



## City of Valdez, Alaska

Basic Financial Statements, Required  
Supplementary Information, and  
Supplementary Information  
Year Ended December 31, 2015

## City of Valdez, Alaska

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Basic Financial Statements, Required Supplementary Information,  
and Supplementary Information  
Year Ended December 31, 2015

# City of Valdez, Alaska

## Contents

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	<u>Exhibit</u>	<u>Page</u>
<b>FINANCIAL SECTION</b>		
Independent Auditor's Report		1-3
Management's Discussion and Analysis		6-14
<b>Basic Financial Statements</b>		
Government-wide Financial Statements:		
Statement of Net Position	A-1	16-17
Statement of Activities	A-2	18
Fund Financial Statements:		
Balance Sheet - Governmental Funds	B-1	19
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Position	B-2	20
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	B-3	21
Reconciliation of Changes in Fund Balances of Governmental Funds to Statement of Activities	B-4	22
Health Insurance Internal Service Fund:		
Statement of Net Position	C-1	23
Statement of Revenues, Expenses and Changes in Net Position	C-2	24
Statement of Cash Flows	C-3	25
Notes to Basic Financial Statements		26-58
<b>Required Supplementary Information</b>		
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual:		
General Fund	D-1	60
Providence Valdez Medical Center Special Revenue Fund	D-2	61
Public Employees Retirement System:		
Schedule of the City's Information on the Net Pension Liability	E-1	62
Schedule of City Contributions	E-2	63
Notes to Required Supplementary Information		64

# City of Valdez, Alaska

## Contents

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	<u>Exhibit</u>	<u>Page</u>
<b>Supplementary Information</b>		
Nonmajor Governmental Funds:		
Combining Balance Sheet	F-1	66
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	F-2	67



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## 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, 2015, 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 3.5%, 2.9%, and 17.5%, 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, 2015, 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.

### ***Emphasis of Matter - Change in Accounting Principle***

As discussed in Note 20 to the financial statements, in 2015 the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement Number 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 6-14, the budgetary comparison information on pages 60-61, and the Schedules of Net Pension Liability and Pension Contributions on pages 62-63, 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 November 7, 2016, 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  
November 7, 2016

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## Management's Discussion and Analysis

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# City of Valdez, Alaska

## Management's Discussion and Analysis

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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, 2015.

### Financial Highlights

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- 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 \$546,806,468. Of this amount, \$147,246,006 (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 \$43,702,474 for the current fiscal year.
- The City's governmental funds reported combined ending fund balances of \$329,718,618, a net increase of \$13,826,395.
- The unassigned fund balance for the General Fund was \$65,257,128, or 159 percent of total General Fund expenditures.
- As discussed in note 6, the City defeased an additional \$3,970,000 of the 2012 School bonds. This defeasance, when combined with the prior 2013 defeasance brings the total amount of defeased debt to \$28,200,000.

### Overview of the Financial Statements

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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

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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. All changes in net position are reported as soon as the underlying event giving rise to the change occurs regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City 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, port, harbor, utility, airport, museum, education, health care, and equipment. The City of Valdez currently has no business-type activities.

# City of Valdez, Alaska

## Management's Discussion and Analysis

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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

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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 2015 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

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*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

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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

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#### *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 \$546,806,468 at the close of 2015. 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 2015 and 2014.

# City of Valdez, Alaska

## Management's Discussion and Analysis

	Governmental Activities	
	2015	2014
Current and other assets	\$ 371,303,444	\$ 322,630,877
Long-term	231,588,785	215,387,356
<b>Total assets</b>	<b>602,892,229</b>	<b>538,018,233</b>
Deferred outflows of resources	1,728,174	-
<b>Total Assets And Deferred Outflows Of Resources</b>	<b>\$ 604,620,403</b>	<b>\$ 538,018,233</b>
Current liabilities	\$ 15,675,709	\$ 7,122,833
Long-term	41,896,570	15,920,707
<b>Total liabilities</b>	<b>57,572,279</b>	<b>23,043,540</b>
Deferred inflows of resources	241,656	2,718,571
<b>Total liabilities and deferred inflows of resources</b>	<b>57,813,935</b>	<b>25,762,111</b>
Net position:		
Net investment in capital assets	216,732,508	207,554,440
Restricted	182,827,954	174,005,642
Unrestricted	147,246,006	130,696,040
<b>Total net position</b>	<b>546,806,468</b>	<b>512,256,122</b>
<b>Total Liabilities, Deferred Inflows of Resources And Net Position</b>	<b>\$ 604,620,403</b>	<b>\$ 538,018,233</b>

Of the \$546,806,468 total net position; \$216,732,508 (40 percent) is invested in capital assets; \$182,827,954 (33 percent) is restricted and mostly comprised of investments in the Permanent Fund; the remaining balance of \$147,246,006 (27 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 2015 and 2014.

	Governmental Activities	
	2015	2014
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 20,519,110	\$ 18,344,456
Operating grants and contributions	3,505,424	5,714,201
Capital grants and contributions	2,184,961	8,487,812
General revenues:		
Property taxes	49,222,652	51,796,080
Payment in lieu of taxes	739,897	753,501
Grants and entitlements not restricted to a specific purpose	2,064,735	486,538
Investment income (loss)	2,647,204	9,260,479
TAPS litigation settlement, net	25,523,709	-
Other	158,379	129,433
<b>Total revenues</b>	<b>106,566,071</b>	<b>94,972,500</b>
<b>Expenses:</b>		
General government	9,538,535	8,345,381
Public safety	5,366,076	5,213,681
Public works	6,412,149	10,397,032
Public service	4,302,678	5,016,032
Economic development	1,110,219	848,974
Port	2,496,735	2,368,816
Harbor	2,348,194	2,069,230
Utility	2,246,513	1,657,757
Airport	315,881	352,684
Museum	475,000	425,000
Education	14,344,468	15,032,337
Hospital and health care	13,280,396	13,659,334
Interest on long-term debt	626,753	1,274,319
<b>Total expenses</b>	<b>62,863,597</b>	<b>66,660,577</b>
<b>Change in net position</b>	<b>43,702,474</b>	<b>28,311,923</b>
<b>Net Position, beginning of year</b>	<b>512,256,122</b>	<b>483,944,199</b>
Restatement - adoption of GASB 68	(9,152,128)	-
<b>Net Position, beginning of year, as restated</b>	<b>503,103,994</b>	<b>483,944,199</b>
<b>Net Position, end of year</b>	<b>\$ 546,806,468</b>	<b>\$ 512,256,122</b>

# City of Valdez, Alaska

## Management's Discussion and Analysis

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Governmental activities increased the net position of the City of Valdez by \$43,702,474 million in fiscal year 2015. This year's increase is higher than the prior year increase of \$28,311,923. Key elements of this decrease are:

- \$25.5 million in increase in revenues due to the TAPS litigation settlement agreement.
- \$6.6 million decrease in investment income, which is concentrated primarily in the Permanent Fund, and reflects capital market trends.
- Overall reduction of expenses of \$3.8 million, despite \$3.6 million dollar increase in pension expenses due to the adoption of GASB 68 and increases in the state-wide PERS unfunded liability.
- \$6.3 million reduction in other capital grants.
- \$2.5 million reduction in other property taxes.

### Fund Financial Analysis

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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 2015 fiscal year, the governmental funds of the City reported combined ending fund balances of \$329,718,618 a combined net increase of \$13,826,395 in comparison to the beginning of the year. \$65,257,128 or 20 percent of this total amount constitutes unassigned fund balance. The unassigned fund balance constitutes monies that can be designated by the City Council 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; or for a variety of other purposes.

A summary of governmental funds and fund balances follows:

	Total Fund Balance	Unassigned Fund Balance
General	\$ 80,558,603	\$ 65,257,128
Permanent	172,755,675	-
PVMC	9,598,550	-
General City Capital Project Fund	58,984,732	-
Other funds	7,821,058	-
	<hr/>	
	\$ 329,718,618	\$ 65,257,128

# City of Valdez, Alaska

## Management's Discussion and Analysis

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The General Fund is the main operating fund of the City of Valdez. At the end of the 2015 fiscal year, unassigned fund balance of the General Fund was \$65,257,128 while total fund balance was \$80,558,603. 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 159 percent of total General Fund expenditures, and 85 percent of the General Fund expenditures plus operating transfers out.

The City's General Fund balance decreased by \$17,110,948 during the 2015 fiscal year. The General Fund transferred \$35.6 million out to fund capital projects, operating subsidies in other funds, and debt service related to the defeasance program on the 2012 General Obligation bonds.

The Providence Valdez Medical Center Special Revenue Fund had a total fund balance of \$9,598,550. This was an increase of \$0.89 million as a result of increased charges for services over the previous year.

The Permanent Fund had a total fund balance of \$172,755,675, all of which is reported as restricted investments in accordance with the City Charter. The fund balance decreased by \$1,004,336. Pursuant to City Code, the City appropriated 1.5% of the beginning fund balance, or \$2.6 million, for general government operations. Although still reporting positive investment earnings, the investment income reported in 2015 was approximately 22% of the amount recorded in 2014 which was significantly lower than 2013. The reduced earnings mirror the year-over-year performance of broader capital market indices.

The Capital Projects fund balance increased by \$30,535,863, due to significant transfers in along with the issuance of \$17.9 million in debt to continue funding the harbor expansion.

### General Fund Budgetary Highlights

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The net change from the original budget and final amended budget represented a \$13,069,023 increase in revenues and an increase of \$19,123,609 in expenditures. Transfers out were also increased by \$27.4 million. Budget changes were done throughout the year by council resolution and can be briefly summarized as follows:

- \$7,833,118 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 60% of the increase in total revenues.
- \$19,123,609 increase in total expenditures.
- \$4,949,819 increase in general government expenditures.
- \$3,608,711 increase to public works.
- \$9,837,538 increase in capital outlay.

# City of Valdez, Alaska

## Management's Discussion and Analysis

### Capital Assets and Debt Administration

*Capital assets* - The investment in capital assets for the City of Valdez governmental activities as of December 31, 2015 amounts to \$231,588,785 (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 \$16,201,429.

Major capital asset events for the 2015 fiscal year included the following:

- Ongoing activity related to the new middle school
- Ongoing port and harbor improvement
- Museum and library Roof replacement
- High School HVAC replacement
- Various heavy equipment and other rolling stock to include a new Backhoe, several vehicles, a cardboard baler, and various other items.

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

	Governmental Activities	
	2015	2014
Land	\$ 15,923,570	\$ 15,923,570
Buildings	101,834,268	97,892,758
Improvements other than buildings	68,085,429	64,522,015
Equipment	10,912,903	11,017,352
Construction in progress	34,832,615	26,031,661
	<u>\$ 231,588,785</u>	<u>\$ 215,387,356</u>

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 2015 fiscal year, the City of Valdez had ending bonded debt outstanding of \$23,000,000. In 2015, the City continued its program of economic defeasance of its 2012 School Bonds. In the economic defeasance the city has placed \$31 million 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, 2015 was \$598,340. In addition in 2015 the city recognizes a liability of \$1,292,225 for accrued leave and \$12,238,375 for its share of the statewide PERS pension liability.

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

# City of Valdez, Alaska

## Management's Discussion and Analysis

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### Economic Factors and Next Year's Budgets and Rates

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- The unemployment rate for the Valdez-Cordova census region is 8.8 percent which is a 0.8 percent decrease from 2014. It compares unfavorably to the state's unemployment rate of 6.5 percent, which decreased 0.3 percent from a year ago.
- In March of 2016, the State of Alaska, the TAPS owners, and the impacted taxing jurisdictions along the TAPS route agreed to a five-year fixed TAPS value, through 2020, of \$8 billion. The parties also agreed to a revised allocation of value among the taxing jurisdictions resulting in Valdez tax revenues reflecting an equivalent \$8.5 billion valuation.

These factors were considered in preparing and revising the City's budget for the 2016 year.

### Requests for Information

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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

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**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, 2015</i>			
<b>Assets and Deferred Outflows of Resources</b>			
<b>Current Assets</b>			
Cash and investments	\$ 320,764,316	\$ 2,477,267	\$ 196,922
Receivables, net of allowance for uncollectible accounts:			
Property taxes	535,471	-	-
TAPS litigation settlement	32,823,709	-	-
Grants and shared revenues	1,683,691	-	-
Accounts	2,735,840	770,264	2,530
Accrued interest	479,751	-	-
Inventory	-	39,607	22,018
Prepaid items	270,788	-	20,929
Other current assets	831,000	-	-
Restricted cash and investments:			
Unspent bond proceeds	10,979,247	-	-
Debt reserve accounts	199,631	-	-
<b>Total Current Assets</b>	<b>371,303,444</b>	<b>3,287,138</b>	<b>242,399</b>
<b>Long-term Assets</b>			
Capital assets not being depreciated	50,756,185	-	25,199
Depreciable capital assets, net of accumulated depreciation	180,832,600	346,077	50,721
<b>Total Long-term Assets</b>	<b>231,588,785</b>	<b>346,077</b>	<b>75,920</b>
<b>Total Assets</b>	<b>602,892,229</b>	<b>3,633,215</b>	<b>318,319</b>
<b>Deferred Outflows of Resources - pension related</b>	<b>1,728,174</b>	<b>426,945</b>	<b>-</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 604,620,403</b>	<b>\$ 4,060,160</b>	<b>\$ 318,319</b>

*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, 2015</i>			
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>			
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 3,735,277	\$ 34,809	\$ 14,570
TAPS litigation settlement payable	7,308,500	-	-
Accrued payroll liabilities	1,166,396	844,883	11,039
Health claims payable	422,120	-	-
Customer deposits	22,916	-	-
Other liabilities	17,000	-	-
Unearned revenue	79,317	17,631	24,114
Due to student groups	-	178,065	-
Accrued interest payable	39,183	-	-
Due within one year:			
Accrued leave	750,000	26,845	14,634
Lease payable	-	40,873	-
Bonds payable	2,135,000	-	-
<b>Total Current Liabilities</b>	<b>15,675,709</b>	<b>1,143,106</b>	<b>64,357</b>
Long-term liabilities:			
Accrued leave	542,225	-	-
Lease payable	-	42,893	-
Bonds payable, net of unamortized premium (\$2,237,184)	23,102,184	-	-
Loans payable	598,340	-	-
Landfill closure and post-closure costs payable	5,415,446	-	-
Net pension liability	12,238,375	5,615,257	-
<b>Total long-term liabilities</b>	<b>41,896,570</b>	<b>5,658,150</b>	<b>-</b>
<b>Total Liabilities</b>	<b>57,572,279</b>	<b>6,801,256</b>	<b>64,357</b>
<b>Deferred Inflows of Resources</b>			
Pension related	216,670	506,677	-
Prepaid taxes	24,986	-	-
<b>Total Deferred Inflows of Resources</b>	<b>241,656</b>	<b>506,677</b>	<b>-</b>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>57,813,935</b>	<b>7,307,933</b>	<b>64,357</b>
<b>Net Position</b>			
Net investment in capital assets	216,732,508	262,311	75,920
Restricted:			
Permanent fund	172,755,675	-	-
TAPS litigation debt service	9,814,648	-	-
Debt service	199,631	-	-
Capital acquisitions	58,000	-	-
Projects and displays	-	-	63,391
Title VI-B	-	61	-
Unrestricted (deficit)	147,246,006	(3,510,145)	114,651
<b>Total Net Position</b>	<b>546,806,468</b>	<b>(3,247,773)</b>	<b>253,962</b>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<b>\$ 604,620,403</b>	<b>\$ 4,060,160</b>	<b>\$ 318,319</b>

*See accompanying notes to the financial statements.*

**City of Valdez, Alaska**  
**Statement of Activities**

<i>Year Ended December 31, 2015</i>	Expenses		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary	Component	
						Government	Units	
					Govern- mental Activities	Valdez City Schools	Valdez Museum and Historical Archive Association, Inc.	
<b>Primary Government</b>								
General government	\$ 9,538,535	\$ 177,562	\$ 133,551	\$ -	\$ (9,227,422)	\$ -	\$ -	
Public safety	5,366,076	69,562	682,850	-	(4,613,664)	-	-	
Public works	6,412,149	164,240	95,440	391,681	(5,760,788)	-	-	
Public service	4,302,678	272,345	82,573	23,923	(3,923,837)	-	-	
Economic development	1,110,219	-	-	-	(1,110,219)	-	-	
Port	2,496,735	660,889	14,250	-	(1,821,596)	-	-	
Harbor	2,348,194	675,798	494,255	1,769,357	591,216	-	-	
Utility	2,246,513	1,153,633	16,824	-	(1,076,056)	-	-	
Airport	315,881	156,952	3,788	-	(155,141)	-	-	
Museum	475,000	-	-	-	(475,000)	-	-	
Education	14,344,468	3,043,630	1,673,560	-	(9,627,278)	-	-	
Hospital and healthcare	13,280,396	14,144,499	308,333	-	1,172,436	-	-	
Unallocated interest	626,753	-	-	-	(626,753)	-	-	
<b>Total Primary Government</b>	<b>\$ 62,863,597</b>	<b>\$ 20,519,110</b>	<b>\$ 3,505,424</b>	<b>\$ 2,184,961</b>	<b>(36,654,102)</b>	<b>-</b>	<b>-</b>	
<b>Component Unit - School District</b>	<b>\$ 14,741,197</b>	<b>\$ 99,674</b>	<b>\$ 2,995,509</b>	<b>\$ 125,000</b>	<b>-</b>	<b>(11,521,014)</b>	<b>-</b>	
<b>Component Unit - Museum</b>	<b>\$ 729,459</b>	<b>\$ 95,899</b>	<b>\$ 161,780</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>(471,780)</b>	
<b>General Revenues</b>								
Taxes					49,222,652	-	-	
Payments in lieu of taxes					739,897	-	-	
Contributions from primary government					-	8,865,404	425,000	
Grants and entitlements not restricted to a specific purpose					2,064,735	4,578,466	-	
Investment income					2,647,204	6,962	2,102	
TAPS litigation settlement, net					25,523,709	-	-	
Other					158,379	100,478	6,471	
<b>Total General Revenues</b>					<b>80,356,576</b>	<b>13,551,310</b>	<b>433,573</b>	
<b>Change in Net Position</b>					<b>43,702,474</b>	<b>2,030,296</b>	<b>(38,207)</b>	
<b>Net Position (Deficit) beginning of year, as restated (Note 20)</b>					<b>503,103,994</b>	<b>(5,278,069)</b>	<b>292,169</b>	
<b>Net Position (Deficit) end of year</b>					<b>\$ 546,806,468</b>	<b>\$ (3,247,773)</b>	<b>\$ 253,962</b>	

*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, 2015</i>							
<b>Assets</b>							
Cash and investments	\$ 81,562,519	\$ 172,462,339	\$ 10,030,000	\$ 47,738,674	\$ 6,845,079	\$ 318,638,611	
Receivables, net:							
TAPS litigation settlement	32,823,709	-	-	-	-	32,823,709	
Property taxes	535,471	-	-	-	-	535,471	
Assessments	6,102	-	-	-	-	6,102	
Grants and shared revenues	6,620	-	-	803,624	873,447	1,683,691	
Accounts	308,785	-	2,181,000	78,529	161,424	2,729,738	
Accrued interest	63,018	298,191	-	106,764	11,778	479,751	
Prepaid items	197,824	-	-	-	72,964	270,788	
Other	-	-	831,000	-	-	831,000	
Restricted cash and investments:							
Unspent bond proceeds	-	-	-	10,979,247	-	10,979,247	
Debt reserve accounts	-	-	-	-	199,631	199,631	
<b>Total Assets</b>	<b>\$ 115,504,048</b>	<b>\$ 172,760,530</b>	<b>\$ 13,042,000</b>	<b>\$ 59,706,838</b>	<b>\$ 8,164,323</b>	<b>\$ 369,177,739</b>	
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>							
<b>Liabilities</b>							
Accounts payable	\$ 1,024,110	\$ 4,855	\$ 167,000	\$ 643,577	\$ 186,735	\$ 2,026,277	
Litigation settlement payable	7,308,500	-	-	-	-	7,308,500	
Accrued payroll liabilities	500,396	-	655,000	-	11,000	1,166,396	
Payable to Providence Health & Services	-	-	1,681,000	-	28,000	1,709,000	
Customer deposits	6,616	-	-	-	16,300	22,916	
Unearned revenue	23,055	-	-	-	56,262	79,317	
Other	1,000	-	16,000	-	-	17,000	
<b>Total Liabilities</b>	<b>8,863,677</b>	<b>4,855</b>	<b>2,519,000</b>	<b>643,577</b>	<b>298,297</b>	<b>12,329,406</b>	
<b>Deferred Inflows of Resources</b>							
Prepaid taxes	24,986	-	-	-	-	24,986	
Unavailable revenues:							
Litigation settlement	25,515,209	-	-	-	-	25,515,209	
Patient service revenue	-	-	924,450	-	44,968	969,418	
Deferred taxes and assessments	541,573	-	-	78,529	-	620,102	
<b>Total Deferred Inflows of Resources</b>	<b>26,081,768</b>	<b>-</b>	<b>924,450</b>	<b>78,529</b>	<b>44,968</b>	<b>27,129,715</b>	
<b>Fund Balances</b>							
Nonspendable	197,824	-	-	-	72,964	270,788	
Restricted	-	172,755,675	58,000	10,979,247	199,631	183,992,553	
Committed	273,216	-	-	9,911,031	-	10,184,247	
Assigned	14,830,435	-	9,540,550	38,094,454	7,548,463	70,013,902	
Unassigned	65,257,128	-	-	-	-	65,257,128	
<b>Total Fund Balances</b>	<b>80,558,603</b>	<b>172,755,675</b>	<b>9,598,550</b>	<b>58,984,732</b>	<b>7,821,058</b>	<b>329,718,618</b>	
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 115,504,048</b>	<b>\$ 172,760,530</b>	<b>\$ 13,042,000</b>	<b>\$ 59,706,838</b>	<b>\$ 8,164,323</b>	<b>\$ 369,177,739</b>	

*See accompanying notes to the financial statements.*

**City of Valdez, Alaska**  
**Reconciliation of Governmental Funds Balance Sheet**  
**to Statement of Net Position**  
**December 31, 2015**

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Total fund balances for governmental funds		\$ 329,718,618
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	126,026,365	
Improvements other than buildings	138,979,662	
Equipment	25,652,419	
Construction in progress	34,832,615	
Accumulated depreciation	<u>(109,825,846)</u>	
Total capital assets		231,588,785
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	614,000	
Other accounts receivable	969,418	
Special assessments not yet due	6,102	
TAPS litigation settlement	<u>25,515,209</u>	
Total long-term assets		27,104,729
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.		
		1,703,585
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, including unamortized premium	(25,237,184)	
Accrued interest	(39,183)	
Loan payable	(598,340)	
Landfill closure costs	(5,415,446)	
Accrued leave	(1,292,225)	
Net pension liability and related deferred outflows and inflows	<u>(10,726,871)</u>	
Total long-term liabilities		<u>(43,309,249)</u>
<b>Total Net Position of Governmental Activities</b>		<b><u>\$ 546,806,468</u></b>

*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, 2015	Major Funds					Nonmajor Funds	Total Governmental Funds
	General Fund	Permanent Fund	Providence Valdez Medical Center Special Revenue Fund	General City Capital Project Fund			
<b>Revenues</b>							
Taxes	\$ 48,989,111	\$ -	\$ -	\$ 10,844	\$ -	\$ -	\$ 48,999,955
Licenses and permits	2,530	-	-	-	-	-	2,530
Fines and forfeitures	19,021	-	-	412	7,464	-	26,897
Charges for services	234,421	-	13,762,425	-	2,018,835	-	16,015,681
Sales and leases	435,702	-	-	-	926,576	-	1,362,278
Contributions and donations	28,524	-	-	-	-	-	28,524
Investment income	459,998	1,889,240	-	266,231	20,195	-	2,635,664
Other	117,294	12,274	122,000	-	119,585	-	371,153
Intergovernmental:							
State of Alaska	2,937,772	-	-	1,987,983	2,677,440	-	7,603,195
Federal sources	2,319,249	-	-	-	-	-	2,319,249
<b>Total Revenues</b>	<b>55,543,622</b>	<b>1,901,514</b>	<b>13,884,425</b>	<b>2,265,470</b>	<b>5,770,095</b>		<b>79,365,126</b>
<b>Expenditures</b>							
Current:							
General government	8,866,768	299,393	-	-	-	-	9,166,161
Public safety	5,469,450	-	-	-	-	-	5,469,450
Public works	5,848,154	-	-	-	-	-	5,848,154
Public service	3,849,578	-	-	-	-	-	3,849,578
Economic development	1,145,788	-	-	-	-	-	1,145,788
Port	-	-	-	-	786,089	-	786,089
Harbor	-	-	-	-	1,205,427	-	1,205,427
Utility	-	-	-	-	1,240,273	-	1,240,273
Airport	-	-	-	-	267,273	-	267,273
Museum	475,000	-	-	-	-	-	475,000
Education	11,457,161	-	-	-	-	-	11,457,161
Hospital and healthcare	258,643	-	12,196,000	-	654,615	-	13,109,258
Debt service:							
Principal	-	-	-	-	1,450,000	-	1,450,000
Interest	-	-	-	-	2,137,523	-	2,137,523
Bond issuance costs	-	-	-	155,250	-	-	155,250
Capital outlay	3,608,375	-	-	19,109,847	-	-	22,718,222
<b>Total Expenditures</b>	<b>40,978,917</b>	<b>299,393</b>	<b>12,196,000</b>	<b>19,265,097</b>	<b>7,741,200</b>		<b>80,480,607</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>14,564,705</b>	<b>1,602,121</b>	<b>1,688,425</b>	<b>(16,999,627)</b>	<b>(1,971,105)</b>		<b>(1,115,481)</b>
<b>Other Financing Sources (Uses)</b>							
Payment to bond escrow agent	-	-	-	-	(5,501,215)	-	(5,501,215)
Proceeds from loan drawdown	-	-	-	77,304	-	-	77,304
Bond issuance	-	-	-	17,920,000	-	-	17,920,000
Premium on bond issuance	-	-	-	2,237,184	-	-	2,237,184
Proceeds from sale of capital assets	208,603	-	-	-	-	-	208,603
Transfers in	3,702,824	-	-	27,301,002	8,786,078	-	39,789,904
Transfers out	(35,587,080)	(2,606,457)	(800,000)	-	(796,367)	-	(39,789,904)
<b>Net Other Financing Sources (Uses)</b>	<b>(31,675,653)</b>	<b>(2,606,457)</b>	<b>(800,000)</b>	<b>47,535,490</b>	<b>2,488,496</b>		<b>14,941,876</b>
<b>Net Change in Fund Balances</b>	<b>(17,110,948)</b>	<b>(1,004,336)</b>	<b>888,425</b>	<b>30,535,863</b>	<b>517,391</b>		<b>13,826,395</b>
<b>Fund Balances, beginning of year</b>	<b>97,669,551</b>	<b>173,760,011</b>	<b>8,710,125</b>	<b>28,448,869</b>	<b>7,303,667</b>		<b>315,892,223</b>
<b>Fund Balances, end of year</b>	<b>\$ 80,558,603</b>	<b>\$ 172,755,675</b>	<b>\$ 9,598,550</b>	<b>\$ 58,984,732</b>	<b>\$ 7,821,058</b>		<b>\$ 329,718,618</b>

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, 2015**

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Net change in fund balances - total governmental funds \$ 13,826,395

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	\$ 25,574,667	
Depreciation	<u>(9,361,613)</u>	
		16,213,054

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	(721,957)	
Accumulated depreciation of assets sold	<u>710,332</u>	
		(11,625)

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.

25,614,000

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	(17,997,304)	
Principal payments	1,450,000	
Payment to bond escrow agent	5,501,215	
Accrued interest decrease	2,934	
Change in bond premium and deferred loss	<u>(729,348)</u>	
		(11,772,503)

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		(5,368)
Decrease in long-term accrued leave payable		76,888
Net Increase in net pension liability and related deferred inflows and outflows		(1,574,743)

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.

1,336,376

**Change in Net Position of Governmental Activities**

**\$ 43,702,474**

*See accompanying notes to the financial statements.*

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

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*December 31, 2015*

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**Assets**

Cash and investments \$ 2,125,705

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**Total Assets** **\$ 2,125,705**

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**Liabilities and Net Position**

**Current Liabilities**

Claims payable \$ 422,120

**Net Position**

Unrestricted 1,703,585

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**Total Liabilities and Net Position** **\$ 2,125,705**

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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, 2015*

<b>Operating Revenues</b>	
Charges for services	\$ 5,731,466
<b>Operating Expenses</b>	
Contractual services	35,690
Insurance claims and administration	4,358,666
<b>Total Operating Expenses</b>	<b>4,394,356</b>
<b>Income from Operations</b>	<b>1,337,110</b>
<b>Nonoperating Revenues</b>	
Investment income (loss)	(734)
<b>Change in Net Position</b>	<b>1,336,376</b>
<b>Net Position, beginning of year</b>	<b>367,209</b>
<b>Net Position, end of year</b>	<b>\$ 1,703,585</b>

*See accompanying notes to the financial statements.*

**City of Valdez, Alaska**  
**Health Insurance Internal Service Fund**  
**Statement of Cash Flows**

*Year Ended December 31, 2015*

**Cash Flows from Operating Activities**

Receipts from other funds and component unit	\$ 5,732,693
Payment to suppliers	(35,690)
Payment for insurance claims and administration	(4,268,727)

**Net cash flows from operating activities** 1,428,276

**Cash Flows for Investing Activities**

Investment income (loss)	(734)
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**Net Increase in Cash and Cash Equivalents** 1,427,542

**Cash and Cash Equivalents, beginning of year** 698,163

**Cash and Cash Equivalents, end of year** \$ 2,125,705

**Reconciliation of Income from Operations to Net Cash**

**Flows from Operating Activities**

Income from operations	\$ 1,337,110
Adjustments to reconcile income from operations to net cash for from operating activities:	
Decrease in accounts receivable	1,227
Increase in claims payable	89,939

**Net Cash Flows from Operating Activities** \$ 1,428,276

*See accompanying notes to the financial statements.*

# City of Valdez, Alaska

## Notes to Basic Financial Statements December 31, 2015

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### 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 Basic Financial Statements

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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 compensate absences are recorded only to the extent they have matured.

# City of Valdez, Alaska

## Notes to Basic Financial Statements

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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 Basic Financial Statements

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### *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 Basic Financial Statements

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### *Accounts Receivable*

All accounts receivable 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 receivable 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 2015 tax levy; the property tax revenues include adjustments for collections of prior year levies as well as for amounts for the 2015 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, 2015 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 Basic Financial Statements

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### *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	10-100
Improvements other than buildings	3-100
Machinery and equipment	3-50

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### *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.

### *Pensions*

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

# City of Valdez, Alaska

## Notes to Basic Financial Statements

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### *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.

*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.

### *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 Basic 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, 2015.

	Book Balance	Bank Balance
Bank deposits and petty cash	\$ 21,476,811	\$ 22,197,761
Investments	308,144,535	308,144,916
Restricted cash and investments	2,321,848	2,321,848
<b>Total</b>	<b>\$ 331,943,194</b>	<b>\$ 332,664,525</b>
Cash and investments	\$ 320,764,316	
Restricted cash and investments:		
Unspent bond proceeds	10,979,247	
Debt reserve accounts	199,631	
<b>Total</b>	<b>\$ 331,943,194</b>	

In the normal course of business, the City may issue general obligation bonds to fund various capital projects. At December 31, 2015, \$10,979,247 of bonds remain unspent and are restricted for their bond issuance purpose (namely school construction and harbor improvements). Also included in the general investment balance is a total of \$199,631 which is being held in an irrevocable trust account pledged for future bond payments and required reserves. These items are reported as restricted cash and investments.

Cash and investments are further categorized as follows:

	Bank Deposits and Petty Cash	Investments	Total
Unrestricted cash and investments	\$ 19,961,442	\$ 128,340,535	\$ 148,301,977
Restricted cash and investments	-	11,178,878	11,178,878
General cash and investments	19,961,442	139,519,413	159,480,855
Permanent fund	1,515,369	170,946,970	172,462,339
<b>Total Cash and Investments</b>	<b>\$ 21,476,811</b>	<b>\$ 310,466,383</b>	<b>\$ 331,943,194</b>

# City of Valdez, Alaska

## Notes to Basic 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, 2015 are as follows:

<i>Investment Type</i>	Fair Value	Investment Maturities (in years)	
		Less than 1	1-5
Cash and cash equivalents	\$ 5,874,424	\$ -	\$ -
US treasuries	106,431,252	17,837,404	88,593,848
US agencies	14,785,849	-	14,785,849
Corporate bonds	1,756,458	-	1,756,458
Local government investment pool (AMLIP)	10,671,430	10,671,430	-
<b>Total General Investments</b>	<b>\$ 139,519,413</b>	<b>\$ 28,508,834</b>	<b>\$ 105,136,155</b>

#### *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 US Treasury bonds are rated AA+ by Standard & Poor's. US Agency bonds are rated AA to AA+ by Standard and 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 \$10,671,430 represent 7.6% of the total general investments. The AMLIP is an external investment pool 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. Separately issued financial statements for AMLIP may be obtained by contacting the sponsor at 212 Second Street, Suite 200, Juneau, AK 99801. A portion of the general cash pool represent bond proceeds and are subject to arbitrage yield restrictions.

#### *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, 2015 the City did not have any investments in international debt obligations or equity mutual funds and was therefore not subject to Foreign Currency Risk.

# City of Valdez, Alaska

## Notes to Basic Financial Statements

### *Permanent Fund Investments*

The Permanent Fund is reporting \$172,462,339 in cash and investments at December 31, 2015. Of this amount, \$1,515,369 is equity in the central treasury (cash and demand amounts). The remaining amount, \$170,946,970 is held in investment accounts as noted below.

### *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 2015, the target allocation was 35% fixed income, 29% domestic equity, 21% international equities, 5% treasury inflation protected securities, 10% real estate and 0% cash and equivalents. A range of plus or minus 5% for the fixed income and domestic equity classes, a range of plus or minus 3% for the international equity and real estate classes and a range of 2% for treasury inflation protected securities 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, 2015 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	\$ 1,607,672	\$ -	\$ -	\$ -	\$ -
US treasuries	16,383,459	-	11,537,692	2,943,339	1,902,428
US agencies	7,128,796	1,146	2,442,746	2,682,075	2,002,829
Municipal bonds	502,035	-	502,035	-	-
Corporate bonds	14,942,056	1,201,079	8,732,107	2,724,294	2,284,576
International debt obligations	18,987,502	-	-	18,987,502	-
MBS/ABS	826,574	-	-	-	826,574
TIPS	8,788,604	-	-	8,788,604	-
Domestic equity funds	52,929,893				
International equity funds	34,876,203				
Real estate	13,974,176				
<b>Total Permanent Fund</b>	<b>\$ 170,946,970</b>	<b>\$ 1,202,225</b>	<b>\$ 23,214,580</b>	<b>\$ 36,125,814</b>	<b>\$ 7,016,407</b>

# City of Valdez, Alaska

## Notes to Basic Financial Statements

As of December 31, 2015, an actual asset allocation to target allocation is presented below. All categories fell within the allowable range at December 31, 2015.

<i>Investment Class</i>	Actual vs. Target Allocation				% out of Policy Range
	Actual \$	% Actual	% Target	Difference	
Domestic equity	\$ 52,929,893	30.96%	30%	0.96%	na
International equity	34,876,203	20.40%	23%	-2.60%	na
Fixed income	58,770,422	34.38%	33%	1.38%	na
TIPS	8,788,604	5.14%	6%	-0.86%	na
Real estate	13,974,176	8.17%	8%	0.17%	na
Cash equivalents	1,607,672	.94%	0%	0.94%	na
<b>Total</b>	<b>\$ 170,946,970</b>	<b>100%</b>	<b>100%</b>	<b>0.0%</b>	<b>na</b>

### *Credit Risk*

<i>Investment Type</i>	Credit Quality Ratings			
	Fair Value	Standard and Poor's		Moody's (Not Rated by S&P)
		AAA to A	BBB+ to BBB-	Aaa
US Treasuries	\$ 16,383,459	\$ 16,383,459	\$ -	-
US Agencies	7,128,796	7,128,796	-	-
Municipal bonds	502,035	502,035	-	-
Corporate bonds	14,942,056	8,583,345	5,522,409	836,302
International debt obligations	18,987,502	18,987,502	-	-
MBS/ABS	826,574	409,778	-	416,796
TIPS	8,788,604	8,788,604	-	-
Investments not subject to credit risk	103,387,944	-	-	-
<b>Total</b>	<b>\$ 170,946,970</b>	<b>\$ 60,783,519</b>	<b>\$ 5,522,409</b>	<b>\$ 1,253,098</b>

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, \$67,559,025 or 40% is considered subject to credit risk.

# City of Valdez, Alaska

## Notes to Basic 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 2015 at \$13,974,176 (\$10,602.56 unit value times 1,318 units = \$13,974,176). 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*

The Permanent Fund investment policy states the "no fixed income security shall exceed 5% of the market value of the portfolio, with the exception of US government and agency securities". As of December 31, 2015, no single issuer or security, with the exception of the US Treasury Department and various US governmental agencies, exceeded 5% of the Permanent Fund's holdings. While not rated for credit default risk, the specific nature of the private real estate investment trust in the amount of \$13,974,176 (8.2%) 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, 2015, a total of \$53,863,705 (32%) 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, 2015 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 Funds	Totals
Property taxes	\$ 535,471	\$ -	\$ -	\$ -	\$ -	535,471
TAPS litigation settlement	32,823,709	-	-	-	-	32,823,709
Grants and shared revenues	6,620	-	-	803,624	873,447	1,683,691
Accounts and assessments	314,887	-	2,623,000	78,529	161,424	3,177,840
Accrued interest	63,018	298,191	-	106,764	11,778	479,751
<b>Total receivables</b>	<b>33,743,705</b>	<b>298,191</b>	<b>2,623,000</b>	<b>988,917</b>	<b>1,046,649</b>	<b>38,700,462</b>
Less allowance for uncollectible accounts	-	-	(442,000)	-	-	(442,000)
<b>Net Receivables</b>	<b>\$ 33,743,705</b>	<b>\$ 298,191</b>	<b>\$ 2,181,000</b>	<b>\$ 988,917</b>	<b>\$ 1,046,649</b>	<b>\$ 38,258,462</b>

# City of Valdez, Alaska

## Notes to Basic 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, 2015, the various components of *deferred inflows and unearned revenues* reported in the governmental funds were as follows:

	Deferred Inflows	Unearned Revenue
Delinquent property taxes receivable (General Fund)	\$ 535,471	\$ -
TAPS litigation settlement (General Fund)	25,515,209	-
Special assessments not yet due (General Fund)	6,102	-
Special assessments not yet due (General City Capital Project Fund)	78,529	-
Prepaid property taxes	24,986	-
Delinquent accounts receivable (Medical Center)	924,450	-
Delinquent accounts receivable (Counseling Center)	44,968	-
Services paid in advance	-	64,985
Grant draw downs prior to meeting all eligibility requirements (General Fund and Special Revenue Funds)	-	14,332
<b>Total Deferred Inflows and Unearned Revenues for Governmental Funds</b>	<b>\$ 27,129,715</b>	<b>\$ 79,317</b>

### 4. Inter-Fund Transfers

Transfers between funds for the year ended December 31, 2015, consisted of the following:

#### *Transfers*

From General Fund to:		
General City Capital Project Fund	\$	26,801,002
Debt Service Fund		7,328,076
Nonmajor governmental funds		1,458,002
From Permanent Fund to General Fund		2,606,457
From Providence Valdez Medical Center Special Revenue Fund to:		
General Fund		300,000
General City Capital Project Fund		500,000
From nonmajor governmental funds to General Fund		796,367
<b>Total Transfers to Other Funds</b>	<b>\$</b>	<b>39,789,904</b>

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

# City of Valdez, Alaska

## Notes to Basic Financial Statements

### 5. Capital Assets

Capital asset activity for the year ended December 31, 2015 was as follows:

<i>Governmental Activities</i>	Balance January 1, 2015	Additions	Deletions	Balance December 31, 2015
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 15,923,570	\$ -	-	\$ 15,923,570
Construction in progress	26,031,661	22,718,222	(13,917,268)	34,832,615
<b>Total assets not being depreciated</b>	<b>41,955,231</b>	<b>22,718,222</b>	<b>(13,917,268)</b>	<b>50,756,185</b>
<i>Capital assets being depreciated:</i>				
Buildings	117,680,223	8,346,142	-	126,026,365
Improvements other than buildings	131,736,062	7,243,600	-	138,979,662
Equipment	25,190,405	1,183,971	(721,957)	25,652,419
<b>Total assets being depreciated</b>	<b>274,606,690</b>	<b>16,773,713</b>	<b>(721,957)</b>	<b>290,658,446</b>
Less accumulated depreciation for:				
Buildings	19,787,465	4,404,632	-	24,192,097
Improvements other than buildings	67,214,047	3,680,186	-	70,894,233
Equipment	14,173,053	1,276,795	(710,332)	14,739,516
<b>Total accumulated depreciation</b>	<b>101,174,565</b>	<b>9,361,613</b>	<b>(710,332)</b>	<b>109,825,846</b>
<b>Total capital assets being depreciated, net</b>	<b>173,432,125</b>	<b>7,412,100</b>	<b>(11,625)</b>	<b>180,832,600</b>
<b>Governmental Activities Capital Assets, net</b>	<b>\$ 215,387,356</b>	<b>\$ 30,130,322</b>	<b>\$ (13,928,893)</b>	<b>\$ 231,588,785</b>

# City of Valdez, Alaska

## Notes to Basic Financial Statements

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Depreciation expense was charged to the functions of the City as follows for the year ended December 31, 2015:

### *Governmental Activities*

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General government	\$	666,180
Public safety		338,274
Public works		909,414
Public service		525,126
Economic development		3,584
Port		1,680,923
Harbor		785,317
Utility		939,392
Airport		52,716
Education		3,205,933
Hospital and health care		254,754

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<b>Total Depreciation Expense - Governmental Activities</b>	<b>\$</b>	<b>9,361,613</b>
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## 6. Long-term Debt

### *New Issuance*

In 2015 the City issued \$17,920,000 in General Obligation Bonds for the purpose of funding the Harbor Expansion Project. The bonds were issued with a premium of \$2,237,184 and bear interest at 2% to 5% through 2035. The bonds have a call option in 2025.

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, 2015, the City had incurred \$598,340 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 began a structured series of "economic defeasances" on a portion of these bonds. In 2013, the City deposited \$18,400,079 into an irrevocable trust for the purpose of making the required debt service payments in the later years. In 2014, the City paid in an additional \$7,651,808 to defease an additional amount. In 2015, the City made yet another payment into escrow in the amount of \$5,501,215.

In aggregate, the City paid in \$31,553,102 to defease a total of \$28,200,000 in outstanding principal plus the associated interest payments. The terms of the arrangement meet the recognition criteria as an in-substance defeasance; therefore both 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, 2015, after adjusting for premiums and prior deferrals, no unamortized premium or deferred gain/loss remains outstanding on this bond. The City will continue to make the regularly scheduled principal and interest payments through 2017. At that point, the escrow account will take over and make all future required payments.

# City of Valdez, Alaska

## Notes to Basic Financial Statements

At December 31, 2015 the defeased bonds outstanding with the escrow agent was \$28,200,000.

A summary of changes in long-term debt for the year ended December 31, 2015 follows:

<i>Governmental Activities</i>	Balance January 1, 2015	Additions	Reductions	Balance December 31, 2015	Due Within One Year
General obligation bonds:					
\$1,645,000 2012 Series Two Harbor Bonds, due in semi-annual installments of \$140,000 to \$195,000, plus interest at 4.0% to 5.0% through September 2024	\$ 1,635,000	-	\$ 130,000	\$ 1,505,000	\$ 140,000
\$1,095,000 2012 Series Two School Bonds, due in semi-annual installments of \$95,000 to \$125,000, plus interest at 2.0% to 5.0% through September 2024	1,090,000	-	90,000	1,000,000	95,000
\$33,865,000 Series 2012 School Bonds, due in semi-annual installments of \$1,270,000 to \$1,305,000, plus interest at 2.0% to 5.0% through June 2017 (amounts are reported net of defeased balance)	6,545,000	-	3,970,000	2,575,000	1,270,000
\$17,920,000 Series 2015 Harbor Bonds, due in annual installments of \$630,000 to \$1,340,000, plus semi-annual interest at 2.0% to 5.0% through June 2035	-	17,920,000	-	17,920,000	630,000
Unamortized premium on bonds	1,550,480	2,237,184	1,550,480	2,237,184	-
Clean Water Loan: \$1,230,675 maximum loan amount bearing interest at 1.5%, payment terms not yet established	521,036	77,304	-	598,340	-
Landfill closure and post-closure monitoring costs	5,410,078	5,368	-	5,415,446	-
Accrued leave	1,369,113	859,466	936,354	1,292,225	750,000
Net pension liability, restated	8,614,538	3,623,837	-	12,238,375	-
<b>Totals</b>	<b>\$ 26,735,245</b>	<b>\$ 24,723,159</b>	<b>\$ 6,676,834</b>	<b>\$ 44,781,570</b>	<b>\$ 2,885,000</b>

# City of Valdez, Alaska

## Notes to Basic Financial Statements

Annual debt service requirements to maturity for the bonds follow:

<i>Year Ending December 31,</i>	General Obligation Bonds		
	Principal	Interest	Total
2016	\$ 2,135,000	\$ 2,252,950	\$ 4,387,950
2017	2,195,000	1,874,736	4,069,736
2018	915,000	841,800	1,756,800
2019	935,000	815,550	1,750,550
2020	955,000	785,400	1,740,400
2021-2025	5,015,000	3,316,050	8,331,050
2026-2030	4,765,000	2,140,625	6,905,625
2031-2035	6,085,000	790,625	6,875,625
	\$ 23,000,000	\$ 12,817,736	\$ 35,817,736

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.

### 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 \$8,212,393 and \$1,633,873, respectively. To date, the City estimates that the both landfills are approximately 55% full, representing a currently reported long-term liability of \$4,516,816 and \$898,630, respectively.

The City will recognize the remaining estimated cost of closure and post closure care of \$4,430,820 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 2015. 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 16 years. The remaining life of the construction pit is estimated to be approximately 53 years.

At December 31, 2015, 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 Transactions

The City of Valdez made payments to the following related parties during the year ended December 31, 2015:

Valdez City Schools	\$	10,707,990
Valdez Museum and Historical Archive Association, Inc.	\$	425,000

# City of Valdez, Alaska

## Notes to Basic 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	\$ 197,824	\$ -	\$ -	\$ -	\$ 72,964	\$ 270,788
Restricted:						
Permanent Fund	-	172,755,675	-	-	-	172,755,675
Bond reserve	-	-	-	-	199,631	199,631
Capital acquisitions	-	-	58,000	10,979,247	-	11,037,247
<b>Total restricted</b>	<b>-</b>	<b>172,755,675</b>	<b>58,000</b>	<b>10,979,247</b>	<b>199,631</b>	<b>183,992,553</b>
Committed:						
Consulting and contracts	273,216	-	-	-	-	273,216
Construction	-	-	-	9,911,031	-	9,911,031
<b>Total committed</b>	<b>273,216</b>	<b>-</b>	<b>-</b>	<b>9,911,031</b>	<b>-</b>	<b>10,184,247</b>
Assigned:						
Capital and capital reserves	12,654,511	-	-	38,094,454	-	50,748,965
Subsequent year expenditures	1,686,826	-	-	-	-	1,686,826
Consulting and contracts	489,098	-	-	-	-	489,098
Hospital and healthcare	-	-	9,540,550	-	656,517	10,197,067
Debt service	-	-	-	-	1,565,105	1,565,105
Port	-	-	-	-	1,222,702	1,222,702
Harbor	-	-	-	-	1,750,586	1,750,586
Utility	-	-	-	-	1,684,507	1,684,507
Airport	-	-	-	-	669,046	669,046
<b>Total assigned</b>	<b>14,830,435</b>	<b>-</b>	<b>9,540,550</b>	<b>38,094,454</b>	<b>7,548,463</b>	<b>70,013,902</b>
Unassigned	65,257,128	-	-	-	-	65,257,128
<b>Total Fund Balances</b>	<b>\$ 80,558,603</b>	<b>\$ 172,755,675</b>	<b>\$ 9,598,550</b>	<b>\$ 58,984,732</b>	<b>\$ 7,821,058</b>	<b>\$ 329,718,618</b>

# City of Valdez, Alaska

## Notes to Basic Financial Statements

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### 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 September 30, 2016. 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, 2015 through December 31, 2019, with an option to extend another five years.

### 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 \$77,000 for the year ended December 31, 2015.

The following are the components of net patient service revenues for the Medical Center for the year ended December 31, 2015:

	Medical Center
Patient service charges	\$ 15,746,000
Less adjustments to patient service charges:	
Charity	(546,000)
Contractual discounts	(1,068,000)
Provision for uncollectible accounts	(480,000)
Total adjustments to patient service charges	(2,094,000)
Net patient service revenues - full accrual	13,652,000
Adjustment to modified accrual	110,425
<b>Net Patient Service Revenues - modified accrual</b>	<b>\$ 13,762,425</b>

# City of Valdez, Alaska

## Notes to Basic Financial Statements

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The mix of net patient charges for the year ended December 31, 2015 from significant third-party payers were as follows:

	Counseling Center	Medical Center
Medicare	1%	25%
Medicaid	12	25
Commercial and other insurance	87	50
<b>Total</b>	<b>100%</b>	<b>100%</b>

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### *Operating Leases*

The Counseling Center and the Medical Center lease various medical and office equipment under operating leases that expire in the next five years, generally with no renewal or purchase options. Rental expense for all operating leases was approximately \$69,000 (Counseling Center) and \$66,000 (Medical Center) for the year ended December 31, 2015.

The following is a schedule by year of future minimum lease payments under noncancelable operating leases, as of December 31, 2015, that have initial or remaining lease terms in excess of one year:

<i>Year Ending December 31,</i>		Medical Center
2016	\$	55,000
2017		43,000
2018		41,000
2019		21,000
	\$	160,000

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### *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, which could result in the imposition of significant fines and penalties, as well as repayment of patient services previously billed.

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.

# City of Valdez, Alaska

## Notes to Basic Financial Statements

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### *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, 2015 was approximately \$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, 2015 was approximately \$549,000 (Medical Center).

The total payable to the Corporation by the Medical Center and Counseling Center at December 31, 2015 was \$1,681,000 and \$28,000, respectively.

#### *(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, 2015.

#### *(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, 2015 was \$29,000 (Counseling Center) and \$415,000 (Medical Center).

## 12. Defined Benefit (DB) Pension Plan

### General Information About the Plan

The City participates in the Alaska 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. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

The Plan is included in a comprehensive annual financial report that includes financial statements and other required supplemental information. That report is available via the internet at <http://doa.alaska.gov/drb/pers>. Actuarial valuation reports, audited financial statements, and other detailed plan information are also available on this website.

The Plan provides for retirement, death and disability, and post-employment health care benefits. There are three tiers of employees, based on entry date. For all tiers within the Defined Benefit (DB) plan, full retirement benefits are generally calculated using a formula comprised of a multiplier times the average monthly salary (AMS) times the number of years of service. The multiplier is increased at longevity milestone markers for most employees. Police/Fire employees accrue benefits at an accelerated rate. The tiers within the Plan establish differing criteria regarding normal retirement age, early retirement age, and the criteria for calculation of AMS, COLA adjustments, and other OPEB benefits. A complete benefit comparison chart is available at the website noted above.

# City of Valdez, Alaska

## Notes to Basic Financial Statements

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The PERS DB Plan was closed to new entrants effective June 30, 2006. New employees hired after that date participate in the PERS Defined Contribution (DC) Plan described later in these notes.

### *Historical Context and Special Funding Situation*

In April 2008, the Alaska Legislature passed legislation converting the previously existing PERS plan from an agent-multiple employer plan to a cost-sharing plan with an effective date of July 1, 2008. In connection with this conversion, the State of Alaska passed additional legislation which statutorily capped the employer contribution rate, established a state funded "on-behalf" contribution (subject to funding availability), and required that employer contributions be calculated against *all* PERS eligible wages, including wages paid to participants of the PERS Tier IV defined contribution plan described later in these notes.

Alaska Statute 39.35.255 requires the State of Alaska to contribute to the Plan an amount such that, when combined with the employer contribution, is sufficient to pay the Plan's past service liability contribution rate as adopted by the Alaska Retirement Management Board.

Although current statutes call for the State of Alaska to contribute to the Plan, the Alaska Department of Law determined that the statute does not create a legal obligation to assume the liabilities of the Plan; rather it establishes a contribution mechanism to provide employer relief against the rising contribution rates. This relief payment is subject to funding availability, and therefore not legally mandated. As a result, the State initially determined that the Plan is *not* in a special funding situation. Following much discussion with various stakeholders, participant communities, attorneys, auditors, and the GASB itself, the State has subsequently reversed its position on this matter, and as of June 30, 2015, the State did record the liability presuming that the current statute does constitute a special funding situation as the legislation is currently written. It is important to note that the Alaska Legislature has the power and authority to change the aforementioned statute through the legislative process, and it is likely that the State will pursue efforts to do so in a future legislative session.

For the current year financial statements, management has treated AS 39.35.255 as constituting a special funding situation under GASB 68 rules and has recorded all pension related liabilities, deferred inflows/outflows, and disclosures on this basis.

The City records these on-behalf contributions as revenue and expense/expenditures as dictated by the governing GAAP for each basis of accounting depending on fund type.

### *Employee Contribution Rates*

Regular employees are required to contribute 6.75% of their annual covered salary. Police and firefighters are required to contribute 7.5% of their annual covered salary.

### *Employer and Other Contribution Rates*

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

*Employer Effective Rate:* This is the contractual employer pay-in rate. Under current legislation, this rate is statutorily capped at 22% of eligible wages, subject to a wage floor, and other termination events. This 22% rate is calculated on *all* PERS participating wages, including those wages attributable to employees in the defined contribution plan. Contributions derived from the defined contribution employees are referred to as the Defined Benefit Unfunded Liability or DBUL contribution.

# City of Valdez, Alaska

## Notes to Basic Financial Statements

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

**On-behalf Contribution Rate:** This is the rate paid in by the State as an on-behalf payment under the current statute. The statute requires the State to contribute, based on funding availability, an on-behalf amount equal to the difference between the ARM Board Rate and the Employer Effective Rate. However, in state fiscal year 2015, the State Legislature appropriated a one-time contribution to the Plan in the amount of \$1 billion. As a result, the On-behalf Contribution Rate for State Fiscal Year 2015 (July 1, 2014 - June 30, 2015) significantly exceeds the statutory amount. In the governmental fund financial statements, on-behalf contribution amounts have been recognized as additional revenues and expenditures. On the government-wide financial statements, the on-behalf amounts are included in revenue and expense only to the extent they are applicable to the measurement period.

**GASB 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. Additionally, the GASB Rate disregards all future Medicare Part D payments. For FY15, the rate uses an 8.00% pension discount rate and a 4.90% healthcare discount rate.

The GASB Rate and the ARM Board Adopted Rate differ significantly as a direct result of variances in the actuarial methods and assumptions used.

Contribution rates for the years ended June 30, 2015 and June 30, 2016 were determined in the June 30, 2012 and June 30, 2013 actuarial valuations, respectively. City contribution rates for the 2015 calendar year were as follows:

<i>January 1, 2015 to June 30, 2015</i>	Employer Effective Rate	ARM Board Adopted Rate	State Contribution Rate	GASB Rate
Pension	12.54%	25.09%	42.41%	33.05%
Postemployment healthcare (see Note 14)	9.46%	18.94%	- %	55.07%
<b>Total Contribution Rates</b>	<b>22.00%</b>	<b>44.03%</b>	<b>42.41%</b>	<b>88.12%</b>
<i>July 1, 2015 to December 31, 2015</i>	Employer Effective Rate	ARM Board Adopted Rate	State Contribution Rate	GASB Rate
Pension	13.25%	16.38%	3.63%	37.79%
Postemployment healthcare (see Note 14)	8.75%	10.81%	1.56%	58.73%
<b>Total Contribution Rates</b>	<b>22.00%</b>	<b>27.19%</b>	<b>5.19%</b>	<b>96.52%</b>

# City of Valdez, Alaska

## Notes to Basic Financial Statements

In 2015, the City was credited with the following contributions into the pension plan.

	Measurement Period	City Fiscal Year
	July 1, 2014	January 1, 2015
	to	to
	June 30, 2015	December 31, 2015
Employer contributions (including DBUL)	\$ 568,171	\$ 327,732
Nonemployer contributions (on-behalf)	3,570,479	2,105,569
<b>Total Contributions</b>	<b>\$ 4,138,650</b>	<b>\$ 2,433,301</b>

In addition, employee contributions to the Plan totaled \$275,351 during the City's fiscal year.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At December 31, 2015, the City reported a liability for its proportionate share of the net pension liability (NPL) that reflected a reduction for State pension support provided to the City. The amount recognized by the City for its proportional share, the related State proportion, and the total were as follows:

	2015
City proportionate share of NPL	\$ 12,238,375
State's proportionate share of NPL associated with the City	3,277,702
<b>Total Net Pension Liability</b>	<b>\$ 15,516,077</b>

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2105 to calculate the net pension liability as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, including the State, actuarially determined. At the June 30, 2015 measurement date, the City's proportion was 0.25234 percent, which was an increase of 0.067643 from its proportion measured as of June 30, 2014.

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# City of Valdez, Alaska

## Notes to Basic Financial Statements

For the year ended December 31, 2015, the City recognized pension expense of \$2,773,353. Of this amount, \$452,640 was recorded as on-behalf revenue and expense for additional contributions paid by the State. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 14,265	\$ -
Changes in assumptions	715,590	-
Net difference between projected and actual earnings on pension plan investments	-	(216,670)
Changes in proportion and differences between City contributions and proportionate share of contributions	641,269	-
City contributions subsequent to the measurement date	357,050	-
<b>Total Deferred Outflows and Deferred Inflows Related to Pensions</b>	<b>\$ 1,728,174</b>	<b>\$ (216,670)</b>

The \$357,050 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

*Year Ending December 31,*

2016	\$ 1,109,111
2017	(16,292)
2018	(139,152)
2019	200,787
<b>Total Amortization</b>	<b>\$ 1,154,454</b>

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# City of Valdez, Alaska

## Notes to Basic Financial Statements

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### *Actuarial Assumptions*

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement period, and rolled forward to the measurement date of June 30, 2015. The actuarial valuation for the year ended June 30, 2014 (latest available) was prepared by Buck Consultants. The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2005 to June 30, 2009, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect expected future experience.

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Inflation	3.12%
Salary Increases	Graded by service, from 9.66% to 4.92% for Peace Officers/Firefighters. Graded by age and service, from 8.55% to 4.34% for all others.
Investment Return / Discount Rate	8.00% net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and real rate of return over 4.88%.
Mortality	Rates based on the 1994 Group Annuity Mortality Table, sex distinct, 1994 Base year without margin projected to 2013 using Projection Scale AA, 80% of the male table and 60% of the female table for pre-termination mortality for Peace officers/fire fighters. 75% for male and 55% for female for pre-termination for all others; and 100% for males and 1-year set-forward for females for post-termination.

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The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The best estimates of arithmetic real rates of return for each major asset class are summarized in the following table (note that the rates shown below exclude the inflation component):

<i>Asset Class</i>	Long-term Expected Real Rate of Return
Domestic equity	5.35%
Global equity (non-US)	5.55%
Private equity	6.25%
Fixed income composite	0.80%
Real estate	3.65%
Alternative equity	4.70%

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# City of Valdez, Alaska

## Notes to Basic Financial Statements

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### *Discount Rate*

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that Employer and State contributions will continue to follow the current funding policy which meets State statutes. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### *Discount Rate Sensitivity*

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 8.00 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00 percent) or 1-percentage-point higher (9.00 percent) than the current rate:

	Proportional Share	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	0.25234%	\$ 16,269,883	\$ 12,238,375	\$ 8,844,262

### *Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

## 13. Defined Contribution (DC) Pension Plan

Employees hired after July 1, 2006 participate in PERS Tier IV, a defined contribution plan. This Plan is administered by the State of Alaska, Department of Administration in conjunction with the defined benefit plan noted above. 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. This Plan is included in the comprehensive annual financial report for PERS, and at the following website, as noted above. <http://doa.alaska.gov/drb/pers>.

Contributions to the DC plan consist solely of employer and employee contributions with no special funding or other nonemployer contributions. In addition, actual remittances to the PERS system require that the City contribute at 22%. After deducting the DC plan contributions (and related OPEB contributions), the remaining remittance (the DBUL) is deposited into the DB plan as noted earlier.

# City of Valdez, Alaska

## Notes to Basic Financial Statements

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### *Benefit Terms*

Employees are immediately vested in their own contributions and vest 25% with two years of service, plus an additional 25% per year thereafter for full vesting at five years of service.

### *Employee Contribution Rate*

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

### *Employer Contribution Rate*

For the year ended December 31, 2015, the City was required to contribute 5% of covered salary into the Plan.

The City and employee contributions to PERS for pensions for the year ended December 31, 2015 were \$195,797 and \$313,275, respectively. The City contribution amount was recognized as pension expense/expenditures.

## **14. Other Post-Employment Benefit (OPEB) Plans**

### *Defined Benefit OPEB*

As part of its participation in the PERS DB Plan (Tiers I, II, III), the City participates in the Alaska Retiree Healthcare Trust (ARHCT). The ARHCT is self-funded and provides major medical coverage to retirees of the System. Benefits vary by Tier level. The Plan is administered by the State of Alaska, Department of Administration. Employer contribution rates are established in concert with the Defined Benefit Pension Plan described earlier in these notes.

### *Employer Contribution Rate*

For the six months ended June 30, 2015, the City was required to contribute 9.46% of covered payroll into the OPEB plan. That rate changed to 8.75% of covered payroll as of July 1, 2015. Employees do not contribute.

### *Annual Postemployment Healthcare Cost*

Actual contributions into the Plan for the last three years were as follows. The amounts reported here include only the employer required contributions and do not include any amounts attributed to the on-behalf contributions by the State. On-behalf contributions to the OPEB Plan in 2015, 2014, and 2013 were \$60,564, \$259,985 and \$448,159, respectively.

<i>Year Ended December 31,</i>	Annual OPEB Costs	City Contributions	% of Costs Contributed
2015	\$ 550,158	\$ 550,158	100 %
2014	633,568	633,568	100 %
2013	752,559	752,559	100 %

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# City of Valdez, Alaska

## Notes to Basic Financial Statements

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### *Defined Contribution OPEB*

Defined Contribution Pension Plan participants (PERS Tier IV) participate in the Occupational Death and Disability Plan (ODD), and the Retiree Medical Plan. Information on these plans is included in the comprehensive annual financial report for the PERS Plan noted above. These plans provide for death, disability, and post-employment health care benefits.

### *Employer Contribution Rates*

Employees do not contribute to the DC OPEB plans. Employer contribution rates for the year ended December 31, 2015 were as follows:

	Other Tier IV	Police/Fire Tier IV
Retiree medical plan	1.66%	1.66%
Occupational death and disability benefits	0.22%	1.06%
<b>Total Contribution Rates</b>	<b>1.88%</b>	<b>2.72%</b>

In addition, PERS defined contribution members also participate in 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.

### *Annual Postemployment Healthcare Cost*

In 2015, the City contributed \$205,038 in DC OPEB costs. These amounts have been recognized as expense/expenditures.

## 15. 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 2014 and 2015 are as follows:

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
2015 claims and changes in estimates	4,358,666
2015 claims paid	(4,268,727)
Claims Payable, December 31, 2015	\$ 422,120

# City of Valdez, Alaska

## Notes to Basic Financial Statements

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### 16. 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, 2015. Coverage limits and the deductibles on the policies have stayed relatively constant for the past few years.

### 17. 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. There has been limited activity in the last few years.

### 18. Contingencies

From time to time, and in the normal course of business, the City is involved in numerous legal and administrative actions. Final resolutions of these actions cannot be determined at this time. Management does not believe any of these items represents a material risk of loss to the City.

# City of Valdez, Alaska

## Notes to Basic Financial Statements

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### 19. Subsequent Event

The City has been engaged in ongoing litigation regarding the assessment of the Trans-Alaska Pipeline System (TAPS) since 2006. The City has also been involved in related litigation against the State regarding the application of the municipal tax cap since 2012. Subsequent to year end, the various parties reached final settlement agreements that resolve all the pending court cases and provide a mechanism to avoid further litigation over the next five years.

The City was 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 was 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. A settlement agreement regarding the assessment of TAPS for tax years 2007 through 2015 was entered into, providing that the tax values and payments for all prior tax years will remain as is, with no additional payments or refunds.

A settlement agreement regarding the assessment of TAPS for tax years 2016 through 2020 was entered into, providing for an agreed-upon tax payment from the TAPS Owners to the City for each tax year from 2016 through 2020 based on an \$8 billion TAPS assessment, during which time any appeal by the owners should be limited to achieving the benefit of the negotiated bargain unless the agreement is terminated.

The City was also 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. A settlement agreement was entered into, providing for payment from the City to the State of \$7.3 million and the restriction of an additional \$41.4 million of the funds in dispute to use for debt service only, in exchange for the State releasing all of its actual or potential claims for any further funds from tax years 2006 through 2015, and reviewing its tax cap policies going forward.

As a result of the settlements, at December 31, 2015 the City has recognized a TAPS litigation receivable in the amount of \$32,823,709 representing the amount of cash held in Escrow by the Alaska Court System (as of February 2016). The City has also recognized a \$7,308,500 payable related to the litigation settlement. Because the settlement terms and cash was not collected within 60 days of year end, and because the underlying revenue stream related to the settlement was tax revenue, the City has also recorded a deferred inflow (unavailable litigation settlement revenue) in the General Fund. For the government-wide financial statements, the net receivable and revenue has been reflected as TAPS litigation revenue.

Finally, in connection with the \$41 million restriction for debt service, the City asserts that the funds placed in escrow for defeasance of the 2012 School bonds, approximately \$31 million, meet the restriction criteria set out by the settlement. As a result, on the government-wide financial statements, only \$9.8 million remains reported as restricted net position and is identified as TAPS litigation debt service restriction.

# City of Valdez, Alaska

## Notes to Basic Financial Statements

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### 20. Change in Accounting Principle

As discussed in Note 12 to the financial statements, the City participates in the Alaska Public Employees Retirement System (PERS) plan. In 2015 the City adopted the provisions of GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*, which, among other accounting and reporting criteria, requires the City to recognize its proportional share of the Net Pension Liability (and related deferred inflow/outflow accounts), as of the beginning of the City's fiscal year. As a result of the implementation of this statement, the City has recorded an opening balance adjustment to reflect opening balance pension liabilities and related accounts and to decrease opening net position as follows:

	Opening Net Position, as Originally Presented	Change in Accounting Principle Adjustment	Opening Net Position, as Restated
Governmental Activities	\$ 512,256,122	\$ (9,152,128)	\$ 503,103,994
Valdez City Schools	\$ 1,731,973	\$ (7,010,042)	\$ (5,278,069)

### 21. 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 75 will result in the biggest reporting change. However, actual impacts have not yet been determined.

*GASB 72 - Fair Value Measurement and Application* - 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. This statement is expected to primarily affect investment disclosures.

*GASB 73 - Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* - This statement contains certain clarifications and amendments to GASB 67 and 68 as well as establishing requirements for both defined benefit and defined contribution pension plans not within the scope of GASB 68. Effective for fiscal year-end December 31, 2016—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for financial statements for year-end December 31, 2017, with earlier application encouraged.

*GASB 74 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* - Effective for year-end December 31, 2017, with earlier application encouraged - This statement contains financial reporting guidelines for Postemployment Benefit Plans. This is the Plan side requirements applicable to OPEB benefits and generally brings the OPEB reporting rules into alignment with the new GASB 67 Pension rules.

# City of Valdez, Alaska

## Notes to Basic Financial Statements

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*GASB 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - Effective for year-end December 31, 2018, with earlier application encouraged - This statement contains accounting and financial reporting guidelines for OPEB related activities at the participating employer level and generally brings the OPEB reporting rules into alignment with the new GASB 68 Pension rules.

*GASB 76 - The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* - Effective for year-end December 31, 2016 - This statement clarifies the hierarchy of generally accepted accounting principles to be used in the preparation of state and local government financial statements. This statement supersedes the previous hierarchy established in GASB 55.

*GASB 77 - Tax Abatement Disclosures* - Effective for year-end December 31, 2016 - This statement requires local governments to provide financial disclosures relating to tax abatements affecting the government. This includes information about abatement agreements entered into directly by the government, including conditions and criteria under which taxes can be abated, and the type and dollar amount of the tax. In addition, the statement requires disclosure of tax abatements issued by other governments that affect the local government's revenue recognition and reporting.

*GASB 78 - Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* - Effective for year-end December 31, 2016 - This statement amends the scope and applicability of GASB 68 to exclude pensions provided to employees through a cost-sharing multiple-employer defined benefit pension plan that is (1) not a state or local government pension plan, (2) used to provide defined benefit pensions to employees of both government and non-government employers, and (3) has no predominant state or local government employer, either individually or collectively with other governmental employers providing pensions in the plan.

*GASB 79 - Certain External Investment Pools and Pool Participants* - Effective for year-end December 31, 2016 - This statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes.

*GASB 80 - Blending Requirements for Certain Component Units* - Effective for year-end December 31, 2017, with earlier application encouraged - This statement requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. This statement amends the previous requirements established in paragraph 53 of GASB 14. The criterion specified in GASB 80 does not apply to component units included in the financial reporting entity pursuant to GASB 39.

*GASB 81 - Irrevocable Split-Interest Agreements* - Effective for year-end December 31, 2017, with earlier application encouraged - This statement establishes recording and recognition criteria for governments who receive resources pursuant to an irrevocable split-interest agreement.

*GASB 82 - Pension-Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73* - Effective for year-end December 31, 2017, with earlier application encouraged - This statement further amends prior pension reporting to redefine "covered payroll" for required supplementary information, clarifies deviations from actuarial standards, and clarifies the classification of employer-paid member contributions.

## Required Supplementary Information

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## City of Valdez, Alaska

## General Fund

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

Year Ended December 31, 2015	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 41,484,684	\$ 49,317,802	\$ 48,989,111	\$ (328,691)
Licenses and permits	3,160	3,160	2,530	(630)
Fines and forfeitures	15,000	15,000	19,021	4,021
Charges for services	156,352	156,352	234,421	78,069
Sales and leases	414,200	414,200	435,702	21,502
Contributions and donations	6,000	26,975	28,524	1,549
Investment income	90,000	90,000	459,998	369,998
Other	24,580	24,580	117,294	92,714
Intergovernmental:				
State of Alaska	843,648	3,813,135	2,937,772	(875,363)
Federal sources	15,700	2,261,143	2,319,249	58,106
<b>Total Revenues</b>	<b>43,053,324</b>	<b>56,122,347</b>	<b>55,543,622</b>	<b>(578,725)</b>
<b>Expenditures</b>				
Current:				
Hospital	5,948,442	10,898,261	8,866,768	2,031,493
Public Safety Support	5,072,703	5,266,576	5,469,450	(202,874)
Fire/EMS	6,160,402	9,769,113	5,848,154	3,920,959
Animal Control	4,219,105	4,679,110	3,849,578	829,532
Law Enforcement	1,144,047	1,364,994	1,145,788	219,206
Building Maintenance	425,000	475,000	475,000	-
Streets/Shop	11,814,243	11,616,959	11,457,161	159,798
Information Technology	262,166	262,166	258,643	3,523
Capital outlay	3,013,040	12,850,578	3,608,375	9,242,203
<b>Total Expenditures</b>	<b>38,059,148</b>	<b>57,182,757</b>	<b>40,978,917</b>	<b>16,203,840</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>4,994,176</b>	<b>(1,060,410)</b>	<b>14,564,705</b>	<b>15,625,115</b>
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of capital assets	-	-	208,603	208,603
Transfers in	7,535,383	3,702,824	3,702,824	-
Transfers out	(8,155,389)	(35,587,080)	(35,587,080)	-
<b>Net Other Financing Sources (Uses)</b>	<b>(620,006)</b>	<b>(31,884,256)</b>	<b>(31,675,653)</b>	<b>208,603</b>
<b>Net Change in Fund Balance</b>	<b>\$ 4,374,170</b>	<b>\$ (32,944,666)</b>	<b>(17,110,948)</b>	<b>\$ 15,833,718</b>
<b>Fund Balance, beginning of year</b>			<b>97,669,551</b>	
<b>Fund Balance, end of year</b>			<b>\$ 80,558,603</b>	

See accompanying notes to Required Supplementary Information.

## 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, 2015</i>	Original and Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues</b>			
Charges for services	\$ 13,967,000	\$ 13,762,425	\$ (204,575)
Other	286,000	122,000	(164,000)
<b>Total Revenues</b>	<b>14,253,000</b>	<b>13,884,425</b>	<b>(368,575)</b>
<b>Expenditures</b>			
Current - hospital and healthcare	13,262,000	12,196,000	1,066,000
<b>Excess of Revenues Over Expenditures</b>	<b>991,000</b>	<b>1,688,425</b>	<b>697,425</b>
<b>Other Financing Uses - transfers out</b>	<b>-</b>	<b>(800,000)</b>	<b>(800,000)</b>
<b>Net Change in Fund Balance</b>	<b><u>\$ 991,000</u></b>	<b>888,425</b>	<b><u>\$ (102,575)</u></b>
Fund Balance, beginning of year		<u>8,710,125</u>	
Fund Balance, end of year		<b><u>\$ 9,598,550</u></b>	

See accompanying notes to Required Supplementary Information.

**City of Valdez, Alaska**  
**Public Employees Retirement System**  
**Schedule of the City's Information on the Net Pension Liability**

Year Ended	Measurement Period Ended	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	State of Alaska Proportionate Share of the Net Pension Liability	Total Net Pension Liability	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability as a Percentage of Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<i>December 31,</i>	<i>June 30,</i>							
2015	2015	0.25234%	\$ 12,238,375	\$ 3,277,702	\$ 15,516,077	\$ 7,114,242	172.03%	63.96%

*See accompanying notes to Required Supplementary Information.*

**City of Valdez, Alaska**  
**Public Employees Retirement System**  
**Schedule of City Contributions**

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<i>Year Ended December 31,</i>	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 777,732	\$ 777,732	\$ -	\$ 7,464,038	10.420%

*See accompanying notes to Required Supplementary Information.*

# City of Valdez, Alaska

## Notes to Required Supplementary Information

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### 1. Budgetary Comparison Schedule

An operating budget is adopted each fiscal year for the General Fund and all other funds of the City on a modified accrual basis used to reflect actual revenues and expenditures.

The City follows these procedures in establishing the budgetary data reflected in the required budgetary comparison schedules:

- a. By the first regular council meeting in November, the City Manager will submit the budget to the City Council.
- b. Public hearings are conducted by the City to obtain taxpayer comments.
- c. The Council may adopt the budget with or without amendments.
- d. The budget must be adopted no later than the second regular meeting in December. If the Council does not adopt a budget within three days of the beginning of the new year, the budget proposed at the public hearing will become the budget without further council action.
- e. The Council may amend the budget from time to time as circumstances require.
- f. Appropriations lapse at the end of the fiscal year to the extent they have not been fully spent or fully encumbered. Capital appropriations, grant appropriations, and other authorized programs shall remain in force until the purpose has been accomplished or abandoned.

The City publishes its annual budget document and it is available on the City's website at: [www.ci.valdez.ak.us](http://www.ci.valdez.ak.us).

### 2. Pension Disclosures

In accordance with GASB Statement 82, "Covered Payroll" is defined as payroll on which contributions to the pension plan are based. Because a portion of the City's contributions to the Plan (the DBUL) are based on Defined Contribution Wages, covered payroll reported here includes all PERS participating wages (both DB and DC).

Both pension tables are intended to present 10 years of information. Additional year's information will be added to the schedules as it becomes available.

#### *Schedule of City's Information on the Net Pension Liability*

- This table is presented based on the Plan measurement date. For December 31, 2015, the Plan measurement date is June 30, 2015.
- There were no changes in benefit terms from the prior measurement period.
- There were no changes in assumptions from the prior measurement period.
- There was a material change to the allocation methodology. For the measurement period ended June 30, 2014 the net pension liability was allocated based on actual contributions during the period. For the measurement period ended June 30, 2015, the allocation was based on the net present value of contributions for FY2017 - FY2039, based on projections included in the June 30, 2014 valuation report.

#### *Schedule of City Contributions*

This table is based on the City's contributions during calendar year 2015. A portion of these contributions are included in the plan measurement results, while a portion of the contributions are reported as a deferred outflow on the December 31, 2015 basic financial statements.

## Supplementary Information

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**City of Valdez, Alaska**  
**Nonmajor Governmental Funds**  
**Combining Balance Sheet**

	Special Revenue Funds							Debt Service Fund	Total Nonmajor Governmental Funds
	Port	Utility	Airport	Harbor	Gilson Medical Clinic	Providence Valdez Counseling Center			
<i>December 31, 2015</i>									
<b>Assets</b>									
Cash and investments	\$ 1,201,439	\$ 1,773,261	\$ 656,379	\$ 1,806,794	\$ 285,803	\$ 431,000	\$ 690,403	\$ 6,845,079	
Receivables, net:									
Grants and shared revenues	-	-	-	-	-	-	873,447	873,447	
Accounts	49,199	3,676	30,683	32,457	6,409	39,000	-	161,424	
Accrued interest	2,207	3,270	1,198	3,328	520	-	1,255	11,778	
Prepaid items	14,781	5,381	1,190	51,612	-	-	-	72,964	
Restricted cash and investments:									
Debt reserve accounts	-	-	-	-	-	-	199,631	199,631	
<b>Total Assets</b>	<b>\$ 1,267,626</b>	<b>\$ 1,785,588</b>	<b>\$ 689,450</b>	<b>\$ 1,894,191</b>	<b>\$ 292,732</b>	<b>\$ 470,000</b>	<b>\$ 1,764,736</b>	<b>\$ 8,164,323</b>	
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>									
<b>Liabilities</b>									
Accounts payable	\$ 30,143	\$ 79,400	\$ 19,214	\$ 41,731	\$ 6,247	\$ 10,000	\$ -	\$ 186,735	
Accrued payroll liabilities	-	-	-	-	-	11,000	-	11,000	
Payable to Providence Health & Services - Washington	-	-	-	-	-	28,000	-	28,000	
Customer deposits	-	16,300	-	-	-	-	-	16,300	
Unearned revenue	-	-	-	50,262	-	6,000	-	56,262	
<b>Total Liabilities</b>	<b>30,143</b>	<b>95,700</b>	<b>19,214</b>	<b>91,993</b>	<b>6,247</b>	<b>55,000</b>	<b>-</b>	<b>298,297</b>	
<b>Deferred Inflows of Resources</b>									
Unavailable revenues	-	-	-	-	-	44,968	-	44,968	
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>30,143</b>	<b>95,700</b>	<b>19,214</b>	<b>91,993</b>	<b>6,247</b>	<b>99,968</b>	<b>-</b>	<b>343,265</b>	
<b>Fund Balances</b>									
Nonspendable	14,781	5,381	1,190	51,612	-	-	-	72,964	
Restricted	-	-	-	-	-	-	199,631	199,631	
Assigned	1,222,702	1,684,507	669,046	1,750,586	286,485	370,032	1,565,105	7,548,463	
<b>Total Fund Balances</b>	<b>1,237,483</b>	<b>1,689,888</b>	<b>670,236</b>	<b>1,802,198</b>	<b>286,485</b>	<b>370,032</b>	<b>1,764,736</b>	<b>7,821,058</b>	
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 1,267,626</b>	<b>\$ 1,785,588</b>	<b>\$ 689,450</b>	<b>\$ 1,894,191</b>	<b>\$ 292,732</b>	<b>\$ 470,000</b>	<b>\$ 1,764,736</b>	<b>\$ 8,164,323</b>	

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

Year Ended December 31, 2015	Special Revenue Funds						Debt Service Fund	Total Nonmajor Governmental Funds
	Port	Utility	Airport	Harbor	Gilson Medical Clinic	Providence Valdez Counseling Center		
<b>Revenues</b>								
Fines and forfeitures	\$ 1,968	\$ 1,155	\$ 2,133	\$ 2,103	\$ 105	\$ -	\$ -	\$ 7,464
Charges for services	626,747	550,143	706	670,170	-	171,069	-	2,018,835
Sales and leases	27,734	-	154,113	602,335	142,394	-	-	926,576
Investment income (loss)	4,734	8,884	2,681	11,930	1,340	-	(9,374)	20,195
Other	50,280	227	-	78	-	69,000	-	119,585
Intergovernmental:								
State of Alaska	60,147	71,014	15,988	351,489	2,392	297,000	1,879,410	2,677,440
<b>Total Revenues</b>	<b>771,610</b>	<b>631,423</b>	<b>175,621</b>	<b>1,638,105</b>	<b>146,231</b>	<b>537,069</b>	<b>1,870,036</b>	<b>5,770,095</b>
<b>Expenditures</b>								
Current:								
Port	786,089	-	-	-	-	-	-	786,089
Harbor	-	-	-	1,205,427	-	-	-	1,205,427
Utility	-	1,240,273	-	-	-	-	-	1,240,273
Airport	-	-	267,273	-	-	-	-	267,273
Hospital and healthcare	-	-	-	-	95,615	559,000	-	654,615
Debt service:								
Principal	-	-	-	-	-	-	1,450,000	1,450,000
Interest	-	-	-	-	-	-	2,137,523	2,137,523
<b>Total Expenditures</b>	<b>786,089</b>	<b>1,240,273</b>	<b>267,273</b>	<b>1,205,427</b>	<b>95,615</b>	<b>559,000</b>	<b>3,587,523</b>	<b>7,741,200</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(14,479)</b>	<b>(608,850)</b>	<b>(91,652)</b>	<b>432,678</b>	<b>50,616</b>	<b>(21,931)</b>	<b>(1,717,487)</b>	<b>(1,971,105)</b>
<b>Other Financing Sources (Uses)</b>								
Payment to bond escrow agent	-	-	-	-	-	-	(5,501,215)	(5,501,215)
Transfers in	360,686	739,671	227,645	-	-	130,000	7,328,076	8,786,078
Transfers out	-	-	-	(296,367)	-	-	(500,000)	(796,367)
<b>Net Other Financing Sources (Uses)</b>	<b>360,686</b>	<b>739,671</b>	<b>227,645</b>	<b>(296,367)</b>	<b>-</b>	<b>130,000</b>	<b>1,326,861</b>	<b>2,488,496</b>
<b>Net Change in Fund Balances</b>	<b>346,207</b>	<b>130,821</b>	<b>135,993</b>	<b>136,311</b>	<b>50,616</b>	<b>108,069</b>	<b>(390,626)</b>	<b>517,391</b>
<b>Fund Balances, beginning of year</b>	<b>891,276</b>	<b>1,559,067</b>	<b>534,243</b>	<b>1,665,887</b>	<b>235,869</b>	<b>261,963</b>	<b>2,155,362</b>	<b>7,303,667</b>
<b>Fund Balances, end of year</b>	<b>\$ 1,237,483</b>	<b>\$ 1,689,888</b>	<b>\$ 670,236</b>	<b>\$ 1,802,198</b>	<b>\$ 286,485</b>	<b>\$ 370,032</b>	<b>\$ 1,764,736</b>	<b>\$ 7,821,058</b>