573,009</u>	<u>963,541</u>
Cash and cash equivalents, ending	<u><u>\$ 608,577</u></u>	<u><u>\$ 1,257,440</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (90,200)	\$ 148,065
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	132,439	143,821
Accounts receivable	756	-
Accounts payable	86,717	62
Accrued payroll and payroll liabilities	896	2,187
Compensated absences	984	1,893
Unearned revenue	88	-
Other liabilities	2,168	-
Net cash provided by operating activities	<u><u>\$ 133,848</u></u>	<u><u>\$ 296,028</u></u>

See Accompanying Notes to Financial Statements

CITY OF KENAI, ALASKA
KENAI COMMUNITY FOUNDATION AGENCY FUND
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2014

ASSETS

Equity in central treasury	<u>\$ 65,781</u>
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LIABILITIES

Due to Kenai Community Foundation	<u>\$ 65,781</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, 2014

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 position 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*. 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 position is reported as restricted when constraints placed on the net position is 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. 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 Kenai New City Shop Capital Project Fund accounts for the capital project to construct the new City Shop. Primary funding sources are state grants.

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

The City has elected to report the following fund as major. The City believes this fund is of special interest to the financial statement users and this presentation is consistent with prior years:

The Airport Special Revenue Fund accounts for activities of the airport except for land sales. It relies on user fees and investment earnings to finance operations.

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 position 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 position. 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 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 \$460,943. The majority of this was for the Kenai Senior Center Siding Replacement Project, \$158,450 and for transfers to the Congregate Housing Enterprise Funds, \$112,044.

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.

Significant encumbrances exceeding \$75,000 as of June 30, 2014 were:

	Major Fund – <u>General Fund</u>	Nonmajor <u>Gov't Funds</u>
Kenai Senior Center Siding Project	\$ 82,298	\$ -
Equipment purchase	290,000	-
Kenai Senior Center Boiler Replacement	84,883	-
Airport Master Plan Project	-	305,006
Airport Airfield Marking Project	-	86,260
New Water Reservoir Project	-	256,488
	<u>\$457,181</u>	<u>\$647,754</u>

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 position 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 Financial Times Stock Exchange Developed ex North America 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 Financial Times Stock Exchange Emerging 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 \$845,830 and a carrying value of \$599,479 at year-end. The City also holds a \$20,000 certificate of deposit and cash on hand of \$2,280. 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, 2014, 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	\$4,981,020	\$ -	\$ -	\$4,981,020
Wells Fargo Money Market	7,812,628	7,812,628	-	-
Certificates of Deposit	3,666,432	1,226,335	2,440,097	-
AMLIP	<u>3,150</u>	<u>3,150</u>	<u>-</u>	<u>-</u>
Total	<u>\$16,463,230</u>	<u>\$9,042,113</u>	<u>\$2,440,097</u>	<u>\$4,981,020</u>

General and Airport Land Sales Permanent Funds investments:

<u>Investment</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
U.S. Treasury/Agencies	\$ 5,429,789	20.19%
Corporate Bonds	4,867,386	18.10
Wells Fargo Money Market	592,964	2.21
U.S. equity securities	9,950,168	37.00
International securities	4,728,526	17.58
Real estate equities	<u>1,321,900</u>	<u>4.92</u>
Total	<u>\$26,890,733</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, 2014.

	<u>Pooled Cash and Investments</u>	<u>Kenai Community Foundation</u>	<u>Totals</u>
Bank deposits and cash on hand	\$ 621,759	\$ -	\$ 621,759
Investments	<u>43,288,182</u>	<u>65,781</u>	<u>43,353,963</u>
	<u>\$43,909,941</u>	<u>\$65,781</u>	<u>\$43,975,722</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, 2014 the index had an average duration of 4.02 while the fund's fixed income component had an average duration of 3.58.

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 – 20.17% and Federal Home Loan Mortgage Corporation – 8.81%.

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, 2014.

<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%	41.90%
Large-Cap domestic equities	Standard & Poor's 500 Index	20-25	20.08
International equities	Vanguard Europe Pacific ETF	10-15	10.60
Mid-Cap equities	Standard & Poor's 400 Mid-Cap Index	10-15	10.46
Small-Cap equities	Standard & Poor's 600 Small-Cap Index	5-10	5.99
International emerging markets	Vanguard Emerging Market ETF	5-10	6.44
Real-estate equities	Vanguard REIT ETF	5-10	4.53
Total			<u>100.00%</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, which 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, 2014 all fixed income investments were rated BBB or better by Standard and Poor's.

B. Receivables

Receivables at June 30, 2014, for the City's individual major funds, the nonmajor and other governmental funds in the aggregate are as follows:

	<u>General</u>	<u>Airport Special Revenue</u>	<u>Airport Land Sales Permanent</u>	<u>Nonmajor and Other Funds</u>
Taxes	\$1,407,338	\$ -	\$ -	\$ -
Intergovernmental	88,200	5,681	-	711,292
Notes	-	-	-	5,999
Customer and other	628,398	93,171	196,335	227,260
Special assessments	421,961	-	-	-
Land contracts	21,699	-	-	-
Accrued interest	8,188	-	107,392	12,975
Total receivables	2,575,784	98,852	303,727	957,526
Less allowance for uncollectible	(347,901)	-	-	(26,444)
Net receivables	<u>\$2,227,883</u>	<u>\$98,852</u>	<u>\$303,727</u>	<u>\$931,082</u>

C. Deferred Inflows, Outflows and Unearned Revenues

Governmental funds report deferred inflows in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Governmental funds report acquisitions of net position by the governmental funds that are applicable to a future reporting period as deferred inflows of resources and consumption of net position that are applicable to a future period as deferred outflows. At June 30, 2014, the various components of

unearned revenue, deferred inflows of resources, and deferred outflows of resources reported at the fund level and the government-wide level were as follows:

	Fund Level		Government Wide	
	Deferred Inflows	Unearned	Deferred Inflows	Unearned
Special assessments receivable (General Fund)	\$ 421,961	\$ -	\$ -	\$ -
Ambulance billing receivable (General Fund)	234,825	-	-	-
Land sales receivable (General Fund)	21,699	-	-	-
Land sales receivable (Airport Land Sales Permanent Fund)	196,335	-	-	-
Land sales receivable (Nonmajor governmental funds)	5,999	-	-	-
Prepaid property tax (General Fund)	248,147	-	248,147	-
Prepaid licenses (General Fund)	-	680	-	680
Prepaid rents & leases (General Fund)	-	17,569	-	17,569
Prepaid rents & leases (Airport Fund)	-	77,404	-	77,404
Grant funds received prior to meeting all eligibility requirements (nonmajor governmental funds)	-	13,979	-	13,979
	<u>\$1,128,966</u>	<u>\$109,632</u>	<u>\$248,147</u>	<u>\$109,632</u>

D. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 6,001,559	\$ -	\$ -	\$ 6,001,559
Construction in progress	<u>1,999,222</u>	<u>7,400,451</u>	<u>(1,628,167)</u>	<u>7,771,506</u>
Total capital assets not being depreciated	<u>8,000,781</u>	<u>7,400,451</u>	<u>(1,628,167)</u>	<u>13,773,065</u>
Capital assets being depreciated:				
Buildings	59,359,779	55,821	-	59,415,600
Improvements other than buildings	53,889,317	257,413	-	54,146,730
Machinery and equipment	19,388,129	231,617	(315,889)	19,303,857
Infrastructure	<u>66,684,195</u>	<u>542,937</u>	<u>-</u>	<u>67,227,132</u>
Total capital assets being depreciated	<u>199,321,420</u>	<u>1,087,788</u>	<u>(315,889)</u>	<u>200,093,319</u>
Less accumulated depreciation for:				
Buildings	(17,125,548)	(1,036,640)	-	(18,162,188)
Improvements other than buildings	(17,233,153)	(1,473,548)	-	(18,706,701)
Machinery and equipment	(10,606,871)	(836,896)	262,981	(11,180,786)
Infrastructure	<u>(24,801,790)</u>	<u>(986,348)</u>	<u>-</u>	<u>(25,788,138)</u>
Total accumulated depreciation	<u>(69,767,362)</u>	<u>(4,333,432)</u>	<u>262,981</u>	<u>(73,837,813)</u>
Total capital assets being depreciated, net	<u>129,554,058</u>	<u>(3,245,644)</u>	<u>(52,908)</u>	<u>126,255,506</u>
Governmental activities capital assets, net	<u>\$137,554,839</u>	<u>\$ 4,154,807</u>	<u>\$(1,681,075)</u>	<u>\$140,028,571</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, 2013	Increases	Decreases	Balance June 30, 2014
Business-type Activities:				
Capital assets not being depreciated:				
Land	\$ 274,500	\$ -	\$ -	\$ 274,500
Construction in progress	<u>33,733</u>	<u>220,326</u>	<u>-</u>	<u>254,059</u>
Total capital assets not being depreciated	<u>308,233</u>	<u>220,326</u>	<u>-</u>	<u>528,559</u>
Capital assets being depreciated –				
Buildings	5,292,668	-	-	5,292,668
Less accumulated depreciation for –				
Buildings	<u>(2,618,112)</u>	<u>(132,439)</u>	<u>-</u>	<u>(2,750,551)</u>
Total capital assets being depreciated, net	<u>2,674,556</u>	<u>(132,439)</u>	<u>-</u>	<u>2,542,117</u>
Business-type activities capital assets, net	<u>\$ 2,982,789</u>	<u>\$ 87,887</u>	<u>\$ -</u>	<u>\$ 3,070,676</u>

Depreciation expense charged to each governmental function is as follows:

General government	\$ 77,608
Public safety	231,650
Public works	870,517
Park, recreation and cultural	278,263
Water and sewer services	888,137
Airport	1,938,295
Social welfare services	<u>48,962</u>
	<u>\$ 4,333,432</u>

E. 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 requires 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.

Employee Contribution Rates

Regular employees are required to contribute 6.75% of their annual covered salary (2.97% for pension and 3.78% for healthcare). Police and firefighters are required to contribute 7.5% of their annual covered salary (3.29% for pension and 4.21% for healthcare).

Employer and Other Contribution Rates

There are three contribution rates associated with the pension and healthcare contributions and related liabilities:

Contractual Rate: This is the required funding rate for participating employers. The contractual rate is statutorily capped at 22% of eligible wages, subject to a wage floor, and other termination events. This 22% rate includes all PERS participating wages, including those wages attributable to employees in the defined contribution plan.

ARM Board Adopted Rate: This is the rate formally adopted by the Alaska Retirement Management Board. This rate is actuarially determined to calculate annual funding requirements of the Plan, without regard to the statutory rate cap. There are no constraints or restrictions on the actuarial cost method or other assumptions used in this valuation, other than those established and agreed to by the ARM Board.

Current legislation provides that the State of Alaska will contribute the difference between the ARM Board adopted rate and the contractual (statutory) rate. These additional contributions are recognized by each employer as an on-behalf payment and are reflected as revenue and expense/expenditure within the financial statements.

GASB 43 Rate: This is the rate used to determine the long-term pension and healthcare liability for plan accounting purposes in accordance with generally accepted accounting principles as established by GASB. Certain actuarial methods and assumptions for this rate calculation are mandated by GASB. For FY14, the rate uses an 8.00% pension discount rate and a 5.41% healthcare discount rate. Additionally, the GASB 43 rate disregards all future Medicare Part D payments.

The GASB 43 rate differs significantly from the ARM Board adopted rate as a direct result of differences in the actuarial valuation methodology and assumptions.

The City's contribution rates for 2014 were determined as part of the June 30, 2011 actuarial valuation and are as follows:

	<u>Contractual Rate</u>	<u>ARM Board Adopted Rate</u>	<u>GASB 43 Rate</u>
Pension	10.64%	18.38%	27.94%
Postemployment healthcare	<u>11.36%</u>	<u>17.30%</u>	<u>52.55%</u>
Total contribution rate	<u>22.00%</u>	<u>35.68%</u>	<u>80.49%</u>

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 13.68% 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 \$1,097,355 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>Required Pension Contribution</u>	<u>Required OPEB Contribution</u>	<u>Total Required Contribution (TRC)</u>	<u>City Contri- butions</u>	<u>% of TRC Contributed</u>
2014	\$679,722	\$725,719	\$1,405,441	\$1,405,441	100%
2013	\$617,568	\$787,559	\$1,405,127	\$1,405,127	100%
2012	\$481,047	\$867,111	\$1,348,158	\$1,348,158	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.

Employee Contribution Rates

Employees are required to contribute 8.0% of their annual covered salary. This amount goes directly to the individual's account.

Employer Contribution Rates

The City is required to contribute the following amounts base on covered salary:

	<u>Others Tier IV</u>	<u>Police/Fire Tier IV</u>
Individual account	5.00%	5.00%
Retiree medical plan	0.48	0.48
Occupational death and disability benefits	<u>0.20</u>	<u>1.14</u>
	<u>5.68%</u>	<u>6.62%</u>

In addition, the employer must contribute to the Health Reimbursement Arrangement. AS 39.30.370 establishes this contribution amount as "three percent of the average annual employee compensation of **all employees of all employers** in the plan". As of July 1, 2013, for actual remittance, this amount is calculated as a flat rate for each full time or part-time employee per pay period and approximates \$1,897 per year for each full-time employee, and \$1.22 per hour for part-time employees.

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, 2014 were \$251,971 and \$223,509, respectively.

F. Changes in Long-Term Obligations

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

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due within one year
Compensated absences	\$ 854,523	\$866,213	\$900,451	\$ 820,285	\$205,071
Library expansion bonds	<u>1,775,000</u>	<u>-</u>	<u>80,000</u>	<u>1,695,000</u>	<u>80,000</u>
Total governmental activities	<u>\$2,629,523</u>	<u>\$866,213</u>	<u>\$980,451</u>	<u>\$2,515,285</u>	<u>\$285,071</u>

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

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due within one year
Compensated absences	<u>\$1,471</u>	<u>\$4,026</u>	<u>\$3,042</u>	<u>\$2,455</u>	<u>\$614</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, 2014, is as follows:

Date of Issue	Issued	Interest Rate	Federal Interest Subsidy	Maturity Dates	Annual Installments	Federal Interest Subsidy	Net Installments	Outstanding June 30, 2014
3/11/10	\$1,355	5.99 - 6.34	2.70 - 2.85	2019 - 2030	\$81 - \$175	\$4 - \$38	\$77 - \$137	\$1,355
3/11/10	<u>645</u>	2.00 - 5.00	-	2012 - 2018	92 - 95	-	92 - 95	<u>340</u>
	<u>\$2,000</u>							<u>\$1,695</u>

Debt service requirements (not including compensated absences) at June 30, 2014 are as follows:

Fiscal Year	Governmental Activities			
	Principal	Interest	Interest Subsidy	Net Interest
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	90,000	86,998	37,529	49,469
2019	95,000	83,398	37,529	45,869
2020-2024	515,000	328,891	148,001	180,890
2025-2029	610,000	160,661	72,298	88,363
2030	<u>135,000</u>	<u>8,560</u>	<u>3,852</u>	<u>4,708</u>
Total	<u>\$1,695,000</u>	<u>\$948,901</u>	<u>\$411,796</u>	<u>\$537,105</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 2013 Certified Main and Supplemental Tax Roles for the City showed total taxable assessed for real and personal property of \$804,454,601, making the legal debt limit \$160,890,920 for the City.

G. Interfund Receivables, Payables and Transfers

Amounts due from other funds are as follows:

Due to General Fund from:	
Streets Improvement Capital Project Fund for short-term capital advances	\$ 6,910
Miscellaneous Capital Project Fund for short-term capital advances	143,778
Internal service funds for short-term capital advances	<u>81,111</u>
Total amounts due from other funds	\$ <u>231,799</u>

Transfers between funds were as follows:

From General Fund to:	
New City Shop Capital Project Fund for capital costs	\$ 38,000
Nonmajor governmental funds for debt service	144,052
Congregate Housing Enterprise Fund for capital investment	112,044
From Airport Land Sales Permanent Fund to:	
Airport Special Revenue Fund for operating costs	1,094,473
From Airport Special Revenue Fund to:	
New City Shop Capital Project Fund for capital costs	370,590
Nonmajor governmental fund for capital costs	33,206
From nonmajor governmental funds to:	
Nonmajor governmental fund for capital costs	223,500
General Fund for operating costs	<u>146,172</u>
Total transfers to other funds	<u>\$2,162,037</u>

H. Fund Balance Designations

Pursuant to GASB Statement Number 54, fund balances reported for the major funds and the nonmajor funds in the aggregate on the governmental funds balance sheet are subject to the following constraints:

	General	Airport Special Revenue	Airport Land Sales Permanent	New City Shop Capital Proj	Nonmajor and Other Funds	Totals
Nonspendable –						
Permanent funds	\$ -	\$ -	\$24,223,069	\$ -	\$2,912,111	\$27,135,180
Restricted –Athletics	<u>480,238</u>	-	-	-	-	<u>480,238</u>
Committed:						
Capital Imp.	9,746	-	-	105,019	638,634	753,399
Working capital	<u>400,000</u>	-	-	-	-	<u>400,000</u>
	<u>409,746</u>	-	-	<u>105,019</u>	<u>638,634</u>	<u>1,153,399</u>
Assigned:						
Self-Insurance	103,475	-	-	-	-	103,475
Compensated abs.	718,204	42,587	-	-	54,582	815,373
Subsequent years expenditures	696,505	-	-	-	98,739	795,244
Airport operations	-	3,968,221	-	-	-	3,968,221
Personal use fishery operations	-	-	-	-	16,924	16,924
Senior programs	-	-	-	-	167,237	167,237
Water & sewer operations	-	-	-	-	1,100,679	1,100,679
	<u>1,518,184</u>	<u>4,010,808</u>	-	-	<u>1,438,161</u>	<u>6,967,153</u>
Unassigned	<u>7,493,858</u>	-	-	-	-	<u>7,493,858</u>
Total fund balances	<u>\$9,902,026</u>	<u>\$4,010,808</u>	<u>\$24,223,069</u>	<u>\$105,019</u>	<u>\$4,988,906</u>	<u>\$43,229,828</u>

I. 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.

J. 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.

K. 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 68 – Accounting and Financial Reporting for Pensions – Effective for year-end June 30, 2015 – This statement contains certain technical corrections to prior GASB statements on the topics of Net Pension Liability and Pension Expense.

GASB 69 – Government Combinations and Disposals of Government Operations – Effective for year-end June 30, 2015 – This statement contains certain disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and effects of these transactions.

GASB 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68 – Effective for year-end June 30, 2015 – The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities.

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Other Governmental Funds

This section includes the Schedule 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 Schedule 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.

Personal Use Fisher Fund – This fund accounts for the activities responding to the State of Alaska Personal Use Fishery where thousands of Alaskans harvest salmon at the mouth of the Kenai River. The primary source of revenue is from user fees. Activities include public safety, parks, recreation, and culture, and public works.

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.

Streets Improvements – to account for capital improvements to City streets, sidewalks, curbs and gutters, or street lighting systems. Financing is primarily by State grants and transfers from the General Fund.

Airport Improvement – to account for capital improvements to the Kenai Municipal Airport. Financing is primarily by Federal and State grants.

Water & Sewer – to account for capital improvements to the City's water and sewer system. Financing is primarily by Federal and State grants and transfers from the Water and Sewer Special Revenue Fund.

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.

Kenai Industrial Park – to account for the project to construct the Kenai Industrial Park. Primary funding sources are state grants.

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, 2014**

ASSETS	Special Revenue				
	Personal Use Fishery	Water and Sewer	Council on Aging	Parks and Recreation	Streets
Equity in central treasury (cash and investments)	\$ 40,084	\$ 1,136,006	\$ 208,243	\$ 163,183	\$ -
Intergovernmental receivables	-	-	91,554	31,116	8,073
Notes receivable	-	-	-	-	-
Other accounts receivable, net	-	200,816	-	-	-
Total assets	<u>\$ 40,084</u>	<u>\$ 1,336,822</u>	<u>\$ 299,797</u>	<u>\$ 194,299</u>	<u>\$ 8,073</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 11,021	\$ 66,565	\$ 16,759	\$ 19,369	\$ 1,163
Accrued payroll and payroll liabilities	-	12,916	8,066	-	-
Other liabilities	-	108,352	14,863	-	-
Due to General Fund	-	-	-	-	6,910
Unearned revenue	-	-	-	-	-
Total liabilities	<u>11,021</u>	<u>187,833</u>	<u>39,688</u>	<u>19,369</u>	<u>8,073</u>
Deferred inflows of resources - land sales unavailable	-	-	-	-	-
Fund balances:					
Nonspendable	-	-	-	-	-
Committed	-	-	-	174,930	-
Assigned	29,063	1,148,989	260,109	-	-
Total fund balances	<u>29,063</u>	<u>1,148,989</u>	<u>260,109</u>	<u>174,930</u>	<u>-</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 40,084</u>	<u>\$ 1,336,822</u>	<u>\$ 299,797</u>	<u>\$ 194,299</u>	<u>\$ 8,073</u>

Capital Project					Debt Service	Permanent	Total
Airport Improvement	Water and Sewer	Miscellaneous	Library Expansion	Industrial Park	2010 Bond Debt Service	General Government Land Sales	Nonmajor Governmental Funds
\$ 134,353	\$ 68,970	\$ -	\$ 11	\$ 3,130	\$ -	\$ 2,899,787	\$ 4,653,767
115,499	234,166	230,884	-	-	-	-	711,292
-	-	-	-	-	-	5,999	5,999
-	-	-	-	-	-	12,975	213,791
<u>\$ 249,852</u>	<u>\$ 303,136</u>	<u>\$ 230,884</u>	<u>\$ 11</u>	<u>\$ 3,130</u>	<u>\$ -</u>	<u>\$ 2,918,761</u>	<u>\$ 5,584,849</u>
\$ 74,817	\$ 18,420	\$ 72,000	\$ -	\$ 315	\$ -	\$ 651	\$ 281,080
-	-	-	-	-	-	-	20,982
-	-	-	-	-	-	-	123,215
-	-	143,778	-	-	-	-	150,688
11,164	-	-	-	2,815	-	-	13,979
<u>85,981</u>	<u>18,420</u>	<u>215,778</u>	<u>-</u>	<u>3,130</u>	<u>-</u>	<u>651</u>	<u>589,944</u>
-	-	-	-	-	-	5,999	5,999
-	-	-	-	-	-	2,912,111	2,912,111
163,871	284,716	15,106	11	-	-	-	638,634
-	-	-	-	-	-	-	1,438,161
<u>163,871</u>	<u>284,716</u>	<u>15,106</u>	<u>11</u>	<u>-</u>	<u>-</u>	<u>2,912,111</u>	<u>4,988,906</u>
<u>\$ 249,852</u>	<u>\$ 303,136</u>	<u>\$ 230,884</u>	<u>\$ 11</u>	<u>\$ 3,130</u>	<u>\$ -</u>	<u>\$ 2,918,761</u>	<u>\$ 5,584,849</u>

**CITY OF KENAI, ALASKA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2014**

	Special Revenue				
	Personal Use Fishery	Water and Sewer	Council on Aging	Parks and Recreation	Streets
Revenues:					
Intergovernmental revenues	\$ -	\$ 77,799	\$ 773,827	\$ 403,428	\$ 642,728
Charges for services	440,572	2,295,617	-	-	-
Investment earnings	-	8,187	-	-	-
Miscellaneous revenues	-	766	97,058	10,000	-
Total revenues	<u>440,572</u>	<u>2,382,369</u>	<u>870,885</u>	<u>413,428</u>	<u>642,728</u>
Expenditures:					
General government	-	-	-	-	-
Public Safety	103,528	-	-	-	-
Water and sewer services	-	2,149,174	-	-	-
Airport	-	-	-	-	-
Social welfare services	-	-	849,376	-	-
Parks, recreation and cultural	170,283	-	-	405,993	-
Public works	137,698	-	-	-	642,728
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total expenditures	<u>411,509</u>	<u>2,149,174</u>	<u>849,376</u>	<u>405,993</u>	<u>642,728</u>
Excess of revenues over (under) expenditures	29,063	233,195	21,509	7,435	-
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	(223,500)	-	-	-
Net other financing sources (uses)	<u>-</u>	<u>(223,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	29,063	9,695	21,509	7,435	-
Fund balances - July 1	<u>-</u>	<u>1,139,294</u>	<u>238,600</u>	<u>167,495</u>	<u>-</u>
Fund balances - June 30	<u>\$ 29,063</u>	<u>\$ 1,148,989</u>	<u>\$ 260,109</u>	<u>\$ 174,930</u>	<u>\$ -</u>

Capital Project					Debt Service	Permanent	Total Nonmajor Governmental Funds
Airport Improvement	Water and Sewer	Miscellaneous	Library Expansion	Industrial Park	2010 Bond Debt Service	General Government Land Sales	
\$ 642,866	\$ 436,106	\$ 276,592	\$ -	\$ 578,217	\$ 34,546	\$ -	\$ 3,866,109
-	-	-	-	-	-	-	2,736,189
-	-	-	-	-	-	368,635	376,822
-	-	-	11	-	-	-	107,835
<u>642,866</u>	<u>436,106</u>	<u>276,592</u>	<u>11</u>	<u>578,217</u>	<u>34,546</u>	<u>368,635</u>	<u>7,086,955</u>
-	-	132,775	-	578,217	-	-	710,992
-	-	11,520	-	-	-	-	115,048
-	560,860	-	-	-	-	-	2,710,034
669,138	-	-	-	-	-	-	669,138
-	-	134,917	-	-	-	-	984,293
-	-	-	3,537	-	-	-	579,813
-	-	-	-	-	-	-	780,426
-	-	-	-	-	80,000	-	80,000
-	-	-	-	-	98,598	-	98,598
<u>669,138</u>	<u>560,860</u>	<u>279,212</u>	<u>3,537</u>	<u>578,217</u>	<u>178,598</u>	<u>-</u>	<u>6,728,342</u>
(26,272)	(124,754)	(2,620)	(3,526)	-	(144,052)	368,635	358,613
33,206	223,500	-	-	-	144,052	-	400,758
-	-	-	-	-	-	(146,172)	(369,672)
<u>33,206</u>	<u>223,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>144,052</u>	<u>(146,172)</u>	<u>31,086</u>
6,934	98,746	(2,620)	(3,526)	-	-	222,463	389,699
<u>156,937</u>	<u>185,970</u>	<u>17,726</u>	<u>3,537</u>	<u>-</u>	<u>-</u>	<u>2,689,648</u>	<u>4,599,207</u>
<u>\$ 163,871</u>	<u>\$ 284,716</u>	<u>\$ 15,106</u>	<u>\$ 11</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,912,111</u>	<u>\$ 4,988,906</u>

CITY OF KENAI, ALASKA
PERSONAL USE FISHERY SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2014

	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Variance With</u> <u>Final Budget</u>
Revenues:			
Intergovernmental revenues - State grant	\$ 7,192	\$ -	\$ (7,192)
Charge for services - Parking, camping, and boat launch	<u>475,960</u>	<u>440,572</u>	<u>(35,388)</u>
Total revenues	<u>483,152</u>	<u>440,572</u>	<u>(42,580)</u>
Expenditures:			
Public Safety:			
Personal services	33,612	30,360	3,252
Supplies	<u>10,700</u>	<u>4,568</u>	<u>6,132</u>
	44,312	34,928	9,384
Expenditures chargeable from other funds	<u>68,600</u>	<u>68,600</u>	<u>-</u>
Total public safety	<u>112,912</u>	<u>103,528</u>	<u>9,384</u>
Public Works - Streets:			
Personal services	20,408	8,441	11,967
Supplies	15,100	10,140	4,960
Other services and charges	<u>18,352</u>	<u>21,227</u>	<u>(2,875)</u>
	53,860	39,808	14,052
Expenditures chargeable from other funds	<u>7,100</u>	<u>7,100</u>	<u>-</u>
Total public works - streets	<u>60,960</u>	<u>46,908</u>	<u>14,052</u>

CITY OF KENAI, ALASKA
PERSONAL USE FISHERY SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL, continued

	<u>Final</u>		<u>Variance With</u>
Expenditures, continued:	<u>Budget</u>	<u>Actual</u>	<u>Final Budget</u>
Parks, recreation & culture			
Personal services	\$ 50,703	\$ 44,225	\$ 6,478
Supplies	11,750	15,604	(3,854)
Other services and charges	90,238	89,754	484
Capital outlays	<u>27,000</u>	<u>-</u>	<u>27,000</u>
	<u>179,691</u>	<u>149,583</u>	<u>30,108</u>
Expenditures chargeable from other funds	<u>20,700</u>	<u>20,700</u>	<u>-</u>
Total parks, recreation & beautification	<u>200,391</u>	<u>170,283</u>	<u>30,108</u>
 Public Works - Dock			
Personal services	51,699	45,565	6,134
Supplies	10,574	11,917	(1,343)
Other services and charges	16,425	16,151	274
Capital outlays	<u>22,291</u>	<u>9,257</u>	<u>13,034</u>
	100,989	82,890	18,099
Expenditures chargeable from other funds	<u>7,900</u>	<u>7,900</u>	<u>-</u>
Total public works - dock	<u>108,889</u>	<u>90,790</u>	<u>18,099</u>
 Total expenditures	<u>483,152</u>	<u>411,509</u>	<u>71,643</u>
 Net changes in fund balance	<u>\$ -</u>	29,063	<u>\$ 29,063</u>
 Fund balance - July 1		<u>-</u>	
 Fund balance - June 30		<u>\$ 29,063</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, 2014

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues:			
Intergovernmental revenues -			
State grant	\$ 74,848	\$ 77,799	\$ 2,951
Charges for services:			
Residential water	583,327	585,398	2,071
Commercial water	255,797	219,470	(36,327)
Residential sewer	1,072,488	1,070,901	(1,587)
Commercial sewer	458,197	378,055	(80,142)
Hook-up fees	8,000	1,624	(6,376)
Other	35,000	40,169	5,169
Total charges for services	<u>2,412,809</u>	<u>2,295,617</u>	<u>(117,192)</u>
Interest revenue	11,953	8,187	(3,766)
Miscellaneous revenues	<u>3,000</u>	<u>766</u>	<u>(2,234)</u>
Total revenues	<u>2,502,610</u>	<u>2,382,369</u>	<u>(120,241)</u>
Expenditures - water and sewer services:			
Water:			
Personal services	269,446	260,250	9,196
Supplies	157,786	151,056	6,730
Other services and charges	329,913	247,923	81,990
Capital outlays	<u>30,645</u>	<u>16,543</u>	<u>14,102</u>
	787,790	675,772	112,018
Expenditures chargeable from other funds	<u>93,800</u>	<u>93,800</u>	<u>-</u>
Total water	<u>881,590</u>	<u>769,572</u>	<u>112,018</u>
Sewer:			
Personal services	305,332	244,904	60,428
Supplies	31,901	30,022	1,879
Other services and charges	84,298	46,594	37,704
Capital outlays	<u>20,000</u>	<u>16,875</u>	<u>3,125</u>
	441,531	338,395	103,136
Expenditures chargeable from other funds	<u>53,900</u>	<u>53,900</u>	<u>-</u>
Total sewer	<u>495,431</u>	<u>392,295</u>	<u>103,136</u>

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

	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Variance With</u> <u>Final Budget</u>
Expenditures - continued:			
Sewer treatment plant:			
Personal services	\$ 383,406	\$ 387,993	\$ (4,587)
Supplies	130,005	108,547	21,458
Other services and charges	<u>425,305</u>	<u>368,967</u>	<u>56,338</u>
	938,716	865,507	73,209
Expenditures chargeable from other funds	<u>121,800</u>	<u>121,800</u>	<u>-</u>
Total sewer treatment plant	<u>1,060,516</u>	<u>987,307</u>	<u>73,209</u>
 Total expenditures	 <u>2,437,537</u>	 <u>2,149,174</u>	 <u>288,363</u>
 Excess of revenues over expenditures	 <u>65,073</u>	 <u>233,195</u>	 <u>168,122</u>
 Other financing uses -			
Transfers out	<u>(223,500)</u>	<u>(223,500)</u>	<u>-</u>
 Net changes in fund balance	 <u>\$ (158,427)</u>	 9,695	 <u>\$ 168,122</u>
 Fund balance - July 1		<u>1,139,294</u>	
 Fund balance - June 30		<u>\$ 1,148,989</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, 2014

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues:			
Intergovernmental revenues:			
State grants	\$ 210,791	\$ 203,586	\$ (7,205)
Federal grants	310,000	444,034	134,034
Kenai Peninsula Borough grant	126,207	126,207	-
Total intergovernmental revenues	<u>646,998</u>	<u>773,827</u>	<u>126,829</u>
Miscellaneous revenues:			
United Way grants	16,900	15,576	(1,324)
Rents and leases	15,000	13,192	(1,808)
Donations	88,550	67,985	(20,565)
Other	-	305	305
Total miscellaneous revenues	<u>120,450</u>	<u>97,058</u>	<u>(23,392)</u>
Total revenues	<u>767,448</u>	<u>870,885</u>	<u>103,437</u>
Expenditures - social welfare services:			
Social services:			
Personal services	135,387	124,384	11,003
Supplies	6,078	3,603	2,475
Other services and charges	27,156	21,459	5,697
	<u>168,621</u>	<u>149,446</u>	<u>19,175</u>
Expenditures chargeable from other funds	<u>30,100</u>	<u>30,100</u>	<u>-</u>
Total social services	<u>198,721</u>	<u>179,546</u>	<u>19,175</u>
Congregate meals:			
Personal services	75,175	74,440	735
Supplies	57,594	59,509	(1,915)
Other services and charges	26,649	19,250	7,399
	<u>159,418</u>	<u>153,199</u>	<u>6,219</u>
Expenditures chargeable from other funds	<u>28,800</u>	<u>28,800</u>	<u>-</u>
Total congregate meals	<u>188,218</u>	<u>181,999</u>	<u>6,219</u>
Home delivered meals:			
Personal services	56,899	62,057	(5,158)
Supplies	47,736	49,228	(1,492)
Other services and charges	6,785	5,740	1,045
	<u>111,420</u>	<u>117,025</u>	<u>(5,605)</u>
Expenditures chargeable from other funds	<u>22,700</u>	<u>22,700</u>	<u>-</u>
Total home delivered meals	<u>134,120</u>	<u>139,725</u>	<u>(5,605)</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</u> <u>Budget</u>	<u>Actual</u>	<u>Variance With</u> <u>Final Budget</u>
Expenditures - continued:			
Transportation:			
Personal services	\$ 34,658	\$ 31,245	\$ 3,413
Supplies	8,390	7,139	1,251
Other services and charges	<u>5,342</u>	<u>5,954</u>	<u>(612)</u>
	48,390	44,338	4,052
Expenditures chargeable from other funds	<u>14,800</u>	<u>14,800</u>	<u>-</u>
Total transportation	<u>63,190</u>	<u>59,138</u>	<u>4,052</u>
Choice Waiver:			
Personal services	180,047	177,752	2,295
Supplies	58,093	54,232	3,861
Other services and charges	<u>24,765</u>	<u>19,984</u>	<u>4,781</u>
	262,905	251,968	10,937
Expenditures chargeable from other funds	<u>37,000</u>	<u>37,000</u>	<u>-</u>
Total Choice Waiver	<u>299,905</u>	<u>288,968</u>	<u>10,937</u>
Total expenditures	<u>884,154</u>	<u>849,376</u>	<u>34,778</u>
Net changes in fund balance	<u>\$ (116,706)</u>	21,509	<u>\$ 138,215</u>
Fund balance - July 1		<u>238,600</u>	
Fund balance - June 30		<u>\$ 260,109</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, 2014

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues - intergovernmental	\$ 34,264	\$ 34,546	\$ 282
Expenditures - debt service:			
Principal	80,000	80,000	-
Interest	98,598	98,598	-
Total expenditures	<u>178,598</u>	<u>178,598</u>	<u>-</u>
Excess of revenues over (under) expenditures	(144,334)	(144,052)	282
Other financing sources -			
Transfers in	<u>144,334</u>	<u>144,052</u>	<u>(282)</u>
Net changes in fund balance	<u>\$ -</u>	-	<u>\$ -</u>
Fund balance - July 1		<u>-</u>	
Fund balance - June 30		<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, 2014

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues -			
Interest revenue	\$ 184,699	\$ 368,635	\$ 183,936
Other financing uses -			
Transfers out	<u>(146,172)</u>	<u>(146,172)</u>	<u>-</u>
Net changes in fund balance	<u>\$ 38,527</u>	222,463	<u>\$ 183,936</u>
Fund balance - July 1		<u>2,689,648</u>	
Fund balance - June 30		<u><u>\$ 2,912,111</u></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, 2014

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues:			
Interest revenue	\$ 1,573,023	\$ 3,044,320	\$ 1,471,297
Land sales	<u>-</u>	<u>100,791</u>	<u>100,791</u>
Total revenues	<u>1,573,023</u>	<u>3,145,111</u>	<u>1,572,088</u>
Excess of revenues over expenditures	1,573,023	3,145,111	1,572,088
Other financing uses -			
Transfers out	<u>(1,094,473)</u>	<u>(1,094,473)</u>	<u>-</u>
Net changes in fund balance	<u>\$ 478,550</u>	2,050,638	<u>\$ 1,572,088</u>
Fund balance - July 1		<u>22,172,431</u>	
Fund balance - June 30		<u>\$ 24,223,069</u>	

Internal Service Funds

This section includes the Combining Statement of Net Position – Internal Service Funds, Combining Statement of Revenues, Expenses, and Changes in Net Position – 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 POSITION
JUNE 30, 2014

	Governmental Activities - Internal Service Funds		Total Internal Service Funds
	<u>Equipment Replacement</u>	<u>Capital Project Management</u>	
ASSETS			
Current assets -			
Equity in central treasury	\$ 1,257,440	\$ -	\$ 1,257,440
Noncurrent assets -			
Property and equipment in service, at cost -			
Equipment	2,270,889	19,784	2,290,673
Less accumulated depreciation	(887,310)	(7,919)	(895,229)
Net property and equipment in service	<u>1,383,579</u>	<u>11,865</u>	<u>1,395,444</u>
Total assets	<u>\$ 2,641,019</u>	<u>\$ 11,865</u>	<u>\$ 2,652,884</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ -	\$ 73	\$ 73
Accrued payroll and payroll liabilities	-	2,187	2,187
Due to General Fund	-	81,111	81,111
Total current liabilities	<u>-</u>	<u>83,371</u>	<u>83,371</u>
Noncurrent liabilities - compensated absences	<u>-</u>	<u>4,912</u>	<u>4,912</u>
Total liabilities	<u>-</u>	<u>88,283</u>	<u>88,283</u>
NET POSITION			
Investment in capital assets	1,383,579	11,865	1,395,444
Unrestricted (deficit)	<u>1,257,440</u>	<u>(88,283)</u>	<u>1,169,157</u>
Total net position (deficit)	<u>\$ 2,641,019</u>	<u>\$ (76,418)</u>	<u>\$ 2,564,601</u>

CITY OF KENAI, ALASKA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2014

	Governmental Activities - Internal Service Funds		Total Internal Service Funds
	<u>Equipment Replacement</u>	<u>Capital Project Management</u>	
Operating revenues:			
Charges for services	\$ -	\$ 100,749	\$ 100,749
Other revenue	<u>285,592</u>	<u>-</u>	<u>285,592</u>
Total operating revenues	<u>285,592</u>	<u>100,749</u>	<u>386,341</u>
Operating expenses:			
Personal services	-	81,643	81,643
Supplies	-	1,560	1,560
Utilities	-	622	622
Insurance	-	930	930
Depreciation	141,843	1,978	143,821
Expenses chargeable from other funds	<u>-</u>	<u>9,700</u>	<u>9,700</u>
Total operating expenses	<u>141,843</u>	<u>96,433</u>	<u>238,276</u>
Operating income	<u>143,749</u>	<u>4,316</u>	<u>148,065</u>
Nonoperating revenues:			
Intergovernmental grants	-	7,491	7,491
Earnings on investments	<u>8,307</u>	<u>-</u>	<u>8,307</u>
Total nonoperating revenues	<u>8,307</u>	<u>7,491</u>	<u>15,798</u>
Changes in net position	152,056	11,807	163,863
Net position (deficit) - July 1	<u>2,488,963</u>	<u>(88,225)</u>	<u>2,400,738</u>
Net position (deficit) - June 30	<u>\$ 2,641,019</u>	<u>\$ (76,418)</u>	<u>\$ 2,564,601</u>

CITY OF KENAI, ALASKA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014

	Governmental Activities - Internal Service Funds		Total Internal Service Funds
	<u>Equipment Replacement</u>	<u>Capital Project Management</u>	
Cash flows from operating activities:			
Receipts from customers	\$ -	\$ 100,749	\$ 100,749
Payments to suppliers	-	(12,750)	(12,750)
Payments to employees	-	(77,563)	(77,563)
Receipts for interfund services	<u>285,592</u>	<u>-</u>	<u>285,592</u>
Net cash provided by operating activities	<u>285,592</u>	<u>10,436</u>	<u>296,028</u>
Cash flows from noncapital financing activities:			
Decrease in Due to General Fund	-	(17,927)	(17,927)
State grant	<u>-</u>	<u>7,491</u>	<u>7,491</u>
Net cash provided by noncapital financing activities	<u>-</u>	<u>(10,436)</u>	<u>(10,436)</u>
Cash flows from investing activities -			
Earnings on investments	<u>8,307</u>	<u>-</u>	<u>8,307</u>
Net increase in cash and cash equivalents	293,899	-	293,899
Cash and cash equivalents, beginning	<u>963,541</u>	<u>-</u>	<u>963,541</u>
Cash and cash equivalents, ending	<u>\$ 1,257,440</u>	<u>\$ -</u>	<u>\$ 1,257,440</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	\$ 143,749	\$ 4,316	\$ 148,065
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	141,843	1,978	143,821
Accounts payable	-	62	62
Compensated absences	-	1,893	1,893
Accrued payroll and payroll liabilities	<u>-</u>	<u>2,187</u>	<u>2,187</u>
Net cash provided by operating activities	<u>\$ 285,592</u>	<u>\$ 10,436</u>	<u>\$ 296,028</u>

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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, 2014

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2014</u>
Assets				
Equity in central treasury	<u>\$ 60,311</u>	<u>\$ 5,470</u>	<u>\$ -</u>	<u>\$ 65,781</u>
Liabilities				
Due to Kenai Community Foundation	<u>\$ 60,311</u>	<u>\$ 5,470</u>	<u>\$ -</u>	<u>\$ 65,781</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 Position by Component
Table II	Change in Net Position
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 POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(AMOUNTS EXPRESSED IN THOUSANDS)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Governmental activities:										
Net investment in capital assets	\$101,904	\$102,452	\$109,806	\$115,402	\$118,816	\$126,700	\$133,264	\$136,834	\$135,780	\$138,334
Nonspendable	14,095	14,468	14,478	20,041	20,198	21,541	24,317	23,541	24,862	27,135
Restricted	138	0	19	116	217	312	279	329	409	480
Unrestricted	16,543	15,699	17,652	18,667	20,683	20,430	19,760	18,118	18,333	16,834
Total governmental activities net position	<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>	<u>\$179,384</u>	<u>\$182,783</u>
Business-type activities:										
Net investment in capital assets	\$5,196	\$4,978	\$3,337	\$3,212	\$3,159	\$3,154	\$3,236	\$3,110	\$2,983	\$3,071
Restricted	-	-	-	-	-	-	-	-	-	-
Unrestricted	2,439	2,512	532	588	491	442	423	483	525	469
Total business-type activities net position	<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>	<u>\$3,508</u>	<u>\$3,540</u>
Primary government:										
Net investment in capital assets	\$107,100	\$107,430	\$113,143	\$118,614	\$121,975	\$129,854	\$136,500	\$139,944	\$138,763	\$141,405
Nonspendable	14,095	14,468	14,478	20,041	20,198	21,541	24,317	23,541	24,862	27,135
Restricted	138	0	19	116	217	312	279	329	409	480
Unrestricted	18,982	18,211	18,184	19,255	21,174	20,872	20,183	18,601	18,858	17,303
Total primary government net position	<u>\$140,315</u>	<u>\$140,109</u>	<u>\$145,824</u>	<u>\$158,026</u>	<u>\$163,564</u>	<u>\$172,579</u>	<u>\$181,279</u>	<u>\$182,415</u>	<u>\$182,892</u>	<u>\$186,323</u>

CITY OF KENAI, ALASKA

TABLE II

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Expenses										
Governmental activities:										
General government										
Public safety	\$ 1,147,616	\$ 1,239,137	\$ 1,386,573	\$ 1,949,905	\$ 1,936,810	\$ 2,068,752	\$ 2,032,773	\$ 2,206,779	\$ 2,439,331	\$ 2,276,930
Public works	3,991,072	4,365,553	4,538,951	4,802,816	5,616,605	5,890,361	6,355,308	6,923,478	7,227,242	7,290,465
Parks, recreation, and cultural	2,290,114	2,717,511	2,394,624	2,198,822	2,951,318	3,077,068	3,078,924	2,978,015	3,239,199	3,393,308
Water and sewer services	1,396,794	1,463,932	1,576,963	1,572,995	1,849,567	1,858,898	1,778,405	2,188,839	2,462,796	2,630,547
Airport	1,840,935	1,957,032	2,644,033	2,199,983	2,188,552	2,174,151	2,289,895	2,382,284	3,465,896	2,711,305
Interest on long-term debt	2,403,729	2,511,021	3,415,986	3,492,213	2,925,011	2,641,049	3,292,821	3,520,577	4,071,061	4,126,256
Social welfare services	4,012	-	-	-	-	-	100,963	101,973	100,286	97,997
Total governmental activities expenses	459,641	505,230	528,348	598,497	604,021	592,512	627,053	688,467	735,695	764,903
	13,533,913	14,759,416	16,485,478	16,815,231	18,071,884	18,302,791	19,556,142	20,990,412	23,741,506	23,291,711
Business-type activities:										
Airport terminal	477,593	506,006	-	-	-	-	-	-	-	-
Senior housing	480,219	354,514	364,688	369,565	414,869	383,585	406,950	437,943	417,368	436,635
Total business-type activities	957,812	860,520	364,688	369,565	414,869	383,585	406,950	437,943	417,368	436,635
Total primary government expenses	\$ 14,491,725	\$ 15,619,936	\$ 16,850,166	\$ 17,184,796	\$ 18,486,753	\$ 18,686,376	\$ 19,963,092	\$ 21,428,355	\$ 24,158,874	\$ 23,728,346
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 153,378	\$ 366,530	\$ 283,372	\$ 145,697	\$ 612,908	\$ 527,144	\$ 462,713	\$ 395,389	\$ 746,088	\$ 423,213
Public safety	338,981	315,570	398,147	417,328	303,122	364,957	560,938	511,855	508,238	480,679
Public works	312,140	592,461	290,535	522,968	277,425	139,212	159,821	88,904	95,948	109,243
Parks, recreation, and cultural	193,296	193,186	216,473	206,615	350,708	264,128	281,098	308,624	373,406	584,368
Water and sewer services	1,621,038	1,826,621	1,789,881	1,789,965	1,796,459	1,752,854	1,774,376	1,862,807	2,193,650	2,296,383
Airport	504,503	463,795	1,136,245	1,388,440	1,421,325	1,363,671	1,543,493	1,728,173	1,793,571	1,881,848
Social welfare services	110,251	114,607	123,644	127,746	74,644	97,611	103,870	109,051	114,492	81,482
Operating grants and contributions	794,847	1,035,382	1,198,362	1,982,816	1,996,377	2,109,637	1,938,335	2,715,647	3,018,480	2,816,810
Capital grants and contributions	2,544,629	2,442,601	8,064,426	7,545,119	4,781,161	9,892,148	8,604,886	4,986,606	3,549,973	4,799,694
Total governmental activities program revenues	6,573,063	7,350,753	13,501,085	14,126,694	11,614,129	16,511,362	15,429,530	12,707,056	12,393,846	13,483,720

Business-type activities:													
Charges for services:													
Airport terminal	294,251	367,911	-	-	-	321,045	323,105	-	-	322,355	-	326,940	346,435
Senior housing	255,396	275,185	279,102	299,563	289,336	3,004	1,335	2,087	23,189	7,900	4,940	-	-
Operating grants and contributions	-	800	714	2,342	-	-	-	-	-	-	-	-	-
Capital grants and contributions	-	2,737	-	-	-	324,049	324,440	291,423	345,544	334,840	351,375	-	-
Total business-type activities program revenues	549,647	646,633	279,816	301,905	-	-	16,835,802	15,720,953	13,052,600	12,728,686	13,835,095	-	-
Total primary government program revenues	7,122,710	7,997,386	13,780,901	14,428,599	-	11,938,178	-	-	-	-	-	-	-
Net (expenses)/revenue:													
Governmental activities	(6,960,850)	(7,408,663)	(2,984,393)	(2,688,537)	(6,457,755)	(90,820)	(1,791,429)	(4,126,612)	(8,283,356)	(11,347,660)	(9,807,991)	-	-
Business-type activities	(408,165)	(213,887)	(84,872)	(67,660)	(90,820)	(59,145)	(59,145)	(115,527)	(92,399)	(82,528)	(85,260)	-	-
Total primary government net expense	(7,369,015)	(7,622,550)	(3,069,265)	(2,756,197)	(6,548,575)	-	(1,850,574)	(4,242,139)	(8,375,755)	(11,430,188)	(9,893,251)	-	-
General Revenues and Other													
Changes in Net Position													
Governmental activities:													
Taxes:													
Property taxes	1,900,788	2,024,502	2,156,373	2,347,063	2,694,872	2,614,768	2,613,756	2,657,670	2,898,103	2,898,103	3,155,662	-	-
Sales taxes	4,090,468	4,404,158	4,631,812	5,196,046	5,372,499	5,561,970	6,260,403	6,576,657	6,587,575	6,587,575	6,669,426	-	-
Sales of capital assets	84,954	452,766	105,320	5,473,871	166,411	11,183	-	-	-	-	-	-	-
Investment earnings	789,721	880,307	1,861,472	1,910,080	1,213,186	2,666,417	3,889,899	250,920	2,422,905	2,422,905	3,494,763	-	-
Other	-	-	-	-	-	6,054	-	-	-	-	-	-	-
Transfers	-	-	2,062,870	31,500	88,044	-	-	-	-	-	(112,044)	-	-
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	6,865,931	7,761,733	12,320,360	14,958,560	12,146,658	10,860,392	12,764,058	9,485,247	11,908,583	11,908,583	13,207,807	-	-
Business-type activities:													
Investment earnings (loss)	62,765	68,411	29,312	30,371	24,672	4,896	3,642	2,436	(1,826)	(1,826)	5,062	-	-
Insurance settlement	-	-	-	-	-	-	175,000	24,012	-	-	-	-	-
Transfers	-	-	(2,062,870)	(31,500)	(88,044)	-	-	-	-	-	112,044	-	-
Fund conversion	-	-	(1,502,513)	-	-	-	-	-	-	-	-	-	-
Write off of NPO/OPEB	-	-	-	-	3,634	-	-	-	-	-	-	-	-
Total business-type activities	62,765	68,411	(3,536,071)	(1,129)	(59,738)	4,896	178,642	26,448	(1,826)	(1,826)	117,106	-	-
Total primary government	6,928,696	7,830,144	8,784,289	14,957,431	12,086,920	10,865,288	12,942,700	9,511,695	11,906,757	11,906,757	13,324,913	-	-
Changes in Net Position													
Governmental activities	(94,919)	353,070	9,335,967	12,270,023	5,688,903	9,068,963	8,637,446	1,201,891	560,923	560,923	3,399,816	-	-
Business-type activities	(345,400)	(145,476)	(3,620,943)	(68,789)	(150,558)	(54,249)	63,115	(65,951)	(84,354)	(84,354)	31,846	-	-
Total primary government	(440,319)	207,594	5,715,024	12,201,234	5,538,345	9,014,714	8,700,561	1,135,940	476,569	476,569	3,431,662	-	-

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>
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
2013	2,898,103	6,587,575	9,485,678
2014	3,155,662	6,669,426	9,825,088

CITY OF KENAI, ALASKA

Table IV

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General fund:										
Reserved	\$ 1,165,042	\$ 1,131,084	\$ 1,045,148	\$ 1,083,083	\$ 115,125	\$ 128,209	\$ -	\$ -	\$ -	\$ -
Unreserved	8,296,361	8,262,530	8,919,959	9,921,136	11,570,484	12,027,857	-	-	-	-
Restricted	-	-	-	-	-	-	279,486	329,164	408,534	480,238
Committed	-	-	-	-	-	-	1,070,290	1,021,790	521,790	409,746
Assigned	-	-	-	-	-	-	859,454	1,464,159	1,580,579	1,518,184
Unassigned	-	-	-	-	-	-	9,817,634	9,130,415	7,382,747	7,493,858
Total general fund	<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>	<u>\$ 9,893,650</u>	<u>\$ 9,902,026</u>
All other governmental funds:										
Reserved - other funds	\$ 25,676	\$ 17,568	\$ 31,321	\$ 150,004	\$ 49,754	\$ 32,278	\$ -	\$ -	\$ -	\$ -
Reserved - permanent funds	13,745,851	14,196,885	14,275,769	19,909,589	19,981,306	21,541,598	-	-	-	-
Unreserved, reported in:										
Special revenue funds	5,997,669	5,752,322	7,432,637	7,012,509	5,776,646	5,263,203	-	-	-	-
Debt service funds	-	-	-	-	-	6,054	-	-	-	-
Capital projects funds	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	24,862,079	27,135,180
Committed -										
Capital projects funds	-	-	-	-	-	-	2,164,498	516,440	2,531,665	743,653
Assigned -										
Special revenue funds	-	-	-	-	-	-	4,846,735	5,035,969	5,357,223	5,448,969
Total all other governmental funds	<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>	<u>\$ 32,750,967</u>	<u>\$ 33,327,802</u>

CITY OF KENAI, ALASKA

Table V

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Revenues										
Property taxes	\$ 1,912,376	\$ 2,019,203	\$ 2,160,687	\$ 2,331,712	\$ 2,728,764	\$ 2,601,588	\$ 2,629,324	\$ 2,638,783	\$ 2,913,634	\$ 3,162,530
Sales tax	4,090,468	4,404,158	4,631,812	5,196,046	5,372,499	5,561,970	6,260,403	6,576,657	6,587,575	6,669,426
Intergovernmental	3,272,955	3,538,563	9,253,053	9,527,285	6,573,138	10,694,840	9,844,736	7,670,929	6,562,328	7,600,928
Investment earnings	762,367	849,479	1,796,387	1,842,390	1,169,576	2,667,857	3,894,618	256,981	2,427,873	3,531,173
Other revenues	4,547,155	5,623,128	5,470,069	11,281,281	6,302,510	6,988,316	6,920,678	6,355,818	6,826,280	7,363,250
Total revenues	14,585,321	16,434,531	23,312,008	30,178,714	22,146,487	28,514,571	29,549,759	23,499,168	25,317,690	28,327,307
Expenditures										
General government	1,482,143	1,561,001	1,679,077	2,586,591	2,472,535	2,254,837	2,612,702	2,701,605	3,160,484	3,034,793
Public safety	4,262,592	4,377,829	4,706,966	4,899,317	5,100,217	5,681,548	5,915,902	6,441,968	6,536,153	6,841,495
Public works	1,753,030	2,164,213	2,150,727	2,106,810	2,208,353	2,150,658	2,375,566	2,334,315	2,315,206	2,422,442
Parks, recreation and cultural	1,211,094	1,300,974	1,411,775	1,404,077	1,681,800	1,676,717	1,690,624	1,931,141	2,163,100	2,166,132
Water and sewer services	1,208,570	1,325,564	1,707,216	1,539,907	1,777,188	1,793,887	1,822,654	1,940,343	1,969,470	2,149,174
Airport	1,657,105	1,643,896	2,708,534	2,527,099	2,986,200	2,324,204	2,504,670	2,575,613	2,617,762	2,587,591
Social welfare services	410,770	461,847	507,578	603,771	683,560	682,393	723,984	791,214	831,976	849,376
Capital outlay	2,598,650	3,518,219	8,086,052	7,856,412	5,508,837	10,733,142	11,365,788	6,922,939	3,941,945	7,400,451
Debt service										
Principal	150,000	-	-	-	-	-	75,000	75,000	75,000	80,000
Interest	4,012	-	-	-	-	-	100,963	102,348	100,848	98,598
Total expenditures	14,737,966	16,353,543	22,957,925	23,523,984	22,418,690	27,297,386	29,187,853	25,816,486	23,711,944	27,630,052
Excess of revenues over (under) expenditures	(152,645)	80,988	354,083	6,654,730	(272,203)	1,217,185	361,906	(2,317,318)	1,605,746	697,255
Other financing sources (uses)										
Transfers in	356,830	1,061,044	2,277,280	1,279,329	1,603,049	3,801,117	2,330,145	1,646,262	3,809,797	2,049,993
Proceeds from debt issuance	-	-	-	-	-	2,000,000	-	-	-	-
Proceeds from bond premium	-	-	-	-	-	29,344	-	-	-	-
Transfers out	(356,830)	(1,061,044)	(214,410)	(1,247,829)	(1,515,005)	(3,801,117)	(2,330,145)	(1,646,262)	(3,809,797)	(2,162,037)
Total other financing sources (uses)	-	-	2,062,870	31,500	88,044	2,029,344	-	-	-	(112,044)
Net change in fund balances	\$ (152,645)	\$ 80,988	\$ 2,416,953	\$ 6,686,230	\$ (184,159)	\$ 3,246,529	\$ 361,906	\$ (2,317,318)	\$ 1,605,746	\$ 585,211
Debt service as a percentage of noncapital expenditures	1.29%	0.00%	0.00%	0.00%	0.00%	0.00%	1.03%	0.94%	0.84%	0.86%
Total non-capital expenditures	\$ 11,985,304	\$ 12,835,324	\$ 14,871,873	\$ 15,667,572	\$ 16,909,853	\$ 16,564,244	\$ 17,035,394	\$ 18,904,637	\$ 21,029,279	\$ 20,769,980

CITY OF KENAI, ALASKA

TABLE VI

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

Fiscal Year Ended <u>June 30</u>	Total <u>Taxes</u>	Property <u>Taxes</u>	Sales <u>Tax</u>
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
2013	9,501,209	2,913,634	6,587,575
2014	9,831,956	3,162,530	6,669,426

CITY OF KENAI, ALASKA

Table VII

TAXABLE SALES BY CATEGORY
CURRENT FISCAL YEAR

Administrative, Waste Management,	\$ 1,162,525
Agriculture, Forestry, Fishing & Hunting	333,051
Arts and Entertainment	539,560
Construction Contracting	1,494,688
Educational Services	227,574
Finance and Insurance	466,795
Guiding Land	11,742
Guiding Water	289,237
Health Care and Social Assistance	17,415
Hotel/Motel/Bed & Breakfast	9,072,481
Information	8,666,289
Manufacturing	1,039,713
Mining/Quarrying	11,000
Professional, Scientific and Technical Services	3,288,067
Public Administration	3,053,947
Remediation Services	11,874
Rental Commercial Property	391,013
Rental Non-Residential Property	2,423,276
Rental of Self-storage & Miniwarehouses	18,374
Rental Personal Property	248,147
Rental Residential Property	4,843,838
Restaurant/Bar	14,206,733
Retail Trade	156,190,787
Services	4,540,369
Telecommunications	1,862,305
Transportation and Warehousing	349,192
Utilities	9,487,473
Wholesale Trade	3,818,567
Total	<u>\$ 228,066,032</u>

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	
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
2013	3.00		3.00	6.00
2014	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			
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
2013	1,775,000	0.59%	0.22%	245.91
2014	1,695,000	0.52%	0.21%	234.83

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, 2014**

Name of Governmental Unit	Net Debt Outstanding	Percentage Applicable to this Governmental Unit (1)	City of Kenai's Share of Debt
Direct debt - City of Kenai, Alaska	\$ 1,695,000	100.00%	\$ 1,695,000
Overlapping debt: Kenai Peninsula Borough	47,995,000	11.51%	5,524,225
Central Peninsula Hospital	60,395,000	17.22%	10,400,019
Total overlapping debt	108,390,000		15,924,244
Total Direct and Overlapping	\$ 110,085,000		\$ 17,619,244

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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Debt limit	\$ 79,698	\$ 85,120	\$ 91,230	\$ 98,827	\$ 119,838	\$ 126,104	\$ 131,828	\$ 131,890	\$ 147,795	\$ 160,891
Total net debt applicable to limit	-	-	-	-	-	2,000	1,925	1,850	1,775	1,695
Legal debt margin	<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>	<u>\$ 146,020</u>	<u>\$ 159,196</u>

COMPUTATION OF LEGAL DEBT MARGIN
June 30, 2014

Assessed value	\$804,455
Debt limit, 20% of assessed value	160,891
Total amount of debt applicable to debt limit	<u>1,695</u>
Legal debt margin	<u>\$ 159,196</u>

CITY OF KENAI, ALASKA

TABLE XII

DEMOGRAPHIC AND ECONOMIC STATISTICS

LAST TEN FISCAL YEARS

City of Kenai			For the Kenai Peninsula Borough (A)					
Fiscal Year	Population	School Enrollment	Population	Personal Income	Per Capita Personal Income	Median Age	School Enrollment	Unemployment Rate (1)
				(amount expressed in thousands)				
2005	7,407	1,688	51,529	\$1,616,263	\$31,366	38.0	9,527	9.50%
2006	7,495	1,655	52,117	1,753,889	33,653	39.7	9,389	8.70%
2007	7,674	1,628	53,084	1,879,960	35,415	39.1	9,368	8.10%
2008	7,742	1,784	53,409	2,145,309	40,168	39.2	9,250	7.60%
2009	7,742	1,848	54,665	2,148,001	39,294	39.2	9,256	7.80%
2010	7,100	1,835	53,578	2,145,309	40,041	39.4	9,145	9.80%
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	40.6	9,083	9.40%
2013	7,218	1,874	56,293	2,351,446	41,772	41.4	8,892	8.40%
2014	7,218	1,876	56,900	2,591,281	45,541	40.0	8,832	7.50%

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

With a 2009 change in Alaska Statute, specific employer information is no longer available.

CITY OF KENAI, ALASKA

TABLE XIV

FULL-TIME EQUIVALENT EMPLOYEES BY FUND
LAST TEN FISCAL YEARS

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Fund										
City Clerk	1.00	1.00	1.50	1.50	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	1.67	1.67
Legal	2.00	2.00	2.00	2.00	2.00	2.25	2.00	2.00	2.00	2.00
Finance	4.63	4.63	3.75	3.75	3.75	3.75	3.75	4.75	4.75	4.75
Police	18.40	18.45	18.45	18.62	19.83	20.83	20.88	20.88	20.88	20.65
Fire	16.00	16.00	16.00	16.00	16.00	16.00	19.00	19.00	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	2.12	2.60	2.60	2.60	2.60	2.80	2.80	2.90	2.90
Public Works Administration	3.00	3.00	3.00	2.00	2.00	2.00	2.00	1.50	1.50	1.50
Planning	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.08	2.00
Maintenance	12.00	12.06	11.64	11.64	11.64	11.64	11.64	11.64	11.64	10.70
Library	6.60	6.64	6.14	6.34	6.55	6.68	6.68	7.88	8.45	8.10
Parks & Recreation	5.77	5.77	6.51	6.51	6.99	6.99	6.99	7.61	9.60	8.04
General Fund Total	83.09	83.17	83.09	82.46	84.36	85.74	88.74	91.06	93.97	90.81
Special Revenue Funds										
Personal Use Fishery	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.49
Water & Sewer Operations	6.00	6.00	6.76	6.76	6.76	6.76	6.76	6.76	6.76	7.76
Airport Operations	5.00	5.50	5.18	5.18	5.18	5.18	5.18	5.18	5.43	5.81
Senior Citizen Programs	6.56	8.06	8.06	8.06	8.19	8.19	6.69	6.85	6.97	7.43
Special Revenue Funds Total	17.56	19.56	20.00	20.00	20.13	20.13	18.63	18.79	19.16	23.49
Enterprise Fund										
Congregate Housing	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.45
Internal Service Fund										
Capital Project Management	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.50	0.50	0.50
Total All Funds	101.00	103.08	103.44	102.81	104.84	106.22	107.72	110.70	113.98	115.25

Source: The City of Kenai Finance Department.

CITY OF KENAI, ALASKA

TABLE XV

OPERATING INDICATORS BY FUNCTION
LAST TEN CALENDAR YEARS

Function	<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>	<u>2013</u>
Public Safety											
Police Services:											
Police requests for service	6,411	7,083	7,364	7,789	7,593	7,120	7,626	7,385	7,665	8,297	8,314
Criminal arrests	1,179	1,115	1,063	991	716	970	1,103	926	894	1,138	1,041
Fire and Emergency Services:											
Number of calls responded to	1,101	1,200	1,212	1,297	1,382	1,469	1,599	1,230	1,328	1,212	1,153
Inspections	195	206	156	104	200	256	289	232	319	239	268
Animal Control:											
Total Calls	8,422	7,959	7,515	8,258	9,180	10,697	7,811	6,619	6,695	6,549	7,197
Animals Handled	1,477	1,595	1,767	1,828	1,837	1,571	1,417	1,476	1,673	1,631	1,429
Water and Wastewater											
Water Production Avg gallons per day	1,069,258	1,109,236	1,084,000	1,069,299	964,373	939,107	1,016,608	918,345	961,564	943,764	875,427
Wastewater Treatment Avg. gallons per day	545,265	569,836	591,000	579,000	573,000	575,500	569,916	528,667	470,417	540,583	566,417
Airport Passenger Enplanements	76,729	82,009	83,523	94,163	94,720	99,884	84,133	87,589	94,010	101,995	103,751

* 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>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>	<u>2013</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	2	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	8	8	8	8	8
Soccer Fields	0	0	0	0	2	6	6	6	6	6
Recreation Center	1	1	1	1	1	1	1	1	1	1
Pedestrian Trails	2	2	2	2	2	2	2	2	6	6
Cross Country Ski Trails	1	1	1	1	1	1	1	1	1	1
Ice Rink	1	1	1	1	1	1	1	1	1	1

Source: Various City Departments.

AUDIT WRAP-UP

Year Ended June 30, 2014



The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of those charged with governance (e.g., the City Council) and, if appropriate, management of the City and is not intended and should not be used by anyone other than these specified parties.

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3601 C Street, Suite 600
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December 4, 2014

Honorable Mayor and Members of the City Council
City of Kenai, Alaska
Kenai, Alaska

Professional standards require us to communicate with you regarding matters related to the audit, that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. Our audit engagement letter dated June 30, 2014 outlined our plan for the audit of the financial statements of the City of Kenai, Alaska (the City) as of and for the year ended June 30, 2014. That document included a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the City's accounting practices and policies, management's judgments and estimates, financial statement disclosures, and other required matters.

We are pleased to be of service to the City. Feel free to contact us to discuss our audit findings, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

BDO USA, LLP

Anchorage, Alaska

Discussion Outline

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Status of Our Audit

We have completed our audit of the financial statements as of and for the year ended June 30, 2014. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America. This audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

- The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements.
- The scope of the work performed was substantially the same as that described to you in our earlier Audit Planning communications.
- We have issued an unmodified opinion on the financial statements and released our report on December 4, 2014.
- All records and information requested by BDO were freely available for our inspection.
- Management's cooperation was excellent. We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of City personnel throughout the course of our work.

Results of Our Audit

ACCOUNTING PRACTICES, POLICIES, ESTIMATES, AND SIGNIFICANT UNUSUAL TRANSACTIONS

The following summarizes the more significant required communications related to our audit concerning the City's accounting practices, policies, estimates, and significant unusual transactions:

The City's significant accounting practices and policies are those included in Note 2 to the financial statements. These accounting practices and policies are appropriate, comply with generally accepted accounting principles and industry practice, were consistently applied, and are adequately described within Note I to the financial statements.

- The City did not adopt any new accounting pronouncements in 2014.
- There were no changes in significant accounting policies and practices during 2014.
- We did not identify any significant or unusual transactions, or any transactions for which there was a lack of authoritative guidance.

CORRECTED AND UNCORRECTED MISSTATEMENTS

There were six adjusting entries recorded to the trial balance presented to us to begin the audit. Two of these were items were management entries identified in the report drafting process. Of the remaining entries, one was considered significant, and it was to record depreciation expense in the internal service fund.

There were no uncorrected misstatements related to accounts and/or disclosures that we presented to management.

OTHER COMMUNICATIONS

The following items represent required audit communications:

1. Qualitative aspects of significant accounting policies and practices

- We concur with the City's interpretation and application of generally accepted accounting principles and practices derived from the standards set by the Governmental Accounting Standards Board (GASB).

Financial statement disclosures

- To our knowledge all necessary disclosures have been included in the footnotes to the financial statements.

2. Alternative accounting treatments

- We did not identify any accounting treatments that did not comply with generally accepted accounting principles and standards set by GASB.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the City’s internal controls over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

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

In conjunction with our audit of the financial statements, we reported no material weaknesses.

Other Required Communications

Following is a summary of those required items, along with specific discussion points as they pertain to the City:

Requirement	Discussion Points
Significant changes to planned audit strategy or significant risks initially identified	There were no significant changes to the planned audit strategy or significant risks initially identified as part of our Audit Planning Process.
Obtain information from those charged with governance relevant to the audit	There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding the City's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
If applicable, nature and extent of specialized skills or knowledge needed related to significant risks	There were no specialized skills or knowledge needed, outside of the core engagement team, to perform the planned audit procedures or evaluate audit results related to significant risks.
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of generally accepted accounting principles.
Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the City's financial statements or to our auditor's report.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Representations requested from management	Please refer to the attached management representation letter.

Independence Communication

Our engagement letter to you dated June 30, 2014 describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the City with respect to independence as agreed to by the City. Please refer to that letter for further information.

BDO Board Reflections and Ac'sense Programs

The **BDO Board Reflections** resource center is developed with Board members in mind. Understanding the roles, responsibilities, and risks associated with each committee, BDO routinely provides guidance to Directors as they navigate through ever changing challenges in today's corporate climate. BDO's proprietary studies, publications, practice aids, and educational programs help fuel conversations among those charged with corporate governance – who are making the tough decisions. BDO's thought-provoking resources are tailored to help keep Board members ahead of the trends while meeting compliance obligations. For a comprehensive listing of such resources, visit <http://www.bdo.com/board>.

In line with the board resource center is **Ac'senseSM**, BDO's program designed to assist both those charged with governance (including Audit Committees and Boards of Directors) as well as financial executives of both public and private companies in keeping up to date on the latest corporate governance and financial reporting developments.

The program is multi-faceted and consists of complimentary CPE-worthy webinars and self-study courses covering both broad and specific topics of interest, publications, and links to various BDO and external resources. Visit <http://www.bdo.com/acsense/>.

AC'SENSESM WEBINARS

Our webinar programs are presented by our firm technical experts and comprise both short-form and longer-form webinars on a variety of "hot" topics of interest, such as "Compensation Risk," "Fair Value Matters," "Business Combinations," "Applying New Revenue Recognition Rules," "Ethics and the Corporate Board," and many others. In addition, we host several series including our "Quarterly Technical Updates" and "International Financial Reporting Standards" on financial accounting and reporting matters as well as "Focus on Fraud."

Our webinars are complimentary and are generally applicable for Audit Committees, Board members, management, finance and compliance professionals of both public and private companies. In addition, most webinars and archives are worthy of Continuing Professional Education (CPE) credit. Please visit our website <http://www.bdo.com/acsense/> for further information on upcoming and archived webinars.

EFFECTIVE AUDIT COMMITTEES IN THE EVER CHANGING MARKETPLACE

The focus of BDO's governance initiatives is to provide those charged with governance with essential, relevant information through clear and concise executive summary-type communications. In this spirit, we have created the [*Effective Audit Committees in the Ever Changing Marketplace*](#) publication as a practical guide to forming and running an effective Audit Committee. Within this publication, we provide answers to certain frequently asked questions (FAQs) centering on the WHYs, WHOs, WHATs, WHENs, and HOWs of Audit Committees. More specifically, these FAQs summarize the common functions and responsibilities of Audit Committees and seek to provide insights and perspective as to how to optimize Audit Committee effectiveness. Our vision has been shaped by our own experiences with our clients and interpretations of the specific recommendations, guidelines and rules of the SEC; the stock exchanges; the Public Company Accounting Oversight Board (PCAOB); the American Institute of Certified Public Accountants (AICPA); and the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees, sponsored by the New York Stock Exchange and the National Association of Securities Dealers.

Throughout this publication, we focus on some of the more challenging aspects facing Audit Committees. To that end, in addition to our commentary, we have included links and references to other relevant BDO practice aids and tools as well as certain valuable external resources. The guide and practice aids are available at <http://www.bdo.com/acsense/effective.aspx>.

BDO Resources

BDO is a national professional services firm providing assurance, tax, financial advisory, and consulting services to a wide range of publicly traded and privately held companies. Guided by core values including competence, honesty and integrity, professionalism, dedication, responsibility, and accountability for 100 years, we have provided quality service and leadership through the active involvement of our most experienced and committed professionals.

The firm serves clients through 49 offices and more than 400 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multinational clients through a global network of 1,082 offices in 119 countries. BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For further information, please refer to <http://www.bdo.com/about/>.

Exhibit A

- Representation Letter is attached



"Village with a Past, City with a Future"

210 Fidalgo Avenue, Kenai, Alaska 99611-7794
Telephone: 907-283-7535 / FAX: 907-283-3014

December 4, 2014

BDO USA, LLP
3601 C Street, Suite 600
Anchorage, AK 99503

Ladies and gentlemen:

We are providing this letter in connection with your audits of the financial statements of City of Kenai, Alaska (the City), which comprise the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of June 30, 2014 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, changes in financial position, and, where applicable, cash flows of the City in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the preparation and fair presentation in the financial statements of financial position, changes in net position, and cash flows in conformity with accounting principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of the date of this representation letter, the following representations made to you during your audit:

- (1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 7, 2014, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America. We have included all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- (2) We have fulfilled our responsibility, as set out in the terms of the aforementioned audit engagement letter, for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- (3) The financial statements include all assets and liabilities under the entity's control.

- (4) We have made available to you all:
 - (a) Financial records, and related data and all audit or relevant monitoring reports, if any, received from funding sources, as agreed upon in the terms of the aforementioned audit engagement letter.
 - (b) Minutes of the meetings of directors and committees of directors that were held from July 1, 2013 to the date of this letter, or summaries of actions of recent meetings for which minutes have not yet been prepared.
- (5) There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
- (6) There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or Schedule of Expenditures of Federal Awards or Schedule of State Financial Assistance. All financial statement misstatements relating to accounts and disclosures identified and discussed with us in the course of the audit (as listed in attachment A - "Schedule of Audit Adjustments") have been corrected.
- (7) In regards to the assistance provided in preparing the financial statements and related footnote disclosures, we have: (1) assumed all management responsibilities, (2) designated an individual within senior management with suitable skill, knowledge, or experience to oversee the services, (3) evaluated the adequacy and results of the services performed, and (4) accepted responsibility for the results of the services.
- (8) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. We have no knowledge of any:
 - (a) Fraud or suspected fraud involving management or involving employees who have significant roles in internal control, whether or not perceived to have a material effect on the financial statements.
 - (b) Fraud or suspected fraud involving others where the fraud could have a material effect on the financial statements.
 - (c) Allegations of fraud or suspected fraud affecting the City received in communications from employees, former employees, regulatory agencies, law firms, predecessor accounting firms, or other professionals.
- (9) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives, and whether related recommendations have been implemented.
- (10) We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net position.
- (11) The following, where applicable and material, have been properly recorded or disclosed in the financial statements:

- (a) The identity of related parties and all related party relationships and transactions of which we are aware, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - (b) Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
 - (c) All derivative instruments and any embedded derivative instruments that require bifurcation.
 - (d) Guarantees, whether written or oral, under which the City is contingently liable.
 - (e) Significant estimates and material concentrations known to management that are required to be disclosed. In that regard, all accounting estimates that could be material to the financial statements, including key factors and significant assumptions underlying those estimates, have been identified, and we believe the estimates are reasonable in the circumstances.
 - (f) The effects of all known actual or possible litigation, claims, assessments, and other liabilities or gain or loss contingencies that are required to be accrued or disclosed.
 - (g) Commitments, such as:
 - Major fixed asset purchase agreements;
 - More-than-one-year employment arrangements or contracts with suppliers or customers, or one-year-or-longer term leases;
 - Deferred compensation, bonuses, pensions plans, or severance pay; or
 - Pending sale or merger of all or a portion of the business or of an interest therein or acquisition of all or a portion of the business, assets or securities of another entity;
 - (h) Joint ventures or other participations, the detailed transactions of which are not carried on our books.
 - (i) For environmental clean-up obligations.
 - (j) Participation in a public entity risk pool.
- (12) There are no:
- (a) Violations or possible violations of budget ordinances, laws, and regulations (including those pertaining to adopting, approving, and amending budgets), and provisions of contracts and grant agreements (including the failure to file reports required by regulatory bodies (e.g., EPA, OCC, FDIC, DOL, Medicare, U.S. Customs Service, HIPAA, IRS, Dept. of Commerce, state and municipal authorities) when the effects of failing to

file could be material to the financial statements) whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

- (b) Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed.
 - (c) Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
- (13) Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the statement of financial position date and have been appropriately reduced to their estimated net realizable value.
 - (14) The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
 - (15) We have complied with all aspects of contractual agreements, including debt covenants, that would have a material effect on the financial statements in the event of noncompliance.
 - (16) No discussions have taken place with your firm's personnel regarding employment with the City.
 - (17) We are responsible for compliance with laws, regulations and provisions of contracts and grant agreements applicable to us and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts.
 - (18) We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
 - (19) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
 - (20) The financial statements properly classify all funds and activities.
 - (21) All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 for presentation as major are identified and resented as such and all other funds that are presented as major are particularly important to financial statement users.
 - (22) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
 - (23) Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
 - (24) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
 - (25) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.

- (26) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
- (27) We have appropriately disclosed the City's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for the purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- (28) With respect to federal and state award programs:
 - (a) We are responsible for understanding and complying with, and have complied with, the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and the State of Alaska Audit Guide and Compliance Supplement for State Single Audits including requirements relating to the preparation of the Schedule of Expenditures of Federal Awards (SEFA) and the Schedule of State Financial Assistance (SSFA).
 - (b) We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133 and the State of Alaska Audit Guide and Compliance Supplement for State Single Audits, and included in the SEFA and SSFA expenditures made during the audit period for all awards provided by federal and state agencies in the form of grants, federal or state cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
 - (c) We acknowledge our responsibility for presenting the Schedule of Expenditures of Federal Awards and the Schedule of State Financial Assistance in accordance with the requirements of OMB Circular A-133 §310.b and the State of Alaska Audit Guide and Compliance Supplement for State Single Audits, and we believe the SEFA and SSFA, including their form and content, are fairly presented in accordance with the Circular and the State of Alaska Audit Guide and Compliance Supplement for State Single Audits. The methods of measurement and presentation of the SEFA and SSFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA and SSFA.
 - (d) If the SEFA and SSFA are not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA and SSFA no later than the date we issue the SEFA and SSFA and the auditor's reports thereon.
 - (e) We are responsible for understanding and complying with, and have complied with in all material respects, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal and state programs and have identified and disclosed to you the requirements of laws, regulations and the provisions of contracts and grant agreements considered to have a direct and material effect on each federal and state program.

- (f) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal and state programs that provides a reasonable assurance that we are managing our federal and state awards in compliance with laws, regulations and the provisions of contracts and grant agreements that could have a material effect on our federal and state programs. We believe the internal control system is adequate and is functioning as intended. Also, subsequent to the date as of which compliance was audited, no changes have occurred in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies (including material weaknesses) in internal control over compliance as reported in the schedule of findings and questioned costs.
- (g) We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal and state agencies or pass-through entities relating to each major federal and state program.
- (h) We have received no requests from a federal or state agency to audit one or more specific programs as a major program.
- (i) We have complied, in all material respects, with the direct and material compliance requirements, including when applicable, those set forth in the OMB Circular A-133 "Compliance Supplement" and the State of Alaska Audit Guide and Compliance Supplement for State Single Audits relating to federal and state awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the direct and material requirements of federal and state awards, including the results of other audits or program reviews.
- (j) We have disclosed to you any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- (k) We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal and external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- (l) Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-187, *Cost Principles for State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- (m) We have disclosed to you our interpretations of compliance requirements that have varying interpretations, if any.
- (n) We have made available to you all documentation related to compliance with the direct and material requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.

- (o) We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
 - (p) There are no known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
 - (q) Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared, and are prepared on a basis consistent with the Schedule of Expenditures of Federal Awards and the Schedule of State Financial Assistance.
 - (r) The copies of federal and state program financial reports provided you are true copies of the reports submitted or electronically transmitted, to the respective federal or state agency or pass-through entity, as applicable.
 - (s) We have charged costs to federal and state awards in accordance with applicable cost principles.
 - (t) We are responsible for, and have accurately prepared, the auditee section of the Data Collection Form as required by OMB Circular A-133.
- (29) We acknowledge our responsibility for the presentation of the required supplementary information, and the required supplementary information is measured and presented in accordance with prescribed guidelines.

The methods of measurement or presentation have not changed from those used in the prior period.

- (30) We acknowledge our responsibility for the presentation of the Schedule of Expenditures of Federal Awards, Schedule of State Financial Assistance, and the combining and individual fund financial statements and schedules in accordance with accounting principles generally accepted in the United States of America, and we believe this supplementary information, including its form and content, is fairly presented in accordance with the accounting principles generally accepted in the United States of America. The methods of measurement and presentation have not changed from those used in the prior period and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
- (31) In connection with any electronic presentation of the financial statements and your audit report thereon on our web site, we acknowledge that:
- We are responsible for the preparation, presentation, and content of the financial statements in the electronic format.
 - If your audit report is presented on our web site, the full financial statements upon which you reported and to which you appended your signed report will be presented.
 - We will clearly indicate in the electronic presentation on our web site the financial information that is subject to your audit report. We will clearly differentiate any information that may also be presented by us on or in connection with our web site that

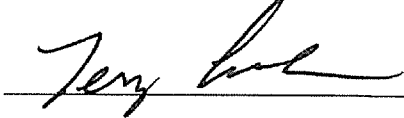
was contained in the published version of the financial statements and other supplementary information, but which is not part of the audited financial statements or other financial information covered by your audit report.

- We have assessed the security over financial statement information and the audit report presented on our web site, and are satisfied that procedures in place are adequate to ensure the integrity of the information provided. We understand the risk of potential misrepresentation inherent in publishing financial information on our web site through internal failure or external manipulation.

To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to the statement of financial position date and through the date of this representation letter, as entered on the first page, that would require adjustment to or disclosure in the aforementioned financial statements in the schedule of findings and questioned costs.

Very truly yours,



Rick Koch, City Manager

Terry Eubank, Finance Director

Terry Eubank, Finance Director

CITY OF KENAI

0813

Year End: June 30, 2014

Adjusting Journal Entries

Date: 7/1/2013 To 6/30/2014

Number	Date	Name	Account No	Debit	Credit
AJE 1	6/30/2014	SPECIAL ASSESS.RECEIVABLE	001-151210 001		6,335.56
AJE 1	6/30/2014	DEFERRED REVENUE	001-262206 001	6,335.56	
To adjust the special assessment receivable and deferred revenue associated with it to actual.					
AJE 2	6/30/2014	ALLOW. FOR DEPRECIATION	061-151699 061		141,843.06
AJE 2	6/30/2014	EQUIP REPLACE., DEPREC.	061-459-5045 061	141,843.06	
To record depreciation expense in fund 61					
AJE 3	6/30/2014	DUE FROM CTF	001-151310 001		33,778.77
AJE 3	6/30/2014	PAYROLL CLEARING	001-262160 001	19,591.88	
AJE 3	6/30/2014	FICA/OASDI W/H	001-262164 001	153.00	
AJE 3	6/30/2014	FEDERAL W/H	001-262165 001	2,786.78	
AJE 3	6/30/2014	MEDICARE W/H	001-262166 001	777.00	
AJE 3	6/30/2014	PERS PAYABLE	001-262168 001	6,776.50	
AJE 3	6/30/2014	ANNUITY W/H	001-262169 001	921.93	
AJE 3	6/30/2014	GARNISHMENT W/H	001-262170 001	588.73	
AJE 3	6/30/2014	SUPPL. RETIREMENT PAYABLE	001-262172 001	586.95	
AJE 3	6/30/2014	AFLAC W/H	001-262174 001	445.54	
AJE 3	6/30/2014	GROUP MEDICAL PREMIUMS	001-262177 001	801.76	
AJE 3	6/30/2014	LIFE INSURANCE	001-262180 001	179.00	
AJE 3	6/30/2014	401 LOAN W/H	001-262181 001	41.46	
AJE 3	6/30/2014	HRA LIABILITY	001-262184 001	128.24	
AJE 3	6/30/2014	DUE FROM CTF	008-151310 008	9,713.61	
AJE 3	6/30/2014	Accrued Payroll	008-262610 008		9,713.61
AJE 3	6/30/2014	DUE FROM CTF	009-151310 009	896.25	
AJE 3	6/30/2014	Accrued Payroll	009-262610 009		896.25
AJE 3	6/30/2014	DUE FROM CTF	010-151310 010	12,915.74	
AJE 3	6/30/2014	Accrued Payroll	010-262610 010		12,915.74
AJE 3	6/30/2014	DUE FROM CTF	019-151310 019	8,066.25	
AJE 3	6/30/2014	Accrued Payroll	019-262610 019		8,066.25
AJE 3	6/30/2014	DUE FROM CTF	062-151310 062	2,186.92	
AJE 3	6/30/2014	Accrued Payroll	062-262160 062		2,186.92
Reclass entry to put accrued payroll into correct funds where the expenditures hit.					
AJE 4	6/30/2014	PERS GRANT	062-33-3550 062		7,490.84
AJE 4	6/30/2014	CAPITAL PROJECTS MGT, PERS	062-482-0500 062	7,490.84	
To record fund 62's PERS on-behalf true up at year end					
PBC 1	6/30/2014	DUE FROM CTF	001-151310 001		4,000.00
PBC 1	6/30/2014	DUE FROM CTF	062-151310 062	4,000.00	
PBC 1	6/30/2014	CHARGE FOR EQUIPMENT	062-36-6120 062		4,000.00

11/29/2014

12:14 PM

CITY OF KENAI**0813-1**

Year End: June 30, 2014

Adjusting Journal Entries

Date: 7/1/2013 To 6/30/2014

Number	Date	Name	Account No	Debit	Credit
PBC 1	6/30/2014	PWA, RENTALS	001-431-4539 001	4,000.00	
		To record general fund rental of truck for year			
PBC 2	6/30/2014	DUE FROM CTF	001-151310 001		100,187.54
PBC 2	6/30/2014	DUE FROM CTF	006-151310 006	1,330.22	
PBC 2	6/30/2014	DUE FROM CTF	008-151310 008	54,804.48	
PBC 2	6/30/2014	DUE FROM CTF	009-151310 009	10,124.70	
PBC 2	6/30/2014	DUE FROM CTF	010-151310 010	16,374.64	
PBC 2	6/30/2014	DUE FROM CTF	030-151310 030	939.40	
PBC 2	6/30/2014	DUE FROM CTF	061-151310 061	16,614.10	
PBC 2	6/30/2014	INTEREST ON INVESTMENTS	001-36-6100 001	100,187.54	
PBC 2	6/30/2014	INTEREST ON INVESTMENTS	006-36-6100 006		1,330.22
PBC 2	6/30/2014	INTEREST ON INVESTMENTS	008-36-6100 008		54,804.48
PBC 2	6/30/2014	INTEREST ON INVESTMENTS	009-36-6100 009		10,124.70
PBC 2	6/30/2014	INTEREST ON INVESTMENTS	010-36-6100 010		16,374.64
PBC 2	6/30/2014	INTEREST ON INVESTMENTS	030-36-6100 030		939.40
PBC 2	6/30/2014	INTEREST ON INVESTMENTS	061-36-6100 061		16,614.10
		Correct interest allocation among funds			
				431,602.08	431,602.08
Net Income (Loss)			786,386.77		