



## City of Kotzebue, Alaska

Basic Financial Statements,  
Required Supplementary Information,  
Supplementary Information and Single Audit  
Reports  
Year Ended June 30, 2015

## City of Kotzebue, Alaska

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Basic Financial Statements, Required Supplementary Information,  
Supplementary Information and Single Audit Reports  
Year Ended June 30, 2015

# City of Kotzebue, Alaska

## Table of Contents

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	<u>Exhibit</u>	<u>Page</u>
<b>FINANCIAL SECTION</b>		
<b>Independent Auditor's Report</b>		1-4
<b>Basic Financial Statements</b>		
Government-wide Financial Statements:		
Statement of Net Position	A-1	6
Statement of Activities	A-2	7
Fund Financial Statements:		
Governmental Funds:		
Balance Sheet	B-1	8
Reconciliation of Governmental Funds		
Balance Sheet to Statement of Net Position	B-2	9
Statement of Revenues, Expenditures and Changes in		
Fund Balances (Deficits)	B-3	10
Reconciliation of Change in Fund Balances of		
Governmental Funds to Statement of Activities	B-4	11
Enterprise Funds:		
Statement of Net Position	C-1	12
Statement of Revenues, Expenses and Changes in		
Net Position	C-2	13
Statement of Cash Flows	C-3	14
Notes to Basic Financial Statements		15-38
<b>Required Supplementary Information</b>		
Schedule of Revenues, Expenditures and Changes in		
Fund Balance - Budget and Actual - General Fund	D-1	40
Public Employees Retirement System:		
Schedule of the City's Information on the Net Pension Liability	E-1	41
Schedule of City Contributions	E-2	42
Notes to Required Supplementary Information		43

# City of Kotzebue, Alaska

## Table of Contents

---

	<u>Exhibit</u>	<u>Page</u>
FINANCIAL SECTION, continued		
Supplementary Information		
Combining and Individual Fund Financial Statements and Schedules:		
Nonmajor Governmental Funds:		
Combining Balance Sheet	F-1	46
Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits)	F-2	47
General Fund:		
Balance Sheet	G-1	50
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	G-2	51-56
Special Revenue Funds:		
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual:		
Gaming	H-1	58
Adult Center	H-2	59
Emergency Services 911	H-3	60
Debt Service Fund:		
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	I-1	62
Enterprise Funds:		
Water and Sewer Utility:		
Statement of Net Position	J-1	64
Statement of Revenues, Expenses and Changes in Net Position	J-2	65-66
Statement of Cash Flows	J-3	67
Schedule of Water and Sewer Capital Projects	J-4	68
Refuse:		
Statement of Net Position	J-5	69
Statement of Revenues, Expenses and Changes in Net Position	J-6	70
Statement of Cash Flows	J-7	71
Package Store:		
Statement of Net Position	J-8	72
Statement of Revenues, Expenses and Changes in Net Position (Deficit)	J-9	73
Statement of Cash Flows	J-10	74

# City of Kotzebue, Alaska

## Table of Contents

---

	<u>Exhibit</u>	<u>Page</u>
FINANCIAL SECTION, continued		
Supplementary Information, continued		
Combining and Individual Fund Financial Statements and Schedules, continued:		
Enterprise Funds, continued		
Bar and Grill:		
Statement of Net Position	J-11	75
Statement of Revenues, Expenses and Changes in Net Position	J-12	76
Statement of Cash Flows	J-13	77
Schedule of Expenditures of Federal Awards	K-1	78
Schedule of State Financial Assistance	L-1	79
Notes to the Schedules of Expenditures of Federal Awards and State Financial Assistance		80
SINGLE AUDIT SECTION		
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		82-83
Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by <i>OMB Circular A-133</i>		84-85
Independent Auditor's Report on Compliance For Each Major State Program and Report on Internal Control Over Compliance Required by the <i>State of Alaska Audit Guide and Compliance Supplement for State Single Audits</i>		86-88
Schedule of Findings and Questioned Costs		89-93
Summary Schedule of Prior Audit Findings		94
Corrective Action Plan		95



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## Independent Auditor's Report

Honorable Mayor and City Council  
City of Kotzebue, Alaska

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the General Fund, the Legislative Grants Capital Project Fund, the General Capital Projects Fund, the Water & Sewer Utility Enterprise Fund, the Refuse Enterprise Fund, and the aggregate remaining fund information of City of Kotzebue, Alaska, as of and for the year ended June 30, 2015, and the related notes to the financial statements. We were engaged to audit the financial statements of the Package Store Enterprise Fund. The financial statements collectively comprise the City's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of the matter described in the basis for disclaimer of opinion paragraph however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Package Store Enterprise Fund.

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.

Except for the matter described in the Basis for Disclaimer of Opinion paragraph, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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*Summary of Opinions*

<i>Opinion Unit</i>	<i>Type of Opinion</i>
Governmental Activities	Unmodified
Business-type Activities	Unmodified
All Major Governmental Funds	Unmodified
Water and Sewer Utility Enterprise Fund	Unmodified
Refuse Enterprise Fund	Unmodified
Package Store Enterprise Fund	Disclaimer
Aggregate Remaining Fund Information	Unmodified

*Basis for Disclaimer of Opinion on the Package Store Enterprise Fund*

City of Kotzebue was not able to produce a complete and accurate yearend inventory report related to its Package Store Enterprise Fund at June 30, 2015. Accordingly, we were not able to extend our procedures sufficiently to determine the extent to which the inventory balance and related costs of goods sold were affected.

*Disclaimer of Opinion*

Because of the significance of the matter described in the basis for disclaimer of opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements of the Package Store Enterprise Fund.

*Unmodified Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund other than the Package Store Enterprise Fund, and the aggregate remaining fund information of City of Kotzebue, Alaska, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Change in Accounting Principle*

As discussed in Note 9 to the financial statements, in 2015 the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement Number 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

*Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 40 and the Schedules of Net Pension Liability, and Pension Contributions on pages 41-42, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or

historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### *Supplementary Information*

Our audit for the year ended June 30, 2015 was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Kotzebue, Alaska's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, Schedule of State Financial Assistance, and the combining and individual fund financial statements and schedules listed in the table of contents for the year ended June 30, 2015 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations* and the Schedule of State Financial Assistance is required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended June 30, 2015 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 accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole for the year ended June 30, 2015.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of City of Kotzebue as of and for the year ended June 30, 2014 (not presented herein), and have issued our report thereon dated December 11, 2014, which contained unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. The individual fund financial statements and schedules for the year ended June 30, 2014 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare

the 2014 financial statements. The individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the 2014 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or to those 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 individual fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2014.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 29, 2016, on our consideration of City of Kotzebue, 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 the 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 Kotzebue's internal control over financial reporting and compliance.

*BDO USA, LLP*

Anchorage, Alaska  
February 29, 2016

## Basic Financial Statements

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City of Kotzebue, Alaska

Exhibit A-1

Statement of Net Position

<i>June 30, 2015</i>	Governmental Activities	Business-type Activities	Total
<b>Assets and Deferred Outflows of Resources</b>			
<b>Assets</b>			
Cash and investments	\$ 1,243,204	\$ 344,555	\$ 1,587,759
Receivables, net of allowance for uncollectible accounts:			
Accounts	173,750	433,319	607,069
Grants and shared revenues	1,327,673	-	1,327,673
Sales tax	382,396	-	382,396
Other	81,959	-	81,959
Inventory	-	415,996	415,996
Internal balances	(629,861)	629,861	-
Restricted cash and investments	-	532,000	532,000
Capital assets:			
Land and construction in progress	1,700,759	-	1,700,759
Other capital assets, net of depreciation	12,723,152	34,072,840	46,795,992
<b>Total Assets</b>	<b>17,003,032</b>	<b>36,428,571</b>	<b>53,431,603</b>
Deferred Outflows of Resources - pension related	488,179	111,613	599,792
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 17,491,211</b>	<b>\$ 36,540,184</b>	<b>\$ 54,031,395</b>
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>			
<b>Liabilities</b>			
Accounts payable	\$ 1,552,777	\$ 202,810	\$ 1,755,587
Accrued payroll and payroll liabilities	198,866	25,290	224,156
Accrued interest payable	18,134	-	18,134
Noncurrent liabilities:			
Due within one year:			
Accrued leave	263,483	77,550	341,033
Current portion of capital leases	66,677	-	66,677
Current portion of note payable	525,911	-	525,911
Due in more than one year:			
Capital lease obligation	142,901	-	142,901
Note payable	2,353,640	-	2,353,640
Net pension liability	3,783,895	865,106	4,649,001
Landfill closure costs	-	170,080	170,080
<b>Total Liabilities</b>	<b>8,906,284</b>	<b>1,340,836</b>	<b>10,247,120</b>
Deferred Inflows of Resources - pension related	437,169	99,949	537,118
<b>Net Position</b>			
Net investment in capital assets	11,334,782	34,072,840	45,407,622
Restricted:			
911 services	555,059	-	555,059
Public safety	3,406	-	3,406
Equipment replacement	-	532,000	532,000
Unrestricted (deficits)	(3,745,489)	494,559	(3,250,930)
<b>Total Net Position</b>	<b>8,147,758</b>	<b>35,099,399</b>	<b>43,247,157</b>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<b>\$ 17,491,211</b>	<b>\$ 36,540,184</b>	<b>\$ 54,031,395</b>

See accompanying notes to basic financial statements.

City of Kotzebue, Alaska

Exhibit A-2

Statement of Activities

Year Ended June 30, 2015	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines & Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Totals
<b>Governmental Activities</b>							
General government	\$ 1,708,163	\$ 732,770	\$ 52,043	\$ -	\$ (923,350)	\$ -	\$ (923,350)
Public safety	3,971,817	1,791,172	633,553	-	(1,547,092)	-	(1,547,092)
Public works	2,113,249	-	67,553	1,723,774	(321,922)	-	(321,922)
Community services	86,657	7,200	-	44,663	(34,794)	-	(34,794)
Parks and recreation	163,176	-	3,661	447,264	287,749	-	287,749
Adult Center operations	217,994	67,956	3,677	-	(146,361)	-	(146,361)
Gaming operations	1,012,376	896,736	6,359	-	(109,281)	-	(109,281)
Debt service	77,631	-	-	-	(77,631)	-	(77,631)
<b>Total Governmental Activities</b>	<b>9,351,063</b>	<b>3,495,834</b>	<b>766,846</b>	<b>2,215,701</b>	<b>(2,872,682)</b>	<b>-</b>	<b>(2,872,682)</b>
<b>Business-type Activities</b>							
Water and sewer utility	4,006,541	1,975,975	32,851	120,196	-	(1,877,519)	(1,877,519)
Refuse	966,640	685,208	23,140	-	-	(258,292)	(258,292)
Package store	623,423	1,248,557	11,143	-	-	636,277	636,277
Bar and Grill	4,832	-	-	-	-	(4,832)	(4,832)
<b>Total Business-type Activities</b>	<b>5,601,436</b>	<b>3,909,740</b>	<b>67,134</b>	<b>120,196</b>	<b>-</b>	<b>(1,504,366)</b>	<b>(1,504,366)</b>
<b>Totals</b>	<b>\$ 14,952,499</b>	<b>\$ 7,405,574</b>	<b>\$ 833,980</b>	<b>\$ 2,335,897</b>	<b>\$ (2,872,682)</b>	<b>\$ (1,504,366)</b>	<b>\$ (4,377,048)</b>
<b>General Revenues</b>							
Taxes:							
Sales taxes					3,528,673	-	3,528,673
Penalties and interest on delinquent taxes					49,121	-	49,121
Other taxes					276,387	-	276,387
Grants and entitlements not restricted to a specific purpose					299,502	-	299,502
Investment income					4,497	-	4,497
Other					81,794	-	81,794
Transfers					429,216	(429,216)	-
<b>Total General Revenues and Transfers</b>					<b>4,669,190</b>	<b>(429,216)</b>	<b>4,239,974</b>
Change in net position					1,796,508	(1,933,582)	(137,074)
Beginning net position, as restated (Note 9)					6,351,250	37,032,981	43,384,231
Ending net position					\$ 8,147,758	\$ 35,099,399	\$ 43,247,157

See accompanying notes to basic financial statements.

## City of Kotzebue, Alaska

Governmental Funds  
Balance Sheet

	Major Funds					Total Governmental Funds
	General	Legislative Grants Capital Project	General Capital Projects	Nonmajor Funds		
<i>June 30, 2015</i>						
<b>Assets</b>						
Cash and investments	\$ -	\$ 527,348	\$ -	\$ 715,856	\$ 1,243,204	
Receivables:						
Accounts, net of allowance for uncollectible accounts	173,750	-	-	-	173,750	
Grants and shared revenues	364,078	943,849	7,578	12,168	1,327,673	
Sales tax	382,396	-	-	-	382,396	
Other	81,959	-	-	-	81,959	
<b>Total receivables</b>	<b>1,002,183</b>	<b>943,849</b>	<b>7,578</b>	<b>12,168</b>	<b>1,965,778</b>	
<b>Total Assets</b>	<b>\$ 1,002,183</b>	<b>\$ 1,471,197</b>	<b>\$ 7,578</b>	<b>\$ 728,024</b>	<b>\$ 3,208,982</b>	
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 75,829	\$ 1,471,260	\$ 450	\$ 5,238	\$ 1,552,777	
Accrued payroll and payroll liabilities	193,097	-	-	5,769	198,866	
Due to other funds	281,099	-	129,235	219,527	629,861	
<b>Total Liabilities</b>	<b>550,025</b>	<b>1,471,260</b>	<b>129,685</b>	<b>230,534</b>	<b>2,381,504</b>	
<b>Deferred Inflows of Resources</b>						
Deferred delinquent sales taxes	81,961	-	-	-	81,961	
Ambulance services	22,574	-	-	-	22,574	
<b>Total Deferred Inflows of Resources</b>	<b>104,535</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>104,535</b>	
<b>Fund Balances</b>						
Restricted for 911 services	-	-	-	555,059	555,059	
Assigned:						
Adult center	-	-	-	32,608	32,608	
Public safety	-	-	-	3,406	3,406	
Debt service	-	-	-	1,727	1,727	
Unassigned (deficit)	347,623	(63)	(122,107)	(95,310)	130,143	
<b>Total Fund Balances (Deficit)</b>	<b>347,623</b>	<b>(63)</b>	<b>(122,107)</b>	<b>497,490</b>	<b>722,943</b>	
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 1,002,183</b>	<b>\$ 1,471,197</b>	<b>\$ 7,578</b>	<b>\$ 728,024</b>	<b>\$ 3,208,982</b>	

See accompanying notes to basic financial statements.

City of Kotzebue, Alaska

Exhibit B-2

Reconciliation of Governmental Funds Balance Sheet  
to Statement of Net Position

June 30, 2015

Total fund balances for governmental funds		\$ 722,943
Total net position reported for governmental activities in the Statement of Net Position is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets, net of accumulated depreciation consist of:		
Land and land improvements	\$ 612,718	
Construction in progress	1,088,041	
Buildings	7,685,624	
Small boat harbor	7,334,121	
Machinery and equipment	<u>3,659,170</u>	
Total capital assets	20,379,674	
Less accumulated depreciation	<u>(5,955,763)</u>	
Total capital assets, net of accumulated depreciation		14,423,911
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. These assets consist of:		
Delinquent sales taxes receivable	81,961	
Ambulance accounts receivable	<u>22,574</u>	
Total other long-term assets		104,535
Long-term liabilities are not deemed due and payable in the current period and therefore are not reported as governmental fund liabilities. The liabilities consist of:		
Accrued leave	(263,483)	
Accrued interest	(18,134)	
Capital lease obligation	(209,578)	
Note payable	(2,879,551)	
Net pension liability	<u>(3,783,895)</u>	
Total long-term liabilities		(7,154,641)
Certain changes in net pension liabilities are deferred rather than recognized immediately. These items are amortized over time.		
Deferred outflows of resources	488,179	
Deferred inflows of resources	<u>(437,169)</u>	
Total deferred pension items		<u>51,010</u>
Total net position of governmental activities		<u>\$ 8,147,758</u>

See accompanying notes to basic financial statements.

## City of Kotzebue, Alaska

## Governmental Funds

## Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits)

	Major Funds				Total Governmental Funds
	General	Legislative Grants Capital Project	General Capital Projects	Nonmajor Funds	
<i>Year Ended June 30, 2015</i>					
<b>Revenues</b>					
Taxes	\$ 3,874,683	\$ -	\$ -	\$ -	\$ 3,874,683
Intergovernmental	3,296,517	1,723,774	44,663	502,867	5,567,821
Charges for services	1,112,553	-	-	202,815	1,315,368
Investment income	4,497	-	-	-	4,497
Gaming	-	-	-	896,736	896,736
Other	476,764	-	-	-	476,764
<b>Total Revenues</b>	<b>8,765,014</b>	<b>1,723,774</b>	<b>44,663</b>	<b>1,602,418</b>	<b>12,135,869</b>
<b>Expenditures</b>					
Current:					
General government	1,815,738	-	-	-	1,815,738
Public safety	4,439,659	-	-	5,941	4,445,600
Public works	2,130,498	-	-	-	2,130,498
Community services	111,330	-	-	-	111,330
Parks and recreation	175,422	-	-	-	175,422
Nondepartmental	150,046	-	-	-	150,046
Gaming operations	-	-	-	1,012,376	1,012,376
Adult Center operations	-	-	-	167,508	167,508
Debt service:					
Principal	-	-	-	528,344	528,344
Interest	-	-	-	77,114	77,114
Debt issuance costs	-	-	-	7,815	7,815
Capital outlay	-	1,723,837	1,595,603	450,768	3,770,208
<b>Total Expenditures</b>	<b>8,822,693</b>	<b>1,723,837</b>	<b>1,595,603</b>	<b>2,249,866</b>	<b>14,391,999</b>
Excess of revenues over (under) expenditures	(57,679)	(63)	(1,550,940)	(647,448)	(2,256,130)
<b>Other Financing Sources (Uses)</b>					
Issuance of note payable	1,643,491	-	-	-	1,643,491
Transfers in	344,216	-	1,492,390	700,000	2,536,606
Transfers out	(2,107,390)	-	-	-	(2,107,390)
<b>Net Other Financing Sources (Uses)</b>	<b>(119,683)</b>	<b>-</b>	<b>1,492,390</b>	<b>700,000</b>	<b>2,072,707</b>
Net change in fund balances	(177,362)	(63)	(58,550)	52,552	(183,423)
<b>Beginning fund balances (deficit)</b>	<b>524,985</b>	<b>-</b>	<b>(63,557)</b>	<b>444,938</b>	<b>906,366</b>
<b>Ending fund balances (deficits)</b>	<b>\$ 347,623</b>	<b>\$ (63)</b>	<b>\$ (122,107)</b>	<b>\$ 497,490</b>	<b>\$ 722,943</b>

See accompanying notes to basic financial statements.

## City of Kotzebue, Alaska

**Reconciliation of Change in Fund Balances of Governmental Funds  
to Statement of Activities**  
*Year Ended June 30, 2015*

Net change in fund balances - total governmental funds		\$ (183,423)
<p>The change in net position reported for governmental activities in the Statement of Activities is different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$3,805,395) exceeded depreciation (\$595,094) in the current year.</p>		
		3,210,301
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Net decrease in delinquent sales taxes		(20,502)
Net decrease in deferred ambulance services		(63,802)
<p>Issuance of long-term debt (\$1,643,491), and capital lease obligation provides current financial resources to governmental funds, while the repayment of that debt (\$592,028) consumes current financial resources in governmental funds. Neither of these transactions has any effect on net position.</p>		
		(1,051,463)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures.</p>		
Increase in accrued leave	\$ (7,640)	
Increase in accrued interest payable	(517)	
Increase in net pension liability and related deferred accounts	(86,446)	
		(94,603)
<b>Change in net position of governmental activities</b>		<b>\$ 1,796,508</b>

*See accompanying notes to basic financial statements.*

## City of Kotzebue, Alaska

Enterprise Funds  
Statement of Net Position

June 30, 2015	Major Funds			Nonmajor	Total Enterprise Funds
	Water and Sewer Utility	Refuse	Package Store	Fund Bar and Grill	
<b>Assets and Deferred Outflows of Resources</b>					
<b>Current Assets</b>					
Cash and investments	\$ 218,246	\$ -	\$ 126,309	\$ -	\$ 344,555
Receivables:					
Accounts	414,096	157,210	-	-	571,306
Allowance for uncollectible accounts	(69,524)	(68,463)	-	-	(137,987)
Net receivables	344,572	88,747	-	-	433,319
Inventory	155,454	50,456	210,086	-	415,996
Due from other funds	737,206	-	-	-	737,206
<b>Total Current Assets</b>	<b>1,455,478</b>	<b>139,203</b>	<b>336,395</b>	<b>-</b>	<b>1,931,076</b>
Restricted cash and investments	532,000	-	-	-	532,000
Advance to other funds	549,653	-	-	-	549,653
Property, plant, and equipment	89,687,405	6,190,973	-	102,513	95,980,891
Accumulated depreciation	(57,373,441)	(4,534,610)	-	-	(61,908,051)
Net property, plant, and equipment	32,313,964	1,656,363	-	102,513	34,072,840
<b>Total Assets</b>	<b>34,851,095</b>	<b>1,795,566</b>	<b>336,395</b>	<b>102,513</b>	<b>37,085,569</b>
Deferred Outflows of Resources - pension related	54,616	38,471	18,526	-	111,613
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 34,905,711</b>	<b>\$ 1,834,037</b>	<b>\$ 354,921</b>	<b>\$ 102,513</b>	<b>\$ 37,197,182</b>
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>					
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Accounts payable	\$ 22,510	\$ 16,969	\$ 163,331	\$ -	\$ 202,810
Accrued payroll and payroll liabilities	12,305	7,691	5,294	-	25,290
Accrued leave	32,258	19,181	26,111	-	77,550
Due to other funds	-	-	-	107,345	107,345
<b>Total Current Liabilities</b>	<b>67,073</b>	<b>43,841</b>	<b>194,736</b>	<b>107,345</b>	<b>412,995</b>
Noncurrent Liabilities:					
Advance from other funds	-	549,653	-	-	549,653
Net pension liability	423,327	298,184	143,595	-	865,106
Landfill closure costs	-	170,080	-	-	170,080
<b>Total Noncurrent Liabilities</b>	<b>423,327</b>	<b>1,017,917</b>	<b>143,595</b>	<b>-</b>	<b>1,584,839</b>
<b>Total Liabilities</b>	<b>490,400</b>	<b>1,061,758</b>	<b>338,331</b>	<b>107,345</b>	<b>1,997,834</b>
Deferred Inflows of Resources - pension related	48,909	34,450	16,590	-	99,949
<b>Net Position</b>					
Net investment in capital assets	32,313,964	1,656,363	-	102,513	34,072,840
Restricted for equipment replacement	532,000	-	-	-	532,000
Unrestricted (deficit)	1,520,438	(918,534)	-	(107,345)	494,559
<b>Total Net Position (Deficit)</b>	<b>34,366,402</b>	<b>737,829</b>	<b>-</b>	<b>(4,832)</b>	<b>35,099,399</b>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<b>\$ 34,905,711</b>	<b>\$ 1,834,037</b>	<b>\$ 354,921</b>	<b>\$ 102,513</b>	<b>\$ 37,197,182</b>

See accompanying notes to basic financial statements.

## City of Kotzebue, Alaska

## Enterprise Funds

## Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2015	Major Funds			Nonmajor	Total Enterprise Funds
	Water and Sewer Utility	Refuse	Package Store	Fund Bar and Grill	
<b>Operating Revenues</b>					
Water use charges and connect fees	\$ 1,316,947	\$ -	\$ -	\$ -	\$ 1,316,947
Sewer use charges and connect fees	589,504	-	-	-	589,504
Refuse and landfill	-	685,208	-	-	685,208
Net alcohol sales and permitting fees	-	-	1,246,057	-	1,246,057
Other operating revenues	28,536	-	-	-	28,536
<b>Total Operating Revenues</b>	<b>1,934,987</b>	<b>685,208</b>	<b>1,246,057</b>	<b>-</b>	<b>3,866,252</b>
<b>Operating Expenses</b>					
Administration	316,494	110,000	160,000	-	586,494
Water	701,085	-	-	-	701,085
Sewer	481,869	-	-	-	481,869
Refuse and landfill	-	696,354	-	-	696,354
Package store and distribution site	-	-	463,423	-	463,423
Depreciation	2,117,903	160,286	-	-	2,278,189
Bar and grill	-	-	-	4,832	4,832
<b>Total Operating Expenses</b>	<b>3,617,351</b>	<b>966,640</b>	<b>623,423</b>	<b>4,832</b>	<b>5,212,246</b>
Income (loss) from operations	(1,682,364)	(281,432)	622,634	(4,832)	(1,345,994)
<b>Nonoperating Revenues (Expense)</b>					
State PERS relief	32,851	23,140	11,143	-	67,134
Equipment sales	3,510	-	-	-	3,510
Uncollectible grants	(389,190)	-	-	-	(389,190)
Miscellaneous revenue	37,478	-	2,500	-	39,978
<b>Net Nonoperating Revenues (Expenses)</b>	<b>(315,351)</b>	<b>23,140</b>	<b>13,643</b>	<b>-</b>	<b>(278,568)</b>
Income (loss) before contributions and transfers	(1,997,715)	(258,292)	636,277	(4,832)	(1,624,562)
Capital contributions	120,196	-	-	-	120,196
Transfers out	-	-	(429,216)	-	(429,216)
Change in net position	(1,877,519)	(258,292)	207,061	(4,832)	(1,933,582)
<b>Beginning net position (deficit), as restated (Note 9)</b>	<b>36,243,921</b>	<b>996,121</b>	<b>(207,061)</b>	<b>-</b>	<b>37,032,981</b>
<b>Ending net position (deficit)</b>	<b>\$ 34,366,402</b>	<b>\$ 737,829</b>	<b>\$ -</b>	<b>\$ (4,832)</b>	<b>\$ 35,099,399</b>

See accompanying notes to basic financial statements.

City of Kotzebue, Alaska

Exhibit C-3

Enterprise Funds  
Statement of Cash Flows

Year Ended June 30, 2015	Major Funds			Nonmajor	Total Enterprise Funds
	Water and Sewer Utility	Refuse	Package Store	Fund Bar and Grill	
<b>Cash Flows from (for) Operating Activities</b>					
Receipts from customers and users	\$ 1,893,820	\$ 639,047	\$ 3,113,636	\$ -	\$ 5,646,503
Payments to suppliers	(834,739)	(230,410)	(1,832,362)	(6,027)	(2,903,538)
Payments to employees	(607,110)	(420,658)	(272,799)	-	(1,300,567)
Payments for interfund services used	(285,000)	(110,000)	(160,000)	-	(555,000)
<b>Net cash flows from (for) operating activities</b>	<b>166,971</b>	<b>(122,021)</b>	<b>848,475</b>	<b>(6,027)</b>	<b>887,398</b>
<b>Cash Flows from (for) Noncapital Financing Activities</b>					
Increase (decrease) in due to other funds	-	122,021	(293,950)	-	(171,929)
Increase in due from other funds	133,433	-	-	-	133,433
Increase in advance to other funds	(549,653)	-	-	-	(549,653)
Transfers out	-	-	(429,216)	-	(429,216)
<b>Net cash flows from (for) noncapital financing activities</b>	<b>(416,220)</b>	<b>122,021</b>	<b>(723,166)</b>	<b>-</b>	<b>(1,017,365)</b>
<b>Cash Flows from (for) Capital and Related Financing Activities</b>					
Increase in due to other funds	-	-	-	107,345	107,345
Acquisition and construction of capital assets	(184,715)	-	-	(102,513)	(287,228)
Capital contributions received	150,431	-	-	-	150,431
<b>Net cash flows from capital and related financing activities</b>	<b>(34,284)</b>	<b>-</b>	<b>-</b>	<b>4,832</b>	<b>(29,452)</b>
<b>Net increase (decrease) in cash and investments</b>	<b>(283,533)</b>	<b>-</b>	<b>125,309</b>	<b>(1,195)</b>	<b>(159,419)</b>
<b>Beginning cash and investments</b>	<b>1,033,779</b>	<b>-</b>	<b>1,000</b>	<b>1,195</b>	<b>1,035,974</b>
<b>Ending cash and investments</b>	<b>\$ 750,246</b>	<b>\$ -</b>	<b>\$ 126,309</b>	<b>\$ -</b>	<b>\$ 876,555</b>
<b>Reconciliation of income (loss) from operations to net cash flows from (for) operating activities:</b>					
Income (loss) from operations	\$ (1,682,364)	\$ (281,432)	\$ 622,634	\$ (4,832)	\$ (1,345,994)
<b>Adjustments to reconcile income (loss) from operations to net cash flows from (for) operating activities:</b>					
Nonoperating revenues	40,988	-	2,500	-	43,488
Noncash expense - PERS relief	32,851	23,140	11,143	-	67,134
Decrease in allowance for uncollectible accounts	(778)	(220)	-	-	(998)
Depreciation	2,117,903	160,286	-	-	2,278,189
<b>(Increase) decrease in assets and deferred outflows of resources:</b>					
Accounts receivable	(83,953)	(45,941)	-	-	(129,894)
Contracts receivable	2,576	-	-	-	2,576
Inventory	(155,454)	-	95,091	-	(60,363)
Deferred outflows of resources - pension related	(19,888)	(14,009)	(6,746)	-	(40,643)
<b>Increase (decrease) in liabilities:</b>					
Accounts payable	(120,684)	13,118	106,902	(1,195)	(1,859)
Accrued payroll and payroll liabilities	-	-	-	-	-
Accrued leave	6,215	2,217	6,925	-	15,357
Net pension liability	(19,350)	(13,630)	(6,564)	-	(39,544)
Deferred inflows of resources - pension related	48,909	34,450	16,590	-	99,949
<b>Net Cash Flows from (for) Operating Activities</b>	<b>\$ 166,971</b>	<b>\$ (122,021)</b>	<b>\$ 848,475</b>	<b>\$ (6,027)</b>	<b>\$ 887,398</b>

See accompanying notes to basic financial statements.

# City of Kotzebue, Alaska

## Notes to Basic Financial Statements

June 30, 2015

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### 1. Summary of Significant Accounting Policies

#### *Reporting Entity*

The City of Kotzebue was incorporated on October 14, 1958. The City operates under a Council-Manager form of government and provides a full range of services including public safety, streets, sanitation, water and sewer, health and social services, culture and recreation, public improvements, planning and zoning, and general administrative services.

The financial statements included in this report are for City of Kotzebue only. There are no other component units for which City of Kotzebue is financially accountable, nor do any special financial relationships exist between the City and any other entity.

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

#### *Government-Wide and Fund Financial Statements*

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the City. In general, the effect of interfund activity has been removed from these statements to minimize the double-counting of internal activities. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely primarily on fees and charges to external parties.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) fees, fines and charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise 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.

# City of Kotzebue, Alaska

## Notes to Basic Financial Statements

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

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

The City reports the following major funds:

### *Major Governmental Funds*

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

The *Legislative Grant Capital Project Fund* accounts for grants received for construction of the Swan Lake Boat Harbor, Cape Blossom Road and acquisition of heavy equipment.

The *General Capital Projects Capital Projects Fund* is used to account for the various capital projects including Swan Lake, Teen Center, and the North Tent City projects.

### *Major Proprietary Funds*

The *Water and Sewer Utility Enterprise Fund* is used to account for the operations of the City's water system and the waste water utility.

The *Refuse Enterprise Fund* is used to account for the operations of the City's solid waste and landfill activities.

The *Package Store Enterprise Fund* is used to account for the operations of the City's liquor store activities.

As a general rule the effect of interfund activity has been eliminated from 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 the direct costs and program revenues reported for the various functions concerned.

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

# City of Kotzebue, Alaska

## Notes to Basic Financial Statements

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

### *Cash and Cash Equivalents*

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

### *Inventory*

Inventories are valued at the lower of cost or market in the proprietary funds. Cost is determined by the first-in, first-out method. The cost is recorded as an expense at the time individual inventory items are consumed.

### *Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "due to / from other funds" (i.e., the current portion of interfund loans) or "advances to / from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

### *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 on expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the measurable and available criteria are met.

### *Interfund Transactions*

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

# City of Kotzebue, Alaska

## Notes to Basic Financial Statements

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### *Accrued Leave*

All full-time employees are eligible for paid personal leave. Accrued leave is recorded as an expense in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental fund financial statements only if they have matured (e.g. the employee has terminated employment).

### *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. As a phase 3 government for GASB Statement 34 purposes, the City records additions to infrastructure capital assets (e.g. roads, sidewalks, etc.) prospectively from the GASB Statement 34 implementation date, which was June 30, 2003. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. 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 is depreciated using the straight line method over the following estimated useful lives:

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Buildings and improvements	25 - 40 years
Improvements other than buildings	10 - 25 years
Machinery and equipment	5 - 25 years

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### *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. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

### *Fund Balances*

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form-prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of fund balances comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

# City of Kotzebue, Alaska

## Notes to Basic Financial Statements

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*Restricted Fund Balance* - This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed Fund Balance* - These amounts can only be used for specific purposes pursuant to constraints imposed by formal ordinances of the City Council - the government's highest level of decision making authority. These committed amounts cannot be used for any other purpose unless the City Council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned Fund Balance* - This classification reflects the amounts constrained by the City's "intent" to be used for specific purposes, but are neither restricted nor committed. The City Council and City Manager have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

*Unassigned Fund Balance* - This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to use externally restricted resources first, then unrestricted resources - committed, assigned, and unassigned - in order as needed.

### *Encumbrances*

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and Special Revenue Funds. Any encumbrances outstanding at year end are reported as appropriate constraints of fund balances if they meet the definitions and criteria as outlined above.

### *Unearned Grant Revenue*

Amounts received from grantor agencies, which are restricted as to use and have not been expended for the intended use are shown as unearned revenue.

### *Pension Plan*

All full-time permanent employees of the City participate in the Public Employees' Retirement System ("PERS") administered by the State of Alaska.

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

# City of Kotzebue, Alaska

## Notes to Basic Financial Statements

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### *Comparative Data*

Comparative data for the prior year have been presented in some of the accompanying individual financial statements in order to provide an understanding of changes in the City's financial position and operations.

### *Budgets and Budgetary Compliance*

Kotzebue City Code requires that the City Manager prepare and submit a budget to the Council by May 1<sup>st</sup> of each year. The Council will hold public hearings on the budget and must adopt the budget and make the appropriation ordinance not later than June 15<sup>th</sup>. If the Council does not adopt a budget, the original budget submission shall become the budget. The City Council may amend the budget at any time, following the public hearing process. All appropriations lapse at year end, unless they have been expended or lawfully encumbered.

At June 30, 2015 various departments of the General Fund including General Government, Public Safety, and Public Works, overexpended the authorized budget. These overexpenditures were directly tied to the unanticipated increase in the State on-behalf PERS payments for 2015. The on-behalf payments are non-cash contributions in which revenues and expenditures are exactly equal, resulting in no fund balance effect. Since these amounts are recorded for GAAP purposes, but do not represent actual cash outlays, this is not considered by management to be a budgetary violation. Management did include a budgetary provision for on-behalf contributions in the final budget; however, the amount was significantly underestimated due to the one-time additional payment discussed in Note 11.

## 2. Cash and Investments

The City of Kotzebue 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 in the case of "negative" cash, is included in "Due to other funds."

### *Reconciliation of Deposit and Investment Balances*

The following is a reconciliation of the City's deposit and investment balances to the financial statements at June 30, 2015.

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Bank deposits	\$ 1,565,532
Investments	554,227
<b>Total Cash and Investments</b>	<b>\$ 2,119,759</b>

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Cash and investments	\$ 1,587,759
Restricted cash and investments	532,000
<b>Total Cash and Investments</b>	<b>\$ 2,119,759</b>

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# City of Kotzebue, Alaska

## Notes to Basic Financial Statements

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Restricted cash and investments is comprised of equipment replacement reserves established and budgeted by the City annually to comply with the terms and conditions of a prior USDA grant. Although the grant has closed out, the equipment replacement fund is ongoing.

### *Investments*

#### *Investment Policy*

The City is authorized to invest in the following instruments. All securities purchased by the City and all other City investments must mature not later than the time indicated below, measured from the date of the City's investment transaction.

1. Obligations of, or obligations insured or guaranteed by the United States or an agency or instrumentality of the United States - up to ten (10) years.
2. Certificates of deposit and other deposits at banks and savings and loans associations - up to ten (10) years.
3. Federally insured deposits at banks and savings and loan associations - up to ten (10) years.
4. Bonds and notes which are issued by a State or political subdivision thereof, or pursuant to the Tribal Tax Statutes Act 26 U.S.C. Sec. 7871 and which are rated AA or higher by a nationally recognized rating service - up to ten (10) years.
5. Commercial paper issued by corporations and having the highest rating given by a nationally recognized rating service - two hundred seventy (270) days.
6. Bankers acceptances drawn on and accepted (a) at banks, all of whose debt issues are rated at least AA or its equivalent by a nationally recognized rating service or (b) if the bank is a subsidiary of one bank holding company, all of whose commercially held paper has the highest rating given by a nationally recognized rating service or whose debt issues meet the requirements in (a) above - one hundred eighty (180) days.
7. Money market mutual funds whose portfolio consists entirely of instruments - maturity date not applicable, which are U.S. government, or U.S. government guaranteed obligations, which have a constant net asset value.
8. Repurchase agreements, the securities underlying the agreement being any of the items listed in subsection 1 and 6 of this section which meet a margin requirement of 102%.
9. The Alaska Municipal League Investment Pool, made in accordance with terms of that Pool's "Common Investment Agreement."

### *Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

# City of Kotzebue, Alaska

## Notes to Basic Financial Statements

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The City of Kotzebue's investments at June 30, 2015 consisted of money market funds and investment in the Alaska Municipal League Investment Pool (AMLIP), which are not subject to interest rate risk.

### *Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The AMLIP is an external investment pool which is rated AAAM by Standard and Poor's for credit risk purposes. Alaska Statute 37.23 establishes regulatory oversight of the pool. The law sets forth numerous requirements regarding authorized investments and reporting. At June 30, 2015, the share value of investments in the AML pool is approximately equal to fair value.

### 3. Receivables

The City maintains accounts receivable balances of which a portion is reserved as an allowance for doubtful accounts. At June 30, 2015, receivables for the City's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	Major Governmental Funds					Total Governmental Funds
	General	Legislative Grants Capital Project	General Capital Projects	Nonmajor Governmental Funds		
Accounts	\$ 209,567	\$ -	\$ -	\$ -	\$ -	\$ 209,567
Grants and shared revenues	364,078	943,849	7,578	12,168	-	1,327,673
Sales tax	382,396	-	-	-	-	382,396
Other	81,959	-	-	-	-	81,959
Total receivables	1,038,000	943,849	7,578	12,168	-	2,001,595
Less allowance for uncollectible accounts	(35,817)	-	-	-	-	(35,817)
<b>Net Receivables</b>	<b>\$ 1,002,183</b>	<b>\$ 943,849</b>	<b>\$ 7,578</b>	<b>\$ 12,168</b>	<b>\$ -</b>	<b>\$ 1,965,778</b>

# City of Kotzebue, Alaska

## Notes to Basic Financial Statements

	Major Enterprise Funds		Total Enterprise Funds
	Water & Sewer	Refuse	
Accounts	\$ 414,096	\$ 157,210	\$ 571,306
Less allowance for uncollectible accounts	(69,524)	(68,463)	(137,987)
<b>Net Receivables</b>	<b>\$ 344,572</b>	<b>\$ 88,747</b>	<b>\$ 433,319</b>

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.

### 4. Capital Assets

Capital asset activity for the year ended June 30, 2015 follows:

<i>Governmental Activities</i>	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Capital assets not being depreciated:				
Land and land improvements	\$ 612,718	\$ -	\$ -	\$ 612,718
Construction in progress	1,264,466	3,770,144	(3,946,569)	1,088,041
<b>Total assets not being depreciated</b>	<b>1,877,184</b>	<b>3,770,144</b>	<b>(3,946,569)</b>	<b>1,700,759</b>
Capital assets being depreciated:				
Buildings	5,462,829	2,222,795	-	7,685,624
Small boat harbor	5,610,347	1,723,774	-	7,334,121
Machinery and equipment	3,665,264	35,251	(41,345)	3,659,170
<b>Total capital assets being depreciated</b>	<b>14,738,440</b>	<b>3,981,820</b>	<b>(41,345)</b>	<b>18,678,915</b>
Less accumulated depreciation for:				
Buildings	3,208,298	164,376	-	3,372,674
Small boat harbor	140,259	183,353	-	323,612
Machinery and equipment	2,053,457	247,365	(41,345)	2,259,477
<b>Total accumulated depreciation</b>	<b>5,402,014</b>	<b>595,094</b>	<b>(41,345)</b>	<b>5,955,763</b>
<b>Total capital assets being depreciated, net</b>	<b>9,336,426</b>	<b>3,386,726</b>	<b>-</b>	<b>12,723,152</b>
<b>Governmental Activity Capital Assets, Net</b>	<b>\$ 11,213,610</b>	<b>\$ 7,156,870</b>	<b>\$ (3,946,569)</b>	<b>\$ 14,423,911</b>

# City of Kotzebue, Alaska

## Notes to Basic Financial Statements

<i>Business-Type Activities</i>	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Capital assets not being depreciated:				
Land and land improvements	\$ 230,983	\$ -	\$ -	\$ 230,983
Construction in progress	-	287,228	(184,715)	102,513
<b>Total assets not being depreciated</b>	<b>230,983</b>	<b>287,228</b>	<b>(184,715)</b>	<b>333,496</b>
Capital assets being depreciated:				
Buildings	2,381,895	-	-	2,381,895
Improvements other than buildings	89,070,760	184,715	-	89,255,475
Machinery and equipment	4,055,410	-	(45,385)	4,010,025
<b>Total capital assets being depreciated</b>	<b>95,508,065</b>	<b>184,715</b>	<b>(45,385)</b>	<b>95,647,395</b>
Less accumulated depreciation for:				
Buildings	1,294,031	79,400	-	1,373,431
Improvements other than buildings	55,867,062	1,926,265	-	57,793,327
Machinery and equipment	2,514,155	272,524	(45,386)	2,741,293
<b>Total accumulated depreciation</b>	<b>59,675,248</b>	<b>2,278,189</b>	<b>(45,386)</b>	<b>61,908,051</b>
<b>Total capital assets being depreciated, net</b>	<b>35,832,817</b>	<b>(2,093,474)</b>	<b>1</b>	<b>33,739,344</b>
<b>Business-Type Activity Capital Assets, Net</b>	<b>\$ 36,063,800</b>	<b>\$ (1,806,246)</b>	<b>\$ (184,714)</b>	<b>\$ 34,072,840</b>

Depreciation expense was charged to the functions as follows:

### *Governmental Activities*

General government	\$ 52,598
Public safety	197,103
Public works	275,995
Parks and recreation	3,299
Recreation centers	66,099
<b>Total Depreciation Expense - Governmental Activities</b>	<b>\$ 595,094</b>

### *Business-Type Activities*

Water and sewer utility	\$ 2,117,903
Refuse	160,286
<b>Total Depreciation Expense - Business-Type Activities</b>	<b>\$ 2,278,189</b>

# City of Kotzebue, Alaska

## Notes to Basic Financial Statements

### 5. Interfund Receivables, Payables, Advances and Transfers

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

#### Due From Other Funds

Due to the Water and Sewer Utility Enterprise Fund from:	
General Fund	\$ 281,099
General Capital Projects Fund	129,235
Nonmajor governmental funds for operating advances	219,527
Nonmajor enterprise fund	107,345

<b>Total Due To/From Other Funds</b>	<b>\$ 737,206</b>
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#### Advances

From Water and Sewer Utility Enterprise Fund to:	
Refuse Enterprise Fund	\$ 549,653

#### Transfers

From General Fund to:	
General Capital Projects Fund for capital costs	\$ 1,492,390
Nonmajor governmental funds to cover debt service	615,000
From Package Store Enterprise Fund to:	
General Fund to cover operating costs	344,216
Nonmajor governmental funds to cover operating costs	85,000

<b>Total Transfers To Other Funds</b>	<b>\$ 2,536,606</b>
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### 6. Capital Lease Obligations

The City leases 12 vehicles under a long term capital lease agreement. At June 30, 2015, the vehicles had a cost of \$349,789 and accumulated depreciation of \$139,916.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2015, are as follows:

<i>Year Ending June 30</i>	<b>Governmental Activities</b>
2016	\$ 153,054
2017	76,526
Total Minimum Lease Payments	
Less: amount representing interest	(20,002)
<b>Present Value of Minimum Lease Payments</b>	
	<b>\$ 209,578</b>

# City of Kotzebue, Alaska

## Notes to Basic Financial Statements

### 7. Long-Term Liabilities

On September 20, 2013, the City issued a general obligation note payable to a bank to borrow up to \$3,500,000 at an interest rate of the index plus .5 percent but not less than 3.5 percent. The proceeds of the note are to be used for various capital improvements. The note is secured by the full faith and credit of the City and is to be repaid with General Fund revenues, including revenue from the City's alcohol sales, and contains certain financial covenants for which the City must comply. The note is payable in interest only monthly installments during the draw period and then in 114 equal monthly principal payments plus interest. Installment payments on the note shall be due on April 3, 2014 and on the 3rd day of each month thereafter, until October 3, 2023, when the remaining principal balance of the note, plus accrued interest, shall be due and payable. In addition, the City is to make annual payments based on varying percentage differences between the package store net income and principal and interest payments made.

As of June 30, 2015, the City had drawn \$3,500,000 on the note. The following is a summary of long-term liability transactions of the City for the year ended June 30, 2015:

<i>Governmental Activities</i>	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015	Due Within One Year
General obligation note payable to bank	\$ 1,764,404	\$ 1,643,491	\$ 528,344	\$ 2,879,551	\$ 525,911
Capital leases	273,262	-	63,684	209,578	66,677
Accrued leave	255,843	509,526	501,886	263,483	263,483
<b>Total Governmental Activities</b>	<b>\$ 2,293,509</b>	<b>\$ 2,153,017</b>	<b>\$ 1,093,914</b>	<b>\$ 3,352,612</b>	<b>\$ 856,071</b>

The long-term liabilities related to governmental activities are generally liquidated by the General Fund.

<i>Business-Type Activities</i>	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015	Due Within One Year
Accrued leave	\$ 62,193	\$ 99,402	\$ 84,045	\$ 77,550	\$ 77,550
Estimated landfill closure costs	170,080	-	-	170,080	-
<b>Total Business-Type Activities</b>	<b>\$ 232,273</b>	<b>\$ 99,402</b>	<b>\$ 84,045</b>	<b>\$ 247,630</b>	<b>\$ 77,550</b>

# City of Kotzebue, Alaska

## Notes to Basic Financial Statements

Because the debt service principal payments on the general obligation note are tied, in part, to annual revenues, the repayment schedule must be recalculated on an annual basis. Estimated future debt service requirements excluding annual revenue based principal payments are as follows:

<i>Governmental Activities</i>	Principal	Interest	Total
Year Ending June 30,			
2016	\$ 525,911	\$ 93,044	\$ 618,955
2017	368,421	76,467	444,888
2018	368,421	63,573	431,994
2019	368,421	45,962	414,383
2020	368,421	37,783	406,204
2021-2023	879,956	38,073	918,029
<b>Total Governmental Activities</b>	<b>\$ 2,879,551</b>	<b>\$ 354,902</b>	<b>\$ 3,234,453</b>

In addition, the note contains certain debt covenants that require that 1) audited financial statements be submitted to the bank within 180 days of year end and 2) maintain a debt service coverage ratio of not less than 1.25 to 1.

As of December 31, 2015, the City was not in compliance with the audit submission requirement, as the audited financial statements were not completed until February of 2016. Additionally, at June 30, 2015, the City was not in compliance with the debt service coverage ratio requirement. The City has obtained a covenant waiver for 2015 from the bank for both covenants.

### 8. Fund Balances

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

	Major Funds				Nonmajor Funds	Totals
	General	Legislative Grants Capital Project	General Capital Projects			
Restricted for 911 services	\$ -	\$ -	\$ -	\$ -	\$ 555,059	\$ 555,059
Assigned						
Adult Center Operations	-	-	-	-	32,608	32,608
Public safety	-	-	-	-	3,406	3,406
Debt service	-	-	-	-	1,727	1,727
Unassigned (deficit)	347,623	(63)	(122,107)	-	(95,310)	130,143
<b>Total Fund Balances</b>	<b>\$ 347,623</b>	<b>\$ (63)</b>	<b>\$ (122,107)</b>	<b>\$ -</b>	<b>\$ 497,490</b>	<b>\$ 722,943</b>

# City of Kotzebue, Alaska

## Notes to Basic Financial Statements

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### 9. Change in Accounting Principle

As discussed in Note 11 to the financial statements, the City participates in the Alaska Public Employees Retirement System (PERS) plan. In 2015 the City adopted the provisions of GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*, which, among other accounting and reporting criteria, requires the City to recognize its proportional share of the Net Pension Liability (and related deferred inflow/outflow accounts), as of the beginning of the City's fiscal year. As a result of the implementation of this statement, the City has recorded an opening balance adjustment to reflect opening balance pension liabilities and related accounts and to decrease opening net position as follows:

	Opening Net Position, as Originally Presented	Change in Accounting Principle Adjustment	Opening Net Position, as Restated
Governmental Activities	\$ 9,997,689	\$ (3,646,439)	\$ 6,351,250
Business-type Activities	37,866,660	(833,679)	37,032,981
Water and Sewer Utility Enterprise Fund	36,651,869	(407,948)	36,243,921
Refuse Enterprise Fund	1,283,473	(287,352)	996,121
Package Store Enterprise Fund	(68,682)	(138,379)	(207,061)

### 10. Municipal Landfill Closure and Postclosure 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 postclosure care costs will be paid only near or after the date the landfill stops accepting waste, generally accepted accounting principles require that the City report a portion of these closure and postclosure care costs each period based on landfill capacity used as of each balance sheet date.

Management estimates that two of the three existing cells are 100% full and the other cell is approximately 75% full. Cells one and two are fully capped. The \$170,080 reported as landfill closure liability at June 30, 2015 represents the estimated closing cost once the cell is at capacity. The remaining life of the cell currently being used is estimated to be approximately 3 years.

### 11. Defined Benefit (DB) Pension Plan

#### General Information About the Plan

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

# City of Kotzebue, Alaska

## Notes to Basic Financial Statements

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than teachers. The Plan was established and is administered by the State of Alaska Department of Administration. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

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

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

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

### *Historical Context and Special Funding Situation*

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

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

Although current statutes call for the State of Alaska to contribute to the Plan, the Alaska Department of Law has determined that the statute does not create a legal obligation to assume the liabilities of the Plan; rather it establishes a contribution mechanism to provide employer relief against the rising contribution rates. This relief payment is subject to funding availability, and therefore not legally mandated. As a result, the State has determined that the Plan is *not* in a special funding situation.

Management of the City disagrees with the State's position and believes that AS 39.35.255 constitutes a special funding situation under GASB 68 rules and has recorded all pension related liabilities, deferred inflows/outflows, and disclosures on this basis, pending a final legal determination, as may be required to settle the matter.

The City records the on-behalf contributions as revenue and expense/expenditures in the fund financial statements. However, the expenditures are adjusted to deferred outflows in the enterprise funds and government-wide financial statements.

# City of Kotzebue, Alaska

## Notes to Basic Financial Statements

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### *Employee Contribution Rates*

Regular employees are required to contribute 6.75% of their annual covered salary (Police and firefighters are required to contribute 7.5% of their annual covered salary. Non-Teacher School District employees are required to contribute 9.6% of their annual covered salary.

### *Employer and Other Contribution Rates*

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

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

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

*On-behalf Contribution Rate:* This is the rate paid in by the State as an on-behalf payment under the current statute. The statute requires the State to contribute, based on funding availability, an on-behalf amount equal to the difference between the ARM Board Rate and the Employer Effective Rate. However, in 2015, the State Legislature appropriated a one-time contribution to the Plan in the amount of \$1 billion. As a result, the On-behalf Contribution Rate for 2015 significantly exceeds the statutory amount. In the governmental fund financial statements, on-behalf contribution amounts have been recognized as additional revenues and expenditures. On the enterprise fund and government-wide financial statements, the on-behalf amounts are included in revenue, but are recorded as deferred outflows, rather than pension expense.

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

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

# City of Kotzebue, Alaska

## Notes to Basic Financial Statements

Contribution rates for the year ended June 30, 2015 were determined in the June 30, 2012 actuarial valuation.

	Employer Effective Rate	ARM Board Adopted Rate	State Contribution Rate	GASB Rate
Pension	12.54%	25.09%	42.41%	33.05%
Postemployment healthcare (see Note 13)	9.46%	18.94%	- %	55.07%
<b>Total Contribution Rates</b>	<b>22.00%</b>	<b>44.03%</b>	<b>42.41%</b>	<b>88.12%</b>

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

	Measurement Period City FY14	City FY15
Employer contributions (including DBUL)	\$ 381,382	\$ 389,048
Nonemployer contributions (on-behalf)	360,769	1,998,788
<b>Total Contributions</b>	<b>\$ 742,151</b>	<b>\$ 2,387,836</b>

In addition, employee contributions to the plan totaled \$118,111 during the City fiscal year.

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

At June 30, 2015, the City reported a liability for its proportionate share of the net pension liability (NPL) that reflected a reduction for State pension support provided to the City. The amount recognized by the City for its proportional share, the related State proportion, and the total were as follows:

	2015
City proportionate share of NPL	\$ 4,649,001
State's proportionate share of NPL associated with the City	4,387,084
<b>Total Net Pension Liability</b>	<b>\$ 9,036,085</b>

The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of June 30, 2013, rolled forward to June 30, 2014 to calculate the net pension liability as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, including the State, actuarially determined.

# City of Kotzebue, Alaska

## Notes to Basic Financial Statements

At June 30, 2014, the City's proportion was 0.09967546 percent, which was an increase of 0.0071001 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City recognized pension expense of \$856,399 and revenue of \$360,769 in on-behalf contributions paid by the state. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	(537,118)
Changes in proportion and differences between City contributions and proportionate share of contributions	210,744	-
City contributions subsequent to the measurement date	389,048	-
<b>Total Deferred Outflows and Deferred Inflows</b>	<b>\$ 599,792</b>	<b>\$ (537,118)</b>

The \$389,048 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

*Year Ended June 30,*

2016		\$ 27,830
2017		(85,646)
2018		(134,279)
2019		(134,279)
<b>Total Amortization</b>		<b>\$ (326,374)</b>

***Actuarial Assumptions***

The total pension liability was determined by an actuarial valuation as of June 30, 2013, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2014. The actuarial valuation for the year ended June 30, 2014 (latest available) was prepared by Buck Consultants. The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2005 to June 30, 2009, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect expected future experience.

# City of Kotzebue, Alaska

## Notes to Basic Financial Statements

Inflation	3.12%
Salary Increases	Graded by service, from 6.36% to 4.12% for Peace Officers/Firefighters. Graded by age and service, from 9.6% to 3.62% for all others.
Investment Return / Discount Rate	8.00% net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and real rate of return over 4.88%.
Mortality	Rates based on the 1994 Group Annuity Mortality Table, sex distinct, 1994 Base year without margin projected to 2013 using Projection Scale AA, 80% of the male table and 60% of the female table for pre-termination mortality for Peace officers/fire fighters. 75% for male and 55% for female for pre-termination for all others; and 100% for males and 1-year set-forward for females for post-termination.

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

<i>Asset Class</i>	Long-Term Expected Real Rate of Return
Domestic equity	6.77%
International equity	7.50%
Private equity	10.86%
Fixed income	2.05%
Real estate	3.63%
Absolute return	4.80%

### *Discount Rate*

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

# City of Kotzebue, Alaska

## Notes to Basic Financial Statements

### *Discount Rate Sensitivity*

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

	Proportional Share	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	0.09967546%	\$ 6,095,734	\$ 4,649,001	\$ 3,430,718

### *Pension Plan Fiduciary Net Position*

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

## **12 - Defined Contribution (DC) Pension Plan**

Employees hired after July 1, 2006 participate in PERS Tier IV, a defined contribution plan. This Plan is administered by the State of Alaska, Department of Administration in conjunction with the defined benefit plan noted above. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Alaska Retirement Management Board may also amend contribution requirements. Included in the Plan are individual pension accounts, retiree medical insurance plan and a separate Health Reimbursement Arrangement account that will help retired members pay medical premiums and other eligible medical expenses not covered by the medical plan. This Plan is included in the comprehensive annual financial report for PERS, and at the following website, as noted above. <http://doa.alaska.gov/drb/pers>.

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

### *Benefit Terms*

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

### *Employee Contribution Rate*

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

# City of Kotzebue, Alaska

## Notes to Basic Financial Statements

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### *Employer Contribution Rate*

For the year ended June 30, 2015, the City was required to contribute 5% of covered salary into the Plan.

The City and employee contributions to PERS for pensions for the year ended June 30, 2015 were \$132,337 and \$211,739, respectively. The City contribution amount was recognized as pension expense/expenditures.

### **13 - Other Post-Employment Benefit (OPEB) Plans**

#### *Defined Benefit OPEB*

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

#### *Employer Contribution Rate*

The City is required to contribute 9.46% of covered payroll into the OPEB plan. Employees do not contribute.

#### *Annual Postemployment Healthcare Cost*

Actual contributions into the plan for the last three years were as follows. The amounts reported here include only the employer required contributions and do not include any amounts attributed to the on-behalf contributions by the State. In 2015, there were no on-behalf contributions into the OPEB Plan; however, on-behalf contributions to the OPEB Plan in 2014 and 2013 were \$276,865 and \$285,570, respectively. City contributions to Plan (excluding the on-behalf amounts) were as follows:

<i>Year Ended June 30,</i>	Annual OPEB Costs	City Contributions	% of Costs Contributed
2015	\$ 293,495	\$ 293,495	100 %
2014	\$ 351,890	\$ 351,890	100 %
2013	\$ 407,086	\$ 407,086	100 %

#### *Defined Contribution OPEB*

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

# City of Kotzebue, Alaska

## Notes to Basic Financial Statements

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### *Employer Contribution Rates*

Employees do not contribute to the DC OPEB plans. Employer contribution rates for the year ended June 30, 2015 were as follows:

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

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

### *Annual Postemployment Healthcare Cost*

In 2015, the City contributed \$140,654 in DC OPEB costs. These amounts have been recognized as expense/expenditures.

## 14. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. In accordance with the Internal Revenue Code, all assets and income of the Plan are held in trust for the exclusive benefit of participants and their beneficiaries.

## 15. Risk Management

The City faces a considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability; i.e., errors and omissions, (d) environmental damage, (e) workers' compensation; i.e., employee injuries, and (f) medical insurance costs of employees. Commercial policies, transferring the risk of loss, except for relatively small deductible amounts, are purchased for employee medical costs. The City participates in the Alaska Municipal League Joint Insurance Association (AML/JIA) which provides insurance coverage for property and contents damage, torts, general and automobile liability, and workers' compensation. The City has no coverage for potential losses from environmental pollution damages. The AML/JIA is a public entity risk pool organized to share risks among its members. The Association's bylaws provide for the assessment of supplemental contributions from members in the event that losses and expenses for any coverage year exceed the annual contributions and income earned on such contributions for the year. Such supplemental contributions shall be based upon each member's annual deposit contribution in comparison to the aggregate annual deposit contributions of all members. The Association made no supplemental assessments during the year ended June 30, 2015. Coverage limits and the deductibles on the policies have stayed relatively constant for the last several years.

# City of Kotzebue, Alaska

## Notes to Basic Financial Statements

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### 16. Contingencies

#### *Grants*

Amounts received or receivable from granting agencies are subject to audit and adjustment by the granting agency. Any disallowed grant expenditures, including amounts already collected, would become a liability of the City.

#### *Other*

The City, in the normal course of its activities, is involved in various claims and litigation. In the opinion of management and the City's legal counsel, the disposition of these matters is not expected to have a material adverse effect on the City's financial statements.

### 17. Subsequent Events

In July 2015 the city entered into a capital lease financing agreement with KeyBank for the purchase of a refuse truck. The lease requires five annual payments including principal and interest of \$69,306 beginning 7/27/15.

### 18. New Accounting Pronouncements

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates. Management has not fully evaluated the potential effects of these statements, but believes that GASB Statement 75 will result in the biggest reporting change. However, actual impacts have not yet been determined.

*GASB 72 - Fair Value Measurement and Application* - Effective for year-end June 30, 2016 - This statement defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. This statement is expected to primarily affect investment disclosures.

*GASB 73 - Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* - This statement contains certain clarifications and amendments to GASB 67 and 68 as well as establishing requirements for both defined benefit and defined contribution pensions not within the scope of GASB 68. Effective for fiscal year end June 30, 2016—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for financial statements for year ending June 30, 2017.

*GASB 74 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* - Effective for year-end June 30, 2017, with earlier application encouraged - This statement contains reporting financial reporting guidelines for Postemployment Benefit Plans. This is the Plan side requirements applicable to OPEB benefits and generally brings the OPEB reporting rules into alignment with the new GASB 67 Pension rules.

# City of Kotzebue, Alaska

## Notes to Basic Financial Statements

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*GASB 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - Effective for year-end June 30, 2018, with earlier application encouraged - This statement contains accounting and financial reporting guidelines for OPEB related activities at the participating employer level and generally brings the OPEB reporting rules into alignment with the new GASB 68 Pension rules.

*GASB 76 - The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* - Effective for year-end June 30, 2016, with earlier application encouraged - This statement clarifies the hierarchy of generally accepted accounting principles to be used in the preparation of state and local government financial statements. This statement supersedes the previous hierarchy established in GASB 55.

*GASB 77 - Tax Abatement Disclosures* - Effective for year-end June 30, 2017, with earlier application encouraged - This statement requires local governments to provide financial disclosures relating to tax abatements affecting the government. This includes information about abatement agreements entered into directly by the government, including conditions and criteria under which taxes can be abated, the type and dollar amount of the tax. In addition, the statement requires disclosure of tax abatements issued by other governments that affect the local government's revenue recognition and reporting.

## Required Supplementary Information

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## City of Kotzebue, Alaska

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

<i>Year Ended June 30, 2015</i>	Original Budget	Final Budget	Actual GAAP Basis	Variance with Final Budget
<b>Revenues</b>				
Taxes	\$ 4,262,678	\$ 3,988,258	\$ 3,874,683	\$ (113,575)
Intergovernmental	2,641,044	2,317,108	3,296,517	979,409
Charges for services	1,070,350	1,076,350	1,112,553	36,203
Investment income	6,500	6,500	4,497	(2,003)
Other	365,459	448,831	476,764	27,933
<b>Total Revenues</b>	<b>8,346,031</b>	<b>7,837,047</b>	<b>8,765,014</b>	<b>927,967</b>
<b>Expenditures</b>				
General government	1,609,919	1,629,449	1,815,738	(186,289)
Public safety	4,138,048	3,948,748	4,439,659	(490,911)
Public works	2,081,792	1,973,892	2,130,498	(156,606)
Community services	205,000	122,000	111,330	10,670
Parks and recreation	264,701	192,201	175,422	16,779
Nondepartmental	187,500	155,000	150,046	4,954
<b>Total Expenditures</b>	<b>8,486,960</b>	<b>8,021,290</b>	<b>8,822,693</b>	<b>(801,403)</b>
Excess of revenues over (under) expenditures	(140,929)	(184,243)	(57,679)	126,564
<b>Other Financing Sources (Uses)</b>				
Issuance of note payable	1,500,000	1,645,000	1,643,491	(1,509)
Transfers in	1,590,929	726,989	344,216	(382,773)
Transfers out	(2,950,000)	(2,115,000)	(2,107,390)	7,610
<b>Net Other Financing Sources (Uses)</b>	<b>140,929</b>	<b>256,989</b>	<b>(119,683)</b>	<b>(376,672)</b>
Net change in fund balance	<u>\$ -</u>	<u>\$ 72,746</u>	<u>(177,362)</u>	<u>\$ (250,108)</u>
Beginning fund balance			<u>524,985</u>	
Ending fund balance			<u>\$ 347,623</u>	

*See accompanying notes to Required Supplementary Information.*

**City of Kotzebue, Alaska**  
**Public Employees Retirement System**  
**Schedule of the City's Information on the Net Pension Liability**  
**June 30, 2015**

	2015
City's proportion of the net pension liability	0.09967546%
City's proportionate share of the net pension liability	\$ 4,649,001
State of Alaska proportionate share of the net pension liability	\$ 4,387,084
Total net pension liability	\$ 9,036,085
City's covered-employee payroll	\$ 1,851,956
City's proportionate share of the net pension liability as a percentage of covered-employee payroll	251%
Plan fiduciary net position as a percentage of the total pension liability	62.37%

*See accompanying notes to Required Supplementary Information.*

**City of Kotzebue, Alaska**  
**Public Employees Retirement System**  
**Schedule of City Contributions**  
**June 30, 2015**

	2015
Contractually required contribution	\$ 389,048
Contributions in relation to the contractually required contribution	<u>\$ 389,048</u>
Contribution deficiency (excess)	\$ -
City's covered-employee payroll	\$ 1,695,636
Contributions as a percentage of covered-employee payroll	<u>22.944%</u>

*See accompanying notes to Required Supplementary Information.*

# City of Kotzebue, Alaska

## Notes to Required Supplementary Information

June 30, 2015

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### **1. General Fund Schedule of Revenues, Expenditures, and Changes in Fund Balance**

The General Fund Budgetary Comparison Schedule is presented on the modified accrual basis of accounting.

### **2. Public Employees Retirement System - Schedule of the City's Information on the Net Pension Liability**

This table is presented based on the Plan measurement date. For June 30, 2015, the Plan measurement date is June 30, 2014.

This table is intended to present ten years of information. Additional years' information will be included as it becomes available.

There were no changes in benefit terms from the prior measurement period.

There were no changes in assumptions from the prior measurement period.

### **3. Public Employees Retirement System - Schedule of City Contributions**

This table is based on the City's contributions during fiscal year 2015. These contributions are reported as a deferred outflow on the June 30, 2015 basic financial statements.

This table is intended to present ten years of information. Additional years' information will be included as it becomes available.

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## Supplementary Information

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

<i>June 30, 2015</i>	Special Revenue Funds				Debt Service Fund	Capital Project Fund	Total Nonmajor Governmental Funds
	Gaming	Adult Center	Emergency Services E911	Forfeiture		Recreation Center Construction	
<b>Assets</b>							
Cash and investments	\$ 114,719	\$ 35,454	\$ 555,059	\$ 8,897	\$ 1,727	\$ -	\$ 715,856
Grants receivable	-	-	-	-	-	12,168	12,168
<b>Total Assets</b>	<b>\$ 114,719</b>	<b>\$ 35,454</b>	<b>\$ 555,059</b>	<b>\$ 8,897</b>	<b>\$ 1,727</b>	<b>\$ 12,168</b>	<b>\$ 728,024</b>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities</b>							
Accounts payable	\$ 3,706	\$ 812	\$ -	\$ -	\$ -	\$ 720	\$ 5,238
Accrued payroll and payroll liabilities	3,735	2,034	-	-	-	-	5,769
Due to other funds	199,084	-	-	5,491	-	14,952	219,527
<b>Total Liabilities</b>	<b>206,525</b>	<b>2,846</b>	<b>-</b>	<b>5,491</b>	<b>-</b>	<b>15,672</b>	<b>230,534</b>
<b>Fund Balances</b>							
Restricted for 911 services	-	-	555,059	-	-	-	555,059
Assigned for adult center	-	32,608	-	-	-	-	32,608
Assigned for public safety	-	-	-	3,406	-	-	3,406
Assigned for debt service	-	-	-	-	1,727	-	1,727
Unassigned (deficits)	(91,806)	-	-	-	-	(3,504)	(95,310)
<b>Total Fund Balances (Deficits)</b>	<b>(91,806)</b>	<b>32,608</b>	<b>555,059</b>	<b>3,406</b>	<b>1,727</b>	<b>(3,504)</b>	<b>497,490</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 114,719</b>	<b>\$ 35,454</b>	<b>\$ 555,059</b>	<b>\$ 8,897</b>	<b>\$ 1,727</b>	<b>\$ 12,168</b>	<b>\$ 728,024</b>

**City of Kotzebue, Alaska**  
**Nonmajor Governmental Funds**  
**Combining Statement of Revenues, Expenditures and**  
**Changes in Fund Balances (Deficits)**

<i>Year Ended June 30, 2015</i>	Special Revenue Funds				Regional Debt Service Fund	Capital Project Fund	Total Nonmajor Governmental Funds
	Gaming	Adult Center	Emergency Services E911	Forfeiture		Recreation Center Construction	
<b>Revenues</b>							
Federal government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 362,913	\$ 362,913
State of Alaska	35,230	20,373	-	-	-	84,351	139,954
Gaming	896,736	-	-	-	-	-	896,736
Charges for services	-	67,956	134,859	-	-	-	202,815
<b>Total Revenues</b>	<b>931,966</b>	<b>88,329</b>	<b>134,859</b>	<b>-</b>	<b>-</b>	<b>447,264</b>	<b>1,602,418</b>
<b>Expenditures</b>							
Adult Center operations	-	167,508	-	-	-	-	167,508
Public safety	-	-	5,941	-	-	-	5,941
Gaming operations	1,012,376	-	-	-	-	-	1,012,376
Capital outlay	-	-	-	-	-	450,768	450,768
Debt service:							
Principal	-	-	-	-	528,344	-	528,344
Interest	-	-	-	-	77,114	-	77,114
Debt issuance costs	-	-	-	-	7,815	-	7,815
<b>Total Expenditures</b>	<b>1,012,376</b>	<b>167,508</b>	<b>5,941</b>	<b>-</b>	<b>613,273</b>	<b>450,768</b>	<b>2,249,866</b>
Excess of revenues over (under) expenditures	(80,410)	(79,179)	128,918	-	(613,273)	(3,504)	(647,448)
<b>Other Financing Sources - transfers in</b>	<b>-</b>	<b>85,000</b>	<b>-</b>	<b>-</b>	<b>615,000</b>	<b>-</b>	<b>700,000</b>
Net change in fund balances (deficits)	(80,410)	5,821	128,918	-	1,727	(3,504)	52,552
<b>Beginning fund balances (deficits)</b>	<b>(11,396)</b>	<b>26,787</b>	<b>426,141</b>	<b>3,406</b>	<b>-</b>	<b>-</b>	<b>444,938</b>
<b>Ending fund balances (deficits)</b>	<b>\$ (91,806)</b>	<b>\$ 32,608</b>	<b>\$ 555,059</b>	<b>\$ 3,406</b>	<b>\$ 1,727</b>	<b>\$ (3,504)</b>	<b>\$ 497,490</b>

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## General Fund

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The General Fund accounts for the financial operations of City of Kotzebue which are not accounted for in any other fund. Principal sources of revenues are intergovernmental revenues, charges for services, and sales tax. Primary expenditures in the General Fund are for general government, public safety and public works.

City of Kotzebue, Alaska

Exhibit G-1

General Fund  
Balance Sheet

<i>June 30,</i>	2015	2014
<b>Assets</b>		
Cash and investments	\$ -	\$ 101,240
Receivables:		
Accounts	209,567	489,677
Allowance for uncollectible accounts	(35,817)	(215,287)
Grants and shared revenues	364,078	64,894
Sales tax	382,396	439,454
Other	81,959	102,463
<b>Total Assets</b>	<b>\$ 1,002,183</b>	<b>\$ 982,441</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balance</b>		
<b>Liabilities</b>		
Accounts payable	\$ 75,829	\$ 75,959
Accrued payroll and payroll liabilities	193,097	157,980
Unearned revenue	-	34,678
Due to other funds	281,099	-
<b>Total Liabilities</b>	<b>550,025</b>	<b>268,617</b>
<b>Deferred Inflows of Resources</b>		
Delinquent sales taxes	81,961	102,463
Ambulance services	22,574	86,376
<b>Total deferred inflows of resources</b>	<b>104,535</b>	<b>188,839</b>
<b>Fund Balance - unassigned</b>	<b>347,623</b>	<b>524,985</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	<b>\$ 1,002,183</b>	<b>\$ 982,441</b>

## City of Kotzebue, Alaska

## General Fund

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

<i>Year Ended June 30,</i>	2015			2014
	Final Budget	Actual	Variance	Actual
<b>Revenues</b>				
Taxes:				
Sales tax	\$ 3,651,230	\$ 3,549,175	\$ (102,055)	\$ 3,352,893
Alcohol use tax	186,028	183,967	(2,061)	177,966
Hotel and bed tax	101,000	92,420	(8,580)	74,430
Penalties and interest	50,000	49,121	(879)	72,571
<b>Total taxes</b>	<b>3,988,258</b>	<b>3,874,683</b>	<b>(113,575)</b>	<b>3,677,860</b>
Intergovernmental:				
Federal government:				
Local law enforcement grants	150,000	138,534	(11,466)	129,416
State of Alaska:				
Jail contract	1,227,562	1,227,562	-	1,184,380
Special services contract	25,000	25,000	-	70,000
State revenue sharing	248,566	248,566	-	250,319
PERS relief	583,980	1,571,241	987,261	508,712
Electric and telephone co-op tax	51,000	50,936	(64)	73,987
Jail state appropriations	31,000	34,678	3,678	26,807
<b>Total State of Alaska</b>	<b>2,167,108</b>	<b>3,157,983</b>	<b>990,875</b>	<b>2,114,205</b>
<b>Total intergovernmental</b>	<b>2,317,108</b>	<b>3,296,517</b>	<b>979,409</b>	<b>2,243,621</b>
Charges for services:				
Administration fees	620,000	620,000	-	620,000
Ambulance services	456,350	492,553	36,203	265,373
<b>Total charges for services</b>	<b>1,076,350</b>	<b>1,112,553</b>	<b>36,203</b>	<b>885,373</b>

City of Kotzebue, Alaska

Exhibit G-2, continued

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

Year Ended June 30,	2015			2014
	Final Budget	Actual	Variance	Actual
<b>Revenues, continued:</b>				
Investment income	\$ 6,500	\$ 4,497	\$ (2,003)	\$ 6,759
Other revenues:				
Ambulance donations	300,000	300,000	-	-
Alarms monitoring	22,100	22,100	-	22,100
Other rentals and leases	22,250	45,312	23,062	14,623
Permits, licenses and fines	22,780	20,358	(2,422)	12,520
Community activities	7,200	7,200	-	3,430
Other	74,501	81,794	7,293	117,978
<b>Total other revenues</b>	<b>448,831</b>	<b>476,764</b>	<b>27,933</b>	<b>170,651</b>
<b>Total Revenues</b>	<b>7,837,047</b>	<b>8,765,014</b>	<b>927,967</b>	<b>6,984,264</b>
<b>Expenditures</b>				
General government:				
City council and clerk:				
Personnel	163,675	189,477	(25,802)	154,732
Books and publications	950	923	27	3,067
Supplies	4,300	3,693	607	4,330
Other services and charges	11,040	10,952	88	5,316
Telephone	3,750	3,743	7	5,096
Travel and per diem	33,100	33,037	63	38,141
Training	1,000	925	75	750
Dues and memberships	3,950	3,825	125	1,985
Insurance	4,740	3,942	798	3,607
Advertising	6,250	6,197	53	1,848
<b>Total city council and clerk</b>	<b>232,755</b>	<b>256,714</b>	<b>(23,959)</b>	<b>218,872</b>
Administration:				
Personnel	825,699	1,004,098	(178,399)	732,745
Electricity	8,050	6,273	1,777	5,773
Heating fuel	12,880	11,366	1,514	9,316
Books and publications	1,500	1,500	-	1,133
Supplies	15,800	15,510	290	8,290
Other services and charges	34,050	30,773	3,277	29,301
Telephone	10,500	9,630	870	12,408

City of Kotzebue, Alaska

Exhibit G-2, continued

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

Year Ended June 30,	2015			2014
	Final Budget	Actual	Variance	Actual
<b>Expenditures, continued:</b>				
General government, continued:				
Administration, continued:				
Travel and per diem	\$ 20,000	\$ 17,218	\$ 2,782	\$ 19,264
Training	15,000	14,513	487	450
Ambulance 3rd party billing fees	31,200	30,143	1,057	23,326
Dues and memberships	950	605	345	400
Postage	6,700	6,402	298	6,843
Other consulting	107,400	107,540	(140)	111,892
Auditing and consulting	53,650	53,625	25	50,246
Legal	109,000	108,112	888	137,844
Insurance	11,000	10,607	393	10,019
Lobbying	109,350	109,296	54	70,580
Repairs and maintenance	19,515	18,042	1,473	24,241
Equipment and capital outlay	4,450	3,771	679	4,423
<b>Total administration</b>	<b>1,396,694</b>	<b>1,559,024</b>	<b>(162,330)</b>	<b>1,258,494</b>
<b>Total general government</b>	<b>1,629,449</b>	<b>1,815,738</b>	<b>(186,289)</b>	<b>1,477,366</b>
Public safety:				
Police:				
Personnel	1,358,887	1,570,175	(211,288)	1,259,422
Electricity	5,500	5,150	350	4,992
Heating fuel	8,000	7,563	437	6,708
Clothing	3,500	3,419	81	4,346
Supplies	12,000	11,527	473	18,398
Other services and charges	16,000	11,455	4,545	10,952
Telephone	10,000	9,953	47	12,108
Travel and per diem	13,000	12,716	284	14,097
Training	1,000	873	127	8,489
Dues and memberships	2,000	1,150	850	502
Consulting	3,500	3,239	261	9,426
Insurance	95,000	91,253	3,747	77,388
Advertising	2,000	1,603	397	517
Repairs and maintenance	47,000	44,264	2,736	64,238
Equipment and capital outlay	12,800	2,240	10,560	6,817
Animal control	2,500	2,204	296	6,013
<b>Total police</b>	<b>1,592,687</b>	<b>1,778,784</b>	<b>(186,097)</b>	<b>1,504,413</b>

City of Kotzebue, Alaska

Exhibit G-2, continued

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

Year Ended June 30,	2015			2014
	Final Budget	Actual	Variance	Actual
<b>Expenditures, continued:</b>				
Public safety, continued:				
Jail:				
Personnel	\$ 845,781	\$ 1,057,173	\$ (211,392)	\$ 922,400
Electricity	5,600	5,567	33	6,056
Heating fuel	36,000	35,869	131	34,359
Supplies	51,100	50,036	1,064	47,564
Clothing	3,800	1,533	2,267	3,896
Telephone	4,500	4,410	90	3,838
Travel and per diem	6,500	6,298	202	5,291
Training	500	-	500	1,960
Television	600	563	37	466
Dues and memberships	600	576	24	350
Consulting	4,000	2,964	1,036	3,345
Insurance	83,000	82,944	56	66,870
Repairs and maintenance	12,200	10,464	1,736	6,714
Equipment and capital outlay	700	604	96	26,807
<b>Total jail</b>	<b>1,054,881</b>	<b>1,259,001</b>	<b>(204,120)</b>	<b>1,129,916</b>
Fire and emergency medical services:				
Personnel	997,761	1,113,054	(115,293)	1,046,553
Electricity	11,353	10,568	785	12,625
Heating fuel	66,156	64,073	2,083	62,562
Supplies	24,780	24,184	596	18,783
Other services and charges	10,525	9,163	1,362	5,387
Clothing	28,800	28,017	783	10,269
Telephone	3,780	3,080	700	7,832
Travel and per diem	42,554	42,484	70	14,387
Training	24,541	24,188	353	9,529
Insurance	23,600	22,997	603	12,751
Repairs and maintenance	55,030	50,145	4,885	67,976
Equipment and capital outlay	12,300	9,921	2,379	17,553
<b>Total fire and emergency medical services</b>	<b>1,301,180</b>	<b>1,401,874</b>	<b>(100,694)</b>	<b>1,286,207</b>
<b>Total public safety</b>	<b>3,948,748</b>	<b>4,439,659</b>	<b>(490,911)</b>	<b>3,920,536</b>

City of Kotzebue, Alaska

Exhibit G-2, continued

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

Year Ended June 30,	2015			2014
	Final Budget	Actual	Variance	Actual
<b>Expenditures, continued:</b>				
Public works:				
Public works:				
Personnel	\$ 1,105,059	\$ 1,267,430	\$ (162,371)	\$ 1,188,408
Street lighting	63,126	62,979	147	54,064
Electricity	12,225	10,864	1,361	10,391
Heating fuel	139,495	127,328	12,167	120,794
Supplies	5,500	4,666	834	3,152
Other services and charges	5,000	4,935	65	980
Sign replacement	4,000	2,357	1,643	2,564
Clothing	3,600	3,566	34	1,325
Telephone	9,500	9,424	76	6,743
Travel and per diem	1,000	636	364	2,374
Training	2,500	2,144	356	170
Dues and memberships	800	788	12	(46)
Professional services	2,000	1,566	434	1,085
Insurance	30,425	27,144	3,281	25,261
Repairs and maintenance	282,855	253,862	28,993	213,203
Gravel	10,000	7,500	2,500	13,000
Equipment and capital outlay	18,525	16,375	2,150	16,013
<b>Total public works</b>	<b>1,695,610</b>	<b>1,803,564</b>	<b>(107,954)</b>	<b>1,659,481</b>
Planning:				
Personnel	253,720	307,859	(54,139)	252,137
Supplies	4,000	3,093	907	3,203
Other services and charges	450	360	90	473
Telephone	1,225	583	642	650
Travel and per diem	500	263	237	61
Training	1,000	-	1,000	-
Professional services	5,000	4,072	928	22,657
Insurance	4,621	4,329	292	3,717
Repairs and maintenance	2,766	1,827	939	3,245
Equipment and capital outlay	5,000	4,548	452	48,137
<b>Total planning</b>	<b>278,282</b>	<b>326,934</b>	<b>(48,652)</b>	<b>334,280</b>
<b>Total public works</b>	<b>1,973,892</b>	<b>2,130,498</b>	<b>(156,606)</b>	<b>1,993,761</b>

City of Kotzebue, Alaska

Exhibit G-2, continued

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

Year Ended June 30,	2015			2014
	Final Budget	Actual	Variance	Actual
<b>Expenditures, continued:</b>				
Community services:				
Chamber of commerce	\$ 11,750	\$ 1,578	\$ 10,172	\$ -
Community support	18,100	18,077	23	16,511
Kotzebue Broadcasting Inc.	12,000	11,531	469	11,237
Kotzebue Schools	50,000	50,000	-	50,000
Scholarship Fund	20,000	20,000	-	14,000
4th of July celebration	10,150	10,144	6	2,655
<b>Total community services</b>	<b>122,000</b>	<b>111,330</b>	<b>10,670</b>	<b>94,403</b>
Parks and recreation:				
Personnel	86,545	101,022	(14,477)	85,658
Supplies	3,551	2,686	865	1,883
Food	2,000	-	2,000	-
Other services and charges	6,480	6,090	390	9,145
Telephone	1,625	1,558	67	686
Insurance	15,000	668	14,332	-
Electricity	5,500	1,818	3,682	-
Heating fuel	10,475	5,496	4,979	442
Boys and Girls Club	28,600	28,581	19	32,371
Repairs and maintenance	15,425	10,867	4,558	2,127
Capital outlay	17,000	16,636	364	115,951
<b>Total parks and recreation</b>	<b>192,201</b>	<b>175,422</b>	<b>16,779</b>	<b>248,263</b>
Nondepartmental:				
Other capital outlay	133,850	128,942	4,908	460,681
Employee morale and health	21,150	21,104	46	11,118
<b>Total nondepartmental</b>	<b>155,000</b>	<b>150,046</b>	<b>4,954</b>	<b>471,799</b>
<b>Total Expenditures</b>	<b>8,021,290</b>	<b>8,822,693</b>	<b>(801,403)</b>	<b>8,206,128</b>
Excess of revenues over (under) expenditures	(184,243)	(57,679)	126,564	(1,221,864)
<b>Other Financing Sources (Uses)</b>				
Issuance of note payable	1,645,000	1,643,491	(1,509)	1,856,509
Issuance of line of credit	-	-	-	749,978
Issuance of capital lease	-	-	-	349,789
Transfers in	726,989	344,216	(382,773)	900,000
Transfers out	(2,115,000)	(2,107,390)	7,610	(2,782,381)
<b>Net Other Financing Sources (Uses)</b>	<b>256,989</b>	<b>(119,683)</b>	<b>(376,672)</b>	<b>1,073,895</b>
Net change in fund balance	<u>\$ 72,746</u>	<u>(177,362)</u>	<u>\$ (250,108)</u>	<u>\$ (147,969)</u>
Beginning fund balance		<u>524,985</u>		<u>672,954</u>
Ending fund balance		<u>\$ 347,623</u>		<u>\$ 524,985</u>

## Special Revenue Funds

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These funds account for revenues from specific sources that are designated to finance particular functions and activities.

*Gaming* - This fund accounts for the bingo and pull tab gaming activities.

*Adult Center* - This fund accounts for the activities of the Adult Center located in the Recreation Center building.

*Emergency Services 911* - This fund accounts for the activities of the 911 services.

## City of Kotzebue, Alaska

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

<i>Year Ended June 30,</i>	2015			2014
	Final Budget	Actual	Variance	Actual
<b>Revenues</b>				
Bingo and pull tabs	\$ 907,000	\$ 896,736	\$ (10,264)	\$ 818,526
State PERS relief	6,300	35,230	28,930	9,849
<b>Total Revenues</b>	<b>913,300</b>	<b>931,966</b>	<b>18,666</b>	<b>828,375</b>
<b>Expenditures</b>				
Personnel	157,325	192,150	(34,825)	156,799
Rent	28,050	28,050	-	28,600
Supplies	16,500	15,220	1,280	14,164
Payouts to winners	706,850	706,421	429	653,288
Insurance	4,400	3,112	1,288	2,672
Allocated administrative fees	-	65,000	(65,000)	65,000
Other	1,925	2,423	(498)	3,989
<b>Total Expenditures</b>	<b>915,050</b>	<b>1,012,376</b>	<b>(97,326)</b>	<b>924,512</b>
Net change in fund balance	<u>\$ (1,750)</u>	<u>(80,410)</u>	<u>\$ (78,660)</u>	<u>(96,137)</u>
Beginning fund balance (deficit)		<u>(11,396)</u>		<u>84,741</u>
Ending deficit		<u>\$ (91,806)</u>		<u>\$ (11,396)</u>

## City of Kotzebue, Alaska

Adult Center Special Revenue Fund  
 Schedule of Revenues, Expenditures and  
 Changes in Fund Balance - Budget and Actual

<i>Year Ended June 30,</i>	2015			2014
	Final Budget	Actual	Variance	Actual
<b>Revenues</b>				
Memberships	\$ 14,675	\$ 14,380	\$ (295)	\$ 12,720
Food and beverages	22,313	22,277	(36)	22,312
Rent	26,325	28,050	1,725	28,600
State PERS relief	4,400	20,373	15,973	5,131
Special events	3,250	3,249	(1)	2,883
<b>Total Revenues</b>	<b>70,963</b>	<b>88,329</b>	<b>17,366</b>	<b>71,646</b>
<b>Expenditures</b>				
Personnel	93,043	111,877	18,834	91,779
Utilities	30,700	28,592	(2,108)	33,905
Supplies and food	19,395	17,168	(2,227)	16,836
Other services and charges	-	597	597	4,672
Insurance	5,500	3,889	(1,611)	3,340
Repairs and maintenance	5,500	5,385	(115)	2,591
<b>Total Expenditures</b>	<b>154,138</b>	<b>167,508</b>	<b>(13,370)</b>	<b>153,123</b>
Excess of revenues over (under) expenditures	(83,175)	(79,179)	3,996	(81,477)
<b>Other Financing Sources - transfers in</b>	<b>85,000</b>	<b>85,000</b>	<b>-</b>	<b>100,000</b>
Net change in fund balance	<u>\$ 1,825</u>	5,821	<u>\$ 3,996</u>	18,523
Beginning fund balance		<u>26,787</u>		<u>8,264</u>
Ending fund balance		<u>\$ 32,608</u>		<u>\$ 26,787</u>

City of Kotzebue, Alaska

Emergency Services 911 Special Revenue Fund  
 Schedule of Revenues, Expenditures and  
 Changes in Fund Balance - Budget and Actual

<i>Year Ended June 30, 2015</i>	2015			2014
	Final Budget	Actual	Variance	Actual
<b>Revenues - charges for services</b>	\$ 135,000	\$ 134,859	\$ (141)	\$ 128,680
<b>Expenditures</b>				
Other professional services	30,000	380	29,620	24,539
Supplies	20,000	5,561	14,439	15,047
Maintenance/support agreement	10,000	-	10,000	-
Equipment	50,000	-	50,000	-
<b>Total Expenditures</b>	110,000	5,941	104,059	39,586
Net change in fund balance	<u>\$ 25,000</u>	128,918	<u>\$ 103,918</u>	89,094
Beginning fund balance		<u>426,141</u>		<u>337,047</u>
Ending fund balance		<u>\$ 555,059</u>		<u>\$ 426,141</u>

## Debt Service Fund

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The Debt Service Fund is used to account for transfers from other funds and for principal and interest payments and debt issuance costs made on the City's general obligation note.

City of Kotzebue, Alaska

Exhibit I-1

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

<i>Year Ended June 30,</i>	2015			2014
	Final Budget	Actual	Variance	Actual
<b>Expenditures</b>				
Debt issuance costs	\$ 8,000	\$ 7,815	\$ 185	\$ 22,568
Debt service:				
Principal on note	368,500	368,421	79	92,105
Interest on note	78,000	77,114	886	30,999
Additional principal on note	160,500	159,923	577	-
Principal on line of credit	-	-	-	749,978
Interest on line of credit	-	-	-	4,337
<b>Total Expenditures</b>	615,000	613,273	1,727	899,987
Excess of revenues over (under) expenditures	(615,000)	(613,273)	1,727	(899,987)
<b>Other Financing Sources - transfers in</b>	615,000	615,000	-	899,987
Net change in fund balance	<u>\$ -</u>	<u>1,727</u>	<u>\$ 1,727</u>	-
Beginning fund balance		<u>-</u>		<u>-</u>
Ending fund balance		<u>\$ 1,727</u>		<u>\$ -</u>

## Enterprise Funds

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Enterprise Funds account for operations that are financed and operated in a manner similar to private business operations.

*Water and Sewer Utility* - This fund accounts for the operations of the water and sewer system.

*Refuse* - This fund accounts for the operations of the refuse collection service, baler and balefill.

*Package Store* - This fund accounts for the operations of the City-owned package store and beverage delivery site.

*Bar and Grill* - This fund accounts for the operations of the City-owned restaurant.

**City of Kotzebue, Alaska**  
**Water and Sewer Utility Enterprise Fund**  
**Statement of Net Position**

<i>June 30,</i>	2015	2014
<b>Assets and Deferred Outflows of Resources</b>		
<b>Current Assets</b>		
Cash and investments	\$ 218,246	\$ 634,779
Receivables:		
Accounts	414,096	330,143
Contracts receivable	-	2,576
Allowance for uncollectible accounts	(69,524)	(70,302)
Grants	-	419,425
Net receivables	344,572	681,842
Inventory	155,454	-
Due from other funds	737,206	870,639
<b>Total Current Assets</b>	<b>1,455,478</b>	<b>2,187,260</b>
Restricted cash and investments - equipment replacement	532,000	399,000
Advance to other funds	549,653	-
Property, plant, and equipment:		
Improvements other than buildings	87,155,342	86,970,626
Machinery and equipment	2,532,063	2,577,449
Total property, plant, and equipment	89,687,405	89,548,075
Accumulated depreciation	(57,373,441)	(55,300,924)
Net property, plant, and equipment	32,313,964	34,247,151
<b>Total Assets</b>	<b>34,851,095</b>	<b>36,833,411</b>
Deferred Outflows of Resources - pension related	54,616	-
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 34,905,711</b>	<b>\$ 36,833,411</b>
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 22,510	\$ 143,194
Accrued payroll and payroll liabilities	12,305	12,305
Accrued leave	32,258	26,043
<b>Total Current Liabilities</b>	<b>67,073</b>	<b>181,542</b>
Noncurrent Liabilities - net pension liability	423,327	-
<b>Total Liabilities</b>	<b>490,400</b>	<b>181,542</b>
Deferred Inflows of Resources - pension related	48,909	-
<b>Net Position</b>		
Net investment in capital assets	32,313,964	34,247,151
Restricted for equipment replacement	532,000	399,000
Unrestricted	1,520,438	2,005,718
<b>Total Net Position</b>	<b>34,366,402</b>	<b>36,651,869</b>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<b>\$ 34,905,711</b>	<b>\$ 36,833,411</b>

City of Kotzebue, Alaska

Exhibit J-2

Water and Sewer Utility Enterprise Fund  
Statement of Revenues, Expenses and Changes in Net Position

<i>Year Ended June 30,</i>	2015	2014
<b>Operating Revenues</b>		
Water use charges and connect fees	\$ 1,316,947	\$ 1,306,509
Sewer use charges and connect fees	589,504	584,720
Penalties and interest	21,736	34,652
Hydroflush services	6,800	10,473
<b>Total Operating Revenues</b>	<b>1,934,987</b>	<b>1,936,354</b>
<b>Operating Expenses</b>		
Administration:		
Postage	1,707	3,166
Credit card charges	27,995	24,721
Allocated administrative fees	285,000	285,000
Dues and memberships	-	537
Capital outlay	1,792	2,300
<b>Total administration</b>	<b>316,494</b>	<b>315,724</b>
Water:		
Personnel	317,401	305,210
Electricity	89,845	83,801
Heating fuel	227,009	226,094
Gas and oil	2,000	2,795
Building maintenance	3,057	7,750
Supplies	21,930	76,608
Telephone	8,084	8,622
Travel	1,218	3,023
Training	660	1,795
Professional services	18,159	20,512
Insurance	8,551	10,797
Repairs and maintenance	3,171	2,261
<b>Total water</b>	<b>701,085</b>	<b>749,268</b>

City of Kotzebue, Alaska

Exhibit J-2, continued

Water and Sewer Utility Enterprise Fund  
Statement of Revenues, Expenses and Changes in Net Position, continued

<i>Year Ended June 30,</i>	2015	2014
<b>Operating Expenses, continued:</b>		
Sewer:		
Personnel	\$ 338,446	\$ 325,266
Electricity	38,222	49,292
Supplies	63,522	52,716
Travel	-	1,522
Training	16	130
Professional services	1,031	42,387
Insurance	7,072	6,836
Gas and oil	26,817	42,268
Repairs and maintenance	6,743	19,141
Other	-	12
<b>Total sewer</b>	<b>481,869</b>	<b>539,570</b>
Depreciation	2,117,903	1,997,167
<b>Total Operating Expenses</b>	<b>3,617,351</b>	<b>3,601,729</b>
Loss from operations	(1,682,364)	(1,665,375)
<b>Nonoperating Revenues (Expenses)</b>		
State PERS relief	32,851	52,076
Equipment sales	3,510	1,533
Uncollectible grants	(389,190)	-
Miscellaneous revenue	37,478	-
<b>Net Nonoperating Revenues (Expenses)</b>	<b>(315,351)</b>	<b>53,609</b>
Loss before contributions	(1,997,715)	(1,611,766)
Capital contributions	120,196	3,601,266
Change in net position	(1,877,519)	1,989,500
<b>Beginning net position, as restated (Note 9)</b>	<b>36,243,921</b>	<b>34,662,369</b>
<b>Ending net position (deficit)</b>	<b>\$ 34,366,402</b>	<b>\$ 36,651,869</b>

**City of Kotzebue, Alaska**  
**Water and Sewer Utility Enterprise Fund**  
**Statement of Cash Flows**

<i>Year Ended June 30,</i>	2015	2014
<b>Cash Flows from (for) Operating Activities</b>		
Receipts from customers and users	\$ 1,893,820	\$ 1,901,481
Payments to suppliers	(834,739)	(1,127,124)
Payments to employees	(607,110)	(578,214)
Payments for interfund services used	(285,000)	(285,000)
<b>Net cash flows from (for) operating activities</b>	<b>166,971</b>	<b>(88,857)</b>
<b>Cash Flows for Noncapital Financing Activities</b>		
(Increase) decrease in due from other funds	133,433	(841,780)
Increase in advance to other funds	(549,653)	-
<b>Net cash flows for noncapital related financing activities</b>	<b>(416,220)</b>	<b>(841,780)</b>
<b>Cash Flows from (for) Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(184,715)	(3,601,266)
Capital contributions received	150,431	4,027,893
<b>Net cash flows from (for) capital and related financing activities</b>	<b>(34,284)</b>	<b>426,627</b>
<b>Net increase (decrease) in cash and investments</b>	<b>(283,533)</b>	<b>(504,010)</b>
<b>Beginning cash and investments</b>	<b>1,033,779</b>	<b>1,537,789</b>
<b>Ending cash and investments</b>	<b>\$ 750,246</b>	<b>\$ 1,033,779</b>
<b>Reconciliation of loss from operations to net cash flows from (for) operating activities:</b>		
Loss from operations	\$ (1,682,364)	\$ (1,665,375)
Adjustments to reconcile loss from operations to net cash flows from (for) operating activities:		
Nonoperating revenues	40,988	1,533
Noncash expense - PERS relief	32,851	52,076
Decrease in allowance for uncollectible accounts	(778)	(185,207)
Depreciation	2,117,903	1,997,167
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable	(83,953)	151,377
Contracts receivable	2,576	(2,576)
Inventory	(155,454)	-
Deferred outflows of resources - pension related	(19,888)	-
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable	(120,684)	(438,038)
Accrued payroll and payroll liabilities	-	3,098
Accrued leave	6,215	(2,912)
Net pension liability	(19,350)	-
Deferred inflows of resources - pension related	48,909	-
<b>Net Cash Flows from (for) Operating Activities</b>	<b>\$ 166,971</b>	<b>\$ (88,857)</b>

City of Kotzebue, Alaska

Water and Sewer Utility Enterprise Fund  
 Schedule of Water and Sewer Capital Projects

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		2009
		Sanitation
		Utilities
		Development
<hr/>		
<i>Year Ended June 30, 2015</i>		
<hr/>		
<b>Funding Sources</b>		
Federal government	\$	90,147
State of Alaska		30,049
Local sources		64,519
<hr/>		
<b>Total Funding Sources</b>	<b>\$</b>	<b>184,715</b>
<hr/>		
<b>Expenditures - capital outlay</b>	<b>\$</b>	<b>184,715</b>
<hr/>		

City of Kotzebue, Alaska

Exhibit J-5

Refuse Enterprise Fund  
Statement of Net Position

<i>June 30,</i>	2015	2014
<b>Assets and Deferred Outflows of Resources</b>		
<b>Current Assets</b>		
Accounts receivable	\$ 157,210	\$ 111,269
Allowance for uncollectible accounts	(68,463)	(68,683)
Net receivables	88,747	42,586
Inventory	50,456	50,456
<b>Total Current Assets</b>	<b>139,203</b>	<b>93,042</b>
Property, plant, and equipment:		
Land	230,983	230,983
Buildings	2,381,895	2,381,895
Improvements other than buildings	2,100,133	2,100,133
Machinery and equipment	1,477,962	1,477,962
Total property, plant, and equipment	6,190,973	6,190,973
Accumulated depreciation	(4,534,610)	(4,374,324)
Net property, plant and equipment	1,656,363	1,816,649
<b>Total Assets</b>	<b>1,795,566</b>	<b>1,909,691</b>
Deferred Outflows of Resources - pension related	38,471	-
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 1,834,037</b>	<b>\$ 1,909,691</b>
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 16,969	\$ 3,851
Accrued payroll and payroll liabilities	7,691	7,691
Accrued leave	19,181	16,964
Due to other funds	-	427,632
<b>Total Current Liabilities</b>	<b>43,841</b>	<b>456,138</b>
<b>Noncurrent Liabilities</b>		
Advance to other funds	549,653	-
Net pension liability	298,184	-
Landfill closure costs	170,080	170,080
<b>Total Liabilities</b>	<b>1,061,758</b>	<b>626,218</b>
Deferred Inflows of Resources - pension related	34,450	-
<b>Net Position</b>		
Net investment in capital assets	1,656,363	1,816,649
Unrestricted (deficit)	(918,534)	(533,176)
<b>Total Net Position</b>	<b>737,829</b>	<b>1,283,473</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<b>\$ 1,834,037</b>	<b>\$ 1,909,691</b>

City of Kotzebue, Alaska

Exhibit J-6

Refuse Enterprise Fund  
Statement of Revenues, Expenses and Changes in Net Position

<i>Year Ended June 30,</i>	2015	2014
<b>Operating Revenues</b>		
Refuse and landfill	\$ 683,709	\$ 683,062
Residential refuse cart sales	1,499	17,341
<b>Total Operating Revenues</b>	<b>685,208</b>	<b>700,403</b>
<b>Operating Expenses</b>		
Personnel	452,826	455,052
Electricity	15,338	15,710
Heating fuel	67,039	75,329
Gas and oil	28,723	41,829
Building maintenance	990	2,567
Supplies	64,499	75,299
Telephone	2,041	2,309
Professional fees	4,555	655
Insurance	10,702	10,132
Repairs and maintenance	35,157	28,944
Allocated administrative fees	110,000	110,000
Clothing/safety equipment	2,125	2,318
Spring cleanup	7,938	9,140
Small tools	160	431
Operating permit	3,813	2,983
Depreciation	160,286	160,286
Miscellaneous	448	977
<b>Total Operating Expenses</b>	<b>966,640</b>	<b>993,961</b>
Loss from operations	(281,432)	(293,558)
<b>Nonoperating Revenues - State PERS relief</b>	<b>23,140</b>	<b>43,654</b>
Change in net position	(258,292)	(249,904)
<b>Beginning net position, as restated (Note 9)</b>	<b>996,121</b>	<b>1,533,377</b>
<b>Ending net position</b>	<b>\$ 737,829</b>	<b>\$ 1,283,473</b>

City of Kotzebue, Alaska

Exhibit J-7

Refuse Enterprise Fund  
Statement of Cash Flows

<i>Year Ended June 30,</i>	2015	2014
<b>Cash Flows for Operating Activities</b>		
Receipts from customers	\$ 639,047	\$ 707,026
Payments to suppliers	(230,410)	(261,388)
Payments to employees	(420,658)	(413,508)
Payments for interfund services used	(110,000)	(110,000)
<b>Net cash flows for operating activities</b>	<b>(122,021)</b>	<b>(77,870)</b>
<b>Cash Flows from Noncapital Financing Activities</b>		
Increase in due to other funds and advances to other funds	122,021	77,870
<b>Net increase in cash and investments</b>	<b>-</b>	<b>-</b>
<b>Beginning cash and investments</b>	<b>-</b>	<b>-</b>
<b>Ending cash and investments</b>	<b>\$ -</b>	<b>\$ -</b>
Reconciliation of loss from operations to net cash flows for operating activities:		
Loss from operations	\$ (281,432)	\$ (293,558)
Adjustments to reconcile loss from operations to net cash flows for operating activities:		
Noncash expense - PERS relief	23,140	43,654
Decrease in allowance for doubtful accounts	(220)	(28,189)
Depreciation	160,286	160,286
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable	(45,941)	34,812
Inventory	-	11,062
Deferred outflows of resources - pension related	(14,009)	-
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable	13,118	(3,827)
Accrued payroll and payroll liabilities	-	(2,177)
Accrued leave	2,217	67
Net pension liability	(13,630)	-
Deferred inflows of resources - pension related	34,450	-
<b>Net Cash Flows for Operating Activities</b>	<b>\$ (122,021)</b>	<b>\$ (77,870)</b>

**City of Kotzebue, Alaska**  
**Package Store Enterprise Fund**  
**Statement of Net Position**

<i>June 30,</i>	2015	2014
<b>Assets and Deferred Outflows of Resources</b>		
<b>Current Assets</b>		
Cash and investments	\$ 126,309	\$ 1,000
Inventory	210,086	305,177
<b>Total Current Assets</b>	<b>336,395</b>	<b>306,177</b>
Deferred Outflows of Resources - pension related	18,526	-
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 354,921</b>	<b>\$ 306,177</b>
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 163,331	\$ 56,429
Accrued payroll and payroll liabilities	5,294	5,294
Accrued leave	26,111	19,186
Due to other funds	-	293,950
<b>Total Current Liabilities</b>	<b>194,736</b>	<b>374,859</b>
Non-Current Liabilities - Net pension liability	143,595	-
<b>Total Liabilities</b>	<b>338,331</b>	<b>374,859</b>
Deferred Inflows of Resources - pension related	16,590	-
<b>Net Position - deficit</b>	<b>-</b>	<b>(68,682)</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<b>\$ 354,921</b>	<b>\$ 306,177</b>

## City of Kotzebue, Alaska

## Package Store Enterprise Fund

## Statement of Revenues, Expenses and Changes in Net Position (Deficit)

<i>Year Ended June 30,</i>	2015	2014
<b>Operating Revenues</b>		
Retail sales	\$ 3,057,506	\$ 2,957,135
Cost of goods sold	(1,446,095)	(1,123,895)
Freight charges	(418,984)	(372,924)
<b>Net sales</b>	<b>1,192,427</b>	<b>1,460,316</b>
Permitting fees	53,630	63,132
<b>Total Operating Revenues</b>	<b>1,246,057</b>	<b>1,523,448</b>
<b>Operating Expenses</b>		
Personnel	294,147	274,376
Electricity	7,986	8,530
Heating fuel	47,842	50,493
Gas and oil	2,260	2,938
Supplies	2,595	4,197
Telephone	1,820	3,294
Travel	4,471	5,959
Training	150	335
Professional fees	575	6,306
Insurance	59,854	47,939
Legal fees	18,629	15,905
Allocated administrative fees	160,000	160,000
Repairs and maintenance	9,216	15,384
Other expenses	13,878	14,687
<b>Total Operating Expenses</b>	<b>623,423</b>	<b>610,343</b>
Income from operations	622,634	913,105
<b>Nonoperating Revenues</b>		
State liquor license revenue	2,500	-
State PERS relief	11,143	18,213
Income before transfers	636,277	931,318
Transfers out	(429,216)	(1,000,000)
Change in net position	207,061	(68,682)
<b>Beginning deficit, as restated (Note 9)</b>	<b>(207,061)</b>	<b>-</b>
<b>Ending net position (deficit)</b>	<b>\$ -</b>	<b>\$ (68,682)</b>

**City of Kotzebue, Alaska**  
**Package Store Enterprise Fund**  
**Statement of Cash Flows**

<i>Year Ended June 30,</i>	2015	2014
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	\$ 3,113,636	\$ 3,020,267
Payments to suppliers	(1,832,362)	(1,953,599)
Payments to employees	(272,799)	(252,632)
Payments for interfund services used	(160,000)	(160,000)
<b>Net cash flows from operating activities</b>	<b>848,475</b>	<b>654,036</b>
<b>Cash Flows for Noncapital Financing Activities</b>		
Increase (decrease) in due to other funds	(293,950)	293,950
Transfers out	(429,216)	(1,000,000)
<b>Net cash flows for noncapital financing activities</b>	<b>(723,166)</b>	<b>(706,050)</b>
<b>Net increase (decrease) in cash and investments</b>	<b>125,309</b>	<b>(52,014)</b>
<b>Beginning cash and investments</b>	<b>1,000</b>	<b>53,014</b>
<b>Ending cash and investments</b>	<b>\$ 126,309</b>	<b>\$ 1,000</b>
<b>Reconciliation of income from operations to net cash flows from operating activities:</b>		
Income from operations	\$ 622,634	\$ 913,105
<b>Adjustments to reconcile income from operations to net cash flows from operating activities:</b>		
Nonoperating revenues	2,500	-
Noncash expense - PERS relief	11,143	18,213
<b>(Increase) decrease in assets and deferred outflows of resources:</b>		
Inventory	95,091	119,051
Deferred outflows of resources - pension related	(6,746)	-
<b>Increase (decrease) in liabilities and deferred inflows of resources:</b>		
Accounts payable	106,902	(399,864)
Accrued payroll and payroll liabilities	-	234
Accrued leave	6,925	3,297
Net pension liability	(6,564)	-
Deferred inflows of resources - pension related	16,590	-
<b>Net Cash Flows from Operating Activities</b>	<b>\$ 848,475</b>	<b>\$ 654,036</b>

**City of Kotzebue, Alaska**  
**Bar and Grill Enterprise Fund**  
**Statement of Net Position**

<i>June 30,</i>	2015	2014
<b>Assets</b>		
<b>Current Assets</b>		
Cash and investments	\$ -	\$ 1,195
Property, plant, and equipment - Construction work in progress	102,513	-
<b>Total Assets</b>	<b>\$ 102,513</b>	<b>\$ 1,195</b>
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ -	\$ 1,195
Due to other funds	107,345	-
<b>Total Current Liabilities</b>	<b>107,345</b>	<b>1,195</b>
<b>Net Position</b>		
Net investment in capital assets	102,513	-
Deficit	(107,345)	-
<b>Total Net Position</b>	<b>(4,832)</b>	<b>-</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 102,513</b>	<b>\$ 1,195</b>

City of Kotzebue, Alaska

Exhibit J-12

Bar and Grill Enterprise Fund

Statement of Revenues, Expenses and Changes in Net Position

<i>Year Ended June 30,</i>	2015	2014
<b>Net Operating Revenues</b>	\$ -	\$ -
<b>Operating Expenses</b>		
Professional services	1,622	-
Supplies	-	3,196
Travel and per diem	1,400	-
Other expenses	1,810	2,701
<b>Total Operating Expenses</b>	4,832	5,897
Loss from operations	(4,832)	(5,897)
Transfers In	-	5,897
Change in net position	(4,832)	-
<b>Beginning net position</b>	-	-
<b>Ending net position - deficit</b>	\$ (4,832)	\$ -

**City of Kotzebue, Alaska**  
**Bar and Grill Enterprise Fund**  
**Statement of Cash Flows**

<i>Year Ended June 30,</i>	2015	2014
<b>Cash Flows for Operating Activities</b>		
Payments to suppliers	\$ (6,027)	\$ (4,702)
<b>Cash Flows from Noncapital Financing Activities -</b>		
Transfers in	-	5,897
<b>Cash Flows for Capital and Related Financing Activities</b>		
Increase in due to other funds	107,345	-
Acquisition and construction of capital assets	(102,513)	-
Net cash flows from capital and related financing activities	4,832	-
Net increase (decrease) in cash and investments	(1,195)	1,195
<b>Beginning</b> cash and investments	1,195	-
<b>Ending</b> cash and investments	\$ -	\$ 1,195
Reconciliation of loss from operations to net cash flows for operating activities:		
Loss from operations	\$ (4,832)	\$ (5,897)
Adjustments to reconcile loss from operations to net cash flows for operating activities:		
Increase (decrease) in liabilities - accounts payable	(1,195)	1,195
<b>Net Cash Flows for Operating Activities</b>	<b>\$ (6,027)</b>	<b>\$ (4,702)</b>

## City of Kotzebue, Alaska

## Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

Federal Grant Title	Grant Number	Catalog of Federal Domestic Assistance Number	Total Grant Award	Federal Share of Expenditures
<b>Department of Agriculture</b>				
Water and Waste Disposal Systems for Rural Communities:				
2009 Sanitation Utilities (Federal share)	51528	10.760	6,600,000	90,147
<b>Department of the Interior</b>				
Passed through Northwest Arctic Borough				
Coastal Impact Assistance	F12AF00599	15.668	114,042	36,227
<b>Department of Justice</b>				
Edward Byrne Memorial Justice Assistance Grant Program:				
COPS Grant	2012-UM-WX-0001	16.710	125,000	41,668
COPS Grant	2013-UM-WX-0001	16.710	125,000	46,866
Total CFDA 16.710				88,534
Passed through State of Alaska Department of Public Safety:				
Justice Assistance	JAG15-204	16.738	50,000	50,000
<b>Department of Homeland Security</b>				
Passed through State of Alaska Department of Commerce, Community and Economic Development				
CAP-SSSE Program	N/A	97.023	1,200	1,200
<b>Department of Housing and Urban Development</b>				
Economic Development Initiative - Special Project	B-09-SP-AK-0139	14.251	380,000	362,913
<b>Total Federal Awards</b>				<b>\$ 629,021</b>

## City of Kotzebue, Alaska

Schedule of State Financial Assistance  
Year Ended June 30, 2015

State Grant Title	Grant Number	Total Grant Award	State Share of Expenditures
<b>Department of Commerce, Community and Economic Development</b>			
* Community Revenue Sharing	N/A	\$ 248,566	\$ 248,566
* Swan Lake Boat Harbor	15-DC-096	4,000,000	1,723,774
* Regional Recreational Center Construction	08-CD-465	250,000	87,855
Fisheries Business Tax	FY15	371	371
Liquor Revenue Sharing	FY15	2,500	<u>2,500</u>
<b>Total Department of Commerce, Community and Economic Development</b>			<u>2,063,066</u>
<b>Department of Environmental Conservation</b>			
2009 Sanitation Utilities (State share)	51528	2,200,000	<u>30,049</u>
<b>Department of Administration</b>			
* PERS on Behalf	FY15	1,998,787	<u>1,998,787</u>
<b>Department of Revenue</b>			
Electric and Telephone Co-op Tax	FY15	50,936	<u>50,936</u>
<b>Total State Financial Assistance</b>			<u>\$ 4,142,838</u>

\*Major program

# City of Kotzebue, Alaska

## Notes to the Schedules of Expenditures of Federal Awards and State Financial Assistance Year Ended June 30, 2015

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### 1. Basis of Presentation

The accompanying schedules of state financial assistance and expenditures of federal awards (the "Schedules") include the state and federal grant activity of City of Kotzebue under programs of the state and federal governments for the year ended June 30, 2015. The information in these Schedules is presented in accordance with the requirements of *the State of Alaska Audit Guide and Compliance Supplement for State Single Audits* and the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedules present only a selected portion of the operations of City of Kotzebue, they are not intended to and do not present the financial position, changes in net position or cash flows of City of Kotzebue.

### 2. Summary of Significant Accounting Policies

Expenditures reported in the Schedules are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for States and Local Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts reflected in the schedule (if any) represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

### 3. PERS On-Behalf

The City has recorded \$1,998,787 in PERS On-Behalf payments in the Schedule of State Financial Assistance. This represents the PERS relief payment appropriated and transferred into the plan during FY2015.

In the governmental fund financial statements, on-behalf revenue and expenditures have been recognized in the year appropriated and transferred to the plan. However, in the full accrual financial statements, GASB 68 provisions prescribe that on-behalf pension contributions in a special funding situation may only be recognized during the measurement period in which the plan recognizes the contributions, effectively creating a one-year timing difference between the cash contribution and revenue and expense recognition by the City.

As a result of these perspective and timing differences, amounts reported in the financial statements do not agree to the amounts reported on the Schedule of State Financial Assistance.

**Single Audit Section**

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## Independent Auditor's 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*

Honorable Mayor and City Council  
City of Kotzebue, Alaska

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Kotzebue, Alaska as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Kotzebue's basic financial statements, and have issued our report thereon dated February 29, 2016. Our report contained a disclaimed opinion on the Package Store Major Enterprise Fund.

### *Internal Control Over Financial Reporting*

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2015-001, 2015-002 and 2015-003 that we consider to be material weaknesses.

### *Compliance and Other Matters*

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

### *City of Kotzebue's Response to Findings*

City of Kotzebue's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Kotzebue'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.

*BDO USA, LLP*

Anchorage, Alaska  
February 29, 2016



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

Honorable Mayor and City Council  
City of Kotzebue, Alaska

### **Report on Compliance for Each Major Federal Program**

We have audited City of Kotzebue's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Kotzebue's major federal programs for the year ended June 30, 2015. City of Kotzebue's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

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

#### ***Auditor's Responsibility***

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

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

#### ***Opinion on Each Major Federal Program***

In our opinion, City of Kotzebue complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

## Report on Internal Control Over Compliance

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

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

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

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

BDO USA, LLP

Anchorage, Alaska  
February 29, 2016



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## **Independent Auditor's 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***

Honorable Mayor and City Council  
City of Kotzebue, Alaska

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

We have audited City of Kotzebue'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 Kotzebue's major state programs for the year ended June 30, 2015. City of Kotzebue's major state programs are identified in the accompanying Schedule of State Financial Assistance.

### ***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 Kotzebue'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 Kotzebue's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

In our opinion, City of Kotzebue 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 schedule of findings and questioned costs as item 2015-004. Our opinion on each major state program is not modified with respect to this matter.

City of Kotzebue's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Kotzebue'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 Kotzebue 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 Kotzebue's internal control over compliance with the types of requirements that could have a direct and material effect on a 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 Kotzebue'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.

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 which were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-004, that we consider to be a significant deficiency.

City of Kotzebue's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. City of Kotzebue'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.

BDO USA, LLP

Anchorage, Alaska  
February 29, 2016

# City of Kotzebue, 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: Package Store Enterprise Fund - Disclaimer  
All other opinion units - Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u>  X  </u> yes	<u>      </u> no
Significant deficiency(ies) identified?	<u>      </u> yes	<u>  X  </u> (none reported)
Noncompliance material to financial statements noted?	<u>      </u> yes	<u>  X  </u> no

***Federal Financial Assistance***

Internal control over major programs:

Material weakness(es) identified?	<u>      </u> yes	<u>  X  </u> no
Significant deficiency(ies) identified?	<u>      </u> yes	<u>  X  </u> (none reported)

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?        yes   X   no

Identification of major programs:

<i>CFDA Number</i>	<i>Name of Federal Program or Cluster</i>	<i>Agency</i>
14.251	Economic Development Initiative - Special Projects	Housing and Urban Development

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee?        yes   X   no

***State Financial Assistance***

Internal control over major programs:

Material weakness(es) identified?	<u>      </u> yes	<u>  X  </u> no
Significant deficiency(ies) identified?	<u>  X  </u> yes	<u>      </u> (none reported)

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

Dollar threshold used to distinguish a State major program: \$ 75,000

# City of Kotzebue, Alaska

## Schedule of Findings and Questioned Costs, continued Year Ended June 30, 2015

### Section II - Financial Statement Findings Required to be Reported in Accordance with *Government Auditing Standards*

**Finding 2015-001 Account Reconciliations - Material Weakness in Internal Control Over Financial Reporting**

Criteria: Balance sheet accounts should be reconciled periodically throughout the year to ensure the accuracy of the general ledger and financial reports.

Condition: Reconciliations were not performed, or were missing material transactions, for accrued leave, grants receivable, sales tax receivable, accounts receivable, accounts payable, accumulated depreciation, capital assets, due to/from other funds, deferred revenue and inventory.

Context: During our test work over the related accounts, we noted that the balance sheet accounts were not reconciled to the actual amounts.

Effect: Material adjustments were made to various balance sheet accounts and the related revenue or expenditure accounts to correct these balances at year end. When the reconciliations were completed, related adjustments had a material effect on the financial statements.

Cause: Transactions were not being identified and recorded in the correct period and for the correct amounts.

Recommendation: Management should ensure reconciliations are performed accurately and reviewed in a timely manner. All balance sheet accounts should be reconciled, and necessary adjusting entries recorded, at least quarterly. Management should consider obtaining additional training and/or consider bringing in an outside consultant to assist with year-end reconciliation and close out.

*Views of Responsible Officials and Planned*

*Corrective Actions:* Management concurs with the finding. See corrective action plan.

**Finding 2015-002 Package Store Inventory - Material Weakness in Internal Control Over Financial Reporting**

Criteria: Inventory records should be reconciled to the general ledger at year end and inventory should be priced at the lower of cost or market.

Condition: A year end physical inventory count was taken, however, the year end inventory listing was not printed and therefore there was no way to determine what the inventory amount was at year end.

Context: This was limited to the package store enterprise fund.

# City of Kotzebue, Alaska

## Schedule of Findings and Questioned Costs, continued Year Ended June 30, 2015

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Effect: We were unable to perform audit procedures over the package store inventory and we issued a disclaimer of opinion on the package store major fund.

Cause: There are no formal procedures for performing a physical inventory count and no policies and procedures for reconciling the general ledger to the year end inventory listing. Informal policies appeared to be in place, however, the processes were not followed at yearend.

Recommendation: Year end physical inventory procedures should be documented in writing to include specific tasks to be done by City personnel, specific tasks to be done by the Accounting Department, completion of the control sheets. The written instructions should also include reconciliation, including pricing of inventory to include freight, and recount procedures.

*Views of Responsible  
Officials and Planned  
Corrective Actions:*

Management concurs with the finding. See corrective action plan.

**Finding 2015-003**

Schedule of Expenditures of Federal Awards (SEFA) and Schedule of State Financial Assistance (SSFA) - Material Weakness in Internal Control Over Financial Reporting

Criteria: The SEFA and SSFA should include all financial assistance that is required to be reported.

Condition: The SEFA and SSFA were incomplete and did not contain all financial assistance received.

Context: During our test work over the SEFA and SSFA, we noted material errors.

Effect: The SEFA and SSFA were materially misstated. Material adjustments were required.

Cause: Amounts reported on the SEFA and SSFA were prepared from information that had not been reconciled

Recommendation: We recommend that all grant related accounts in the general ledger be reconciled prior to the SEFA and SSFA being prepared and that all grant revenues and expenditures in the general ledger be compared to the SEFA and SSFA to help ensure the schedules are complete.

*Views of Responsible  
Officials and Planned  
Corrective Actions:*

Management concurs with the finding. See corrective action plan.

# City of Kotzebue, Alaska

## Schedule of Findings and Questioned Costs, continued Year Ended June 30, 2015

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### Section III - Federal Award Findings and Questioned Costs

There were no findings and questioned costs for federal awards (as defined in section .510(a) of the Circular) that are required to be reported.

### Section IV - State Award Findings and Questioned Costs

**Finding 2015-004**      State Revenue Sharing Disclosure - Significant Deficiency in Internal Control Over Compliance and Noncompliance - Unmodified Opinion

Agency:                      Department of Commerce, Community, and Economic Development

Program:                      Community Revenue Sharing Program

Award Year:                    FY15

Criteria:                      If the municipality levies and collects only a sales and use tax, the city council shall provide a notice substantially in the form set out in AS 29.45.020. In providing this notice, the municipality shall substitute for the millage equivalency its estimate of the equivalent sales tax rate. If there is no newspaper of general circulation, the notice may be posted in at least two public places in the municipality for at least 20 days, with posting to occur not later than 45 days after the final adoption of the municipality's budget (AS 29.45.660).

Condition:                    The City posted the required notice of the amount of state revenue sharing; however, the posting was not made within the specified timeframe of the requirement.

Questioned Costs:            None noted.

Context:                      The City was not compliant with the relevant statutory requirements regarding taxpayer notice.

Effect:                        Compliance with the provisions of AS 29.45.660 is a prerequisite to receipt of municipal revenue tax resource equalization and priority revenue sharing (AS 29.45.660). Annual revenue sharing allocations could be withheld until municipal officials demonstrate that requirements are met.

Cause:                        Insufficiently detailed knowledge of statutory requirements related to receipt of state revenue sharing monies.

## City of Kotzebue, Alaska

### Schedule of Findings and Questioned Costs, continued Year Ended June 30, 2015

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Recommendation: Post required notice as prescribed in AS 29.45.660.

*Views of Responsible*

*Officials and Planned* Management concurs with the finding. See corrective action plan.

# City of Kotzebue, Alaska

## Summary Schedule of Prior Audit Findings Year Ended June 30, 2015

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### Financial Statement Findings

**Finding 2014-001**      Account Reconciliations - Material Weakness in Internal Control Over Financial Reporting

*Condition:*              Reconciliations were not performed, or were missing material transactions, for accounts receivable, sales tax receivable, accounts payable, inventory, unearned revenue and capital assets.

*Status:*                    This finding is still unresolved. It is repeated as finding 2014-001 for the year ended June 30, 2015.

### Federal Award Findings and Questioned Costs

There were no prior year federal award findings.

### State Award Findings and Questioned Costs

**Finding 2014-002**      State Revenue Sharing Disclosure - Significant Deficiency in Internal control Over Compliance and Noncompliance

*Condition:*              The City did not fully comply with requirements related to revenue sharing public notice. The public notice did not contain all of the required information and it was not posted within the statutory timeframe.

*Status:*                    This finding is unresolved. It is repeated as finding 2015-004 for the year ended June 30, 2015.



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City Hall  
(907) 442-3401

Police Dept.  
(907) 442-3351

Fire Dept.  
(907) 442-3404

Public Works  
(907) 442-3401

## Corrective Action Plan

Management Contact Information:  
Michael Cooper, Finance Director  
907- 442-5102  
mcooper@kotzebue.org

### Financial Statement Findings

**Finding 2015-001 Account Reconciliations - Material Weakness in Internal Control Over Financial Reporting**

*Planned Corrective Actions:* Management intends to reconcile balance sheets on a monthly basis to ensure accuracy of accounts and account subsystems.

*Anticipated Completion Date:* Currently being implemented.

**Finding 2015-002 Package Store Inventory - Material Weakness in Internal Control Over Financial Reporting**

*Planned Corrective Actions:* Changed manager at Package Store. Inventory is being performed on a monthly basis before start of new calendar month.

*Anticipated Completion Date:* Currently being implemented.

**Finding 2015-003 Schedule of Expenditures of Federal Awards (SEFA) and Schedule of State Financial Assistance (SSFA) - Material Weakness in Internal Control Over Financial Reporting**

*Planned Corrective Actions:* Management intends to review and reconcile both the revenues/expenditures on a monthly basis. This information will be used to prepare the required grant audit worksheets which will aid in the complete and accurate preparation of the required schedules in the prescribed format.

*Anticipated Completion Date:* Currently being implemented.

### State Award Findings

**Finding 2015-004 State Revenue Sharing Disclosure - Significant Deficiency in Internal Control Over Compliance and Noncompliance**

*Planned Corrective Actions:* The Finance Department will post the required notice prescribed in AS 29.45.660.

*Anticipated Completion Date:* Currently being implemented.