

LAKE AND PENINSULA BOROUGH

Management Discussion and Analysis, Basic Financial  
Statements, Additional Supplementary  
Information and Compliance Reports

Year Ended June 30, 2014

LAKE AND PENINSULA BOROUGH

Management Discussion and Analysis, Basic Financial  
Statements, Additional Supplementary  
Information and Compliance Reports

Year Ended June 30, 2014

LAKE AND PENINSULA BOROUGH

Table of Contents

	<u>Exhibit</u>	<u>Page</u>
<b>Independent Auditor’s Report</b>		1-3
<b>Management Discussion and Analysis (MD&amp;A)</b>		4-10
<b>Basic Financial Statements:</b>		
Government-Wide Financial Statements:		
Statement of Net Position	A-1	11
Statement of Activities	B-1	12
Fund Financial Statements:		
Balance Sheet - Governmental Funds	C-1	13
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	D-1	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	D-2	15
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual:		
General Fund	E-1	16
Iliamna Dock Road Special Revenue Fund	E-2	17
Notes to Basic Financial Statements		18-37
<b>Additional Supplementary Information:</b>		
Major Governmental Funds:		
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (where applicable) General Fund	F-1	38-41
Special Revenue Funds:		
School Endowment	F-2	42
Borough Permanent Reserve	F-3	43
Tanlian School Addition and Renovation	F-4	44
Other Governmental Funds:		
Combining Balance Sheet – Other Governmental Funds	G-1	45

LAKE AND PENINSULA BOROUGH

Table of Contents, Continued

	<u>Page</u>
<b>Additional Supplementary Information, continued:</b>	
Other Governmental Funds:	
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	G-2      46
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (when applicable):	
Special Revenue Funds:	
CAP-SSSE Program	G-3      47
CIAP Scrap Cleanup	G-4      48
Chignik Lake Generation	G-5      49
Kokhanok Wind Generator	G-6      50
AEA Levelock Wind Study	G-7      51
Resident Fish Sampling	G-8      52
Egegik Wind Feasibility	G-9      53
Wood Boilers	G-10     54
Kokhanok Barge Landing	G-11     55
Igiugig Barge Landing	G-12     56
Linda Johnson Memorial Scholarship	G-13     57
Capital Project Fund:	
Borough Projects	G-14     58
Schedule of Expenditures of Federal Awards	H-1      59
Schedule of State Financial Assistance	I-1      60
<b>Compliance Reports:</b>	
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>	61-62
Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance as Required by <i>OMB Circular A-133</i>	63-65
Federal Schedule of Findings and Questioned Costs	66-69
Report on Compliance For Each Major State Program and Report on Internal Control Over Compliance as Required by the <i>State of Alaska Audit Guide         and Compliance Supplement for State Single Audits</i>	70-72
State Schedule of Findings and Questioned Costs	73-74
Corrective Action Plan	75

## **Independent Auditor's Report**

Members of the Borough Assembly  
Lake and Peninsula Borough  
King Salmon, Alaska

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

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lake and Peninsula Borough, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Borough'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 standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lake and Peninsula Borough, as of June 30, 2014, and the respective changes in financial position, and the budgetary comparisons for the General Fund and Iliamna Dock Rehabilitation Special Revenue Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-10 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lake and Peninsula Borough's basic financial statements. The information listed in the table of contents as "Additional Supplementary Information", which includes the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (where applicable): General Fund, School Endowment, Borough Permanent Reserve and Tanlian School Addition and Renovation Special Revenue Funds, Other Governmental Funds: Combining Balance Sheet and Combining Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual, Schedule of Expenditures of Federal Awards, and the State Schedule of Financial Assistance, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. The accompanying State Schedule of Financial Assistance is presented as required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.

The Additional Supplementary Information listed above 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 and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Additional Supplementary Information listed above is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2015 on our consideration of Lake and Peninsula Borough's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lake and Peninsula Borough's internal control over financial reporting and compliance.



Anchorage, AK  
April 14, 2015

# **MANAGEMENT DISCUSSION AND ANALYSIS**

**Lake and Peninsula Borough**  
***Management Discussion and Analysis***  
**Year Ended June 30, 2014**

This section of Lake and Peninsula Borough's annual financial report presents its discussion and analysis of the Borough's financial performance during the fiscal year ended June 30, 2014 with comparable information for June 30, 2013 in some instances. Please read it in conjunction with the Borough's financial statements, which immediately follow this section.

**Financial Highlights**

Key financial highlights for 2014 are as follows:

- The assets of the Lake and Peninsula Borough exceeded its liabilities at the end of the fiscal year by \$36,660,131 (net position) compared to \$40,909,356 in 2013.
- In total, net position decreased by \$4,011,104 in 2014 compared to an increase of \$1,512,222 in 2013. All activities in the Borough are governmental activities. There were no business-type activities in 2014 or 2013.
- Total general revenues and transfers accounted for \$4,182,341 or 67% percent of all revenues. Program specific revenues in the form charges for services and grants accounted for \$2,019,873 or 33% percent of total revenues of \$6,202,214. In 2013 total revenues were \$6,970,028.
- The Borough had \$8,168,853 in expenses in 2014 compared to \$4,971,792 in 2013. Only \$2,019,973 of these expenses in fiscal year 2014 were offset by program specific charges for services and grants. General revenues (primarily from unrestricted grants, investment earnings and raw fish and bed taxes) of \$4,182,341 were not adequate to provide for the balance of expenses. There were net transfers to the component unit, the Lake and Peninsula School District of \$2,125,901 in 2014, excluding capital asset transfers, compared to \$772,513 in 2013.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to Lake and Peninsula Borough's basic financial statements. Lake and Peninsula Borough's basic financial statements are comprised of 1) government-wide financial statements 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The basic financial statements include two kinds of statements that present different views of the Borough's activities.

- Government-wide financial statements provide both short-term and long-term information about the Borough's overall financial status.
- Fund financial statements focus on individual parts of the Borough, reporting the Borough's operations in more detail than the government-wide statements.
- Fund financial statements include the governmental fund statements which tell how basic services were financed in the short-term, as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by additional supplementary information on individual fund activity and the Schedule of Expenditures of Federal Awards and Schedule of State Financial Assistance.

### ***Government-wide Statements***

The government-wide statements report information about the Borough as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Borough's assets and liabilities, with the difference between the two reported as net position.

The two government-wide statements report the Borough's *net position* and how they have changed. Net position—the difference between the Borough's assets and liabilities—are one way to measure the Borough's financial position.

- Over time, increases or decreases in the Borough's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall financial position, you need to consider additional nonfinancial factors such as the condition of equipment and other assets.

The government-wide financial statements include all the Borough's *governmental activities*, which accounts for all of the Borough's basic services such as planning, community development, appropriations to communities, and administration. There are no *business-type activities* in Lake and Peninsula Borough.

### ***Fund Financial Statements***

The fund financial statements provide more detailed information about the Borough's funds, focusing on its most significant or "major" funds—not the Borough as a whole. Funds are accounting devices the Borough uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and/or by governmental accounting standards.
- The Borough establishes other funds to control and manage money for a particular purpose or to show that it is properly using certain fund revenues (such as federal and state grants).

The Borough has only governmental funds:

*Governmental Funds:* The Borough's basic services are included in governmental funds. Unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as balances of spendable resources left at fiscal year-end. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Borough's programs. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Lake and Peninsula Borough maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the Borough General Fund, School Endowment Special Revenue Fund, Borough Permanent Reserve Special Revenue Fund, Iliamna Dock Rehab Special Revenue Fund, Tanlian School Addition Special Revenue Fund, and the Debt Service Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* and individual budget to actual schedules elsewhere in this report.

*Other information.* Additional detailed information related to the major funds and combining statements for nonmajor governmental funds referred to earlier are presented immediately following the footnotes. This includes combining statements and individual fund schedules.

### ***Government-wide Financial Analysis***

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Lake and Peninsula Borough, assets exceeded liabilities by \$36,660,131 at the close of the most recent fiscal year. There was a \$4,011,104 decrease in net position from 2013 to 2014. The main causes of this decrease was that raw fish taxes collected were roughly \$801,388 lower in 2014 compared to 2013, the Borough incurred a \$2,914,846 impairment loss related to the closing of the Ivanoff Bay and Pedro Bay Schools, and the Borough settled a lawsuit that resulted in a payout of \$155,000.

In 2014 revenues were \$767,814 less than 2013. Taxes revenue decreased by \$1,226,331 in 2014 due to a smaller fish run. The Borough spent substantially less state funds related to capital grant projects in 2014. General revenues decreased by \$628,222 from 2013 to 2014. The main cause of the decrease came from an decrease in raw fish tax collected in 2014. Expenses increased by \$3,197,061 in 2014, due to an impairment loss of \$2,914,846 on the Ivanoff Bay and Pedro School closures and the settlement of a lawsuit.

Net investment in capital assets (e.g., land, buildings, machinery, and equipment) represent capital assets, less any related debt used to acquire those assets that is still outstanding. Lake and Peninsula Borough uses these capital assets to provide services to residents of the Borough; consequently, these assets are not available for future spending. The net investment in capital assets balance is \$0 due to the fact that long-term debt exceeds the total capital assets owned by the Borough

### **Financial Analysis of the Borough as a Whole**

The following table provides a summary of the Borough's net position for 2014 compared with 2013:

	<b><u>Condensed Statement of Net position</u></b>	
	<b><u>Governmental Activities</u></b>	
	<b><u>2014</u></b>	<b><u>2013</u></b>
<b>Assets</b>		
Current assets	\$ 41,722,631	22,459,931
Capital assets	<u>17,222,032</u>	<u>21,622,480</u>
<b>Total Assets</b>	<b><u>58,944,663</u></b>	<b><u>44,082,411</u></b>
<b>Liabilities</b>		
Current liabilities	1,869,272	1,283,055
Long-term liabilities	<u>20,415,260</u>	<u>890,000</u>
<b>Total Liabilities</b>	<b><u>22,284,532</u></b>	<b><u>3,173,055</u></b>
<b>Net position</b>		
Net investment in capital assets	-	18,842,480
Restricted	244,232	244,465
Unrestricted	<u>36,415,899</u>	<u>21,822,411</u>
<b>Total net position</b>	<b>\$ <u>36,660,131</u></b>	<b><u>40,909,356</u></b>

*The rest of this page intentionally left blank.*

The following table shows the changes in net position for fiscal year 2014 compared to fiscal year 2013.

	<b><u>Change in Net position</u></b>	
<b>Revenues:</b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Program revenues:		
Charges for services	\$ 332,401	350,688
Operating grants and contributions	786,399	789,220
Capital grants and contributions	901,073	1,019,557
General revenues:		
Taxes	1,618,087	2,844,418
Permit fees	180,367	361,872
Earnings on interest and investments	906,747	459,744
Shared revenues	1,039,987	873,730
Payment in lieu of taxes	283,664	268,333
Other	<u>153,489</u>	<u>2,466</u>
<b>Total revenues</b>	<b><u>6,202,214</u></b>	<b><u>6,970,028</u></b>
<b>Expenses:</b>		
Governmental activities:		
Assembly	172,930	297,159
Planning commission	57,829	58,347
Administration	961,323	1,191,596
Elections	8,257	14,313
Economic development	328,950	-
Community development	1,377,584	962,897
Resource management	70,966	81,278
Borough comprehensive plan	-	27,020
Culture, education, and recreation	4,670,208	1,792,924
Appropriations to communities	397,839	396,689
Scholarships	11,767	-
Unallocated interest	<u>111,200</u>	<u>149,569</u>
<b>Total governmental activities</b>	<b><u>8,168,853</u></b>	<b><u>4,971,792</u></b>
Changes in net position before transfers	(1,966,639)	1,998,236
Transfers:		
Component unit – Net transfers (to)	(2,125,901)	(772,513)
Capital assets transferred to the Borough	<u>81,436</u>	<u>286,499</u>
Net transfers	<b><u>(2,044,465)</u></b>	<b><u>(486,014)</u></b>
Change in net position	<b><u>(4,011,104)</u></b>	<b><u>1,512,222</u></b>
Net position, beginning of year as previously stated	40,909,356	39,397,134
Prior period adjustment	<u>(238,121)</u>	<u>-</u>
Net position, beginning of year as restated	<b><u>40,671,235</u></b>	<b><u>39,397,134</u></b>
Ending net position	<b>\$ <u>36,660,131</u></b>	<b><u>40,909,356</u></b>

## Financial Analysis of the Borough's Funds

Governmental funds are accounted for using the modified accrual basis of accounting. Governmental funds saw a decrease in total revenue of \$860,60 from 2013 to 2014. The main cause of this decrease was less tax revenue collected in 2014 compared to 2013. Governmental funds expenditures increased by \$348,882, this was mainly caused by an increase in community development and administration expenses. All governmental funds have total revenues of \$6,109,422 in FY14 and \$6,970,028 in FY13 and expenditures of \$4,576,969 in FY14 and \$4,228,087 in FY13. The net change in fund balances, after transfers, was an increase of \$19,487,396 in FY14 and an increase of \$1,969,428 in FY13. The Borough transferred \$2,125,901 to its component unit the Lake and Peninsula Borough School District, as a local contribution. In FY13, the Borough transferred \$772,513 to its component unit. The large increase in transfers to the component unit is to fund the construction of the Tanlian School Addition.

### *Borough Operating Fund Budgetary Highlights*

The Borough's budget is prepared according to Alaska law and is based on a modified accrual basis of accounting. The most significant budgeted fund is the General Fund.

The actual revenues in the General Fund were \$135,862 more than anticipated. This variance was related primarily to receiving more revenue from the State of Alaska and higher investment earnings than anticipated. The Borough received \$30,071 more in State of Alaska revenue than was anticipated and received \$233,057 more in investment earnings than anticipated.

The actual expenditures in the General Fund were \$94,867 under budget. This variance was due in part, to less than anticipated spending in the Community Development function.

### Capital Assets

By the end of 2014, the Borough had invested \$17,222,032 in equipment, buildings and improvements, all as governmental activities. The following table shows fiscal 2014 compared to 2013:

#### **Capital Assets at June 30, Net of Depreciation**

	<b><u>2014</u></b>	<b><u>2013</u></b>
Land	\$ 681,368	681,368
Buildings	6,477,716	9,393,536
Improvements other than buildings	10,033,925	11,542,796
Vehicles and equipment	<u>29,023</u>	<u>4,780</u>
Totals	\$ <u>17,222,032</u>	<u>21,622,480</u>

Additional information on the Borough's capital assets can be found in the notes to the financial statements.

## **Long-Term Debt**

In FY14, the Borough expended \$1,001,200 in current year debt service retirements and interest. The Borough issued an \$18,225,000 bond for the construction of the Tanlian School addition. As of June 30, 2014, the Borough has \$20,115,000 in outstanding long-term bonds payable. This balance is made up of \$1,890,000 AMBBA 2006 Series A, General Obligation Bond Issue and \$18,225,000 AMBBA 2014 Series E, General Obligation Bond Issue. Additional information on the Borough's long-term debt can be found in the notes to the financial statements.

## **Current Considerations**

The Borough is currently assessing feasibility studies identifying the benefits to our communities provided by wind turbine, gasified wood, and hydro-electric energy producing alternatives. The financial burden on the Borough is projected to be approximately \$2,500,000. Funding would be provided by a combination of General Obligation Bonds, Grant Awards, and monies from the Borough's General Fund.

The School District is in the process of reviewing costs for building upgrades at the Newhalen School and other capital projects as needed. The District is assessing funding options as well.

## **Contacting the Borough's Financial Management**

This financial report is designed to provide the Borough's citizens, investors and creditors with a general overview of the Borough's finances and to demonstrate the Borough's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Finance Director, Lake and Peninsula Borough, P.O. Box 495, King Salmon, Alaska 99613, telephone number (907) 246-3421, email: [finance@lakeandpen.com](mailto:finance@lakeandpen.com).

# **BASIC FINANCIAL STATEMENTS**

## LAKE AND PENINSULA BOROUGH

## Statement of Net Position

June 30, 2014

<u>Assets</u>	<u>Primary Government</u>	<u>Component Unit School District</u>
Current:		
Cash and cash equivalents	\$ 10,983,066	1,851,698
Investments	30,109,694	1,736,798
Accrued interest	-	7,006
Inventories	-	258,859
Receivables:		
Taxes	395,706	-
Grants	58,228	354,884
Other	175,937	1,262,752
Prepaid items	-	20,955
Total current	<u>41,722,631</u>	<u>5,492,952</u>
Long-term:		
Long-term investments	-	1,490,096
Accounts receivable	-	212,235
Deferred contributions to Lake and Peninsula Borough	-	2,977,930
Capital assets	55,357,763	1,850,705
Accumulated depreciation	<u>(38,135,731)</u>	<u>(1,593,102)</u>
Total long-term	<u>17,222,032</u>	<u>4,937,864</u>
Total assets	<u>\$ 58,944,663</u>	<u>10,430,816</u>
<u>Liabilities</u>		
Current:		
Accounts payable	\$ 291,474	150,474
Accrued payroll and payroll liabilities	37,506	223,692
Accrued health claims	-	578,377
Unearned revenue	77,500	221,346
Due to student groups	-	640,126
Notes payable - due within one year	<u>1,462,792</u>	<u>-</u>
Total current	<u>1,869,272</u>	<u>1,814,015</u>
Long term:		
Bonds payable	<u>20,415,260</u>	<u>-</u>
Total liabilities	<u>22,284,532</u>	<u>1,814,015</u>
<u>Net Position</u>		
Net investment in capital assets	-	257,603
Restricted:		
Unearned contributions	-	2,977,930
Career and vocational education	-	130,608
Scholarships	244,232	-
Unrestricted	<u>36,415,899</u>	<u>5,250,660</u>
Total net position	<u>\$ 36,660,131</u>	<u>8,616,801</u>

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

## LAKE AND PENINSULA BOROUGH

## Statement of Activities

Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary	Component
					Governmental Total	Unit
					School District	
Primary government:						
Governmental activities:						
Assembly	\$ 172,930	-	-	-	(172,930)	-
Planning commission	57,829	-	-	-	(57,829)	-
Administration	961,323	-	25,559	-	(935,764)	-
Elections	8,257	-	-	-	(8,257)	-
Economic development	328,950	-	-	-	(328,950)	-
Community development	1,377,584	-	760,840	-	(616,744)	-
Resource management	70,966	-	-	-	(70,966)	-
Culture, education, and recreation	4,670,208	332,401	-	901,073	(3,436,734)	-
Appropriations to communities	397,839	-	-	-	(397,839)	-
Scholarships	11,767	-	-	-	(11,767)	-
Unallocated interest	111,200	-	-	-	(111,200)	-
Total primary government	\$ 8,168,853	332,401	786,399	901,073	(6,148,980)	-
Component Unit - School District	\$ 15,974,755	279,610	3,386,780	2,642,837	-	(9,665,528)
General revenues:						
Raw fish taxes				\$ 1,484,932	-	
Bed tax				133,155	-	
Permit fees				180,367	-	
Unrestricted investment and interest earnings				906,747	29,616	
E-rate				-	538,338	
Grants not restricted to specific programs				-	10,224,520	
Shared fisheries taxes				36,039	-	
Fisheries business tax				382,147	-	
State revenue sharing				611,489	-	
Refuge revenue sharing				10,312	-	
Payment in lieu of taxes - federal				283,664	-	
Other				153,489	402,220	
Total general revenues				4,182,341	11,194,694	
Net transfers				(2,125,901)	735,594	
Capital assets transferred to the Borough				81,436	(81,436)	
Total general revenues and transfers				2,137,876	11,848,852	
Change in net position				(4,011,104)	2,183,324	
Net position - beginning of year, as previously stated				40,909,356	6,433,477	
Prior period adjustment				(238,121)	-	
Net position - beginning of year, as restated				40,671,235	6,433,477	
Net position - end of year				\$ 36,660,131	8,616,801	

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

LAKE AND PENINSULA BOROUGH

Balance Sheet - Governmental Funds

June 30, 2014

Assets	General Fund	Special Revenue Funds				Debt Service Fund	Other Governmental Funds	Total Governmental Funds
		School Endowment	Borough Permanent Reserve	Iliamna Dock Rehab	Tanlian School Addition			
Cash and cash equivalents	\$ 5,347,352	-	796,963	-	4,691,123	-	147,628	10,983,066
Investments	2,041,115	6,540,738	7,009,492	-	14,072,211	-	446,138	30,109,694
Receivables:								
Taxes	395,706	-	-	-	-	-	-	395,706
Grants	-	-	-	20,692	-	-	37,536	58,228
Other	175,937	-	-	-	-	-	-	175,937
Due from other funds	103,636	-	-	-	-	-	3,600	107,236
<b>Total assets</b>	<b>\$ 8,063,746</b>	<b>6,540,738</b>	<b>7,806,455</b>	<b>20,692</b>	<b>18,763,334</b>	<b>-</b>	<b>634,902</b>	<b>41,829,867</b>

Liabilities and Fund Balances

Liabilities:								
Accounts payable	291,474	-	-	-	-	-	-	291,474
Accrued payroll and payroll liabilities	37,506	-	-	-	-	-	-	37,506
Unearned revenue	77,500	-	-	-	-	-	-	77,500
Due to other funds	3,600	21,254	-	20,692	-	-	61,690	107,236
<b>Total liabilities</b>	<b>410,080</b>	<b>21,254</b>	<b>-</b>	<b>20,692</b>	<b>-</b>	<b>-</b>	<b>61,690</b>	<b>513,716</b>
Fund Balances:								
Restricted -								
Scholarships	-	-	-	-	-	-	244,232	244,232
Committed:								
School Endowment	-	6,519,484	-	-	-	-	-	6,519,484
Borough Reserve	-	-	7,806,455	-	-	-	-	7,806,455
Kokhanok Wind Generation	-	-	-	-	-	-	17,372	17,372
Resident Fish Sampling	-	-	-	-	-	-	29,988	29,988
Borough Capital Projects	-	-	-	-	-	-	281,620	281,620
Tanlian School Addition	-	-	-	-	18,763,334	-	-	18,763,334
Unassigned	7,653,666	-	-	-	-	-	-	7,653,666
<b>Total fund balances</b>	<b>7,653,666</b>	<b>6,519,484</b>	<b>7,806,455</b>	<b>-</b>	<b>18,763,334</b>	<b>-</b>	<b>573,212</b>	<b>41,316,151</b>
<b>Total liabilities and fund balances</b>	<b>\$ 8,063,746</b>	<b>6,540,738</b>	<b>7,806,455</b>	<b>20,692</b>	<b>18,763,334</b>	<b>-</b>	<b>634,902</b>	

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds

17,222,032

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

    Long-term debt

(20,115,000)

    Bond premium

(1,763,052)

Net position of governmental activities

\$ 36,660,131

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

LAKE AND PENINSULA BOROUGH

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

Exhibit D-1

Year Ended June 30, 2014

	General Fund	Special Revenue Funds				Debt Service Fund	Other Governmental Funds	Total Governmental Funds
		School Endowment	Borough Permanent Reserve	Iliamna Dock Rehab	Tanlian School Addition			
<b>Revenues:</b>								
Local sources:								
Taxes	\$ 1,321,101	-	296,986	-	-	-	-	1,618,087
Permit fees	180,367	-	-	-	-	-	-	180,367
Charges for services	332,401	-	-	-	-	-	-	332,401
Investment earnings	323,057	249,011	251,263	-	72,797	-	10,619	906,747
Other	56,739	-	-	-	-	-	915	57,654
Intergovernmental:								
State of Alaska	1,065,071	-	-	-	-	901,073	15,593	1,981,737
Federal sources	293,976	-	-	535,416	-	-	203,037	1,032,429
Total revenues	<u>3,572,712</u>	<u>249,011</u>	<u>548,249</u>	<u>535,416</u>	<u>72,797</u>	<u>901,073</u>	<u>230,164</u>	<u>6,109,422</u>
<b>Expenditures:</b>								
Current:								
Assembly	172,930	-	-	-	-	-	-	172,930
Planning commission	57,829	-	-	-	-	-	-	57,829
Administration	985,566	-	-	-	-	-	-	985,566
Elections	8,257	-	-	-	-	-	-	8,257
Economic development	328,950	-	-	-	-	-	-	328,950
Community development	142,089	-	-	535,416	-	-	700,079	1,377,584
Resource management	70,966	-	-	-	-	-	-	70,966
Culture, education, and recreation	84,000	-	-	-	-	-	-	84,000
Appropriations to communities	392,839	-	-	-	-	-	5,000	397,839
Scholarships	-	-	-	-	-	-	11,767	11,767
Debt service:								
Bond Issuance Costs	-	-	-	-	-	80,081	-	80,081
Principal	-	-	-	-	-	890,000	-	890,000
Interest	-	-	-	-	-	111,200	-	111,200
Total expenditures	<u>2,243,426</u>	<u>-</u>	<u>-</u>	<u>535,416</u>	<u>-</u>	<u>1,081,281</u>	<u>716,846</u>	<u>4,576,969</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,329,286</u>	<u>249,011</u>	<u>548,249</u>	<u>-</u>	<u>72,797</u>	<u>(180,208)</u>	<u>(486,682)</u>	<u>1,532,453</u>
<b>Other financing sources (uses):</b>								
Proceeds from sale of bonds	-	-	-	-	18,225,000	-	-	18,225,000
Premium on bonds	-	-	-	-	1,855,844	-	-	1,855,844
Transfers in	-	-	-	-	-	62,189	486,449	548,638
Transfers out	(548,638)	-	-	-	-	-	-	(548,638)
Transfers out - Component Unit	(735,594)	-	-	-	(1,390,307)	-	-	(2,125,901)
Net other financing sources (uses)	<u>(1,284,232)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,690,537</u>	<u>62,189</u>	<u>486,449</u>	<u>17,954,943</u>
Net change in fund balances	<u>45,054</u>	<u>249,011</u>	<u>548,249</u>	<u>-</u>	<u>18,763,334</u>	<u>(118,019)</u>	<u>(233)</u>	<u>19,487,396</u>
Fund balance, beginning of year, as previously stated	7,846,733	6,270,473	7,258,206	-	-	118,019	573,445	22,066,876
Prior period adjustment	(238,121)	-	-	-	-	-	-	(238,121)
Fund balance, beginning of year, as restated	<u>7,608,612</u>	<u>6,270,473</u>	<u>7,258,206</u>	<u>-</u>	<u>-</u>	<u>118,019</u>	<u>573,445</u>	<u>21,828,755</u>
Fund balances, end of year	<u>\$ 7,653,666</u>	<u>6,519,484</u>	<u>7,806,455</u>	<u>-</u>	<u>18,763,334</u>	<u>-</u>	<u>573,212</u>	<u>41,316,151</u>

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

## LAKE AND PENINSULA BOROUGH

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

Year Ended June 30, 2014

Net change in fund balances - total governmental funds \$ 19,487,396

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives.

This is the amount by which depreciation exceeded transfers to the Borough for capital outlay in the current period:

Capital outlay	32,248
Capital assets transferred to borough from the school district	81,436
Depreciation expense	<u>(1,599,286)</u>
	<u>(1,485,602)</u>

Governmental funds only report the revenue from the sale of assets to the extent proceeds are received from the sale. In the statement of Activities, a gain or loss is report for each sale or disposal. The net effect of transactions involving capital assets is to decrease net position.

Cost of assets disposed	(7,319,714)
Accumulated depreciation of assets disposed	<u>4,404,868</u>
	<u>(2,914,846)</u>

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds do not report the accrual of interest expense on debt when it is not payable from currently available resources:

Issuance of Long Term Debt	(18,225,000)
Bond Premium	(1,855,844)
Bond Premium Amortization	92,792
Principal payments	<u>890,000</u>
	<u>(19,098,052)</u>

Change in net position of governmental activities \$ (4,011,104)

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

## LAKE AND PENINSULA BOROUGH

## General Fund

Statement of Revenues, Expenditures and Change  
in Fund Balance - Budget and Actual

Year Ended June 30, 2014

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget- Positive (Negative)
<b>Revenues:</b>			
Local sources:			
Taxes	\$ 1,381,000	1,321,101	(59,899)
Permit fees	344,850	180,367	(164,483)
Charges for services	350,000	332,401	(17,599)
Investment earnings (loss)	90,000	323,057	233,057
Other	5,000	56,739	51,739
Total local sources	<u>2,170,850</u>	<u>2,213,665</u>	<u>42,815</u>
Intergovernmental:			
State of Alaska	1,035,000	1,065,071	30,071
Federal sources	231,000	293,976	62,976
Total revenues	<u>3,436,850</u>	<u>3,572,712</u>	<u>135,862</u>
<b>Expenditures:</b>			
Current:			
Assembly	193,125	172,930	20,195
Nonvoting representatives	1,600	-	1,600
Planning commission	55,030	57,829	(2,799)
Administration	946,446	985,566	(39,120)
Elections	10,500	8,257	2,243
Community/economic development	428,093	328,950	99,143
Community development	160,206	142,089	18,117
Resource management	62,600	70,966	(8,366)
Culture, education, and recreation	89,000	84,000	5,000
Appropriations to communities	391,693	392,839	(1,146)
Total expenditures	<u>2,338,293</u>	<u>2,243,426</u>	<u>94,867</u>
Excess of revenues over expenditures	<u>1,098,557</u>	<u>1,329,286</u>	<u>230,729</u>
Other financing sources (uses):			
Transfers out	(572,598)	(548,638)	23,960
Transfers out - Component unit	(1,284,205)	(735,594)	548,611
Net other financing sources (uses)	<u>(1,856,803)</u>	<u>(1,284,232)</u>	<u>572,571</u>
Net change in fund balance	\$ <u>(758,246)</u>	<u>45,054</u>	<u>803,300</u>
Fund balance, beginning of year, as previously stated		7,846,733	
Prior period adjustment		<u>(238,121)</u>	
Fund balance, beginning of year, as restated		<u>7,608,612</u>	
Fund balance, end of year		<u>\$ 7,653,666</u>	

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

## LAKE AND PENINSULA BOROUGH

## Iliamna Dock Rehab Special Revenue Fund

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

Year Ended June 30, 2014

	Original and Final Budget <u>Amounts</u>	Actual <u>Amounts</u>	Variance with Final Budget- Positive <u>(Negative)</u>
Revenues - Intergovernmental - Federal sources	\$ <u>608,000</u>	<u>535,416</u>	<u>(72,584)</u>
Expenditures:			
Community development - Professional services	<u>608,000</u>	<u>535,416</u>	<u>72,584</u>
Excess of revenues over expenditures	\$ <u>-</u>	-	<u>-</u>
Fund balance, beginning of year		<u>-</u>	
Fund balance, end of year		\$ <u>-</u>	

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

# LAKE AND PENINSULA BOROUGH

## Notes to Financial Statements

June 30, 2014

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

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

The Lake and Peninsula Borough was incorporated under the laws of the State of Alaska as a home-rule borough on April 24, 1989. The Borough operates under a manager form of government. Members of the Borough Assembly are elected by the public. As required by accounting principles generally accepted in the United States of America, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the basic financial statements to emphasize that it is legally separate from the government. The discretely presented component unit has a June 30 year-end.

*Discretely Presented Component Unit.* Pursuant to Alaska Statutes, Title 29.43.030, the Lake and Peninsula Borough has the responsibility of establishing, maintaining and operating a system of public schools. The Borough's charter delegates the administrative responsibility for these functions to the elected seven-member school board of the Lake and Peninsula School District (School District). The Lake and Peninsula School District is a component unit and integral part of the reporting entity, which is the Lake and Peninsula Borough. In accordance with State statutes, the Borough retains ownership of the education related capital assets and incurs the debt, if necessary, to finance the acquisition and construction of school facilities. The Borough Assembly, as the oversight authority, approves the total annual budget of the School District and may, during the year, increase or decrease the total appropriation at the request of the School Board. The School Board has the authority to establish its own budgets, hire all personnel, and manage its financial operations subject to the limitations established by State law and Borough charter.

Complete financial statements for the component unit may be obtained from the Lake and Peninsula School District, P.O. Box 498, King Salmon, Alaska 99613.

## LAKE AND PENINSULA BOROUGH

### Notes to Financial Statements, Continued

#### **B. 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 Borough and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Borough does not presently have any business-type activities. 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) charges to customers who purchase, use or directly benefit from goods or services provided by a given function or department and 2) grants and contributions that are restricted to meeting the operations or capital requirements of a particular function or department. Other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the Fund Financial Statements.

#### **C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

Governmental Fund Financial Statements are reported using *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Borough considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results may differ from the estimates.

## LAKE AND PENINSULA BOROUGH

### Notes to Financial Statements, Continued

Summarized below are the major sources of revenue, which are susceptible to accrual and the applicable recognition policies:

#### Intergovernmental Revenue:

State of Alaska and federal government cost reimbursable grants and contracts and State of Alaska construction grant revenues are recorded to the extent of allowable expenditures in the period the expenditures are incurred.

State of Alaska shared revenues and various State levied taxes (the proceeds of which are distributed to local governments) are recorded in the fiscal year to which they relate.

#### Local Revenue:

Fish tax and bed tax revenue is recognized when earned and measurable. Rental revenues are recognized when earned.

Interest earnings on investments are recognized as earned.

The Borough reports the following major governmental funds:

The *General Fund* is the primary operating fund of the Borough. It accounts for all financial resources of the Borough, except those required to be accounted for in another fund.

The *School Endowment Special Revenue Fund* accounts for donations and contributions in support of the Lake and Peninsula School District's future operations.

The *Borough Permanent Reserve Special Revenue Fund* accounts for 20% of the raw fish tax the Borough collects. These funds are set aside by the Assembly to benefit future taxpayers and citizens of the Borough.

The *Iliamna Dock Rehabilitation Special Revenue Fund* accounts for federal funds received from the Denali Commission for the rehabilitation, design and construction of the dock in Iliamna..

The *Tanlian School Addition* accounts for funds received through the issuance of a bond to build a new school building.

The *Debt Service Fund* accounts for the servicing of general long-term debt related primarily to construction, rehabilitation and renovation of school buildings.

LAKE AND PENINSULA BOROUGH

Notes to Financial Statements, Continued

**D. Assets, Liabilities and Fund Balance/Net Position**

**1. Cash and Cash Equivalents and Investments**

The Borough's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments include governmental obligation bonds and securities. All debt securities are carried at fair value.

There are no statutory limitations on the type of investments allowed. Unrealized gains and losses are reported with investment income as revenue from local sources in both the fund and government-wide financial statements.

The Borough has a formal investment policy adopted by ordinance and is empowered to invest in, and is restricted to, the following types of securities:

- (a) Obligations of, or obligations insured by or guaranteed by, the United States or agencies or instrumentalities of the United States. At least 50% of the investment portfolio shall be invested in government securities at the time of purchase;
- (b) Certificates of Deposit and term deposits of United States domestic banks that are members of the Federal Deposit Insurance Corporation, those over \$250,000 must be secured by eligible collateral;
- (c) Repurchase and reverse repurchase agreements secured by obligations of the Treasury of the United States and obligations of an agency or instrumentality of the United States. A Master Repurchase Agreement must be signed with the bank or dealer, before repurchase agreements are entered into. Investments in terms of repurchase agreements shall not exceed 50% of the investment portfolio at the time of purchase;
- (d) The Alaska Municipal League Investment Pool, Inc. made in accordance with the terms of that Pool's "Common Investment Agreement"; and in accordance with AS 37.23.013 - 37.23.900;
- (e) Commercial paper and other short-term taxable Instruments that, at the time of investment, maintain the highest rating by at least two nationally recognized rating services. Not more than 20% of the portfolio will be invested in Commercial Paper at the time of purchase and not more than 2.5% of the portfolio may be invested in the Commercial Paper of any one issuer. In addition, Commercial Paper will not be purchased unless the spread in interest rates above similar term government securities is at least 25 basis points (.25%) at the time of purchase;

## LAKE AND PENINSULA BOROUGH

### Notes to Financial Statements, Continued

- (f) Obligations of a corporation domiciled in the United States or obligations of a municipality if the obligations are rated AA or higher by at least one nationally recognized rating service at the time of the investment. Not more than 10% of the portfolio will be invested in Corporate Debt at the time of purchase and not more than 2.5% of the portfolio may be invested in the Corporate Debt of any one user. In addition, Corporate Debt will not be purchased unless the spread in interest rates above similar term government securities is at least 20 basis points (.20%) at the time of purchase;
- (g) Money market funds in which the securities of the funds consist of obligations listed in this section and otherwise meet the requirements of this investment policy;
- (h) Mutual funds in which the holdings of the funds consist of: preferred and/or common stock of corporations incorporated in the United States; preferred and/or common stock of nondomestic corporations, corporate debt of corporations incorporated in the United States; corporate debt of nondomestic corporations; real estate, real estate related securities and Real Estate Investment Trust (REIT's); and/or other securities or obligations listed in this section and which otherwise meet the requirements of this investment policy. At least 75% of the Mutual fund portfolio shall have at least a 4 Star Overall or 4 Star 3-Year Rating by Morningstar, Inc. at the time of purchase. Funds with a 4 Star Overall or 4 Star 3-Year Rating shall have a Category Rating of 5 and/or a Category Risk Rating of Low or Below Average at the time of purchase. No more than 25% of the mutual fund portfolio may be invested in mutual funds not meeting these criteria. Not more than 20% of the total investment portfolio will be invested in Equity and Real Estate Mutual Funds at the time of purchase. This will consist of no more than 5% of the total investment portfolio being invested in international (nondomestic) funds at the time of purchase and no more than 5% of the total investment portfolio being invested in Real Estate funds at the time of purchase. No more than 10% of the total investment portfolio may be invested in any one fund.

As of June 30, 2014 the Borough was not in compliance with its investment policy regarding 50% of the investment portfolio being invested in government securities. At year-end, only 48% of the investment portfolio was invested in government securities. This was caused by management's needs for high liquidity investments that could be sold to pay for construction costs associated with the Tanlian School Addition. Management is aware they are not in compliance with the policy and believe the situation will be resolved by June 30, 2015.

The Borough participates in the Alaska Municipal League Investment Pool (AMLIP). The Alaska Municipal League Investment Pool, Inc., (AMLIP), represents the Borough's share of ownership in the pool rather than ownership of specific securities. AMLIP is considered to be an external investment pool as defined by Generally Accepted Accounting Principles. AMLIP is not SEC-registered and is unrated. Regulatory oversight of the pool is established by Alaska Statute 37.23. The law sets forth numerous requirements regarding authorized investments and reporting. The pool is incorporated in the State of Alaska as a nonprofit corporation and reports to a board of directors. Alaska Statute 37.23.050 requires the retention of an investment manager.

## LAKE AND PENINSULA BOROUGH

### Notes to Financial Statements, Continued

The manager is required to produce monthly disclosure statements on the pool. The pool also has retained an investment adviser who monitors the performance of the investment manager to ensure compliance with investment policies. All participation in the pool is voluntary. The pool must maintain a dollar-weighted average maturity of 90 days or less, and only purchase instruments having remaining maturities of 397 days or less. On a monthly basis, the investments in the pool are reviewed for fair value by an independent pricing service. As of June 30, 2014, the fair value of the investments in the pool approximates amortized cost and is equal to the value of pool shares. To obtain a copy of AMLIP's financial statements contact Key Trust of Alaska at 101 West Benson Blvd., Room 302, Anchorage, AK 99503.

All governmental entities report investments at fair value. All investment income, including changes in fair value, are reported as revenue in the operating statement of revenues, expenditures and changes in fund balances. This also applies to governmental external investment pools, which are similar to mutual funds.

#### **2. Short-term Interfund Receivables and Payables**

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

#### **3. Inventories and Prepaid Items**

Inventories are valued at cost, which approximates fair value, on a first-in, first-out basis and are recorded as expenditures when consumed. Payments made to vendors for services that are applicable to future accounting periods are recorded as prepaid items. Prepaid items are based on the consumption method. The inventories and prepaid items recorded in the Fund Financial Statements do not reflect current available resources and are classified as nonspendable in the Fund Financial Statements.

#### **4. Receivables**

Receivables are comprised of amounts due from the federal government, the State of Alaska and other local sources.

Revenues from taxes, net of estimated refunds, are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period in the Fund Financial Statements. As a result, Raw Fish Tax and Bed Tax payments made after year-end and within 60 days of year end, relating to the tax period ending at June 30, 2014, are recorded as receivable.

## LAKE AND PENINSULA BOROUGH

### Notes to Financial Statements, Continued

Since there were no accounts receivable deemed uncollectible the Borough did not record an allowance for uncollectible accounts.

#### **5. Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the Government-Wide Financial Statements at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair value at the date of donation. Capital assets are defined as assets costing greater than \$5,000 and are depreciated on the straight-line method in the Government-Wide Financial Statements. The Borough does not possess any infrastructure. The Borough owns all land, school buildings and improvements that are provided to the School District. The School District collects rent for Teacher Housing units owned by the Borough and pays these rental fees to the Borough. The buildings are operated and maintained by the School District; however, ownership resides with the Borough.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

#### **6. Unearned Revenues**

Unearned revenue arises when resources are received before the Borough has legal claim to them, as when the grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when there is a legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized.

#### **7. Compensated Absences**

It is the Borough's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for unpaid accumulated sick leave because there is no provision for payment or use of sick leave upon termination. Vacation pay is accrued when incurred and reported as a fund liability because all leave is expected to be liquidated with expendable available financial resources.

#### **8. Long-Term Obligations**

In the Government-Wide Financial Statements, the Borough reports long-term debt and other long-term obligations as liabilities in governmental activities. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the Government-Wide Financial Statements.

In the Fund Financial Statements, governmental funds recognize bond premiums and discounts, as well as issuance costs, during the current period. Bond proceeds are reported as other financing sources, net of the applicable premium or discount.

## LAKE AND PENINSULA BOROUGH

### Notes to Financial Statements, Continued

#### **9. Net Position**

In the Government-Wide Financial Statements, net position is reported in three categories: net investment in capital assets; restricted net position; and unrestricted net position. Net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### **10. Fund Balance**

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

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

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

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

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

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

## LAKE AND PENINSULA BOROUGH

### Notes to Financial Statements, Continued

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

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

The Borough's Special Revenue Funds are used to account for the school endowment, permanent reserve, scholarships, and community development activities that are restricted on committed.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies 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. Encumbrances outstanding at year end are reported in assigned fund balances since they do not constitute expenditures or liabilities. The amount of encumbrances, if significant, are disclosed in the Notes to the Basic Financial Statements as commitments. Unexpended balances and appropriations of grants from the state and federal government for the Special Revenue Funds lapse at June 30.

## **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds except capital project funds, which normally adopt project-length budgets. All annual appropriations lapse at fiscal year end.

The appropriated budget is prepared by fund, department or function and object. The manager is authorized to transfer appropriations between line items within functions or departments as needed provided that said transfers do not exceed 25% of the approved budget for that function or department. The manager is further authorized to exceed approved function or department budgets by up to 10% or a maximum of \$10,000 to address unanticipated circumstances. In no case shall the manager expend more appropriations in a given fiscal year than the amount authorized for the overall operating budget unless approved by the Borough Assembly. New expenditures for activities not authorized herein, transfers between functions or departments which exceed the above authorization, transfers between the General Fund and other funds, or any other modifications to the approved budget must be done by ordinance and the normal budget amendment process.

LAKE AND PENINSULA BOROUGH

Notes to Financial Statements, Continued

Budgets are adopted by the Borough Assembly for General Fund revenues and expenditures. Budgets are prepared and presented on the modified accrual basis of accounting. Both the original and final approved budget are reflected in the Fund Financial Statements.

Annual budgets of the Special Revenue Funds are prepared in connection with the application for the special programs' award and are reviewed and approved by the Assembly. For Special Revenue Funds funded only through transfers no expenditure budget is prepared. Expenditure authority for Special Revenue Fund programs is limited to the actual combined revenues, transfers from other funds and available fund balance.

No budget is prepared for the Debt Service Fund.

Project budgets are adopted for the various Capital Project Funds based on the lives of the construction projects. Because an annual budget for these funds is not adopted, the Major Capital Project Funds are not shown with Budget and Actual comparisons in the Fund Financial Statements." Expenditure authority is limited to the actual combined revenue and transfers from other funds.

The adopted School Operating Fund budget of the Component Unit is submitted to the Lake and Peninsula Borough for approval and then to the State of Alaska, Department of Education and Early Development for review to determine compliance with Alaska statutes and Department regulations.

The following funds and functions, when applicable, had expenditures over appropriations:

	Amount in Excess of <u>Appropriations</u>	
General Fund:		
Planning commission	\$	2,799
Administration		39,120
Resource management		8,366
Appropriations to communities		1,146

**III. DETAILED NOTES ON ALL FUNDS**

**A. Cash and Investments**

A listing of the Borough's investments at June 30, 2014 is as follows:

	Fair Value	Maturities	
		1 – 5	6 - 10
U.S. Government obligations	\$ 16,332,090	16,332,090	-
Commercial Paper	6,947,728	6,947,728	-
Certificates of Deposit	6,829,876	6,829,876	-
Total	\$ 30,109,694	30,109,694	-

At June 30, 2014, the Borough also had cash and cash equivalents of \$10,983,066, including \$4,015,930 of cash equivalents held in various investment accounts.

LAKE AND PENINSULA BOROUGH

Notes to Financial Statements, Continued

Interest Rate Risk – The Borough does not have a formal Investment Policy that limits investment maturities as a means of managing its exposure to fair market losses arising from increasing interest rate risk.

Concentration of Credit Risk – The Borough limits its corporate and debt bonds to AA or higher. At June 30<sup>th</sup>, all corporate and debt bonds were AA1 to AAA. At June 30, 2013 the Borough had 48% of its investments in U.S. Government agency securities, which is in violation of the investment policy. This was due to the proceeds from the bond issue being invested in highly liquid, short term investments to pay construction costs for the new school building.

Custodial Credit Risk is the risk, for investments, that in the event of the failure of the counterparty, the Borough will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Borough had no debt securities exposed to credit risk at June 30, 2014. Custodial Credit Risk for deposits is reduced by the Borough policy requiring all deposits to be fully insured or collateralized. All deposits were fully insured or collateralized at June 30, 2014.

**B. Receivables**

Accounts receivable as of year end for the Borough's individual major funds and other governmental funds are as follows:

		Iliamna Dock Rehab Special Revenue Fund	Other Governmental Funds	Total
	General Fund			
Taxes	\$ 395,706	-	-	395,706
Grant	-	20,692	37,536	58,228
Other	175,937	-	-	175,937
Total	\$ <u>571,643</u>	<u>20,692</u>	<u>37,536</u>	<u>629,871</u>

Management has determined that all receivables are collectable; therefore, no allowance for doubtful accounts has been established.

*The rest of this page left intentionally blank.*

LAKE AND PENINSULA BOROUGH

Notes to Financial Statements, Continued

**C. Capital Assets**

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

	Balance June 30, 2013	Transfer from School District	Increases	Decreases	Balance June 30, 2014
Land	\$ 681,368	-	-	-	681,368
Buildings	44,780,692	81,436	-	(5,808,161)	39,053,967
Improvements other than buildings	17,000,720	-	-	(1,463,951)	15,536,769
Vehicles	47,731	-	32,248	(18,224)	61,755
Equipment	53,282	-	-	(29,378)	23,904
Total	<u>61,882,425</u>	<u>81,436</u>	<u>32,248</u>	<u>(7,319,714)</u>	<u>54,676,395</u>
Accumulated depreciation:					
Buildings	35,387,156	-	831,700	(3,642,605)	32,576,251
Improvements other buildings	5,457,924	-	759,581	(714,661)	5,502,844
Vehicles	47,731	-	3,225	(18,224)	32,732
Equipment	48,502	-	4,780	(29,378)	23,904
Total accumulated depreciation	<u>40,941,313</u>	<u>-</u>	<u>1,599,286</u>	<u>(4,404,868)</u>	<u>38,135,731</u>
Net capital assets being depreciated	<u>20,941,112</u>	<u>81,436</u>	<u>(1,567,038)</u>	<u>(2,914,846)</u>	<u>16,540,664</u>
Total capital assets	<u>\$ 21,622,480</u>	<u>81,436</u>	<u>(1,567,038)</u>	<u>(2,914,846)</u>	<u>17,222,032</u>

During the year, it was determined that the Ivanoff Bay School and Pedro Bay School buildings and improvements had become impaired. The number of school age children in each of these villages was so low, it was determined that the likelihood of the schools opening again was extremely remote. Therefore, an impairment loss of \$2,914,846 was recognized in the current year to write down the book value of these assets.

Depreciation expense was charged to functions of the Borough as follows:

Administration	\$ 8,005
Culture, Education and Recreation	<u>1,591,281</u>
	<u>\$ 1,599,286</u>

LAKE AND PENINSULA BOROUGH

Notes to Financial Statements, Continued

All capital assets used in governmental activities except land and construction in progress are depreciated under the straight-line method with estimated useful lives as follows:

	<u>Life in Years</u>
Buildings	30
Improvements other than buildings	20
Vehicles	10
Equipment	5

**D. Interfund Receivables/Payables and Transfers**

Interfund receivables and payables are shown as “Due To” and “Due From” in each of the individual funds. These balances for the primary government at June 30, 2014 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	School Endowment Special Revenue Fund	\$ 21,254
	Iliamna Dock Rehab Special Revenue Fund	20,692
	Other Governmental Funds	61,690
Other Governmental Funds	General Fund	3,600
		\$ 107,236

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Interfund receivables and payables were for short-term borrowings of cash at year end due to receivables.

Interfund transfers for the year ended June 30, 2014 consisted of the following:

	<u>Transfers In</u>			
	<u>Debt</u>	<u>Other</u>		
	<u>Service</u>	<u>Governmental</u>	<u>Funds</u>	<u>Total</u>
	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>	<u>Total</u>
<u>Transfers Out</u>				
General Fund	\$ 62,189	486,449	548,638	548,638

Transfers are used to move unrestricted General Fund revenues to finance various programs that the Borough must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

LAKE AND PENINSULA BOROUGH

Notes to Financial Statements, Continued

**E. Long-Term Debt**

The Borough issues general obligation bonds to provide monies for the acquisition and construction of major capital facilities. The following is a summary of changes in long-term debt for the Lake and Peninsula Borough:

	<u>Balance July 1, 2013</u>	<u>Debt Acquired</u>	<u>Debt Retired</u>	<u>Balance June 30, 2014</u>	<u>Due Within One Year</u>
2006 Series A Capital Improvement Bond, issued May 22, 2006 for \$8,122,000, interest rate of 4.0%, due in installments to 2016, payable to Alaska Municipal Bond Bank Authority.	\$ 2,780,000	-	890,000	1,890,000	925,000
2014 Series E Capital Improvement Bond, issued Nov 22, 2014 for \$18,255,000, variable interest rates of 2.0%-5.0%, due in installments to 2033, payable to Alaska Municipal Bond Bank Authority. Authorized amount was \$18,225,000.	-	18,225,000	-	18,225,000	445,000
Total Bonds	\$ <u>2,780,000</u>	<u>18,225,000</u>	<u>890,000</u>	<u>20,115,000</u>	<u>1,370,000</u>
Unamortized premium on 2014 Capital Improvement Bond				<u>1,763,052</u>	
				\$ <u>21,878,052</u>	

Annual debt service requirements to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,370,000	1,051,821	2,421,821
2016	1,600,000	828,051	2,428,051
2017	645,000	775,088	1,420,088
2018	665,000	756,950	1,421,950
2019	690,000	729,850	1,419,850
2020-2024	3,890,000	3,226,900	7,116,900
2025-2029	4,950,000	2,159,500	7,109,500
2030-2034	6,305,000	800,125	7,105,125
	\$ <u>20,115,000</u>	<u>10,328,285</u>	<u>30,443,285</u>

## LAKE AND PENINSULA BOROUGH

### Notes to Financial Statements, Continued

#### IV. OTHER INFORMATION

##### A. Related Party Transactions

As a result of the Borough's business activities and location of its operations, some airline services are somewhat limited. A local airline, Lake Clark Airlines is owned by a member of the Borough's Assembly. The total services purchased from this airline company amounted to \$16,400 for the fiscal year.

An annual appropriation is made to the School District. For the year ended June 30, 2014 the annual appropriation was \$735,594.

During the year the School District transferred \$81,436 of capital assets to the Borough.

##### B. Subsequent Events

On November 7, 2014, the Borough negotiated a settlement of the court case *Lake and Peninsula Borough v. Oberlatz* and agreed to pay \$155,000 to the plaintiffs of the case. The lawsuit existed as of June 30, 2014; accordingly, the amount has been accrued as an accounts payable and lawsuit settlement expense in the financial statements. Management has evaluated all other subsequent events through April 14, 2015, the date which the financial statements were available for issue.

##### C. Employee Retirement Systems and Plans

The Borough follows Governmental Accounting Standards Board (GASB) Codification P20, *Accounting for Pensions by State and Local Governmental Employees* and GASB Codification P50, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions*. GASB Codification P20 and GASB Codification P50 establish uniform standards for the measurement, recognition and display of pension and other post-employment benefits other than pensions (healthcare) expenditures/expense and related liabilities, assets, note disclosure and applicable required supplementary information in the financial reports of state and local governmental employers.

*Retirement Plans.* All full-time employees and certain permanent part-time employees of the Borough participate in either the State of Alaska Public Employees' Retirement System (PERS). In addition to the pension plan both systems also administer a post-employment healthcare benefit plan.

*Summary of Significant Accounting Policies.* The financial statements for PERS are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The Borough's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair market value or estimated fair market value.

## LAKE AND PENINSULA BOROUGH

### Notes to Financial Statements, Continued

*Termination Costs.* If the Borough decides to terminate coverage for a department, group, or other classification of members, even if that termination results from the decision to divest of a particular Borough function, all affected employees in that department, group or other classification of members become immediately vested in the plan. The Borough must pay to have a termination study completed. The purpose of the study is to calculate the Borough's one-time termination costs. The costs represent the amount necessary to fully fund the costs of plan members who become vested through this process and for other changes in actuarial assumptions, such as, earlier than expected retirement, that arise from the act of termination of coverage. The Borough must pay a lump sum within 60 days of termination or arrange a payment plan that is acceptable to the PERS Administrator. For fiscal year 2014 the past service rate is 24.19%.

#### ***Alaska Public Employee Retirement System (PERS) – Defined Benefit Plan***

*Plan Oversight.* The Borough contributes to the Alaska Public Employees Retirement System (PERS), which includes both a cost sharing multiple employer defined benefit pension and post-employment healthcare plan and a defined contribution plan. Both plans are administered by the Commissioner of Administration and the Alaska Retirement Management Board (ARMB). Both PERS plans provides retirement benefits including disability and death benefits, and post-employment healthcare to plan members and beneficiaries. The authority to establish and amend benefit provisions is assigned to the ARMB. The Public Employee's Retirement System issues a publicity available financial report that includes financial statements and required supplementary information for PERS. This report may be obtained from the system at Pouch C, Juneau, Alaska 99811.

*Plan Description and Funding Agreement.* Benefits vest with five years of credited service. Employees enrolled prior to July 1, 1986 with five or more years of credited service are entitled to annual pension benefits beginning at normal retirement age 55 or early retirement age 50. For ages are 60 and 55, respectively. Employees with 30 or more years of credited services may retire at any age and receive a normal benefit.

Retirement benefits are calculated by multiplying the average monthly compensation (AMC) times credited PERS service times the percentage multiplier. The AMC is determined by averaging the salaries earned during the five highest (three highest for Police/Fire members or members hired prior to July 1, 1996) consecutive payroll years. Members must earn at least 115 days of credit in the last year worked to include it in the AMC calculation. The PERS pays a minimum benefit of \$25 per month for each year of service when the calculated benefit is less.

The percentage multipliers for police/fire personnel are 2% for the first ten years of service and 2.5% for all service over 10 years. The percentage multipliers for all other participants are 2% for the first ten years, 2.25% for the next ten years, and 2.5% for all remaining service earned on or after July 1, 1986. All service before that date is calculated at 2%.

Post-employment healthcare benefits are provided without cost to all members first enrolled before July 1, 1986. Members first enrolled after June 30, 1986, but before July 1, 2006 and who have not reached age 60 may elect to pay for major medical benefits.

## LAKE AND PENINSULA BOROUGH

### Notes to Financial Statements, Continued

Pension benefits are adjusted each year based upon increases in the Consumer Price Index (CPI) for the prior year. The increase in the benefits is 75% of the CPI increase up to a 9% maximum for recipients who are at least age 65 or on disability or 50% of the increase up to a 6% maximum for recipients who are at least age 60 but under age 65 or who have been receiving benefits for at least five years. Starting at age 65, or at any age for those employed before July 1, 1986, a retired employee who remains in Alaska is eligible for an additional allowance equal to 10% of the base benefit or \$50 a month, whichever is greater.

*Post Retirement Pension Adjustments.* Post retirement pension adjustments (PRPAs) are granted annually to eligible benefit recipients when the consumer price index (CPI) increases during the preceding calendar year. PRPAs are calculated by multiplying the recipient's base benefit, including past PRPAs, times:

- (a) 75% of the CPI increase in the preceding calendar year or 9%, whichever is less, if the recipient is at least 65 or on PERS disability; or
- (b) 50% of the CPI increase in the preceding calendar year or 6%, whichever is less, if the recipient is at least 60, or has been receiving benefits for at least five years.

Ad hoc PRPAs, up to a maximum of 4%, may be granted to eligible recipients who first entered the PERS before July 1, 1986, if the CPI increases and the financial condition of the fund will permit an increase. In a year where an ad hoc PRPA is granted, eligible recipients will receive the higher of the two calculations.

*Funding Policy.* The Borough PERS active members are required to contribute 6.75% (3.26% pension costs and 3.49% post-employment health care costs) of their annual covered salary and the Borough is required to contribute at an actuarial determined rate; the current rate is 35.68%. The legislature capped the employer rate at 22% (10.64% pension cost and 11.36% post-employment health care cost), with the State of Alaska contributing an on behalf payment for the difference between the actuarial required contribution and the cap. The contribution requirements of plan members and the Borough are established and may be amended by the ARMB.

During the 25<sup>th</sup> legislation session, Senate Bill 125 passed, which established a June 30, 2008 salary floor under AS 39.35.255(a)(2). The salary floor is the total base salaries paid by an employer to active employees of the system as of the fiscal year ending June 30, 2008. The statute requires the Division of Retirement and Benefits (Division) to collect employer contributions at a minimum based on FY 2008 base salaries.

*Annual Pension, OPEB Cost and On-behalf Payment.* The Borough no longer has employees participating in this retirement plan; however, they are still subject to assessment by the State of Alaska, Department of Administration based on the 2008 salary floor. For the year ended June 30, 2014, the State of Alaska contributed \$32,353 on behalf of the Borough, which was recognized as revenue and expenditures.

LAKE AND PENINSULA BOROUGH

Notes to Financial Statements, Continued

**Alaska Public Employee Retirement System (PERS) – Defined Contribution Plan**

*Plan Description and Funding Requirements.* School Districts and Public Employers in the State of Alaska have a defined contribution retirement plan for new hires first enrolled on or after July 1, 2006. Plan members make mandatory contributions of 8% of gross eligible compensation. State statutes require the employer to contribute 5% of employees' eligible compensation. Additionally, employers are required to contribute 0.48% for the retiree medical plan, 0.20% for occupational and death and disability benefits and 3% of employers average annual employee compensation to the health reimbursement arrangement (HRA). The effective employer contribution is 22%. Plan members are 100% vested with their contributions.

Members become vested in employers' contributions as follows:

- 2 years of service – 25%
- 3 years of service – 50%
- 4 years of service – 75%
- 5 years of service – 100%

Plan provisions and contribution requirements and amendments are established by the Alaska Retirement Management Board (ARMB). Total contributions for the year ended June 30, 2014 are as follows:

	<u>Employer</u>	<u>Employee</u>
Defined contribution	\$ 13,921	21,288
Retiree medical plan	1,336	-
Occupational health and disability benefits	557	-
Health reimbursement agreement (HRA)	8,353	-
Defined benefit unfunded liability (DBUL)	37,087	-

Actual contributions were equal to the annual required contributions.

**D. Alaska Supplemental Benefits Systems**

The Borough provides pension benefits for all of its classified employees through a defined contribution plan in lieu of participation in the federal social security system. In a defined contribution plan benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. The State requires that both the employee and the Borough contribute an amount equal to 6.13% of the employee's base salary each month. The Borough's contributions for each employee (and interest allocated to the employee's amount) are immediately vested. The Borough's total SBS eligible payroll in fiscal year 2014 was \$362,520.

Both the Borough and the covered employees made the required 6.13% contribution, amounting to \$22,222 from each source, or \$44,444 in total.

**E. Prior Period Adjustment**

During the year it was discovered that a previously accrued grant receivable was not collectable. Therefore, management has posted a prior period adjustment of \$238,121 to write off the grant receivable balance and reduce beginning fund balance and net position.

LAKE AND PENINSULA BOROUGH

Notes to Financial Statements, Continued

**F. Risk Management**

The Borough receives employee and Borough Assembly health insurance in conjunction with the School District's self-insurance plan. The School District accepts all risks associated with the self-insurance plan and requests the Borough only be responsible for the premium payments. A detailed description of the self-insurance plan can be found in the footnotes of the Lake and Peninsula School District's financial statements. In addition, the Borough provides employee life and travel/accident insurance are through a third party insurer. Limits of coverage are provided for life and travel/accident insurance are \$100,000 and \$600,000, respectively.

JIA Insurance

Lake and Peninsula Borough, along with 136 other Alaska municipalities and school districts, is a member of the Alaska Municipal League Joint Insurance Association, Inc. (AML/JIA), and participates in the following self-insured and loss-pooling programs, which are administered by the AML/JIA for those municipalities and school districts.

<u>Type of Coverage</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General/(Automobile) Liability	\$5,250,000 each occurrence	-
Employer's Liability	\$2,500,000 each occurrence	-
All Risk Property	Replacement Cost on Scheduled Values \$750,000,000 per occurrence	\$ 5,000
Comprehensive and Collision	Actual Cash Value on scheduled Vehicles	\$ 500
Non-Owned / Hired Autos	\$30,000 Property Damage	\$ 500
Earthquake/Flood	\$100,000,000 per occurrence \$250,000,000 in aggregate	\$100,000 or 2% whichever is greater
Workers' Compensation	Statutory Benefits	-

Claims on insurance have not exceeded coverage in any of the last three years.

**G. Contingent Liabilities**

Amounts received or receivable from granting agencies are subject to audit and adjustment by the grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the General Fund. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Borough expects such amounts, if any, to be immaterial.

## LAKE AND PENINSULA BOROUGH

### Notes to Financial Statements, Continued

The Borough, from time to time, may be a participant in legal proceedings related to the conduct of business. In the normal course of business, it also has various commitments and contingent liabilities, which are not reflected in the accompanying financial statements. In the opinion of management, the financial position of the Borough will not be materially affected by any current legal proceedings, commitments or contingent liabilities.

#### **H. Subsequent Accounting Pronouncements**

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

- GASB 67 – *Financial Reporting for Pension Plans – an Amendment of GASB Statements No. 10 and No. 62*. Effective for periods beginning after June 15, 2014.
- GASB 68 – *Accounting and Reporting for Pensions – an Amendment of GASB Statement No. 27*. Effective for periods beginning after June 15, 2014.
- GASB 69 – *Government Combinations and Disposals of Government Operations*. Effective for fiscal years beginning after December 15, 2014.
- GASB 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Effective for fiscal years beginning after June 15, 2014.
- GASB 71 – *Pension Transition for Contributions made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. Effective for periods beginning after June 15, 2014.
- GASB 72 – *Fair Value Measurement and Application*. Effective for periods beginning after June 15, 2015.

Statements 67 and 69-71 are not expected to have any significant impact on the financial statements of the Borough.

GASB Statement No. 68's objectives are to improve accounting and reporting for pensions. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement establishes methods and assumptions used to project benefit payments to their actuarial present value and attribute that present value to the periods of employee service. Note disclosures and required supplementary information are addressed in this Statement.

This Statement is effective for fiscal years beginning after June 15, 2014.

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

**ADDITIONAL SUPPLEMENTARY  
INFORMATION**

LAKE AND PENINSULA BOROUGH  
General Fund  
Schedule of Revenues, Expenditures and  
Changes in Fund Balance - Budget and Actual

Year Ended June 30, 2014

	Final Budgeted <u>Amounts</u>	Actual <u>Amounts</u>	Variance with Final Budget- Positive <u>(Negative)</u>
Revenues:			
Local sources:			
Taxes:			
Raw fish taxes	\$ 1,250,000	1,187,946	(62,054)
Bed tax	130,000	132,637	2,637
Penalties and interest on taxes	1,000	518	(482)
Total taxes	<u>1,381,000</u>	<u>1,321,101</u>	<u>(59,899)</u>
Permit fees:			
Professional guides	18,000	23,267	5,267
Development	1,500	1,500	-
Payment in lieu of development fees	310,000	155,000	(155,000)
Land use	15,350	600	(14,750)
Total permit fees	<u>344,850</u>	<u>180,367</u>	<u>(164,483)</u>
Charges for services -			
Rents	<u>350,000</u>	<u>332,401</u>	<u>(17,599)</u>
Investment earnings:			
Interest	90,000	75,394	(14,606)
Earnings on investment	-	247,663	247,663
Total investment earnings	<u>90,000</u>	<u>323,057</u>	<u>233,057</u>
Other	<u>5,000</u>	<u>56,739</u>	<u>51,739</u>
Total local sources	<u>2,170,850</u>	<u>2,213,665</u>	<u>42,815</u>
Intergovernmental:			
State of Alaska:			
Shared fisheries taxes	35,000	36,039	1,039
Fisheries business tax	275,000	382,147	107,147
State revenue sharing	725,000	611,489	(113,511)
PERS on-behalf payment and rebate	-	32,353	32,353
Other state revenue	-	3,043	3,043
Total State of Alaska	<u>1,035,000</u>	<u>1,065,071</u>	<u>30,071</u>
Federal sources:			
Payment in lieu of taxes	231,000	283,664	52,664
Refuge revenue sharing	-	10,312	10,312
Total federal sources	<u>231,000</u>	<u>293,976</u>	<u>62,976</u>
Total revenues	<u>3,436,850</u>	<u>3,572,712</u>	<u>135,862</u>
Expenditures:			
Assembly:			
Insurance - health and life	85,000	71,569	13,431
Fringe benefits	2,125	1,670	455
Communications	2,500	1,910	590
Food	8,500	7,170	1,330
Travel	51,000	55,679	(4,679)
Registration/tuition	500	310	190
Stipends	13,000	11,000	2,000
Per diem	17,000	16,210	790
Lodging	13,000	7,313	5,687
Dues and fees	500	99	401
Total assembly	<u>193,125</u>	<u>172,930</u>	<u>20,195</u>
Nonvoting representatives -			
Per diem	<u>1,600</u>	<u>-</u>	<u>1,600</u>

(continued)

## LAKE AND PENINSULA BOROUGH

## General Fund

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

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget- Positive (Negative)
Expenditures, continued:			
Planning commission:			
Fringe benefits	\$ 530	511	19
Food	3,200	3,044	156
Travel	30,000	33,901	(3,901)
Stipends	6,000	6,500	(500)
Per diem	9,500	10,900	(1,400)
Lodging	5,800	2,973	2,827
Total planning commission	<u>55,030</u>	<u>57,829</u>	<u>(2,799)</u>
Administration:			
Salaries	285,950	313,503	(27,553)
Insurance - health and life	40,100	37,937	2,163
Fringe benefits	128,871	141,770	(12,899)
Accounting services	35,000	17,052	17,948
Legal services	100,000	114,818	(14,818)
Advertising	1,000	60	940
Lobbyist	60,000	57,728	2,272
Other contracted services	133,250	118,853	14,397
Utilities	8,850	7,628	1,222
Communications	12,000	12,287	(287)
Other purchased services	2,000	4,050	(2,050)
Rentals	2,500	4,153	(1,653)
Office equipment	5,100	5,661	(561)
Site repair and maintenance	10,175	11,093	(918)
Insurance and bond premiums	17,000	16,992	8
Supplies	8,100	14,154	(6,054)
Computer hardware/software	5,000	13,003	(8,003)
Office rental	2,550	2,538	12
Freight	500	2,010	(1,510)
Postage	5,750	5,191	559
Gas and oil	1,500	2,128	(628)
Food	4,500	6,710	(2,210)
Books and subscriptions	450	262	188
Travel	28,000	56,656	(28,656)
Registration and tuition	5,000	2,810	2,190
Per diem	6,000	8,200	(2,200)
Lodging	19,000	19,829	(829)
Dues and fees	3,500	4,755	(1,255)
Donations	1,000	-	1,000
Bank fees and charges	2,800	3,588	(788)
Lawsuit settlement	-	155,000	(155,000)
Other	11,000	(174,853)	185,853
Total administration	<u>946,446</u>	<u>985,566</u>	<u>(39,120)</u>
Elections:			
Advertising	2,000	374	1,626
Supplies	5,000	6,737	(1,737)
Food	500	144	356
Postage	2,500	323	2,177
Other	500	679	(179)
Total elections	<u>10,500</u>	<u>8,257</u>	<u>2,243</u>

(continued)

## LAKE AND PENINSULA BOROUGH

## General Fund

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

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget- Positive (Negative)
Expenditures, continued:			
Economic development			
Improvements other than buildings	\$ 428,093	328,950	99,143
Community development:			
Salaries	76,734	76,734	-
Insurance - health and life	8,100	7,452	648
Fringe benefits	22,372	48,252	(25,880)
Advisory and consultant services	3,000	-	3,000
Advertising	500	65	435
Mapping	22,000	-	22,000
Books and periodicals	500	399	101
Travel	15,000	4,199	10,801
Registration and tuition	1,500	1,250	250
Per diem	5,000	1,204	3,796
Lodging	5,000	1,760	3,240
Other	500	774	(274)
Total community development	<u>160,206</u>	<u>142,089</u>	<u>18,117</u>
Resource management:			
Fisheries advisory committee:			
Professional services	54,000	54,000	-
Rentals	-	2,539	(2,539)
Transportation	5,000	7,208	(2,208)
Registration and tuition	500	3,500	(3,000)
Lodging	2,500	3,719	(1,219)
Other	600	-	600
Total resource management	<u>62,600</u>	<u>70,966</u>	<u>(8,366)</u>
Culture, education, and recreation:			
Vo-tech Program	54,000	54,000	-
Donations	35,000	30,000	5,000
Total culture, education, and recreation	<u>89,000</u>	<u>84,000</u>	<u>5,000</u>
Appropriations to communities:			
Shared fisheries business tax	35,000	36,038	(1,038)
Borough revenue sharing	171,227	171,227	-
State community revenue sharing	185,466	185,574	(108)
Total appropriations to communities	<u>391,693</u>	<u>392,839</u>	<u>(1,146)</u>
Total expenditures	<u>2,338,293</u>	<u>2,243,426</u>	<u>94,867</u>
Excess of revenues over expenditures	<u>1,098,557</u>	<u>1,329,286</u>	<u>230,729</u>

(continued)

LAKE AND PENINSULA BOROUGH

General Fund

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

	Final Budgeted <u>Amounts</u>	Actual <u>Amounts</u>	Variance with Final Budget- Positive <u>(Negative)</u>
Other financing sources (uses) -			
Transfers out:			
Debt Service Fund	\$ (125,000)	(62,189)	62,811
Special Revenue Funds:			
Chignik Lake Generation	-	(70)	(70)
Kokhanok Wind Generator	(8,500)	(8,500)	-
AEA Levelock Wind Study	-	(204)	(204)
Egegik Wind Study	-	(506)	(506)
Wood Boilers	(5,000)	(5,000)	-
Kokhanok Barge Landing	(254,098)	(262,751)	(8,653)
Igiugig Barge Landing	(100,000)	(139,418)	(39,418)
Borough Projects Capital Project Fund	(80,000)	(70,000)	10,000
Component Unit	(1,284,205)	(735,594)	548,611
Net other financing sources (uses)	<u>(1,856,803)</u>	<u>(1,284,232)</u>	<u>572,571</u>
Net change in fund balance	\$ <u>(758,246)</u>	45,054	<u>803,300</u>
Fund balance, beginning of year, as previously stated		<u>7,846,733</u>	
Prior period adjustment		(238,121)	
Fund balance, beginning of year, as restated		<u>7,608,612</u>	
Fund balance, end of year		<u>\$ 7,653,666</u>	

LAKE AND PENINSULA BOROUGH

School Endowment Special Revenue Fund

Statement of Revenues, Expenditures and Changes  
in Fund Balance

Year Ended June 30, 2014

Revenues - local sources - investment earnings	\$	249,011
Expenditures		<u>-</u>
Excess of revenues over expenditures		249,011
Fund balance, beginning of year		<u>6,270,473</u>
Fund balance, end of year	\$	<u><u>6,519,484</u></u>

LAKE AND PENINSULA BOROUGH  
Borough Permanent Reserve Special Revenue Fund  
Statement of Revenues, Expenditures and Changes  
in Fund Balance  
Year Ended June 30, 2014

Revenues:		
Local sources:		
Taxes	\$	296,986
Investment earnings		<u>251,263</u>
Total revenues		<u>548,249</u>
Expenditures		<u>-</u>
Excess of revenues over expenditures		548,249
Fund balance, beginning of year		<u>7,258,206</u>
Fund balance, end of year	\$	<u><u>7,806,455</u></u>

## LAKE AND PENINSULA BOROUGH

## Tanlian School Addition and Renovation Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in  
Fund Balance

Year Ended June 30, 2014

Revenues:		
Local sources:		
Investment earnings	\$	72,797
Expenditures		<u>-</u>
Excess of revenues over expenditures		<u>72,797</u>
Other financing sources (uses):		
Proceeds from sale of bonds		18,225,000
Premium on bonds		1,855,844
Transfer to Component Unit		<u>(1,390,307)</u>
Net other financing sources		<u>18,690,537</u>
Net change in fund balance		18,763,334
Fund balance, beginning of year		<u>-</u>
Fund balance, end of year	\$	<u><u>18,763,334</u></u>

LAKE AND PENINSULA BOROUGH

Other Governmental Funds

Combining Balance Sheet

June 30, 2014

	Special Revenue Funds						Totals	Borough Projects Capital Project Fund	Total Other Governmental Funds
	CAP - SSSE Program	CIAP Scrap Cleanup	Kokhanok Wind Generator	Resident Fish Sampling	Egegik Wind Feasibility	Linda Johnson Memorial Scholarship			
<u>Assets</u>									
Cash and cash equivalents	\$ -	-	17,372	26,388	-	-	43,760	103,868	147,628
Investments	-	-	-	-	-	268,386	268,386	177,752	446,138
Receivables	3,147	30,789	-	-	3,600	-	37,536	-	37,536
Due from General Fund	-	-	-	3,600	-	-	3,600	-	3,600
Total assets	\$ <u>3,147</u>	<u>30,789</u>	<u>17,372</u>	<u>29,988</u>	<u>3,600</u>	<u>268,386</u>	<u>353,282</u>	<u>281,620</u>	<u>634,902</u>
<u>Liabilities and Fund Balances</u>									
Due to General Fund	<u>3,147</u>	<u>30,789</u>	<u>-</u>	<u>-</u>	<u>3,600</u>	<u>24,154</u>	<u>61,690</u>	<u>-</u>	<u>61,690</u>
Fund balances:									
Restricted -									
Scholarships	-	-	-	-	-	244,232	244,232	-	244,232
Committed:									
Kokhanok Wind Generation	-	-	17,372	-	-	-	17,372	-	17,372
Resident Fish Sampling	-	-	-	29,988	-	-	29,988	-	29,988
Borough Capital Projects	-	-	-	-	-	-	-	281,620	281,620
Total fund balances	<u>-</u>	<u>-</u>	<u>17,372</u>	<u>29,988</u>	<u>-</u>	<u>244,232</u>	<u>291,592</u>	<u>281,620</u>	<u>573,212</u>
	\$ <u>3,147</u>	<u>30,789</u>	<u>17,372</u>	<u>29,988</u>	<u>3,600</u>	<u>268,386</u>	<u>353,282</u>	<u>281,620</u>	<u>634,902</u>

LAKE AND PENINSULA BOROUGH

Other Governmental Funds

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

Year Ended June 30, 2014

	Special Revenue Funds											Borough Projects Capital Project Fund	Total Other Governmental Funds	
	CAP - SSSE Program	CIAP Scrap Cleanup	Chignik Lake Generation	Kokhanok Wind Generator	AEA Levelock Wind Study	Resident Fish Sampling	Egegik Wind Feasibility	Wood Boilers	Kokhanok Barge Landing	Igiugig Barge Landing	Linda Johnson Memorial Scholarship			Totals
Revenues:														
Local sources:														
Contributions	\$ -	-	-	-	-	-	-	-	-	-	915	915	-	915
Investment earnings	-	-	-	-	-	-	-	-	-	-	10,619	10,619	-	10,619
Intergovernmental:														
State sources	-	-	-	-	2,042	-	13,551	-	-	-	-	15,593	-	15,593
Federal sources	3,147	30,789	-	-	-	-	-	63,336	105,765	-	-	203,037	-	203,037
Total revenues	3,147	30,789	-	-	2,042	-	13,551	-	63,336	105,765	11,534	230,164	-	230,164
Expenditures:														
Current:														
Appropriations to communities	-	-	-	-	-	-	-	5,000	-	-	-	5,000	-	5,000
Community development	3,147	30,789	70	8,500	2,246	-	14,057	-	326,087	245,183	-	630,079	70,000	700,079
Scholarships	-	-	-	-	-	-	-	-	-	-	11,767	11,767	-	11,767
Total expenditures	3,147	30,789	70	8,500	2,246	-	14,057	5,000	326,087	245,183	11,767	646,846	70,000	716,846
Excess (deficiency) of revenues over (under) expenditures	-	-	(70)	(8,500)	(204)	-	(506)	(5,000)	(262,751)	(139,418)	(233)	(416,682)	(70,000)	(486,682)
Other financing sources:														
Transfers in	-	-	70	8,500	204	-	506	5,000	262,751	139,418	-	416,449	70,000	486,449
Net change in fund balances	-	-	-	-	-	-	-	-	-	-	(233)	(233)	-	(233)
Fund balances, beginning of year	-	-	-	17,372	-	29,988	-	-	-	-	244,465	291,825	281,620	573,445
Fund balances, end of year	\$ -	-	-	17,372	-	29,988	-	-	-	-	244,232	291,592	281,620	573,212

LAKE AND PENINSULA BOROUGH

CAP-SSSE Program Special Revenue Fund

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

Year Ended June 30, 2014

	Final Budget <u>Amounts</u>	Actual <u>Amounts</u>	Variance with Final Budget- Positive <u>(Negative)</u>
Revenues - Intergovernmental - Federal sources passed through the State of Alaska	\$ <u>3,147</u>	<u>3,147</u>	<u>-</u>
Expenditures: Community development - Travel and training	<u>3,147</u>	<u>3,147</u>	<u>-</u>
Excess of revenues over expenditures	\$ <u><u>-</u></u>	<u>-</u>	<u><u>-</u></u>
Fund balance, beginning of year		<u>-</u>	
Fund balance, end of year		\$ <u><u>-</u></u>	

LAKE AND PENINSULA BOROUGH

CIAP Scrap Cleanup Special Revenue Fund

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

Year Ended June 30, 2014

	Final Budget <u>Amounts</u>	Actual <u>Amounts</u>	Variance with Final Budget- Positive <u>(Negative)</u>
Revenues - Intergovernmental - Federal sources	\$ <u>976,521</u>	<u>30,789</u>	<u>(945,732)</u>
Expenditures:			
Community development - Professional services	<u>976,521</u>	<u>30,789</u>	<u>945,732</u>
Excess of revenues over expenditures	\$ <u><u>-</u></u>	<u>-</u>	<u><u>-</u></u>
Fund balance, beginning of year		<u>-</u>	
Fund balance, end of year		\$ <u><u>-</u></u>	

LAKE AND PENINSULA BOROUGH

Chignik Lake Generation Special Revenue Funds

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

Year Ended June 30, 2014

	Final Budget <u>Amounts</u>	Actual <u>Amounts</u>	Variance with Final Budget- Positive <u>(Negative)</u>
Revenues - Intergovernmental - Federal sources	\$ <u>212,191</u>	<u>-</u>	<u>(212,191)</u>
Expenditures:			
Community development - Professional services	<u>212,191</u>	<u>70</u>	<u>212,121</u>
Excess (deficiency) of revenues over (under) expenditures	-	(70)	(70)
Other financing sources - Transfers in - General Fund	<u>-</u>	<u>70</u>	<u>70</u>
Net change in fund balance	\$ <u><u>-</u></u>	<u>-</u>	<u><u>-</u></u>
Fund balance, beginning of year		<u>-</u>	
Fund balance, end of year		\$ <u><u>-</u></u>	

## LAKE AND PENINSULA BOROUGH

## Kokhanok Wind Generator Special Revenue Fund

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

Year Ended June 30, 2014

	Final Budget Amounts	Prior Years	Actual Current Year	Total	Variance with Final Budget- Positive (Negative)
Revenues - Intergovernmental:					
State of Alaska	\$ 148,000	148,000	-	148,000	-
Federal sources	1,884,576	1,856,908	-	1,856,908	(27,668)
Total revenues	<u>2,032,576</u>	<u>2,004,908</u>	<u>-</u>	<u>2,004,908</u>	<u>(27,668)</u>
Expenditures:					
Community development:					
Salaries and fringe benefits	-	22,662	-	22,662	(22,662)
Professional services	2,032,576	2,012,037	8,500	2,020,537	12,039
Total expenses	<u>2,032,576</u>	<u>2,034,699</u>	<u>8,500</u>	<u>2,043,199</u>	<u>(10,623)</u>
Excess (deficiency) of revenues over (under) expenditures	-	(29,791)	(8,500)	(38,291)	(38,291)
Other financing sources -					
Transfers in - General Fund	-	47,163	8,500	55,663	55,663
Net change in fund balance	\$ <u>-</u>	<u>17,372</u>	-	<u>17,372</u>	<u>17,372</u>
Fund balance, beginning of year			<u>17,372</u>		
Fund balance, end of year		\$ <u>17,372</u>			

LAKE AND PENINSULA BOROUGH

AEA Levelock Wind Study Special Revenue Fund

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

Year Ended June 30, 2014

	Final Budget <u>Amounts</u>	Actual <u>Amounts</u>	Variance with Final Budget- Positive <u>(Negative)</u>
Revenues - Intergovernmental - State sources	\$ <u>10,000</u>	<u>2,042</u>	<u>(7,958)</u>
Expenditures:			
Community development - Professional services	<u>10,000</u>	<u>2,246</u>	<u>7,754</u>
Excess (deficiency) of revenues over (under) expenditures	-	(204)	(204)
Other financing sources:			
Transfers in - General Fund	<u>-</u>	<u>204</u>	<u>204</u>
Net change in fund balance	\$ <u><u>-</u></u>	<u>-</u>	<u><u>-</u></u>
Fund balance, beginning of year		<u>-</u>	
Fund balance, end of year		\$ <u><u>-</u></u>	

LAKE AND PENINSULA BOROUGH

Resident Fish Sampling Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in  
Fund Balance

Year Ended June 30, 2014

Revenues	\$	-
Expenditures		<u>-</u>
Excess of revenues over expenditures		-
Fund balance, beginning of year		<u>29,988</u>
Fund balance, end of year	\$	<u><u>29,988</u></u>

LAKE AND PENINSULA BOROUGH

Egegik Wind Feasibility Special Revenue Fund

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

Year Ended June 30, 2014

	Final Budget <u>Amounts</u>	Actual <u>Amounts</u>	Variance with Final Budget- Positive <u>(Negative)</u>
Revenues - Intergovernmental - State sources	\$ <u>60,000</u>	<u>13,551</u>	<u>(46,449)</u>
Expenditures:			
Community development - Professional services	<u>60,000</u>	<u>14,057</u>	<u>45,943</u>
Excess (deficiency) of revenues over (under) expenditures	-	(506)	(506)
Other financing sources:			
Transfers in - General Fund	<u>-</u>	<u>506</u>	<u>506</u>
Net change in fund balance	\$ <u><u>-</u></u>	<u>-</u>	<u><u>-</u></u>
Fund balance, beginning of year		<u>-</u>	
Fund balance, end of year		\$ <u><u>-</u></u>	

LAKE AND PENINSULA BOROUGH

Wood Boilers Special Revenue Fund

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

Year Ended June 30, 2014

	Final Budget Amounts	Actual		Total	Variance with Final Budget- Positive (Negative)
		Prior Years	Current Year		
Revenues - Intergovernmental - State of Alaska	\$ 250,000	238,650	-	238,650	(11,350)
Expenditures:					
Appropriations to communities	250,000	269,793	5,000	274,793	(24,793)
Excess (deficiency) of revenues over (under) expenditures	-	(31,143)	(5,000)	(36,143)	(36,143)
Other financing sources:					
Transfers in - General Fund	-	31,143	5,000	36,143	36,143
Net change in fund balance	\$ -	-	-	-	-
Fund balance, beginning of year			-		
Fund balance, end of year			\$ -		

LAKE AND PENINSULA BOROUGH

Kokhanok Barge Landing Special Revenue Fund

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

Year Ended June 30, 2014

	Final Budget Amounts	Actual		Total	Variance with Final Budget- Positive (Negative)
		Prior Years	Current Year		
Revenues - Intergovernmental - Federal sources	\$ 326,384	263,048	63,336	326,384	-
Expenditures:					
Community development - Professional services	407,971	263,048	326,087	589,135	(181,164)
Excess (deficiency) of revenues over (under) expenditures	(81,587)	-	(262,751)	(262,751)	(181,164)
Other financing sources - Transfer in - General Fund	81,587	-	262,751	262,751	181,164
Net change in fund balance	\$ -	-	-	-	-
Fund balance, beginning of year			-		
Fund balance, end of year			\$ -		

## LAKE AND PENINSULA BOROUGH

## Igiugig Barge Landing Special Revenue Fund

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

Year Ended June 30, 2014

	Final Budget <u>Amounts</u>	Actual <u>Amounts</u>	Variance with Final Budget- Positive <u>(Negative)</u>
Revenues - Intergovernmental - Federal sources	\$ <u>502,044</u>	<u>105,765</u>	<u>(396,279)</u>
Expenditures:			
Community development - Professional services	<u>502,044</u>	<u>245,183</u>	<u>256,861</u>
Excess (deficiency) of revenues over (under) expenditures	-	(139,418)	(139,418)
Other financing sources - Transfers In - General Fund	<u>-</u>	<u>139,418</u>	<u>139,418</u>
Net change in fund balance	\$ <u><u>-</u></u>	-	<u><u>-</u></u>
Fund balance, beginning of year		<u>-</u>	
Fund balance, end of year		\$ <u><u>-</u></u>	

## LAKE AND PENINSULA BOROUGH

## Linda Johnson Memorial Scholarship Special Revenue Fund

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

Year Ended June 30, 2014

	Final Budget Amounts	Actual Amounts	Variance with Final Budget- Positive (Negative)
Revenues - local sources:			
Contributions	\$ -	915	915
Investment earnings	-	10,619	10,619
Total revenues	<u>-</u>	<u>11,534</u>	<u>11,534</u>
Expenditures:			
Scholarships - grants to individuals	<u>-</u>	<u>11,767</u>	<u>(11,767)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	(233)	<u>(233)</u>
Fund balance, beginning of year		<u>244,465</u>	
Fund balance, end of year		<u>\$ 244,232</u>	

LAKE AND PENINSULA BOROUGH

Borough Projects Capital Projects Fund

Schedule of Revenues, Expenditures and Changes in  
Fund Balance

Year Ended June 30, 2014

Revenues	\$ -
Expenditures:	
Community development - grants to communities	<u>70,000</u>
Excess (deficiency) of revenues over (under) expenditures	(70,000)
Other financing sources -	
Transfers in - General Fund	<u>70,000</u>
Net change in fund balance	-
Fund balance, beginning of year	<u>281,620</u>
Fund balance, end of year	<u><u>\$ 281,620</u></u>

LAKE AND PENINSULA BOROUGH  
 Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2014

<u>Grant Title</u>	<u>Grant Number</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Total Grant Award</u>	<u>Federal Share of Expenditures</u>
U.S. Department of Housing and Urban Development - Passed through State of Alaska Department of Commerce Community and Economic Development - CAP-SSSE Program	AR #29820	97.023	\$ <u>3,147</u>	<u>3,147</u>
Denali Commission - Direct:				
Kokhanok Barge Landing	01403-00	90.100	326,384	63,336
Igiugig Barge Landing	01404-00	90.100	502,044	105,765
Iliamna Dock Rehab	01405-00	90.100	<u>608,000</u>	<u>535,416</u>
Total Denali Commission			<u>1,436,428</u>	<u>704,517</u>
U.S. Department of the Interior - Direct:				
Refuge Revenue Sharing Act	None	15.659	10,312	10,312
Village Scrap and Hazardous Waste Collection, Preparation and Haul Out Project	F14AF00060	15.668	976,521	30,789
Payment in Lieu of Taxes	None	15.226	<u>283,664</u>	<u>283,664</u>
Total U.S. Department of the Interior			<u>1,270,497</u>	<u>324,765</u>
Total federal financial assistance			<u>\$ 2,710,072</u>	<u>1,032,429</u>

Notes to Schedule

1. This schedule was prepared on the modified accrual basis of accounting
2. No funds were passed through to subrecipients

LAKE AND PENINSULA BOROUGH  
 Schedule of State Financial Assistance  
 Year Ended June 30, 2014

<u>Grant Title</u>	<u>Grant Number</u>	<u>Total Grant Award</u>	<u>Eligible Expenditures</u>
Alaska Department of Commerce, Community and Economic Development - * Revenue Sharing	None	\$ <u>866,307</u>	<u>611,489</u>
Alaska Department of Administration - House Bill 108 PERS Supplement on-behalf payment	None	<u>32,453</u>	<u>32,353</u>
Alaska Department of Education and Early Development - * Debt service	None	<u>901,073</u>	<u>901,073</u>
Alaska Energy Authority: AEA Levelock Wind Study	7060911	10,000	2,042
Egegik Wind Feasibility Study	7060912	<u>60,000</u>	<u>13,551</u>
Total		<u>70,000</u>	<u>15,593</u>
Alaska Department of Revenue: Shared fisheries tax	None	36,039	36,039
* Fisheries business tax	None	382,147	382,147
Telephone/Electric Tax	None	<u>3,043</u>	<u>3,043</u>
Total		<u>421,229</u>	<u>421,229</u>
Total state financial assistance		<u>\$ 2,291,062</u>	<u>1,981,737</u>

Notes to Schedule

1. This schedule was prepared on the modified accrual basis of accounting.
2. \* Denotes a major program for compliance auditing purposes.

(This page was left blank intentionally)

# **COMPLIANCE SECTION**

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

**Independent Auditor's Report**

Members of the Borough Assembly  
Lake and Peninsula Borough  
King Salmon, Alaska

We have audited 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, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lake and Peninsula Borough as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Lake and Peninsula Borough's basic financial statements, and have issued our report thereon dated April 14, 2015.

**Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Federal Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Federal Schedule of Findings and Questioned Costs as Finding 2014-001 to be a material weakness.

Members of the Borough Assembly  
Lake and Peninsula Borough

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Lake and Peninsula Borough's financial statements are free of 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.

### **Lake and Peninsula Borough's Response to Findings**

Lake and Peninsula Borough's response to the finding identified in our audit is described in the accompanying Federal Schedule of Findings and Questioned Costs and Corrective Action Plan. We did not audit Lake and Peninsula Borough's response 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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Anchorage, Alaska  
April 14, 2015

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

**Independent Auditor's Report**

Members of the Borough Assembly  
Lake and Peninsula Borough  
King Salmon, Alaska

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

We have audited Lake and Peninsula Borough'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 Lake and Peninsula Borough's major federal programs for the year ended June 30, 2014. Lake and Peninsula Borough's major federal programs are identified in the summary of auditor's results section of the accompanying Federal Schedule of Findings and Questioned Costs.

Lake and Peninsula Borough's basic financial statements include the operations of its component unit, Lake and Peninsula School District, which expended \$3,112,745 in federal awards which are not included in the Schedule of Expenditures of Federal Awards for the year ended June 30, 2014. Our audit, described below did not include the operations of Lake and Peninsula School District because it was subjected to a separate audit performed in accordance with *OMB Circular A-133*.

**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 Lake and Peninsula Borough'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 Lake and Peninsula Borough'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 Lake and Peninsula Borough's compliance.

Members of the Board  
Lake and Peninsula Borough

### **Basis for Qualified Opinion on Denali Commission and Payment in Lieu of Taxes Programs**

As described in the accompanying Federal Schedule of Findings and Questioned Costs, Lake and Peninsula Borough did not comply with reporting requirements related to the Denali Commission (CFDA #90.100) and Payment in Lieu of Taxes (CFDA #15.226) programs as described in Finding 2014-002. Compliance with these requirements is necessary, in our opinion, for Lake and Peninsula Borough to comply with the requirements applicable to those programs.

### **Qualified Opinion on the Denali Commission and Payment in Lieu of Taxes Programs**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Lake and Peninsula Borough complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Denali Commission and Payment in Lieu of Taxes Programs for the year ended June 30, 2014.

### **Other Matters**

Lake and Peninsula Borough's response to the noncompliance finding identified in our audit is described in the accompanying Federal Schedule of Findings and Questioned Costs and Corrective Action Plan. Lake and Peninsula Borough'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 Lake and Peninsula Borough 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 Lake and Peninsula Borough'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 Lake and Peninsula Borough's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

Members of the Board  
Lake and Peninsula Borough

*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. We consider the deficiency in internal control over compliance described in the accompanying Federal Schedule of Findings and Questioned Costs as Finding 2014-002 to be a material weakness.

*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.

Lake and Peninsula Borough's response to the internal control over compliance finding identified in our audit is described in the accompanying Federal Schedule of Findings and Questioned Costs and Corrective Action Plan. Lake and Peninsula Borough'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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Anchorage, Alaska  
April 14, 2015

LAKE AND PENINSULA BOROUGH  
 Federal Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2014

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

Financial Statements

Type of auditor’s report issued: Unmodified

Is a going concern emphasis-of-matter paragraph included in the audit report  Yes  No

Internal control over financial reporting:  
 Significant deficiency(ies) identified?  Yes  No  
 Material weakness(es) identified?  Yes  No

Noncompliance material to financial statements noted?  Yes  No

Federal Awards

Internal Control over major programs:  
 Significant deficiency(ies) identified (Section .510 (a)(1))?  Yes  No  
 Material weakness(es) identified (Section .510 (a)(1))?  Yes  No

Any material noncompliance with provisions of laws, regulations, contracts, or grant agreements related to a major program (Section .510 (a)(2))?  Yes  No

Type of auditor’s report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a) (3) or (4)?  Yes  No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
90.100	Denali Commission
15.226	Payment in Lieu of Taxes

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

Auditee qualified as low-risk auditee?  Yes  No

LAKE AND PENINSULA BOROUGH

Federal Schedule of Findings and Questioned Costs, Continued

**Section II – Financial Statement Findings**

**Finding 2014-001**

**Internal Control over Grants Receivable**

**Material Weakness**

**Condition:** During FY2013 the Borough incorrectly accrued a grant receivable in the amount of \$238,121 that they were subsequently unable to collect from the State of Alaska.

**Criteria:** Internal control procedures should be in place to ensure that all grant activity is correctly recorded in the general ledger and reported to granting agencies in the proper amount of time.

**Context:** In FY2013, due to turnover in the finance department, numerous grant reports were submitted late to the appropriate granting agencies. The Borough assumed late reporting would not cause the costs to be unallowed by the granting agency. However, since the grant was closed prior to the granting agency receiving the final reports, the costs were not reimbursed and the Borough had to post a prior period adjustment in the amount of \$238,121 to write-off the grants receivable that had been accrued in FY2013.

**Cause:** Lack of internal control over grant reporting

**Effect:** A prior period adjustment had to be posted for \$238,121 that reduced beginning fund balance in the General Fund.

**Recommendation:** In the future the Borough needs to ensure that grant reporting is done timely and that all year end receivables are collectible.

**Management Response:** Management agrees with the finding and recommendation. See corrective action plan.

LAKE AND PENINSULA BOROUGH

Federal Schedule of Findings and Questioned Costs, Continued

**Section III – Federal Award Findings and Questioned Costs**

**Finding 2014-002**

**Internal Control over Reporting / Reporting Noncompliance**

**Material Weakness /  
Material Noncompliance**

**Denali Commission, CFDA #90.100, Grant #'s 01403-00, 01404-00  
and 01405-00. Payment in Lieu of Taxes, CFDA #15.226**

**Condition:**

The Borough did not adhere to the OMB Circular A-133 requirement of submitting the reporting package on a timely basis.

**Criteria:**

OMB Circular A-133 requires that reporting packages be submitted no later than nine months after the fiscal year end.

**Context:**

Due to delays during the audit process, the Borough was not able to complete the audit in a timely matter.

**Cause:**

Delays during the audit process caused the late completion of the audit.

**Effect:**

The Borough was not in compliance with OMB Circular A-133 requirements related to reporting.

**Questioned Costs:**

None.

**Recommendation:**

In the future the Borough needs to ensure audit delays are avoided to the extent possible in an effort to have the audit completed in a timely manner.

**Management Response:**

Management agrees with the finding and recommendation. See corrective action plan.

LAKE AND PENINSULA BOROUGH

Federal Schedule of Findings and Questioned Costs, Continued

**Section IV – Summary of Prior Audit Findings**

**Financial Statement Findings**

**Finding 2013-001**

**Internal Control over Year End Closing**

**Material Weakness**

**Condition:**

During the course of the audit, adjustments to the ending balances of multiple balance sheet accounts were required in order to correct misstatements in those account balances. Lake and Peninsula Borough did not maintain effective internal control over the determination and reporting of accounts receivable, accounts payable and grant reconciliations. This was the result of accounts not being reconciled by financial personnel to supporting documentation on a regular basis. Additionally, records are primarily maintained on the cash basis throughout the year and need to be adjusted to reflect the accrual basis at year end.

**Status:**

This finding has been resolved.

**Federal Award Findings**

There were no prior year audit findings related to federal awards.

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

**Independent Auditor's Report**

Members of the Borough Assembly  
Lake and Peninsula Borough  
King Salmon, Alaska

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

We have audited Lake and Peninsula Borough'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 Lake and Peninsula Borough's major state programs for the year ended June 30, 2014. Lake and Peninsula Borough's major state programs are identified in the accompanying Schedule of State Financial Assistance.

Lake and Peninsula Borough's basic financial statements include the operations of its component unit, Lake and Peninsula School District, which expended \$10,678,450 in state awards which are not included in the Schedule of State Financial Assistance for the year ended June 30, 2014. Our audit, described below did not include the operations of Lake and Peninsula School District because it was subjected to a separate audit performed in accordance with *State of Alaska Single Audit Guide and Compliance Supplement for State Single Audits*.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Lake and Peninsula Borough'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 Lake and Peninsula Borough's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

Members of the Borough Assembly  
Lake and Peninsula Borough

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 Lake and Peninsula Borough's compliance.

**Basis for Qualified Opinion on Revenue Sharing, Debt Service, and Fisheries Business Tax Programs**

As described in the accompanying State Schedule of Findings and Questioned Costs, Lake and Peninsula Borough did not comply with requirements regarding reporting as described in Finding 2014-003. Compliance with such requirements is necessary, in our opinion, for Lake and Peninsula Borough to comply with the requirements applicable to those programs.

**Qualified Opinion on Revenue Sharing, Debt Service, and Fisheries Business Tax Programs**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Lake and Peninsula Borough complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Revenue Sharing, Debt Service, and Fisheries Business Tax Programs for the year ended June 30, 2014.

**Other Matters**

Lake and Peninsula Borough's response to the noncompliance finding identified in our audit is described in the accompanying State Schedule of Findings and Questioned Costs and Corrective Action Plan. Lake and Peninsula Borough'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 Lake and Peninsula Borough 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 Lake and Peninsula Borough's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Lake and Peninsula Borough's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

Members of the Borough Assembly  
Lake and Peninsula Borough

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. We consider the deficiency in internal control over compliance described in the accompanying State Schedule of Findings and Questioned Costs as Finding 2014-003 to be a material weakness.

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.

Lake and Peninsula Borough's response to the internal control over compliance finding identified in our audit is described in the accompanying State Schedule of Findings and Questioned Costs and Corrective Action Plan. Lake and Peninsula Borough's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



Anchorage, Alaska  
April 14, 2015

LAKE AND PENINSULA BOROUGH  
 State Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2014

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

Financial Statements

Type of auditor’s report issued: Unmodified

Is a going concern emphasis-of-matter paragraph included in the audit report?        Yes   X   No

Internal control over financial reporting:  
 Significant deficiency(ies) identified?        Yes   X   No  
 Material weakness(es) identified?   X   Yes        No

Noncompliance material to financial statements noted?        Yes   X   No

State Awards

Internal Control over major programs:  
 Significant deficiency(ies) identified?        Yes   X   No  
 Material weakness(es) identified?   X   Yes        No

Type of auditor’s report issued on compliance for major programs: Qualified

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

**Section II – Financial Statement Findings**

See Federal Schedule of Findings and Questioned Costs.

LAKE AND PENINSULA BOROUGH

State Schedule of Findings and Questioned Costs, Continued

***Section III – State Award Findings and Questioned Costs***

<b><u>Finding 2014-003</u></b>	<b><u>Internal Control over Reporting / Reporting Noncompliance</u></b>
<b>Material Weakness / Material Noncompliance</b>	<b>Department of Commerce, Community and Economic Development - Revenue Sharing; Alaska Department of Education and Early Development - Debt Service; Alaska Department of Revenue – Fisheries Business Tax</b>
<b>Condition:</b>	The Borough did not adhere to 2 AAC 45.010(b) requirements that the financial statements must be submitted within nine months of year end.
<b>Criteria:</b>	2 AC 45.010(b) requires that the financial statements be submitted within nine months after the fiscal year end.
<b>Context:</b>	Due to delays during the audit process, the Borough was not able to complete the audit in a timely matter.
<b>Cause:</b>	Delays during the audit process caused the late completion of the audit.
<b>Effect:</b>	The Borough was not in compliance with 2 AAC 45.010(b).
<b>Questioned Costs:</b>	None.
<b>Recommendation:</b>	In the future the Borough needs to ensure audit delays are avoided to the extent possible in an effort to have the audit completed in a timely manner.
<b>Management Response:</b>	Management agrees with the finding and recommendation. See corrective action plan.

***Section IV – Summary of Prior Audit Findings***

**State Award Findings**

<b><u>Finding 2013-002</u></b>	<b><u>Lake and Peninsula Wood Boilers (Grant #7040010, Alaska Energy Authority) - Reporting</u></b>
<b>Significant Deficiency/ Noncompliance</b>	
<b>Condition:</b>	The Borough did not conform to the grant reporting requirements.
<b>Status:</b>	This finding has been resolved

LAKE AND PENINSULA BOROUGH

Corrective Action Plan

Year Ended June 30, 2014

**Financial Statement Findings**

**Finding 2014-001**

**Internal Control over Grants Receivable**

**Name of Contact:** Susan Edwards, Finance Officer

**Corrective Action:** Changes in borough personnel will allow added time for analysis and reconciliation to be done on a monthly basis making for timelier year-end closing and audit preparation.

**Proposed Completion Date:** June 30, 2015

**Finding 2014-002**

**Internal Control over Reporting / Reporting Noncompliance**

**Name of Contact:** Susan Edwards, Finance Officer

**Corrective Action:** Grant has been audited and closed with AEA.

**Proposed Completion Date:** June 30, 2015

**Finding 2014-003**

**Internal Control over Reporting / Reporting Noncompliance**

**Name of Contact:** Susan Edwards, Finance Officer

**Corrective Action:** Grant reporting has be put on a calendar with reporting reminders, this coupled with monthly closing routine will help insure grant reporting compliance.

**Proposed Completion Date:** June 30, 2015