

CITY OF KAKE

Letter to the Governing Board

Year Ended June 30, 2015

*Altman, Rogers  
& Co.* | CERTIFIED  
PUBLIC  
ACCOUNTANTS

CITY OF KAKE

Letter to the Governing Board

Year Ended June 30, 2015

February 15, 2016

Honorable Mayor and City Council  
City of Kake  
Kake, Alaska

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kake for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 12, 2015. Professional standards also require that we communicate to you the following information related to our audit.

We did not audit the financial statements of the City of Kake School District, a discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us and our opinion insofar as it related to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors. The financial statements of the City of Kake School District were audited in accordance with *Governmental Auditing Standards*.

#### Significant Accounting Policies and Transactions

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Kake are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015. We noted no transactions entered into by the City of Kake during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period, except for transactions related to capital assets. The City of Kake has not maintained an adequate capital asset listing the amount and effect that those transactions would have on the City of Kake's basic financial statements has not been determined.

#### Accounting Estimates and Disclosures

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

##### Governmental activities opinion unit:

Management's estimate of the useful lives and depreciation is based upon the expected life of an asset. We evaluated the key factors and assumptions used to develop the useful lives and depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole. Management has not maintained a complete and accurate capital asset listing and as such our evaluation of estimates is based on incomplete information.

##### All opinion units:

Management's estimate of the collectability of accounts receivable is based on historical collections. We evaluated the key factors and assumptions used to develop the collectability of accounts receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

#### Financial Statement Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were included in Note IV including risk management and contingent liabilities, including any expenditures disallowed by granting agencies. The financial statement disclosures are neutral, consistent and clear.

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management.

- \$123,000 entry to defer forest receipts revenue until subsequent year.

#### Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 15, 2016.

#### Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the City of Kake’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### Major Issues Discussed with Management Prior to Retention

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### Internal Controls and Other Matters

See the June 30, 2015 financial statements, compliance section for definitions of deficiencies, significant deficiencies, material weaknesses and any related findings.

#### Accounting Assistance

As part of our engagement, we drafted the basic financial statements of the City from the City’s accounting records; however, management of the City was involved in the drafting process and retains responsibility for the basic financial statements.

#### Other Matters

#### **Grant Reform**

The Office of Management and Budget recently published final guidelines on grant reforms, which are to go into effect on December 26, 2015. The new threshold for federal audits will be raised from \$500,000 to \$750,000. Included in the new guidelines are significant reforms to administrative requirements, cost principles, requirements for risk assessment, standards for financial and program management, subrecipient monitoring and audit requirements. Written policies are strongly encouraged and the lack of written policies may result in compliance findings.

Procurement standards will require entities to have strong policies preventing organizational conflicts of interest which will be used to protect the integrity of procurements under federal awards and subawards. For Internal Controls, institutions must establish and maintain effective internal controls over federal awards, and the controls should be in compliance with guidance in *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States and the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Nonfederal entities will also need to take reasonable measures to safeguard protected personally identifiable information.

These new requirements will be for all new awards obtained after December 26, 2014 and will be subject to the new guidelines under the audit for the year ended June 30, 2015. We encourage management to review these new guidelines and establish written policies and procedures to remain in compliance with all new requirements related to this grant reform.

Supplementary Information

We were engaged to report on the schedule of state financial assistance, the schedule of revenues, expenditures and changes in fund balance – budget and actual for General Fund, the schedules of revenues, expenditures and changes in fund balance for the major capital project funds, and the combining and individual nonmajor fund financial statements, which accompany the financial statements. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of members of the City Council and management of the City of Kake and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script that reads "Altman, Rogers & Co." The signature is written in black ink and is positioned above the printed name of the firm.

Anchorage, Alaska

CITY OF KAKE, ALASKA

Basic Financial Statements,  
Additional Supplementary Information  
and Compliance Report

Year Ending June 30, 2015

*Altman, Rogers  
& Co.* | CERTIFIED  
PUBLIC  
ACCOUNTANTS

CITY OF KAKE, ALASKA

Basic Financial Statements,  
Additional Supplementary Information  
and Compliance Report

Year Ending June 30, 2015

CITY OF KAKE, ALASKA

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CITY OF KAKE, ALASKA

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## **Independent Auditor's Report**

Honorable Mayor and City Council  
City of Kake, Alaska

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Kake, Alaska, as of and for the year ended June 30, 2015, 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 did not audit the financial statements of the Kake City School District, which is a discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion insofar as it relates to the amounts included for Kake City School District, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Honorable Mayor and City Council  
City of Kake, Alaska

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

### **Basis for Adverse Opinion on Governmental Activities**

As discussed in Note IV (5) to the financial statements, management has not recorded capital assets related to Kake City School District and other general infrastructure assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those capital assets and general infrastructure assets be capitalized and depreciated, which would increase the assets, net position, and expenses of the governmental activities. The amount by which this departure would affect the assets, net position, and expenses of the governmental activities has not been determined.

### **Adverse Opinions**

In our opinion, because of the significance of the matters discussed in the “Basis for Adverse Opinion on Governmental Activities” paragraph, the financial statements referred to above do not present fairly the financial position of the governmental activities of the City of Kake, Alaska, as of June 30, 2015, or the 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.

### **Unmodified Opinions**

In our opinion, based upon our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the discretely presented component unit, business-type activities, each major governmental fund, the Kake Community Liquor Store Enterprise Fund, and the aggregate remaining fund information of the City of Kake, Alaska, as of June 30, 2015, and the respective changes in financial position, the respective budgetary comparison for the General Fund 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*

Management has omitted the Management, Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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.

Honorable Mayor and City Council  
City of Kake, Alaska

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kake, Alaska's basic financial statements. The schedule of revenues, expenditures and changes in fund balance – budget to actual for the General Fund, the schedules of revenues, expenditures and changes in fund balance for the major capital project funds, the combining and individual nonmajor fund financial statements, and the Schedule of State Financial Assistance which is presented as required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Additional Supplementary Information, as listed above, is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Additional Supplementary Information, as listed above, is 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 February 15, 2016, on our consideration of the City of Kake, Alaska's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Kake, Alaska's internal control over financial reporting and compliance.

*Altman, Rogers & Co.*

Anchorage, Alaska  
February 15, 2016

## CITY OF KAKE, ALASKA

## Statement of Net Position

June 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total Primary Government	Kake City School District
<u>Assets and Deferred Outflows of Resources</u>				
Current assets:				
Cash and cash equivalents:				
Unrestricted	\$ 725,274	218,039	943,313	862,060
Restricted	1,270,085	-	1,270,085	-
Receivables, net of allowances	1,003,341	-	1,003,341	111,728
Inventory	-	94,040	94,040	26,532
Internal balances	(23,528)	23,528	-	-
Total current assets	<u>2,975,172</u>	<u>335,607</u>	<u>3,310,779</u>	<u>1,000,320</u>
Non-current assets:				
Capital assets, net of accumulated depreciation	<u>7,909,657</u>	<u>4,538</u>	<u>7,914,195</u>	<u>165,826</u>
Deferred outflows of resources - pension	<u>-</u>	<u>-</u>	<u>-</u>	<u>164,038</u>
Total assets and deferred outflows of resources	<u>\$ 10,884,829</u>	<u>340,145</u>	<u>11,224,974</u>	<u>1,330,184</u>
<u>Liabilities and Deferred Inflows of Resources</u>				
Current liabilities:				
Accounts payable	\$ 965,710	602	966,312	16,333
Accrued payroll and payroll liabilities	19,193	8,855	28,048	49,301
Due to fiduciary funds	-	-	-	22,479
Unearned revenue	2,071,726	-	2,071,726	29,306
Total current liabilities	<u>3,056,629</u>	<u>9,457</u>	<u>3,066,086</u>	<u>117,419</u>
Net pension liability	-	-	-	1,003,825
Deferred inflows of resources - pension	<u>-</u>	<u>-</u>	<u>-</u>	<u>105,018</u>
Total liabilities and deferred inflows of resources	<u>3,056,629</u>	<u>9,457</u>	<u>3,066,086</u>	<u>1,226,262</u>
<u>Net Position</u>				
Net investment in capital assets	7,909,657	4,538	7,914,195	165,826
Unrestricted (deficit)	(81,457)	326,150	244,693	(61,904)
Total net position	<u>\$ 7,828,200</u>	<u>330,688</u>	<u>8,158,888</u>	<u>103,922</u>

The notes to the financial statements are an integral part of this statement.

CITY OF KAKE, ALASKA

Exhibit B-1

Statement of Activities

Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit Kake City School District
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business - type Activities	Total Primary Government	
Primary government:								
Governmental Activities:								
General government	\$ 403,476	734	-	188	(402,554)	-	(402,554)	-
Public safety	50,938	-	-	2,830	(48,108)	-	(48,108)	-
Public works	166,548	108,300	93,600	9,238	44,590	-	44,590	-
Public utilities	210,795	183,849	-	3,622,422	3,595,476	-	3,595,476	-
Community services	57,281	78,405	-	-	21,124	-	21,124	-
Education	130,780	-	-	-	(130,780)	-	(130,780)	-
Total governmental activities	\$ 1,019,818	371,288	93,600	3,634,678	3,079,748	-	3,079,748	-
Business type activities - liquor store	378,425	471,887	-	-	-	93,462	93,462	-
Total primary government	1,398,243	843,175	93,600	3,634,678	3,079,748	93,462	3,173,210	
Component Unit - School District	\$ 6,156,456	27,868	483,281	-				(5,645,307)
General revenues:								
Sales tax					224,862	-	224,862	-
Interest					-	-	-	261
Unrestricted grants and entitlements					456,259	-	456,259	2,433,448
Support from City of Kake					-	-	-	106,420
PERS and TRS On-behalf					-	-	-	2,700,396
E-rate					-	-	-	117,408
Other					33,049	-	33,049	100,215
Total general revenues					714,170	-	714,170	5,458,148
Change in net position					3,793,918	93,462	3,887,380	(187,159)
Net position - beginning of year					4,034,282	237,226	4,271,508	1,184,024
Restatement					-	-	-	(892,943)
Net position - end of year					\$ 7,828,200	330,688	8,158,888	103,922

The notes to the financial statements are an integral part of this statement.

## CITY OF KAKE, ALASKA

## Balance Sheet - Governmental Funds

June 30, 2015

Assets	Capital Project Funds					Total Governmental Funds
	General Fund	Water Sewer Replacement	Seaplane Dock Renovation	Harbor Renovation	Other Governmental Funds	
Unrestricted cash and cash equivalents	\$ 725,274	-	-	-	-	725,274
Restricted cash and cash equivalents	8,250	-	876,870	384,965	-	1,270,085
Receivables, net of allowances	59,594	943,443	-	-	304	1,003,341
Due from other funds	943,747	-	-	499,997	-	1,443,744
<b>Total assets</b>	<b>\$ 1,736,865</b>	<b>943,443</b>	<b>876,870</b>	<b>884,962</b>	<b>304</b>	<b>4,442,444</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances (Deficit)</b>						
Liabilities:						
Accounts payable	\$ 965,710	-	-	-	-	965,710
Payroll liabilities	19,193	-	-	-	-	19,193
Due to other funds	523,525	943,443	-	-	304	1,467,272
Unearned revenue	321,524	-	873,629	876,573	-	2,071,726
<b>Total liabilities</b>	<b>1,829,952</b>	<b>943,443</b>	<b>873,629</b>	<b>876,573</b>	<b>304</b>	<b>4,523,901</b>
Deferred Inflows of Resources:						
Unavailable revenues	1,524	-	-	-	-	1,524
Fund balances (deficit):						
Committed - Dock and Harbor Renovation	-	-	3,241	8,389	-	11,630
Unassigned	(94,611)	-	-	-	-	(94,611)
<b>Total fund balances (deficit)</b>	<b>(94,611)</b>	<b>-</b>	<b>3,241</b>	<b>8,389</b>	<b>-</b>	<b>(82,981)</b>
<b>Total liabilities, deferred inflows of resources and fund balances (deficit)</b>	<b>\$ 1,736,865</b>	<b>943,443</b>	<b>876,870</b>	<b>884,962</b>	<b>304</b>	<b>4,442,444</b>

The notes to the financial statements are an integral part of this statement.

CITY OF KAKE, ALASKA

Reconciliation of the Balance Sheet - Governmental  
Funds to the Statement of Net Position

June 30, 2015

Total fund balances (deficit) for governmental funds		\$	<u>(82,981)</u>
Amounts reported for <i>governmental activities</i> 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. These assets, net of accumulated depreciation, consist of:			
Construction in process	\$	5,841,663	
Buildings and improvements		2,422,978	
Vehicles		816,481	
Machinery and equipment		866,350	
Total capital assets		<u>9,947,472</u>	
Accumulated depreciation		<u>(2,037,815)</u>	
Total capital assets, net		<u>7,909,657</u>	<u>7,909,657</u>
Other assets that are not available to pay current-period expenditures and, therefore are considered deferred inflows in the fund financial statements			<u>1,524</u>
Net position of governmental activities	\$		<u><u>7,828,200</u></u>

The notes to the financial statements are an integral part of this statement.

## CITY OF KAKE, ALASKA

## Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) - Governmental Funds

Year Ended June 30, 2015

	General Fund	Capital Project Funds			Other Governmental Funds	Total Governmental Funds
		Water Sewer Replacement	Seaplane Dock Renovation	Harbor Renovation		
<b>Revenues:</b>						
Local sources:	\$					
Sales tax	224,862	-	-	-	-	224,862
Charges for service	371,288	-	-	-	-	371,288
Other	37,994	-	163	25	-	38,182
Intergovernmental:						
State of Alaska	272,928	3,570,102	-	-	64,388	3,907,418
Federal sources	276,931	-	-	-	-	276,931
Total revenues	<u>1,184,003</u>	<u>3,570,102</u>	<u>163</u>	<u>25</u>	<u>64,388</u>	<u>4,818,681</u>
<b>Expenditures:</b>						
Current:						
General government	400,104	-	-	-	-	400,104
Public safety	6,184	-	-	-	-	6,184
Public works	93,548	-	-	-	-	93,548
Public utilities	193,787	-	-	-	-	193,787
Community services	28,107	-	-	-	-	28,107
Education	130,780	-	-	-	-	130,780
Capital Outlay	-	3,570,102	-	-	64,388	3,634,490
Total expenditures	<u>852,510</u>	<u>3,570,102</u>	<u>-</u>	<u>-</u>	<u>64,388</u>	<u>4,487,000</u>
Excess (deficiency) of revenues over expenditures	<u>331,493</u>	<u>-</u>	<u>163</u>	<u>25</u>	<u>-</u>	<u>331,681</u>
Fund balances (deficit), beginning of year	<u>(426,104)</u>	<u>-</u>	<u>3,078</u>	<u>8,364</u>	<u>-</u>	<u>(414,662)</u>
Fund balances (deficit), end of year	<u>\$ (94,611)</u>	<u>-</u>	<u>3,241</u>	<u>8,389</u>	<u>-</u>	<u>(82,981)</u>

The notes to the financial statements are an integral part of this statement.

## CITY OF KAKE, ALASKA

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) -  
Governmental Funds to the Statement of Activities

Year Ended June 30, 2015

Net change in fund balance - total government funds		\$ <u>331,681</u>
Amounts reported for <i>governmental activities</i> in the statement of Activities is different because:		
Governmental funds report capital outlays as expenditures, however on the Statement of Activities, depreciation expense is recognized to allocate the cost of these items over their useful lives.		
This is the amount by which capital outlay exceeded depreciation in the current period:		
Capital outlay	3,634,490	
Depreciation expense	<u>(164,717)</u>	3,469,773
Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This is the amount of the change in unavailable revenues		<u>(7,536)</u>
Change in net position of governmental activities		\$ <u><u>3,793,918</u></u>

The notes to the financial statements are an integral part of this statement.

## CITY OF KAKE, ALASKA

## General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit) -  
Original and Final Budget and Actual

Year Ended June 30, 2015

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget- Positive (Negative)
Revenues:			
Local sources:			
Sales tax	\$ 232,682	224,862	(7,820)
Charges for services	92,406	371,288	278,882
Other	57,680	37,994	(19,686)
Intergovernmental:			
State of Alaska	248,772	272,928	24,156
Federal sources	88,000	276,931	188,931
Total revenues	<u>719,540</u>	<u>1,184,003</u>	<u>464,463</u>
Expenditures:			
Current:			
General government	280,380	400,104	(119,724)
Public safety	-	6,184	(6,184)
Public works	104,591	93,548	11,043
Public utilities	189,400	193,787	(4,387)
Community services	28,500	28,107	393
Education	-	130,780	(130,780)
Total expenditures	<u>602,871</u>	<u>852,510</u>	<u>(249,639)</u>
Excess of revenues over expenditures	\$ <u>116,669</u>	331,493	<u>214,824</u>
Fund balance (deficit), beginning of year		<u>(426,104)</u>	
Fund balance (deficit), end of year		\$ <u>(94,611)</u>	

The notes to the financial statements are an integral part of this statement.

CITY OF KAKE, ALASKA  
 Kake Community Liquor Store Enterprise Fund  
 Statement of Net Position  
 June 30, 2015

Assets

Current assets:	
Cash and cash equivalents	\$ 218,039
Inventory	94,040
Due from other funds	23,528
Total current assets	<u>335,607</u>
Non-current assets:	
Capital assets, net of \$35,686 accumulated depreciation	<u>4,538</u>
Total assets	<u>\$ 340,145</u>

Liabilities and Net Position

Current liabilities:	
Accounts payable	\$ 602
Accrued payroll and payroll liabilities	8,855
Total liabilities	<u>9,457</u>
Net position - unrestricted	<u>330,688</u>
Total liabilities and net position	<u>\$ 340,145</u>

The notes to the financial statements are an integral part of this statement.

## CITY OF KAKE, ALASKA

## Kake Community Liquor Store Enterprise Fund

Statement of Revenues, Expenses and  
Changes in Net Position

Year Ended June 30, 2015

Operating revenues - liquor sales	\$ <u>471,887</u>
Costs of goods sold:	
Purchases	227,032
Freight	<u>28,320</u>
Total cost of goods sold	<u>255,352</u>
Gross profit	<u>216,535</u>
Operating expenses:	
Salaries and employee benefits	58,965
Telephone	1,328
Electricity	9,566
Internet	770
Utilities	721
Licenses	1,960
Banking fees	5,754
Insurance	7,793
Building maintenance	681
Heating fuel	1,080
Supplies and materials	2,430
Miscellaneous	1,078
Depreciation expense	<u>1,513</u>
Total operating expenses	<u>93,639</u>
Public safety expenses:	
Fire hall electricity	1,624
Heating fuel	1,815
Telephone	1,426
VSPO lodging/rental	10,424
Road fuel	667
Public safety expenses - other	<u>13,478</u>
Total public safety expenses	<u>29,434</u>
Change in net position	<u>93,462</u>
Net position, beginning of year	<u>237,226</u>
Net position, end of year	\$ <u><u>330,688</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF KAKE, ALASKA  
 Kake Community Liquor Store Enterprise Fund  
 Statement of Cash Flows  
 Year Ended June 30, 2015

Cash flows from operating activities:	
Cash received from customers	\$ 471,887
Cash paid to suppliers	(373,643)
Cash paid to employees	(52,796)
Net cash provided by operating activities	45,448
Cash flows from non-capital financing activities:	
Internal activity - payments to/from other funds	1,846
Net increase in cash	47,294
Cash and cash equivalents, beginning of year	170,745
Cash and cash equivalents, end of year	\$ 218,039
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 93,462
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,513
(Increase) decrease in current assets:	
Inventory	(50,511)
Increase (decrease) in current liabilities:	
Accounts payable	(5,185)
Accrued payroll and related liabilities	6,169
Net cash provided by operating activities	\$ 45,448

The notes to the financial statements are an integral part of this statement.

CITY OF KAKE, ALASKA

Notes to Basic Financial Statements

June 30, 2015

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

The City of Kake (City) is a first class city incorporated in 1952 under the laws of Alaska. The City operates under a council – mayor form of government and provides a variety of municipal services including: water, sewer, education, streets, public safety, health and social services, and general administrative services.

The accompanying financial statements present City of Kake (the primary government) and its component unit, Kake City School District, an entity for which the City is considered to be financially accountable. The discretely presented component unit is presented in a separate column in the government-wide financial statements to emphasize that it is legally separate from the city.

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

Discretely Presented Component Unit – Kake City School District

Kake City School District is responsible for elementary and secondary education within the City. The members of the School Board are elected by the voters; however, the School District is fiscally dependent upon the City because the City Council approves the total annual appropriations to the School District. The City also provides a significant operating subsidy to the School District each year.

Complete financial statements of Kake City School District can be obtained from its administrative office at the address below:

Kake City School District  
P.O. Box 450  
Kake, Alaska 99830

Government-Wide and Fund Financial Statements

The Government-Wide Financial Statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

## CITY OF KAKE, ALASKA

### Notes to Basic Financial Statements, Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include grants and contributions that are restricted to meeting the operations or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

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

Separate financial statements are provided for governmental fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the *modified accrual basis of accounting*. Revenue is recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collectible within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only to the extent they have matured.

Sales taxes, intergovernmental revenues, charges for services, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major funds:

#### Major Governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for financial resources of the general government, except those required to be reported in another fund.

The *Harbor Renovation Capital Project Fund* accounts for costs associated with the maintenance and renovation of the portage cove harbor.

## CITY OF KAKE, ALASKA

### Notes to Basic Financial Statements, Continued

The *Seaplane Dock Renovation Capital Project Fund* accounts for costs associated with the maintenance and renovation of the Kake seaplane dock.

The *Water and Sewer Replacement Capital Project Fund* accounts for costs associated with the repair and renovation of the City's water and sewer system.

#### Major Proprietary funds:

The *Liquor Store Enterprise Fund* is used to account for the operations of the City owned liquor store.

As a general rule, the effect of interfund activity has been eliminated for the government-wide financial statements. Exceptions to this general rule are allocated administration fees and charges between the enterprise funds and the various other funds and departments. Elimination of these charges would distort costs and program revenues reported for various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. In addition, general revenues include all taxes, investment income, and state and federal entitlement revenues.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Fund is charges to customers for sales and services. Operating expenses for the Enterprise Fund includes the costs of sales and services, administrative expenses and depreciation of capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

## CITY OF KAKE, ALASKA

### Notes to Basic Financial Statements, Continued

#### II. ASSETS, LIABILITIES AND NET POSITION/FUND BALANCE

##### Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Enterprise Fund considers all cash accounts to be cash and cash equivalents. The central treasury, which holds cash and cash investments, is used essentially as a cash management pool by each fund. The City considers cash that is designated to be spent on certain activities as stipulated by donors to be restricted cash. The City's cash and cash equivalents are considered to be cash on hand and demand deposits.

##### Inventories

Inventories are valued at lower of cost (first-in, first-out) or market in the Enterprise Fund. The cost is recorded as an expense at the time individual inventory items are consumed.

##### Short-term Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet of the Fund Financial Statements and are eliminated in the preparation of the government-wide financial statements.

##### Compensated Absences

Permanent employees are allowed to accrue vacation and carryover a maximum of 40 hours of vacation leave from year to year. However, due to the fact that there are no leave buyouts vacation expenditures are recognized in the year in which the vacation is taken.

##### Grants and Other Intergovernmental Revenues

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

##### Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

CITY OF KAKE, ALASKA

Notes to Basic Financial Statements, Continued

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Infrastructure assets (e.g. roads, sidewalks, etc.) have not yet been capitalized and are not included in capital assets. Capital assets are defined by the City as assets with initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. If such assets are donated they are valued at fair market value at the time of the donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the useful life of the asset are not capitalized.

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

Buildings and improvements	25-40 years
Water and sewer system	20-40 years
Machinery and equipment	5-30 years

Long-Term Debt

In the government-wide and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

Unearned Revenue

Amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

Net Position

In the government-wide financial statements, net position is divided into three components:

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

## CITY OF KAKE, ALASKA

### Notes to Basic Financial Statements, Continued

#### Fund Balances

In the fund financial statements, fund balance includes five classifications as follows:

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

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

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

**Assigned Fund Balance** – amounts intended to be used by the City for specific purposes: intent can be expressed by the Council or by the City Mayor or designee. Such constraint is binding unless modified or eliminated by the Council or City Mayor. In governmental funds other than the General Fund, assigned fund balance represents the amount that is not restricted or committed.

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

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

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

CITY OF KAKE, ALASKA

Notes to Basic Financial Statements, Continued

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

**III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgets and Budgetary Accounting

The City has established the following procedures in establishing a yearly budget.

1. Prior to May 1, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance.
4. The budgets for the General Fund and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Excess of Expenditures over Appropriations

For the year ended June 30, 2015, expenditures exceed appropriations in the following functions of the General Fund:

General government	\$ 119,724
Public safety	6,184
Public utilities	4,387
Education	130,780

Deficit in Fund Equity

For the year ended June 30, 2015, the City had a deficit in fund balance in the following funds:

General Fund	\$ <u>94,611</u>
--------------	------------------

This deficit is expected to be covered by future operations and revenue generated from local sources.

CITY OF KAKE, ALASKA

Notes to Basic Financial Statements, Continued

**IV. DETAILED NOTES ON ALL FUNDS**

**(1) Cash and Cash Equivalents**

The City utilizes a central treasury that is available for use by all funds. Each fund's portion of the central treasury is displayed on the balance sheet as "cash and investments" or included in "due to other funds." The City has not adopted an investment policy or a policy related to custodial credit risk.

Custodial Credit Risk

At June 30, 2015, \$250,000 of the City's cash was insured by federal depository insurance, the remainder was insured through a tri-party agreement with Key Bank.

**(2) Restricted Cash and Cash Equivalents**

During fiscal years 2008 and 2009 the City received a substantial amount of money from the State of Alaska, \$2,940,594 and \$891,085 respectively, which was to be used to perform repairs and upgrades on the harbor facilities. The State requires that these funds be used in accordance with the transfer agreement established at the time of the harbor transfer.

The City has also received money from the federal government as part of the National Forest Receipt payments, Title III funds. These funds are to be used for one or more of the following purposes:

1. Reimburse for search and rescue and other emergency services.
2. Reimburse salaries and benefits of the City's employees who supervise adults or juveniles performing mandatory community service on federal land.
3. Acquisition of easements to provide for nonmotorized access to public lands for recreational purposes.
4. Establishing and conducting forest-related after school programs.
5. Educating homeowners in fire-sensitive ecosystems about the consequences of wildfires and techniques in home siting, home construction, and home landscaping that can increase the protection of people and property from wildfires.
6. Planning efforts to reduce or mitigate the impact of development on adjacent federal lands and to increase the protection of people and property from wildfires.

CITY OF KAKE, ALASKA

Notes to Basic Financial Statements, Continued

(3) **Accounts Receivable and Valuation Allowances**

The City maintains accounts receivable balances of which a portion is reserved as an allowance for doubtful receivables. At June 30, 2015, the City's receivables were as follows:

	Gross Receivable	Allowance	Receivable, net
<u>General Fund:</u>			
Boat harbor	\$ 29,124	(20,514)	8,610
Wharfage	30	-	30
Public utilities	283,109	(267,927)	15,182
City services	40,780	(35,735)	5,045
Notes receivables – land sales	56	-	56
Accounts receivables	75	-	75
Septic pump out	195	-	195
City sales tax	30,097	-	30,097
Other	304	-	304
Total	<u>383,770</u>	<u>(324,176)</u>	<u>59,594</u>
<u>Water and Sewer Replacement</u>			
<u>Capital Project Fund:</u>			
Grants receivable	943,443	-	943,443
<u>Other Governmental Funds:</u>			
Grants receivable	304	-	304
Total	<u>\$ 1,327,517</u>	<u>(324,176)</u>	<u>1,003,341</u>

(4) **Unearned Revenue/Deferred Inflows**

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

	Unearned Revenues	Deferred Inflows
Unavailable revenue from:		
Moorage fees	\$ -	695
Other city services	-	829
Unavailable grant revenue:		
Harbor Renovation	876,573	-
Seaplane Dock Replacement	873,629	-
General fund	321,524	-
Total	<u>\$ 2,071,726</u>	<u>1,524</u>

CITY OF KAKE, ALASKA

Notes to Basic Financial Statements, Continued

(5) **Capital Assets**

The City has not recorded the capital assets related to Kake City School District which consists primarily of the school buildings. As a result, capital assets and depreciation for the governmental activities is understated. In addition, the city has not recorded infrastructure capital assets such as roads.

Other capital asset activity for the year ended June 30, 2015 was as follows:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Construction in process	\$ 2,271,561	3,570,102	-	5,841,663
Capital assets being depreciated:				
Buildings and improvements	\$ 2,358,590	64,388	-	2,422,978
Vehicles	816,481	-	-	816,481
Machinery and equipment	866,350	-	-	866,350
Total assets being depreciated	4,041,421	64,388	-	4,105,809
Less accumulated depreciation for:				
Buildings and improvements	900,002	69,270	-	969,272
Vehicles	614,466	35,950	-	650,416
Machinery and equipment	358,630	59,498	-	418,128
Total accumulated depreciation	1,873,098	164,717	-	2,037,815
Total capital assets being depreciated, net	\$ 2,168,323	(100,329)	-	2,067,994
<b>Business-type activities:</b>				
Capital assets being depreciated:				
Buildings and improvements	\$ 24,255	-	-	24,255
Equipment	15,969	-	-	15,969
Total assets being depreciated	40,224	-	-	40,224
Less accumulated depreciation for:				
Buildings and improvements	24,255	-	-	24,255
Equipment	9,918	1,513	-	11,431
Total accumulated depreciation	34,173	1,513	-	35,686
Total capital assets being depreciated, net	\$ 6,051	(1,513)	-	4,538

CITY OF KAKE, ALASKA

Notes to Basic Financial Statements, Continued

Depreciation expense was charged to the following governmental functions:

General Government	\$	3,372
Public Safety		44,754
Public Works		73,000
Public Utilities		14,417
Community Services		<u>29,174</u>
Total	\$	<u>164,717</u>

(6) **Interfund Receivables, Payables, and Transfers**

A schedule of interfund balances and transfers for the year ended June 30, 2015, follows:

<u>Payable Fund</u>	<u>Receivable Fund</u>	<u>Amount</u>
Other Governmental	General Fund	\$ 304
Water/Sewer Replacement	General Fund	943,443
General Fund	Harbor Renovation	499,997
General Fund	Liquor Store	<u>23,528</u>
		\$ <u>1,467,272</u>

V. **OTHER INFORMATION**

(1) **Municipal Landfill Closure and Post-Closure Liability**

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and post-closure care costs will be paid only near or after the date the landfill stops accepting waste, accounting principles generally accepted in the United States of America require that the City report a portion of these closure and post-closure care costs as an expenditure in each period based on landfill capacity used as of each balance sheet date. Currently the City is working with the Organized Village of Kake in developing a solid waste management plan which includes a landfill closure and post-closure plan. As of the end of the year this plan has not been finalized. As a result, there is no accrual to provide for these costs in the financial statements.

(2) **Restrictions on Sales Tax Revenues**

According to the ordinance that established the present sales tax, the rate is 5%. 2% of the 5% sales tax is withheld from use until it is determined whether it is needed for the purpose of retirement of bonds. The remaining 3% of the current sales tax rate is restricted to any General Fund purpose for which monies of the City may be disbursed as authorized by law or charter.

CITY OF KAKE, ALASKA

Notes to Basic Financial Statements, Continued

(3) **Risk Management**

The City faces a considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability; i.e., errors and omissions, (d) environmental damage, (e) workers' compensation; i.e., employee injuries, and (f) medical insurance costs of employees. Commercial policies, transferring these risks of loss, except for relatively small deductible amounts, are purchased for property and content damage, workers' compensation, employee medical costs, and professional liabilities. The City has no coverage for potential losses from environmental damages. Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years.

(4) **Contingencies**

Federal and State Grants

The City participates in a number of federal and State assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

(5) **New Accounting Pronouncements**

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

- GASB 72 – *Fair Value Measurement and Application*. Effective for periods beginning after June 15, 2015.
- GASB 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB 67 and 68*. Effective for fiscal years beginning after June 15, 2015.
- GASB 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Effective for fiscal years beginning after June 15, 2016.
- GASB 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Effective for fiscal years beginning after June 15, 2017.
- GASB 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Effective for fiscal years beginning after June 15, 2015.
- GASB 77 – *Tax Abatement Disclosures*. Effective for fiscal years beginning after December 15, 2015.

CITY OF KAKE, ALASKA

Notes to Basic Financial Statements, Continued

Statements 73, 76 and 77 are not expected to have any significant impact on the financial statements of the City.

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosure related to all fair value measurements.

GASB Statements No. 74 and 75, the objective of these Statements is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. For defined benefit OPEB plans that are administered through trusts that meet the specified criteria, this Statement requires two financial statements—a statement of fiduciary net position and a statement of changes in fiduciary net position. Note disclosures and required supplemental information are addressed in these statements. GASB Statement 75 establishes standards for measuring liabilities, deferred inflow and outflows of resources, and expenses/expenditures.

## CITY OF KAKE, ALASKA

## General Fund

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

Year Ended June 30, 2015

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget- Positive (Negative)
Revenues:			
Local:			
Sales tax	\$ 232,682	224,862	(7,820)
Charges for services:			
Boat harbor	2,000	27,986	25,986
Wharfage	-	26,553	26,553
Utilities	40,000	184,234	144,234
Rental	36,406	78,974	42,568
Rock sales	14,000	53,541	39,541
Total charges for services	<u>92,406</u>	<u>371,288</u>	<u>278,882</u>
Other:			
Licenses and permits	-	34,219	34,219
ATM fees	6,000	-	(6,000)
Miscellaneous	51,680	3,775	(47,905)
Total other revenues	<u>57,680</u>	<u>37,994</u>	<u>(19,686)</u>
Total local sources	<u>382,768</u>	<u>634,144</u>	<u>251,376</u>
Intergovernmental:			
State of Alaska:			
Road maintenance contract	96,568	93,600	(2,968)
Raw fish tax	16,000	24,241	8,241
State revenue sharing	124,124	124,656	532
Other	12,080	30,431	18,351
Total State of Alaska	<u>248,772</u>	<u>272,928</u>	<u>24,156</u>
Federal:			
National forestry receipts	-	123,281	123,281
Payment in lieu of taxes	88,000	153,650	65,650
Total federal	<u>88,000</u>	<u>276,931</u>	<u>188,931</u>
Total Intergovernmental	<u>336,772</u>	<u>549,859</u>	<u>213,087</u>
Total revenues	<u>719,540</u>	<u>1,184,003</u>	<u>464,463</u>
Expenditures:			
Current:			
General Government:			
Council:			
Salaries and employee benefits	13,500	18,952	(5,452)
Travel and per diem	9,200	5,958	3,242
Telephone	480	310	170
Memberships and dues	-	681	(681)
Supplies and materials	-	239	(239)
Total council	<u>23,180</u>	<u>26,140</u>	<u>(2,960)</u>

Continued

## CITY OF KAKE, ALASKA

## General Fund

Schedule of Revenues, Expenditures and Changes  
in Fund Balance (Deficit) - Budget and Actual, continued

	Final Budgeted <u>Amounts</u>	Actual <u>Amounts</u>	Variance with Final Budget- Positive <u>(Negative)</u>
Expenditures, continued:			
General Government, continued:			
Administrative and finance:			
Salaries and employee benefits	\$ 151,000	144,194	6,806
Travel and per diem	3,100	9,098	(5,998)
Contract labor	-	22,258	(22,258)
Insurance	20,000	61,523	(41,523)
Telephone/Internet	5,500	4,920	580
Fuel	31,800	26,992	4,808
Electricity	9,500	10,943	(1,443)
Supplies and materials	3,800	6,468	(2,668)
Postage and freight	1,600	2,666	(1,066)
Professional services	20,700	3,014	17,686
Maintenance and repairs	1,500	41,032	(39,532)
Bank fees	2,200	1,688	512
Membership and dues	1,500	2,887	(1,387)
Miscellaneous	5,000	36,281	(31,281)
Total administrative and finance	<u>257,200</u>	<u>373,964</u>	<u>(116,764)</u>
Total general government	<u>280,380</u>	<u>400,104</u>	<u>(119,724)</u>
Public safety:			
Travel and per diem	-	33	(33)
Insurance	-	5,178	(5,178)
Supplies and materials	-	753	(753)
Professional services	-	220	(220)
Total public safety	<u>-</u>	<u>6,184</u>	<u>(6,184)</u>
Public works:			
Roads:			
Salaries and employee benefits	64,591	57,026	7,565
Telephone	1,500	1,249	251
Internet	1,500	1,007	493
Electricity	3,000	3,481	(481)
Fuel	6,000	4,062	1,938
Insurance	5,000	2,926	2,074
Maintenance and repairs	19,000	22,664	(3,664)
Supplies and materials	2,000	-	2,000
Equipment	-	539	(539)
Postage and freight	2,000	594	1,406
Total public works	<u>104,591</u>	<u>93,548</u>	<u>11,043</u>

Continued

## CITY OF KAKE, ALASKA

## General Fund

Schedule of Revenues, Expenditures and Changes  
in Fund Balance (Deficit) - Budget and Actual, continued

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget- Positive (Negative)
Public utilities:			
Salaries and employee benefits	\$ 99,000	106,710	(7,710)
Travel	2,200	1,914	286
Supplies and materials	39,000	41,208	(2,208)
Postage and freight	4,000	6,726	(2,726)
Fuel	14,900	14,155	745
Electricity	15,000	16,360	(1,360)
Insurance	12,000	1,691	10,309
Telephone	500	570	(70)
Internet	-	200	(200)
Maintenance and repairs	1,000	1,085	(85)
Miscellaneous	1,800	3,168	(1,368)
Total public utilities	<u>189,400</u>	<u>193,787</u>	<u>(4,387)</u>
Community Services:			
Community building:			
Salaries and employee benefits	24,500	19,310	5,190
Professional services	-	15	(15)
Fuel	2,000	3,686	(1,686)
Electricity	1,500	2,050	(550)
Insurance	-	2,641	(2,641)
Supplies	500	328	172
Telephone	-	30	(30)
Postage and freight	-	47	(47)
Total community services	<u>28,500</u>	<u>28,107</u>	<u>393</u>
Education:			
Contribution to Kake City School District	-	130,780	(130,780)
Total education	<u>-</u>	<u>130,780</u>	<u>(130,780)</u>
Total expenditures	<u>602,871</u>	<u>852,510</u>	<u>249,639</u>
Excess of revenues over expenditures	\$ <u>116,669</u>	331,493	<u>214,824</u>
Fund balance (deficit), beginning of year		<u>(426,104)</u>	
Fund balance (deficit), end of year		\$ <u><u>(94,611)</u></u>	

CITY OF KAKE, ALASKA

Water/Sewer Replacement Fund 13-DC-583 Capital Project Fund

Schedule of Revenues, Expenditures and Changes  
in Fund Balance

Year Ended June 30, 2015

Revenues:	
Intergovernmental - state sources	\$ <u>3,570,102</u>
Expenditures:	
Capial outlay - contract services	<u>3,570,102</u>
Excess of revenues over expenditures	-
Fund balance, beginning of year	<u>-</u>
Fund balance, end of year	\$ <u><u>-</u></u>

CITY OF KAKE, ALASKA

Seaplane Dock Renovation Capital Project Fund

Schedule of Revenues, Expenditures and Changes  
in Fund Balance

Year Ended June 30, 2015

Revenues:	
Local - other:	
Interest	\$ <u>        163</u>
Expenditures	<u>                -</u>
Excess of revenues over expenditures	163
Fund balance, beginning of year	<u>        3,078</u>
Fund balance, end of year	\$ <u><u>        3,241</u></u>

CITY OF KAKE, ALASKA  
Harbor Renovation Capital Project Fund  
Schedule of Revenues, Expenditures and Changes  
in Fund Balance  
Year Ended June 30, 2015

Revenues:	
Local - other:	
Interest	\$ <u>25</u>
Expenditures	<u>-</u>
Excess of revenues over expenditures	25
Fund balance, beginning of year	<u>8,364</u>
Fund balance, end of year	\$ <u><u>8,389</u></u>

City Of Kake  
 Other Governmental Funds  
 Combining Balance Sheet  
 June 30, 2015

	<u>Assets</u>	LED Lighting <u>15-RR-047</u>
Accounts receivable		\$ <u><u>304</u></u>
 <u>Liabilities and Fund Balances</u>  		
Liabilities:		
Due to other funds		<u>304</u>
Fund Balances		<u>-</u>
Total liabilities and fund balances		\$ <u><u>304</u></u>

CITY OF KAKE, ALASKA

Other Governmental Funds

Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balances

Year Ended June 30, 2015

	Capital Prject Funds				Total Other Governmental Funds
	Clean Enviroment 15-DC-074	Community Center Roof Replacement 15-DC-075	LED Lighting 15-RR-047	Garbage Truck 15-RR-048	
Revenues:					
Intergovernmental:					
State sources	\$ 9,238	2,830	39,781	12,539	64,388
Expenditures:					
Capital outlay	9,238	2,830	39,781	12,539	64,388
Excess of revenues over expenditures	-	-	-	-	-
Fund balances, beginning of year	-	-	-	-	-
Fund balances, end of year	\$ -	-	-	-	-

CITY OF KAKE, ALASKA

Clean Environment 15-DC-074 Capital Project Fund

Schedule of Revenues, Expenditures and Changes  
in Fund Balance

Year Ended June 30, 2015

Revenues:		
Intergovernmental:		
State sources	\$	<u>9,238</u>
Expenditures:		
Capital outlay:		
Equipment		8,085
Freight		<u>1,153</u>
Total capital outlay		<u>9,238</u>
Excess of revenues over expenditures		-
Fund balance, beginning of year		<u>-</u>
Fund balance, end of year	\$	<u><u>-</u></u>

CITY OF KAKE, ALASKA

Community Center Roof Replacement 15-DC-075 Capital Project Fund

Schedule of Revenues, Expenditures and Changes  
in Fund Balance

Year Ended June 30, 2015

Revenues:		
Intergovernmental:		
State sources	\$	<u>2,830</u>
Expenditures:		
Capital outlay:		
Payroll		<u>2,830</u>
Excess of revenues over expenditures		-
Fund balance, beginning of year		<u>-</u>
Fund balance, end of year	\$	<u><u>-</u></u>

CITY OF KAKE, ALASKA

LED Lighting 15-RR-047 Capital Project Fund

Schedule of Revenues, Expenditures and Changes  
in Fund Balance

Year Ended June 30, 2015

Revenues:		
Intergovernmental:		
State sources	\$	<u>39,781</u>
Expenditures:		
Capital outlay:		
Building maintenance		<u>39,781</u>
Excess of revenues over expenditures		-
Fund balance, beginning of year		<u>-</u>
Fund balance, end of year	\$	<u><u>-</u></u>

## CITY OF KAKE, ALASKA

## Garbage Truck 15-RR-048 Capital Project Fund

Schedule of Revenues, Expenditures and Changes  
in Fund Balance

Year Ended June 30, 2015

Revenues:		
Intergovernmental:		
State sources		\$ <u>12,539</u>
Expenditures:		
Capital outlay:		
Equipment	10,197	
Equipment maintenance	1,266	
Travel and per diem	<u>1,076</u>	
Total capital outlay	<u>12,539</u>	
Excess of revenues over expenditures	-	
Fund balance, beginning of year	<u>-</u>	
Fund balance, end of year	\$ <u><u>-</u></u>	

## City of Kake, Alaska

## Schedule of State Financial Assistance

Year Ended June 30, 2015

<u>Grant Title</u>	<u>Grant Number</u>	<u>Grant Award</u>	<u>Eligible Expenditures</u>
Department of Commerce , Community, and Economic Development			
# Water and Sewer Replacement	13-DC-583	\$ 4,650,000	3,570,102
Clean Environment for Healthier Families Demonstration	15-DC-074	10,000	9,238
Upgrade Community Buildings to LED Lighting	15-RR-047	39,781	39,781
Community Building Roof Repair	15-DC-075	200,000	2,830
Purchase of a Garbage Truck	15-RR-048	12,539	12,539
Total Department of Commerce, Community and Economic Development		4,912,320	3,634,490
Department of Revenue			
# Revenue Sharing	None	124,656	124,656
Raw fish tax	None	24,241	24,241
Total Department of Revenue		148,897	148,897
Total state financial assistance		\$ 5,061,217	3,783,387

Notes to Schedule

1. # Denotes a major program for compliance audit purposes.
2. This schedule was prepared on the accrual basis of accounting.

Reconciliation to Statements of Activities:

Expended from Schedule of State Financial Assistance	\$ 3,783,387
State of Alaska contracts not included on schedule	124,031
Total grant revenue on the Statements of Activities	\$ 3,907,418

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

**Independent Auditor's Report**

Members of the City Council  
City of Kake  
Kake, 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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Kake, Alaska, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Kake, Alaska's basic financial statements and have issued our report thereon dated February 15, 2016. Our report includes a reference to other auditors who audited the financial statements of Kake City School District, a discretely presented component unit, as described in our report on City of Kake, Alaska's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered City of Kake, Alaska'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 City of Kake, Alaska's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Kake, Alaska's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

Members of the City Council  
City of Kake, Alaska

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 2015-001 through 2015-004 to be material weaknesses.

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.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Kake, Alaska'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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as finding 2015-003.

**City of Kake, Alaska's Response to Findings**

City of Kake, Alaska's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Kake, Alaska's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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



Anchorage, Alaska  
February 15, 2016

**Report on Compliance for Each Major State Program and Report on Internal Control Over Compliance Required by the State of Alaska Audit Guide and Compliance Supplement for State Single Audits**

**Independent Auditor's Report**

Members of the City Council  
City of Kake  
Kake, Alaska

**Report on Compliance for Each Major State Program**

We have audited City of Kake, Alaska's compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of City of Kake, Alaska's major state programs for the year ended June 30, 2015. City of Kake, Alaska's major state programs are identified in the accompanying schedule of state financial assistance.

City of Kake, Alaska's basic financial statements include operations of the Kake City School District, a component unit, which received \$4,722,451 in State awards which are not included in the State Schedule of Financial Assistance during the year ended June 30, 2015. Our audit, described below, did not include the operations of Kake City School District because it was subjected to a separate audit performed in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of City of Kake, Alaska's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* 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 state program occurred. An audit includes examining, on a test basis, evidence about City of Kake, Alaska's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

Members of the City Council  
City of Kake

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

### **Opinion on Each Major State Program**

In our opinion, City of Kake, Alaska 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 state programs for the year ended June 30, 2015.

### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* and which is described in the accompanying state schedule of findings and questioned costs as item Finding 2015-005. Our opinion on each major state program is not modified with respect to this matter.

City of Kake, Alaska's response to the noncompliance finding identified in our audit is described in the accompanying corrective action plan. City of Kake, Alaska's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

Management of City of Kake, Alaska 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 City of Kake, Alaska's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, 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 City of Kake, Alaska'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 state 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 state 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 state 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.

Members of the City Council  
City of Kake

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying state schedule of findings and questioned costs as item Finding 2015-005, that we consider to be a significant deficiency.

City of Kake, Alaska's response to the internal control over compliance finding identified in our audit is described in the accompanying corrective action plan. City of Kake, Alaska's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Accordingly, this report is not suitable for any other purpose.



Anchorage, Alaska  
February 15, 2016

CITY OF KAKE, ALASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

**Section I – Summary of Auditor’s Results**

Financial Statements

Type of auditor’s report issued:

Governmental Activities	<u>Adverse</u>
Business-type activities	<u>Unmodified</u>
Discretely presented component unit	<u>Unmodified</u>
Each major governmental fund	<u>Unmodified</u>
Kake Community Liquor Store Enterprise Fund	<u>Unmodified</u>
Aggregate remaining fund information	<u>Unmodified</u>

Internal control over financial reporting:

Significant deficiency (ies) identified?	<u>    </u> Yes	<u>  X  </u> None reported
Material weakness (es) identified?	<u>  X  </u> Yes	<u>    </u> No

Noncompliance material to financial statements?

<u>  X  </u> Yes	<u>    </u> No
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State Financial Assistance

Internal control over major programs:

Significant deficiency (ies) identified?	<u>  X  </u> Yes	<u>    </u> None reported
Material weakness (es) identified?	<u>    </u> Yes	<u>  X  </u> No

Type of auditor’s report issued on compliance

For major programs:	<u>Unmodified</u>
---------------------	-------------------

Dollar threshold used to distinguish a state major program:

\$ 75,000

**Section II – Financial Statement Findings**

**Finding 2015-001**

**Material Weakness**

**Internal Control Over Bank Reconciliations**

**Condition:**

During our audit of the liquor store cash account we found cash reconciliations had not been performed for the last six months of the fiscal year.

**Criteria:**

The City should have a system in place to ensure books reconcile with bank statements on a monthly basis in order to ensure accuracy of cash balances.

CITY OF KAKE, ALASKA

Schedule of Findings and Questioned Costs, continued

**Context:** The last six monthly bank reconciliations for the liquor store had not been performed at the start of the audit.

**Cause:** Lack of internal controls.

**Effect:** Without a timely and consistent reconciliation process in place, there is a much greater risk that fraudulent activity could occur. There were no safeguards for cash that can lead to a higher risk of theft by employees. Also, not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved in a timely manner.

**Recommendation:** The Council should direct proper oversight over the person responsible for completing the bank reconciliation. Someone other than the person responsible for completing monthly bank reconciliations should monitor account balances and statements to ensure more accurate and effective internal control. We recommend that all bank accounts be reconciled each month prior to preparation of the monthly financial statements. It is generally easier and less time-consuming to reconcile accounts while transactions are fresh in mind.

**Management Response:** Management concurs with the finding. See corrective action plan for more information.

**Finding 2015-002**  
**Material Weakness**

**Internal Control Over Year End Close**

**Condition:** At year end, there were a number of adjustments needed for the accounting records to be correctly stated on the modified accrual basis.

**Criteria:** Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of the financial statements. Management is responsible for ensuring that all account balances reflect appropriate year-end balances.

**Context:** During the audit, we found that year end balances were not adjusted to actual amounts, that is, certain balance sheet accounts such as grants receivable, allowance for accounts receivable, unearned revenue, as well as some revenue accounts, did not have correct balances.

**Cause:** The bookkeeper responsible for making the entries resigned prior to the fiscal year-end, and as of the audit had not been replaced.

CITY OF KAKE, ALASKA

Schedule of Findings and Questioned Costs, continued

**Effect:** These errors could result in misstatement of the City's financial statements. If account reconciliations are performed infrequently, errors and adjustments can occur, resulting in the need for significant corrections when the reconciliations are performed. Consequently, a number of adjustments were proposed to management to properly state the financial statements.

**Recommendation:** We recommend that management establish procedures to ensure that the proper year end accounting adjustments are entered into the accounting software.

**Management Response:** Management concurs with the finding. See corrective action plan for more information.

**Finding 2015-003**  
**Material Weakness and**  
**Material Noncompliance**

**Noncompliance and Internal Control Over Capital Assets**

**Condition:** A number of assets were not reflected on the City's capital assets listing.

**Criteria:** The City needs to maintain an accurate listing of all capital assets owned by the City, including all assets utilized by the School District as well as determining the value and accumulated depreciation of infrastructure. In addition, the City needs to calculate annual depreciation and accumulated depreciation for each asset.

**Context:** There are a number of assets that the City does not maintain on their capital asset schedule.

**Cause:** Due to a limited number of employees in the City office as well as a lack of internal control, the tracking of capital assets was not performed.

**Effect:** Without a listing of the City-owned capital assets, it will be difficult for the management to determine if the assets are complete and being used appropriately. In addition, without an accurate capital assets listing, there is an increased risk of fraud and misappropriation of assets. Consequently, the lack of information on the School District capital assets and infrastructure assets resulted in an adverse opinion on governmental activities of the City of Kake, Alaska.

CITY OF KAKE, ALASKA

Schedule of Findings and Questioned Costs, continued

**Recommendation:** We recommend that a capital asset listing be updated yearly as to description of the asset, the funding source, useful life, any previous depreciation, current year depreciation as well as an indication of its continued existence. The list should also be updated when there are new asset additions that meet the City's capitalization policy or deletions such as sale or disposal of assets. Additionally, all assets currently utilized by Kake City School District and infrastructure assets need to be valued and the related accumulated depreciation determined.

**Management Response:** Management concurs with the finding. See corrective action plan for more information.

**Finding 2015-004**  
**Material Weakness**

**Internal Control Over Payroll**

**Condition:** While performing test work, we discovered none of the employees had personnel action forms with both management and employee signatures supporting approved pay rates. Also, several timesheets lacked signatures by either the employee or the manager.

**Criteria:** Only authorized pay rates should be used when calculating payroll disbursements. A personnel file should be maintained by the City on each employee. All hours worked should be initialed on the timesheet by the authorizing supervisor.

**Context:** During payroll test work, we found that none of the personnel employed by the city had authorized pay rates signed by both the employee and a member of management. Also, several timesheets were missing one or more signatures.

**Cause:** Lack of adequately designed and implemented controls over payroll.

**Effect:** The lack of an authorized pay rate for employees increases the potential for inaccurate payment as well as over or understatement of payroll expenses.

**Recommendation:** We recommend that management establish procedures to ensure paychecks are written only for appropriately approved timesheets, and paychecks are issued only for employees with properly approved personnel action forms containing authorized pay rates. In addition, once a paycheck is printed, there should be a review by a third party comparing hours worked to hours paid to verify employees are being paid accurately.



CITY OF KAKE, ALASKA

Schedule of Findings and Questioned Costs, continued

**Section IV – Status of Prior Year Audit Findings**

**Finding 2014-001**  
**Material Weakness**

**Internal Control Over Bank Reconciliations**

**Condition:** During our audit of the liquor store cash account we found cash reconciliations had not been performed for the entire fiscal year.

**Status:** Finding repeated as finding 2015-001

**Finding 2014-002**  
**Material Weakness**

**Internal Control Over Cash Disbursements**

**Condition:** There is a lack of internal control over cash disbursements related to proper authorization and account code classification of cash disbursements. During test work, we found a number of checks that did not have authorization and proper documentation showing correct account coding for the related expenditures.

**Status:** Finding resolved

**Finding 2014-003**  
**Material Weakness**

**Internal Control Over Cash Receipts and Cash Disbursements –  
Lack of Segregation of Duties**

**Condition:** The City did not have adequate segregation of duties within cash receipts and cash disbursements functions.

**Status:** Finding resolved

**Finding 2014-004**  
**Material Weakness**

**Internal Control Over Year End Close**

**Condition:** At year end, there were a number of adjustments needed for the accounting records to be correctly stated on the modified accrual basis.

**Status:** Finding repeated as finding 2015-002

CITY OF KAKE, ALASKA

Schedule of Findings and Questioned Costs, continued

**Finding 2014-005**

**Material Weakness and  
Material Noncompliance**

**Noncompliance and Internal Control Over Capital Assets**

**Condition:**

A number of assets were not reflected on the City's capital assets listing.

**Status:**

Finding repeated as finding 2015-003

**Finding 2014-006**

**Material Weakness**

**Internal Control Over Payroll**

**Condition:**

While performing test work, we discovered none of the employees had personnel action forms with both management and employee signatures supporting approved pay rates. Also, several timesheets lacked signatures by either the employee or the manager.

**Status:**

Finding repeated as finding 2015-004

**Finding 2014-007**

**Material Weakness**

**Internal Control Over Inventory – Liquor Store**

**Condition:**

The City was not able to provide a summary of the year-end inventory.

**Status:**

Finding resolved

**Finding 2014-008**

**Material Weakness and  
Material Noncompliance**

**Noncompliance and Internal Control Over Financial Reporting –  
Component Units**

**Condition:**

The City is currently not reporting a material component unit as part of their basic financial statements.

**Status:**

Finding resolved

CITY OF KAKE

Corrective Action Plan

June 30, 2015

**Finding 2015-001**

**Internal Control Over Bank Reconciliations**

**Name of Contact Person:** Tessa Cavanaugh

**Corrective Action:** Bookkeeper will process monthly bank reconciliations of both liquor and City accounts by the 15<sup>th</sup> of every month.

**Proposed Completion Date:** February 2016.

**Finding 2015-002**

**Internal Control Over Year End Close**

**Name of Contact Person:** Tessa Cavanaugh

**Corrective Action:** Bookkeeper will maintain financial oversight to show fair representation of financial statements so that all account balances reflect year-end balances.

**Proposed Completion Date:** June 2016.

**Finding 2015-003**

**Noncompliance and Internal Control Over Capital Assets**

**Name of Contact Person:** Tessa Cavanaugh

**Corrective Action:** Bookkeeper will obtain a listing of all capital assets of the City and school district annually and will be updated every year-end.

**Proposed Completion Date:** June 2016.

**Finding 2015-004**

**Internal Control Over Payroll**

**Name of Contact Person:** Tessa Cavanaugh

**Corrective Action:** Bookkeeper will process personnel forms for all employees and file for audit purposes. Bookkeeper will confirm that all timesheets and leave slips are signed before processing for payroll.

**Proposed Completion Date:** February 2016.

**Finding 2015-005**

**Noncompliance and Internal Control Over Prevailing Wage Requirements**

**Name of Contact Person:** William Bean Jr.

**Corrective Action:** City Administrator will report to the Department of Labor Workforce Development of any current and future construction contracts to verify prevailing wage requirements.

**Proposed Completion Date:** February 2016.