

City of Kodiak, Alaska

Comprehensive Annual Financial Report

For the Year Ended June 30, 2018

Prepared by City of Kodiak Finance Department

City of Kodiak, Alaska

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December 14, 2018

To the Honorable Mayor and Members of the City Council,
The Citizens of the City of Kodiak:

We are pleased to present the City of Kodiak's (the City) Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2018. The report is designed to fairly present the financial position and results of financial operations of the City in all material respects and to demonstrate compliance with applicable finance related legal and contractual provisions. The report adheres to the principle of full disclosure so that readers may gain a maximum understanding of the City's financial affairs. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various City funds. The responsibility for the accuracy, completeness and fairness of the data presented in the report, including all disclosures, rests with the City of Kodiak.

The finance department has prepared this report in accordance with the following standards:

- Generally Accepted Accounting Principles (GAAP) of the United States, which are uniform minimum standards and guidelines for financial accounting and reporting in the United States.
- Governmental accounting and financial report statements, interpretations and technical bulletins issued by the Governmental Accounting Standards Board (GASB).

INDEPENDENT AUDIT

Article V, Section 21 of the City Charter requires an annual audit of the accounting and financial records of the City by independent certified public accountants. This charter section requires the auditor to examine all funds of the City in accordance with generally accepted auditing standards and the standards set forth in the Government Accountability Office's *Government Auditing Standards*. In addition, the auditor must conduct the compliance examinations required by the *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. 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 legal requirements, with special emphasis on internal controls and legal requirements involving the administration of grants.

The goal of the independent audit is to provide reasonable assurance that the financial statements of the City of Kodiak for the fiscal year ended June 30, 2018, are free of material misstatement. The City of Kodiak has selected the licensed certified public accounting firm of Altman, Rogers & Co. to perform these audit services. Their reports are presented in the Financial Statements Section and the Single Audit Section of this report. Altman, Rogers & Co. has issued an unmodified ("clean") opinion on the City of Kodiak's financial statements for the year ended June 30, 2018. The independent auditor's report is located at the front of the financial section of this report.

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 of Kodiak's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE CITY

Kodiak Island is the largest island in Alaska and the second largest in the United States. It is part of the Kodiak Island Archipelago, a group of islands that stretch roughly 177 miles along the Katmai Coast of the Alaska Peninsula in the Gulf of Alaska, about 250 miles southwest of Anchorage. The sixteen major and countless smaller islands that make up the group encompass over 5,000 square miles, roughly the size of Connecticut.

Its location in the Gulf of Alaska and North Pacific Ocean places Kodiak near some of the richest fishing grounds in the world. Kodiak is consistently one of the top five commercial fishing ports in the United States in terms of the value and volume of seafood landed. More than one-third of the jobs in Kodiak are directly involved in the fishing industry, in either the harvesting or processing sectors.

The City of Kodiak is located on the northeast tip of Kodiak Island, 50 minutes by air from Anchorage. The city is the economic, transportation and governmental hub of the region. It is located within the Kodiak Island Borough, which encompasses the entire island group, as well as a portion of the Katmai Coast on the Alaska Peninsula.

The Alaska Marine Highway System connects the City of Kodiak with Port Lions, Ouzinkie, Old Harbor and communities on the Alaska Mainland as well with communities along the Alaska Peninsula and the Aleutian Chain.

The City of Kodiak was incorporated in December 1940, and adopted a Home Rule Charter on March 16, 1965. The City operates under a Council-Manager form of government with six Council Members and a Mayor. Council Members and the Mayor are elected at-large for terms of three years and two years, respectively.

The Council appoints the City Manager who is responsible for appointing and supervising the various department heads and other employees (except those appointed by the Council) and preparing and administering the annual budget and the capital improvement program. Under the City Manager's general direction are eight functional areas (departments), each of which is supervised by a department head. These areas are: port and harbors, engineering, finance, fire and EMS, library, parks and recreation, police and jail, and public works. An administrative support function and certain non-departmental activities are provided by the Manager's office.

The City services provided by these departments includes police and fire protection, jail services, animal control, regional dispatch services (including E-911), ambulance services, boat harbors and port/cargo facilities, street maintenance, airport facilities, water and sewer services, building inspection services, recreation programs, park operations and maintenance, including museum and cemetery operations, and library services. The City also supplies water and accepts discharge to the wastewater treatment facility from the Kodiak Island Borough's Service District #1 located outside the City, local Honey Wagon collections outside of the City, and the United States Coast Guard (USCG).

The City Council also appoints the City Clerk, the City Attorney, and the members of various advisory boards.

BUDGETARY ACCOUNTING AND INTERNAL CONTROLS

The annual budget serves as the foundation of the City of Kodiak's financial planning and control. The City Charter, Article V, requires the City Manager to submit a balanced budget to the City Council at least three weeks before the beginning of the fiscal year. The annual budget process begins in January with the establishment of budget guidelines by the City Council and the City Manager. These guidelines encompass the delivery and scope of services; staffing levels of permanent personnel, increases in rates if any, and the use of fund balance. Each department head reviews their respective department's goals, objectives, performance indicators, assigned permanent personnel and funding levels and recommends any changes to the Finance Director and the City Manager for review prior to inclusion in the City's general operating and capital improvement budgets. The City Manager then submits the budget to the City Council for consideration in May.

The Council reviews the budget with the City Manager and changes to anticipated revenues and planned expenditures are incorporated into the budget ordinance, which is introduced for the first reading at a May Council meeting. The Council holds a public hearing on the proposed budget at least one week after a notice of the time of the hearing has been published. The budget is formally adopted after the public hearing by the City Council in June. The adoption of the budget by the City Council puts the budget into effect for the budget year July 1 through June 30. Throughout the year, it is customary for the City Council to review and approve supplemental budget amendments presented by the City Manager.

As a management tool, budgetary control is maintained in all funds at the departmental level and by the encumbrance of estimated purchase amounts before the release of purchase orders to vendors. Upon the written request of a department head, the Finance Director and City Manager may transfer budgetary appropriations between or among budget line items within any department, program, or project, so long as the transfer does not increase the total appropriation for the department, program, or project. However, no transfer can be made for the purpose of adding permanent personnel unless approved by the City Council. Likewise, anticipated revenues within a fund may be adjusted so long as there is not an increase or decrease of the total revenues of that fund. A resolution or ordinance of the City Council is required to move appropriated amounts between funds, departments, and projects, to add new appropriations, or increase the number of permanent personnel budgeted.

The City Manager is responsible for establishing and maintaining internal controls designed to ensure that the assets of the City are protected from loss, theft or misuse. Internal controls are intended to provide reasonable, but not absolute assurance that these objectives are met. In addition, the Finance Department provides controls through policies and procedures that create multiple checks and balances.

Budget-to-actual comparisons are provided in this report for various funds for which an appropriated annual budget has been adopted.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Kodiak operates. The City of Kodiak has adopted maintenance budgets over the past few years sustaining the same level of service as provided in previous years without an increase in taxes. The City levies a 7% sales tax on all sales, services and rentals made within City limits. For the first half of fiscal year 2018 the maximum taxable sale (tax cap) was \$750 per transaction. On January 1, 2018 the tax cap increased to \$3,000, except for rentals. The tax rate has been 7% since October 2013. In fiscal year 2018 sales tax revenue was the largest source of General Fund revenues. Sales tax revenue has the greatest impact on the General Fund expenditures and has increased for fiscal year 2018 primarily due to the increase in the tax cap. The City maintains the mill rate for the General Fund at 2.00 mill levy on property and is collected by the Kodiak Island Borough. The revenue generated by property tax is significantly lower than sales tax and does not have as large of an impact. The City has been able to maintain a stable workforce and has been able to keep all departmental expenditures within or lower than budgeted totals. The City's economy has remained stable and local indicators point to maintained stability within the City. The State of Alaska has experienced budget shortfalls in the most recent periods and these factors are impacting the communities within the state due to decreased state grant funding and decreased revenue sharing.

LOCAL ECONOMY

The economic condition of Kodiak remains relatively stable. The main industries of the region are commercial fishing and tourism. While some segments of the commercial fishing industry have declined in recent years, others have grown. Tourism continues to grow in Kodiak with an increased number of visitors each year.

SEAFOOD INDUSTRY

Commercial fishing is by far the largest private sector industry in Kodiak. In addition to being quite diverse, Kodiak's fishing industry is also one of its oldest, dating back to 1882 when the first cannery was built on the Karluk Spit. Kodiak is consistently one of the top five fishing ports in the United States. Kodiak is the center of fishing activities for the Gulf of Alaska. Its fishery is among the most diverse in the state. Residents participate in at least 27 different fisheries not including the numerous ground fish fisheries. Salmon has traditionally been the mainstay of Kodiak's fisheries. Because of the cyclic nature of the salmon fisheries, the annual volume and value of Kodiak's salmon catch varies greatly. Increased competition in world markets has also driven prices down. However, in the last few years, prices have been rebounding. During recent years, the ground fish fishery has become increasingly important to Kodiak's economy.

In addition to the fish harvesting and processing sectors, there are also several government and educational institutions that conduct fisheries-related research in Kodiak. The State of Alaska Department of Fish and Game, the National Marine Fisheries Service Utilization and Research Division, along with the University of Alaska's Fisheries Industrial Technology Center, provide lab services, quality and handling studies, product development assistance and other research efforts.

VISITOR INDUSTRY

Tourism, like many other Kodiak industries, is based on our natural resources. Tourists come to Kodiak to view the scenic beauty, hike, camp, visit historical and cultural sites, view and photograph wildlife, and hunt and fish. The visitor industry continues to grow in Kodiak.

As is true elsewhere in Alaska, Kodiak's visitor industry is seasonal with approximately 76% of all visitors arriving during the summer months. The total number of annual visitors to the Kodiak region is approximately 30,000, more than double the population of the entire Kodiak Island Borough.

Kodiak's share of the Southwest Alaska visitor market is approximately 31%. According to the Alaska Visitor Statistics Program, visitors to Kodiak and other Southwest Alaska destinations tend to stay longer than the average visitor to the state, and are significantly more likely to be repeat visitors. Additionally these visitors typically spend more than twice as much as the average visitor to other regions in Alaska. In recent years, the cruise ship industry has stopped at Kodiak with ships of up to 4,000 passengers embarking on the island to visit. The number of cruise ships arriving at Kodiak can vary greatly from year to year and impacts the revenues generated from tourism.

AEROSPACE INDUSTRY

The mission of the Alaska Aerospace Development Corporation (AADC) includes establishing and operating, in Alaska, a launch facility promoting aerospace-related economic growth and developing corresponding technologies and support services. The Kodiak Launch Complex (KLC) is the nation's first launch facility not located on federal property and is positioned to meet the challenges and define Alaska's future role in a highly competitive launch industry.

The KLC celebrated its first mission November 1998. The second successful launch from KLC lifted off September 1999. The state of the art facility includes a launch control center, payload processing facility, spacecraft assembly building and launch pad. It is designed to handle small to medium sized rockets used to launch low-earth orbit satellites, as well as military, scientific and research missions.

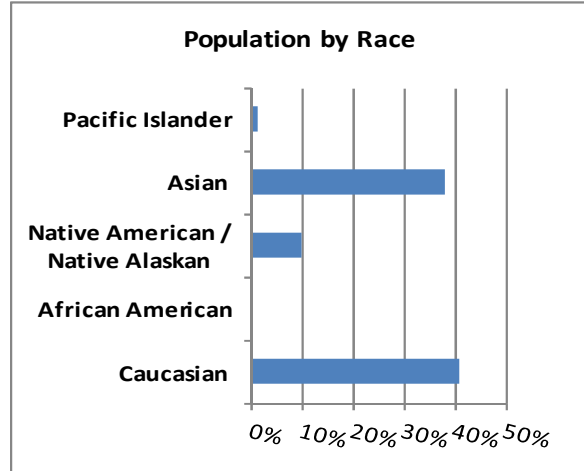
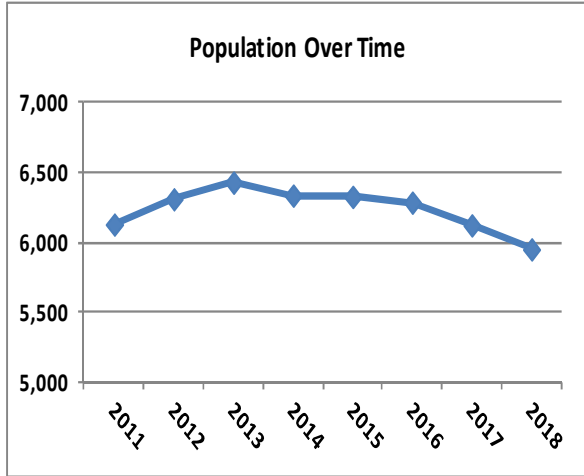
According to the independent research and consulting firm Northern Economics, Inc. (*The Economic Benefits of the Alaska Aerospace Corporation, FY 2010*. Prepared for Alaska Aerospace Corporation. February 2011) in 2010 the total direct, indirect and induced local impacts to Kodiak's regional economy alone amounted to \$6.3 million, generating 59 local jobs with \$3.7 million in local payments for wages and salaries - AAC's expenditures for goods and services, including subcontractor services, generated about \$4.6 million in direct payments to businesses operating in Kodiak. This spending was distributed among 44 local businesses and increased business activities in 25 different industries or sectors in the Kodiak regional economy. These sectors include construction, retail, various professional and technical services, computer system design, wholesale trade, and a variety of hospitality and leisure sectors.

POPULATION

The City of Kodiak is the tenth largest city in Alaska, in terms of population. It ranks behind Anchorage, Juneau, Fairbanks, Wasilla, Sitka, Ketchikan, Kenai, Palmer and Bethel in that order. The estimated population for 2018 was 5,952 in the City of Kodiak and 13,287 in the Kodiak Island Borough.

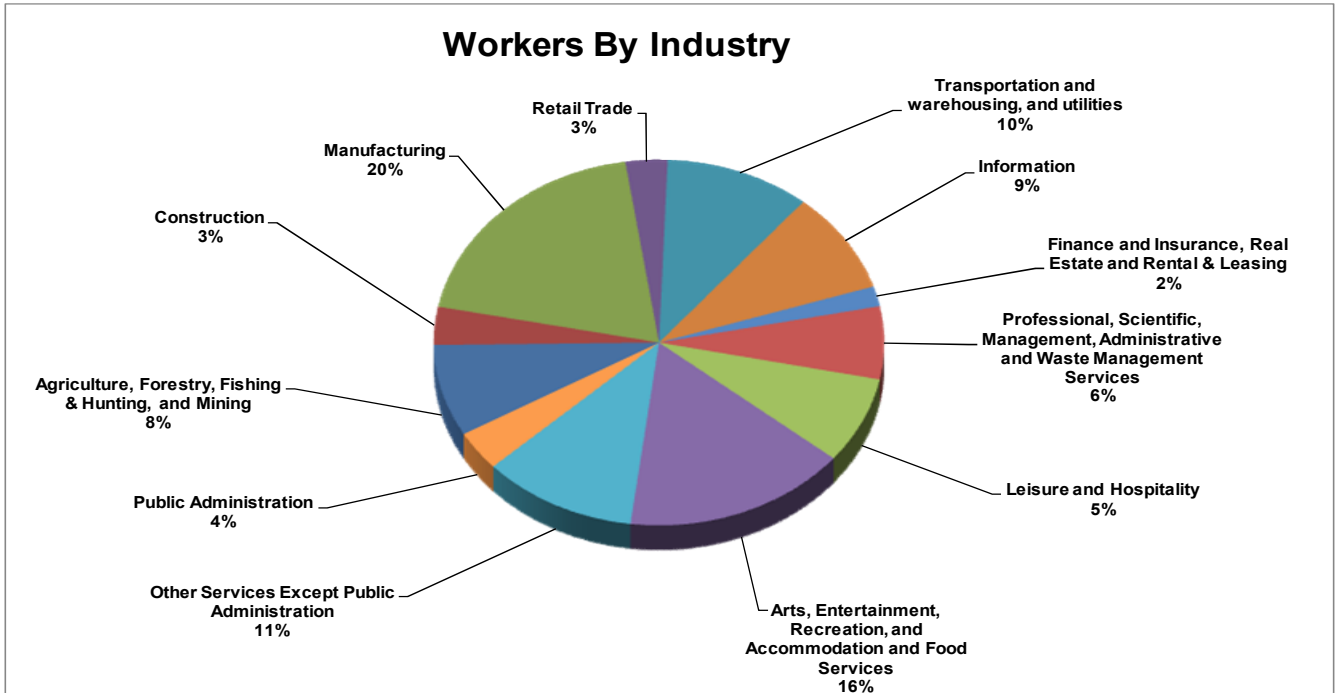
Approximately 25% of the population is under 18 years of age, approximately 1% lower than Alaska overall. The population consists of approximately 52% male and approximately 48% female. Approximately 22% of the adults, age 25 and older, hold at least a bachelor's degree, and 87% are estimated to have at least a high school diploma.

City of Kodiak Population

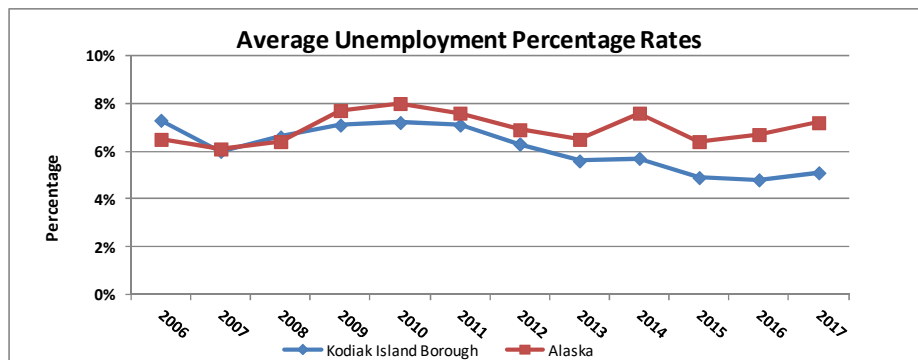


LABOR FORCE

In 2016, the state estimated the Kodiak region's average monthly employment to be 3,625 excluding fish harvesting and Coast Guard. This figure more accurately depicts the number of full and part-time jobs as opposed to the number of actual workers.



Kodiak’s employment varies throughout the year due to the seasonal nature of the fishing industry. Employment usually peaks during the months of July, August, and September when fish harvesting is the busiest, and declines in November and December as yearly fishing quotas are reached. For this reason, Kodiak is characterized by large swings in its monthly unemployment rate throughout the year, from as low as 3.8% (August 2015) to as high as 13.2% (December 2011). The average annual unemployment rate for Kodiak in fiscal year 2017 was 5.1% compared to 7.2% for the state of Alaska.



INCOME

The U.S. Department of Commerce Bureau of Economic Analysis reported the 2017 per capita personal income was \$60,891, an increase of 4.9%, as compared to \$58,066 reported for 2016 for the Kodiak Island Borough.

RETAIL SALES

Total retail sales within the city have increased more than 55% since 2000. There is a close correlation between retail sales and the strength of local fisheries. In 1995, after a record breaking salmon season, retail sales climbed 9%. In the second half of 1996, when the salmon harvest dropped and fish prices fell, retail sales went down approximately 10% to 12%. Retail sales have increased significantly since the opening of a local Wal-Mart store in the spring of 1999.

Sales tax has increased from \$9.2 million in 2009 to approximately \$11.8 million in 2018. The City’s sales tax rate is 7% with a maximum sales tax of \$210 per transaction, \$52.50 for rentals. This translates to taxing the first \$3,000 of a sale and exempting any amount over \$3,000 in any one transaction. The City also exempts its citizens over the age of 65 from sales tax. Decreasing sales taxes led the City to increase the maximum sales transaction limit from \$750 to \$3,000 on January 1, 2018. Sales tax revenues have been budgeted to increase starting in fiscal year 2019.

What Kodiak has to offer to its residents in terms of location, services, growth, and stability is also recognized by others outside of Alaska. Kodiak frequently receives national recognition for its livability by Outdoor Life magazine which sums up what residents of Kodiak already know.



LONG-TERM FINANCIAL PLANNING

1. Essential government services are to be provided at a level equal to or better than the level previously provided. Forecast and plan for revenues and expenses to create a government that is more efficient, less costly and more accountable to ensure a financially sustainable city for future generations.
2. All services are to be constantly examined to ensure that they are provided in an efficient and effective manner and that unnecessary program costs are eliminated.
3. Authorized capital projects are to be completed as soon as possible, consistent with sound engineering design and approved project cost estimates. Maintain a five year Capital Improvement Plan to ensure resources are planned for and available when needed.
4. As a means to ensure that policies of the City Council are observed, and to improve the City's overall management process, a management by objective program has been initiated. Under this program, each City Department Head is required to identify several performance objectives consistent with department goals and to maintain performance indicators, which measure progress toward the achievement of stated objectives. All goals and objectives are reviewed by the City Manager and the Department Heads and then reviewed with the City Council as part of the annual budget process (see each department summary in the budget found at <http://www.city.kodiak.ak.us> in the Finance Department documents for goal and objective statements).
5. Each department's progress in achieving their objectives is reviewed and monitored throughout the budget year.
6. All expenses will be reviewed for cost saving measures. All services will be reviewed for efficiency, purpose and need.
7. Ensure structural balance in all areas of City Operations.
 - Develop expenditure habits based on estimated revenues.
 - Minimize disruption to community services.
 - Minimize the disruption of workforce.
 - Create long-term financial and programmatic stability.
 - Focus on impacts of budget decisions and use of fund balances to maintain program levels.
 - A priority on employee safety to reduce expenses related to accidents.
 - Review department and capital projects budgets for corrections on a quarterly basis.
 - Maintain the economy, environment, and the community to create a balance and sustainable atmosphere for the City of Kodiak.

MAJOR INITIATIVES

1. The Mill Rate of 2.0 remained the same in fiscal year 2017.
2. The Sales Tax Cap was increased to \$3,000, effective January 1, 2018.
3. The Hotel & Motel tax rate of 5% remained the same.
4. The fiscal year 2018 had no reductions of services, and all services were maintained at consistent levels.

FUTURE PROJECTS

1. **New Fire Station Phase II:** **\$4,000,000**

The City of Kodiak identified the need to replace its fire station and has been working toward a replacement plan since 2004. The building has clearly outlived its design life. The building is composed of three structures and sits on a site that is currently very limited as it abuts the tsunami inundation zone. The structure is built of cement block type construction built in the 1940s with two block and wood frame additions added in the 1960s and 1975. The structure poses a significant risk of failure in a seismic event. Cracks in the walls and initial separation of one of the additions from the rest of the structure occurred following the large 7+ earthquake in 2016. It has ongoing plumbing, drainage, and water infiltration issues. The facility houses personnel, fire and rescue apparatus, three ambulances, and many types of specialty equipment and medical supplies that support the Advanced

Life Support services offered to the entire Kodiak area well beyond the City boundaries. The building condition poses constant challenges and problems to the crews who work and live in the structure. Work to replace this building must continue because it is a key emergency response and life-safety facility for Kodiak and continues to require constant maintenance.

The City proposes completion of the project in three phases. Phase I of this project with a budget of \$1,110,000 and funded by the City was used to study the site, for a new facility once a derelict building is removed. It included the removal of the old building, site grading, and other work following the demolition of the old building. Phase I is 95% complete.

Phase II would include a new site acquisition and design completed prior to construction. Relocation would make the project more affordable to do in phases, would reduce the impact to the active fire station, and benefit the transition to a new building. Phase II costs would total \$14,000,000 with site acquisition and building design anticipated during FY2019. Construction would begin during the following year.

The City of Kodiak is requesting Federal funding for Phase II of the New Fire Station project in the amount of \$14,000,000 to ensure the project continues to move forward.

2. St. Herman Harbor Infrastructure Replacement \$28,000,000

The economy of the City of Kodiak is based upon commercial fishing including local, state and federal governmental activities associated with support of the fisheries as well as research and enforcement activities. Each year Kodiak ranks as a top commercial fishing port. In 2015, NOAA statistics again put Kodiak as the second largest commercial fishing port in the United States in terms of volume and third in terms of value. This activity requires an infrastructure from potable water, electrical systems, and harbor and dock infrastructure that is much larger than its population might suggest.

The Kodiak Harbor Department relies on the generation of user fees and the State of Alaska's Harbor Facilities Grant Program to help match municipal costs for dock replacements. The City's request of federal funding assistance in the amount of \$28,000,000 would help the City develop a plan, including replacement of this aging infrastructure which supports the nation's scientific and food source needs.

3. Waste Water Treatment Plant Facility \$19,000,000

The first phase of a larger project is to evaluate the condition of the Waste Water Treatment Plant facility (WWTP) and design a necessary upgrade to the City of Kodiak facility. The prior upgrade to the facility was in 1999. The condition and evaluation assessment will include all major components such as the building and aeration basins; including equipment replacement needs. Alaska Pollution Discharge Elimination System (APDES) permitting requirements will also be considered during this assessment. The City of Kodiak has received the Alaska Department of Environmental Conservation (ADEC) preliminary draft APDES permit. This new regulation of compliance is expected to require upgrades to our facility which we will factor in our condition and evaluation assessment.

The City of Kodiak is requesting federal funding in the amount of \$19,000,000 to assess, design and construct this WWTP project that will help support the wastewater needs of the community for the next twenty years.

4. Shelikof Street \$1,950,000

In 2009, the City identified the need for pedestrian improvements from Pier II to downtown Kodiak as the preferred pedestrian route for cruise ship passengers to safely walk the street into the town center and to improve facilities for local residents, workers, and businesses that use the pier, street, and access to the City's adjacent 250 slip boat harbor.

The first phase of the project, construction of an ADA accessible sidewalk, new retaining walls, improved lighting and parking, and utility work was completed in 2013. The second phase of the project was completed in January 2017. This phase covered geotechnical investigation, design, permitting, mapping, preparation for permitting through the Army Corps of Engineers, and 95% completion of the design to accommodate a 30 space bulkhead parking area on the south side of Shelikof Street adjacent to St. Paul Harbor.

The roadway area adjacent to the proposed bulkhead parking is highly congested. Due to lack of adequate parking, vehicles block walkways, equipment operates in the ROW, and access to businesses is often blocked, forcing pedestrians into the roadway. Construction of additional off-road parking will direct pedestrian traffic out of the congested roadway. The net increase in parking will benefit harbor users and retail businesses along Shelikof Street. It will provide improved and safer pedestrian access from Marine Way to the fish processors in the immediate area. The task for this phase will be to complete construction of the bulkhead parking area, including curb and gutter, paving, lighting, and utility relocates.

The City of Kodiak is requesting federal funding assistance for the final construction of this project, including administration, in the amount of \$1,950,000 to enhance pedestrian and vehicle safety.

FINANCIAL POLICIES

Formal financial policies, as well as informal operating practices, have helped the City maintain core services and minimize the impact to citizens and employees wherever possible. Formal policies exist on areas such as balanced budgets, revenue diversification, and use of one-time and unpredictable revenues, operating expenditures, and reserves.

Revenue Administration

The City's main source of revenue for operating expenditures is sales tax, which makes up more than half of the total revenues of the General Fund. In addition, the City carefully reviews all fees, fines, and charges for services on a regular basis to ensure they are covering cost projections. One-time and unpredictable revenues are spent on one-time costs, such as equipment replacement, or transferred to capital improvement funds for repair and rehabilitation projects.

Expenditure Administration

Expenditure budgets are carefully reviewed by both the implementing departments and the City Manager. Careful attention is paid to ensure departments are meeting projected City Council budget goals for the fiscal year. There were changes in the number of full-time employees in fiscal year. There were no changes in operational needs.

Reserves

The City's policy for reserves states that use of fund balance will be for working capital, budgetary stabilization and responding to extreme events. At a minimum, the General Fund will not have an unassigned fund balance that falls below two months of regular General Fund operating expenditures. The replenishment of fund balance will come from non-recurring revenues, budget surpluses, and excess resources in other funds when legally permissible and when there is defensible rationale. There is significant pressure to spend reserves to meet capital repair, replacement, and expansion needs. In addition, the City's reserve levels are at risk due to: significant health care costs, enterprise fund critical needs, unforeseen emergencies and natural disasters, potential sustained reduction in visitors and other similar risks. Any of these risks can have a significant adverse impact on the City's financial condition, enhancing the need for a healthy level of unassigned reserves.

Pension and Other Post-Employment Benefits (OPEB)

The City provides pension and OPEB benefits for all eligible employees through the State of Alaska Public Employees Retirement System (PERS). The system consists of four defined benefit (DB) Tiers, and one defined contribution (DC) Tier. The City has no obligations in connection with employee benefits offered through these plans beyond its annual required payments to the plans. The City has always paid its annual required contribution rates on time. The City anticipates near-term annual contribution rates to be capped at 22% of covered payroll for both DB and DC plans, based on legislative action agreeing to State of Alaska coverage of costs exceeding 22%. The transition from a single-agent, multiple-employer plan, to a cost-sharing plan as of July 1, 2008, provides a single rate for all participating PERS employers, eliminating the previous methodology of assessing each employer its own rate. The City now shares in the pooled liability of the PERS plan. The legislature's cap on local government contribution rates brings stability to Kodiak's retirement rates, mitigating the recent trend of significant annual rate increases, although it is important to note that a future State legislature can eliminate the contributions.

In a prior year the City adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which, among other accounting and reporting criteria, requires the City to recognize its proportional share of the Net Pension Liability and related deferred inflows and outflows of resources related to pensions. In 2018 the City adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which, among other accounting and reporting criteria, requires the City to recognize its proportional share of the OPEB liability and related deferred inflows and outflows of resources related to OPEB.

Alaska Statute 39.35.255 requires the State of Alaska to contribute to the Plan an amount such that, when combined with the employer contribution, is sufficient to pay the Plan's past service liability contribution rate as adopted by the Alaska Management Retirement Board. Although current statutes call for the State of Alaska to contribute to the Plan, the Alaska Department of Law has determined that the statute does not create a legal obligation to assume the liabilities of the plans; rather it establishes a contribution mechanism to provide employer relief against the rising contribution rates. This relief payment is subject to funding availability, and therefore not legally mandated. Therefore, the State has determined that the Plan is not a special funding situation.

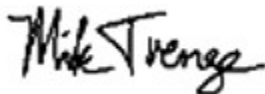
AWARDS AND ACKNOWLEDGEMENTS

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 Kodiak for its comprehensive annual financial report for the fiscal year ending June 30, 2017. This was the fifteenth consecutive year that the City achieved this prestigious award. 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.

The preparation of this report would not have been possible without the efficient and dedicated services of the Finance Department staff. We would like to express our appreciation to all the members of the finance department who assisted in the preparation of this report. Credit must also be given to the Mayor and City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Kodiak's finances.

Respectfully Submitted,

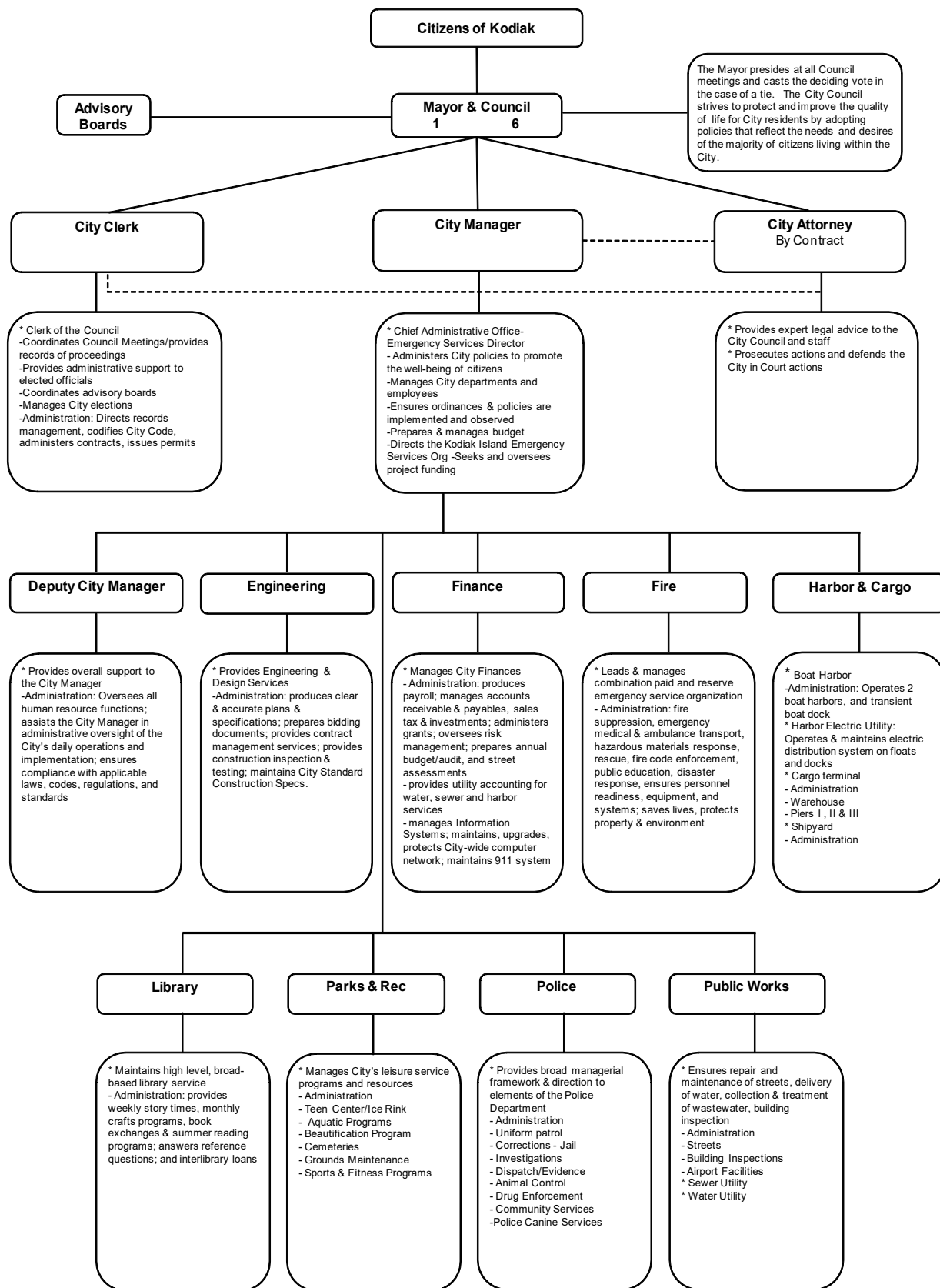


City Manager
Mike Tvenge



Finance Director
Karl Swanson

CITY OF KODIAK ORGANIZATIONAL CHART



**CITY OF KODIAK
FACT SHEET**

Form of Government

- Home Rule City with Council-Manager form of government
- City residents elect a Mayor and six Council members to serve at-large
- City Council meets on the second and fourth Thursday of each month at 7:30p in the Kodiak Island Borough Assembly Chambers, 710 Mill Bay Road. The public is invited to attend.
- City Website - <http://www.city.kodiak.ak.us>

City Departments

Name	Department	Email	Phone
Mike Tvenge	City Manager	mtvenge@city.kodiak.ak.us	907-486-8640
Debra Marlar	City Clerk	dmarlar@city.kodiak.ak.us	907-486-8636
Karl Swanson	Finance	kswanson@city.kodiak.ak.us	907-486-8659
Timothy Putney	Police	tputney@city.kodiak.ak.us	907-486-8000
Jim Mullican	Fire	jmullican@city.kodiak.ak.us	907-486-8040
Craig Walton	Public Works	cwalton@city.kodiak.ak.us	907-486-8060
Glenn Melvin	Engineering	gmelvin@city.kodiak.ak.us	907-486-8065
Corey Gronn	Parks & Recreation	cgronn@city.kodiak.ak.us	907-486-8655
Laurie Madsen	Library	lmadsen@city.kodiak.ak.us	907-486-8688
Derrik Magnuson	Cargo & Harbor	dmagnuson@city.kodiak.ak.us	907-486-8080

Elected Officials

Name	Office	Email	Phone
Pat Branson	Mayor	council@city.kodiak.ak.us	907-486-3641
Laura Arboleda	Council Member	council@city.kodiak.ak.us	907-539-2027
Randall Bishop	Council Member	council@city.kodiak.ak.us	907-486-3364
Charles Davidson	Council Member	council@city.kodiak.ak.us	907-486-3896
Daniel Mckenna-Foster	Council Member	council@city.kodiak.ak.us	907-486-8636
John Whiddon	Council Member	council@city.kodiak.ak.us	907-486-8130
Richard Walker	Council Member	council@city.kodiak.ak.us	907-481-3775

Advisory Boards

- Building Code Board of Appeals (as needed)
- Joint Building Code Review Committee (as needed)
- Parks & Recreation Advisory Board
- Personnel Board (as needed)
- Port & Harbor Advisory Board
- Employee Advisory Board (Board members are elected by City employees)
- Kodiak Public Library Association (an independent organization supporting the Library)



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

City of Kodiak
Alaska

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

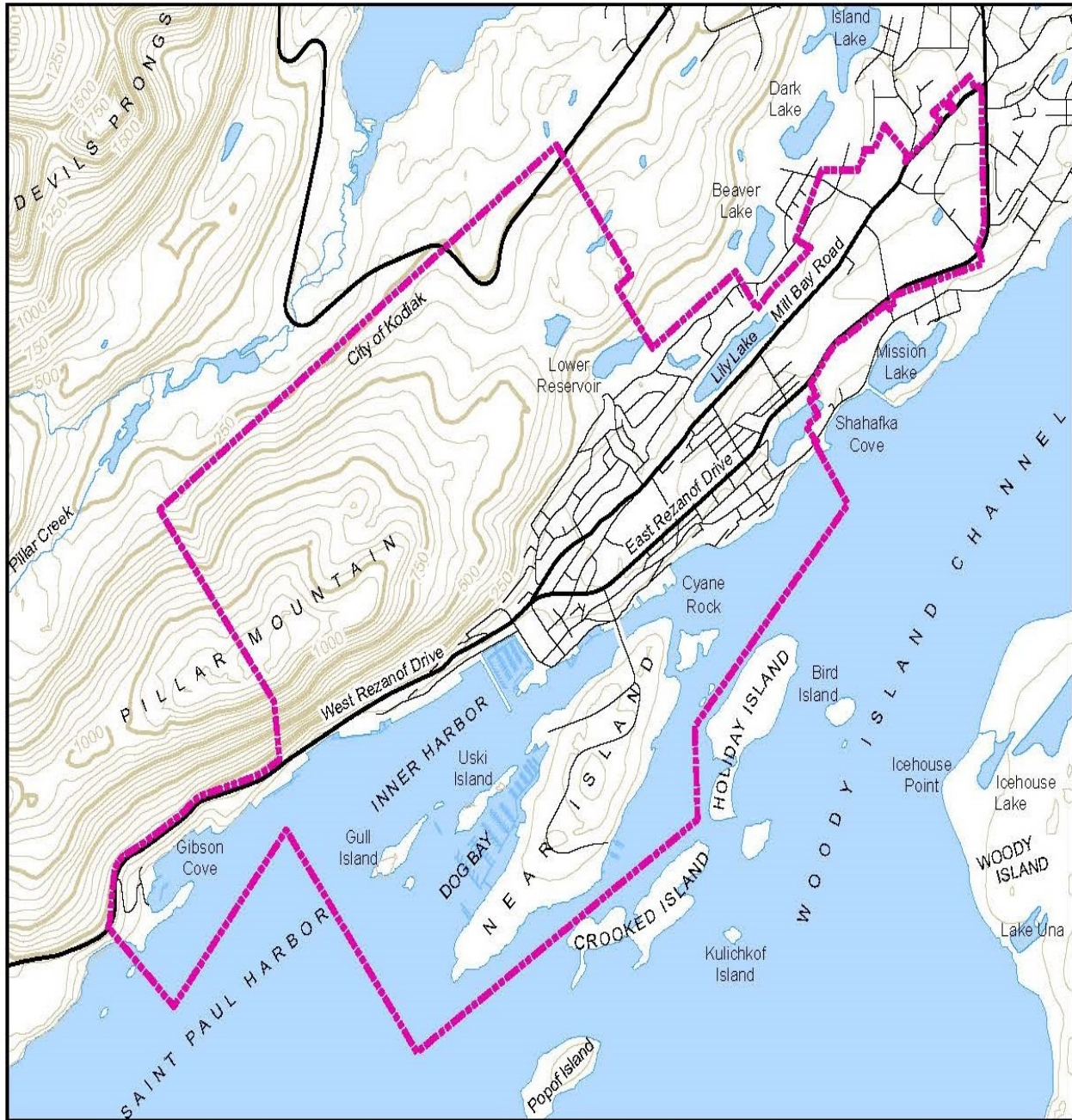
Christopher P. Morill

Executive Director/CEO

CITY OF KODIAK
KODIAK ISLAND, ALASKA



CITY OF KODIAK
CITY LIMITS - 6.2 SQUARE MILES



Independent Auditor's Report

Honorable Mayor and City Council
City of Kodiak, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kodiak, Alaska, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Kodiak'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.

Honorable Mayor and City Council
City of Kodiak, Alaska

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kodiak, Alaska, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 18 to the financial statements, in 2018 the City of Kodiak adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-16, budgetary comparison information on page 58, and the Schedules of Proportionate Share of the Net Pension and OPEB Liabilities and Pension and OPEB Contributions on pages 59-62 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.

Honorable Mayor and City Council
City of Kodiak, Alaska

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kodiak’s basic financial statements. The information listed in the table of contents as “Additional Supplementary Information”, which includes the combining financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The “Additional Supplementary Information”, as listed above, 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 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 “Additional Supplementary Information” is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2018, on our consideration of the City of Kodiak’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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Kodiak’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Kodiak’s internal control over financial reporting and compliance.



Anchorage, Alaska
December 14, 2018

City of Kodiak, Alaska

Management's Discussion and Analysis

June 30, 2018

As management of the City of Kodiak, we offer readers of the City of Kodiak's financial statements this narrative overview and analysis of the financial activities of the City of Kodiak for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages I-X of this report.

Financial Highlights

- The assets and deferred outflows of resources of the City of Kodiak exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$191,471,349 (*net position*). Of this amount, \$38,622,627 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased \$1,294,812 (0.7%), including the cumulative effect of a change in accounting principle. The governmental net position decreased by \$2,403,124 (4.1%) and the business-type net position increased by \$3,697,936 (2.8%).
- As of the close of the current fiscal year, the City of Kodiak's governmental funds reported combined ending fund balances of \$18,645,473, an increase of \$1,295,053 from the prior year. Approximately 49% of this total amount, \$9,087,460 is available for spending at the government's discretion (*unassigned fund balance*).
- Total general revenues accounted for \$13,737,576 (41%) of all revenues. Program specific revenues in the form of charges for services and sales, operating grants and contributions, and capital grants and contributions accounted for \$19,942,719 (59%) of total revenues of \$33,606,293.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$9,087,460, or (52%) of total General Fund expenditures and transfers out of \$17,438,317.
- The City of Kodiak's total debt decreased by \$2,946,073 during the current fiscal year. Included in total debt, the City reports the net pension and OPEB liabilities for the State of Alaska PERS retirement system attribution to the City of Kodiak. For fiscal year 2018, the net pension and OPEB liabilities were \$13,574,588.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. City of Kodiak's basic financial statements are comprised of 1) government-wide financial statements 2) fund financial statements, 3) notes to the financial statements, and 4) required supplementary information. This report also contains 5) 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.

1. *Government-wide financial statements* are designed to provide readers with a broad overview of the City of Kodiak's finances, in a manner similar to a private-sector business.
 - The *statement of net position* presents information on all of the City of Kodiak's assets and liabilities, with the differences between the two reported as *net position*.
 - The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

City of Kodiak, Alaska

Management's Discussion and Analysis

- Both of the government-wide financial statements distinguish functions of the City of Kodiak 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 Kodiak include general government, public safety, public works, engineering, parks and recreation, library and community services. The business-type activities of the City of Kodiak include cargo pier, boat harbor, shipyard/lift, harbor electric, water and sewer utilities, and E-911 services.
 - The government-wide financial statements can be found on pages 17-18 of this report.
2. *Fund financial statements* focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Kodiak, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds for the City of Kodiak can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.
- *Governmental Funds:* Most of the City's basic services are included in governmental funds. Unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as balances of spendable resources left at fiscal year-end. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Kodiak maintains several individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements and individual statements elsewhere in this report.

- *Proprietary Funds:* When the City charges customers for the services it provides - either to outside customers or to other units of the City - these services are generally reported in the Proprietary funds. Proprietary funds are reported in the same manner in the Statement of Net position and the Statement of Activities. The City's Enterprise Funds (one type of proprietary fund) are the same as business-type activities reported in the government-wide statements but provide more detail. The City uses an Internal Service Fund (the other kind of proprietary fund) to report activities of the City's Insurance Fund.

The basic proprietary fund financial statements can be found on pages 23-25 of this report.

City of Kodiak, Alaska

Management's Discussion and Analysis

- **Fiduciary Funds:** A fiduciary fund is used to account for assets held by the City in a trustee capacity or as an agent for others. Activities from the fiduciary fund are not included in the government-wide financial statements because the City cannot use these assets for its operations. The accounting for fiduciary funds is much like that used in proprietary funds. The City does not currently have any fiduciary funds.
3. **Notes to the financial statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The financial statements include notes that explain some of the information in the statements and provide more detailed data. The notes to the financial statements can be found on pages 26-57 of this report.
 4. **Required Supplementary Information** includes the required budgetary supplementary information and the schedules of the proportionate share of the net pension liability and pension contributions. The required supplementary information can be found on pages 58-62.
 5. **Other Information.** The basic statements are followed by additional supplementary information on individual fund activity.
 - The combining statements referred to earlier in connection with nonmajor governmental funds and nonmajor enterprise funds are presented on pages 63-67.

Government-Wide Financial Analysis of the City of Kodiak

Table 1 provides a summary of the City's net position for 2018 compared to 2017:

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets						
Current assets	\$ 19,600,549	18,136,071	36,922,189	31,791,089	56,522,738	49,927,160
Capital assets	58,152,359	60,267,718	114,216,823	115,312,819	172,369,182	175,580,537
Total assets	<u>77,752,908</u>	<u>78,403,789</u>	<u>151,139,012</u>	<u>147,103,908</u>	<u>228,891,920</u>	<u>225,507,697</u>
Deferred outflows of resources						
Related to pensions and OPEB	1,364,102	2,464,833	405,849	783,069	1,769,951	3,247,902
Deferred charge on bond refunding	-	201,330	-	92,685	-	294,015
Total deferred outflows of resources	<u>1,364,102</u>	<u>2,666,163</u>	<u>405,849</u>	<u>875,754</u>	<u>1,769,951</u>	<u>3,541,917</u>
Total assets and deferred outflows of resources	<u>\$ 79,117,010</u>	<u>81,069,952</u>	<u>151,544,861</u>	<u>147,979,662</u>	<u>230,661,871</u>	<u>229,049,614</u>
Liabilities						
Current liabilities	840,080	612,592	1,549,179	827,030	2,389,259	1,439,622
Long-term liabilities	17,735,070	19,297,733	16,578,732	17,962,142	34,313,802	37,259,875
Total liabilities	<u>18,575,150</u>	<u>19,910,325</u>	<u>18,127,911</u>	<u>18,789,172</u>	<u>36,703,061</u>	<u>38,699,497</u>
Deferred inflows of resources						
Related to pensions and OPEB	1,917,087	131,730	570,374	41,850	2,487,461	173,580
Net position						
Invested in capital assets	51,432,431	53,313,320	100,954,710	101,304,800	152,387,141	154,618,120
Restricted	-	-	461,581	461,581	461,581	461,581
Unrestricted	7,192,342	7,714,577	31,430,285	27,382,259	38,622,627	35,096,836
Total net position	<u>58,624,773</u>	<u>61,027,897</u>	<u>132,846,576</u>	<u>129,148,640</u>	<u>191,471,349</u>	<u>190,176,537</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 79,117,010</u>	<u>81,069,952</u>	<u>151,544,861</u>	<u>147,979,662</u>	<u>230,661,871</u>	<u>229,049,614</u>

City of Kodiak, Alaska

Management's Discussion and Analysis

Net position may serve over time as an indicator of a government's financial position. In the case of the City of Kodiak, assets exceeded liabilities by \$191,471,349 as of June 30, 2018.

The government's net position increased by \$1,294,812 during the current fiscal year compared to a decrease of \$1,887,477 in the prior fiscal year.

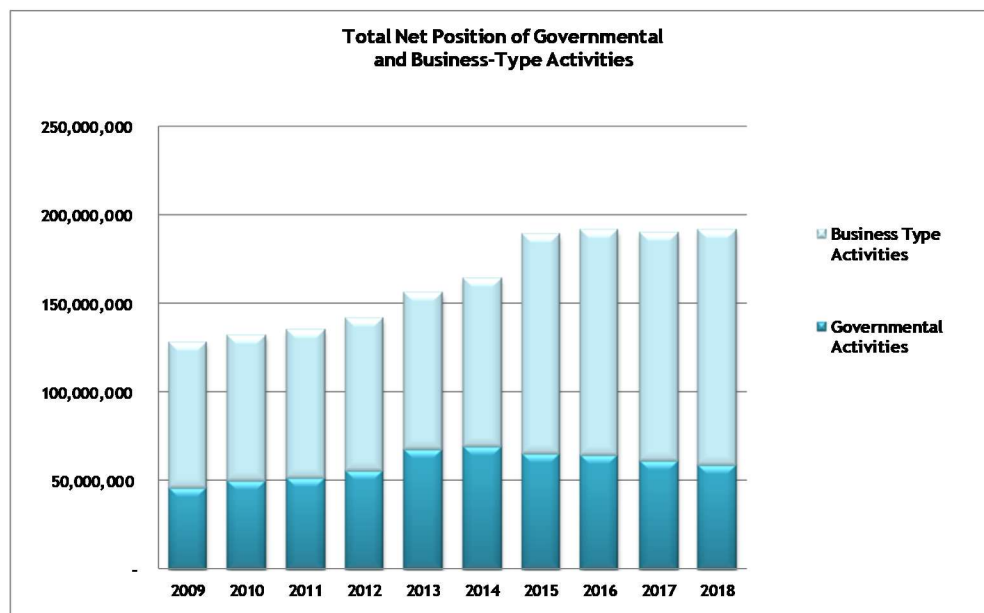
By far the largest portion of the City of Kodiak's net position 80% reflects its investment in capital assets (i.e., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The City of Kodiak uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Kodiak's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Kodiak's net position, less than 1%, represents resources that are subject to external restrictions on how they may be used. Certain covenants of the revenue bonds require the establishment of bond redemption and reserve accounts which makes up this restricted amount. The remaining balance of unrestricted net position 19% may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the fiscal year 2018, the City of Kodiak is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

There was a decrease of \$1,880,889 in net investment in capital assets in connection with the City of Kodiak's governmental activities. This was primarily due to an increase in accumulated depreciation offset by continued street improvements and design of the new fire station. In the City's business activities there was a decrease of \$350,090 in net investment in capital assets. This is primarily due to an increase in accumulated depreciation.

Total net position has increased over the past nine years, excluding the current year, indicating an improving financial position of the City of Kodiak as illustrated in the graph below. The City of Kodiak has maintained a stable financial position.



City of Kodiak, Alaska

Management's Discussion and Analysis

Table 2 shows the changes in net position for fiscal years 2018 and 2017 for both the governmental and business-type activities. Net position increased by \$4,020,764 before a cumulative effect of a change in accounting principle related to postemployment benefits other than pensions.

Table 2
Changes in Net Position

	Year Ended June 30, 2018			Year Ended June 30, 2017		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Revenues:						
Program revenues:						
Charges for services	\$ 3,469,109	\$ 14,964,443	\$ 18,433,552	\$ 3,611,949	\$ 13,488,214	\$ 17,100,163
Operating grants and contributions	381,873	60,739	442,612	212,123	63,682	275,805
Capital grants and contributions	447,777	220,149	667,926	25,357	971,323	996,680
Total program revenues	<u>4,298,759</u>	<u>15,245,331</u>	<u>19,544,090</u>	<u>3,849,429</u>	<u>14,523,219</u>	<u>18,372,648</u>
General revenues:						
Property taxes	1,103,470	-	1,103,470	1,083,234	-	1,083,234
Sales taxes	11,868,529	-	11,868,529	10,876,981	-	10,876,981
Other taxes, penalties and interest	217,093	-	217,093	217,934	-	217,934
Grants not restricted	1,322,827	-	1,322,827	978,701	-	978,701
Investment income	110,660	326,764	437,424	65,458	99,646	165,104
Miscellaneous	18,701	-	18,701	190,385	78,692	269,077
Total general revenues	<u>14,641,280</u>	<u>326,764</u>	<u>14,968,044</u>	<u>13,412,693</u>	<u>178,338</u>	<u>13,591,031</u>
Total revenues	<u>18,940,039</u>	<u>15,572,095</u>	<u>34,512,134</u>	<u>17,262,122</u>	<u>14,701,557</u>	<u>31,963,679</u>
Expenses:						
General government	\$ 3,201,123	-	3,201,123	3,716,834	-	3,716,834
Public safety	8,273,670	-	8,273,670	9,727,361	-	9,727,361
Public works	2,011,818	-	2,011,818	3,324,991	-	3,324,991
Engineering	198,298	-	198,298	214,091	-	214,091
Parks and recreation	1,762,540	-	1,762,540	1,870,555	-	1,870,555
Library	954,249	-	954,249	1,140,829	-	1,140,829
Community services	368,618	-	368,618	414,094	-	414,094
Interest on long-term debt	438,252	-	438,252	54,079	-	54,079
Cargo Pier	-	1,113,802	1,113,802	-	1,106,868	1,106,868
Boat Harbor	-	3,416,038	3,416,038	-	3,717,907	3,717,907
Water Utility	-	2,209,006	2,209,006	-	2,842,116	2,842,116
Sewer Utility	-	3,503,504	3,503,504	-	3,423,537	3,423,537
Shipyard	-	1,230,686	1,230,686	-	1,334,428	1,334,428
Harbor Electric	-	584,558	584,558	-	660,605	660,605
Trident Basin	-	295,191	295,191	-	295,638	295,638
E-911 Services	-	24,176	24,176	-	7,223	7,223
Total expenses	<u>17,208,568</u>	<u>12,376,961</u>	<u>29,585,529</u>	<u>20,462,834</u>	<u>13,388,322</u>	<u>33,851,156</u>
Increase in net position before transfers	1,731,471	3,195,134	4,926,605	(3,200,712)	1,313,235	(1,887,477)
Loss on disposal of assets	(903,704)	(2,137)	(905,841)	-	-	-
Transfers	(1,130,000)	1,130,000	-	(500,000)	500,000	-
Changes in net position	(302,233)	4,322,997	4,020,764	(3,700,712)	1,813,235	(1,887,477)
Net position as previously stated	<u>61,027,897</u>	<u>129,148,640</u>	<u>190,176,537</u>	<u>64,728,609</u>	<u>127,335,405</u>	<u>192,064,014</u>
Cumulative effect of a change in accounting principle	(2,100,891)	(625,061)	(2,725,952)	-	-	-
Net position, beginning of year, as restated	<u>58,927,006</u>	<u>128,523,579</u>	<u>187,450,585</u>	<u>64,728,609</u>	<u>127,335,405</u>	<u>192,064,014</u>
Net position at end of year	<u>\$ 58,624,773</u>	<u>\$ 132,846,576</u>	<u>\$ 191,471,349</u>	<u>\$ 61,027,897</u>	<u>\$ 129,148,640</u>	<u>\$ 190,176,537</u>

City of Kodiak, Alaska

Management's Discussion and Analysis

Cumulative Effect of a Change in Accounting Principle

In 2018, the City adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which, among other accounting and reporting criteria, requires the City to recognize its proportional share of the Net Other Postemployment Benefits (OPEB) Other Than Pensions Liability (and related deferred inflow/outflow accounts), as of the beginning of the City's fiscal year. As a result of the implementation of this statement, the City has recorded an opening balance adjustment to reflect opening balance pension liabilities and related accounts and to decrease opening net position for governmental activities by \$2,100,891 and business-type activities by \$625,061.

Governmental Activities

Governmental activities in 2018 decreased the City of Kodiak's net position by \$302,233, compared to a \$3,700,712 increase in 2017.

The primary source of revenue from governmental activities is sales tax revenues, which amounted to \$11,868,529, a 8% increase from 2017. The City sales tax rate in 2018 was at 7% on all sales with a per transaction cap that has varied from \$750 to \$3,000. The City sales tax accounts for 63% of total governmental revenues. Other tax revenues like property tax, tax penalties, interest, and hotel and motel tax accounted for 7% of total governmental activities revenues in 2018.

City taxpayers financed most of the City's costs, bringing in tax revenues of \$13,189,092. The remaining costs were financed by charges for services, investment income, entitlements not restricted to a specific purpose, and other revenues. Charges for services and tax revenues accounted for most of the City's recurring governmental revenues.

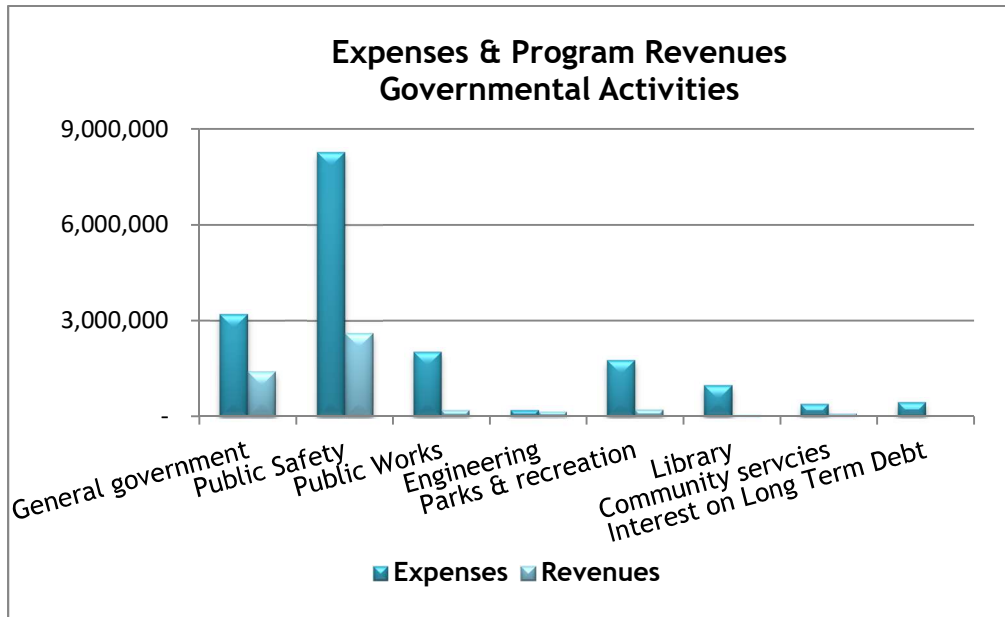
The cost of all governmental activities financed by program revenues, such as charges for services, operating grants and capital grants, was \$4,697,388 (27%) of total governmental activities expenses.

The City's governmental activities net expenses are predominately related to Public Safety 48%, Public Works 12%, and General Government 19%, or 79% of total governmental activities expenses. Engineering, Parks and Recreation, Library, Community Services, and Interest on Long-Term Debt make up the remaining expenses.

In 2018 total governmental expenses were \$17,208,568 compared to \$20,462,834 in 2017. The largest decrease in expenses was due to changes in the long-term pension and OPEB liability expense of approximately \$3.9 million. Additionally there was an approximately \$1 million road repair project in 2017 that did not happen in 2018.

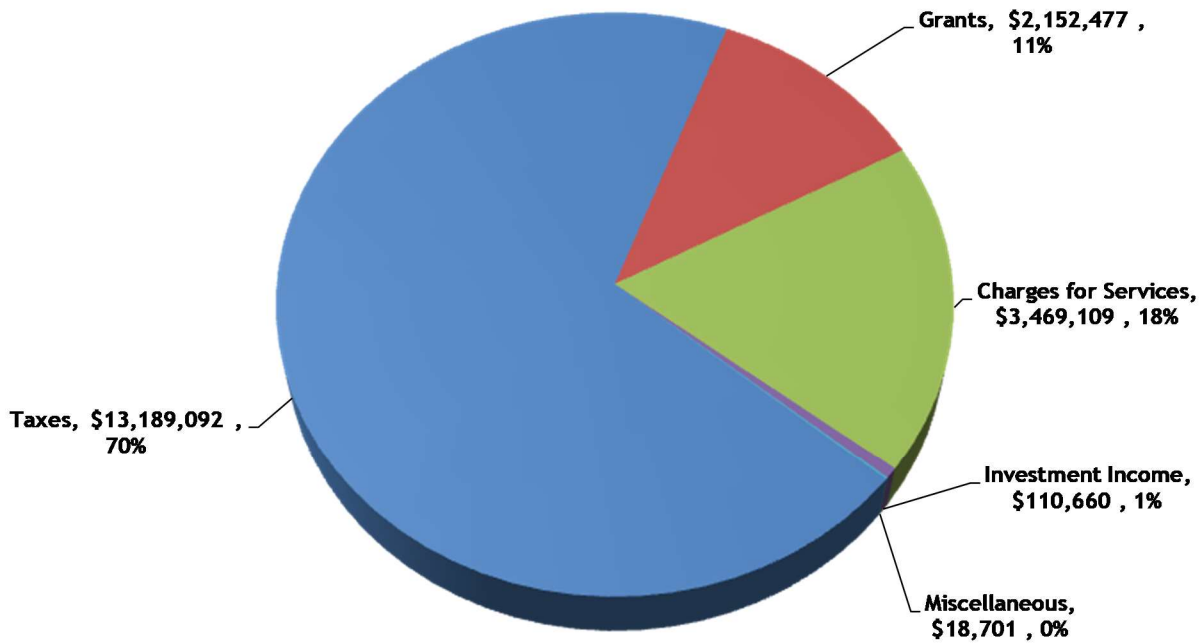
City of Kodiak, Alaska

Management's Discussion and Analysis



The graph below shows the revenues by source for governmental-type activities. Taxes comprise of the largest revenue source at 70% of total governmental revenue. Other primary revenue sources include 18% for charges for services and 11% for grants.

Governmental Type Activities Revenues by Source



City of Kodiak, Alaska

Management's Discussion and Analysis

Table 3 shows, for governmental activities, the total cost of services and the net costs of services for fiscal year 2018. That is, it identifies the cost of these services supported by charges for services, operating grants and capital grants.

Table 3
Governmental Activities in 2018

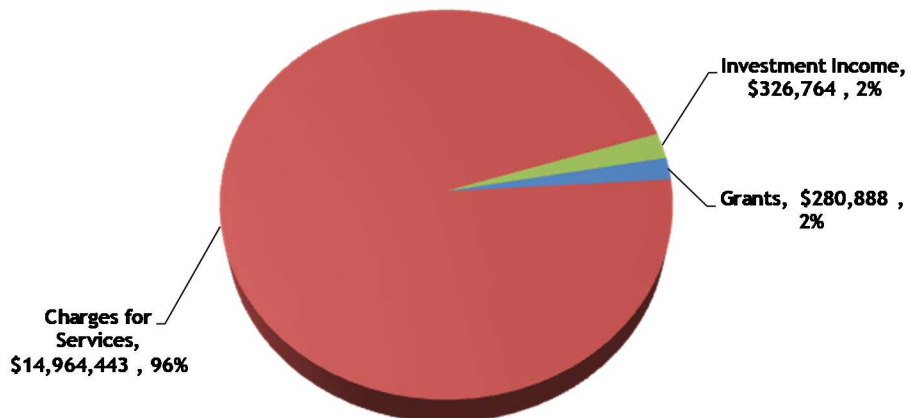
	Total Cost of Services 2018	Net Cost (Benefit) of Services 2018	% of Total Costs
Governmental activities:			
General government	\$ 3,201,123	\$ 1,796,012	18.60%
Public safety	8,273,670	5,658,533	48.08%
Public works	2,011,818	1,812,450	11.69%
Engineering	198,298	50,680	1.15%
Parks & recreation	1,762,540	1,550,485	10.24%
Library	954,249	915,388	5.55%
Community services	368,618	289,380	2.14%
Interest on long-term debt	438,252	438,252	2.55%
Total governmental activities	\$ 17,208,568	\$ 12,511,180	100%

Business-type Activities

Business-type activities increased the City of Kodiak's net position by \$4,322,997, before the cumulative effect of a change in accounting principle. Key elements of this are as follows:

The primary source of revenue from business-type activities is charges for services, which amounted to \$14,964,443, an 11% increase from 2017. For the business-type activities, operating costs were less than charges for services by \$2,587,482. Operating and capital grants, investment income, and transfers increased net position by an additional \$1,735,515.

Business Type Activities Revenues by Source



City of Kodiak, Alaska

Management's Discussion and Analysis

The City's business-type activities expenses are related to cargo 9%, boat harbor 28%, shipyard 10%, harbor electric 5%, water utility 18%, sewer utility 28%, the Trident Basin Airport 2% and E-911 Services, less than 1%. Total harbor related activities were 52% and total public works activities are 48% of the total business type activities in fiscal year 2018.

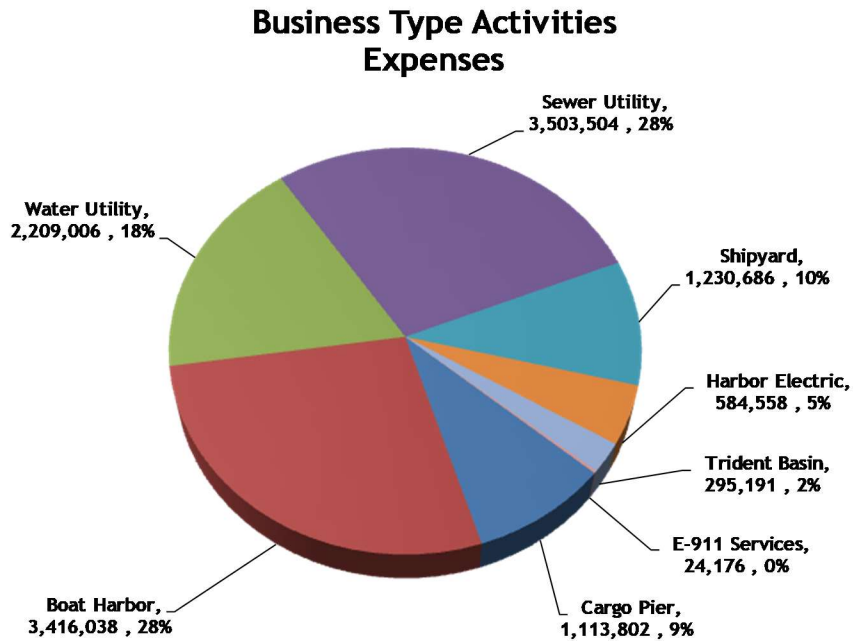


Table 3-A shows the total cost of services and the net cost of services for business-type activities in 2018. That is, it identifies the cost of these services supported by charges for services, operating grants and capital grants.

**Table 3-A
Business-Type Activities in 2018**

	Total Cost of Services 2018	Net Cost (Benefit) of Services 2018	% of Total Costs
Business-type activities:			
Cargo	\$ 1,113,802	\$ (899,196)	9.00%
Boat Harbor	3,416,038	692,451	27.60%
Water Utility	2,209,006	(2,415,595)	17.85%
Sewer Utility	3,503,504	(927,208)	28.31%
Shipyard	1,230,686	722,735	9.94%
Harbor Electric	584,558	(57,334)	4.72%
Trident Basin	295,191	245,584	2.39%
E-911 Services	24,176	(229,807)	0.20%
Total business-type activities	\$ 12,376,961	\$ (2,868,370)	100.00%

City of Kodiak, Alaska

Management's Discussion and Analysis

Financial Analysis of the Governmental Funds

The City of Kodiak uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. These funds are accounted for using the modified accrual basis of accounting.

Governmental Funds

The focus of the City of Kodiak'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 of Kodiak's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Kodiak's governmental funds reported combined ending fund balances of \$18,645,473, an increase of \$1,295,053 from the prior year. Approximately 49% of this total amount, \$9,087,460, constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is nonspendable, restricted, committed or assigned to indicate that it is not available for new spending.

The General Fund is the chief operating fund of the City of Kodiak. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$9,087,460 while total fund balance was \$9,464,616. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures.

Unassigned fund balance of \$9,087,460 represents 52% of total General Fund expenditures and transfers out of \$17,438,317. Total fund balance of \$9,464,616 represents 54% of total General Fund expenditures and transfers out of \$17,438,317.

The fund balance of the City of Kodiak's General Fund increased in the amount of \$636,015 during the current fiscal year. Key factors in this increase are as follows:

Total General Fund total operating revenues of \$18,056,813 exceeded total expenditures and transfers of \$17,420,798. Actual sales tax revenues of the General Fund exceeded budgeted sales tax revenues by \$118,529. Until this year, there has been a consistent upward trend in sales tax over the past ten years as a result of the opening of large retail stores within the City limits and an increase from 6% to 7% in fiscal year 2013. Expenditures were lower than budgeted primarily in public safety by \$1,441,417, public works by \$570,168, and general government by \$686,163. Transfers from the General Fund to other funds totaled \$2,082,488. Code requirements accounted for \$1,000,000 in transfers; other significant transfers included \$650,000 to the Sewer Utility Enterprise Fund towards lift station replacements and \$265,948 was transferred to the General Fund Vehicle Replacement Fund for ongoing City vehicle replacements.

The Nonmajor Funds have a total fund balance of \$9,180,857. Of this balance, 6% is committed for tourism, 47% is committed for economic stability, 46% assigned for capital projects, and 1% assigned for public works. There was an increase of \$476,165 in fund balances as a result capital projects.

Proprietary Funds

The City of Kodiak's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

City of Kodiak, Alaska

Management's Discussion and Analysis

Unrestricted net position of the major funds in the Harbor Facilities (Cargo Pier, Boat Harbor, and Shipyard) at the end of the year amount to \$7,004,947 and those in the Water, Sewer Facilities amounted to \$22,983,179. Nonmajor Enterprise Funds, made up of the Trident Basin, Harbor Electric, and E-911 Services Funds, had a balance of \$1,186,333 in unrestricted net position. The total change in net position for all areas was an increase of \$4,337,002. This increase can be primarily attributed to recent rate studies performed for the water utility and boat harbor.

General Fund Budgetary Highlights

The City's budget is prepared according to Alaska law using a basis of accounting that is consistent with accounting principles generally accepted in the United States of America. The most significant budgeted areas are in the General Fund.

During the year there was a \$152,774 decrease in appropriations between the original and final amended budget. Following are the main components of the increase:

\$25,000 supplemental increase to the legal department in anticipation of legal advice required for certain capital projects and ventures and general city business.

\$55,438 supplemental decrease from the police department, finance department, and public works department for the addition of the HR manager position.

\$766,540 of additional transfers out to other funds for additional repairs and maintenance at the Kodiak Fire Station.

\$471,963 supplemental increase in revenues for federal and state grant funds received.

The increases above were possible because of additional unanticipated revenues resulting from higher charges for services and required application of the prior year general fund surplus.

The actual revenues were \$168,365 less than budgeted. The actual expenditures were \$3,182,909 less than budgeted. The City made a concentrated effort to control expenditures and delay capital infrastructure projects. Expenditures were less than the amount budgeted in all functions. The largest savings were in General Government, Public Works and Public Safety. Significant amounts and percentages are shown on below.

Table 4
General Fund Budget Highlights

	Amount Under Budget	Percent Under Budget
General government	\$ 686,163	22%
Public safety	1,441,417	45%
Public works	570,168	18%
Engineering	83,667	3%
Parks and recreation	148,370	5%
Library	194,986	6%
Community services	7,844	0%
Other - insurance and administration	50,294	2%
Total under budget	<u>\$ 3,182,909</u>	

City of Kodiak, Alaska

Management's Discussion and Analysis

Capital Assets and Debt Administration

Capital Assets

At June 30, 2018, the City's capital assets have a total net book value of \$172,369,182. Table 5 on the following page compares the net book values at June 30, 2018 and 2017. The investment in capital assets includes land, buildings, improvements, infrastructure, machinery and equipment, park facilities, bridges, and construction in progress. The total decrease in the City of Kodiak's investment in capital assets for the current fiscal year was \$4,029,120 (2.4%). The decrease is primarily related to the disposal of multiple capital assets and depreciation.

Table 5
Capital Assets at June 30
Net of Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 2,501,384	\$ 2,501,384	\$ 693,997	\$ 693,997	\$ 3,195,381	\$ 3,195,381
Construction in progress	1,158,313	939,988	3,809,898	59,236,342	4,968,211	60,176,330
Buildings	40,554,093	42,544,161	41,848,998	23,853,913	82,403,091	66,398,074
Other improvements	8,740,468	8,524,025	150,434,573	110,763,027	159,175,041	119,287,052
Infrastructure	18,914,667	18,681,299	-	-	18,914,667	18,681,299
Machinery and equipment	12,004,939	12,586,149	22,582,985	21,566,027	34,587,924	34,152,176
Total capital assets	83,873,864	85,777,006	219,370,451	216,113,306	303,244,315	301,890,312
Less accumulated depreciation	25,721,505	25,509,288	105,153,628	100,800,487	130,875,133	126,309,775
Total capital assets, net	\$ 58,152,359	\$ 60,267,718	\$ 114,216,823	\$ 115,312,819	\$ 172,369,182	\$ 175,580,537

Additional information on the City's capital assets can be found in the notes to the financial statements on pages 35-36.

Debt Administration

At June 30, 2018, the City had \$553,207 in long-term leave payable for governmental activities and \$203,966 for business-type activities. The City has a \$6,719,928 balance on general obligation bonds related to the construction of a new public safety building, loans payable to the State of Alaska of \$7,095,741 related to the Water and Sewer Enterprise Funds, and \$6,166,372 of revenue bonds related to the Harbor and Shipyard Enterprise Funds. At June 30, 2018, the City recognized a net pension and OPEB liability obligation related to the State of Alaska PERS retirement plan for \$10,461,935 for governmental activities and \$3,112,653 for business-type activities.

Table 6 below summarizes all outstanding debt at June 30, 2018 with a comparison to 2017. Significant changes in long term debt are primarily related to regular payments on the debt.

City of Kodiak, Alaska

Management's Discussion and Analysis

Additional information on the City's outstanding debt can be found in the notes to the financial statements on pages 37-40.

Table 6
Debt Outstanding at June 30

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ 6,719,928	\$ 6,954,398	\$ -	\$ -	\$ 6,719,928	\$ 6,954,398
Long-term leave payable	553,207	525,481	203,966	199,630	757,173	725,111
Long-term notes payable	-	-	7,095,741	7,656,828	7,095,741	7,656,828
Revenue bonds payable	-	-	6,166,372	6,351,191	6,166,372	6,351,191
Net pension liability	10,461,935	11,817,854	3,112,653	3,754,493	13,574,588	15,572,347
Total noncurrent liabilities	\$ 17,735,070	\$ 19,297,733	\$ 16,578,732	\$ 17,962,142	\$ 34,313,802	\$ 37,259,875

Economic Factors and Next Year's Budget and Rates

- Kodiak's role as a center for transportation, governmental offices, timber, and tourism complements its role as one of the nation's largest producers of seafood. The City of Kodiak has the largest and most diversified fishing port in Alaska and is consistently ranked in the top five largest fishing ports in the U.S. in terms of value landed. The main industries of the region are commercial fishing and tourism. While some segments of the commercial fishing industry have declined in recent years, others have grown. Tourism continues to grow in Kodiak with an increased number of visitors each year.
- Kodiak's unemployment varies throughout the year due to the seasonal nature of the fishing industry. The average unemployment rate in calendar year 2017 in the Kodiak Island Borough was 5.1% compared to 7.2% Alaska wide.
- The cost of living index in Kodiak for 2017 was 130.3. Other Alaskan cities are Anchorage at 128.4, Juneau at 134.5 and Fairbanks at 129.8. In the Council for Community and Economic Research (C2ER) cost of living study, a standardized list of 57 items is priced during a fixed period of time. The average price data for each reporting city is then converted into an index number that is used for comparative purposes.

All of these factors were considered in preparing the City of Kodiak's budget for the 2019 fiscal year.

The water and sewer rates undergo a rate study every five years resulting in a recommendation to the City Council on the projected rate increases anticipated to fund operations and capital projects dealing with water and sewer improvement projects. The boat harbor rates are reviewed on a regular basis to anticipate rates needed to fund operations and capital project dealing with harbor improvement projects.

Requests for Information

This financial report is designed to provide the City's citizens, taxpayers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have a question about this report or need additional information, contact the City's office, City of Kodiak, 710 Mill Bay Road, Room 221, Kodiak, Alaska 99615. The City of Kodiak has a web site at www.city.kodiak.ak.us.

City of Kodiak, Alaska

Statement of Net Position

<i>June 30, 2018</i>	Governmental Activities	Business-type Activities	Total
Assets and Deferred Outflows of Resources			
Cash and investments	\$ 15,916,173	\$ 34,623,347	\$ 50,539,520
Receivables, net of allowance	3,641,016	1,544,958	5,185,974
Inventory	34,604	292,303	326,907
Restricted cash and investments	-	461,581	461,581
Prepays	8,756	-	8,756
Capital assets not being depreciated - land and construction in progress	3,659,697	4,503,895	8,163,592
Other capital assets, net of depreciation	54,492,662	109,712,928	164,205,590
Total Assets	77,752,908	151,139,012	228,891,920
Deferred Outflows of Resources			
Related to pensions and OPEB	1,364,102	405,849	1,769,951
Total Deferred Outflows of Resources	1,364,102	405,849	1,769,951
Total Assets and Deferred Outflows of Resources	\$ 79,117,010	\$ 151,544,861	\$ 230,661,871
Liabilities, Deferred Inflows of Resources, and Net Position			
Current Liabilities			
Accounts payable	\$ 474,891	\$ 1,180,023	\$ 1,654,914
Accrued payroll and related liabilities	277,232	96,049	373,281
Customer deposits	3,767	265,518	269,285
Accrued interest	20,663	71,116	91,779
Internal balances	63,527	(63,527)	-
Noncurrent Liabilities			
Due within one year:			
Accrued leave	243,411	114,221	357,632
Bonds payable	224,470	184,819	409,289
Loans payable	-	563,341	563,341
Due in more than one year:			
Accrued leave	309,796	89,745	399,541
Bonds payable	6,495,458	5,981,553	12,477,011
Loans payable	-	6,532,400	6,532,400
Net pension and OPEB liabilities	10,461,935	3,112,653	13,574,588
Total Liabilities	18,575,150	18,127,911	36,703,061
Deferred Inflows of Resources			
Related to pensions and OPEB	1,917,087	570,374	2,487,461
Total Liabilities and Deferred Inflows of Resources	20,492,237	18,698,285	39,190,522
Net Position			
Net investment in capital assets	51,432,431	100,954,710	152,387,141
Restricted for debt service	-	461,581	461,581
Unrestricted	7,192,342	31,430,285	38,622,627
Total Net Position	58,624,773	132,846,576	191,471,349
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 79,117,010	\$ 151,544,861	\$ 230,661,871

See accompanying notes to basic financial statements.

City of Kodiak, Alaska

Statement of Activities

Year Ended June 30, 2018	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Fees, Fines & Charges for Services	Operating Grants & Contri- butions	Capital Grants & Contri- butions	Govern- mental Activities	Business- type Activities	
Governmental Activities							
General government	\$ 3,201,123	\$ 1,338,063	\$ 67,048	\$ -	\$ (1,796,012)	\$ -	\$ (1,796,012)
Public safety	8,273,670	1,534,426	234,305	447,777	(6,057,162)	-	(6,057,162)
Public works	2,011,818	155,931	43,437	-	(1,812,450)	-	(1,812,450)
Engineering	198,298	142,231	5,387	-	(50,680)	-	(50,680)
Parks and recreation	1,762,540	196,310	15,745	-	(1,550,485)	-	(1,550,485)
Library	954,249	22,910	15,951	-	(915,388)	-	(915,388)
Community services	368,618	79,238	-	-	(289,380)	-	(289,380)
Interest on long-term debt	438,252	-	-	-	(438,252)	-	(438,252)
Total Governmental Activities	17,208,568	3,469,109	381,873	447,777	(12,909,809)	-	(12,909,809)
Business-type Activities							
Cargo Pier	1,113,802	2,007,507	5,491	-	-	899,196	899,196
Boat Harbor	3,416,038	2,480,054	23,384	220,149	-	(692,451)	(692,451)
Water Utility	2,209,006	4,615,332	9,269	-	-	2,415,595	2,415,595
Sewer Utility	3,503,504	4,411,741	18,971	-	-	927,208	927,208
Shipyard	1,230,686	504,327	3,624	-	-	(722,735)	(722,735)
Harbor Electric	584,558	641,892	-	-	-	57,334	57,334
Trident Basin	295,191	49,607	-	-	-	(245,584)	(245,584)
E-911 Services	24,176	253,983	-	-	-	229,807	229,807
Total Business-type Activities	12,376,961	14,964,443	60,739	220,149	-	2,868,370	2,868,370
Total	\$ 29,585,529	\$ 18,433,552	\$ 442,612	\$ 667,926	(12,909,809)	2,868,370	(10,041,439)
General Revenues							
Taxes:							
Property taxes					1,103,470	-	1,103,470
Sales taxes					11,868,529	-	11,868,529
Other taxes, penalties and interest					217,093	-	217,093
Grants and entitlements not restricted to a specific purpose					1,322,827	-	1,322,827
Investment income					110,660	326,764	437,424
Loss on disposal of assets					(903,704)	(2,137)	(905,841)
Other					18,701	-	18,701
Transfers					(1,130,000)	1,130,000	-
Total General Revenues and Transfers					12,607,576	1,454,627	14,062,203
Changes in net position					(302,233)	4,322,997	4,020,764
Net Position, beginning of year, as previously stated					61,027,897	129,148,640	190,176,537
Cumulative effect of a change in accounting principle					(2,100,891)	(625,061)	(2,725,952)
Net Position, beginning of year, as restated					58,927,006	128,523,579	187,450,585
Net Position, end of year					\$ 58,624,773	\$132,846,576	\$ 191,471,349

See accompanying notes to basic financial statements.

City of Kodiak, Alaska
Governmental Funds
Balance Sheet

<i>June 30, 2018</i>	<u>Major Fund</u>	Nonmajor	Total
	General	Funds	Governmental Funds
Assets			
Cash and investments	\$ 6,216,601	\$ 9,332,331	\$ 15,548,932
Receivables, net of allowance for uncollectible accounts:			
Taxes	3,386,926	61,785	3,448,711
Grants and shared revenues	62,943	24,710	87,653
Special assessments	-	48,823	48,823
Interest	43,190	12,639	55,829
Inventory	34,604	-	34,604
Prepaid items	8,756	-	8,756
Due from other funds	192,299	-	192,299
Total Assets	\$ 9,945,319	\$ 9,480,288	\$ 19,425,607
Liabilities, Deferred Inflows of Resources, and and Fund Balances			
Liabilities			
Accounts payable	\$ 199,704	\$ 271,997	\$ 471,701
Accrued payroll and related liabilities	277,232	-	277,232
Customer deposits	3,767	-	3,767
Total Liabilities	480,703	271,997	752,700
Deferred Inflows of Resources			
Deferred assessments	-	27,434	27,434
Fund Balances			
Nonspendable - prepaid items	8,756	-	8,756
Committed:			
Tourism	-	509,163	509,163
Economic stability	-	4,316,518	4,316,518
Assigned:			
Subsequent year's expenditures	368,400	-	368,400
Capital projects	-	4,262,471	4,262,471
Public works	-	92,705	92,705
Unassigned	9,087,460	-	9,087,460
Total Fund Balances	9,464,616	9,180,857	18,645,473
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 9,945,319	\$ 9,480,288	\$ 19,425,607

See accompanying notes to basic financial statements.

City of Kodiak, Alaska
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Position
June 30, 2018

Total fund balances for governmental funds		\$ 18,645,473
Total net position reported for governmental activities in the Statement of Net Position is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Land	\$ 2,501,384	
Construction in progress	1,158,313	
Buildings	40,554,093	
Improvements other than buildings	8,740,468	
Infrastructure	18,914,667	
Machinery and equipment	12,004,939	
Accumulated depreciation	<u>(25,721,505)</u>	
Total capital assets		58,152,359
Other long-term assets (special assessments receivable) are not available to pay for current period expenditures and therefore, are deferred in the funds.		
		27,434
Deferred outflows of resources related to pensions and OPEB are not deemed available to pay current period expenditures and therefore are not reported as governmental fund assets.		
		1,364,102
Deferred inflows of resources related to pensions and OPEB are not deemed due and payable in the current period and therefore are not reported as governmental fund liabilities.		
		(1,917,087)
Long-term liabilities are not deemed due and payable in the current period and therefore are not reported as governmental fund liabilities. These long-term liabilities consist of:		
Net pension and OPEB liabilities	(10,461,935)	
Bonds payable	(6,350,000)	
Bond premium	(369,928)	
Accrued leave	(553,207)	
Accrued interest	<u>(20,663)</u>	
Total long-term liabilities		(17,755,733)
Internal service funds are used by the City to charge the cost of certain activities such as insurance to individual funds. A portion of the internal service fund assets and liabilities are included in the governmental activities in the Statement of Net Position.		
		<u>108,225</u>
Total Net Position of Governmental Activities		\$ 58,624,773

See accompanying notes to basic financial statements.

City of Kodiak, Alaska

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

Year Ended June 30, 2018	Major Fund		Total
	General	Nonmajor Funds	Governmental Funds
Revenues			
Taxes:			
Property taxes	\$ 1,103,470	\$ -	\$ 1,103,470
Sales taxes	11,868,529	-	11,868,529
Other taxes, penalties and interest	17,629	213,816	231,445
Intergovernmental	1,604,865	398,629	2,003,494
Charges for services	1,867,281	-	1,867,281
Fines and forfeitures	40,067	-	40,067
Licenses and permits	87,672	-	87,672
Rental income	121,409	79,238	200,647
Interfund charges	1,273,442	-	1,273,442
Investment income	55,748	51,607	107,355
Other revenues	16,701	2,000	18,701
Total Revenues	18,056,813	745,290	18,802,103
Expenditures			
Current:			
General government	2,779,715	21,916	2,801,631
Public safety	7,699,112	63,470	7,762,582
Public works	1,618,182	54,336	1,672,518
Engineering	198,247	-	198,247
Parks and recreation	1,285,900	20,950	1,306,850
Library	734,764	1,897	736,661
Community services	194,895	164,500	359,395
Other - insurance and administration	373,614	-	373,614
Debt service:			
Bond principal	215,000	-	215,000
Bond interest	256,400	-	256,400
Capital outlay	-	694,152	694,152
Total Expenditures	15,355,829	1,021,221	16,377,050
Excess of revenues over (under) expenditures	2,700,984	(275,931)	2,425,053
Other Financing Sources (Uses)			
Transfers in	17,519	952,488	970,007
Transfers out	(2,082,488)	(17,519)	(2,100,007)
Net Other Financing Sources (Uses)	(2,064,969)	934,969	(1,130,000)
Net change in fund balances	636,015	659,038	1,295,053
Fund Balances, beginning of year	8,828,601	8,521,819	17,350,420
Fund Balances, end of year	\$ 9,464,616	\$ 9,180,857	\$ 18,645,473

See accompanying notes to basic financial statements.

City of Kodiak, Alaska
Reconciliation of Change in Fund Balances of Governmental Funds
to Statement of Activities
Year Ended June 30, 2018

Net change in fund balances - total governmental funds		\$ 1,295,053
<p>The change in net position reported for governmental activities in the Statement of Activities is different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However on the Statement of Activities, depreciation expense is recognized to allocate the cost of these items over their estimated useful lives. This is the amount by which depreciation (\$2,100,233) exceeded capital outlays (\$888,578) and net deletions.</p>		
	(1,211,655)	
<p>Governmental funds only report the revenue from the sale of assets to the extent proceeds are received from the sale. In the Statement of Activities, a gain or loss is reported for each sale on disposal. The net effect of transactions involving capital assets is to decrease net position.</p>		
Cost of assets disposed	(2,791,720)	
Accumulated depreciation of assets disposed	1,888,016	
	(903,704)	
<p>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.</p>		
Change in accrued leave	(27,726)	
Change in accrued interest payable	8	
Change in deferred outflows related to bond refunding	(201,330)	
Change in the unfunded net pension and OPEB liabilities	3,992,494	
	3,763,446	
<p>Changes in deferred inflows and outflows of resources are the results of timing differences in the actuarial report and adjustments to reflect employee and non-employee contributions based on the measurement date of the liability.</p>		
Change in special assessment deferred inflows and outflows	(14,352)	
Change in pension and OPEB related deferred inflows and outflows	(3,421,772)	
	(3,436,124)	
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction however, has any effect on net position:</p>		
Principal repayments	215,000	
Bond premium amortization	19,470	
	234,470	
<p>Internal service funds are used by management to charge the costs of certain insurance to individual funds. A portion of these activities is reported with governmental activities.</p>		
	(43,719)	
Change in Net Position of Governmental Activities		\$ (302,233)

See accompanying notes to basic financial statements.

City of Kodiak, Alaska

Proprietary Funds

Statement of Net Position

June 30, 2018	Major Enterprise Funds					Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Fund
	Cargo Pier	Boat Harbor	Water Utility	Sewer Utility	Shipyard			
Assets and Deferred Outflows of Resources								
Current Assets								
Cash and investments	\$ 4,065,277	\$ 4,688,644	\$ 18,705,390	\$ 5,969,856	\$ -	\$ 1,194,180	\$ 34,623,347	\$ 367,241
Receivables - net of allowances	334,211	114,386	332,941	400,478	114,394	248,548	1,544,958	-
Due from other funds	-	232,764	-	-	-	-	232,764	-
Inventories	-	2,760	263,730	21,396	4,417	-	292,303	-
Total Current Assets	4,399,488	5,038,554	19,302,061	6,391,730	118,811	1,442,728	36,693,372	367,241
Noncurrent Assets								
Restricted cash and investments	-	119,556	-	-	342,025	-	461,581	-
Property, plant and equipment, net	42,834,603	10,512,632	27,543,652	16,476,308	13,864,872	2,984,756	114,216,823	-
Total Noncurrent Assets	42,834,603	10,632,188	27,543,652	16,476,308	14,206,897	2,984,756	114,678,404	-
Total Assets	47,234,091	15,670,742	46,845,713	22,868,038	14,325,708	4,427,484	151,371,776	367,241
Deferred Outflows of Resources								
Related to pensions	36,638	156,287	61,948	126,728	24,248	-	405,849	-
Total Assets and Deferred Outflows of Resources	\$ 47,270,729	\$ 15,827,029	\$ 46,907,661	\$ 22,994,766	\$ 14,349,956	\$ 4,427,484	\$ 151,777,625	\$ 367,241
Liabilities, Deferred Inflows of Resources, and Net Position								
Liabilities								
Current Liabilities								
Accounts payable	\$ 2,220	\$ 74,630	\$ 937,835	\$ 59,265	\$ 57,714	\$ 48,359	\$ 1,180,023	\$ 3,190
Accrued payroll and related liabilities	5,194	39,609	14,836	30,987	5,222	201	96,049	-
Customer deposits	-	243,682	3,300	-	3,000	15,536	265,518	-
Accrued interest	-	5,268	31,169	15,576	19,103	-	71,116	-
Due to other funds	-	-	-	-	232,764	192,299	425,063	-
Current portion:								
Accrued leave	597	55,723	15,131	37,569	5,201	-	114,221	-
Bonds payable	-	54,624	-	-	130,195	-	184,819	-
Loans payable	-	-	291,093	225,748	46,500	-	563,341	-
Total Current Liabilities	8,011	473,536	1,293,364	369,145	499,699	256,395	2,900,150	3,190
Noncurrent Liabilities								
Long term portion:								
Accrued leave	469	43,783	11,888	29,518	4,087	-	89,745	-
Bonds payable	-	1,662,850	-	-	4,318,703	-	5,981,553	-
Loans payable	-	-	3,625,347	2,395,553	511,500	-	6,532,400	-
Net pension liability	280,994	1,198,636	475,111	971,940	185,972	-	3,112,653	-
Total Noncurrent Liabilities	281,463	2,905,269	4,112,346	3,397,011	5,020,262	-	15,716,351	-
Total Liabilities	289,474	3,378,805	5,405,710	3,766,156	5,519,961	256,395	18,616,501	3,190
Deferred Inflows of Resources								
Related to pensions	51,490	219,643	87,061	178,102	34,078	-	570,374	-
Total Liabilities and Deferred Inflows of Resources	340,964	3,598,448	5,492,771	3,944,258	5,554,039	256,395	19,186,875	3,190
Net Position								
Net investment in capital assets	42,834,603	8,795,158	23,627,212	13,855,007	8,857,974	2,984,756	100,954,710	-
Restricted for debt service	-	119,556	-	-	342,025	-	461,581	-
Unrestricted (deficit)	4,095,162	3,313,867	17,787,678	5,195,501	(404,082)	1,186,333	31,174,459	364,051
Total Net Position	46,929,765	12,228,581	41,414,890	19,050,508	8,795,917	4,171,089	132,590,750	364,051
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 47,270,729	\$ 15,827,029	\$ 46,907,661	\$ 22,994,766	\$ 14,349,956	\$ 4,427,484		\$ 367,241
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.							255,826	
Net Position of Business-type Activities							\$ 132,846,576	

See accompanying notes to basic financial statements.

City of Kodiak, Alaska
Proprietary Funds
Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2018	Major Enterprise Funds					Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Fund
	Cargo Pier	Boat Harbor	Water Utility	Sewer Utility	Shipyard			
Operating Revenues	\$ 2,007,507	\$ 2,480,054	\$ 4,615,332	\$ 4,411,741	\$ 504,327	\$ 945,482	\$ 14,964,443	\$ 589,804
Operating Expenses								
Salaries and benefits	265,247	1,159,809	487,595	1,208,788	181,596	7,265	3,310,300	-
Professional	4,778	52,288	39,467	87,488	20,985	20,231	225,237	-
Contributions	-	17,165	-	-	-	-	17,165	-
Goods and services	106,017	186,832	180,947	305,952	70,696	525,979	1,376,423	650,833
Repairs and maintenance	20,376	110,622	25,781	41,690	74,255	5,329	278,053	-
Utilities and fuel	26,097	238,513	347,404	232,979	30,615	19,254	894,862	-
Administrative services	9,378	1,776	-	-	-	-	11,154	-
Machinery and equipment	-	21,748	6,190	11,397	-	-	39,335	-
Interfund charges	148,638	247,574	354,046	370,761	106,215	76,276	1,303,510	-
Depreciation	532,005	1,279,565	654,235	1,209,543	526,861	249,591	4,451,800	-
Total Operating Expenses	1,112,536	3,315,892	2,095,665	3,468,598	1,011,223	903,925	11,907,839	650,833
Earnings (loss) from operations	894,971	(835,838)	2,519,667	943,143	(506,896)	41,557	3,056,604	(61,029)
Nonoperating Revenues (Expenses)								
Investment income	42,116	64,446	160,992	49,333	(3)	9,880	326,764	3,305
Interest expense	-	(94,754)	(60,353)	(26,736)	(218,627)	-	(400,470)	-
State PERS relief	5,491	23,384	9,269	18,971	3,624	-	60,739	-
Loss on sale of capital assets	-	-	(2,137)	-	-	-	(2,137)	-
Engineering and feasibility studies	-	-	(50,851)	(3,796)	-	-	(54,647)	-
Nonoperating Revenues (Expenses), net	47,607	(6,924)	56,920	37,772	(215,006)	9,880	(69,751)	3,305
Earnings (loss) before contributions and transfers	942,578	(842,762)	2,576,587	980,915	(721,902)	51,437	2,986,853	(57,724)
Capital contributions	-	220,149	-	-	-	-	220,149	-
Transfers in	-	500,000	-	650,000	332,432	-	1,482,432	-
Transfers out	-	(332,432)	(10,000)	(10,000)	-	-	(352,432)	-
Change in net position	942,578	(455,045)	2,566,587	1,620,915	(389,470)	51,437	4,337,002	(57,724)
Net Position, beginning, as previously stated	46,043,614	12,924,328	38,943,711	17,624,771	9,222,733	4,119,652		421,775
Cumulative effect of a change in accounting principle	(56,427)	(240,702)	(95,408)	(195,178)	(37,346)	-		-
Net Position, beginning, as restated	45,987,187	12,683,626	38,848,303	17,429,593	9,185,387	4,119,652		421,775
Net Position, end of year	\$ 46,929,765	\$ 12,228,581	\$ 41,414,890	\$ 19,050,508	\$ 8,795,917	\$ 4,171,089		\$ 364,051
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.							(14,005)	
Change in Net Position of Business-type Activities							\$ 4,322,997	

See accompanying notes to basic financial statements.

City of Kodiak, Alaska
Proprietary Funds
Statement of Cash Flows

Year Ended June 30, 2018	Major Enterprise Funds					Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Fund
	Cargo Pier	Boat Harbor	Water Utility	Sewer Utility	Shipyard			
Cash Flows from (for) Operating Activities								
Receipts from customers and users	\$ 1,848,938	\$ 2,384,770	\$ 4,651,910	\$ 4,383,847	\$ 449,532	\$ 836,752	\$ 14,555,749	\$ -
Receipts from interfund services provided	-	75,218	-	-	-	-	75,218	589,804
Payments for interfund services used	(148,638)	(247,574)	(354,046)	(370,761)	(106,215)	(76,276)	(1,303,510)	-
Payments to suppliers	(166,545)	(612,770)	(627,644)	(682,483)	(142,848)	(556,249)	(2,788,539)	(647,643)
Payments to employees	(289,547)	(1,239,661)	(692,586)	(1,185,029)	(189,638)	(7,238)	(3,603,699)	-
Net cash flows from (for) operating activities	1,244,208	359,983	2,977,634	2,145,574	10,831	196,989	6,935,219	(57,839)
Cash Flows from Noncapital Financing Activities								
Transfers in	-	500,000	-	650,000	332,432	-	1,482,432	-
Transfers out	-	(332,432)	(10,000)	(10,000)	-	-	(352,432)	-
(Increase) decrease due from other funds	-	9,263	-	-	-	-	9,263	-
Increase (decrease) due to other funds	-	-	-	-	(9,263)	(969)	(10,232)	-
Net cash flows from (for) noncapital financing activities	-	176,831	(10,000)	640,000	323,169	(969)	1,129,031	-
Cash Flows from (for) Capital and Related Financing Activities								
Principal paid on long-term debt	-	(55,000)	(289,559)	(225,028)	(161,500)	-	(731,087)	-
Interest paid on long-term debt	-	(63,763)	(62,369)	(15,776)	(172,500)	-	(314,408)	-
Purchase of property, plant and equipment	(188,333)	(477,989)	(549,851)	(1,512,695)	-	-	(2,728,868)	-
Feasibility studies	-	-	(50,851)	(3,796)	-	-	(54,647)	-
Capital contributions received	1,021	393,013	-	-	-	-	394,034	-
Net cash flows from (for) capital and related financing activities	(187,312)	(203,739)	(952,630)	(1,757,295)	(334,000)	-	(3,434,976)	-
Cash Flows from Investing Activities								
Investment income received	42,116	64,446	160,992	49,333	(3)	9,880	326,764	3,305
Net increase (decrease) in cash and investments	1,099,012	397,521	2,175,996	1,077,612	(3)	205,900	4,956,038	(54,534)
Cash and Investments, beginning of year	2,966,265	4,410,679	16,529,394	4,892,244	342,028	988,280	30,128,890	421,775
Cash and Investments, end of year	\$ 4,065,277	\$ 4,808,200	\$18,705,390	\$ 5,969,856	\$ 342,025	\$1,194,180	\$ 35,084,928	\$ 367,241
Reconciliation of earnings (loss) from operations to net cash flows from (for) operating activities:								
Earnings (loss) from operations	\$ 894,971	\$ (835,838)	\$ 2,519,667	\$ 943,143	\$ (506,896)	\$ 41,557	\$ 3,056,604	\$ (57,839)
Adjustments to reconcile earnings (loss) from operations to net cash flow from (for) operating activities:								
Depreciation	532,005	1,279,565	654,235	1,209,543	526,861	249,591	4,451,800	-
Noncash State PERS relief	5,491	23,384	9,269	18,971	3,624	-	60,739	-
Pension expense	(25,539)	(109,781)	(216,336)	(2,983)	(6,518)	-	(361,157)	-
(Increase) decrease in assets:								
Accounts receivable	(158,569)	(19,881)	38,778	(27,894)	(57,795)	(108,131)	(333,492)	-
Inventory	-	(2,760)	(1,532)	(6,746)	(4,417)	-	(15,455)	-
Increase (decrease) in liabilities:								
Accounts payable	101	18,934	(26,323)	3,769	51,849	14,545	62,875	-
Accrued payroll and related liabilities	(2,686)	7,679	(2,423)	5,083	1,274	27	8,954	-
Accrued leave	(1,566)	(1,134)	4,499	2,688	(151)	-	4,336	-
Customer deposits	-	(185)	(2,200)	-	3,000	(600)	15	-
Net Cash Flows from (for) Operating Activities	\$ 1,244,208	\$ 359,983	\$ 2,977,634	\$ 2,145,574	\$ 10,831	\$ 196,989	\$ 6,935,219	\$ (57,839)
Noncash capital and related financing activities:								
Purchase of capital assets on account	\$ -	\$ 28,561	\$ 75,364	\$ 26,374	\$ -	\$ -	\$ 130,299	\$ -

See accompanying notes to basic financial statements.

City of Kodiak, Alaska

Notes to Basic Financial Statements June 30, 2018

1. Summary of Significant Accounting Policies

Reporting Entity

The City of Kodiak (the City) was formed by a Home Rule Charter on March 16, 1965, 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 and fire), public works, parks and recreation, community services, library, boat harbor, port, water, sewer, harbor electric utilities, airport facilities 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.

The City of Kodiak is a municipal corporation governed by an elected council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Kodiak, Alaska. There are no component units based on operational and financial relationship criteria.

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, are reported separately from the *business-type activities*, which rely to a significant extent on fees and charges for support. The effect of 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 1) fees, fines and charges to customers or applicants who use, purchase, or directly benefit from goods, services, or privileges provided by a given segment or function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

Measurement Focus, 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 the related cash flows. Grants and similar programs are recognized as revenues 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 use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by laws through constitutional provisions or enabling legislation.

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

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 within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursement grants are considered available if they are collected within one year 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 compensated absences and claims and judgments, are recorded only to the extent they have matured.

Sales taxes, property taxes, charges 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 measurable 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 City, except those required to be accounted for in another fund.

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

The *Cargo Pier Enterprise Fund* accounts for all activities of the cargo pier.

The *Boat Harbor Enterprise Fund* accounts for all activities of smaller crafts and all boat harbors within the City limits.

The *Water Utility Enterprise Fund* accounts for the distribution of water services.

The *Sewer Utility Enterprise Fund* accounts for the operations of the sewer distribution system.

The *Shipyards Enterprise Fund* accounts for the shipyard activities.

Additionally, the City also reports an internal service fund. This fund accounts for the insurance activities of the City and provides this service to other departments and agencies of the City on a cost reimbursement basis.

The effect of interfund activity has been eliminated from the government-wide financial statements with the exception of 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. In addition, general revenues include all taxes, investment income, and State of Alaska entitlement revenues.

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 funds and the internal service funds are charges to customers for sales and services and to other City departments for services provided. Operating expenses for the enterprise funds 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 nonoperating 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Central Treasury

The City maintains a central treasury for most of its cash and cash equivalents, which is utilized by all funds. Investment income is allocated to each fund quarterly based on the average monthly balance of each fund's equity in the central treasury.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the proprietary funds consider all cash accounts to be cash and cash equivalents. The central treasury, which holds cash and investments, is used essentially as a cash management pool by each fund.

Inventories

Enterprise Fund inventories consist of various supplies. Inventories are valued at the lower of cost (first-in, first-out) or market (net realizable value) and are recorded as expenses when consumed rather than when purchased.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaids are recognized when incurred and the expenditure is recorded in the period that is benefited using the purchases method.

Receivables and Payables

Activity 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) or "advances to other funds" or "advances from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to other funds" or "due from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by nonspendable fund balance in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

All taxes receivable and other receivables are shown net of an allowance for uncollectible receivables. Trade accounts receivable in excess of 180 days comprise the trade accounts receivable allowance for doubtful accounts.

Restricted Assets

The City is obligated by various sources to restrict the availability of certain assets. Specifically, assets are restricted from external sources such as creditors, grantors, contributors, or laws or regulations of other governments. Assets are also subject to restriction through constitutional law provisions or enabling legislation. The City's net position is restricted for debt service, capital projects, and certain funds that are restricted by state law. The City's restricted assets also include monies set aside per bond covenants.

Capital Assets

Government-wide Financial Statements

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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition 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 the useful life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the City are depreciated using the straight line method over the following estimated useful lives:

<i>Assets</i>	<i>Years</i>
Buildings	50
Building improvements	20
Public domain infrastructure	50
System infrastructure	30
Vehicles	7
Office and computer equipment	5

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

Deferred Outflows / Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (i.e. expense / expenditure) until then. The City currently reports pension and OPEB related deferred outflows. These items result from changes in assumption and relative share as well as pension contributions after the measurement date and changes related to bond refunding. These items will be recognized as expense in future periods.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (i.e. revenue) until that time. The City currently reports deferred inflows related to pension and OPEB items and assessments. The pension and OPEB items result from changes in assumption and relative share. The deferred assessments occur when assessment districts are formed for repayment of City constructed projects that benefit those specific properties. The assessments are deferred until the billings come due or until the property is sold. Deferred inflows will result in future revenues or reduction of expense.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental fund financial statements only if they have matured, for example, as a result of employee resignation or retirement.

Long-term Debt

In the government-wide and proprietary fund 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 bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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 the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

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 - Amounts are constrained by the City's intent to be used for specific purposes, but are not restricted or committed. The City Council may assign funds through the resolution process or through the budgetary process. In addition, assigned fund balance includes all remaining amounts (except for negative balances) that are reported in governmental funds, other than the General Fund, that are not otherwise constrained. By the establishment of such governmental funds (other than the General Fund), the City Council has implicitly assigned the residual fund balance to that purpose.

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.

Pension and OPEB Plans

Substantially all employees of the City participate in the Public Employees' Retirement System (PERS) administered by the State of Alaska. For purposes of measuring the net pension and OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension/OPEB expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and additions to/from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Property Taxes

Property taxes are liens on the assessed value of taxable property as of January 1. Pursuant to Alaska Statutes, the City establishes the mill rate and tax levy on or before June 15. The City is located within the Kodiak Island Borough, which acts as the City's agent in the billing and collection of property taxes. Tax bills are mailed on or before July 1 and are payable in two installments on August 15th and November 15th. City property tax revenues are recognized in the fiscal year in which they are collectible and available (collected within 60 days after year end) to finance expenditures of the fiscal year.

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

2. Stewardship, Compliance, and Accountability

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 and the Special Assessments Special Revenue Fund. All annual appropriations lapse at fiscal year-end.

The appropriated budget is prepared by fund, department, and object. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. The Council made several supplemental budgetary appropriations throughout the year.

Encumbrance accounting is employed in governmental funds. Any 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. The commitments will be reappropriated and honored during the subsequent year.

3. Cash and Investments

The City maintains a cash and investment pool (central treasury) that is available for use by all funds.

Cash

At year end, the carrying amount of the City's deposits in financial institutions was \$29,844,325 and the reconciled balance totaled \$29,936,266. Of the bank balance, \$250,000 was insured by FDIC insurance and up to \$34,287,130 was covered by collateral held by the pledging financial institutions' trust department or agent in the City's name. There were no uninsured cash balances. Included in the carrying amount above is \$461,581 of restricted cash for revenue bond reserves. Petty cash on hand at June 30, 2018 was \$2,740.

Investments

Chapter 3.16 of the City Code specifies that the City may invest in bonds, notes or other obligations, direct or otherwise, of the United States; bonds or other evidence of indebtedness of the State of Alaska or its political subdivisions or other states of the United States; Alaska Municipal League Investment Pool, Inc. (AMLIP); and savings accounts, certificates of deposit, bank acceptances, repurchase agreements, and such other security instruments as may be authorized by law. The investment policy requires collateralization of all deposits except direct purchases of securities and/or participation in AMLIP.

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

Investments are reported at fair value with unrealized gain or loss in investments reflected in the investment income. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy inputs are as follows:

- *Level 1 inputs* - quoted prices in active markets for identical assets
- *Level 2 inputs* - significant other observable inputs which are valued using models with various inputs, such as, but not limited to, daily cash flow, snapshots of market indices and spread scales
- *Level 3 inputs* - significant unobservable inputs

The City has the following fair value measurements as of June 30, 2018:

		Investments Measured at Fair Value		
		Fair Value Measurement Using		
<i>Investments by fair value level</i>	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government Agencies	\$ 3,337,815	\$ 3,337,815	\$ -	\$ -
Certificates of Deposit	244,697	244,697	-	-
U.S. Treasury Obligations	13,502,160	13,502,160	-	-
Alaska Municipal League Investment Pool	3,977,423	-	3,977,423	-
Total investments at fair value level	\$ 21,062,095	\$ 17,084,672	\$ 3,977,423	\$ -

Investment maturities at June 30, 2018 are as follows:

	Fair Value	Investment Maturity (in years)	
		Less than 1	1-5
Investment Type			
U.S. Government Agencies	\$ 3,337,815	\$ 2,743,490	\$ 594,325
Certificates of deposit	244,697	-	244,697
U.S. Treasury Obligations	13,502,160	4,988,978	8,513,182
Alaska Municipal League Investment Pool	3,977,423	3,977,423	-
Total Investments	\$ 21,062,095	\$ 11,709,891	\$ 9,352,204

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City has no formal policy relating to interest rate risk.

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City has no formal policy relating to credit risk. However, all of the U.S. government agency investments are rated AAA by Standard and Poor's.

The Alaska Municipal League Investment Pool is an external investment pool that is rated AAA by Standard and Poor's. Alaska Statute 37.23 establishes regulatory oversight of the pool. The law sets forth numerous requirements regarding authorized investments and reporting. The Pool is incorporated in the State of Alaska as a nonprofit corporation and reports to its Board of Directors. Alaska Statute 37.23.050 requires the retention of an investment manager.

The manager is required to produce monthly disclosure statements to its participants. AMLIP also has retained an investment advisor to ensure compliance with investment policies. Participation in AMLIP is voluntary. AMLIP must maintain a dollar-weighted average maturity of 90 days or less, and only purchase instruments having remaining maturities of 397 days or less. On a monthly basis, the investments are reviewed for fair value by an independent pricing service. As of June 30, 2018, the fair value of the investment in AMLIP approximates amortized cost.

4. Accounts Receivable and Unearned Revenues

Receivables at June 30, 2018, for the City's individual major fund, and nonmajor funds in the aggregate including applicable allowances for doubtful accounts, are as follows:

	Major Governmental Fund		Nonmajor Governmental Funds	Totals
	General			
Taxes	\$ 3,386,926		\$ 61,785	\$ 3,448,711
Grants and shared revenues	62,943		24,710	87,653
Special assessments	-		48,823	48,823
Interest	43,190		12,639	55,829
Total receivables	3,493,059		147,957	3,641,016
Less allowance for doubtful accounts	-		-	-
Net Receivables	\$ 3,493,059		\$ 147,957	\$ 3,641,016

	Major Enterprise Funds					Nonmajor Enterprise Funds	Totals
	Cargo Pier	Boat Harbor	Water Utility	Sewer Utility	Shipyard		
Accounts	\$ 334,211	\$ 130,034	\$ 335,165	\$ 403,345	\$ 114,394	\$ 248,548	\$ 1,565,697
Total receivables	334,211	130,034	335,165	403,345	114,394	248,548	1,565,697
Less allowance for doubtful accounts	-	15,648	2,224	2,867	-	-	20,739
Net Receivables	\$ 334,211	\$ 114,386	\$ 332,941	\$ 400,478	\$ 114,394	\$ 248,548	\$ 1,544,958

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

Governmental funds report deferred inflows of resources when there is an acquisition of fund balance that is applicable to a future reporting period. At June 30, 2018, the various components of deferred inflows of resources reported in the governmental funds were as follows:

	Nonmajor Funds
Deferred Special Assessments	\$ 27,434

5. Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

Governmental Activities	Balance July 1, 2017	Additions	Deletions and Reclassifications	Balance June 30, 2018
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 2,501,384	\$ -	\$ -	\$ 2,501,384
Construction in progress	939,988	694,152	475,827	1,158,313
Total assets not being depreciated	3,441,372	694,152	475,827	3,659,697
<i>Capital assets being depreciated:</i>				
Buildings	42,544,161	26,015	2,016,083	40,554,093
Improvements other than buildings	8,524,025	216,443	-	8,740,468
Infrastructure	18,681,299	233,368	-	18,914,667
Machinery and equipment	12,586,149	194,427	775,637	12,004,939
Total assets being depreciated	82,335,634	670,253	2,791,720	80,214,167
<i>Less accumulated depreciation for:</i>				
Buildings	6,748,164	800,233	1,113,574	6,434,823
Improvements other than buildings	1,607,154	392,325	-	1,999,479
Infrastructure	8,409,846	275,154	-	8,685,000
Machinery and equipment	8,744,124	632,521	774,442	8,602,203
Total accumulated depreciation	25,509,288	2,100,233	1,888,016	25,721,505
Total capital assets being depreciated, net	56,826,346	(1,429,980)	903,704	54,492,662
Governmental Activity Capital Assets, net	\$ 60,267,718	\$ (735,828)	\$ 1,379,531	\$ 58,152,359

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

Business-type Activities	Balance July 1, 2017	Additions and Reclassifications	Deletions	Balance June 30, 2018
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 693,997	\$ -	\$ -	\$ 693,997
Construction in progress	59,236,342	3,357,942	58,784,386	3,809,898
Total assets not being depreciated	59,930,339	3,357,942	58,784,386	4,503,895
<i>Capital assets being depreciated:</i>				
Buildings	23,853,913	18,018,832	23,747	41,848,998
Improvements other than buildings	110,763,027	39,671,546	-	150,434,573
Machinery and equipment	21,566,029	1,094,007	77,051	22,582,985
Total assets being depreciated	156,182,969	58,784,385	100,798	214,866,556
<i>Less accumulated depreciation for:</i>				
Buildings	18,792,643	858,134	21,610	19,629,167
Improvements other than buildings	75,460,618	2,974,093	-	78,434,711
Machinery and equipment	6,547,228	619,573	77,051	7,089,750
Total accumulated depreciation	100,800,489	4,451,800	98,661	105,153,628
Total capital assets being depreciated, net	55,382,480	54,332,584	2,137	109,712,928
Business Type Activity Capital Assets, net	\$ 115,312,819	\$ 57,690,527	\$58,786,523	\$ 114,216,823

Depreciation expense was charged to the functions as follows, for the year ended June 30, 2018:

Governmental Activities	
General government	\$ 129,862
Public safety	820,988
Public works	400,327
Parks and recreation	482,823
Library	257,010
Community services	9,223
Total Governmental Activities Depreciation	\$ 2,100,233
Business-type Activities	
Cargo Pier	\$ 532,005
Boat Harbor	1,279,565
Water Utility	654,235
Sewer Utility	1,209,543
Shipyard	526,861
Harbor Electric	863
Trident Basin	248,728
Total Business-Type Activities Depreciation	\$ 4,451,800

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

6. Long Term Debt

Long-term debt at June 30, 2018, is comprised of the following:

Governmental Activities	Balance at July 1, 2017	Additions	Retirements	Balance at June 30, 2018	Due Within One Year
\$8,000,000 2008 Series A Public Safety Building General Obligation Bonds, due in annual installments of \$195,000 to \$480,000 plus interest at 4.0% to 5.2% through 2038	\$ 210,000	\$ -	\$ 210,000	\$ -	\$ -
\$8,000,000 2016 Series Three Public Safety Building General Obligation Bonds, due in annual installments of \$205,000 to \$440,000 plus interest at 2.0% to 5.0% through 2038	6,355,000	-	5,000	6,350,000	205,000
Bond premium	389,398	-	19,470	369,928	19,470
Net pension and OPEB liabilities	11,817,854	-	1,355,919	10,461,935	-
Accrued leave	525,481	550,811	523,085	553,207	243,411
Total Governmental Activities	\$ 19,297,733	\$ 550,811	\$ 2,113,475	\$ 17,735,070	\$ 467,881

The net pension and OPEB liabilities and accrued leave related to governmental activities are generally liquidated by the General Fund.

Business-type Activities	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018	Due Within One Year
Revenue Bonds: \$2,000,000 2016 Series Three Boat Harbor Revenue Bonds, due in annual installments of \$55,000 to \$115,000 plus interest at 2.0% to 5.0% through 2038	\$ 1,680,000	\$ -	\$ 55,000	\$ 1,625,000	\$ 50,000
\$4,000,000 2016 Series Three Shipyard Revenue Bonds, due in annual installments of \$85,000 to \$270,000 plus interest at 2.0% to 5.0% through 2038	3,485,000	-	85,000	3,400,000	90,000
\$1,000,000 2016 Series Three Shipyard Revenue Bonds, due in annual installments of \$30,000 to \$60,000 plus interest at 2.0% to 5.0% through 2037	875,000	-	30,000	845,000	30,000

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

Business-type Activities, continued	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018	Due Within One Year
Loans Payable:					
\$550,000 Sewer loan, due in annual installments of \$55,000, plus interest at 1.5% through 2019	110,000	-	55,000	55,000	55,000
\$1,000,000 Sewer loan, due in annual installments of \$47,287, including interest at 1.5% through 2030	683,311	-	47,996	635,315	48,715
\$930,000 Shipyard loan, due in annual installments of \$46,500, plus interest at 1.5% through 2030	604,500	-	46,500	558,000	46,500
\$862,000 Water loan, due in annual installments of \$50,208, including interest at 1.5% through 2030	589,014	-	41,372	547,642	41,993
\$341,930 Water loan, due in annual installments of \$64,603 plus interest at 1.5% through 2019	193,811	-	64,604	129,207	64,604
\$341,930 Sewer loan, due in annual installments of \$32,302 plus interest at 1.5% through 2024	258,413	-	32,301	226,112	32,303
\$5,982,000 (maximum) Water loan, due in annual installments of \$77,168, including interest at 1.5% through 2032	1,090,479	-	60,810	1,029,669	61,722
\$1,878,492 Water loan, due in annual installments of \$122,773 plus interest of 1.5% through 2036	2,332,696	-	122,774	2,209,922	122,774
\$1,794,604 Sewer loan, due in annual installments of \$89,730 plus interest of 1.5% through 2037	1,794,604	-	89,730	1,704,874	89,730
Bond premium	311,191	-	14,819	296,372	14,819
Net pension and OPEB liabilities	3,754,493	-	641,840	3,112,653	-
Accrued leave	199,630	179,933	175,597	203,966	114,221
Total Business-type Activities	\$ 17,962,142	\$ 179,933	\$ 1,563,343	\$ 16,578,732	\$ 861,469

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

Annual debt service requirements to maturity for all the above Governmental Activities general obligation bonded debt outstanding as of June 30, 2018, are as follows:

Governmental Activities	General Obligation Bonds		
	Principal	Interest	Total
<i>Years Ending June 30,</i>			
2019	\$ 205,000	\$ 243,850	\$ 448,850
2020	215,000	235,450	450,450
2021	225,000	226,650	451,650
2022	230,000	217,550	447,550
2023	240,000	206,950	446,950
2024-2028	1,415,000	835,125	2,250,125
2029-2033	1,750,000	491,863	2,241,863
2034-2038	2,070,000	178,800	2,248,800
	\$ 6,350,000	\$ 2,636,238	\$ 8,986,238

Annual debt service requirements to maturity for all the above Business-type Activities revenue bonds and loans payable obligations outstanding as of June 30, 2018, are as follows:

Business-type Activities	Revenue Bonds			Loans Payable		
	Principal	Interest	Total	Principal	Interest	Total
<i>Years Ending June 30,</i>						
2019	\$ 170,000	\$ 222,094	\$ 392,094	\$ 563,341	\$ 100,480	\$ 663,821
2020	180,000	215,094	395,094	510,627	97,986	608,613
2021	185,000	207,794	392,794	448,345	90,327	538,671
2022	195,000	200,194	395,194	450,700	83,601	534,302
2023	205,000	191,169	396,169	453,091	76,841	529,932
2024-2028	1,170,000	789,219	1,959,219	2,205,689	282,976	2,488,665
2029-2033	1,695,000	490,356	2,185,356	1,736,707	126,006	1,862,713
2034-2038	2,070,000	178,291	2,248,291	727,241	24,509	751,750
	\$ 5,870,000	\$ 2,494,211	\$ 8,364,211	\$ 7,095,741	\$ 882,726	\$ 7,978,467

Revenue Bond Requirements

Certain covenants of the revenue bonds require the establishment of bond redemption and reserve accounts. This requirement is reflected as restricted cash and investments in the Boat Harbor and Shipyard Enterprise Funds in the total amount of \$461,581.

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

7. Advance Refunding of Debt

In November 2016, the City issued \$6,355,000 of 2016 Series Three and Four general obligation bonds with an average interest rate of 3.692% to advance refund \$6,280,000 of outstanding 2008 Series A bonds with an average interest rate of 5.073%. The net proceeds of \$6,682,661 (after payment of \$61,738 in issuance costs) was used to purchase U.S. government securities. Those securities were deposited in an irrevocable trusts with an escrow agent to provide for all future debt service payments on the 2008 Series A bonds. As a result, the 2008 Series A bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. As of June 30, 2018, the amount of defeased debt still outstanding was \$6,275,000.

In November 2016, the Boat Harbor Fund issued \$1,680,000 of 2016 Series Three and Four Bonds with an average interest rate of 3.675% to advance refund \$1,700,000 of outstanding 2007 Series A bonds with an average interest rate of 4.686%. The net proceeds of \$1,760,432 (after payment of \$16,665 in issuance costs) plus \$10,981 in additional resources were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trusts with and escrow agent to provide for all future debt service payments on the 2007 Series A bonds. As a result, the 2007 Series A bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. As of June 30, 2018, the amount of defeased debt still outstanding was \$1,645,000.

In November 2016, the Shipyard Fund issued \$3,485,000 of 2016 Series Three and Four Bonds with an average interest rate of 3.599% to advance refund \$3,490,000 of outstanding 2007 Series A bonds with an average interest rate of 4.698%. The net proceeds of \$3,610,306 (after payment of \$33,808 in issuance costs) plus \$26,571 in additional resources were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trusts with and escrow agent to provide for all future debt service payments on the 2007 Series A bonds. As a result, the 2007 Series A bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. As of June 30, 2018, the amount of defeased debt still outstanding was \$3,405,000.

In November 2016, the Shipyard Fund also issued \$875,000 of 2016 Series 3 Bonds with an average interest rate of 3.711% to advance refund \$850,000 of outstanding 2009 Series 1 bonds with an average interest rate of 5.091%. The net proceeds of \$921,397 (after payment of \$8,581 in issuance costs) plus 9,642 in additional resources were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trusts with and escrow agent to provide for all future debt service payments on the 2007 Series A bonds. As a result, the 2007 Series A bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. As of June 30, 2018, the amount of defeased debt still outstanding was \$820,000.

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City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

8. Fund Balances

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 Fund	Nonmajor Funds	Totals
Nonspendable - prepaid items	\$ 8,756	\$ -	\$ 8,756
Committed:			
Tourism	-	509,163	509,163
Economic stability	-	4,316,518	4,316,518
Assigned:			
Subsequent year's expenditures	368,400	-	368,400
Capital projects	-	4,262,471	4,262,471
Public works	-	92,705	92,705
Unassigned	9,087,460	-	9,087,460
Total Fund Balances	\$ 9,464,616	\$ 9,180,857	\$ 18,645,473

9. Sales Tax Revenues

A sales tax of seven (7) percent of the sales price or charge is levied on all sales, rentals, and services made within the City. Prior to January 1, 2018, the maximum taxable sale was \$750 per transaction. After January 1, 2018, the maximum taxable sale is \$3,000 per transactions, except for the charge of rental of any residential or commercial real property for a period in excess of one month, which remains at \$750 per transaction. An additional five (5) percent of the rental charge is levied on all transient room rentals within the City.

Net sales tax revenues and transient room taxes for the year ended June 30, 2018 are:

<u>General Fund general sales taxes</u>	<u>\$ 11,868,529</u>
<u>Tourism Development Special Revenue Fund room taxes</u>	<u>\$ 205,226</u>

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

The sales tax and transient room tax proceeds are allocated in accordance with Ordinance Number 964, amending City Code Chapter 3.08 relating to taxes, in the following manner:

	Percentage	Maximum Proceeds
Fund		
General Fund	5.00%	N/A
Street Improvements Capital Projects Fund	0.90%	\$ 450,000
Parks and Recreation Capital Projects Fund	0.10%	50,000
Boat Harbor Enterprise Fund	1.00%	500,000
<hr/>		
Total Sales Tax	7.00%	\$ 1,000,000

	Percentage	Maximum Proceeds
Fund		
Council approved tourism program	3.50%	N/A
Tourism enhancement projects	1.00%	N/A
Administrative costs associated with projects	0.50%	N/A
<hr/>		
Total Transient Room Tax	5.00%	N/A

Sales tax revenues associated with the Capital Projects Funds are recorded as transfers from the General Fund to the applicable Capital Project Fund. Allocations of sales taxes to these funds for the year ended June 30, 2018:

Capital Projects Funds:	
Street Improvements	\$ 450,000
Parks and Recreation	50,000
<hr/>	
Enterprise Fund - Boat Harbor	500,000
<hr/>	
Total Sales Tax Revenues Transferred from the General Fund	\$ 1,000,000

10. Interfund Receivables and Transfers

A schedule of interfund balances and transfers for the year ended June 30, 2018, follows:

Due from Other Funds	
Due to the General Fund from nonmajor enterprise funds	\$ 192,299
Due to the Boat Harbor Enterprise Fund from Shipyard Enterprise Fund	\$ 232,764

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

Transfers

From General Fund to:

Boat Harbor Enterprise Fund for capital costs	\$ 500,000
Sewer Fund for capital costs	650,000
Nonmajor governmental funds for capital costs	932,488

Total transfers from General Fund 2,082,488

From Boat Harbor Fund to:

Shipyards Enterprise Fund for operating costs	332,432
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From Non-Major Governmental Fund to:

General Fund due to closure of the fund	17,519
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From Water Fund to:

Street Fund for capital projects	10,000
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From Sewer Fund to:

Street Fund for capital projects	10,000
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Total Transfers from Other Funds \$ 2,452,439

11. Employee Retirement Systems and Plans

The City follows *Governmental Accounting Standards Board (GASB) Codification P20, Accounting for Pensions by State and Local Governmental Employees* and *GASB Codification P50, Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions*. *GASB Codification P20* and *GASB Codification P50* establish uniform standards for the measurement, recognition and display of pension and other post-employment benefits other than pensions (healthcare) expenditures/expense and related liabilities, assets, note disclosure and applicable required supplementary information in the financial reports of state and local governmental employers.

All full-time employees and certain permanent part-time employees of the City participate in the State of Alaska Public Employees' Retirement System (PERS). In addition to the pension plan the system also administers other post-employment benefit (OPEB) plans.

The system is governed by the Alaska Retirement Management Board. The benefit and contribution provisions are established by State law and may be amended only by the State legislature. The Administrator of the Plan is the Commissioner of Administration or the Commissioner's designee.

Summary of Significant Accounting Policies. The financial statements for PERS are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair value.

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

PERS acts as the common investment and administrative agencies for the following multiple-employer plans:

Plan Name	Type of Plan
Defined Benefit Pension Plan (DB)	Cost-sharing, Defined Benefit Pension
Defined Contribution Pension Plan (DC)	Defined Contribution Pension
Defined Benefit Other Postemployment Benefits (OPEB)	
Healthcare Reimbursement Arrangement Plan	Defined Benefit OPEB
Defined Contribution Other Postemployment Benefits (DC)	
Occupational Death and Disability Plan	Cost-sharing, Defined Contribution OPEB
Alaska Retiree Healthcare Trust Plan	Cost-sharing, Defined Contribution OPEB
Retiree Medical Plan	Cost-sharing, Defined Contribution OPEB

Other Postemployment Benefit Plans (OPEB)

Occupational Death and Disability Plan (ODD)

The Occupational Death and Disability Plan provides death benefits for beneficiaries of plan participants and long-term disability benefits to all active members within the System. Membership in the plan consisted of the following at June 30, 2017 (latest available report):

Membership	PERS	TRS
Active plan members	19,442	4,937
Participating employers	155	57

Alaska Retiree Healthcare Trust Plan (ARHCT)

Beginning July 1, 2007, the Alaska Retiree Healthcare Trust Plan (ARHCT), a Healthcare Trust Fund of the State, was established. The ARHCT is self-funded and provides major medical coverage to retirees of the System. The System retains the risk of loss of allowable claims for eligible members. The ARHCT began paying member healthcare claims on March 1, 2008. Prior to that, healthcare claims were paid for by the Retiree Health Fund (RHF). Membership in the plan consisted of the following at June 30, 2017 (latest report available):

Membership	PERS	TRS
Inactive plan members or beneficiaries currently receiving benefits	34,310	12,701
Inactive plan members entitled to but not yet receiving benefits	5,799	2,846
Active plan members	14,956	4,937
Total plan membership	55,065	20,484

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

Retiree Medical Plan (RMP)

The retiree medical plan provides major medical coverage to retirees of the DC plan. The plan is self-insured. Members are not eligible to use this plan until they have at least 10 years of service and are Medicare age eligible. Membership in the plan consists of the following at June 30, 2017 (latest available report):

Membership	PERS	TRS
Inactive plan members or beneficiaries currently receiving benefits	5	4
Inactive plan members entitled to but not yet receiving benefits	831	443
Inactive plan members not entitled to benefits	10,466	2,011
Active plan members	19,442	4,937
Total plan membership	<u>30,744</u>	<u>7,395</u>

Healthcare Reimbursement Arrangement Plan

The Healthcare Reimbursement Arrangement Plan was established to allow medical expenses to be reimbursed from individual savings accounts established for eligible participants. Membership in the plan consists of the following at June 30, 2017 (latest available report):

Membership	PERS	TRS
Inactive plan members or beneficiaries currently receiving benefits	7	3
Inactive plan members entitled to but not yet receiving benefits	829	444
Inactive plan members not entitled to benefits	10,466	2,011
Active plan members	19,442	4,937
Total plan membership	<u>30,744</u>	<u>7,395</u>

Investments

The Board is the investment oversight authority of the system's investments. As the fiduciary, the Board has the statutory authority to invest the assets under the Prudent Investor Rule. Fiduciary responsibility for the Board's invested assets is pursuant to AS 37.10.210.390.

Treasury provides staff for the Board. Treasury has created a pooled environment by which it manages investments of the Board. Additionally, Treasury manages a mix of Pooled Investment Funds and Collective Investment Funds for the DC Participant-directed Pension plans under the Board's fiduciary responsibility.

Rate of Return

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The annual weighted rate of return, net of investment expense for the year ended June 30, 2017 (latest available report) for the DB Plan is 12.99%, for the ARHCT Plan is 12.69%, for the Occupational Death and Disability Plan is 11.97%, and for the Retiree Medical Plan is 11.93%.

For additional information on securities lending, interest rates, credit risks, foreign exchange, derivatives, fair value, and counterparty credit risks, see the separately issued report on the Invested Assets of the State of Alaska Retirement and Benefits Plans at:

<http://treasury.dor.alaska.gov/armb/Reports-and-Policies/Annual-Audited-Financial-Schedules.aspx>.

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

Alaska Public Employee Retirement System (PERS) - Defined Benefit Plan (DB)

Plan Description. The City participates in the Alaska Public Employees' Retirement System (PERS), a cost sharing multiple employer defined benefit pension plan. PERS provides retirement benefits, disability and death benefits, and post-employment healthcare to plan members and beneficiaries. The Plan was established and is administered by the State of Alaska, Department of Administration. The Public Employee's Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PERS. This report may be obtained from the system at Pouch C, Juneau, Alaska 99811 or online at <http://doa.alaska.gov/drdb/pers>.

Pension Benefits. All tier employee benefits vest with five years of credited service. There are three tiers of employees based on entry date. Tier I employees enrolled prior to July 1, 1986 with five or more years of credited service are entitled to annual pension benefits beginning at normal retirement age 55 or early retirement age 50. For tier II and III employees enrolled after June 30, 1986, but before July 1, 2006, the normal and early retirement ages are 60 and 55, respectively. All tier employees with 30 or more years of credited service may retire at any age and receive a normal benefit.

The PERS defined benefit is closed to new hires enrolled on or after July 1, 2006. New hires after this date participate in the PERS defined contribution plan (DC) described later in these notes.

Currently there are 155 employers participating in PERS, including the State of Alaska and 154 political subdivisions and public organizations.

The DB Plan's membership consisted of the following at June 30, 2017 (latest available report):

Inactive plan members or beneficiaries currently receiving benefits	34,310
Inactive plan members entitled to but not receiving benefits	5,799
Active plan members	<u>14,956</u>
Total DB plan membership	<u>55,065</u>

Retirement benefits are calculated by multiplying the average monthly compensation (AMC) times credited PERS service times the percentage multiplier. The AMC is determined by averaging the salaries earned during the five highest (three highest for Police/Fire members or members hired prior to July 1, 1996) consecutive payroll years. Members must earn at least 115 days of credit in the last year worked to include it in the AMC calculation. The PERS pays a minimum benefit of \$25 per month for each year of service when the calculated benefit is less.

The percentage multipliers for police/fire personnel are 2% for the first ten years of service and 2.5% for all service over 10 years. The percentage multipliers for all other participants are 2% for the first ten years, 2.25% for the next ten years, and 2.5% for all remaining service earned on or after July 1, 1986. All service before that date is calculated at 2%.

Post-employment healthcare benefits are provided without cost to all members first enrolled before July 1, 1986. Members first enrolled after June 30, 1986, but before July 1, 2006 and who have not reached age 60 may elect to pay for major medical benefits.

Post Retirement Pension Adjustments. Post retirement pension adjustments (PRPAs) are granted annually to eligible benefit recipients when the consumer price index (CPI) increases during the preceding calendar year. PRPAs are calculated by multiplying the recipient's base benefit, including past PRPAs, times:

- (a) 75% of the CPI increase in the preceding calendar year or 9%, whichever is less, if the recipient is at least 65 or on PERS disability; or

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

- (b) 50% of the CPI increase in the preceding calendar year or 6%, whichever is less, if the recipient is at least 60, or has been receiving benefits for at least five years.

Ad hoc PRPAs, up to a maximum of 4%, may be granted to eligible recipients who first entered the PERS before July 1, 1986, if the CPI increases and the financial condition of the fund will permit an increase. In a year where an ad hoc PRPA is granted, eligible recipients will receive the higher of the two calculations.

Funding Policy. In April 2008 the Alaska Legislature passed legislation which statutorily capped the employer contribution, established a state funded “on-behalf” contribution, and required that employer contributions be calculated against all PERS eligible wages, including wages paid to participants of the PERS Tier IV defined contribution plan (DC) described later in these footnotes. The state legislature capped the rate at 22%, with the State contributing an on-behalf payment for the difference between the actuarial contribution and the cap.

Salary Floor. During the 25th legislation session, Senate Bill 125 passed, which established a June 30, 2008 salary floor under AS 39.35.255(a)(2). The salary floor is the total base salaries paid by an employer to active employees of the system as of the fiscal year ending June 30, 2008. The statute requires the Division of Retirement and Benefits (Division) to collect employer contributions at a minimum based on FY 2008 base salaries.

Termination Costs. If the City decides to terminate coverage for a department, group, or other classification of members, even if that termination results from the decision to divest of a particular City function, all affected employees in that department, group or other classification of members become immediately vested in the plan. The City must pay to have a termination study completed. The purpose of the study is to calculate the City’s one-time termination costs. The costs represent the amount necessary to fully fund the costs of plan members who become vested through this process and for other changes in actuarial assumptions, such as, earlier than expected retirement, that arise from the act of termination of coverage. The City must pay a lump sum within 60 days of termination or arrange a payment plan that is acceptable to the PERS Administrator. For fiscal year 2018 the past service rate is 15.28%.

Employee Contribution Rate. The City’s PERS active members are required to contribute 6.75% (5.25% pension costs and 1.50% OPEB) and if elected, City employees are required to contribute 9.60% (7.47% pension and 2.13% OPEB) of their annual covered salary.

Employer and Other Contribution Rates. There are several contribution rates associated with the pension and healthcare contributions and related liabilities. These amounts are calculated on an annual basis.

Employer Effective Rate: This is the actual employer pay-in rate. Under current legislation, this rate is statutorily capped at 22% (17.12% pension costs and 4.88% OPEB) of eligible wages, subject to the salary floor, and other termination costs as described above. This 22% rate is calculated on all PERS participating wages, including those wages attributable to employees in the defined benefit plan.

ARM Board Adopted Rate: This is the rate formally adopted by the Alaska Retirement Management Board. This rate is actuarially determined and used to calculate annual Plan funding requirements, without regard to the statutory rate cap or the GASB accounting rate. This rate is 25.01% (19.46% pension and 5.55% OPEB). Prior to July 1, 2015, there were no constraints or restrictions on the actuarial cost method or other assumptions used in the ARM Board valuation. Effective July 1, 2015, the Legislature requires the ARM Board to adopt employer contribution rates for past service liabilities using a level percent of pay method over a closed 25 year term which ends in 2039. This will result in lower ARM Board Rates in future years.

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

On-behalf Contribution Rate: This is the rate paid in by the State as an on-behalf payment as mandated under current statute. Under state law, subject to annual appropriation, the state will contribute an on-behalf payment into the plan in an amount equal to the difference between the ARM Board Rate and the Employer Effective Rate. As a result, the On-behalf Contribution Rate for 2018 is 3.01% (75.54% pension and 24.46% OPEB). On-behalf contribution amounts have been recognized in these financial statements as both revenue and expenditures.

GASB Rate: This is the rate used to determine the long-term pension and healthcare liability for plan accounting purposes. Certain actuarial methods and assumptions for this rate calculation are mandated by the *Governmental Accounting Standards Board (GASB)*. Medicare Part D subsidies are not reflected in this rate. The rate uses an 8% pension discount rate.

Employer contributions for the year ended June 30, 2018, were:

Pensions (DB)	Other Post-Employment Benefits (DB)	Total
\$ 1,033,533	294,600	1,328,133

Public Employees Retirement Plans

For the year ended June 30, 2018 the State of Alaska contributed \$199,936 (75.54% pension cost) and \$64,739 (24.46% OPEB cost) on-behalf of the City, which has been recorded in the fund financial statement under the modified-accrual basis of accounting. In the government-wide financial statements the on-behalf contribution has been adjusted as of the measurement date June 30, 2017 to a total of \$457,983, to represent the pension/OPEB expense attributable to the State under the full accrual basis of accounting.

Pension and OPEB Liabilities, Pension and OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions and OPEB: At June 30, 2018, the City reported liabilities that reflected a reduction for State pension and OPEB support provided to the City. The amount recognized by the City as its proportionate share of net pension and OPEB liabilities, the related State support, and the total portion of the net pension and OPEB liabilities that was associated with the City were as follows:

Defined Benefit:		Pension
City's proportionate share of the net pension liability	\$	11,698,337
State's proportionate share of the net pension liability		4,358,316
Total	\$	16,056,653
		OPEB
City's proportionate share of the ARHCT OPEB liability	\$	1,911,273
State's proportionate share of the ARHCT OPEB liability		713,161
Total	\$	2,624,434
Defined Contribution:		
City's proportionate share of the ODD OPEB liability	\$	(55,374)
City's proportionate share of the RMP OPEB liability		20,352
Total	\$	(35,022)
Total City's share of net pension and OPEB liabilities	\$	13,574,588

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

The net pension and OPEB liabilities were measured as of June 30, 2017, and the total pension and OPEB liabilities used to calculate the net pension and OPEB liabilities were determined by an actuarial valuation as of that date. The City's proportion of the net pension and OPEB liabilities were based on the present value of contributions for FY2019 through FY2039, as determined by projections based on the June 30, 2017 valuation. At June 30, 2018, the City's proportion of the pension liability was 0.2263%, which is a decrease of 0.0523% from June 30, 2017. At June 30, 2018, the City's proportion of the OPEB ARCHT, ODD, and RMP OPEB liabilities was 0.2263%, 0.3903%, and 0.3903%, respectively, which represent a decrease of 0.0525%, and an increase of 0.0222%, and 0.0222%, respectively, from June 30, 2017.

Based on the measurement date of June 30, 2017, the City recognized pension and OPEB expense of \$624,034 and \$289,995 for the year ended June 30, 2018. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Defined Benefit:		
Differences between expected and actual experience	\$ -	(210,324)
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	313,790	-
Changes in proportion and differences between City contributions and proportionate share of contributions	65,856	(1,247,117)
City contributions subsequent to the measurement date	<u>1,033,533</u>	-
Total	<u>\$ 1,413,179</u>	<u>(1,457,441)</u>
	OPEB ARHCT	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	(103,070)
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	(598,529)
Changes in proportion and differences between City contributions and proportionate share of contributions	-	(313,278)
City contributions subsequent to the measurement date	<u>294,599</u>	-
Total	<u>\$ 294,599</u>	<u>(1,014,877)</u>

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

	OPEB ODD	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Defined Contribution:		
Differences between expected and actual experience	\$ -	(1,633)
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	(3,459)
Changes in proportion and differences between City contributions and proportionate share of contributions	564	-
City contributions subsequent to the measurement date	12,246	-
Total	\$ 12,810	(5,092)

	OPEB RMP	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	(160)
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	(9,891)
Changes in proportion and differences between City contributions and proportionate share of contributions	1,817	-
City contributions subsequent to the measurement date	47,546	-
Total	\$ 49,363	(10,051)

\$1,033,533 and \$354,391 is reported as deferred outflows of resources related to pension and OPEB resulting from City contributions subsequent to the measurement date and will be recognized as a reduction of the net pension and OPEB liabilities in the year ended June 30, 2019, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension and OPEB will be recognized in pension and OPEB expense as follows:

Year Ended June 30,	Pension	OPEB ARHCT	OPEB ODD	OPEB RMP
2018	\$ (1,369,696)	(380,937)	(997)	(2,268)
2019	326,751	(334,676)	(997)	(2,268)
2020	146,683	(149,632)	(997)	(2,268)
2021	(181,534)	(149,632)	(997)	(2,268)
2022	-	-	(132)	205
Thereafter	-	-	(409)	634
Total	\$ (1,077,796)	(1,014,877)	(4,529)	(8,233)

For the year ended June 30, 2018, the City recognized (\$650,406) and (\$173,749) of pension and OPEB amortization of the net deferred outflows and inflows of resources, respectively.

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

Actuarial Assumptions: The total pension and OPEB liabilities in the June 30, 2017 (latest available) actuarial valuation was determined by an actuarial valuation as of June 30, 2016, which was rolled forward to June 30, 2017. These assumptions were the result of an experience study performed as of June 30, 2013.

Investment return / discount rate	8% per year (geometric), compounded annually, net of expenses
Salary scale	Inflation - 3.12% per year Productivity - 0.50% per year
Payroll growth	3.62% per year (inflation + productivity)
Total inflation	Total inflation as measured by the Consumer Price Index for urban and clerical workers from Anchorage is assumed to increase 3.12% annually.
Mortality (Pre-termination)	Based upon 2010-2013 actual mortality experience 60% of male rates and 65% of female rates of post termination mortality rates. Deaths are assumed to be occupational 70% of the time for peace officers, and firefighters, 50% of the time for others.
Mortality (Post-termination)	96% of all rates of the RP-2000 combined mortality table, 2000 base year projected to 2018.
Total turnover	Based upon the 2010-2013 actual withdrawal experience.
Disability	Incidence rates based on 2010-2013 actual experience. Post-disability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table. Disabilities are assumed to be occupational 70% of the time for peace officers / firefighters, 50% of the time for others.
Retirement	Retirement rates based upon the 2010-2013 actual experience. Deferred vested members are assumed to retire at their earliest unreduced retirement date for others. For peace officers/firefighters, Tier 1 deferred vested members are assumed to retire at age 55 and Tiers 2 and 3 deferred vested members are assumed to retire at age 60.
Marriage and age difference	Wives are assumed to be three years younger than husbands. For others, 75% of male members and 70% of female members are assumed to be married. For peace officers/firefighters, 85% of male members and 60% female members are assumed to be married.

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

Sensitivity of the City's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates. The following present the City's proportionate share of the net OPEB liability, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Rate	1% Increase
Net OPEB ARHCT liability	\$ (212,013)	1,911,273	4,463,972
Net OPEB ODD liability	N/A	(55,374)	N/A
Net OPEB RMP liability	(50,379)	20,352	115,119

Alaska Public Employee Retirement System (PERS) - Defined Contribution Plan (DC)

Plan Description and Funding Requirements. Cities and Public Employers in the State of Alaska have a defined contribution retirement plan (PERS Tier IV) for new hires first enrolled on or after July 1, 2006. This Plan is administered by the State of Alaska, Department of Administration in conjunction with the defined benefit plan noted above. The Administrator of the Plan is the Commissioner of Administration or the Commissioner's designee. Plan members make mandatory contributions of 8% of gross eligible compensation. This amount goes directly to the individual's account. State statutes require the employer to contribute 5% of employees' eligible compensation. Additionally, employers are required to contribute to OPEB (DB): 1.03% for the retiree medical plan (DB), 0.16% for occupational and death and disability benefits (DB) and 3% of employers' average annual employee compensation to the health reimbursement arrangement (HRA DC). The effective employer contribution is 22%.

Currently there are 155 employers participating in the defined contribution plan, including the State of Alaska. At June 30, 2017 (latest available report), membership in the DC plan consisted of 1,735 peace officers and firefighters and 19,532 of other members.

Plan members are 100% vested with their contributions.

Members become vested in employers' contributions as follows:

- 2 years of service - 25%
- 3 years of service - 50%
- 4 years of service - 75%
- 5 years of service - 100%

The City contributed \$443,161 for the year ended June 30, 2018.

12. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time City employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency. In accordance with the Internal Revenue Code, all assets and income of the Plan are held in trust for the exclusive benefit of participants and their beneficiaries. The City does not report these assets and income in the financial statements. The City believes that the Plan does not meet the reporting criteria for inclusion as a fiduciary fund.

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

13. Operating Lease

The City occupies office space leased from the Kodiak Island Borough under a noncancellable operating lease that runs through June 30, 2020. The lease rate is \$12,749 per month. For the year ended June 30, 2018, the City recognized \$152,988 in rent expense paid to the Kodiak Island Borough.

14. Risk Management

The City faces a considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability, i.e. errors and omissions, (d) environmental damage, (e) workers compensation, and (f) medical/dental/vision costs for employees. The City of Kodiak participates in the Alaska Public Entity Insurance Association (APEI) which covers property and contents, torts, general and auto liability, public officials and employees' liability, and workers compensation. APEI is a public entity risk pool, which reinsures risk above certain levels, thereby relieving members of the need for additional assessments.. Coverage limits and deductibles on policies have remained relatively constant for the last several years. No settlements in excess of insurance coverage have been realized over the past three years.

In addition to the APEI coverage, the City has commercial insurance coverage for storage tanks, third party liability, marine liability and aviation liability for the two City-owned airports; Kodiak Municipal Airport, and the Trident Basin Seaplane Base.

The City maintains commercial insurance coverage for the health and medical benefit program which covers all full time employees.

15. Enhancement Fund

The City has an Enhancement Fund in which the monies are to be held perpetually in trust for the benefit of the present and future generations of Kodiak residents through economic stability. Any principal portions of the Enhancement Fund cannot be appropriated without approval from at least five City Council members. The Enhancement Fund was originally established with a transfer of five (5) million dollars from the General Fund to a separate Special Revenue Fund. The ordinance creating the Enhancement Fund requires fifty percent of the General Fund surplus (which is calculated annually based upon excess revenues and other financing sources, less expenditures and other financing uses) to be transferred to the Enhancement Fund by January 1 of the succeeding year. The ordinance further requires 50% of municipal land sales and leased property revenues, as well as the fund's own investment earnings be committed to this purpose.

The General Fund's net increase to fund balance for the year ended June 30, 2017, was \$135,580 and accordingly, \$67,790 was transferred to the Enhancement Fund during the current year. Lease and rental income was \$79,238 and investment earnings were \$7,276 for the year ended June 30, 2018.

In addition, there is a provision for transferring to the General Fund any excess earnings over and above those earnings necessary for inflation-proofing of the Enhancement Fund. In years where investment earnings are not sufficient to inflation proof, the transfers are not recorded from the General Fund to the Enhancement Fund. As of June 30, 2018, investment earnings did not exceed earnings necessary for inflation-proofing therefore no additional transfers from the General Fund to the Enhancement fund were recognized.

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

16. Conduit Debt

In 2010, the City Council authorized the issuance of nonrecourse revenue bonds for the purpose of providing funds to Kodiak Area Native Association to finance the acquisition, construction, and equipping of a condominium unit for their Community Services department. The bonds were issued in the amount of \$1,615,000 and the outstanding balance at June 30, 2018 was \$1,342,000.

The bonds do not constitute a general obligation debt or pledge of the full faith and credit of the City and accordingly, the bonds and related assets are not reflected in the accompanying financial statements.

17. Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be nominal.

In the normal course of operations, the City becomes involved in various litigation matters including, among other things, claims by third parties for alleged property damages, personal injuries, and other matters. The City believes that it has meritorious defenses against these claims and has used multiple factors in determining potential exposure.

Potential exposure is determined based on multiple factors, such as (1) severity of the injury and estimated potential liability based on past judgments and settlements, (2) advice from legal counsel based on its assessment of the facts of the case and its experience in other cases, (3) probability of pre-trial settlement which would mitigate legal costs, and (4) historical experience on claims for each specific type. It is reasonably possible that changes in the City's potential exposure may occur from time to time as these factors can be subject to some volatility.

Although it is difficult to predict the costs of ultimately resolving such issues, the City has determined that current insurance coverage is sufficient to limit any additional exposure to an amount that would not be material to the City's financial position. Accordingly, the City has not recorded a potential estimate for loss in the liabilities.

18. Change in Accounting Principle

As discussed in Note 11 to the financial statements, the City of Kodiak participates in the Alaska Public Employees' Retirement System (PERS). In 2018, the City of Kodiak adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which, among other accounting and reporting criteria, requires the City of Kodiak to recognize its proportional share of the net other postemployment benefit plans (OPEB) liability (and related deferred inflow/outflow accounts), as of the beginning of the City of Kodiak's fiscal year. As a result of the implementation of these statements, the City of Kodiak has recorded an opening balance adjustment to increase liabilities and to decrease opening net position as follows:

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

Governmental Activities:

Opening net position, as originally presented	\$ 61,027,897
Change in accounting principle adjustment	<u>(2,100,891)</u>
Opening net position, as restated	\$ <u>58,927,006</u>

Business-type Activities:

Opening net position, as originally presented	\$ 129,148,640
Change in accounting principle adjustment	<u>(625,061)</u>
Opening net position, as restated	\$ <u>128,523,579</u>

19. Subsequent Event

The City received notice on June 18, 2018, from the State of Alaska, Department of Administration, Division of Retirement and Benefits that Forfeitures from the defined contribution plan for the Public Employees' Retirement System (PERS) can be offset against future contributions effective July 1, 2018. The City has \$178,284 in PERS forfeitures to be used against future contributions.

20. New Accounting Pronouncements

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates covering several topics as follows:

- GASB 83 - *Certain Retirement Obligations*. Effective for fiscal years beginning after June 15, 2018.
- GASB 84 - *Fiduciary Activities*. Effective for fiscal years beginning after December 15, 2018.
- GASB 87 - *Leases*. Effective for fiscal years beginning after December 15, 2019.
- GASB 88 - *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. Effective for fiscal years beginning after June 15, 2018.

Statements 83 and 84 are not expected to have any significant impact on the financial statements of the City.

GASB Statement No. 87, the objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

City of Kodiak, Alaska

Notes to Basic Financial Statements, Continued

GASB Statement No. 88, the objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct payments. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt and requires enhanced footnote disclosures.

Required Supplementary Information

City of Kodiak, Alaska
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual

Year Ended June 30, 2018	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Taxes:				
Property taxes	\$ 975,000	\$ 975,000	\$ 1,103,470	\$ 128,470
Sales taxes	11,750,000	11,750,000	11,868,529	118,529
Other taxes, penalties and interest	27,500	27,500	17,629	(9,871)
Intergovernmental	1,116,800	1,588,763	1,604,865	16,102
Charges for services	1,661,217	1,686,137	1,867,281	181,144
Fines and forfeitures	10,000	10,000	40,067	30,067
Licenses and permits	58,800	56,761	87,672	30,911
Rental income	175,000	175,000	121,409	(53,591)
Interfund charges	1,534,343	1,534,343	1,273,442	(260,901)
Investment income	15,000	15,000	55,748	40,748
Other revenues	22,000	406,674	16,701	(389,973)
Total Revenues	17,345,660	18,225,178	18,056,813	(168,365)
Expenditures				
General government:				
Legislative	266,408	266,408	218,508	47,900
Legal	75,000	100,000	80,839	19,161
Executive	827,691	827,691	623,295	204,396
Emergency preparedness	38,000	38,000	26,356	11,644
City clerk	557,020	557,020	456,648	100,372
Finance	1,676,759	1,676,759	1,374,069	302,690
Public Safety:				
Police	6,913,240	6,968,678	5,883,640	1,085,038
Fire	2,459,976	2,643,251	2,286,872	356,379
Public works	2,188,350	2,188,350	1,618,182	570,168
Engineering	281,914	281,914	198,247	83,667
Parks and recreation	1,434,270	1,434,270	1,285,900	148,370
Library	929,750	929,750	734,764	194,986
Community service	200,700	202,739	194,895	7,844
Non-departmental	423,908	423,908	373,614	50,294
Total Expenditures	18,272,986	18,538,738	15,355,829	3,182,909
Excess of revenues over expenditures	(927,326)	(313,560)	2,700,984	3,014,544
Other Financing Sources (Uses)				
Transfers in	-	-	17,519	17,519
Transfers out	(1,310,901)	(2,077,441)	(2,082,488)	(5,047)
Net Other Financing Sources (Uses)	(1,310,901)	(2,077,441)	(2,064,969)	12,472
Change in fund balance	<u>\$ (2,238,227)</u>	<u>\$ (2,391,001)</u>	636,015	<u>\$ 3,027,016</u>
Fund Balance, beginning of year			8,828,601	
Fund Balance, end of year			<u>\$ 9,464,616</u>	

The Schedule is presented on the modified accrual basis of accounting. The City's adopted budget generally conforms to accounting principles generally accepted in the United States of America; therefore no reconciliation is required.

City of Kodiak, Alaska

Schedule of the City's Proportionate Share of the Net Pension Liability

Public Employees' Retirement System (PERS)

June 30, 2018

Year	City's Proportion of the Net Pension Liability	City Proportionate Share of the Net Pension Liability	State of Alaska Proportionate Share of the Net Pension Liability	Total Net Pension Liability	City Covered Payroll	City Proportionate Share of the Net Pension Liability as a Percentage of Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.1692%	\$ 7,889,699	\$ 7,149,538	\$ 15,039,237	\$ 7,133,264	111%	62.37%
2016	0.2449%	\$ 11,877,818	\$ 3,181,492	\$ 15,059,310	\$ 6,948,895	171%	63.96%
2017	0.2786%	\$ 15,572,347	\$ 1,959,442	\$ 17,531,789	\$ 7,169,527	217%	59.55%
2018	0.2263%	\$ 11,698,337	\$ 4,358,316	\$ 16,056,653	\$ 7,469,991	157%	63.37%

Notes to Schedule:

1. Information presented for 2018 is based upon Plan measurement date June 30, 2017.
2. Measurement is one year prior to fiscal year end for all years presented.
3. In fiscal year 2017 the City implemented GASB 82, which required a retroactive change in covered payroll.
4. This schedule is intended to present 10 years of information. Additional years' information will be included as it becomes available.

City of Kodiak, Alaska

Schedule of the City's Proportionate Share of the Net OPEB Liability

Public Employees' Retirement System (PERS)

June 30, 2018

Year	City's Proportion of the Net OPEB Liability (Asset)	City's Proportionate Share of the Net OPEB Liability (Asset)	State of Alaska Proportionate Share of the Net OPEB Liability (Asset)	Total Net OPEB Liability (Asset)	City's Covered Payroll	City's Proportionate Share of the Net OPEB Liability as a Percentage of Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)
Alaska Retiree Healthcare Trust Plan (ARHCT):							
2018	0.2263%	\$ 1,911,273	\$ 713,161	\$ 2,624,434	\$ 7,469,991	25.59%	89.68%
Occupational Death and Disability (ODD):							
2018	0.3903%	\$ (55,374)	\$ -	\$ (55,374)	\$ 4,061,961	-1.36%	212.97%
Retiree Medical Plan (RMP):							
2018	0.3903%	\$ 20,352	\$ -	\$ 20,352	\$ 4,061,961	0.50%	93.98%

Notes to Schedule:

1. Information presented for 2018 is based upon Plan measurement date June 30, 2017.
2. Measurement is one year prior to fiscal year end for all years presented.
3. This schedule is intended to present 10 years of information. Additional years' information will be included as it becomes available.

City of Kodiak, Alaska

Schedule of the City's Contributions (Pensions)

Public Employees' Retirement System (PERS)

June 30, 2018

Year	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 674,192	\$ (674,192)	\$ -	\$ 6,948,895	9.70%
2016	\$ 720,391	\$ (720,391)	\$ -	\$ 7,169,527	10.05%
2017	\$ 842,825	\$ (842,825)	\$ -	\$ 7,469,991	11.28%
2018	\$ 1,033,533	\$ (1,033,533)	\$ -	\$ 8,051,332	12.84%

Notes to schedule

- Valuation date: June 30, 2017, which was rolled forward to June 30, 2018.
- Actuarially determined contribution rates are calculated as of June 30th, two years prior to the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

- Actuarial cost method: Entry Age Normal - level percentage of payroll.
- Amortization method: Level dollar, closed.
- Amortization period: 25 years, as a level of percentage of payroll.
- Equivalent single amortization period: 17 years.
- Asset valuation method: The actuarial asset value was reinitialized to equal fair value of assets as of June 30, 2014. Beginning in FY2015, the assets value method recognizes 20% of the gain or loss each year, for a period of 5 years, all assets are valued at fair value.
- Inflation: 3.12% per annum.
- Salary increases: Ranges from 9.66% to 4.92% based on service for Peace Officer/Firefighter. Ranges from 8.55% to 4.34% based on age and service for All Others.
- Investment rate of return: 8%, net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%.
- Retirement age: An age-related assumption is used for participants not yet receiving payments.
- Mortality: Pre-termination mortality rates were based upon the 2010-2013 actual mortality experience, 60% of male and 65% of female post-termination rates. Deaths are assumed to be occupational 70% of the time for Peace Officers / Firefighters, 50% of the time for Others, 96% of all rates of the RP - 2000 Table Base Year projected to 2018 with projected scale BB.
- In fiscal year 2017 the City implemented GASB 82, which required a retroactive change in covered payroll.
- This schedule is intended to present 10 years of information. Additional years' information will be included as it becomes available.
- In fiscal year 2018 the City included pension DBUL into the contractually required contribution. This will be a prospective change.

City of Kodiak, Alaska

Schedule of the City's Contributions (OPEB)

Public Employees' Retirement System (PERS)

June 30, 2018

Year	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	City Covered Payroll	Contributions as a Percentage of Covered Payroll
Alaska Retiree Healthcare Trust Plan (ARHCT):					
2018	\$ 294,599	\$ (294,599)	\$ -	\$ 8,051,332	3.66%
Occupational Death and Disability (ODD):					
2018	\$ 12,246	\$ (12,246)	\$ -	\$ 4,617,036	0.27%
Retiree Medical Plan (RMP):					
2018	\$ 47,546	\$ (47,546)	\$ -	\$ 4,617,036	1.03%

Notes to schedule

- Valuation date: June 30, 2017, which was rolled forward to June 30, 2018.
- Actuarially determined contribution rates are calculated as of June 30th, two years prior to the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

- Actuarial cost method: Entry Age Normal - level percentage of payroll.
- Amortization method: Level dollar, closed.
- Amortization period: 25 years, as a level of percentage of payroll.
- Equivalent single amortization period: 17 years.
- Asset valuation method: The actuarial asset value was reinitialized to equal fair value of assets as of June 30, 2014. Beginning in FY2015, the assets value method recognizes 20% of the gain or loss each year, for a period of 5 years, all assets are valued at fair value.
- Inflation: 3.12% per annum.
- Salary increases: Ranges from 9.66% to 4.92% based on service for Peace Officer/Firefighter. Ranges from 8.55% to 4.34% based on age and service for All Others.
- Investment rate of return: 8%, net of OPEB plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%.
- Retirement age: An age-related assumption is used for participants not yet receiving payments.
- Mortality: Pre-termination mortality rates were based upon the 2010-2013 actual mortality experience, 60% of male and 65% of female post-termination rates. Deaths are assumed to be occupational 70% of the time for Peace Officers / Firefighters, 50% of the time for Others, 96% of all rates of the RP - 2000 Table Base Year projected to 2018 with projected scale BB.
- This schedule is intended to present 10 years of information. Additional years' information will be included as it becomes available.

Nonmajor Funds

City of Kodiak, Alaska
Nonmajor Governmental Funds
Combining Balance Sheet

	Special Revenue Funds			Capital Projects Funds					Total Nonmajor Govern- mental Funds
	Tourism Develop- ment	Special Assess- ments	Enhance- ment	General	Building	Street Improvements	Parks and Recreation	General Fund Vehicle Replacement	
<i>June 30, 2018</i>									
Assets									
Cash and investments	\$ 447,378	\$ 71,316	\$ 4,304,393	\$ 448,834	\$ 1,326,228	\$ 1,637,318	\$ 154,835	\$ 942,029	\$ 9,332,331
Receivables:									
Taxes	61,785	-	-	-	-	-	-	-	61,785
Grants	-	-	-	24,710	-	-	-	-	24,710
Special assessments	-	48,823	-	-	-	-	-	-	48,823
Interest	-	-	12,639	-	-	-	-	-	12,639
Total Assets	\$ 509,163	\$ 120,139	\$ 4,317,032	\$ 473,544	\$ 1,326,228	\$ 1,637,318	\$ 154,835	\$ 942,029	\$ 9,480,288
Liabilities, Deferred Inflows of Resources, and Fund Balances									
Liabilities									
Accounts payable	\$ -	\$ -	\$ 514	\$ 255,308	\$ -	\$ 16,175	\$ -	\$ -	\$ 271,997
Total Liabilities	-	-	514	255,308	-	16,175	-	-	271,997
Deferred Inflows of Resources									
Deferred assessments	-	27,434	-	-	-	-	-	-	27,434
Fund Balances									
Committed:									
Tourism	509,163	-	-	-	-	-	-	-	509,163
Economic stability	-	-	4,316,518	-	-	-	-	-	4,316,518
Assigned:									
Capital projects	-	-	-	218,236	1,326,228	1,621,143	154,835	942,029	4,262,471
Public works	-	92,705	-	-	-	-	-	-	92,705
Total Fund Balances	509,163	92,705	4,316,518	218,236	1,326,228	1,621,143	154,835	942,029	9,180,857
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 509,163	\$ 120,139	\$ 4,317,032	\$ 473,544	\$ 1,326,228	\$ 1,637,318	\$ 154,835	\$ 942,029	\$ 9,480,288

City of Kodiak, Alaska
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year Ended June 30, 2018	Special Revenue Funds			Capital Project Funds					Total Nonmajor Govern- mental Funds
	Tourism Develop- ment	Special Assess- ments	Enhance- ment	General	Building	Street Improvements	Parks and Recreation	General Fund Vehicle Replacement	
Revenues									
Taxes	\$ 205,226	\$ 8,590	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 213,816
Intergovernmental	-	-	-	398,629	-	-	-	-	398,629
Rental income	-	-	79,238	-	-	-	-	-	79,238
Investment income	3,787	575	7,276	4,513	11,795	14,623	1,418	7,620	51,607
Other revenues	-	-	-	2,000	-	-	-	-	2,000
Total Revenues	209,013	9,165	86,514	405,142	11,795	14,623	1,418	7,620	745,290
Expenditures									
General government	-	-	7,590	14,326	-	-	-	-	21,916
Public safety	-	-	-	63,470	-	-	-	-	63,470
Public works	-	-	-	8,880	-	45,456	-	-	54,336
Parks and recreation	-	-	-	-	-	-	20,950	-	20,950
Library	-	-	-	-	1,897	-	-	-	1,897
Community services	164,500	-	-	-	-	-	-	-	164,500
Capital outlay	-	-	-	686,104	8,048	-	-	-	694,152
Total Expenditures	164,500	-	7,590	772,780	9,945	45,456	20,950	-	1,021,221
Excess of revenues over (under) expenditures	44,513	9,165	78,924	(367,638)	1,850	(30,833)	(19,532)	7,620	(275,931)
Other Financing Sources									
Transfers in	-	-	67,790	98,750	-	470,000	50,000	265,948	952,488
Transfers out	-	(17,519)	-	-	-	-	-	-	(17,519)
Net Other Financing Sources	-	(17,519)	67,790	98,750	-	470,000	50,000	265,948	934,969
Change in fund balances	44,513	(8,354)	146,714	(268,888)	1,850	439,167	30,468	273,568	659,038
Fund Balances, beginning of year									
	464,650	101,059	4,169,804	487,124	1,324,378	1,181,976	124,367	668,461	8,521,819
Fund Balances, end of year									
	\$ 509,163	\$ 92,705	\$ 4,316,518	\$ 218,236	\$ 1,326,228	\$ 1,621,143	\$ 154,835	\$ 942,029	\$ 9,180,857

City of Kodiak, Alaska
Nonmajor Enterprise Funds
Combining Statement of Net Position

<i>June 30, 2018</i>	Harbor Electric	Trident Basin	E-911 Services	Total Nonmajor Enterprise Funds
Assets				
Current Assets				
Cash and investments	\$ 1,004,820	\$ -	\$ 189,360	\$ 1,194,180
Receivables	82,156	2,253	164,139	248,548
Total Current Assets	1,086,976	2,253	353,499	1,442,728
Noncurrent Assets				
Property, plant and equipment, net	-	2,984,756	-	2,984,756
Total Assets	\$ 1,086,976	\$ 2,987,009	\$ 353,499	\$ 4,427,484
Liabilities and Net Position				
Current Liabilities				
Accounts payable	\$ 32,657	\$ 1,904	\$ 13,798	\$ 48,359
Accrued payroll and related liabilities	-	-	201	201
Customer deposits	14,000	1,536	-	15,536
Due to other funds	-	192,299	-	192,299
Total Current Liabilities	46,657	195,739	13,999	256,395
Net Position				
Net investment in capital assets	-	2,984,756	-	2,984,756
Unrestricted (deficit)	1,040,319	(193,486)	339,500	1,186,333
Total Net Position	1,040,319	2,791,270	339,500	4,171,089
Total Liabilities and Net Position	\$ 1,086,976	\$ 2,987,009	\$ 353,499	\$ 4,427,484

City of Kodiak, Alaska
Nonmajor Enterprise Funds
Combining Statement of Revenues, Expenses and Changes in Net Position

<i>Year Ended June 30, 2018</i>	Harbor Electric	Trident Basin	E-911 Services	Total Nonmajor Enterprise Funds
Operating Revenues	\$ 641,892	\$ 49,607	\$ 253,983	\$ 945,482
Operating Expenses				
Salaries and benefits	-	-	7,265	7,265
Professional	3,320	-	16,911	20,231
Goods and services	513,620	12,359	-	525,979
Repairs and maintenance	4,951	378	-	5,329
Utilities and fuel	-	19,254	-	19,254
Interfund charges	61,804	14,472	-	76,276
Depreciation	863	248,728	-	249,591
Total Operating Expenses	584,558	295,191	24,176	903,925
Earnings (loss) from operations	57,334	(245,584)	229,807	41,557
Nonoperating Revenues				
Investment income	8,477	-	1,403	9,880
Change in net position	65,811	(245,584)	231,210	51,437
Net Position, beginning of year	974,508	3,036,854	108,290	4,119,652
Net Position, end of year	\$ 1,040,319	\$ 2,791,270	\$ 339,500	\$ 4,171,089

City of Kodiak, Alaska
Nonmajor Enterprise Funds
Combining Statement of Cash Flows

<i>Year Ended June 30, 2018</i>	Harbor Electric	Trident Basin	E-911 Services	Total Nonmajor Enterprise Funds
Cash Flows from Operating Activities				
Receipts from customers and users	\$ 672,698	\$ 47,354	\$ 116,700	\$ 836,752
Payments for interfund services used	(61,804)	(14,472)	-	(76,276)
Payments to suppliers	(521,223)	(31,913)	(3,113)	(556,249)
Payments to employees	-	-	(7,238)	(7,238)
Net cash flows from operating activities	89,671	969	106,349	196,989
Cash Flows for Noncapital Financing Activities				
Decrease in due to other funds	-	(969)	-	(969)
Cash Flows from Investing Activities				
Investment income received	8,477	-	1,403	9,880
Net increase in cash and investments	98,148	-	107,752	205,900
Cash and Investments, beginning of year	906,672	-	81,608	988,280
Cash and Investments, end of year	\$ 1,004,820	\$ -	\$ 189,360	\$ 1,194,180
Reconciliation of earnings (loss) from operations to net cash flows from operating activities:				
Earnings (loss) from operations	\$ 57,334	\$ (245,584)	\$ 229,807	\$ 41,557
Adjustments to reconcile earnings (loss) from operations to net cash flows from operating activities:				
Depreciation	863	248,728	-	249,591
(Increase) decrease in assets - accounts receivable	31,405	(2,253)	(137,283)	(108,131)
Increase (decrease) in liabilities:				
Accounts payable	669	78	13,798	14,545
Accrued payroll and related liabilities	-	-	27	27
Customer deposits	(600)	-	-	(600)
Net cash flows from operating activities	\$ 89,671	\$ 969	\$ 106,349	\$ 196,989

Federal Expenditures

The Schedule of Expenditures of Federal Awards itemizes the sources of federal grant funds received by the City during the year and corresponding expenditures as required by *Government Auditing Standards*.

City of Kodiak, Alaska

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2018

Federal Grantor	Federal CFDA Number	Pass-through Grantor's Award Number	Program or Award Amount	Federal Expenditures
U.S. Department of the Interior: Passed through the Kodiak Island Housing Authority - Payment in lieu of taxes	15.226	None	\$ 5,872	5,872
U.S. Department of Homeland Security: Passed through State of Alaska Department of Homeland Security and Energy Management - Emergency Management Performance	97.042	20EMPG-GY17	15,000	15,000
U.S. Department of Military and Veterans Affairs Passed through State of Alaska Department of Homeland Security and Energy Management - State Homeland Security Program	97.067	20SHSP-GY16	36,863	26,491
State Homeland Security Program	97.067	20SHSP-GY17	5,622	952
Total State Homeland Security Program			<u>42,485</u>	<u>27,443</u>
U.S. Environmental Protection Agency: Passed through the State of Alaska, Department of Environmental Conservation: Alaska Clean Water Revolving Loan Funds	66.458	Loan #503131	630,722	630,722
Alaska Clean Water Revolving Loan Funds	66.458	Loan #503101	160,681	128,545
Alaska Clean Water Revolving Loan Funds	66.458	Loan #503121	808,487	552,448
			<u>1,599,890</u>	<u>1,311,715</u>
Alaska Drinking Water Revolving Loan Funds	66.468	Loan #503071	87,080	52,248
Alaska Drinking Water Revolving Loan Funds	66.468	Loan #503161	693,090	666,263
			<u>780,170</u>	<u>718,511</u>
Total U.S. Environmental Protection Agency			<u>2,380,060</u>	<u>2,030,226</u>
Total federal financial assistance			\$ <u>4,823,477</u>	<u>2,078,541</u>
Reconciliation to Intergovernmental Revenues in the Statement of Revenues, Expenditures and Changes in Fund Balances:				
Total Federal financial assistance per above schedule			\$ 2,078,541	
Federal contracts not subject to single audit			55,438	
Other local governments			7,500	
Total State financial assistance			2,210,756	
Clean Water Revolving Loan Funds are not treated as revenues in the financial statements; however, are required to be presented on this schedule in accordance with the Uniform Guidance. The loans are recorded in the Enterprise funds.			(2,030,226)	
State financial assistance reported in the Enterprise Funds as Capital Contributions			(37,625)	
State cruise ship revenue recorded in the Enterprise Funds			(220,149)	
Harbor Capital Revenue				
PERS supplement on-behalf recorded in the Enterprise funds prior to adjustment to match the measurement of the net pension and OPEB liabilities as required by GASB Statements 68 and 75.			<u>(60,741)</u>	
Total Intergovernmental Revenues in the Statement of Revenues, Expenditures and Changes in Fund Balances (Exhibit B-3)			\$ <u>2,003,494</u>	

See accompanying notes to Schedule of Expenditures of Federal Awards.

City of Kodiak, Alaska

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2018

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the City of Kodiak, Alaska, under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the City of Kodiak it is not intended to and does not present the basic financial statements of the City of Kodiak.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The City of Kodiak has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

(3) Pass-Through Funds

The City did not pass any federal funds through to subrecipients during the year ended June 30, 2018.

(4) Federal Loan Balances

The federal portion of the outstanding balances for the Alaska Clean Water Resolving Loan Funds are as follows:

Loan # 503131	\$	599,317
Loan # 503101		112,394
Loan # 503121		513,571
Loan # 503071		34,805
Loan # 503161		<u>630,659</u>
Total	\$	<u>1,890,746</u>

Statistical Section

This part of the City of Kodiak’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 government’s overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends	70-74
These schedules contain trend information to help the reader understand how the government’s financial performance and well-being have changed over time.	
Revenue Capacity	75-79
These schedules contain information to help the reader assess the government’s most significant local revenue source, sales tax, and other information on property taxes.	
Debt Capacity	80-83
These schedules present information to help the reader assess the affordability of the government’s current levels of outstanding debt and the government’s ability to issue additional debt in the future.	
Demographic and Economic Information	84-85
These schedules offer demographic and economic indicators to help the reader understand the environment within which the government’s financial activities take place.	
Operating Information	86-88
These schedules contain service and infrastructure data to help the reader understand how the information in the government’s financial report relates to the services the government provides and the activities it performs.	

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

City of Kodiak, Alaska

Table 1

Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Governmental activities:										
Invested in capital assets, net of related debt	\$ 19,649,138	32,822,868	39,687,520	42,372,752	51,181,346	55,757,774	55,089,433	54,463,057	53,313,320	51,432,431
Restricted	-	-	-	-	-	-	-	-	-	-
Unrestricted	26,532,000	16,890,514	11,819,026	13,398,387	16,207,289	13,635,655	10,144,168	10,265,552	7,714,577	7,192,342
Total governmental activities net position	\$ 46,181,138	49,713,382	51,506,546	55,771,139	67,388,635	69,393,429	65,233,601	64,728,609	61,027,897	58,624,773
Business-type activities:										
Invested in capital assets, net of related debt	\$ 69,899,848	73,486,875	69,703,124	69,584,419	66,792,402	70,561,423	98,661,224	102,641,050	101,304,800	100,954,710
Restricted	505,050	505,050	505,050	505,050	505,050	505,050	505,050	505,050	461,581	461,581
Unrestricted	11,638,558	8,445,014	13,294,322	16,143,082	21,293,612	24,107,577	24,629,537	24,189,305	27,382,259	31,430,285
Total business-type activities net position	\$ 82,043,456	82,436,939	83,502,496	86,232,551	88,591,064	95,174,050	123,795,811	127,335,405	129,148,640	132,846,576
Primary government:										
Net investment in capital assets	\$ 89,548,986	106,309,743	109,390,644	111,957,171	117,973,748	126,319,197	153,750,657	157,104,107	154,618,120	152,387,141
Restricted	505,050	505,050	505,050	505,050	505,050	505,050	505,050	505,050	461,581	461,581
Unrestricted	38,170,558	25,335,528	25,113,348	29,541,469	37,500,901	37,743,232	34,773,705	34,454,857	35,096,836	38,622,627
Total primary government net position	\$ 128,224,594	132,150,321	135,009,042	142,003,690	155,979,699	164,567,479	189,029,412	192,064,014	190,176,537	191,471,349

City of Kodiak, Alaska

Table 2

Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Expenses										
Governmental activities:										
General government	\$ 2,419,468	2,502,315	2,140,978	2,657,730	2,902,171	2,885,778	2,722,911	3,566,984	3,716,834	3,201,123
Public safety	5,932,145	6,089,332	6,340,579	7,809,554	8,013,832	8,587,842	7,736,192	8,346,122	9,727,361	8,273,670
Public works	4,268,602	2,526,468	4,283,775	2,493,956	2,738,860	2,577,384	2,584,167	3,342,453	3,324,991	2,011,818
Engineering	140,886	121,747	91,293	146,051	166,843	199,877	249,954	163,832	214,091	198,298
Parks & recreation	1,133,502	1,199,620	1,268,556	1,251,567	1,134,514	1,370,541	1,390,435	1,426,761	1,870,555	1,762,540
Library	697,856	712,625	680,410	847,458	864,533	930,313	894,605	1,025,482	1,140,829	954,249
Community services	435,970	277,041	259,692	306,906	296,352	305,457	374,235	393,730	414,094	368,618
Interest on long-term debt	398,252	383,928	906,057	369,052	361,177	352,803	346,240	332,240	54,079	438,252
Total governmental activities expenses	15,426,681	13,813,076	15,971,340	15,882,274	16,478,282	17,209,995	16,298,739	18,597,604	20,462,834	17,208,568
Business-type activities:										
Cargo Pier	\$ 1,046,188	1,692,841	1,192,406	1,466,240	1,463,402	1,466,892	926,136	942,898	1,106,868	1,113,802
Boat Harbor	2,782,150	2,912,689	3,148,865	3,207,233	3,253,074	3,331,649	3,235,531	3,410,754	3,717,907	3,416,038
Water Utility	5,598,768	2,952,723	2,280,910	2,635,421	3,279,097	6,137,608	4,533,126	2,192,228	2,842,116	2,209,006
Sewer Utility	3,016,736	2,665,150	3,058,490	3,261,989	3,082,518	3,398,824	3,611,837	3,583,227	3,423,537	3,503,504
Shipyard	35,019	528,977	1,117,928	1,078,009	1,263,689	1,285,600	1,136,632	1,213,745	1,334,428	1,230,686
Harbor Electric	611,387	605,989	633,313	804,834	657,379	675,474	575,261	585,739	660,605	584,558
Trident Basin	177,482	154,777	353,216	349,406	345,569	373,393	310,232	300,096	295,638	295,191
E-911 Services	-	37,553	5,518	5,548	5,890	158,923	7,091	6,442	7,223	24,176
Total business-type activities expenses	13,267,730	11,550,699	11,790,646	12,808,680	13,350,618	16,828,363	14,335,846	12,235,129	13,388,322	12,376,961
Total primary government expenses	\$ 28,694,411	25,363,775	27,761,986	28,690,954	29,828,900	34,038,358	30,634,585	30,832,733	33,851,156	29,585,529
Program revenues										
Government activities:										
Charges for services:										
General government	\$ 625,030	597,860	531,322	722,265	764,935	839,586	812,220	1,210,409	1,579,673	1,338,063
Public safety	1,033,791	914,020	1,111,833	1,246,856	1,285,143	1,624,080	1,652,307	1,399,008	1,441,495	1,534,426
Public works	313,568	288,198	235,343	238,617	445,150	267,093	346,256	218,393	256,835	155,931
Engineering	142,175	224,241	226,355	294,424	215,598	198,051	113,849	147,490	76,633	142,231
Parks & recreation	117,173	135,733	133,100	134,440	116,663	120,135	125,120	120,231	144,730	196,310
Library	16,140	15,980	12,542	13,692	12,592	17,503	22,641	27,996	26,388	22,910
Community services	-	-	40,897	42,712	42,025	57,802	64,127	72,483	86,195	79,238
Operating grants and contributions	44,520	733,005	292,846	392,273	788,840	814,853	468,502	457,644	212,123	381,873
Capital grants and contributions	2,311,754	1,119,257	2,770,746	2,821,724	10,188,295	1,373,720	112,193	66,945	25,357	846,406
Total governmental activities	4,604,151	4,028,294	5,354,984	5,907,003	13,859,241	5,312,823	3,717,215	3,720,599	3,849,429	4,697,388
Business-type activities:										
Charges for services:										
Cargo Pier	\$ 1,264,758	1,251,294	1,281,292	1,223,352	1,222,828	1,203,476	1,270,961	1,349,684	1,244,759	2,007,507
Boat Harbor	2,183,999	2,233,292	2,394,368	2,507,552	2,602,989	2,344,260	2,371,246	2,231,594	2,216,952	2,480,054
Water Utility	2,254,850	2,458,561	2,896,130	3,192,048	3,597,677	4,251,004	4,432,749	4,758,057	4,531,896	4,615,332
Sewer Utility	2,821,293	3,180,800	3,531,627	3,638,220	3,696,903	3,705,634	3,866,656	4,045,199	4,191,047	4,411,741
Shipyard	-	320,574	293,845	239,889	642,020	722,665	746,002	598,683	408,906	504,327
Harbor Electric	708,714	654,986	707,770	834,600	724,632	674,425	617,572	673,653	810,676	641,892
Trident Basin	30,571	33,266	32,970	43,724	44,361	46,824	51,045	53,452	57,122	49,607
E-911 Services	-	66,901	67,428	66,287	69,140	36,718	30,869	28,818	26,856	253,983
Operating grants and contributions	-	136,560	252,109	385,985	1,391,896	2,725,086	1,813,006	128,475	63,682	60,739
Capital grants and contributions	8,182,722	1,207,047	1,183,596	3,930,175	1,642,653	7,033,027	29,177,990	1,400,917	971,323	220,149
Total business-type activities	17,446,907	11,543,281	12,641,135	16,061,832	15,635,099	22,743,119	44,378,096	15,268,532	14,523,219	15,245,331
Total primary government program revenues	\$ 22,051,058	15,571,575	17,996,119	21,968,835	29,494,340	28,055,942	48,095,311	18,989,131	18,372,648	19,942,719
Net (expense)/revenue:										
Governmental activities	\$ (10,822,530)	(9,784,782)	(10,616,356)	(9,975,271)	(2,619,041)	(11,897,172)	(12,581,524)	(14,877,005)	(16,613,405)	(12,511,180)
Business-type activities	4,179,177	(7,418)	850,489	3,253,152	2,284,481	5,914,756	30,042,250	3,033,403	1,134,897	2,868,370
Total primary government net expenses	\$ (6,643,353)	(9,792,200)	(9,765,867)	(6,722,119)	(334,560)	(5,982,416)	17,460,726	(11,843,602)	(15,478,508)	(9,642,810)

(continued)

Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Revenues										
Governmental activities:										
Taxes:										
Property taxes	\$ 651,699	665,999	921,052	917,599	708,684	879,280	912,645	921,916	1,083,234	1,103,470
Sales taxes	9,277,394	9,379,409	9,631,344	10,259,515	11,215,647	11,509,517	11,759,863	11,481,933	10,876,981	11,868,529
Other taxes, penalties and interest	199,832	179,427	23,199	209,156	240,261	224,983	254,921	244,483	217,934	217,093
Grants and entitlements not restricted to a specific purpose	2,125,313	1,584,024	1,458,343	2,199,410	1,986,156	1,777,724	1,781,749	1,566,434	978,701	924,198
Investment income	730,096	270,673	238,969	94,331	65,053	51,161	33,183	76,050	65,458	110,660
Land sales	1,518,308	746,475	-	-	-	-	-	-	-	-
Other	1,168,070	651,281	271,973	19,471	45,736	59,301	9,398	361,197	190,385	(885,003)
Transfers	1,126,811	(160,262)	(135,360)	540,382	(25,000)	(600,000)	(381,000)	(280,000)	(500,000)	(1,130,000)
Total governmental activities	<u>16,797,523</u>	<u>13,317,026</u>	<u>12,409,520</u>	<u>14,239,864</u>	<u>14,236,537</u>	<u>13,901,966</u>	<u>14,370,759</u>	<u>14,372,013</u>	<u>12,912,693</u>	<u>12,208,947</u>
Business-type activities:										
Other taxes, penalties and interest	-	179,789	-	-	-	-	-	-	-	-
Investment income	260,355	60,850	79,708	17,285	49,032	68,230	62,736	104,564	99,646	326,764
Other	180,238	-	-	-	-	-	-	121,627	78,692	(2,137)
Transfers	(1,126,811)	160,262	135,360	(540,382)	25,000	600,000	381,000	280,000	500,000	1,130,000
Total business-type activities	<u>(686,218)</u>	<u>400,901</u>	<u>215,068</u>	<u>(523,097)</u>	<u>74,032</u>	<u>668,230</u>	<u>443,736</u>	<u>506,191</u>	<u>678,338</u>	<u>1,454,627</u>
Total primary government	<u>\$ 16,111,305</u>	<u>13,717,927</u>	<u>12,624,588</u>	<u>13,716,767</u>	<u>14,310,569</u>	<u>14,570,196</u>	<u>14,814,495</u>	<u>14,878,204</u>	<u>13,591,031</u>	<u>13,663,574</u>
Change in Net Position										
Governmental activities	\$ 5,974,993	3,532,244	1,793,164	4,264,593	11,617,496	2,004,794	1,789,235	(504,992)	(3,700,712)	(302,233)
Business-type activities	3,492,959	393,483	1,065,557	2,730,055	2,358,513	6,582,986	30,485,986	3,539,594	1,813,235	4,322,997
Total primary government	<u>\$ 9,467,952</u>	<u>3,925,727</u>	<u>2,858,721</u>	<u>6,994,648</u>	<u>13,976,009</u>	<u>8,587,780</u>	<u>32,275,221</u>	<u>3,034,602</u>	<u>(1,887,477)</u>	<u>4,020,764</u>

Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Fund:										
Nonspendable - prepaid items	\$ -	-	2,117	-	13,741	8,885	16,709	22,254	11,935	8,756
Assigned:										
Subsequent year's expenditures	-	-	1,638,770	1,490,854	1,156,232	1,132,088	3,346,341	-	2,238,227	368,400
Unassigned	-	-	4,865,844	5,238,816	7,402,864	7,461,144	6,735,867	8,670,767	6,578,439	9,087,460
Total General Fund	<u>-</u>	<u>-</u>	<u>6,506,731</u>	<u>6,729,670</u>	<u>8,572,837</u>	<u>8,602,117</u>	<u>10,098,917</u>	<u>8,693,021</u>	<u>8,828,601</u>	<u>9,464,616</u>
All other governmental funds:										
Committed for tourism	\$ -	-	206,694	236,859	301,433	357,411	389,175	430,735	464,650	509,163
Committed for Enhancement Fund			4,778,691	1,990,740	2,055,523	3,054,325	3,201,211	4,058,411	4,169,804	4,316,518
Assigned:										
Capital project funds	-	-	1,967,895	4,988,688	5,562,428	1,849,369	2,709,527	4,963,239	3,786,306	4,262,471
Public works	-	-	26,878	19,441	63,483	95,402	100,561	100,824	101,059	92,705
Unassigned (deficit)	-	-	(1,685,144)	(234,875)	-	-	-	-	-	-
Total other governmental funds	<u>\$ -</u>	<u>-</u>	<u>5,295,014</u>	<u>7,000,853</u>	<u>7,982,867</u>	<u>5,356,507</u>	<u>6,400,474</u>	<u>9,553,209</u>	<u>8,521,819</u>	<u>9,180,857</u>
General Fund:										
Reserved	\$ 14,622	13,618	-	-	-	-	-	-	-	-
Unreserved	7,689,501	8,838,952	-	-	-	-	-	-	-	-
Total General Fund	<u>\$ 7,704,123</u>	<u>8,852,570</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
All other governmental funds:										
Unreserved, reported in:										
Special revenue funds	3,743,007	4,432,351	-	-	-	-	-	-	-	-
Capital project funds	15,263,690	3,645,026	-	-	-	-	-	-	-	-
Total other governmental funds	<u>\$ 19,006,697</u>	<u>8,077,377</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Notes: Beginning fiscal year 2011, the fund balance categories were reclassified as a result of implementing GASB Statement 54. Fund balance has not been restated for prior years.

Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenues										
Taxes	\$ 10,128,925	10,224,835	10,575,595	11,386,270	12,150,131	12,604,298	12,912,690	12,644,950	12,176,474	13,203,444
Intergovernmental	4,481,587	3,436,286	4,521,935	5,411,721	12,462,294	3,261,608	4,307,386	1,969,070	1,272,516	2,003,494
Charges for services	1,232,892	1,194,380	1,356,105	1,602,132	1,538,470	1,911,039	1,923,897	1,705,250	1,700,272	1,867,281
Fines and forfeitures	20,122	23,514	6,156	3,619	15,308	9,482	14,739	3,382	1,675	40,067
Licenses and permits	76,679	70,489	93,193	71,957	237,950	83,253	135,769	59,599	118,571	87,672
Rental income	213,460	198,188	166,373	197,032	236,124	231,780	263,537	220,752	213,433	200,647
Interfund charges	690,920	678,820	662,872	813,225	865,152	895,876	871,909	1,210,409	1,579,673	1,273,442
Investment income	722,722	268,746	236,576	94,193	63,457	50,839	32,010	74,525	64,546	107,355
Special assessments	91,300	81,088	57,242	47,057	44,335	32,104	6,041	-	-	-
Sale of land	1,518,308	746,475	-	-	-	-	-	-	-	-
Donations	-	-	-	-	500,000	645,000	42,227	6,250	-	-
Other revenues	14,155	651,281	271,973	21,157	46,736	59,301	9,398	361,197	176,574	18,701
Total revenues	\$ 19,191,070	17,574,102	17,948,020	19,648,363	28,159,957	19,784,580	20,519,603	18,255,384	17,303,734	18,802,103
Expenditures										
General government	\$ 1,947,971	1,988,470	2,121,115	2,167,022	2,421,254	2,325,859	2,536,309	2,809,207	2,822,132	2,801,631
Public safety	5,686,969	5,980,113	6,454,474	7,130,363	7,408,485	7,872,405	8,198,863	6,764,932	7,680,079	7,762,582
Public works	4,274,007	2,270,267	4,060,798	2,763,027	2,376,153	2,234,955	2,714,642	3,058,157	2,760,444	1,672,518
Engineering	128,245	143,630	87,209	150,113	189,900	201,581	244,967	165,227	213,112	198,247
Parks and recreation	1,013,620	1,089,285	1,148,482	1,128,736	1,083,502	1,230,546	1,357,632	1,282,538	1,395,051	1,306,849
Library	695,715	720,071	680,345	778,930	825,732	847,134	935,048	763,875	755,262	736,662
Community services	426,747	267,818	250,469	297,683	287,129	296,234	365,012	384,507	404,871	359,395
Other - insurance and administration	474,613	525,528	529,442	517,399	487,673	577,733	468,125	436,875	441,618	373,614
Debt service principal	135,000	145,000	150,000	155,000	165,000	175,000	185,000	195,000	205,000	215,000
Debt service interest	377,227	385,740	378,490	370,990	363,240	354,990	346,240	336,990	316,548	256,400
Capital outlay	7,539,755	13,678,791	7,080,038	3,200,704	9,975,708	5,665,223	245,998	256,237	702,752	694,152
Total expenditures	\$ 22,699,869	27,194,713	22,940,862	18,659,967	25,583,776	21,781,660	17,597,836	16,453,545	17,696,869	16,377,050
Excess of revenues over (under) expenditures	(3,508,799)	(9,620,611)	(4,992,842)	988,396	2,576,181	(1,997,080)	2,921,767	1,801,839	(393,135)	2,425,053
Other financing sources (uses)										
Proceeds from bond refunding	-	-	-	-	-	-	-	-	6,368,811	-
Premium on bond refunding	-	-	-	-	-	-	-	-	389,398	-
Payment to bond refunding escrow agent	-	-	-	-	-	-	-	-	(6,682,661)	-
Bond refunding issuance costs	-	-	-	-	-	-	-	-	(78,223)	-
Transfers in	11,180,416	2,664,564	4,206,656	5,753,450	2,005,699	2,334,396	1,636,829	4,865,949	758,298	970,007
Transfers out	(9,447,123)	(2,824,826)	(4,342,016)	(4,813,068)	(1,756,699)	(2,934,396)	(2,017,829)	(4,920,949)	(1,258,298)	(2,100,007)
Net other financing sources (uses)	1,733,293	(160,262)	(135,360)	940,382	249,000	(600,000)	(381,000)	(55,000)	(502,675)	(1,130,000)
Net change in fund balance	\$ (1,775,506)	(9,780,873)	(5,128,202)	1,928,778	2,825,181	(2,597,080)	2,540,767	1,746,839	(895,810)	1,295,053
Debt services as a percentage of noncapital expenditures	3.38%	3.93%	3.33%	3.40%	3.38%	3.29%	3.06%	3.28%	3.18%	3.04%

General Governmental Tax Revenues By Source
Last Ten Fiscal Years
(modified accrual basis of accounting)

Fiscal Year	Property Tax	Sales Tax	Hotel/Motel Tax	Total
2009	\$ 651,699	\$ 9,277,394	\$ 168,267	\$ 10,097,360
2010	665,999	9,379,409	154,145	10,199,553
2011	765,539	9,631,344	155,513	10,552,396
2012	917,599	10,259,515	171,564	11,348,678
2013	708,684	11,215,647	196,687	12,121,018
2014	879,280	11,509,517	188,298	12,577,095
2015	912,645	11,759,863	212,228	12,884,736
2016	921,916	11,481,933	210,098	12,613,947
2017	1,083,234	10,876,981	196,945	12,157,160
2018	1,103,470	11,868,529	205,226	13,177,225

Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Real Property		Less: Tax Exempt Real Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
	Residential Property	Commercial Property					
2009	\$ 207,887,196	\$ 139,455,992	\$ 21,028,450	\$ 326,314,738	2.00	\$ 416,724,100	78.30%
2010	216,020,977	139,126,798	22,489,410	332,658,365	2.00	405,445,000	82.05%
2011	274,821,033	138,431,537	25,709,065	387,543,505	2.00	432,685,300	89.57%
2012	276,733,900	140,575,600	26,514,600	390,794,900	2.00	436,298,000	89.57%
2013	289,841,300	152,443,300	28,115,800	414,168,800	2.00	463,300,300	89.40%
2014	299,459,100	170,379,500	30,254,269	439,584,331	2.00	439,584,331	100.00%
2015	308,138,200	179,507,800	28,115,478	459,530,522	2.00	459,530,522	100.00%
2016	308,918,400	188,048,292	33,120,200	463,846,492	2.00	546,459,838	84.88%
2017	286,250,122	254,754,196	36,638,578	504,365,740	2.00	619,226,200	81.45%
2018	283,323,922	286,840,184	38,884,878	531,279,228	2.00	662,521,819	80.19%

Source: Kodiak Island Borough Assessing Department and the State of Alaska Department of Commerce, Community & Economic Development

Note: Property tax is calculated at full value as of January 1 of the tax year. Annually the Borough reports to the State the taxable value of property. The State then evaluates the report and adds in optionally exempted property to determine the Estimated Actual Taxable Value. The total Tax Rate is based on \$1,000 of assessed value.

City of Kodiak, Alaska

Table 7

Property Tax Rates
Direct and Overlapping Governments
Last Ten Fiscal Years
(per \$100 of Assessed Value)

Fiscal Year	City of Kodiak			Kodiak Island Borough			Total Direct & Overlapping Rates	
	Real Property Millage	Personal Property Millage	Total City Millage	Real Property Millage	Personal Property Millage	Total Borough Millage	Real Property	Personal Property
2009	2.00	0.00	2.00	10.50	10.50	10.50	12.50	10.50
2011	2.00	0.00	2.00	10.50	10.50	10.50	12.50	10.50
2012	2.00	0.00	2.00	10.75	10.50	10.50	12.75	10.50
2013	2.00	0.00	2.00	10.75	10.75	10.75	12.75	10.75
2014	2.00	0.00	2.00	10.75	10.75	10.75	12.75	10.75
2015	2.00	0.00	2.00	10.75	10.75	10.75	12.75	10.75
2016	2.00	0.00	2.00	10.75	10.75	10.75	12.75	10.75
2017	2.00	0.00	2.00	10.75	10.75	10.75	12.75	10.75
2018	2.00	0.00	2.00	10.75	10.75	10.75	12.75	10.75

Source: City of Kodiak records and Kodiak Island Borough records

City of Kodiak, Alaska

Table 8

Top Ten Sales Tax Business Categories & Principal Property Taxpayers
Current Year and Nine Years Ago

Business Category	2018			2009		
	Total Sales Receipts	Rank	Percentage of Total Sales Receipts	Total Sales Receipts	Rank	Percentage of Total Sales Receipts
Wholesale/Retail Trade	\$ 208,486,533	1	53.79%	\$ 195,107,037	1	47.28%
Construction	51,860,361	2	13.38%	64,021,884	2	15.51%
Accommodation and Food Services	24,352,108	3	6.28%	21,284,609	5	5.16%
Utilities	23,814,500	4	6.14%	22,057,828	4	5.35%
Other	15,582,390	5	4.02%	9,868,495	7	2.39%
Real Estate and Rental and Leasing	14,535,469	6	3.75%	12,508,939	6	3.03%
Manufacturing	9,784,703	7	2.52%	22,202,681	3	5.38%
Transportation and Warehousing	8,793,351	8	2.27%	7,056,425	9	1.71%
Information	8,500,594	9	2.19%	9,837,068	8	2.38%
Administrative & Support	7,111,798	10	1.83%	2,622,062	10	0.00%
	<u>\$ 372,821,807</u>		<u>96.19%</u>	<u>\$ 366,567,028</u>		<u>88.20%</u>

Taxpayer	2018			2009		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Trident Seafoods Corporation	\$ 46,717,200	1	8.79%	\$ 9,028,842	7	2.81%
Matson Navigation Co. of Alaska	30,545,700	2	5.75%	-	-	-
Ocean Beauty Seafoods LLC	15,764,700	3	2.97%	16,237,441	1	5.05%
North Pacific Seafoods Inc	12,766,600	4	2.40%	-	-	-
Mill Bay Plaza Assoc Ltd	12,588,800	5	2.37%	8,648,400	8	2.69%
International Seafoods of Alaska	10,560,500	6	1.99%	10,879,502	4	3.39%
Wal-mart / Sams Club	9,119,100	7	1.72%	9,987,787	5	3.11%
Island Holdings	6,932,700	8	1.30%	-	-	-
Kodiak Oil Sales, Inc.	5,657,200	9	1.06%	-	-	-
Silver Bay Seafoods, LLC	5,420,100	10	1.02%	-	-	-
Westward Seafoods, Inc.	-	-	-	11,852,090	2	3.69%
Alaska Communications Systems	-	-	-	11,645,093	3	3.62%
Brechan Enterprises	-	-	-	9,569,530	6	2.98%
GCI Communication Corp	-	-	-	7,563,488	9	2.35%
Konkor	-	-	-	6,797,500	10	2.11%
	<u>\$ 156,072,600</u>		<u>29.38%</u>	<u>\$ 102,209,673</u>		<u>31.80%</u>

Source: City of Kodiak records and Kodiak Island Borough records.

Note: Effective January 1, 2018, the City sales tax rate is 7%, with a maximum taxable transaction amount of \$3,000; any amount over \$3,000 (\$750 for property rental) is tax exempt. The maximum tax to be charged on a transaction is \$210.

Previous maximum tax to be charged on a transaction was \$52.50.

Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2009	\$ 653,397	\$ 644,857	98.69%	\$ 6,842	\$ 651,699	99.74%
2010	665,317	656,852	98.73%	4,848	661,700	99.46%
2011	781,590	759,262	97.14%	3,494	762,757	97.59%
2012	780,820	772,191	98.89%	15,893	788,084	100.00%
2013	830,179	817,304	98.45%	14,442	831,745	100.19%
2014	879,169	869,010	98.84%	4,164	873,174	100.00%
2015	919,061	902,839	98.23%	5,615	908,455	98.85%
2016	927,693	909,428	98.03%	7,090	916,518	98.80%
2017	1,082,009	1,069,715	98.86%	13,519	1,083,234	100.00%
2018	1,124,624	1,098,102	97.64%	5,368	1,103,470	98.12%

Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	Governmental Activities	Business-Type Activities			Percentage of Personal Income	Per Capita
	General Obligation Bonds	Revenue Bonds	Alaska Clean Water Fund Loans	Alaska Drinking Water Fund Loan		
2009	\$ 7,865,000	\$ 7,000,000	\$ 1,957,682	\$ 550,000	7.0%	2,908
2010	7,720,000	6,895,000	3,177,346	440,000	6.5%	2,752
2011	7,570,000	6,795,000	3,486,136	1,355,116	6.7%	3,133
2012	7,415,000	6,685,000	3,139,645	1,589,186	6.2%	2,983
2013	7,250,000	6,570,000	2,792,495	2,371,341	6.1%	2,952
2014	7,075,000	6,445,000	2,444,676	2,177,465	5.0%	2,862
2015	6,890,000	6,315,000	2,218,803	2,177,465	4.6%	2,781
2016	6,695,000	6,180,000	1,837,314	3,917,072	5.1%	2,963
2017	6,954,398	6,351,191	3,450,828	4,206,000	5.6%	3,423
2018	6,719,928	6,166,372	3,179,301	3,916,440	*	3,357

* Information not available at report time.

City of Kodiak, Alaska

Table 11

Direct and Overlapping Debt
As of June 30, 2018

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
City of Kodiak			
General Obligation Bonds	\$ 6,719,928	100%	\$ 6,719,928
Kodiak Island Borough			
General Obligation Bonds	<u>74,210,000</u>	45%	<u>33,720,022</u>
Total direct and overlapping debt	<u>\$ 80,929,928</u>		<u>\$ 40,439,950</u>

Source: Assessed value data used to estimate applicable percentages provided by the Kodiak Island Borough and the State of Alaska.

The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the Kodiak Island Borough's taxable assessed value that is within the City of Kodiak's boundaries and dividing it by the Kodiak Island Borough's total taxable assessed value.

Legal Debt Margin Information
As of June 30, 2018

Assessed Value	\$	570,164,106
Less Exempt Property		<u>38,884,878</u>
Total	\$	531,279,228

The State of Alaska does not mandate a debt limit to its municipalities and political subdivisions. Debt capacity is ultimately determined by the votes and the marketplace.

Source: Kodiak Island Borough assessment reports

Pledged-Revenue Coverage
Last Ten Fiscal Years

Boat Harbor Revenue Bond							
Fiscal Year	Boat Harbor Charges and Other	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage	
				Principal	Interest		
2009	\$ 2,183,999	\$ 1,697,696	\$ 486,303	\$ -	\$ 24,405	n/a	
2010	2,233,292	1,518,404	714,888	30,000	96,721	n/a	
2011	2,394,368	1,756,658	637,710	30,000	94,921	5.10	
2012	2,507,552	1,806,778	700,774	35,000	92,971	5.48	
2013	2,602,989	1,868,970	734,019	35,000	90,871	5.83	
2014	2,344,260	1,926,330	417,930	40,000	88,621	3.25	
2015	2,371,246	1,845,972	525,274	40,000	86,221	4.16	
2016	2,231,594	2,034,675	196,919	45,000	83,671	1.53	
2017	2,216,952	2,294,823	(77,871)	1,745,000	78,931	-0.04	
2018	2,480,054	2,036,327	443,727	55,000	63,763	3.74	

Operating expenses exclude depreciation.

Shipyard Revenue Bonds							
Fiscal Year	Shipyard Charges and Other	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage	
				Principal	Interest		
2009	\$ -	\$ 35,004	\$ (35,004)	\$ -	\$ -	n/a	
2010	320,574	316,277	4,297	75,000	211,551	n/a	
2011	293,845	350,274	(56,429)	70,000	236,870	-0.18	
2012	239,889	308,101	(68,212)	75,000	237,693	-0.22	
2013	642,020	492,924	149,096	80,000	233,543	0.48	
2014	722,665	517,397	205,268	85,000	228,993	0.65	
2015	746,002	366,823	379,179	90,000	224,143	1.21	
2016	598,683	458,263	140,420	90,000	219,043	0.45	
2017	408,906	426,924	(18,018)	4,435,000	203,675	0.00	
2018	504,327	484,362	19,965	115,000	163,431	0.07	

Operating expenses exclude depreciation.

Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population (a)	Personal Income	Per Capita Personal Income (b)	School District Enrollment (c)	Unemployment Rate (d)
2009	5,974	\$ 249,056,060	\$ 41,690	2,598	7.1%
2010	6,626	281,777,276	42,526	2,567	7.4%
2011	6,130	285,713,170	46,609	2,543	7.4%
2012	6,312	301,890,336	47,828	2,517	6.7%
2013	6,431	313,247,579	48,709	2,513	6.2%
2014	6,338	359,751,218	56,761	2,468	5.7%
2015	6,329	385,803,182	60,958	2,446	4.8%
2016	6,288	365,119,008	58,066	2,437	5.2%
2017	6,124	372,896,484	60,891	2,386	5.1%
2018	5,952	*	*	2,437	*

Sources:

- (a) State of Alaska, DCCED, DCRA
- (b) Bureau of Economic Analysis www.bea.gov
- (c) Alaska Dept of Education, Average Daily Membership by Fiscal Year at www.eed.state.ak.us/stats
- (d) State of Alaska, Department of Labor live.laborstats.alaska.gov

Note: A change in the way labor force statistics are calculated for sub-state areas makes data prior to 2010 not comparable with later data.

* Information not available at report time.

Principal Employers
Current Year and Nine Years Ago

<u>Employer</u>	<u>2018 Rank</u>	<u>2009 Rank</u>
Kodiak Island Borough School District		1
Federal Government		2
International Seafoods		3
Trident Seafood Corporation		4
Ocean Beauty Seafoods		5
Providence Hospital		6
North Pacific Processors, Inc.		7
State Government		8
City of Kodiak		9
Safeway		10

Source: State of Alaska Department of Labor

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

Full-time Equivalent City Government Employees by Function
Last Ten Fiscal Years

Function	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
General Government	12.05	12.30	12.30	12.30	13.30	13.30	13.30	13.30	14.30	14.30
Public Safety:										
Police	37.00	37.00	41.50	42.50	41.50	41.50	42.50	42.50	42.50	42.50
Fire	13.75	13.75	13.75	13.75	13.75	13.75	13.75	13.75	13.75	13.75
Public Works	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50
Engineering	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Parks and Recreation	6.00	5.00	7.25	5.75	5.75	5.75	5.75	5.75	5.75	5.75
Library	6.75	6.75	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Harbor	14.00	16.40	16.40	16.40	16.40	16.40	16.40	16.40	16.40	16.40
Water	6.85	6.60	6.60	6.60	6.60	6.60	6.60	6.60	7.60	7.60
Sewer	8.35	9.35	9.35	9.35	9.35	9.35	9.35	11.35	10.35	10.35
Total	<u>116.25</u>	<u>118.65</u>	<u>125.65</u>	<u>125.15</u>	<u>125.15</u>	<u>125.15</u>	<u>126.15</u>	<u>128.15</u>	<u>129.15</u>	<u>129.15</u>

Note: Full-time equivalent employees are permanent employees.

Operating Indicators by Function
Last Ten Years

Function	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Police:										
Complaints investigated	8,839	7,716	8,746	10,168	13,856	15,135	14,168	14,100	11,452	10,831
Motor vehicle collision reports	89	124	89	118	155	118	124	132	30	161
Bookings/admissions	917	917	864	894	1,030	1,054	1,196	932	787	615
Investigations conducted	125	188	158	201	293	299	271	140	699	694
Service calls received/dispatched	9,661	7,279	8,797	10,168	13,855	15,135	14,202	14,397	12,953	11,952
Fire:										
Fire response within 5 minutes	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
EMS response within 5 minutes	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
Public Works:										
Streets:										
Time spent on snow removal (man hours)	5,900	5,000	4,704	5,000	3,406	2,066	693	700	2,181	2,098
Garage:										
Preventative maintenance checks	132	125	80	130	130	79	117	217	193	194
Building inspection										
Building permits issued	197	190	201	223	219	158	193	224	264	171
Engineering:										
Projects completed on schedule & within budget	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Parks and Recreation:										
Landscape maintenance (in acres)	240.5	240.5	240.5	240.5	240.5	240.5	240.5	240.5	240.5	240.5
Teen center attendance	32,920	31,000	36,088	16,054	16,054	16,054	17,408	26,365	30,650	26,050
Number of aquatic participants	15,463	19,728	27,804	35,799	35,314	30,493	25,087	33,451	38,625	36,872
Ice rink attendance	32,679	34,480	34,480	6,598	8,492	12,200	14,535	8,988	5,000	25,825
Library:										
Number of visitors	74,650	74,900	74,637	74,632	74,500	74,650	100,418	90,594	88,073	75,848
Number of materials withdrawn	3,800	3,800	3,047	4,957	3,502	1,146	1,121	3,000	4,354	1,274
Harbor:										
Vehicle, boat and foot patrol hours	7,000	7,000	7,000	7,000	7,000	7,611	8,464	8,425	8,788	8,049
Number of owner accounts	1,400	1,400	1,400	1,400	1,400	1,500	1,500	1,500	1,500	1,810
Water:										
All regulations met	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sewer:										
Treatment standards met	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Discharge effluent limits met	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Capital Asset Statistics by Function
Last Ten Years

Function	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Police:										
Police stations	1	1	1	1	1	1	1	1	1	1
Police vehicles	20	20	20	21	23	20	20	19	21	20
Fire:										
Fire stations	1	1	1	1	1	1	1	1	1	1
Fire vehicles	9	9	9	9	9	8	10	9	9	9
Public Works:										
Streets (miles)	23.4	23.4	23.4	23.4	23.4	23.4	23.4	23.4	23.4	23.4
Runways (feet)	2,650	2,650	2,650	2,650	2,650	2,650	2,650	2,650	2,650	2,650
Parks and Recreation:										
Number of parks/ playgrounds	14	14	14	14	14	14	14	14	14	14
Teen center	1	1	1	1	1	1	1	1	1	1
Ice rink	1	1	1	1	1	1	1	1	1	1
Library	1	1	1	1	1	1	1	1	1	1
Harbor:										
Number of harbors	2	2	2	2	2	2	2	2	2	2
Piers & docks	6	6	6	6	6	6	6	6	6	6
Water:										
Water mains (miles)	52.4	52.4	52.4	52.4	52.4	52.4	52.4	52.4	52.4	52.4
Number of reservoirs	4	4	4	4	4	4	4	4	4	4
Sewer:										
Sewer mains (miles)	43.9	43.9	43.9	43.9	43.9	43.9	43.9	43.9	43.9	43.9
Lift stations	20	20	20	20	20	20	20	20	20	20

Single Audit Section

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**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance With Government
Auditing Standards**

Independent Auditor's Report

Honorable Mayor and City Council
City of Kodiak, Alaska

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kodiak, Alaska, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Kodiak's basic financial statements, and have issued our report thereon dated December 14, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Kodiak's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Kodiak's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Kodiak's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kodiak's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Altman, Rogers & Co.

Anchorage, Alaska
December 14, 2018

Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance as Required by the Uniform Guidance

Independent Auditor's Report

Honorable Mayor and City Council
City of Kodiak, Alaska

Report on Compliance for Each Major Federal Program

We have audited the City of Kodiak, Alaska's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Kodiak's major federal programs for the year ended June 30, 2018. The City of Kodiak's major federal programs are identified in the summary of auditor's results section of the accompanying federal schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Kodiak's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Kodiak's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Kodiak's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Kodiak, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the City of Kodiak is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Kodiak's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Kodiak's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Anchorage, Alaska
December 14, 2018

City of Kodiak, Alaska

Schedule of Findings and Questioned Costs

Year Ended June 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Is a going concern emphasis-of-matter paragraph included in the audit report Yes No

Internal control over financial reporting:
Material weakness(es) identified? Yes No
Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs (2 CFR 200.516 (a)(1)):
Material weakness(es) identified Yes No
Significant deficiency(ies) identified? Yes None reported

Any material noncompliance with provisions of laws, regulations, contracts, or grant agreements related to a major program (2 CFR 200.516 (a)(2))? Yes No

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, 2 CFR 200.516(a)(3) or (4)? Yes No

Identification of major programs:

CFDA Number(s)/Cluster
66.458
66.468

Name of Federal Program or Cluster
Clean Water State Revolving Funds
Drinking Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? Yes No

City of Kodiak, Alaska

Schedule of Findings and Questioned Costs, Continued

Section II - Financial Statement Findings

The City of Kodiak did not have any findings that related to the financial statements.

Section III - Federal Award Findings and Questioned Costs

The City of Kodiak did not have any findings that related to federal awards.