

CITY OF COFFMAN COVE
ANNUAL FINANCIAL REPORT

For the Year Ended
June 30, 2014

**MECHAM, RICHARDSON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS**

CITY OF COFFMAN COVE
Annual Financial Report
For the Year Ended June 30, 2014

TABLE OF CONTENTS

	Page
Independent Auditor's Report	i-iv
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	1
Statement of Activities	2
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	4
Statement of Revenues, Expenditures and Changes in Fund Balances	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
Proprietary Funds:	
Statement of Net Position	7
Statement of Revenues, Expenses, and Changes in Fund Net Position	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements	10-27
Required Supplementary Information (Unaudited)	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget (Budgetary Basis) and Actual – General Fund	28-29
Schedule of Expenditures - Budget (Budgetary Basis) and Actual – General Fund	30-33
Notes to the Required Supplementary Information	34

CITY OF COFFMAN COVE

Annual Financial Report
For the Year Ended June 30, 2014

TABLE OF CONTENTS

	Page
Supplementary Information	
Combining and Individual Fund Statements and Schedules:	
Governmental Funds	
Combining Statements Nonmajor Governmental Funds:	
Combining Balance Sheet – by Fund Type	35
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – by Fund Type	36
Nonmajor Special Revenue Funds:	
Combining Balance Sheet	37
Gaming Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	38
Compliance Report	
Schedule of Expenditures of Federal Awards	39-40
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	41-42
Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133	43-44
Schedule of Findings and Questioned Costs	45-46

REPORT OF INDEPENDENT ACCOUNTANTS

**MECHAM, RICHARDSON AND COMPANY
CERTIFIED PUBLIC ACCOUNTANTS**

Member of the AICPA Private Companies Practice Section

1734 TONGASS AVENUE
KETCHIKAN, ALASKA 99901
(907) 225-9688
FAX (907) 225-9687

Partners
Edward B. Mecham, CPA
S. Dirk Richardson, CPA

Independent Auditor's Report

To the Honorable Mayor
and Members of the City Council
City of Coffman Cove
Coffman Cove, Alaska

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Honorable Mayor and
Members of the City Council
City of Coffman Cove

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 28 through 34 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.

Management has omitted a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Coffman Cove, Alaska's basic financial statements. The combining and individual nonmajor fund financials found on pages 35 through 38, and accompanying schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financials and the schedule of expenditures of federal awards 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

MECHAM, RICHARDSON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

To the Honorable Mayor and
Members of the City Council
City of Coffman Cove

basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and schedules found on pages 35 through 38, and the schedule of expenditures of federal awards found on pages 39 and 40, 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 July 6, 2015 on our consideration of the City'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 the City's internal control over financial reporting and compliance.



Ketchikan, Alaska
July 8, 2015

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE
FINANCIAL STATEMENTS

CITY OF COFFMAN COVE
Statement of Net Position
June 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current Assets			
Cash and cash equivalents	349,551	71,816	421,367
Investments	218,683	90,836	309,519
Receivables, net:			
Accounts		50,297	50,297
Intergovernmental	87,264		87,264
Internal	(39,500)	39,500	
Loans	49,894		49,894
Land sale notes	46,122		46,122
Other	5,946		5,946
Prepaid items	11,060		11,060
Inventory		4,501	4,501
Noncurrent Assets			
Nondepreciable capital assets	3,316,940	8,117	3,325,057
Depreciable capital assets, net	4,852,323	10,049,994	14,902,317
Total Assets	<u>8,898,283</u>	<u>10,315,061</u>	<u>19,213,344</u>
Liabilities			
Current Liabilities			
Accounts payable	10,043		10,043
Accrued expenses	2,194		2,194
Unearned revenue	206,951		206,951
Total Liabilities	<u>219,188</u>		<u>219,188</u>
Net Position			
Invested in capital assets, net of related debt	8,169,263	10,058,111	18,227,374
Restricted for:			
Charitable purposes	4,471		4,471
Unrestricted	505,361	256,950	762,311
Total Net Position	<u>\$ 8,679,095</u>	<u>\$ 10,315,061</u>	<u>\$ 18,994,156</u>

FUND FINANCIAL STATEMENTS

CITY OF COFFMAN COVE
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2014

	General	USDA Power Line Grant Fund	Trailbuilding Equipment Grant Fund	Health Clinic Grant Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash	334,648				14,903	349,551
Investments	218,683					218,683
Receivables (net of allowances for uncollectibles)						
Grants		87,264				87,264
Loans	49,894					49,894
Land sale notes	46,122					46,122
Other	5,946					5,946
Prepaid expenses	11,060					11,060
Interfund receivable	13,196		45,000			58,196
Total assets	<u>\$ 679,549</u>	<u>\$ 87,264</u>	<u>\$ 45,000</u>	<u>\$ -</u>	<u>\$ 14,903</u>	<u>\$ 826,716</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	10,043					10,043
Payroll and payroll taxes payable	2,069					2,069
Other payables	125					125
Unearned revenue	161,951		45,000			206,951
Interfund payable		87,264			10,432	97,696
Total liabilities	<u>174,188</u>	<u>87,264</u>	<u>45,000</u>	<u>-</u>	<u>10,432</u>	<u>316,884</u>
FUND BALANCES						
Nonspendable - prepaid expenses	11,060					11,060
Restricted for charitable purposes					4,471	4,471
Assigned to fish enhancement	59,651					59,651
Assigned to volunteer fire department	1,965					1,965
Assigned to FY 2015 budget	63,262					63,262
Unassigned	369,423					369,423
Total fund balances	<u>505,361</u>				<u>4,471</u>	<u>509,832</u>
Total liabilities and fund balances	<u>\$ 679,549</u>	<u>\$ 87,264</u>	<u>\$ 45,000</u>	<u>\$ -</u>	<u>\$ 14,903</u>	<u>\$ 826,716</u>

CITY OF COFFMAN COVE
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 June 30, 2014

Total Governmental Fund Balances 509,832

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. However, in the statement of net position the costs of these assets are capitalized and expensed over their estimated lives through annual depreciation expense:

Cost of capital assets	9,123,192	
Less accumulated depreciation	<u>(953,929)</u>	8,169,263

Interfund receivables and payables between governmental funds are reported on the fund balance sheet but eliminated on the government-wide statement of net position:

Interfund receivables	58,196	
Interfund payables	<u>(58,196)</u>	<u>-</u>

Net Position of Governmental Activities \$ 8,679,095

CITY OF COFFMAN COVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	General	USDA Power Line Grant Fund	Trailbuilding Equipment Grant Fund	Health Clinic Grant Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Intergovernmental	203,850	87,264		681,380		972,494
Charges for services	27,929					27,929
Rentals	12,672					12,672
Rock, gravel and land sales	122,095					122,095
Interest	34,643					34,643
Donations	2,449					2,449
Gaming proceeds					6,090	6,090
Miscellaneous	3,489				150	3,639
Total revenues	<u>407,127</u>	<u></u>	<u></u>	<u>681,380</u>	<u>6,240</u>	<u>1,182,011</u>
Expenditures						
Current						
General government	117,414	87,264				204,678
Maintenance and streets	49,873					49,873
Health and human services	18,919			681,380		700,299
Public safety	31,833					31,833
Rentals	6,272					6,272
Library	22,907					22,907
Post office	21,371					21,371
Tourism	8,832					8,832
Gaming					11,025	11,025
Total expenditures	<u>277,421</u>	<u></u>	<u></u>	<u>681,380</u>	<u>11,025</u>	<u>1,057,090</u>
Excess (deficiency) of revenues over (under) expenditures	<u>129,706</u>	<u></u>	<u></u>	<u></u>	<u>(4,785)</u>	<u>124,921</u>
Other Financing Sources (Uses)						
Insurance proceeds	6,084					6,084
Total other financing sources (uses)	<u>6,084</u>	<u></u>	<u></u>	<u></u>	<u></u>	<u>6,084</u>
Net change in fund balances	<u>135,790</u>	<u></u>	<u></u>	<u></u>	<u>(4,785)</u>	<u>131,005</u>
Fund balances beginning of year	<u>369,571</u>	<u></u>	<u></u>	<u></u>	<u>9,256</u>	<u>378,827</u>
Fund balances end of year	<u>\$ 505,361</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,471</u>	<u>\$ 509,832</u>

CITY OF COFFMAN COVE
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2014

Net Changes in Fund Balances - Total Governmental Funds 131,005

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

Insurance proceeds are recognized as other financing sources in governmental funds, but are offset against the associated losses in the entity-wide statement of activities:

Insurance proceeds received	(6,084)	
Associated losses to which applied	<u>6,084</u>	0

The book value of capital assets disposed of is not reported at the fund financial reporting level but is reported at the government-wide financial reporting level (3,980)

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 as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period:

Depreciation expense	(143,130)	
Capital outlay	<u>648,941</u>	505,811

Change in Net Position of Governmental Activities \$ 632,836

CITY OF COFFMAN COVE
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 June 30, 2014

	Business-type Activities - Enterprise Funds			Total
	Water and Sewer	Harbor and Dock	Garbage and Landfill	
ASSETS				
Current assets				
Cash	62,660		9,156	71,816
Investments	26,484	64,352		90,836
Accounts receivable, net of allowance for doubtful accounts of \$0	36,852		13,445	50,297
Interfund receivable	29,507	9,434	559	39,500
Inventory	4,501			4,501
Total current assets	<u>160,004</u>	<u>73,786</u>	<u>23,160</u>	<u>256,950</u>
Property and equipment				
Construction in progress		8,117		8,117
Water and sewer system	9,723,928			9,723,928
Leasehold improvements		4,741,888		4,741,888
Equipment			29,123	29,123
	<u>9,723,928</u>	<u>4,750,005</u>	<u>29,123</u>	<u>14,503,056</u>
Allowance for depreciation	<u>(3,288,889)</u>	<u>(1,138,906)</u>	<u>(17,150)</u>	<u>(4,444,945)</u>
	<u>6,435,039</u>	<u>3,611,099</u>	<u>11,973</u>	<u>10,058,111</u>
Total assets	<u>\$ 6,595,043</u>	<u>\$ 3,684,885</u>	<u>\$ 35,133</u>	<u>\$ 10,315,061</u>
NET POSITION				
Invested in capital assets, net of related debt	6,435,039	3,611,099	11,973	10,058,111
Unrestricted	<u>160,004</u>	<u>73,786</u>	<u>23,160</u>	<u>256,950</u>
Total net position	<u>\$ 6,595,043</u>	<u>\$ 3,684,885</u>	<u>\$ 35,133</u>	<u>\$ 10,315,061</u>

CITY OF COFFMAN COVE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

	Business-type Activities - Enterprise Funds			Total
	Water and Sewer	Harbor and Dock	Garbage and Landfill	
OPERATING REVENUES				
Charges for services				
Water and sewer	158,910			158,910
Harbor and dock fees		42,654		42,654
Garbage and landfill			59,061	59,061
Total operating revenues	<u>158,910</u>	<u>42,654</u>	<u>59,061</u>	<u>260,625</u>
OPERATING EXPENSES				
Merchandise sold	4,914			4,914
Payroll and payroll taxes and benefits	58,309	9,834	12,741	80,884
Travel & training	6,029			6,029
Liability and property insurance	2,522	250	452	3,224
Materials and supplies	10,009	1,017	443	11,469
Utilities and communication	13,275	5,127		18,402
Repairs and maintenance	841	1,531	50	2,422
Legal and professional	1,959		421	2,380
Contractual services	9,425			9,425
Landfill and septic services	3,500		18,489	21,989
Equipment purchase				
Equipment fuel	931		1,994	2,925
Bank charges	1,628			1,628
Depreciation	243,098	128,088	1,942	373,128
Other	1,505		40	1,545
Total operating expenses	<u>357,945</u>	<u>145,847</u>	<u>36,572</u>	<u>540,364</u>
Operating income (loss)	<u>(199,035)</u>	<u>(103,193)</u>	<u>22,489</u>	<u>(279,739)</u>
Income (loss) before capital contributions and transfers	<u>(199,035)</u>	<u>(103,193)</u>	<u>22,489</u>	<u>(279,739)</u>
Change in net position	(199,035)	(103,193)	22,489	(279,739)
Net position beginning of year as restated (see Note 3-C)	<u>6,794,078</u>	<u>3,788,078</u>	<u>12,644</u>	<u>10,594,800</u>
Net position end of year	<u>\$ 6,595,043</u>	<u>\$ 3,684,885</u>	<u>\$ 35,133</u>	<u>\$ 10,315,061</u>

CITY OF COFFMAN COVE
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2014

	Business-type Activities - Enterprise Funds			
	Water and Sewer	Harbor and Dock	Garbage and Landfill	Total
Cash Flows From Operating Activities				
Cash received from customers	152,417	42,654	53,566	248,637
Cash payments to employees for services	(64,338)	(9,834)	(12,741)	(86,913)
Cash payments to suppliers for goods and services	(52,759)	(7,925)	(21,889)	(82,573)
Net cash provided (used) by operating activities	<u>35,320</u>	<u>24,895</u>	<u>18,936</u>	<u>79,151</u>
Cash Flows From Capital and Related Financing Activities				
Purchase of capital assets		(8,117)		(8,117)
Net cash (used) for capital and related financing activities		<u>(8,117)</u>		<u>(8,117)</u>
Cash Flows From Noncapital Financing Activities				
Increase (decrease) in interfund payables	(9,089)	4,450	(11,028)	(15,667)
Net cash provided by noncapital financing activities	<u>(9,089)</u>	<u>4,450</u>	<u>(11,028)</u>	<u>(15,667)</u>
Cash Flows From Investing Activities				
Proceeds from reducing investments		(21,228)		(21,228)
Interest received	(11)			(11)
Net cash provided (used) by investing activities	<u>(11)</u>	<u>(21,228)</u>		<u>(21,239)</u>
Net increase in cash and cash equivalents	26,220		7,908	34,128
Beginning cash and cash equivalents	<u>36,440</u>		<u>1,248</u>	<u>37,688</u>
Ending cash and cash equivalents	<u>\$ 62,660</u>	<u>\$ -</u>	<u>\$ 9,156</u>	<u>\$ 71,816</u>
Operating income (loss)	<u>(199,035)</u>	<u>(103,193)</u>	<u>22,489</u>	<u>(279,739)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	243,098	128,088	1,942	373,128
Decrease (increase) in accounts receivable	(6,493)		(5,495)	(11,988)
Decrease (increase) in inventory	(2,250)			(2,250)
Total adjustments	<u>234,355</u>	<u>128,088</u>	<u>(3,553)</u>	<u>358,890</u>
Net cash provided (used) by operating activities	<u>\$ 35,320</u>	<u>\$ 24,895</u>	<u>\$ 18,936</u>	<u>\$ 79,151</u>

NONCASH OPERATING, CAPITAL, AND FINANCING ACTIVITIES

None

NOTES TO THE BASIC FINANCIAL STATEMENTS

The City of Coffman Cove, Alaska is a second class city operating under the powers granted by the constitution and laws of the State of Alaska. The City operates under a Council/Mayor form of government and provides a variety of municipal services, including general administration, fire, recreation, public works, harbors, garbage collection and disposal, and water and sewer utilities.

Note 1 - Summary of Significant Accounting Policies

The financial statements of the City of Coffman Cove (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governments. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting.

In June 1999, the GASB unanimously approved Statement No. 34, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*". This statement became effective for the City for fiscal year beginning July 1, 2003. The City elected to implement the infrastructure provisions for assets acquired after June 30, 2003, but had not applied them until Fiscal Year 2014 due to lack of auditable capital asset records.

The most significant of the City's accounting policies are described below.

1-A. Reporting Entity

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organizations; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units also may include organizations that are fiscally dependent on the City in that the City approves the budget, levies their taxes or issues their debt. Based upon this criterion, the reporting entity has no component units.

1-B. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities and fund financial statements, which provide a more detailed level of financial information.

Note 1 - Summary of Significant Accounting Policies (Continued)

Government-wide Financial Statements – The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole but do not include fiduciary funds. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and grants and the City's general revenues, from business-type activities, generally financed in whole or in part with user fees charged to external customers.

The statement of net position presents the financial position of the governmental and business-type activities of the City at the end of its fiscal year.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities and for each identifiable activity of the business-type activities of the City. Direct expenses are those that are specifically associated with a function and therefore clearly identifiable to that particular function. The City does not allocate indirect expenses to functions in the statement of activities.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. For identifying to which function program revenue pertains, the determining factor for *charges for services* is which function *generates* the revenue. For *grants and contributions*, the determining factor is to which function the revenues are *restricted*.

Other revenue sources not properly included with program revenues are reported as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each governmental function and each identifiable business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. Fund financial statements are provided for governmental and proprietary funds.

Major individual governmental and enterprise funds are reported in separate columns.

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Accounting - The City uses funds to maintain its financial records during the year. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The City uses two categories of funds: governmental and proprietary.

Governmental Funds - Governmental funds are those through which most governmental functions are typically financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The City reports the difference between governmental fund assets and liabilities as fund balance. The following are the City's major governmental funds:

The General Fund - The general fund accounts for all financial resources except those required to be accounted for in some other fund. The general fund's fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of the State of Alaska.

Health Clinic Capital Project Grant Fund – This fund accounts for grant funds obtained to construct a medical clinic for the use of medical providers when they come to the City to care for patients.

Trailbuilding Equipment Grant Fund – This fund accounts for grant funds advanced to purchase equipment to build and maintain trails.

USDA Power Line Grant Fund – This fund accounts for a power line extension for Coffman Cove and is funded by the U.S. Department of Agriculture.

Proprietary funds - Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. The proprietary funds are classified as enterprise funds. The following are the City's major enterprise funds:

Water and Sewer Fund – This fund provides water and sewer utility services to the residents of the City.

Harbor and Dock Fund – This fund accounts for the operation and maintenance of harbor and dock facilities owned and controlled by the City.

Garbage and Landfill Fund – This fund provides garbage collection and landfill services to the residents of the City. It does not qualify to be reported as a major fund, but the City has chosen to report it as such.

1-C. Measurement Focus

Government-wide Financial Statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net position. The statement of activities reports revenues and expenses.

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Financial Statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus on both financial reporting levels. All assets and all liabilities associated with the operation of these funds are included on the statements of net position. The statements of changes in fund net position present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

1-D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. At the fund reporting level, the governmental funds use the modified accrual basis of accounting. Proprietary funds use the accrual basis of accounting at both reporting levels. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, the phrase “available for exchange transactions” means expected to be received within 60 days of year-end, except for land sales which use 90 days.

Note 1 - Summary of Significant Accounting Policies (Continued)

Revenues – Non-exchange Transactions – Non-exchange transactions, in which the City receives value without directly giving equal value in return, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the city must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from most non-exchange transactions also must be available (i.e., collected within 60 days of year-end) before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be susceptible to accrual: interest, charges for services and federal and state grants. Other revenues become measurable and available when cash is received and are recognized as revenue at that time.

Unearned Revenue – Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

On governmental fund financial statements (i.e., on the modified accrual basis), receivables that will not be collected within the available period have been reported as unearned revenue (i.e., they are measurable but not available) rather than as revenue. Grants and entitlements received before the eligibility requirements are met (e.g., cash advances) also are recorded as unearned revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. On the modified accrual basis, expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

1-E. Assets, Liabilities and Fund Equity

1-E-1. Cash, Cash Equivalents, and Investments

Cash and cash equivalents include cash on hand, amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City and all investments in the cash central treasury. Interest earnings of the central treasury accrue to the City's general fund. For purposes of the statement of cash flows, the City has defined cash and cash equivalents as the demand deposits and all investments maintained in the cash central treasury regardless of maturity period, since the various funds use the central treasury essentially as a demand deposit account. Each fund's portion of the pooled cash is displayed on the financial statements as an interfund receivable or payable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The City has not adopted an investment policy.

Investments are stated at fair value based on quoted market prices.

1-E-2. Receivables

All trade receivables are reported net of an allowance for uncollectibles, where applicable. Unbilled utility charges are accrued as receivables and revenue at June 30, 2014.

Notes receivable from sales of land are reported at the amount of uncollected principal. No allowance is reported unless the estimated market value of the land drops below the uncollected principal amount associated with that land.

1-E-3. Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term Interfund loans are classified as "interfund receivable" or "interfund payable". These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are reclassified and presented as internal balances.

1-E-4. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2014 are recorded as prepaid items using the consumption method by recording an asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed. At the fund reporting level, an equal amount of fund balance is reserved, as this amount is not available for general appropriation.

1-E-5. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in governmental funds. Capital assets utilized by enterprise funds are reported both in the business-type activities column of the government-wide statement of net position and in the enterprise funds' statement of net position.

All capital assets are capitalized at cost (or estimated historical cost), and are updated for additions and retirements during the year. The City maintains a capitalization threshold of five thousand dollars. The City's infrastructure consists of roads, bridges, storm drains, docks, lighting systems and parking facilities. Improvements to capital assets are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. Interest incurred during the construction of capital assets utilized by the enterprise fund is capitalized.

Note 1 - Summary of Significant Accounting Policies (Continued)

1-E-6. Compensated Absences

Vacation benefits are provided after one year of service, but do not accrue and are not paid upon termination. Consequently, no liability is accrued for vacation benefits.

1-E-7. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of these funds.

1-E-8. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as “fund balance.” Fund equity for all other reporting is classified as “net position.”

Fund Balance – Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

- **Nonspendable** – Fund balances are reported as Nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.
- **Restricted** – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- **Committed** - Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council through the adoption of a resolution. The Council may modify or rescind the commitment.
- **Assigned** - Fund balances are reported as assigned when amounts are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Council has not delegated authority to assign fund balances.
- **Unassigned** - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all funds.

Note 1 - Summary of Significant Accounting Policies (Continued)

Flow Assumptions – When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the City’s policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the City’s policy to use fund balance in the following order:

- Committed
- Assigned
- Unassigned

Net Position – Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. This net position amount also is adjusted by any bond issuance deferral amounts. Net position is reported as restricted as described in the fund balance section above. The remaining net position is reported as unrestricted.

1-E-9. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water and sewer, harbor and dock, and garbage and landfill. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of each fund. Any revenue and expense not meeting this definition is reported as non-operating revenue and expense.

1-E-10. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction.

1-E-11. Interfund Activity

Exchange transactions between funds for water and sewer services are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds.

Flows of cash or goods from one fund to another without a requirement for repayment are reported as Interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after the non-operating revenues/expenses section in proprietary funds. Repayments from funds responsible for particular expenditures/expense to the funds that initially paid for them are not presented on the financial statements (i.e., they are netted).

Note 1 - Summary of Significant Accounting Policies (Continued)

Transfers between governmental and business-type activities on the government-wide statement of activities are reported as general revenues. Transfers between funds reported in the governmental activities column are eliminated. Transfers between funds reported in the business-type activities column are eliminated.

1-E-12. 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2 – Changes in Accounting Principles, Stewardship, Compliance and Accountability

2-A. Deferred Outflows/Inflows of Resources

Deferred outflows of resources represents a consumption of net position that applies to future periods that will not be recognized as an outflow of resources, or expense/expenditures until then. *Deferred inflows* of resources represents an acquisition of net position that applies to future periods that will not be recognized as an inflow of resources, or revenues until then.

2-B. Budgetary Information

The City adopts an annual operating budget for the general fund, the gaming fund, and each enterprise fund. The budget resolution reflects the total of each department's appropriation. The budgets for the enterprise funds are adopted for management purposes and are not reported in these financial statements. Generally, a project budget is adopted for each capital projects fund. Budgets for grant-driven special revenue funds are adopted as part of the application for and acceptance of the grant funding. They are also project rather than annual budgets.

Before June 30, the proposed budget is presented to the government's council for review. The government's council holds public hearings and may add to, subtract from, or change appropriations, but may not change the form of the budget. The budget is a line item budget, and upon approval by ordinance, cannot be modified except by ordinance.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting (under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded in order to reserve that portion of the applicable appropriation) is not utilized by the City. All unexpended annual appropriations lapse at year-end.

The City Budget was amended through one amending ordinance.

Note 2 – Changes in Accounting Principles, Stewardship, Compliance and Accountability (Continued)

2-C. Deficit Fund Equities

No individual fund had a deficit net position at the fund reporting level at June 30, 2014.

Note 3 – Detailed Notes on All Funds

3-A. Deposits and Investments

Deposits – The bank balance is classified into three categories of custodial credit risk, the risk that in the event of a bank failure, the City’s deposits may not be returned to it: 1) cash that is insured or collateralized with securities held by the City or by its agent in its name, 2) cash collateralized with securities held by the pledging financial institution’s trust department or agent in the City’s name, and 3) uncollateralized bank accounts including any bank balance that is collateralized with securities held by the pledging institution’s trust department or agent but not in the City’s name. The City does not have a deposit policy for custodial credit risk.

At June 30, 2014, the carrying amount of the City's deposits was \$420,333 and the balance per the bank was \$439,016. Of the bank balance, all \$106,910 of the checking and \$250,000 of the time and savings deposits were covered by federal depository insurance. The remaining \$82,106 of deposits were covered by pledged securities held by the bank. These deposits are all classified as category 3 credit risk, held by the bank or its agent but not in the City’s name. Reconciling items such as outstanding checks cause differences between book and bank balances. See also Note 1-E-1.

Investments - The City had time certificates of deposit with initial maturity dates longer than three months with a total carrying amount and a total bank balance of \$309,519 at June 30, 2014. The investments are classified as a category 3 credit risk, held by the bank or its agent but not in the City’s name.

Cash and Investment Reconciliation:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Fund Reporting Level:			
Governmental Funds – Balance Sheet	349,551	218,683	568,234
Proprietary Fund Type Statement of Net Position	71,816	90,836	162,652
Less Petty Cash and Undeposited Funds	<u>(1,033)</u>		<u>(1,033)</u>
Total	<u>\$420,334</u>	<u>\$309,519</u>	<u>\$729,853</u>

Note 3 – Detailed Notes on All Funds (Continued)

3-B. Receivables

Receivables at June 30, 2014 consisted of accounts (billings for user charges), payroll tax refund, intergovernmental receivables arising from grants, notes from land sales, \$49,894 in advances to Northend Port Authority and miscellaneous other items.

Receivables and payables are recorded on the City’s financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and in the case of receivables, collectibility. Receivables for the year ended June 30, 2014 consisted of the following:

	Governmental Activities	Business- type Activities	Total
Accounts receivable		50,297	50,297
Intergovernmental	87,264		87,264
Advance to Northend Port Authority	49,894		49,894
Land sale notes	46,122		46,122
Other	9,055		9,055
Less allowance for doubtful accounts	(3,109)		(3,109)
Net accounts receivable	<u>\$189,226</u>	<u>\$50,297</u>	<u>\$239,523</u>

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Grant funds received prior to meeting all eligibility requirements		<u>45,000</u>
Total unearned revenue for governmental funds		<u>\$45,000</u>

3-C. Capital Assets

GASB requires that capital assets be reported at the entity-wide level for both governmental and enterprise activities and at the fund level for enterprise funds. Until fiscal year 2014, the City did not have capital asset records in an auditable condition, so only a few capital assets acquired in fiscal years 2012 and 2013 were on the City’s books and included in the financial statements. In fiscal year 2014, the City established capital asset records that could be audited. As a result, the capital asset balances and net position as of June 30, 2013 have been restated as follows:

Note 3 – Detailed Notes on All Funds (Continued)

	Previously Reported Balance at June 30, 2013	Adjustments to June 30, 2013	Restated Balance at June 30, 2013
Governmental activities:			
Nondepreciable capital assets			
Tidelands		380,000	380,000
Land		2,940,920	2,940,920
Construction in progress		981,421	981,421
Total nondepreciable capital assets		<u>4,302,341</u>	<u>4,302,341</u>
Depreciable capital assets			
Infrastructure		2,403,452	2,403,452
Buildings		1,328,758	1,328,758
Machinery and equipment		443,680	443,680
Total depreciable capital assets		<u>4,175,890</u>	<u>4,175,890</u>
Total capital assets		<u>8,478,231</u>	<u>8,478,231</u>
Accumulated depreciation			
Infrastructure		503,848	503,848
Buildings		142,414	142,414
Machinery and equipment		164,537	164,537
Total accumulated depreciation		<u>810,799</u>	<u>810,799</u>
Governmental activities capital assets, net		<u>\$7,667,432</u>	<u>\$7,667,432</u>
Business-type activities:			
Nondepreciable capital assets			
Construction in progress	744,170	(744,170)	
Depreciable capital assets			
Water and sewer plant		9,723,928	9,723,928
Harbor and dock facilities		4,741,888	4,741,888
Garbage equipment		29,123	29,123
Total depreciable capital assets		<u>14,494,939</u>	<u>14,494,939</u>
Total capital assets	<u>744,170</u>	<u>13,750,769</u>	<u>14,494,939</u>
Accumulated depreciation			
Water and sewer plant		3,045,791	3,045,791
Harbor and dock facilities		1,010,818	1,010,818
Garbage equipment		15,208	15,208
Total accumulated depreciation		<u>4,071,817</u>	<u>4,071,817</u>
Business-type activities capital assets, net	<u>\$744,170</u>	<u>\$9,678,952</u>	<u>\$10,423,122</u>

Note 3 – Detailed Notes on All Funds (Continued)

The net effect of this restatement to report capital assets was changes in net position as follows:

Proprietary Fund Restatement of Net Position

	Water & Sewer Fund	Harbor & Dock Fund	Garbage & Landfill Fund	Total
Net position as of 6/30/13	115,941	801,178	(1,271)	915,848
Addition of capital assets	6,678,137	2,986,900	13,915	9,678,952
Net position restated as of 6/30/13	<u>6,794,078</u>	<u>3,788,078</u>	<u>12,644</u>	<u>10,594,800</u>

Government-wide Restatement of Net Position

	Governmental Activities	Business-type Activities	Total
Net position as of 6/30/13	378,827	915,848	1,294,675
Addition of capital assets	7,667,432	9,678,952	17,346,384
Net position restated as of 6/30/13	<u>8,046,259</u>	<u>10,594,800</u>	<u>18,641,059</u>

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

	Restated Balance 06/30/13	Additions	Deletions	Balance 06/30/14
Governmental activities:				
Nondepreciable capital assets				
Tidelands	380,000			380,000
Land	2,940,920		3,980	2,936,940
Construction in progress	981,421		981,421	
Total Nondepreciable capital assets	<u>4,302,341</u>		<u>985,401</u>	<u>3,316,940</u>
Depreciable capital assets				
Infrastructure	2,403,452			2,403,452
Buildings	1,328,758	1,571,655		2,900,413
Machinery and equipment	443,680	58,708		502,388
Total depreciable capital assets	<u>4,175,890</u>	<u>1,630,363</u>		<u>5,806,253</u>
Total capital assets	<u>8,478,231</u>	<u>1,630,363</u>	<u>985,401</u>	<u>9,123,193</u>
Accumulated depreciation				
Infrastructure	503,848	60,086		563,934
Buildings	142,414	60,318		202,732
Machinery and equipment	164,537	22,726		187,263
Total accumulated depreciation	<u>810,799</u>	<u>143,130</u>		<u>953,929</u>
Governmental activities capital assets, net	<u>\$7,667,432</u>	<u>\$1,487,233</u>	<u>\$985,401</u>	<u>\$8,169,264</u>

Note 3 – Detailed Notes on All Funds (Continued)

	Restated Balance 06/30/13	Additions	Deletions	Balance 06/30/14
Business-type activities:				
Nondepreciable capital assets				
Work in progress		8,117		8,117
Total Nondepreciable capital assets		8,117		8,117
Depreciable capital assets				
Water and sewer plant	9,723,928			9,723,928
Harbor and dock facilities	4,741,888			4,741,888
Garbage equipment	29,123			29,123
Total depreciable capital assets	14,494,939			14,494,939
Total capital assets	14,494,939	8,117		14,503,056
Accumulated depreciation				
Water and sewer plant	3,045,791	243,098		3,288,889
Harbor and dock facilities	1,010,818	128,088		1,138,906
Garbage equipment	15,208	1,942		17,150
Total accumulated depreciation	4,071,817	373,128		4,444,945
Business-type activities capital assets, net	\$10,423,122	\$(365,011)		\$10,058,111

3-D. Interfund Balances and Transfers

Interfund balances at June 30, 2014 consisted of the following amounts and represent charges for services or reimbursable expenses. These remaining balances resulted from the time lag between the dates that (1) Interfund goods or services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting period, and (3) payments between funds are made. The City expects to repay all Interfund balances within one year.

Payable To:	Payable From:				Total
	USDA Power Line Grant Fund	Garbage and Landfill Fund	Gaming Fund	General Fund	
Water & Sewer	29,507				29,507
Harbor & Dock	9,434				9,434
Garbage and Landfill	559				559
General Fund	2,764		10,432		13,196
Trailbuilding Equipment	45,000				45,000
	\$87,264	\$	\$10,432	\$	\$97,696

All City transfers either occur on a regular basis or are consistent with the purpose of the fund making the transfer. There were no interfund transfers for the year ended June 30, 2014.

Note 3 – Detailed Notes on All Funds (Continued)

Transfers are used to report revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed.

3-E. Land Sale Notes Receivable

On August 13, 2013, the City sold land to an individual and received a note for \$59,000 less a downpayment of \$5,900. The note bears interest at 10% per annum and provides for monthly payments of \$1,128.24, maturing August 31, 2018. The note balance of \$46,122 at June 30, 2014 was fully paid in FY 2015.

3-F. Operating Leases

The City leases fish processing equipment and dock space to individuals and businesses on terms ranging from daily to annual. The City also leases a log transfer and storage facility to a company to sort and transfer logs on a monthly usage basis. None of these arrangements involve agreements extending beyond one year.

The City has an agreement, beginning May 1, 2012, with Northend Ferry Authority (“Northend”) which leases the City’s ferry terminal to Northend and authorizes Northend to berth its vessel at the terminal and use the transfer bridge, adjacent dock, and yards and buildings as necessary to load and discharge passengers and vehicles, and related purposes. The term of the agreement is for one year with twenty-nine one-year renewal options which automatically renew unless written notice of termination is provided seven days before renewal date and provides for an annual payment of \$1,800. The future minimum lease payments for this lease are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2015	1,800
2016	1,800
2017	1,800
2018	1,800
2019	1,800
2020-2024	9,000
2025-2029	9,000
2030-2034	9,000
2035-2039	9,000
2040-2041	3,600
Total	<u>\$48,600</u>

Note 3 – Detailed Notes on All Funds (Continued)

Property held for leasing is the entire harbor and dock facility in the Harbor and Dock enterprise fund with a cost of \$4,750,005 and fish processing equipment, ferry terminal building and land in the governmental activities with a cost of \$1,117,037.

3-G. Net Position

The “invested in capital assets, net of related debt” on the government-wide statement of net position as of June 30, 2014 is as follows:

	Governmental Activities	Business-Type Activities
Invested in capital assets, net of related debt:		
Cost of capital assets	9,123,193	14,503,056
Less accumulated depreciation	(953,929)	(4,444,945)
Less note payable	(0)	(0)
	<u>\$8,169,264</u>	<u>\$10,058,111</u>
Invested in capital assets, net of related debt	<u>\$8,169,264</u>	<u>\$10,058,111</u>

3-H. Fund Balances

Restricted – The following fund balance is restricted for:

Special Revenue Funds:

<i>Gaming Fund</i> – Restricted by state law for charitable purposes	<u>\$4,471</u>
--	----------------

Assigned – General Fund

Assigned to fish enhancement	59,651
Assigned to volunteer fire department	1,965
Assigned to FY 2014 budget	<u>63,262</u>

Total	<u>\$124,878</u>
--------------	------------------

Note 4 – Other Notes

4-A. Risk Management

The City of Coffman Cove is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and, natural disasters. The City obtained insurance to cover these risks by participating in a public entity risk pool. Insurance coverage includes \$3 million general liability, public official’s and employer’s liability, property and casualty coverage, and workers’ compensation at statutory limits. Settled claims resulting from these risks did not exceed insurance coverage for any of the past three years.

Note 4 – Other Notes (Continued)

The public entity risk pool's responsibilities include the following:

- (1) Provide insurance coverage as necessary including, but not limited to, a self-insurance fund and commercial insurance, as well as excess coverage and umbrella insurance, by negotiation or bid, and purchase, as necessary.
- (2) Provide loss prevention and safety and consulting services to participants, provide loss analysis, evaluate proper levels of self-retention and deductibles and review participants' contracts to determine sufficiency of indemnity and insurance provisions.
- (3) Provide claims adjusting and subrogation services for claims covered by the Association's Joint Insurance Arrangement.

The responsibilities of the City are as follows:

- (1) Provide a representative to attend Members' meetings and to serve as a liaison between the participant and the Association as to risk management.
- (2) Each participant shall maintain an active safety officer and/or committee, and shall comply with all recommendations of the Association concerning the development and implementation of a loss control policy to prevent unsafe practices.
- (3) Each participant shall maintain its own set of loss records to insure accuracy of the Association's loss reporting system.
- (4) Each participant shall pay its premium and any readjusted amount promptly to the Association when due. Upon withdrawal, cancellation by the Board, or other termination, each participant shall immediately pay to the Association its share of any additional deposits, calculated pro rata to the date of withdrawal, cancellation, or other termination, plus accrued interest at the rate of 10.5% per annum, plus, in the case of a participant that terminates its participation for any reason before the end of the term of the Agreement, liquidated damages in an amount equal to 20 percent of the participant's current deposits for each year remaining in the term of the Agreement.
- (5) No participant shall enter into an agreement to purchase insurance for the risks as to which insurance will be provided under the Agreement, for coverage during the period that said participant is a member of the program.

4-B. Economic Dependency/Concentrations

The City is economically dependent on discretionary federal and state operating grants, which provide over 36% of its general fund revenues.

Note 4 – Other Notes (Continued)

4-C. Commitments

The City has active construction projects as of June 30, 2014. The projects include powerline extension and a harbor drive-down ramp construction. Both involve a combination of local funding and federal and state grants. At June 30, 2014, the powerline extension project was under construction, and the drive-down ramp was in planning.

The City operates a post office under contract with the United States Postal Service. The contract provides for payment of \$16,744 per year paid in equal monthly increments for an indefinite term.

4-D. Contingent Liabilities

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could result in a request for reimbursement to the grantor agency for costs disallowed under terms of the grant. Based on prior experience, the City believes such disallowances, if any, will be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF COFFMAN COVE
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Intergovernmental				
State revenue sharing	104,566	104,566	104,611	45
Fisheries tax	10,000	10,000	7,644	(2,356)
Forest receipts		68,500	51,280	(17,220)
Payment in lieu of taxes	33,811	37,380	37,385	5
Other grants and reimbursements	16,500	27,529	31,749	4,220
Charges for services				
Post office contract	16,800	16,800	16,744	(56)
Fees for services rendered	10,200	9,900	11,185	1,285
Lease and rental income	8,500	10,000	12,672	2,672
Rock, gravel and land sales	106,895	42,800	122,095	79,295
Interest	6,000	7,000	34,643	27,643
Donations	1,000	3,240	2,449	(791)
Miscellaneous income	200	500	3,489	2,989
Total revenues	<u>314,472</u>	<u>338,215</u>	<u>435,946</u>	<u>97,731</u>
Expenditures				
Council	5,140	6,940	6,986	(46)
Administration	104,741	102,126	96,451	5,675
Maintenance	41,789	33,139	27,411	5,728
Streets and roads	34,687	38,834	22,462	16,372
Parks and recreation	8,102	9,182	7,236	1,946
Public safety and street lights	1,700	1,700	1,115	585
Fire	6,574	19,445	30,718	(11,273)
Emergency medical service	6,569	8,469	4,437	4,032
Business training center	1,600	1,600	49	1,551
Rentals	5,450	6,778	6,272	506
Library	15,225	18,040	22,907	(4,867)
Post office	22,970	23,510	21,371	2,139
Health clinic	6,900	5,640	7,246	(1,606)
Fish enhancement	17,453	15,333	13,928	1,405
Tourism coordinator	11,950	11,860	8,832	3,028
Total expenditures	<u>290,850</u>	<u>302,596</u>	<u>277,421</u>	<u>25,175</u>

CITY OF COFFMAN COVE
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)
For the Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>23,622</u>	<u>35,619</u>	<u>158,525</u>	<u>122,906</u>
Other Financing Sources (Uses)				
Insurance proceeds			6,084	6,084
Collection of long-term note	<u>22,970</u>			
Total other financing sources (uses)	<u>22,970</u>		<u>6,084</u>	<u>6,084</u>
Net change in fund balances - budgetary basis	46,592	35,619	164,609	128,990
Forest receipts received but not expensed during the year			<u>(28,819)</u>	<u>(28,819)</u>
Net change in fund balances - modified accrual basis			135,790	100,171
Fund balances beginning of year	<u>540,945</u>	<u>540,945</u>	<u>369,571</u>	<u>(171,374)</u>
Fund balances end of year	<u>\$ 587,537</u>	<u>\$ 576,564</u>	<u>\$ 505,361</u>	<u>\$ (71,203)</u>

CITY OF COFFMAN COVE
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
COUNCIL				
Stipends, taxes & benefits	2,640	2,640	3,937	(1,297)
Travel, per diem & training	2,350	4,150	3,049	1,101
Miscellaneous	150	150		150
	<u>5,140</u>	<u>6,940</u>	<u>6,986</u>	<u>(46)</u>
ADMINISTRATION				
Personnel	41,415	42,250	43,332	(1,082)
Travel, per diem & training	9,900	10,100	11,563	(1,463)
Professional and legal	30,200	29,200	20,139	9,061
Equipment purchases			1,085	(1,085)
Insurance	2,376	2,376	1,955	421
Equipment & building repair & maint	2,100	2,800	818	1,982
Materials & supplies	3,600	3,600	3,661	(61)
Membership & dues	1,800	1,600	3,621	(2,021)
Utilities & telephone	10,000	6,000	6,233	(233)
Equipment fuel			93	(93)
Promotional & donations	500	2,000	1,513	487
Programs & decorations	800	800	367	433
Bank charges	1,750	200	2,071	(1,871)
Miscellaneous	300	1,200		1,200
	<u>104,741</u>	<u>102,126</u>	<u>96,451</u>	<u>5,675</u>
MAINTENANCE				
Personnel	24,650	19,000	18,107	893
Contract services			896	(896)
Equipment purchases	2,500	500		500
Insurance	779	1,779	1,358	421
Equipment & building repair & maint	4,000	4,000	982	3,018
Materials & supplies	2,500	1,500	649	851
Utilities & telephone	3,860	2,860	2,890	(30)
Equipment fuel	3,500	3,500	2,529	971
	<u>41,789</u>	<u>33,139</u>	<u>27,411</u>	<u>5,728</u>

CITY OF COFFMAN COVE
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (CONTINUED)
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
STREETS & ROADS				
Personnel	9,750	9,750	7,442	2,308
Contract services	10,000	10,000		10,000
Equipment purchases	5,000	5,300	6,079	(779)
Insurance	937	784	543	241
Equipment & building repair & maint	5,000	5,000	2,698	2,302
Materials & supplies	500	500		500
Utilities & telephone			57	(57)
Equipment fuel	2,500	2,500	2,018	482
Miscellaneous	1,000	5,000	3,625	1,375
	<u>34,687</u>	<u>38,834</u>	<u>22,462</u>	<u>16,372</u>
PARKS & RECREATION				
Personnel	5,850	6,730	5,993	737
Equipment purchases	200	200		200
Equipment & building repair & maint	1,000	1,000	98	902
Materials & supplies	500	500	492	8
Utilities & telephone		200	117	83
Equipment fuel	200	200	184	16
Insurance	352	352	352	
	<u>8,102</u>	<u>9,182</u>	<u>7,236</u>	<u>1,946</u>
PUBLIC SAFETY & STREET LIGHTS				
Utilities & telephone	1,700	1,700	1,115	585
	<u>1,700</u>	<u>1,700</u>	<u>1,115</u>	<u>585</u>
FIRE				
Personnel	2,624	2,695	1,885	810
Travel, per diem & training		450	532	(82)
Professional and legal		800	360	440
Fireworks			4,213	(4,213)
Equipment purchases		8,450	16,848	(8,398)
Equipment & building repair & maint	1,000	2,000	3,230	(1,230)
Materials & supplies		1,100	320	780
Insurance		800	558	242
Utilities & telephone	2,650	2,650	2,772	(122)
Equipment fuel		200		200
Miscellaneous	300	300		300
	<u>6,574</u>	<u>19,445</u>	<u>30,718</u>	<u>(11,273)</u>

CITY OF COFFMAN COVE
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (CONTINUED)
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
EMERGENCY MEDICAL SERVICE				
Personnel	1,050	1,100	1,031	69
Travel, per diem & training	1,000	2,500	1,427	1,073
Equipment & building repair & maint			466	(466)
Materials & supplies	1,300	1,300	54	1,246
Membership & dues	200	200		200
Utilities & telephone	200	550	640	(90)
Equipment fuel	2,000	2,000		2,000
Insurance	819	819	819	
	<u>6,569</u>	<u>8,469</u>	<u>4,437</u>	<u>4,032</u>
BUSINESS TRAINING CENTER				
Equipment & building repair & maint	500	500		500
Utilities & telephone	1,100	1,100	49	1,051
	<u>1,600</u>	<u>1,600</u>	<u>49</u>	<u>1,551</u>
RENTALS				
Contract services			432	(432)
Equipment purchases	2,050	2,050		2,050
Equipment & building repair & maint	1,000	1,000	540	460
Materials & supplies			340	(340)
Insurance		1,028	1,028	
Utilities & telephone	2,400	2,700	3,932	(1,232)
	<u>5,450</u>	<u>6,778</u>	<u>6,272</u>	<u>506</u>
LIBRARY				
Personnel	3,850	8,460	8,714	(254)
Equipment purchases			2,685	(2,685)
Insurance	675	700	693	7
Membership & dues	500	780	769	11
Equipment & building repair & maint	1,000	1,000	809	191
Materials & supplies	3,900	3,400	3,119	281
Utilities & telephone	5,300	3,700	5,275	(1,575)
Miscellaneous			843	(843)
	<u>15,225</u>	<u>18,040</u>	<u>22,907</u>	<u>(4,867)</u>

CITY OF COFFMAN COVE
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (CONTINUED)
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
POST OFFICE				
Personnel	19,350	19,790	17,041	2,749
Insurance	500	500	500	
Equipment & building repair & maint	500	500	437	63
Materials & supplies	350	350	488	(138)
Utilities & telephone	2,270	2,370	2,905	(535)
	<u>22,970</u>	<u>23,510</u>	<u>21,371</u>	<u>2,139</u>
HEALTH CLINIC				
Personnel			474	(474)
Equipment & building repair & maint	1,000	500	109	391
Materials & supplies		100	1,571	(1,471)
Utilities & telephone	3,700	1,840	2,900	(1,060)
Insurance	1,200	2,200	2,192	8
Miscellaneous	1,000	1,000		1,000
	<u>6,900</u>	<u>5,640</u>	<u>7,246</u>	<u>(1,606)</u>
FISH ENHANCEMENT				
Personnel	2,370	2,370	2,022	348
Contract services	13,125	10,905	10,905	
Equipment & building repair & maint	1,000	1,000	223	777
Materials & supplies		100	120	(20)
Equipment fuel	300	300		300
Insurance	658	658	658	
	<u>17,453</u>	<u>15,333</u>	<u>13,928</u>	<u>1,405</u>
TOURISM COORDINATOR				
Personnel	3,750	3,750	1,331	2,419
Travel, per diem, & training	200	100	181	(81)
Insurance	100	110	111	(1)
Materials & supplies	500	500	746	(246)
Promotional & donations	7,400	7,400	6,463	937
	<u>11,950</u>	<u>11,860</u>	<u>8,832</u>	<u>3,028</u>
 Total expenditures	 <u>\$ 290,850</u>	 <u>\$ 302,596</u>	 <u>\$ 277,421</u>	 <u>\$ 25,175</u>

CITY OF COFFMAN COVE
Notes to Required Supplementary Information
For the Year Ended June 30, 2014

Note 1 – Budgetary Basis

The budget for the general fund is adopted on a basis consistent with generally accepted accounting principles (GAAP).

Annual budgets are also adopted for the gaming fund expenditures but lack budget amounts for revenues. Other governmental funds besides the general fund and the gaming fund have program budgets which do not necessarily follow the fiscal year of the City or there is no budget adopted.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

COMBINING STATEMENTS NONMAJOR GOVERNMENTAL FUNDS

CITY OF COFFMAN COVE
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2014

	Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
	<u> </u>	<u> </u>
ASSETS		
Cash	14,903	14,903
Intergovernmental receivable		
	<u> </u>	<u> </u>
Total assets	<u>\$ 14,903</u>	<u>\$ 14,903</u>
 LIABILITIES AND FUND BALANCES		
Liabilities		
Interfund payable	<u>10,432</u>	<u>10,432</u>
Total liabilities	<u>10,432</u>	<u>10,432</u>
 Fund balances		
Restricted for charitable purposes	<u>4,471</u>	<u>4,471</u>
Total fund balance	<u>4,471</u>	<u>4,471</u>
	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 14,903</u>	<u>\$ 14,903</u>

CITY OF COFFMAN COVE
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
 BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2014

	Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
Revenues		
Intergovernmental		
Gaming proceeds	6,090	6,090
Other	150	150
Total revenues	<u>6,240</u>	<u>6,240</u>
Expenditures		
General government		
Gaming	11,025	11,025
Total expenditures	<u>11,025</u>	<u>11,025</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(4,785)</u>	<u>(4,785)</u>
Net change in fund balances	(4,785)	(4,785)
Fund balances beginning of year	<u>9,256</u>	<u>9,256</u>
Fund balances end of year	<u><u>\$ 4,471</u></u>	<u><u>\$ 4,471</u></u>

NONMAJOR SPECIAL REVENUE FUNDS

Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, debt service resources, or major capital projects) that are restricted to expenditures for specific purposes.

Gaming Fund - This fund is used to account for gaming activities such as fishing derbies and raffles. By state law, proceeds are restricted to expenditure or contribution for charitable purposes.

CITY OF COFFMAN COVE
 COMBINING BALANCE SHEET - NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2014

	<u>Gaming Fund</u>	<u>Total</u>
ASSETS		
Cash	<u>14,903</u>	<u>14,903</u>
Total assets	<u>\$ 14,903</u>	<u>\$ 14,903</u>
LIABILITIES AND FUND BALANCES		
Liabilities		
Interfund payable	<u>10,432</u>	<u>10,432</u>
Total liabilities	<u>10,432</u>	<u>10,432</u>
Fund balances		
Restricted for charitable purposes	<u>4,471</u>	<u>4,471</u>
Total fund balances	<u>4,471</u>	<u>4,471</u>
Total liabilities and fund balances	<u>\$ 14,903</u>	<u>\$ 14,903</u>

CITY OF COFFMAN COVE
GAMING FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Gaming proceeds	4,000	4,000	6,090	2,090
Donations			150	150
Total revenues	<u>4,000</u>	<u>4,000</u>	<u>6,240</u>	<u>2,240</u>
Expenditures				
Personnel	7,200	7,200	4,799	2,401
Donations and annual events	5,800	7,140	5,444	1,696
Materials and supplies	1,600	1,100	701	399
Halibut derby & marketing	2,500	1,000		1,000
Other expenses	50	50	81	(31)
Total expenditures	<u>17,150</u>	<u>16,490</u>	<u>11,025</u>	<u>5,465</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(13,150)</u>	<u>(12,490)</u>	<u>(4,785)</u>	<u>7,705</u>
Net Change in Fund Balance	(13,150)	(12,490)	(4,785)	7,705
Fund balance beginning of year			<u>9,256</u>	<u>9,256</u>
Fund balance end of year	<u>\$ (13,150)</u>	<u>\$ (12,490)</u>	<u>\$ 4,471</u>	<u>\$ 16,961</u>

COMPLIANCE REPORT

CITY OF COFFMAN COVE, ALASKA

FEDERAL SINGLE AUDIT REPORT

For the Year Ended June 30, 2014

This report includes the following:

Schedule of Expenditures of Federal Awards

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements

Performed in Accordance with *Government Auditing Standards*

Report on Compliance For Each Major Federal Program and Report on
Internal Control Over Compliance Required by OMB Circular A-133

Schedule of Findings and Questioned Costs

CITY OF COFFMAN COVE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014

	CFDA Number	Grant/ Program Number	Award amount	(Def Revenue) Grant Rec at 7/1/13	Activity during the year ended June 30, 2014		(Def Revenue) Grant Rec at 6/30/14
					Receipts	Expenditures	
<u>DIRECT FEDERAL PROGRAMS</u>							
U.S. DEPARTMENT OF AGRICULTURE - RURAL UTILITIES SERVICE							
Coffman Cove Renewable Energy Distribution Microgrid	10.859		175,000			87,264	87,264
TOTAL DIRECT FEDERAL FINANCIAL ASSISTANCE			175,000			87,264	87,264
<u>PASS THROUGH FUNDS</u>							
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT -							
PASSED THROUGH STATE OF ALASKA, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT							
Health Clinic Construction	14.228	10-CDBG-003	239,697		17,202	17,202	
DENALI COMMISSION							
PASSED THROUGH STATE OF ALASKA, DEPARTMENT OF HEALTH AND SOCIAL SERVICES							
Coffman Cove Clinic Construction Management	90.100	PA 1024-N	72,861		72,861	72,861	
Coffman Cove Clinic Construction	90.100	65C-12-290	1,216,052	20,360	611,678	591,318	
Total Indirect Denali Commission			1,288,913	20,360	684,539	664,179	
U.S. DEPARTMENT OF AGRICULTURE							
PASSED THROUGH STATE OF ALASKA, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT							
National Forest Receipts - Roads - 2012	10.665		81,807	(62,524)		22,461	(40,063)
National Forest Receipts - Roads - 2013	10.665		70,607	(70,607)			(70,607)
National Forest Receipts - Roads - 2014	10.665		51,280		51,280		(51,280)
Total Indirect U.S. Department of Agriculture			203,694	(133,131)	51,280	22,461	(161,950)
U.S. DEPARTMENT OF INTERIOR - BUREAU OF LAND MANAGEMENT							
PASSED THROUGH STATE OF ALASKA, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT							
Federal Payment in Lieu of Tax (PILT)	15.226		37,385		37,385	37,385	
U.S. DEPARTMENT OF COMMERCE							
PASSED THROUGH THE ALASKA STATE LIBRARY							
Alaska OWL Internet Technology Aide (ARRA)	11.557	02-42-b10560	7,280		7,280	7,280	
Alaska OWL Project Early Learning Station	11.557	02-42-b10560	2,685		2,685	2,685	
Total Indirect U.S. Department of Commerce			9,965		9,965	9,965	

CITY OF COFFMAN COVE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014

	CFDA Number	Grant/ Program Number	Award amount	(Def Revenue)	Activity during the year ended June 30, 2014		(Def Revenue)
				Grant Rec at 7/1/13	Receipts	Expenditures	Grant Rec at 6/30/14
U.S. DEPARTMENT OF AGRICULTURE - FOREST SERVICE							
PASSED THROUGH STATE OF ALASKA, DEPARTMENT OF NATURAL RESOURCES							
2013 Volunteer Fire Assistance	10.664		8,649		8,649	8,649	
U.S. ENVIRONMENTAL PROTECTION AGENCY							
PASSED THROUGH STATE OF ALASKA, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT							
Congressionally Mandated Projects - RUBA							
Training & Travel Reimbursements	66.202	9	3,697		3,697	3,697	
TOTAL FEDERAL FINANCIAL ASSISTANCE PASSED THROUGH THE STATE OF ALASKA			1,792,000	(112,771)	812,717	763,538	(161,950)
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 1,967,000	\$ (112,771)	\$ 812,717	\$ 850,802	\$ (74,686)

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED June 30, 2014

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Coffman Cove, Alaska and is presented on the basis of generally accepted accounting principles (GAAP) as applied to government units. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

**MECHAM, RICHARDSON AND COMPANY
CERTIFIED PUBLIC ACCOUNTANTS**

Member of the AICPA Private Companies Practice Section

1734 TONGASS AVENUE
KETCHIKAN, ALASKA 99901
(907) 225-9688
FAX (907) 225-9687

Partners
Edward B. Mecham, CPA
S. Dirk Richardson, CPA

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

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council
City of Coffman Cove
Coffman Cove, Alaska

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Coffman Cove, Alaska ("City"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 8, 2015.

Internal Control Over Financial Reporting

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

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

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

To the Honorable Mayor and
Members of the City Council
City of Coffman Cove

Compliance and Other Matters

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

Purpose of this Report

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

Mecham, Richardson and Company

Ketchikan, Alaska
July 8, 2015

**MECHAM, RICHARDSON AND COMPANY
CERTIFIED PUBLIC ACCOUNTANTS**

Member of the AICPA Private Companies Practice Section

1734 TONGASS AVENUE
KETCHIKAN, ALASKA 99901
(907) 225-9688
FAX (907) 225-9687

Partners
Edward B. Mecham, CPA
S. Dirk Richardson, CPA

**Report on Compliance For Each Major Federal Program and Report on
Internal Control Over Compliance Required by OMB Circular A-133**

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Coffman Cove
Coffman Cove, Alaska

Report on Compliance for Each Major Federal Program

We have audited the City of Coffman Cove, Alaska's ("the City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2014. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

To the Honorable Mayor and
Members of the City Council
City of Coffman Cove

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Ketchikan, Alaska
July 8, 2015

Honorable Mayor and Members of the City Council
 City of Coffman Cove
 Coffman Cove, Alaska

**City of Coffman Cove, Alaska
 Federal Schedule of Findings and Questioned Costs
 Year Ended June 30, 2014**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	<u>Unmodified</u>		
Internal control over financial reporting:			
Material weakness identified?	<u> </u> Yes	<u> X </u>	No
Significant deficiency identified?	<u> </u> Yes	<u> X </u>	No
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u>	No

Federal Awards

Internal control over major programs:			
Material weakness identified?	<u> </u> Yes	<u> X </u>	No
Significant deficiency identified?	<u> </u> Yes	<u> X </u>	No

Type of auditors' report issued on compliance for major program:	<u>Unmodified</u>		
--	-------------------	--	--

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	<u> </u> Yes	<u> X </u>	No
--	-------------------	--------------	----

Identification of major programs:	
<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
90.100	Coffman Cove Clinic Construction

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
--	------------------

Auditee qualified as low-risk auditee?	<u> </u> Yes	<u> X </u>	No
--	-------------------	--------------	----

Section II - Financial Statement Findings

No matters were reported.

Honorable Mayor and Members of the City Council
City of Coffman Cove
Coffman Cove, Alaska

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

Section IV - Prior Year Findings

Finding 2013-01 from the prior year federal *Government Auditing Standards* report addressed the absence of capital asset records. That finding has been resolved in FY 2014. A physical inventory was taken and the City went through the process of determining acquisition dates and costs or reasonable estimates of value at acquisition and then calculated accumulated depreciation. The capital assets were audited and are now included in the financial statements.

**MECHAM, RICHARDSON AND COMPANY
CERTIFIED PUBLIC ACCOUNTANTS**

Member of the AICPA Private Companies Practice Section

1734 TONGASS AVENUE
KETCHIKAN, ALASKA 99901
(907) 225-9688
FAX (907) 225-9687

Partners
Edward B. Mecham, CPA
S. Dirk Richardson, CPA

MANAGEMENT LETTER

To the Honorable Mayor and
Members of the City Council
City of Coffman Cove
Coffman Cove, Alaska

We would like to thank the City of Coffman Cove staff for the cooperation we received during our engagement to audit the financial statements of the City of Coffman Cove for the fiscal year ended June 30, 2014. During the course of our engagement we discussed several areas of both an operational and internal control nature with City administrative and accounting personnel. The following comments, together with suggested solutions, represent areas where improvement would strengthen the City's operating effectiveness. The compliance section of the auditor's reports should be read in conjunction with this management letter.

Comment 14-01 Expenditure Documentation (Revised and Repeated Comment from Prior Year)

During the course of our audit we noted several instances in which City staff were unable to locate documentation supporting expenditures made and recorded in the City's books. Also, some supporting documents had not been initialed to show that they had been reviewed and approved for payment by an authorized City official.

Recommendation

We recommend that the City not release payment until after receiving documentary support, initialed approval by the City Administrator or other appropriate City official, and that care be taken to ensure that documents are promptly filed in their proper location. If the expenditure is one that would not generate an invoice such as a derby prize payment, there should be some documentation such as a receipt signed by the prize winner to document the propriety and authenticity of the expenditure.

Comment 14-02 Payroll and Personnel Files

During the course of our audit we noted that three I-9 forms were incomplete and some were missing the signature of the verifying City official. Some personnel files were missing current wage rate authorizations.

Recommendation

We recommend that the City review all personnel files and properly complete and sign incomplete I-9s, and obtain and file any missing pay-rate authorizations and other necessary documents.

MECHAM, RICHARDSON AND COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

To the Honorable Mayor and
Members of the City Council
City of Coffman Cove

Comment 14-03 Grant Expenditure Coding

We noted a payment for contract services for a grant used to build a capital asset was miscoded to an operating expense account. The previous payment to that vendor was properly coded to that operating expense account and Quickbooks automatically codes a payment to a vendor to the same account as the immediately previous payment to that same vendor. This was the initial payment on that project and City personnel said they thought the project didn't start until fiscal year 2015, so reimbursement from the grantor might not be available if the grant closed before the error was detected.

Recommendation

We recommend that the City personnel involved with recording and approving accounts payable be alert to this tendency in Quickbooks and make sure codes are changed when necessary.

We have experience assisting our clients in designing and implementing procedures such as those recommended above. Therefore, if we can be of any assistance, please do not hesitate to contact us. Additionally, if you would like to discuss any of these matters further, we would be happy to do so.

This report is intended solely for the information and use of the City of Coffman Cove's City Council, management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ketchikan, Alaska
July 8, 2015