



City of Valdez, Alaska

Basic Financial Statements, Required
Supplementary Information, and
Supplementary Information
Year Ended December 31, 2014

City of Valdez, Alaska

Basic Financial Statements, Required Supplementary Information,
and Supplementary Information
Year Ended December 31, 2014

City of Valdez, Alaska

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Tel: 907-278-8878
Fax: 907-278-5779
www.bdo.com

3601 C Street, Suite 600
Anchorage, AK 99503

Independent Auditor's Report

Honorable Mayor and City Council
City of Valdez, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Valdez, Alaska, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise City of Valdez'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 did not audit the financial statements of Valdez City Schools, a discretely presented component unit of the reporting entity. We did not audit the financial statements of the Providence Valdez Medical Center Special Revenue Fund, which is a major fund and represents 3.8%, 2.7%, and 14.9%, respectively, of the assets, fund balances, and revenues of the governmental funds. We also did not audit the financial statements of the Providence Valdez Counseling Center Special Revenue Fund, which is a nonmajor fund and represents less than 1% of the assets, fund balances, and revenues of the governmental funds. The statements of Valdez City Schools, Providence Valdez Medical Center, and Providence Valdez Counseling Center were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for City of Valdez, is based solely on the reports of other auditors. 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. The financial statements of the Providence Valdez Medical Center and the Valdez Museum & Historical Archive Association, Inc. were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Valdez, Alaska, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flow thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 6-14 and the budgetary comparison information on pages 56-57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Valdez's basic financial statements. The accompanying combining financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying combining financial statements listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the reports of other auditors, the accompanying combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2015, on our consideration of City of Valdez's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Valdez's internal control over financial reporting and compliance.

BDO USA, LLP

Anchorage, Alaska
June 25, 2015

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Management's Discussion and Analysis

City of Valdez, Alaska

Management's Discussion and Analysis

The management of the City of Valdez offers readers of the City's financial statements this discussion and analysis of the financial activities of the City of Valdez for the fiscal year ending December 31, 2014.

Financial Highlights

- The assets and deferred outflow of resources of the City of Valdez exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$512,256,122. Of this amount, \$130,696,040 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$28,311,923 for the current fiscal year.
- The City's governmental funds reported combined ending fund balances of \$315,892,223, a net decrease of \$7,487,972.
- The unassigned fund balance for the General Fund was \$19,887,758, or 34 percent of total General Fund expenditures and transfers out and 53 percent of General Fund expenditures only.
- The City entered into a Clean Water Loan in 2014, incurring \$414,530 in new debt. In addition, as discussed in note 6, the City defeased an additional \$2,025,000 of the 2012 School bonds. This defeasance, when combined with the prior 2013 defeasance brings the total amount of defeased debt to \$25,460,000.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three main components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements and additional supplemental information. The discussion section is designed to be a narrative overview of these three main components and following is an analysis of both the government-wide and fund financial statements.

Government-wide Financial Statements Discussion

The government-wide financial statements are designed to provide readers with a broad overview of the finances of the City, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Valdez is improving or declining.

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

Both of the government-wide financial statements distinguish functions of the City of Valdez 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 Valdez include general government, public safety, public works, public service, economic development,

City of Valdez, Alaska

Management's Discussion and Analysis

port, harbor, utility, airport, museum, education, health care, and equipment. The City of Valdez currently has no business-type activities.

The government-wide financial statements include the City of Valdez itself (known as the primary government), as well as two legally separate component units of the City that include a school district, and museum. Financial information for these component units is reported separately from the financial information presented for the primary government itself. In addition, the City owns a hospital and counseling center. These entities are reported as blended component units. All four entities prepare separately issued financial statements which are available by contacting the respective organizations. (See Note 1 to the financial statements.)

Fund Financial Statements Discussion

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 Valdez, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Valdez can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds - Governmental funds are used to account for essentially the same functions as reported in the government-wide financial statements as governmental activities. However, unlike the government-wide statements, governmental fund financial statements focus on near-term inflows and outflows of unreserved resources as well as the balances of unreserved resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term liquidity or financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City of Valdez maintains eleven individual governmental funds. Five of these funds are considered major funds in 2014 and include the General Fund, the Permanent Fund, the Providence Valdez Medical Center (PVMC) Special Revenue Fund, the General City Capital Projects Fund, and the Debt Service Fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for these five major funds. Data from the other non-major funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is available upon request.

The City of Valdez adopts an annual appropriated budget for its General Fund and its other governmental funds. Budgetary comparison statements have been provided as required supplementary information for the General Fund and the PVMC Special Revenue Fund to demonstrate compliance with this budget.

City of Valdez, Alaska

Management's Discussion and Analysis

Proprietary funds - There are two different types of proprietary funds: enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Valdez currently has no enterprise funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund for its employee benefit self-insured health plan. Because this service benefits governmental rather than business type functions, they have been included within governmental activities in the government-wide financial statements. The City does not adopt an annual appropriated budget for the employee benefit self-insured health plan internal service fund due to the utilization and claim volatility. The City limits its exposure to excessive claims expense through the use of stop loss reinsurance. The Valdez City School District also participates in the health plan.

Fiduciary funds - This category of fund is to account for those assets that are held in trust and so do not support the government's other activities. The City does not currently report any fiduciary funds.

Notes and Other Information Discussion

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

Government-wide Financial Statements Analysis

Statement of Net Position

As noted earlier, the trend of net position changes may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$512,256,122 at the close of 2014. Historically, the largest portion of the net position of the City have been from capital assets, yet in recent years the total restricted and unreserved balances have become a larger percentage of the net assets of the City. This is primarily a result of growth of the Valdez Permanent Fund.

The City uses its capital assets to provide services to citizens; consequently, these assets are not available for future spending. The net investment in capital assets of the City reflects its investment in capital assets (e.g. land, buildings, equipment and infrastructure), less any related debt used to acquire those assets that remains outstanding, adjusted for debt issued but not yet spent (e.g. unspent bond proceeds). Although the City's investment in capital assets is reported net of 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. The following reflects the condensed statement of net position for 2014 and 2013.

City of Valdez, Alaska

Management's Discussion and Analysis

	Governmental Activities	
	2014	2013
Current and other assets	\$ 322,630,877	\$ 333,850,834
Long-term	215,387,356	186,154,535
Total assets	538,018,233	520,005,369
Deferred outflows of resources	-	258,487
Total Assets And Deferred Outflows Of Resources	\$ 538,018,233	\$ 520,263,856
Current liabilities	\$ 7,122,833	\$ 9,085,631
Long-term	15,920,707	18,958,516
Total liabilities	23,043,540	28,044,147
Deferred inflows of resources	2,718,571	8,275,510
Total liabilities and deferred inflows of resources	25,762,111	36,319,657
Net position:		
Net investment in capital assets	207,554,440	184,280,951
Restricted	174,005,642	167,633,379
Unrestricted	130,696,040	132,029,869
Total net position	512,256,122	483,944,199
Total Liabilities, Deferred Inflows of Resources And Net Position	\$ 538,018,233	\$ 520,263,856

Of the \$512,256,122 total net position; \$207,554,440 (41 percent) is invested in capital assets; \$174,005,642 (34 percent) is restricted and mostly comprised of investments in the Permanent Fund; the remaining balance of \$130,696,040 (26 percent) is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

City of Valdez, Alaska

Management's Discussion and Analysis

Statement of Activities

The following condensed table of changes in net position displays the revenues and expenses for 2014 and 2013.

	Governmental Activities	
	2014	2013
Revenues:		
Program revenues:		
Charges for services	\$ 18,344,456	\$ 21,453,346
Operating grants and contributions	5,714,201	3,312,791
Capital grants and contributions	8,487,812	1,492,155
General revenues:		
Property taxes	51,796,080	59,252,621
Payment in lieu of taxes	753,501	704,377
Grants and entitlements not restricted to a specific purpose	486,538	2,126,031
Investment income (loss)	9,260,479	22,060,206
Other	129,433	1,008,498
Total revenues	94,972,500	111,410,025
Expenses:		
General government	8,345,381	9,902,708
Public safety	5,213,681	4,879,533
Public works	10,397,032	7,448,723
Public service	5,016,032	5,013,662
Economic development	848,974	844,323
Port	2,368,816	1,905,834
Harbor	2,069,230	2,001,018
Utility	1,657,757	2,171,034
Airport	352,684	589,959
Museum	425,000	370,701
Education	15,032,337	12,904,204
Hospital and health care	13,659,334	14,497,257
Interest on long-term debt	1,274,319	2,273,888
Total expenses	66,660,577	64,802,844
Change in net position	28,311,923	46,607,181
Net Position, beginning of year	483,944,199	437,337,018
Net Position, end of year	\$ 512,256,122	\$ 483,944,199

City of Valdez, Alaska

Management's Discussion and Analysis

Governmental activities increased the net position of the City of Valdez by \$28,311,923 million in fiscal year 2014. This year's increase is lower than the prior year increase of \$46,607,181. Key elements of this decrease are:

- \$12.8 million decrease in investment income, which is concentrated primarily in the Permanent Fund, and reflects capital market trends.
- \$7.5 million dollar decrease in tax revenues, which reflects a \$1.6 billion reduction in the State Assessment Review Board's (SARB) annual assessment of the Trans-Alaska Pipeline System (TAPS).

Fund Financial Analysis

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds - The focus of the governmental funds of the City of Valdez is to provide information on near term inflows, outflows, and remaining balances at year end. Unassigned resources are those resources available for spending at the end of the fiscal year. Such information is useful in assessing the financing requirements of the City of Valdez. In particular, unassigned fund balance may serve as a useful measure of a government's ability to meet the expenditures of the current period.

As of the end of the 2014 fiscal year, the governmental funds of the City reported combined ending fund balances of \$315,892,223 a combined net decrease of \$7,487,972 in comparison to the beginning of the year. \$19,887,758 or 6 percent of this total amount constitutes unassigned fund balance. The unassigned fund balance constitutes monies that can be designated by the City Manager for further expenditures. The remainder of fund balance is restricted, nonspendable, committed, or assigned to indicate that it is not available for new spending because it has already been dedicated to some other purpose: liquidate contracts of the prior period; pay debt service; generate income for the growth of the Permanent Fund; provide working capital; provide a TAPS litigation reserve, or for a variety of other purposes.

A summary of governmental funds and fund balances follows:

	Total Fund Balance	Unassigned Fund Balance
General	\$ 97,669,551	\$ 19,887,758
Permanent	173,760,011	-
PVMC	8,710,125	-
General City Capital Project Fund	28,448,869	-
Other funds	7,303,667	-
	<hr/>	<hr/>
	\$ 315,892,223	\$ 19,887,758

The General Fund is the main operating fund of the City of Valdez. At the end of the 2014 fiscal year, unassigned fund balance of the General Fund was \$19,887,758 while total fund balance was \$97,669,551. As a measure of the General Fund's liquidity, it may be useful to compare the sum of unassigned fund balance to total expenditures. This sum represents 53 percent of total General Fund expenditures, and 34 percent of the General Fund expenditures plus operating transfers out.

City of Valdez, Alaska

Management's Discussion and Analysis

The City's General Fund balance increased by \$4,035,987 during the 2014 fiscal year, despite a reduction in property taxes resulting from the reduced SARB assessment on the TAPS properties. The General Fund also transferred \$7.6 million above the required annual debt service amount for additional defeasance of the outstanding 2012 General Obligation bonds.

The Providence Valdez Medical Center Special Revenue Fund had a total fund balance of \$8,710,125. This was an increase of \$1,666,153 as a result of increased charges for services over the previous year.

The Permanent Fund had a total fund balance of \$173,760,011, all of which is reported as restricted investments in accordance with the City Charter. The fund balance increased by \$6,169,632. Pursuant to City Code, the City appropriated 1.5% of the beginning fund balance, or \$2.2 million, for general government operations. Although still reporting positive investment earnings, the investment income reported in 2014 was approximately 40% of the amount recorded in 2013. The reduced earnings mirror the year-over-year performance of broader capital market indices.

The Capital Projects fund balance decreased by \$16,984,677, due to ongoing expenditures for various projects, such as the Middle School construction and Harbor expansion. As of 12/31/2014, the City Council and the voters of the City of Valdez have approved a bond issue of \$20 million for the Small Boat Harbor Expansion. This bond issue is expected to close in March, 2015.

General Fund Budgetary Highlights

The net change from the original budget and final amended budget represented a \$14,250,995 increase in revenues and an increase of \$4,300,716 in expenditures. Budget changes were done throughout the year by council resolution and can be briefly summarized as follows:

- \$13,469,855 increase in tax revenues: Eighty percent of the City's General Fund revenue is attributable to property tax on the TAPS. However, the actual figure is not known until June, when SARB makes its TAPS assessment. For this reason, the City has in recent years budgeted its tax revenue based on the statutory revenue "cap", pursuant to AK 29.45.090. Actual revenues, which are a function of SARB rulings, have exceeded this original budgeted figure for several years. Once known, these revenue figures are reflected in the revised budget. This single transaction accounts for ninety-five percent of the increase in total revenues.
- \$1,814,017 increase in general government expenditures.
- \$130,910 increase to public works.
- \$147,606 increase in public service expenditures.
- \$1,987,904 increase in capital outlay.

Capital Assets and Debt Administration

Capital assets - The investment in capital assets for the City of Valdez governmental activities as of December 31, 2014 amounts to \$215,387,356 (net of accumulated depreciation). This investment includes land, buildings and improvements, equipment, construction work-in-progress, sewer and water treatment facilities and roads. The total net increase in the City's investments in capital assets for the current fiscal year was \$29,232,821.

Major capital asset events for the 2014 fiscal year included the following:

City of Valdez, Alaska

Management's Discussion and Analysis

- Ongoing activity related to the new middle school
- Ongoing port and harbor improvements.
- Various heavy equipment and other rolling stock to include a new Grader, a new Loader, a new Vector Plus, an articulated truck, a shop truck, three police vehicles, and various other items.

The following table displays the capital assets (net of depreciation) for the current year.

	Governmental Activities	
	2014	2013
Land	\$ 15,923,570	\$ 15,923,570
Buildings	97,892,758	58,009,643
Improvements other than buildings	64,522,015	61,996,776
Equipment	11,017,352	10,815,420
Construction in progress	26,031,661	39,409,126
	<hr/>	<hr/>
	\$ 215,387,356	\$ 186,154,535

Additional information on the City's capital assets can be found in Note 5 to the financial statements.

Long-term debt - At the end of the 2014 fiscal year, the City of Valdez had ending bonded debt outstanding of \$9,270,000. In 2014, the City continued a two-stage economic defeasance of its 2012 School Bonds. In the economic defeasance the city has placed \$26,051,887 in cash into an escrow account held by the trustee who will continue to make the debt payments as they come due. The defeasance results in significant cost savings to the City over the life of the debt. In addition, the City drew down additional funds on an Alaska Clean Water Loan. Total debt outstanding on the loan at December 31, 2014 was 521,036.

Additional information on the City's long-term debt can be found in Note 6 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the Valdez-Cordova census region is 9.5 percent which is a 0.3 percent decrease from 2013. It compares unfavorably to the state's unemployment rate of 6.8 percent, which decreased 0.1 percent from a year ago.
- The tax revenue from the Trans-Alaska Pipeline System (TAPS) continues to be in flux. Litigation is ongoing concerning the TAPS valuation.

These factors were considered in preparing the City's budget for the 2014 year.

Negotiations on the assessed value of oil and gas related properties make future revenues uncertain. This matter will be considered while planning the budget in 2014.

City of Valdez, Alaska

Management's Discussion and Analysis

Requests for Information

This financial report is designed to provide a general overview of the finances of the City of Valdez for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of Valdez Finance Director, PO Box 307, Valdez, Alaska, 99686.

Basic Financial Statements

City of Valdez, Alaska

Statement of Net Position

	Primary Government	Component Units	
	Governmental Activities	Valdez City Schools	Valdez Museum and Historical Archive Association, Inc.
<i>December 31, 2014</i>			
Assets			
Current Assets			
Cash and investments	\$ 307,375,622	\$ 2,611,292	\$ 221,672
Receivables, net of allowance for uncollectible accounts:			
Property taxes	420,056	-	-
Grants and shared revenues	3,859,385	-	-
Accounts	3,124,799	242,812	30,245
Accrued interest	457,128	-	-
Inventory	-	31,850	24,238
Prepaid items	303,085	-	19,837
Other current assets	664,000	-	-
Restricted cash and investments:			
Unspent bond proceeds	6,227,171	-	-
Debt reserve accounts	199,631	-	-
Total Current Assets	322,630,877	2,885,954	295,992
Long-term Assets			
Capital assets not being depreciated	41,955,231	-	-
Depreciable capital assets, net of accumulated depreciation	173,432,125	370,378	61,728
Total Long-term Assets	215,387,356	370,378	61,728
Total Assets	\$ 538,018,233	\$ 3,256,332	\$ 357,720

See accompanying notes to the financial statements.

City of Valdez, Alaska
Statement of Net Position, continued

	Primary Government	Component Units	
	Governmental Activities	Valdez City Schools	Valdez Museum and Historical Archive Association, Inc.
<i>December 31, 2014</i>			
Liabilities, Deferred Inflows of Resources and Net Position			
Liabilities			
Current Liabilities			
Accounts payable	\$ 3,181,954	\$ 320,740	\$ 10,568
Accrued payroll liabilities	1,256,606	846,122	15,520
Health claims payable	332,181	-	-
Customer deposits	23,079	-	-
Other liabilities	5,000	-	-
Unearned revenue	81,896	11,167	27,364
Due to student groups	-	192,220	-
Accrued interest payable	42,117	-	-
Due within one year:			
Accrued leave	750,000	31,419	12,099
Lease payable	-	38,926	-
Bonds payable	1,450,000	-	-
Total Current Liabilities	7,122,833	1,440,594	65,551
Long-term liabilities:			
Accrued leave	619,113	-	-
Lease payable	-	83,765	-
Bonds payable	7,820,000	-	-
Bond premium, net of accumulated amortization	1,550,480	-	-
Loans payable	521,036	-	-
Landfill closure and post-closure costs payable	5,410,078	-	-
Total long-term liabilities	15,920,707	83,765	-
Total Liabilities	23,043,540	1,524,359	65,551
Deferred Inflows of Resources			
Deferred gain on refunding	2,718,571	-	-
Total Liabilities and Deferred Inflows of Resources	25,762,111	1,524,359	65,551
Net Position			
Net investment in capital assets	207,554,440	247,687	61,728
Restricted:			
Permanent fund	173,760,011	-	-
Debt service	199,631	-	-
Projects and displays	-	-	78,715
Title VI-B	-	61	-
Capital acquisitions	46,000	-	-
Unrestricted	130,696,040	1,484,225	151,726
Total Net Position	512,256,122	1,731,973	292,169
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 538,018,233	\$ 3,256,332	\$ 357,720

See accompanying notes to the financial statements.

City of Valdez, Alaska
Statement of Activities

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contri- butions	Capital Grants and Contri- butions	Primary	Component	
					Government	Units	
<i>Year Ended December 31, 2014</i>					Govern- mental Activities	Valdez City Schools	Valdez Museum and Historical Archive Association, Inc.
Primary Government							
General government	\$ 8,345,381	\$ 223,499	\$ 733,143	\$ -	\$ (7,388,739)	\$ -	\$ -
Public safety	5,213,681	66,328	1,091,872	20,668	(4,034,813)	-	-
Public works	10,397,032	168,924	433,962	1,048,905	(8,745,241)	-	-
Public services	5,016,032	264,587	233,830	187,583	(4,330,032)	-	-
Economic development	848,974	-	-	-	(848,974)	-	-
Port	2,368,816	459,362	60,248	-	(1,849,206)	-	-
Harbor	2,069,230	637,285	952,114	5,633,672	5,153,841	-	-
Utility	1,657,757	1,044,330	95,949	-	(517,478)	-	-
Airport	352,684	154,275	16,015	-	(182,394)	-	-
Museum	425,000	-	-	-	(425,000)	-	-
Education	15,032,337	2,310,786	1,686,448	1,596,984	(9,438,119)	-	-
Hospital and healthcare	13,659,334	13,015,080	410,620	-	(233,634)	-	-
Unallocated interest	1,274,319	-	-	-	(1,274,319)	-	-
Total Primary Government	\$ 66,660,577	\$ 18,344,456	\$ 5,714,201	\$ 8,487,812	(34,114,108)	-	-
Component Unit - School District	\$ 17,175,509	\$ 105,711	\$ 4,740,210	\$ -	-	(12,329,588)	-
Component Unit - Museum	\$ 738,960	\$ 103,922	\$ 119,673	\$ -	-	-	(515,365)
General Revenues							
Taxes					51,796,080	-	-
Payments in lieu of taxes					753,501	-	-
Contributions from primary government					-	7,922,672	425,000
Grants and entitlements not restricted to a specific purpose					486,538	4,499,131	-
Investment income					9,260,479	4,037	1,744
Other					129,433	109,872	6,714
Total General Revenues					62,426,031	12,535,712	433,458
Change in Net Position					28,311,923	206,124	(81,907)
Net Position beginning of year					483,944,199	1,525,849	374,076
Net Position end of year					\$ 512,256,122	\$ 1,731,973	\$ 292,169

See accompanying notes to the financial statements.

City of Valdez, Alaska
Balance Sheet - Governmental Funds

	Major Funds						Total Governmental Funds
	General Fund	Permanent Fund	Providence Valdez Medical Center Special Revenue Fund	General City Capital Project Fund	Nonmajor Funds		
<i>December 31, 2014</i>							
Assets							
Cash and investments	\$ 98,351,687	\$ 173,490,924	\$ 8,884,000	\$ 19,275,699	\$ 6,675,149	\$ 306,677,459	
Receivables, net:							
Property taxes	420,056	-	-	-	-	420,056	
Grants and shared revenues	-	-	-	3,257,284	602,101	3,859,385	
Accounts	247,199	-	2,686,000	84,814	106,786	3,124,799	
Accrued interest	100,330	272,884	-	53,889	28,798	455,901	
Prepaid items	221,394	-	-	-	81,691	303,085	
Other	-	-	664,000	-	-	664,000	
Restricted cash and investments:							
Unspent bond proceeds	-	-	-	6,227,171	-	6,227,171	
Debt reserve accounts	-	-	-	-	199,631	199,631	
Total Assets	\$ 99,340,666	\$ 173,763,808	\$ 12,234,000	\$ 28,898,857	\$ 7,694,156	\$ 321,931,487	
Liabilities, Deferred Inflows of Resources and Fund Balances							
Liabilities							
Accounts payable	\$ 931,638	\$ 3,797	\$ 1,096,000	\$ 366,081	\$ 142,438	\$ 2,539,954	
Accrued payroll liabilities	404,606	-	790,000	-	62,000	1,256,606	
Payable to Providence Health Services	-	-	583,000	-	59,000	642,000	
Customer deposits	3,629	-	-	-	19,450	23,079	
Unearned revenue	16,332	-	16,000	-	49,564	81,896	
Other	1,000	-	4,000	-	-	5,000	
Total Liabilities	1,357,205	3,797	2,489,000	366,081	332,452	4,548,535	
Deferred Inflows of Resources							
Unavailable revenues	313,910	-	1,034,875	83,907	58,037	1,490,729	
Total Liabilities and Deferred Inflows of Resources	1,671,115	3,797	3,523,875	449,988	390,489	6,039,264	
Fund Balances							
Nonspendable	221,394	-	-	-	81,691	303,085	
Restricted	-	173,760,011	46,000	6,227,171	199,631	180,232,813	
Assigned	77,560,399	-	8,664,125	22,221,698	7,022,345	115,468,567	
Unassigned	19,887,758	-	-	-	-	19,887,758	
Total Fund Balances	97,669,551	173,760,011	8,710,125	28,448,869	7,303,667	315,892,223	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 99,340,666	\$ 173,763,808	\$ 12,234,000	\$ 28,898,857	\$ 7,694,156	\$ 321,931,487	

See accompanying notes to the financial statements.

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

Total fund balances for governmental funds		\$ 315,892,223
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 and land improvements	\$ 15,923,570	
Buildings	117,680,223	
Improvements other than buildings	131,736,062	
Equipment	25,190,405	
Construction in progress	26,031,661	
Accumulated depreciation	<u>(101,174,565)</u>	
Total capital assets		215,387,356
Other long-term assets are not available to pay for current period expenditures and therefore are shown as deferred inflows of resources in the fund financial statements. These assets consist of:		
Delinquent property taxes receivable	306,697	
Other accounts receivable	1,092,912	
Special assessments not yet due	<u>91,120</u>	
Total long-term assets		1,490,729
An internal service fund is used by the City to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the Statement of Net Position.		
		367,209
Long-term liabilities, including bonds payable, related accrued interest, and accrued leave are not due and payable in the current period and therefore are not reported as fund liabilities. These liabilities consist of:		
Bonds payable	(9,270,000)	
Bond premium, net of accumulated amortization	(1,550,480)	
Accrued interest	(42,117)	
Loan payable	(521,036)	
Landfill closure costs	(5,410,078)	
Accrued leave	<u>(1,369,113)</u>	
Total long-term liabilities		(18,162,824)
The current year economic defeasance of bonds payable results in a deferred inflow of resources which will be amortized over the life of the bonds.		
		<u>(2,718,571)</u>
Total Net Position of Governmental Activities		<u>\$ 512,256,122</u>

See accompanying notes to the financial statements.

City of Valdez, Alaska
Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds

Year Ended December 31, 2014	Major Funds					Nonmajor Funds	Total Governmental Funds
	General Fund	Permanent Fund	Providence Valdez Medical Center Special Revenue Fund	General City Capital Project Fund			
Revenues							
Taxes	\$ 51,796,904	\$ -	\$ -	\$ 18,952	\$ -	\$ -	\$ 51,815,856
Licenses and permits	23,209	-	-	-	-	-	23,209
Fines and forfeitures	15,041	-	-	2,947	5,074	-	23,062
Charges for services	211,525	-	13,523,153	14,603	1,879,551	-	15,628,832
Sales and leases	463,573	-	-	-	801,591	-	1,265,164
Contributions and donations	9,392	-	3,000	-	-	-	12,392
Investment income	235,348	8,662,151	-	286,654	74,816	-	9,258,969
Other	81,815	-	520,000	337	117,281	-	719,433
Intergovernmental:							
State of Alaska	2,954,459	-	-	8,467,144	3,176,005	-	14,597,608
Federal sources	832,052	-	-	-	-	-	832,052
Total Revenues	56,623,318	8,662,151	14,046,153	8,790,637	6,054,318		94,176,577
Expenditures							
Current:							
General government	7,764,523	272,922	-	-	-	-	8,037,445
Public safety	5,000,646	-	-	-	-	-	5,000,646
Public works	5,399,858	-	-	-	-	-	5,399,858
Public service	3,920,195	-	-	-	-	-	3,920,195
Economic development	854,156	-	-	-	-	-	854,156
Port	-	-	-	-	675,417	-	675,417
Harbor	-	-	-	-	1,159,639	-	1,159,639
Utility	-	-	-	-	1,261,420	-	1,261,420
Airport	-	-	-	-	303,932	-	303,932
Museum	425,000	-	-	-	-	-	425,000
Education	10,809,137	-	-	-	-	-	10,809,137
Hospital and healthcare	279,324	-	12,380,000	-	878,263	-	13,537,587
Debt service:							
Principal	-	-	-	-	1,435,000	-	1,435,000
Interest	-	-	-	-	1,569,038	-	1,569,038
Capital outlay	3,173,429	-	-	36,002,941	-	-	39,176,370
Total Expenditures	37,626,268	272,922	12,380,000	36,002,941	7,282,709		93,564,840
Excess of Revenues Over (Under) Expenditures	18,997,050	8,389,229	1,666,153	(27,212,304)	(1,228,391)		611,737
Other Financing Sources (Uses)							
Payment to bond escrow agent	-	-	-	-	(7,651,808)	-	(7,651,808)
Proceeds from loan drawdown	-	-	-	414,530	-	-	414,530
Proceeds from sale of capital assets	1,110	-	-	-	-	-	1,110
Transfers in	5,989,897	300	-	10,583,097	10,178,433	-	26,751,727
Transfers out	(20,952,070)	(2,219,897)	-	(770,000)	(3,673,301)	-	(27,615,268)
Net Other Financing Sources (Uses)	(14,961,063)	(2,219,597)	-	10,227,627	(1,146,676)		(8,099,709)
Net Change in Fund Balances	4,035,987	6,169,632	1,666,153	(16,984,677)	(2,375,067)		(7,487,972)
Fund Balances, beginning of year	93,633,564	167,590,379	7,043,972	45,433,546	9,678,734		323,380,195
Fund Balances, end of year	\$ 97,669,551	\$ 173,760,011	\$ 8,710,125	\$ 28,448,869	\$ 7,303,667		\$ 315,892,223

See accompanying notes to the financial statements.

City of Valdez, Alaska
Reconciliation of Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year ended December 31, 2014

Net change in fund balances - total governmental funds		\$ (7,487,972)
The change in net position reported for governmental activities in the Statement of Activities is different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	\$ 38,759,492	
Depreciation	<u>(6,745,194)</u>	32,014,298
Governmental funds only report the revenues or 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. The net effect of transactions involving capital assets is to decrease net position.		
Cost of assets sold	(5,317,029)	
Accumulated depreciation of assets sold	<u>2,535,552</u>	(2,781,477)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This is the amount of change in unavailable revenues.		
		(1,516,373)
The issuance of long-term debt (e.g. bonds and notes) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds do not report the accrual of interest expense on debt when it is not payable from currently available resources.		
Issuance of new debt	(414,530)	
Principal payments	1,435,000	
Accrued interest increase	(42,117)	
Payment to escrow agent on defeasance	2,070,000	
Bond premium amortization	310,096	
Bond premium write down	<u>310,096</u>	3,668,545
The current economic defeasance of bonds payable resulted in a deferred outflow of resources which will be amortized over the life of the bonds.		
		5,298,452
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.		
Increase in landfill closure and post-closure costs payable		(588,261)
Increase in long-term accrued leave payable		(99,592)
An internal service fund is used by management to charge the cost of health insurance to individual funds and component units. The change in net position of these activities is reported within the governmental activities.		
		<u>(195,697)</u>
Change in Net Position of Governmental Activities		\$ 28,311,923

See accompanying notes to the financial statements.

City of Valdez, Alaska
Health Insurance Internal Service Fund
Statement of Net Position

December 31, 2014

Assets

Cash and investments	\$ 698,163
Accrued interest receivable	1,227

Total Assets	\$ 699,390
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Liabilities and Net Position

Current Liabilities

Claims payable	\$ 332,181
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Net Position

Unrestricted	367,209
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Total Liabilities and Net Position	\$ 699,390
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See accompanying notes to the financial statements.

City of Valdez, Alaska

Health Insurance Internal Service Fund

Statement of Revenues, Expenses and Changes in Net Position

Year Ended December 31, 2014

Operating Revenues

Charges for services	\$ 5,901,866
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Operating Expenses

Contractual services	1,990
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Insurance claims and administration	6,960,624
-------------------------------------	-----------

Total Operating Expenses

	6,962,614
--	-----------

Loss from Operations

	(1,060,748)
--	-------------

Nonoperating Revenues

Investment income	1,510
-------------------	-------

Other Financing Sources

Transfers in	863,541
--------------	---------

Change in Net Position

	(195,697)
--	-----------

Net Position, beginning of year

	562,906
--	---------

Net Position, end of year

	\$ 367,209
--	------------

See accompanying notes to the financial statements.

City of Valdez, Alaska

Health Insurance Internal Service Fund
Statement of Cash Flows*Year Ended December 31, 2014***Cash Flows for Operating Activities**

Receipts from other funds and component unit	5,900,639
Payment to suppliers	(1,990)
Payment for insurance claims and administration	(7,325,359)

Net cash flows for operating activities	(1,426,710)
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Cash Flows from Noncapital Financing Activities

Transfers in	863,541
--------------	---------

Cash Flows from Investing Activities

Investment income	1,510
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Net Decrease in Cash and Cash Equivalents	(561,659)
---	-----------

Cash and Cash Equivalents, beginning of year	1,259,822
--	-----------

Cash and Cash Equivalents, end of year	\$ 698,163
--	------------

Reconciliation of loss from Operations to Net Cash**Flows for Operating Activities**

Loss from operations	\$ (1,060,748)
Adjustments to reconcile loss from operations to net cash for from operating activities:	
Increase in accounts receivable	(1,227)
Decrease in claims payable	(364,735)

Net Cash Flows for Operating Activities	\$ (1,426,710)
--	-----------------------

See accompanying notes to the financial statements.

City of Valdez, Alaska

Notes to Financial Statements December 31, 2014

1. Summary of Significant Accounting Policies

The financial statements of the City of Valdez (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The City of Valdez was incorporated on December 11, 1901. The City operates under a Council-Manager form of government and provides a full range of services including public safety, highways and streets, sanitation, health and social services, culture and recreation, education, public improvements, planning and zoning, and general administrative services.

The accompanying financial statements present the City of Valdez (the primary government) and its component units, entities for which the City is considered to be financially accountable. Each discretely presented component unit is presented in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City. The Valdez City Schools and the Valdez Museum and Historical Archive Association, Inc. are reported as discretely presented component units and the Providence Valdez Medical Center and the Providence Valdez Counseling Center have been blended into the financial statements of the City as Special Revenue Funds.

Providence Valdez Medical Center and Counseling Center

The Medical Center and the Counseling Center are owned by the City, and as such, all risks and rewards from the operations remain with the City. The City Council acts as the government body but has contracted the Centers' operations to Providence Health and Services (Washington non-profit corporation). The Medical and Counseling Centers pay a management fee to Providence Health and Services. Complete special purpose financial statements can be obtained by contacting the Providence Valdez Hospital, P.O. Box 550, Valdez, AK 99686.

Valdez City Schools

Valdez City Schools is responsible for elementary and secondary education within the City. The members of the School Board are elected by the voters. However, the School District is fiscally dependent upon the City because the City Council approves the total annual budget of the School District, issues bonds to finance School District construction, levies the necessary taxes, and provides significant operating subsidies to the School District.

Valdez Museum and Historical Archive Association, Inc.

Pursuant to an agreement with the City, as of January 1, 1997, all accounting, operations and management of the Museum has been delegated to the Museum's Board of Directors. The City Council appoints the Museum Board of Directors. However, the Museum is fiscally dependent upon the City because the City Council approves the annual budget, owns the Museum property and equipment and provides significant operating subsidies to the Museum.

City of Valdez, Alaska

Notes to Financial Statements

Complete financial statements of the individual component units can be obtained from their respective administrative offices at the addresses below:

Valdez City Schools
PO Box 8
Valdez, Alaska 99686

Valdez Museum and Historical Archive Association, Inc.
PO Box 398
Valdez, Alaska 99686

The accounting policies of the City of Valdez conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant accounting policies:

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 of the non-fiduciary activities of the primary government and its component units. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely primarily on fees and charges to external parties. The City currently operates only governmental type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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 purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment 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*.

Separate financial statements are provided for governmental funds and proprietary funds. Major governmental funds are reported as separate columns in the fund financial statements. The only proprietary fund reported by the City is an internal service fund.

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 related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Charges for services are recognized as revenues when earned.

Governmental fund 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 revenues to be available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only to the extent they have matured.

City of Valdez, Alaska

Notes to Financial Statements

Property taxes 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 assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue in 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:

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The *Permanent Fund* is used to report investments that are held for the benefit of current and future Valdez citizens. 1.5% of the fund's market value (as calculated on the last day of the year), may be used to provide resources for capital improvements and operating expenses of the City as designated by the City Council. The remainder is restricted in perpetuity.

The *Providence Valdez Medical Center Special Revenue Fund* accounts for the operations of the Medical Center.

The *General City Capital Project Fund* accounts for the construction projects for the City.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between various functions of the government. 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. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Internal Service Fund are charges to City departments and component units for services provided. Operating expenses for the Internal Service Fund include the costs of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Proprietary Fund

Internal Service Fund - The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City or to other governments. The City's internal service fund accounts are for the City and Valdez Public School's self-insured health insurance program.

City of Valdez, Alaska
Notes to Financial Statements

Estimates

The preparation of financial statements in conformity 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 amounts of revenues, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles. The City follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to November 15, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to December 20, the budget is legally enacted through passage of a resolution. If no Council action is taken, the City Manager's budget becomes the actual budget. Annual budgets are legally adopted for the General, most Special Revenue, Debt Service, and Capital Project Funds. A budget was not adopted for the Self Insurance Internal Service Fund and the Permanent Fund.
4. The City Manager is authorized to transfer budgeted amounts within departments; however, any revisions that alter the total expenditures of any fund or department within a fund must be approved by the City Council. Expenditures may not legally exceed appropriations on the department level (Administration, Finance; etc.).
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
6. Appropriations lapse at the end of the year except for capital expenditure and certain contractual appropriations.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers all investments to be cash equivalents. The central treasury, which holds cash and investments, is used essentially as a cash management pool by each fund.

Investments

Investments are stated at fair value. Investments of all funds outside of the Permanent Fund are managed within the City's central treasury. These investments are managed under the General Investments, Investment Policy. A focus on minimizing credit and market risks, mitigating negative effects of inflation and simply identifying and matching the cash flow needs of the City's general and many special revenue funds is the goal.

City of Valdez, Alaska

Notes to Financial Statements

Accounts Receivable

All accounts receivables are shown net of an allowance for uncollectible accounts. Receivables in excess of 180 days comprise the Providence Valdez Medical Center Special Revenue Fund and the Other Governmental Funds' accounts receivables allowance for uncollectible accounts.

Deferred Inflows of Resources and Deferred Outflows of Resources

Deferred inflows of resources are the acquisition of Fund Balance/Net Position by the City that is applicable to a future reporting period. Deferred outflows of resources are the consumption of Fund Balance/Net Position by the City that is applicable to a future reporting period.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Property Taxes

The financial statements reflect the accrual of the 2014 tax levy; the property tax revenues include adjustments for collections of prior year levies as well as for amounts for the 2014 levy not considered to be available. The property tax receivable reported represents the uncollected amount of all prior levies.

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two installments in August and October. The City bills and collects its own property taxes.

The City is permitted by its Code to levy taxes up to \$2.00 per \$100 of assessed valuation. However, the amount of taxes the City may levy is further limited by the Alaska Statutes which set forth a formula for determining the maximum tax levy against oil and gas production property. The tax rate for the current year ended on December 31, 2014 was \$2.00 per \$100 of assessed value.

Grants and Intergovernmental Revenues

In applying the measurable and available concept to grants and intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts are considered "earned"; therefore, revenues are recognized based upon expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the measurable and available criteria are met.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services and construct assets. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The classification of amounts recorded as subsidies, or advances is determined by the City Council.

City of Valdez, Alaska
Notes to Financial Statements

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (roads, sidewalks, and similar items), are reported 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 and an estimated useful life in excess of two years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. In the case of the initial capitalization of infrastructure assets, the City chose to include all such items, regardless of their acquisition date.

The cost 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.

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

	Years
Buildings	50-100
Improvements other than buildings	20-100
Machinery and equipment	3-35

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 statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Unearned Revenues

Amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met are recorded as unearned revenue.

Long-Term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are expensed as incurred.

Fund Balance

In the Fund Financial Statements, fund balance includes five classifications as follows:

Nonspendable Fund Balance - amounts that are legally or contractually required to be maintained intact (such as the corpus of an endowment fund) or amounts that are not in a spendable form (such as inventory, prepaid items, supplies, and long-term receivables). Such constraint is binding until the legal or contractual requirement is repealed or the amounts become spendable.

City of Valdez, Alaska

Notes to Financial Statements

Restricted Fund Balance - amounts constrained to specific purposes by their providers (such as grantors and higher levels of government), through constitutional provisions, or by enabling legislation. Such constraint is binding unless modified or rescinded by external body, laws, or regulation.

Committed Fund Balance - amounts that can be used only for the specific purposes determined by a formal action of the City Council. Commitments may be changed or lifted by the City Council taking the same formal action that imposed the constraint originally.

Assigned Fund Balance - amounts intended to be used by the City for specific purposes. Intent can be expressed by the City Council or by the City Manager, Finance Director or designee. Such constraint is binding unless modified or eliminated by the City Council or City Manager/Finance Director. In governmental funds other than the General Fund, assigned fund balance represents the amount that is not restricted or committed.

Unassigned Fund Balance - amounts not contained in the other classifications and available for any purpose. Positive unassigned amounts will be reported only in the General Fund. If another governmental fund, other than the General Fund, has a fund balance deficit, then it will be reported as a negative amount in the unassigned classification in that fund.

The order of spending, regarding the restricted and unrestricted fund balance when an expenditure is incurred for which both restricted and unrestricted fund balance is available should first reduce restricted fund balance and then unrestricted fund balance. The order of spending regarding unrestricted fund balance is that committed amounts should be reduced first, followed by the assigned amounts, and then the unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Compliance with the provisions of the Fund Balance Classification Policy are reviewed as part of the annual budget adoption process. The City Manager/Finance Director reports to the City Council as close to the end of the year as possible the anticipated year-end fund balance or deficit. The City Council takes appropriate action to commit or assign, or otherwise allocate prior year fund balances as a part of the budget planning process.

The City's Special Revenue Funds are used to account for services provided to its citizens and other programs that are restricted or committed.

Net Position

Government-wide net position is divided into three components:

- Net investment in capital assets - consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted net position - consists of assets that are restricted by the City's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted - all other net position is reported in this category.

City of Valdez, Alaska

Notes to Financial Statements

2. Cash and Investments

The City of Valdez utilizes a central treasury that is available for use by all funds. Each fund's portion of the central treasury is displayed on the balance sheet in each fund as "Cash and Investments." The City also maintains reserve accounts as required by bond covenants.

Reconciliation of Deposit and Investment Balances

The following is a reconciliation of the City's deposit and investment balances to the financial statements as of December 31, 2014.

	Book Balance	Bank Balance
Bank deposits and petty cash	\$ 10,282,162	\$ 13,255,880
Investments	297,093,460	296,962,036
Restricted cash and investments	6,426,802	6,426,802
Total	\$ 313,802,424	\$ 316,644,718

In December of 2012, the City issued \$39,804,184 in general obligation bonds for the construction of a middle school. As of December 31, 2014, \$6,227,171 remains to be spent. Also included in the General investment balance is a total of \$199,631 which is being held in various irrevocable trust accounts pledged for future bond payments and required reserves. These items are reported as restricted cash and investments.

In 2012, the City received \$46,312,334 under protest for supplemental TAPS tax revenues for the tax years of 2007 through 2009 (See Note 18) related to oil property tax assessments. These tax proceeds are currently subject to various legal disputes. Because the funds are not legally restricted, and because the City has possession of and rights to the funds they are not reported as restricted cash on the Statement of Net Position. However, because of the inherent uncertainty of litigation, the City has segregated these funds into a separate investment account to maintain pending final resolution of the legal claims. At December 31, 2014 the balance of the separate account is \$46,605,983.

In 2011, the City received a legal settlement of \$32,154,224 associated with the 2006 TAPS tax assessment. These funds were deposited with the Alaska Court System and will be distributed upon final resolution of the legal claim. Because these funds are currently held by the court, the funds have not been reflected in the City's financial statements. The City will record the cash and associated revenue at such time as the funds are distributed to the City.

For disclosure purposes, investments are categorized as follows:

General investments and health plan	\$ 78,632,807
Middle School Bond 2012 proceeds	6,227,171
TAPS 07-09 Supplemental	46,605,983
Irrevocable funds for bond payments	199,631
Total general investments	131,665,592
Permanent fund	171,854,670
Total Investments and Restricted Cash	\$ 303,520,262

City of Valdez, Alaska

Notes to Financial Statements

General Investments

Investment Policy

The investment policy for funds other than the Permanent Fund authorizes the City to invest in obligations of the United States or an agency or instrumentality of the United States; certificates of deposit issued by United States domestic banks which are members of the FDIC; corporate debt securities with a minimum of "MA"; highest rated commercial paper; bankers acceptances drawn on and accepted by banks with a combined capital and surplus aggregating at least \$200,000,000; fully secured shares of federally chartered savings and loan associations in Alaska; fully secured savings and loan associations in Alaska; fully secured deposits with mutual savings banks in Alaska; fully secured fixed-term certificates of indebtedness of federally insured credit unions in Alaska; repurchase agreements; and the Alaska Municipal League Investment Pool (AMLIP).

Interest Rate Risk

General investment balances and maturities at December 31, 2014 are as follows:

<i>Investment Type</i>	Fair Value	Investment Maturities (in years)	
		Less than 1	1-5
Cash and equivalents	\$ 6,976,088	\$ 6,976,088	\$ -
U.S. treasuries	36,296,232	-	36,296,232
U.S. agencies	61,308,603	6,531,945	54,776,658
Municipal bonds	1,006,520	1,006,520	-
Corporate bonds	2,041,450	-	2,041,450
International fixed income	1,922,173	-	1,922,173
Local government investment pool (AMLIP)	22,114,526	22,114,526	-
Total General Investments	\$ 131,665,592	\$ 36,629,079	\$ 95,036,513

Credit Risk

Cash and cash equivalents are subject to credit risk because of the repurchase and sale agreement features within the money market demand deposit cash accounts. Generally, U.S. agencies are considered free of credit risk because they are issued through, and backed by the full faith and taxing authority of the federal government.

The City's investments in municipal bonds and corporate bonds were rated AAA by Standard & Poor's. Investments in international debt obligations were not rated by Standard & Poor's, but were rated Aaa by Moody's. The AMLIP local government pooled investments in the amount of \$22,114,526 represent 16.8% of the total general investments. The AMLIP is an external investment pool which is not SEC registered and is rated AAAM for credit risk purposes. Alaska Statute 37.23 establishes regulatory oversight of the Pool. The law sets forth numerous requirements regarding authorized investments and reporting. The share value of investments in the AMLIP is approximately equal to fair value. \$6,976,088 of cash and equivalents, or 5.3% of general investments, represent bond proceeds and irrevocable accounts for future bond payments that are subject to arbitrage yield restrictions. Separately issued financial statements for AMLIP may be obtained by contacting the sponsor at 212 Second Street, Suite 200, Juneau, AK 99801.

City of Valdez, Alaska

Notes to Financial Statements

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. As of December 31, 2014, a total of \$1,922,173 (1.5%) of general investments is invested in international private debt obligations that are considered subject to Foreign Currency Risk.

Permanent Fund Investments

Investment Policy

The investment policy for the Permanent Fund authorizes the City to invest in domestic fixed income, domestic equities, and international equities. In an attempt to inflation proof the Permanent Fund, the investment policy is revised in the first quarter of every fiscal year. For 2014, the target allocation was 34% domestic fixed income, 9% domestic large capitalization equities, 4% domestic small/mid-capitalization equities, 22% international equities, 8% Treasury Inflation Protection Notes, 7% real estate and 0% cash and equivalents. A range of plus or minus 5% for the fixed income class and a range of plus or minus 3% for each equity class are allowed to accommodate normal market fluctuations and prevent frequent rebalancing.

Interest Rate Risk

Because the City of Valdez Permanent Fund is designed to hold principal investments perpetually in trust for the future earnings to benefit the present and future generations of City residents, there are no maturity limitations in the policy. The policy focuses more on limiting interest rate risk by diversification in many investment types. A segmented time distribution of all investment types is presented below in an effort to disclose those investment types and amounts that are subject to interest rate risk.

Permanent Fund investment balances and maturities at December 31, 2014 are as follows:

<i>Investment Type</i>	Fair Value	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Cash and equivalents	\$ 281,230	\$ 281,230	\$ -	\$ -	\$ -
U.S. treasuries	14,561,331	10,328,395	878,559	1,378,704	1,975,673
U.S. agencies	7,585,243	-	2,568,685	2,522,532	2,494,026
Municipal bonds	497,300	-	497,300	-	-
Corporate bonds	15,953,971	860,043	10,436,406	2,109,611	2,547,911
International debt obligations	353,434	353,434	-	-	-
Mortgage/asset-backed	1,852,230	-	4,444	-	1,847,786
Passive fixed income	23,298,692	23,298,692	-	-	-
Domestic equity funds	57,858,024	57,858,024	-	-	-
International equity funds	37,096,338	37,096,338	-	-	-
Real estate	12,516,877	12,516,877	-	-	-
Total Permanent Fund	\$ 171,854,670	\$ 142,593,033	\$ 14,385,394	\$ 6,010,847	\$ 8,865,396

City of Valdez, Alaska

Notes to Financial Statements

As of December 31, 2014, an actual asset allocation to target allocation is presented below.

<i>Investment Class</i>	Actual vs. Target Allocation				% out of Policy Range
	Actual \$	% Actual	% Target	% Difference	
Domestic fixed income	\$ 53,420,370	31.1%	33.0%	-1.9%	0.0%
International debt obligations	353,434	0.2%	0.0%	0.2%	0.0%
Large cap equity funds	41,994,849	24.4%	21.0%	3.4%	0.0%
Small cap equity funds	15,863,176	9.2%	9.0%	0.2%	0.0%
International equity funds	37,096,339	21.6%	23.0%	-1.4%	0.0%
Treasury Inflation Protection Notes	10,328,395	6.0%	6.0%	0.0%	0.0%
Real estate	12,516,877	7.3%	8.0%	-0.7%	0.0%
Cash equivalents	281,230	0.2%	0.0%	0.2%	0.0%
Total	\$ 171,854,670	100.0%	100.0%	0.0%	0.0%

Credit Risk

<i>Investment Type</i>	Fair Value	Standard and Poor's		Moody's (Not Rated by S&P)
		AAA to A	BBB+ to BBB-	Aaa
Municipal bonds	\$ 497,300	\$ -	\$ -	\$ 497,300
Corporate bonds	15,953,971	14,953,807	890,671	109,493
International debt obligations	353,434	252,433	-	101,001
Mortgage/asset-backed	1,852,230	1,502,808	-	349,422
Passive fixed income	23,298,692	23,298,692	-	-
Investments not subject to credit risk	129,899,043	-	-	-
Total	\$ 171,854,670	\$ 40,007,740	\$ 890,671	\$ 1,057,216

The Permanent Fund policies specifically limit the types of investments that can be purchased in an effort to limit credit risk. The policies limit corporate and agency bonds to those investments rated by a nationally recognized statistical rating organization (NRSRO) and those rated Investment Grade or higher. Investment Grade is defined by Standard and Poor's (a NRSRO) as any investment rated BBB- or higher. Policy requires the City to be notified in writing within 30 days if any non-rated or below investment grade investment is in the fund. These investments must be sold within 6 months of the rating being downgraded below Investment Grade.

Cash and investments are subject to credit risk because of the repurchase and sale agreement features within the money market demand deposit cash accounts. Many U.S. agencies are considered free of credit risk because they are issued through, and backed by the full faith and taxing authority of the federal government. Of the total Permanent Fund, \$41,955,626, or 24.4% is considered subject to credit risk.

City of Valdez, Alaska

Notes to Financial Statements

In January of 2012, the City invested \$6,000,000 in UBS Trumbull Property Fund private real estate investment trust (UBS-TPF). In July of 2013, the City invested an additional \$4,000,000 in the fund. The City acknowledges complicated risks related to how this illiquid investment is valued and accurately represents an allocation in the desired real estate investment class. UBS-TPF distributions paid appear to be used as an actual measure of reported investment performance by both UBS-TPF and the City's financial advisor. Because it is possible that these distributions could be presented gross of advisor fees and constitute some level of return of principal investment, the City has chosen to conservatively value the investment at fiscal year-end 2014 at \$12,516,877 (\$9,763 unit value times 1,282 units = \$12,516,877). As a result, this value represents materially less unrealized gains than the stated annual performance by the fund manager and the City's financial advisor.

Concentration of Credit Risk

As of December 31, 2014, the Permanent Fund had \$136,909,989 (79.7%) of investments that were considered subject to concentration of credit risk. These are investments that are not issued or explicitly guaranteed by the U.S. government, invested in mutual funds, or other pooled investments. No one issuer comprised more than 1% of the fair market value in debt issues. While not rated for credit default risk, the specific nature of the private real estate investment trust in the amount of \$12,516,877 (7.3%) could be considered a concentration investment risk because it is comprised of limited partnership unit-investment of the general partners private real estate investment trust.

Foreign Currency Risk

As of December 31, 2014, a total of \$37,449,773 (21.8%) of the total fund value is invested in international debt obligations and equity mutual funds that are considered subject to Foreign Currency Risk. The mutual funds are highly diversified globally and in many different sectors.

3. Receivables, Deferred Inflows and Unearned Revenue

Receivables as of December 31, 2014 for the City's individual major funds, nonmajor funds in the aggregate, and internal service fund, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Permanent Fund	Providence Valdez Medical Center Special Revenue Fund	General City Capital Project Fund	Other Governmental and Internal Service Funds	Totals
Property taxes	\$ 420,056	\$ -	\$ -	\$ -	\$ -	\$ 420,056
Grants and shared revenue	-	-	-	3,257,284	602,101	3,859,385
Accounts	247,199	-	3,440,000	84,814	129,081	3,901,094
Accrued interest	100,330	272,884	-	53,889	30,025	457,128
Total receivables	767,585	272,884	3,440,000	3,395,987	761,207	8,637,663
Less allowance for uncollectible accounts	-	-	(754,000)	-	(22,295)	(776,295)
Net Receivables	\$ 767,585	\$ 272,884	\$ 2,686,000	\$ 3,395,987	\$ 738,913	\$ 7,861,368

City of Valdez, Alaska

Notes to Financial Statements

Governmental funds report *deferred inflows* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenues in connection with resources that have been received, but not *yet* earned.

At December 31, 2014, the various components of *deferred inflows and unearned revenues* reported in the governmental funds were as follows:

	Deferred Inflows	Unearned Revenue	Totals
Delinquent property taxes receivable (General Fund)	\$ 306,697	\$ -	\$ 306,697
Special assessments not yet due (General Fund)	7,213	-	7,213
Special assessments not yet due (General City Capital Project Fund)	83,907	-	83,907
Delinquent accounts receivable (Medical Center)	1,034,875	-	1,034,875
Delinquent accounts receivable (Counseling Center)	58,037	-	58,037
Services paid in advance	-	49,564	49,564
Grant draw downs prior to meeting all eligibility requirements (General Fund and Special Revenue Funds)	-	32,332	32,332
Total Deferred Inflows and Unearned Revenues for Governmental Funds	\$ 1,490,729	\$ 81,896	\$ 1,572,625

4. Inter-Fund Transfers

Transfers between funds for the year ended December 31, 2014, consisted of the following:

Transfers

From General Fund to:	
General City Capital Projects Fund	\$ 10,159,796
Debt Service Fund	8,738,425
Permanent Fund	300
Nonmajor governmental funds	1,440,008
Health Insurance Internal Service Fund	613,541
From Debt Service Fund to:	
General Fund	2,500,000
General City Capital Projects Fund	423,301
Health Insurance Internal Service Fund	250,000
From Permanent Fund to General Fund	2,219,897
From General City Capital Projects Fund to General Fund	770,000
From nonmajor governmental funds to General Fund	500,000
Total Transfers to Other Funds	\$ 27,615,268

Recurring transfers were used to fund operations and required contributions, as well as debt service, and capital projects.

City of Valdez, Alaska
Notes to Financial Statements

5. Capital Assets

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

<i>Governmental Activities</i>	Balance January 1, 2014	Additions	Deletions	Balance December 31, 2014
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 15,923,570	\$ -	\$ -	\$ 15,923,570
Construction in progress	39,409,126	37,176,430	(50,553,895)	26,031,661
Total assets not being depreciated	55,332,696	37,176,430	(50,553,895)	41,955,231
<i>Capital assets being depreciated:</i>				
Buildings	79,409,051	43,528,480	(5,257,308)	117,680,223
Improvements other than buildings	125,215,483	6,580,300	(59,721)	131,736,062
Equipment	23,162,228	2,028,177	-	25,190,405
Total assets being depreciated	227,786,762	52,136,957	(5,317,029)	274,606,690
Less accumulated depreciation for:				
Buildings	21,399,408	911,661	(2,523,604)	19,787,465
Improvements other than buildings	63,218,707	4,007,288	(11,948)	67,214,047
Equipment	12,346,808	1,826,245	-	14,173,053
Total accumulated depreciation	96,964,923	6,745,194	(2,535,552)	101,174,565
Total capital assets being depreciated, net	130,821,839	45,391,763	(2,781,477)	173,432,125
Governmental Activities Capital Assets, Net	\$ 186,154,535	\$ 82,568,193	\$ (53,335,372)	\$ 215,387,356

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City of Valdez, Alaska

Notes to Financial Statements

Depreciation expense was charged to the functions of the City as follows from the year ended December 31, 2014:

Governmental Activities

General government	\$	454,532
Public safety		340,947
Public works		833,276
Public service		531,378
Economic development		5,386
Port		1,681,039
Harbor		902,921
Utility		844,956
Airport		49,427
Education		741,579
Hospital and health care		359,753

Total Depreciation Expense - Governmental Activities	\$	6,745,194
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6. Long-Term Debt

New Issuance

In 2013, the City began drawing down funds on a federally subsidized Clean Water Loan administered by the State of Alaska for the purpose of Wastewater related upgrades. The loan is drawn down on an eligible cost reimbursable basis and bears interest at 1.5%. Payment terms will be established upon completion of the related capital project with the first payment due one year following project completion. At December 31, 2014, the City had incurred \$521,036 in eligible costs and has accrued the loan drawdown based on this amount.

Debt Defeasance

In 2012, the City issued general obligation school bonds in the amount of \$33,865,000 for the construction of a new Middle School. In 2013, the City entered into an "economic defeasance" on a portion of these bonds. In 2013, the City deposited \$18,400,079 into an irrevocable trust to defease a portion of the debt. In 2014, the City paid in an additional \$7,651,808 to defease an additional amount. In aggregate, the City paid in \$26,051,887 to defease a total of \$25,460,000 in outstanding principal. The terms of the arrangement meet the recognition criteria as an in-substance defeasance; therefore the bonds payable and the associated cash held in escrow have been removed from the City's books, but will continue to be paid by the escrow agent. At December 31, 2014, after adjusting for premiums and prior deferrals, the City has recorded a \$2,718,571 net deferred gain. This amount will be amortized as a reduction of interest expense, through 2019, when the undefeased portion of the debt will be paid in full.

At December 31, 2014 the defeased bonds outstanding with the escrow agent was \$25,460,000. The escrow account will begin making payments on these bonds in 2020 until the balance is paid in full or until the debt is called.

City of Valdez, Alaska

Notes to Financial Statements

A summary of changes in long-term debt for the year ended December 31, 2014 follows:

<i>Governmental Activities</i>	Balance January 1, 2014	Additions	Reductions	Balance December 31, 2014	Due Within One Year
General obligation bonds:					
\$3,013,500 2005 Series B Harbor Bonds, final payment of \$135,000, plus interest at 5.0% due October 2014	\$ 135,000	\$ -	\$ 135,000	\$ -	\$ -
\$2,000,000 2005 Series B School Bonds, final payment of \$35,000, plus interest at 5.0% due October 2014	90,000	-	90,000	-	-
\$1,645,000 2012 Series Two Harbor Bonds, due in semi-annual installments of \$130,000 to \$195,000, plus interest at 4.0% to 5.0% from September 2015 through September 2024	1,635,000	-	-	1,635,000	130,000
\$1,095,000 2012 Series Two School Bonds, due in semi-annual installments of \$90,000 to \$125,000, plus interest at 2.0% to 5.0% from September 2015 through September 2024	1,090,000	-	-	1,090,000	90,000

City of Valdez, Alaska

Notes to Financial Statements

<i>Governmental Activities</i>	Balance January 1, 2014	Additions	Reductions	Balance December 31, 2014	Due Within One Year
General obligation bonds, continued:					
\$33,865,000 Series 2012 School Bonds, due in semi-annual installments of \$1,230,000 to \$1,450,000, plus interest at 2.0% to 5.0% through June 2019	\$ 9,825,000	\$ -	\$ 3,280,000	\$ 6,545,000	\$ 1,230,000
Clean Water Loan: \$1,230,675 maximum loan amount bearing interest at 1.5%, payment terms not yet established	106,506	414,530	-	521,036	-
Landfill closure and post-closure monitoring costs	4,821,817	588,261	-	5,410,078	-
Accrued leave	1,269,521	836,670	737,078	1,369,113	750,000
Totals	\$ 18,972,844	\$ 1,839,461	\$ 4,242,078	\$ 16,570,227	\$ 2,200,000

Annual debt service requirements to maturity for the bonds follow:

<i>Year Ending December 31,</i>	General Obligation Bonds		
	Principal	Interest	Total
2015	\$ 1,450,000	\$ 1,530,050	\$ 2,980,050
2016	1,505,000	1,483,750	2,988,750
2017	1,550,000	1,429,200	2,979,200
2018	1,620,000	1,383,100	3,003,100
2019	1,645,000	1,325,400	2,970,400
2020-2024	1,500,000	528,053	2,028,053
	\$ 9,270,000	\$ 7,679,553	\$ 16,949,553

Debt service payments on the general obligation bonds are made by the Debt Service Fund. The accrued leave is primarily liquidated by the General Fund.

City of Valdez, Alaska

Notes to Financial Statements

7. Landfill Closure and Postclosure Liability

The City operates two landfills. One is a regular landfill and the other is a construction waste pit. State and federal laws and regulations require the City to place final covers on its landfill sites when they stop accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date the landfills stop accepting waste, generally accepted accounting principles require that the City report a portion of these closure and postclosure care costs each period based on landfill capacity used as of each balance sheet date. In 2011, the City revised the remaining life of the regular landfill and the estimated closure costs of the construction waste pit. The revised estimates for total closure and postclosure monitoring costs were \$7,731,050 and \$1,538,109, respectively, for the regular landfill and construction waste pit. Adjusted for inflation, the City estimates closure and post closure costs to be \$8,204,252 and \$1,632,254, respectively. To date, the City estimates that the both landfills are approximately 55% full, representing a currently reported long-term liability of \$4,512,339 and \$897,739, respectively.

The City will recognize the remaining estimated cost of closure and post closure care of \$4,426,428 as the remaining expected usage is filled. These amounts are based on what it would cost to perform all closure and post closure care in 2014. Actual costs may be higher due to inflation, changes in technology or changes in regulations. The remaining life of the landfill is estimated to be approximately 17 years. The remaining life of the construction pit is estimated to be approximately 54 years.

At December 31, 2014, the City has not committed or assigned any fund balance to fund the cost of closure and post-closure monitoring, nor have any assets been restricted for this purpose.

8. Related Party Transaction

The City of Valdez made payments to the following related parties during the year ended December 31, 2014:

Valdez City Schools	\$	9,990,853
Providence Valdez Counseling Center (reported as a transfer)		130,000
Valdez Museum and Historical Archive Association, Inc.	\$	425,000

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City of Valdez, Alaska

Notes to Financial Statements

9. Fund Balances

Fund balances, reported in the City's individual major funds and nonmajor funds in the aggregate on the governmental funds balance sheet are subject to the following constraints:

	General Fund	Permanent Fund	Providence Valdez Medical Center Special Revenue Fund	General City Capital Project Fund	Nonmajor Govern-mental Funds	Totals
Nonspendable -						
Prepaid items	\$ 221,394	\$ -	\$ -	\$ -	\$ 81,691	\$ 303,085
<hr/>						
Restricted:						
Permanent Fund	-	173,760,011	-	-	199,631	173,760,011
Debt servic	-	-	-	-	-	199,631
Capital acquisition	-	-	46,000	6,227,171	-	6,273,171
<hr/>						
Total restricted	-	173,760,011	46,000	6,227,171	199,631	180,232,813
<hr/>						
Assigned:						
TAPS settlement	46,605,983	-	-	-	-	46,605,983
Capital Reserve fund	30,954,416	-	-	-	-	30,954,416
Hospital and healthcare	-	-	8,664,125	-	497,832	9,161,957
Capital projects	-	-	-	22,221,698	-	22,221,698
Debt service	-	-	-	-	1,955,731	1,955,731
Port	-	-	-	-	877,996	877,996
Harbor	-	-	-	-	1,607,627	1,607,627
Utility	-	-	-	-	1,550,270	1,550,270
Airport	-	-	-	-	532,889	532,889
<hr/>						
Total assigned	77,560,399	-	8,664,125	22,221,698	7,022,345	115,468,567
<hr/>						
Unassigned	19,887,758	-	-	-	-	19,887,758
<hr/>						
Total Fund Balances	\$97,669,551	\$173,760,011	\$ 8,710,125	\$ 28,448,869	\$ 7,303,667	\$ 315,892,223

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City of Valdez, Alaska

Notes to Financial Statements

10. Operating Leases

The City leases certain land from the State of Alaska, under a long-term lease agreement. The lease is classified as an operating lease and expires on January 1, 2015. The lease generally contains a renewal option. Minimum lease payments are \$31,515 per year.

The City has a management and operating agreement with Providence Health and Services-Washington for \$200,000 per year effective January 1, 2010 through December 31, 2015, with an option to extend another five years.

The City is a party to five operating leases for copier equipment. The leases expire at varying times between 2012 and 2015 with monthly payments ranging from \$205 to \$588 per month. The following is a schedule of future minimum lease payments:

2015	\$ 2,252
------	----------

11. Medical and Counseling Centers

Net Patient Service Revenues

The Medical Center has agreements with governmental and other third-party payers that provide for payments to the Medical Center at amounts different from its established charges. Payment arrangements for major third-party payers may be based on prospectively determined rates, reimbursed cost, discounted charges, and per diem payments.

Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Adjustments from finalization of prior year's cost reports and other third-party settlement estimates resulted in a decrease in net patient services revenues of \$86,000 for the year ended December 31, 2014.

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City of Valdez, Alaska

Notes to Financial Statements

Net Patient Service Revenues

The following are the components of net patient service revenues for the year ended December 31, 2014:

	Counseling Center	Medical Center
Patient service charges	\$ 399,000	\$ 15,944,000
Less adjustments to patient service charges:		
Charity	(57,000)	(504,000)
Contractual discounts	(82,000)	(2,287,000)
Provision for uncollectible accounts	(5,000)	(1,095,000)
Total adjustments to patient service charges	(144,000)	(3,886,000)
Net patient service revenues - full accrual	255,000	12,058,000
Adjustment to modified accrual	12,273	1,465,153
Net Patient Service Revenues - modified accrual	\$ 267,273	\$ 13,523,153

The mix of net patient charges for the year ended December 31, 2014 from significant third-party payers were as follows:

	Counseling Center	Medical Center
Medicare	80%	43%
Medicaid	12	22
Commercial	7	24
Other	1	11
Total	100%	100%

Operating Leases

The Counseling Center and the Medical Center lease various medical and office equipment under operating leases that expire in 2014 and in five years, generally with no renewal or purchase options. Rental expense for all operating leases was approximately \$70,000 (Counseling Center) and \$58,000 (Medical Center) for the year ended December 31, 2014.

The following is a schedule by year of future minimum lease payments under noncancelable operating leases, as of December 31, 2014, that have initial or remaining lease terms in excess of one year:

<i>Year Ending December 31,</i>	Medical Center
2015	\$ 10,800
2016	10,800
2017	10,800
2018	10,800
2019	2,000
	\$ 45,200

City of Valdez, Alaska

Notes to Financial Statements

Litigation and Contingencies

The healthcare industry is subject to numerous laws and regulations from federal, state, and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. Government monitoring and enforcement activity continues with respect to investigations and allegations concerning possible violations by healthcare providers of regulations, position of significant fines and penalties, as well as significant previously billed. Institutions within the Medical Center are subject to regulatory reviews.

Management is aware of certain asserted and unasserted legal claims and regulatory matters arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Medical Center's or the Counseling Center's future financial position, results of operations, or cash flows.

Related Party Transactions

(a) Payable to the Corporation

The accounting, management, and human resource functions of the Counseling Center and the Medical Center are provided by Providence Health and Services (the Corporation). All receipts and payments on behalf of the Counseling Center and the Medical Center are received or made by the Corporation and are recorded in the accompanying balance sheets. The amount payable to the Corporation at December 31, 2014 was approximately \$59,000 (Counseling Center) and \$34,000 (Medical Center).

As discussed above, the Counseling Center and Medical Center also pay management fees to the Corporation. The amount payable to the Corporation for management fees at December 31, 2014 was approximately \$549,000 (Medical Center).

(b) Insurance Coverage

The Counseling Center and Medical Center are covered for professional and general liability insurance on an occurrence basis through the Corporation's self-insurance programs. The charge by the Corporation for annual insurance expense was approximately \$2,000 (Counseling Center) and \$29,000 (Medical Center) for the year ended December 31, 2014.

(c) Employee Benefits

All employees are employed by the Corporation. The Counseling Center and the Medical Center are not liable for employee benefits including retirement plans and vacation and sick leave, except for the contribution allocation by the Corporation. The Counseling Center and the Medical Center's contribution to these pension plans for the year ended December 31, 2014 was \$29,000 (Counseling Center) and \$415,000 (Medical Center).

12. Defined Benefit Pension Plan

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

City of Valdez, Alaska

Notes to Financial Statements

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

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

Conversion to Cost Sharing

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

That same year, the State of Alaska passed additional 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 attributable to the defined contribution plan described later in these footnotes.

Employee Contribution Rates

Regular employees are required to contribute 6.75% of their annual covered salary (3.26% for pension and 3.49% for healthcare). Police and firefighters are required to contribute 7.5% of their annual covered salary (3.62% for pension and 3.88% for healthcare).

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

ARM Board Adopted Rate: This is the rate formally adopted by the Alaska Retirement Management Board. This rate is actuarially determined to calculate annual funding requirements of the Plan, without regard to the statutory rate cap.

State Contribution Rate: This is the rate paid by the State as an on-behalf payment.

GASB 43 Rate: This is the rate used to determine the long-term pension and healthcare liability for plan accounting purposes in accordance with generally accepted accounting principles as established by GASB. Certain actuarial methods and assumptions for this rate calculation are mandated by GASB. For State fiscal year FY15 (six months ended December 2014), the rate uses an 8.00% pension discount rate and a 4.90% healthcare discount rate. Additionally, the GASB 43 rate disregards all future Medicare Part D payments.

City of Valdez, Alaska

Notes to Financial Statements

From 2008 through June 30, 2014, legislation provided that the State of Alaska contribute the difference between the ARM Board adopted rate and the employer effective (statutory) rate. These additional contributions are recognized by each employer as an on-behalf payment and are reflected as revenue and expense/expenditures within the financial statements.

Effective beginning July 1, 2014, the State passed additional legislation appropriating a one-time funding contribution to the Plan in the amount of \$1 billion. This \$1 billion is allocated among all participating employers and will be recorded as an on-behalf payment. This amount significantly exceeds the required on-behalf payment established as the difference between the ARM Board rate and the employer effective rate. In addition, prior to July 1, 2015, there are 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, resulting in lower ARM Board rates. As a result of these changes, the State fiscal year 2015 on-behalf payment will be significantly higher than under previous calculations, and in State fiscal year 2016, the on-behalf amounts will be lower than under previous calculations.

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

Contribution rates for the six months ended June 30, 2014 were determined as part of the June 30, 2011 actuarial valuation. Rates for the six months ended December 31, 2014 (State FY15) were determined in the June 30, 2012 valuation.

<i>January to June 2014</i>	Employer Effective Rate	ARM Board Adopted Rate	State Contribution Rate	GASB 43 Rate
Pension	10.64%	18.38%	7.74%	27.94%
Postemployment healthcare	11.36%	17.30%	5.94%	52.55%
Total Contribution Rate	22.00%	35.68%	13.68%	80.49%

<i>July to December 2014</i>	Employer Effective Rate	ARM Board Adopted Rate	State Contribution Rate	GASB 43 Rate
Pension	12.54%	25.09%	42.41%	33.05%
Postemployment healthcare	9.46%	18.94%	- %	55.07%
Total Contribution Rate	22.00%	44.03%	42.41%	88.12%

City of Valdez, Alaska

Notes to Financial Statements

Annual Pension and Postemployment Healthcare Cost

The City is required to contribute 22% of covered payroll, subject to a wage floor. In addition, the State of Alaska has also made additional contributions to the plan as noted above. In accordance with the provisions of GASB Statement Number 24, these additional contributions are considered on-behalf payments and are recorded as revenue and expense/expenditures in these financial statements. In accordance with the provisions of GASB Statement Number 24, the City has recorded the State contribution in the amount of \$2,196,269 as revenue and expense/expenditures in these financial statements. However, because the City is not statutorily obligated for these payments, this amount is excluded from the annual pension and OPEB cost required by the City, as reported below:

<i>Year Ended December 31,</i>	Annual Pension Cost	Annual OPEB Cost	Total Benefit Cost (TBC)	City Contributions	% of TBC Contributed
2014	\$ 780,015	\$ 588,433	\$ 1,368,448	\$ 1,368,448	100%
2013	732,751	690,066	1,422,817	1,422,817	100%
2012	496,269	634,185	1,130,454	1,130,454	100%

13. Defined Contribution Pension Plan

Employees hired after July 1, 2006 participate in PERS Tier IV, a defined contribution plan. The Plan is administered by the State of Alaska, Department of Administration. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Alaska Retirement Management Board may also amend contribution requirements. Included in the Plan are individual pension accounts, retiree medical insurance plan and a separate Health Reimbursement Arrangement account that will help retired members pay medical premiums and other eligible medical expenses not covered by the medical plan.

Employee Contribution Rates

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

Employer Contribution Rates

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

<i>January to June 2014</i>	Other Tier IV	Police/Fire Tier IV
Individual account	5.00%	5.00%
Retiree medical plan	0.48%	0.48%
Occupational death and disability benefits	0.20%	1.14%
Total Contribution Rate	5.68%	6.62%

City of Valdez, Alaska

Notes to Financial Statements

<i>July to December 2014</i>	Other Tier IV	Police/Fire Tier IV
Individual account	5.00%	5.00%
Retiree medical plan	1.66%	1.66%
Occupational death and disability benefits	0.22%	1.06%
Total Contribution	6.88%	7.72%

In addition, the employer must contribute to the Health Reimbursement Arrangement. AS 39.30.370 establishes this contribution amount as “three percent of the average annual employee compensation of all employees of all employers in the plan”. As of July 1, 2014, for actual remittance, this amount is calculated as a flat rate for each full time or part-time employee per pay period and approximates \$1,961 per year for each full-time employee, and \$1.26 per hour for part-time employees.

Finally, the total employer contribution must equal 22% of covered payroll. After subtracting the defined contribution (DC) rates and the HRA contribution, any residual amount of the 22% will be deposited into the defined benefit (DB) plan. Known as the DBUL payment, this amount is intended to mitigate against the declining payroll base that resulted from the creation of the DC plan.

Employees are immediately vested in their own contributions and vest 25% per year in employer contributions. The City and employee contributions to PERS including the HRA contribution for the year ended December 31, 2014 were \$313,689 and \$259,694, respectively.

14. Health Insurance Internal Service Fund

The Health Insurance Internal Service Fund was organized in 1991. The City of Valdez and Valdez City School District have entered into a joint arrangement for self-insuring for health insurance. The program's general objectives are to formulate, develop and administer a program of health insurance and to obtain lower costs for that coverage. The City and School also purchase commercial insurance to provide coverage for claims in excess of \$125,000 per employee per year. The various funds of the City and School make payments to the Internal Service Fund based on estimates of the amounts needed to pay claims. The City accrues a liability for claims incurred but not reported at year end. The liability is estimated based on a two-month average of claims paid during the year. Changes in the claims payable for 2013 and 2014 are as follows:

Claims Payable, December 31, 2012	\$ 755,444
2013 claims and changes in estimates	3,996,976
2013 claims paid	(4,055,504)
Claims Payable, December 31, 2013	696,916
2014 claims and changes in estimates	6,960,624
2014 claims paid	(7,325,359)
Claims Payable, December 31, 2014	\$ 332,181

City of Valdez, Alaska

Notes to Financial Statements

15. 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; i.e., employee injuries, and (f) general liability i.e., personal injuries. Commercial policies, transferring these risks of loss, except for relatively small deductible amounts, are purchased for certain property, port, and boiler and machinery. The City has no coverage for potential losses from environmental damages. Coverage limits and deductibles on the commercial policies have stayed relatively constant for the last several years. Settled claims have not exceeded commercial insurance coverage in any of the past three years.

The City is a member of the Alaska Public Entity Insurance (APEI), a joint insurance association. The mission of the Alaska Public Entity Insurance is to provide its members with stable, affordable insurance, broad insurance coverage, and effective risk management services to ensure that maximum funds are available for local government and education programs. APEI is recognized by the Association of Government Risk Pools (AGRIP). The APEI provides the City coverage for property, including building and contents, automobiles, mobile equipment and data processing equipment; casualty, including general liability, public officials and employee liability, law enforcement professional liability, auto liability; commercial blanket bond; and workers' compensation.

The APEI is a public entity risk pool organized to share risks among its members. Funds in excess of expenses and costs of risk management activities and reasonable reserves, including reserves for contingencies, reserves required by excess insurers or reinsurers, reserves as part of a surplus goal or as required by law, may be used to reduce the cost of insurance or increase risk protection for the members; excess funds may be distributed to the members as provided in APEI's bylaws. The City received excess funds in the form of dividends during the year ended December 31, 2014. Coverage limits and the deductibles on the policies have stayed relatively constant for the past few years.

16. Alaska Gasline Port Authority

On July 19, 1999, the City passed an ordinance to provide for the creation of the Alaska Gasline Port Authority. The Port Authority, comprised of the City of Valdez, Fairbanks North Star Borough and the North Slope Borough, was formed to promote the development of the natural gas pipeline between the North Slope and the City of Valdez. Originally, the Port Authority board consisted of nine members; three from each of the participating agencies. If constructed, the Port Authority will provide for the operation and maintenance of the gasline. In 2010, North Slope Borough withdrew from participation. The City of Valdez and the Fairbanks North Star Borough remain members.

17. Contingencies

Pending Litigation

The City is currently in litigation with the Owners of the Trans-Alaska Pipeline System (TAPS) and the State of Alaska concerning the value of the TAPS. Under litigation is the value of TAPS for tax years 2006 through 2014. The 2006 tax year value of TAPS has been set by the Alaska Superior Court and that finding was confirmed by the Alaska Supreme Court on appeal.

The 2007-2009 values were also set by the Alaska Superior Court and these tax years are still on appeal to the Alaska Supreme Court. The value of tax years 2010 through 2014 are pending in various stages of appeal at the administrative level or with the Alaska Superior Court. In the event of unfavorable rulings, the City could be required to refund portions of tax payments received plus interest, as determined by the courts.

City of Valdez, Alaska

Notes to Financial Statements

The City is also currently involved in litigation with the State of Alaska over the State's claim that the supplemental assessments arising from the above referenced litigation for the 2006 through 2009 tax years exceed the tax cap such that taxes arising from such supplemental assessments should be paid to the State instead of to Valdez. The City has maintained a deposit of \$32.5 million with the Alaska Court system pending resolution of the State's 2006 tax cap claim. The City has set-aside an additional \$46 million in a segregated investment account to cover any additional tax cap liability for the years 2007 through 2009. The City expects a favorable ruling in each of these cases; however, the actual outcome remains uncertain.

In addition, the City is involved in numerous other legal and administrative actions surrounding various tax assessments not directly connected to the TAPS litigation above. Final resolutions of these actions cannot be determined at this time.

18. Subsequent Event

In March 2015 the City issued \$17,920,000 in general obligation bonds for the purpose of funding harbor projects. These bonds were issued at a premium of \$2,237,184 and bear interest of 2% to 5% through 2035. The bonds have a call option at 2025.

19. New Accounting Pronouncements

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates. Management has not fully evaluated the potential effects of these statements, but believes that GASB Statement 68 will result in the biggest reporting change. Actual impacts have not yet been determined:

GASB 68 - Accounting and Financial Reporting for Pensions - Effective for year-end December 31, 2015 - This statement changes the reporting and disclosure requirements for governments that participate in pension plans. This statement modifies the participating employer side reporting in connection with the Plan reporting at GASB 67.

GASB 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date - Effective for year-end December 31, 2015 - This statement is a companion to GASB Statement 68 and clarifies treatment of contributions made by a contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

GASB 72 - Fair Value Disclosures - Effective for year-end December 31, 2016 - This statement defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements.

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Required Supplementary Information

City of Valdez, Alaska

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Year Ended December 31, 2014	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 38,248,124	\$ 51,717,979	\$ 51,796,904	\$ 78,925
Licenses and permits	13,200	13,200	23,209	10,009
Fines and forfeitures	16,000	16,000	15,041	(959)
Charges for services	148,170	148,170	211,525	63,355
Sales and leases	400,000	410,000	463,573	53,573
Contributions and donations	4,500	9,212	9,392	180
Investment income	75,000	75,000	235,348	160,348
Other	2,100	620,874	81,815	(539,059)
Intergovernmental:				
State of Alaska	1,149,136	1,180,656	2,954,459	1,773,803
Federal sources	714,600	830,734	832,052	1,318
Total Revenues	40,770,830	55,021,825	56,623,318	1,601,493
Expenditures				
Current:				
General government	25,395,480	27,209,497	7,764,523	19,444,974
Public safety	4,763,020	4,826,299	5,000,646	(174,347)
Public works	9,035,135	9,166,045	5,399,858	3,766,187
Public service	4,425,448	4,573,054	3,920,195	652,859
Economic development	918,842	1,060,842	854,156	206,686
Harbor	2,949,036	2,949,036	-	2,949,036
Museum	425,000	440,000	425,000	15,000
Education	11,859,025	11,859,025	10,809,137	1,049,888
Hospital and healthcare	257,353	257,353	279,324	(21,971)
Capital outlay	9,341,347	11,329,251	3,173,429	8,155,822
Total Expenditures	69,369,686	73,670,402	37,626,268	36,044,134
Excess of Revenues Over (Under) Expenditures	(28,598,856)	(18,648,577)	18,997,050	37,645,627
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	1,110	1,110
Transfers in	2,546,851	5,989,897	5,989,897	-
Transfers out	(6,979,067)	(20,952,070)	(20,952,070)	-
Net Other Financing Sources (Uses)	(4,432,216)	(14,962,173)	(14,961,063)	1,110
Net Change in Fund Balance	\$ (33,031,072)	\$ (33,610,750)	4,035,987	\$ 37,646,737
Fund Balance, beginning of year as restated			93,633,564	
Fund Balance, end of year			\$ 97,669,551	

City of Valdez, Alaska

Providence Valdez Medical Center Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

<i>Year Ended December 31, 2014</i>	Original and Final Budget	Actual Amounts	Variance with Final Budget
Revenues			
Charges for services	\$ 13,546,000	\$ 13,523,153	\$ (22,847)
Other	398,000	520,000	122,000
Intergovernmental - federal sources	-	3,000	3,000
Total Revenues	13,944,000	14,046,153	102,153
Expenditures			
Current - hospital and healthcare	13,427,000	12,380,000	1,047,000
Net Change in Fund Balance	<u>\$ 517,000</u>	1,666,153	<u>\$ 1,149,153</u>
Fund Balance, beginning of year		<u>7,043,972</u>	
Fund Balance, end of year		<u>\$ 8,710,125</u>	

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Supplementary Information

City of Valdez, Alaska
Nonmajor Governmental Funds
Combining Balance Sheet

	Special Revenue Funds						Providence Valdez Counseling Center	Debt Service Fund	Total Nonmajor Governmental Funds
	Port	Utility	Airport	Harbor	Medical Clinic				
<i>December 31, 2014</i>									
Assets									
Cash and investments	\$ 892,135	\$ 1,615,722	\$ 521,457	\$ 1,689,599	\$ 235,620	\$ 386,000	\$ 1,334,616	\$ 6,675,149	
Receivables, net:									
Grants and shared revenues	-	-	-	-	-	-	602,101	602,101	
Accounts	9,143	2,559	20,055	-	6,029	69,000	-	106,786	
Accrued interest	1,762	3,198	1,024	3,338	462	-	19,014	28,798	
Prepaid items	13,280	8,797	1,354	58,260	-	-	-	81,691	
Restricted cash and investments:									
Debt reserve accounts	-	-	-	-	-	-	199,631	199,631	
Total Assets	\$ 916,320	\$ 1,630,276	\$ 543,890	\$ 1,751,197	\$ 242,111	\$ 455,000	\$ 2,155,362	\$ 7,694,156	
Liabilities, Deferred Inflows of Resources and Fund Balances									
Liabilities									
Accounts payable	\$ 25,044	\$ 51,095	\$ 9,647	\$ 37,410	\$ 6,242	\$ 13,000	\$ -	\$ 142,438	
Accrued payroll liabilities	-	-	-	-	-	62,000	-	62,000	
Payable to Providence Health Services	-	-	-	-	-	59,000	-	59,000	
Customer deposits	-	19,450	-	-	-	-	-	19,450	
Unearned revenue	-	664	-	47,900	-	1,000	-	49,564	
Total Liabilities	25,044	71,209	9,647	85,310	6,242	135,000	-	332,452	
Deferred Inflows of Resources									
Unavailable revenues	-	-	-	-	-	58,037	-	58,037	
Total Liabilities and Deferred Inflows of Resources	25,044	71,209	9,647	85,310	6,242	193,037	-	390,489	
Fund Balances									
Nonspendable	13,280	8,797	1,354	58,260	-	-	-	81,691	
Restricted	-	-	-	-	-	-	199,631	199,631	
Assigned	877,996	1,550,270	532,889	1,607,627	235,869	261,963	1,955,731	7,022,345	
Total Fund Balances	891,276	1,559,067	534,243	1,665,887	235,869	261,963	2,155,362	7,303,667	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 916,320	\$ 1,630,276	\$ 543,890	\$ 1,751,197	\$ 242,111	\$ 455,000	\$ 2,155,362	\$ 7,694,156	

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

Year Ended December 31, 2014	Special Revenue Funds						Debt Service Fund	Total Nonmajor Governmental Funds
	Port	Utility	Airport	Harbor	Medical Clinic	Providence Valdez Counseling Center		
Revenues								
Fines and forfeitures	\$ 616	\$ 1,182	\$ 1,207	\$ 1,829	\$ 240	\$ -	\$ -	5,074
Charges for services	429,604	549,454	217	633,003	-	267,273	-	1,879,551
Sales and leases	26,982	-	152,851	493,694	128,064	-	-	801,591
Investment income	6,878	13,198	3,942	14,544	1,884	-	34,370	74,816
Other	48,105	36	-	140	-	69,000	-	117,281
Intergovernmental: State of Alaska	60,248	95,949	16,015	736,201	2,231	363,000	1,902,361	3,176,005
Total Revenues	572,433	659,819	174,232	1,879,411	132,419	699,273	1,936,731	6,054,318
Expenditures								
Current:								
Port	675,417	-	-	-	-	-	-	675,417
Harbor	-	-	-	1,159,639	-	-	-	1,159,639
Utility	-	1,261,420	-	-	-	-	-	1,261,420
Airport	-	-	303,932	-	-	-	-	303,932
Hospital and healthcare	-	-	-	-	102,263	776,000	-	878,263
Debt service:								
Principal	-	-	-	-	-	-	1,435,000	1,435,000
Interest	-	-	-	-	-	-	1,569,038	1,569,038
Total Expenditures	675,417	1,261,420	303,932	1,159,639	102,263	776,000	3,004,038	7,282,709
Excess of Revenues Over (Under) Expenditures	(102,984)	(601,601)	(129,700)	719,772	30,156	(76,727)	(1,067,307)	(1,228,391)
Other Financing Sources (Uses)								
Payment to bond escrow agent	-	-	-	-	-	-	(7,651,808)	(7,651,808)
Transfers in	273,548	769,640	234,634	32,186	-	130,000	8,738,425	10,178,433
Transfers out	-	-	-	(500,000)	-	-	(3,173,301)	(3,673,301)
Net Other Financing Sources (Uses)	273,548	769,640	234,634	(467,814)	-	130,000	(2,086,684)	(1,146,676)
Net Change in Fund Balances	170,564	168,039	104,934	251,958	30,156	53,273	(3,153,991)	(2,375,067)
Fund Balances, beginning of year	720,712	1,391,028	429,309	1,413,929	205,713	208,690	5,309,353	9,678,734
Fund Balances, end of year	\$ 891,276	\$ 1,559,067	\$ 534,243	\$ 1,665,887	\$ 235,869	\$ 261,963	\$ 2,155,362	\$ 7,303,667