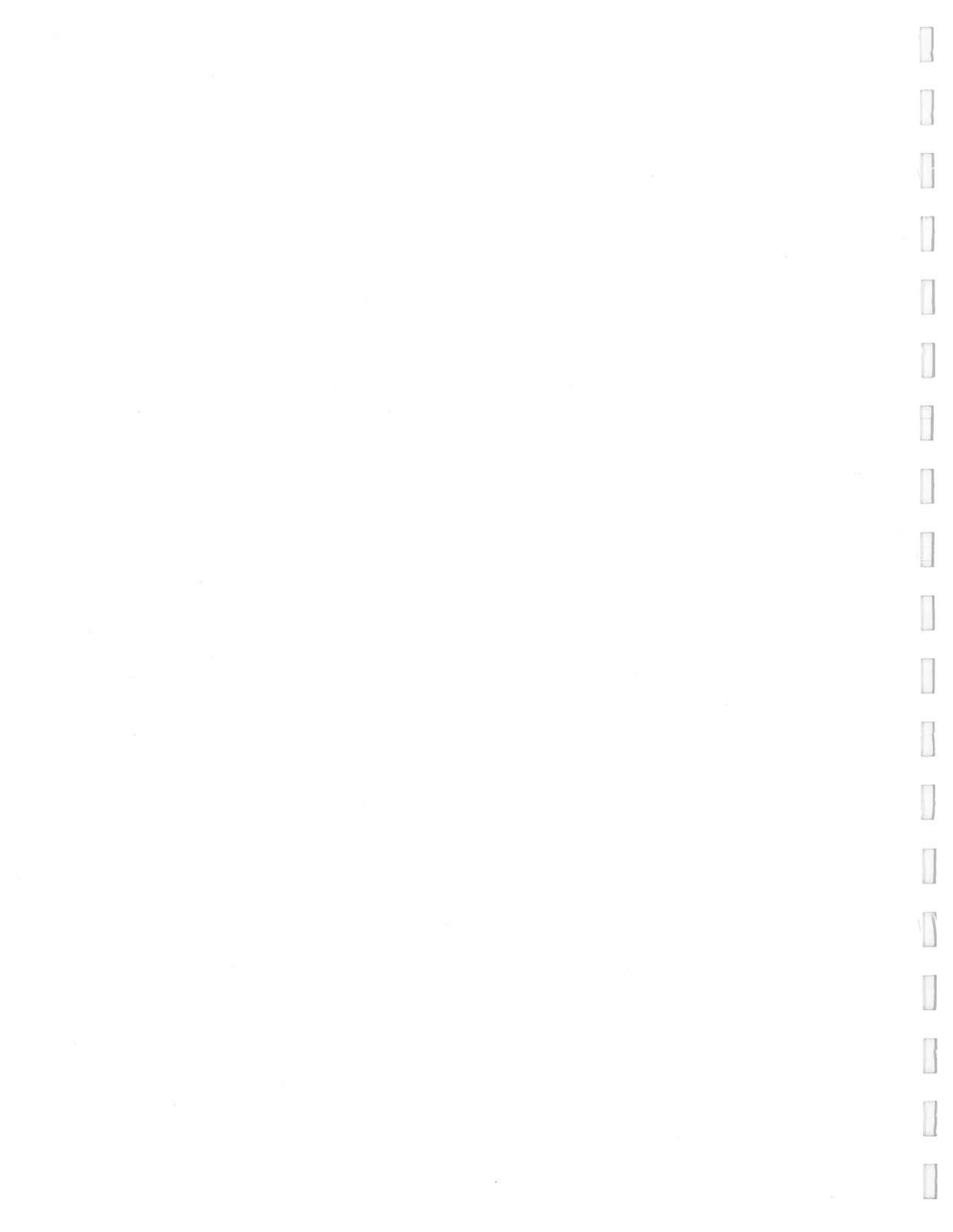


CITY OF TANANA, ALASKA

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

Year Ended June 30, 2015



CITY OF TANANA, ALASKA

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CITY OF TANANA, ALASKA

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Independent Auditor's Report

Honorable Mayor and City Council
City of Tanana
Tanana, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of City of Tanana, Alaska, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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 business-type activities, the discretely presented component unit, and each major fund of the City of Tanana, Alaska, as of June 30, 2015, and the respective changes in financial position and the respective budgetary comparison for the General Fund, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note IV.B. to the financial statements, in 2015 the City adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and *GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-9 and Schedules of City's Share of the Net Pension Liability and Contributions on pages 42-43, 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 the City of Tanana, Alaska'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 – General Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Honorable Mayor and City Council
City of Tanana, Alaska

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2016, on our consideration of the City of Tanana, Alaska's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Tanana, Alaska's internal control over financial reporting and compliance.

Altman, Rogers & Co.

Anchorage, Alaska
February 1, 2016

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**MANAGEMENT DISCUSSION
AND ANALYSIS**



City of Tanana, Alaska
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2015

This section of City of Tanana, Alaska's annual financial report presents its discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2015 with comparative information provided in some instances for the year ended June 30, 2014. Please read it in conjunction with the City's financial statements, which immediately follow this section.

Financial Highlights

Key financial highlights for 2015 and 2014 are as follows:

- The assets of the City of Tanana, Alaska, exceeded its liabilities at the end of the fiscal year by \$12,936,091 (net position), compared to \$12,947,246 at the end of fiscal year 2014.
- In total, net position increased \$213,430 in 2015, compared to a total decrease in net position of \$204,239 in 2014. Net position related to governmental activities increased by \$124,749, whereas, business activities increased by \$88,681 in 2015. In 2014, net position related to governmental activities decreased by \$260,510 and business activities increased by \$56,271.
- For 2015, governmental activities, total general revenues and transfers accounted for \$246,908 or 21% of total governmental activities revenues. Program specific revenues in the form of grants and charges for service accounted for \$937,757 or 79% of total governmental activities revenues of \$1,184,665. These resources were sufficient to offset total governmental activities expenses of \$1,059,916.
- For 2014, governmental activities, total general revenues and transfers accounted for \$194,524 or 16% of total governmental activities revenues. Program specific revenues in the form of grants and charges for service accounted for \$974,764 or 84% of total governmental activities revenues of \$1,169,379. These resources were enough to offset total governmental activities expenses of \$1,429,798.
- For business type activities in 2015, the City had \$201,007 in expenses. All of these expenses were offset by program specific charges for services. In 2014, the City had \$214,952 in expenses. All of these expenses were offset by program specific charges for services.
- As of the close of the current fiscal year, City of Tanana, Alaska's governmental funds reported ending fund balance of \$441,031. At the close of fiscal year 2014, the City's governmental funds reported ending fund balance of \$922,224.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Tanana, Alaska's basic financial statements. The City of Tanana, Alaska'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 City's activities.

- *Government-wide financial statements* provide both short-term and long-term information about the City's overall financial status.
- *Fund financial statements* focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements. All of the funds of the City are either governmental funds or proprietary funds.

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 and proprietary fund statements, which include individual fund detail for the Business-type Activities.

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 two sections (1) required supplementary information related to pension disclosure and (2) additional supplementary information on individual fund activity.

Government-wide Statements

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

The two government-wide statements report the City's *net position* and how they have changed. Net position—the difference between the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources—are one way to measure the City's financial position.

- Over time, increases or decreases in the City'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 City's *governmental activities and business-type activities*, which account for all of the City's basic services such as planning, community development, administration, construction, and public safety.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's funds, focusing on its most significant or "major" funds – not the City as a whole. Funds are accounting devices the City 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 City 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 City has two types of funds:

- ***Governmental Funds:*** The City'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 funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City'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*.

The City of Tanana, Alaska, maintains 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 General Fund, Alaska Housing Finance Corp THP-15-COT-1 Capital Project Fund and Maudry J. Sommers K-12 School Major Maintenance Capital Project Fund, 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* elsewhere in this report.

Proprietary Funds: When the City charges customers for the services it provides, these services are generally reported in the proprietary funds. Proprietary funds are reported in the same manner in the Statement of Net Position and the Statement of Activities. The City's *Enterprise Fund* (one type of proprietary fund) is the same as the business-type activities reported in the government-wide statements but provide more detail.

Additional detailed information related to the major funds and combining statements for nonmajor governmental funds referred to earlier are presented immediately following the required supplementary information on pensions. 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 City of Tanana, Alaska, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$12,936,091 at the close of the most recent fiscal year.

A majority of the net position for the City of Tanana, Alaska (96%) is the amount invested in capital assets net of accumulated depreciation and related debt (net investment in capital assets).

Financial Analysis of the City as a Whole

The following table provides a summary of the City's net position for 2015:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Assets and deferred outflows of resources						
Current assets	\$ 670,552	1,056,854	174,032	82,463	844,584	1,139,317
Non-current assets	12,403,337	11,851,687	87,984	90,872	12,491,321	11,942,559
Deferred outflows of resources	7,708	-	-	-	7,708	-
Total assets and deferred outflows of resources	<u>13,081,597</u>	<u>12,908,541</u>	<u>262,016</u>	<u>173,335</u>	<u>13,343,613</u>	<u>13,081,876</u>
Liabilities and deferred inflows of resources						
Current liabilities	194,915	134,630	-	-	194,915	134,630
Non-current liabilities	154,160	-	-	-	154,160	-
Deferred inflows of resources	23,841	-	-	-	23,841	-
Total liabilities and deferred inflows of resources	<u>372,916</u>	<u>134,630</u>	<u>-</u>	<u>-</u>	<u>349,075</u>	<u>134,630</u>
Net Position						
Net investment in capital assets	12,373,529	11,821,879	87,984	90,872	12,461,513	11,912,751
Unrestricted	335,152	952,032	174,032	82,463	509,184	1,034,495
Total net position	<u>\$ 12,708,681</u>	<u>12,773,911</u>	<u>262,016</u>	<u>173,335</u>	<u>12,970,697</u>	<u>12,947,246</u>

Governmental activities current assets decreased due to a decrease in cash and accounts receivable. Non-current assets decreased mainly due to sale of equipment and current year depreciation, partially offset by an increase in work in progress. Current liabilities decreased due to decreases in accrued liabilities and unearned revenue, partially offset by an increase in accounts payable.

Statement of Activities

The following table shows the change in net position for the current and prior year.

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 241,356	179,232	289,688	271,223	531,044	450,455
Operating grants and contributions	477,596	525,233	-	-	477,596	525,233
Capital grants and contributions	253,411	270,299	-	-	253,411	270,299
Total program revenues	<u>972,363</u>	<u>974,764</u>	<u>289,688</u>	<u>271,223</u>	<u>1,262,051</u>	<u>1,245,987</u>
General revenues:						
Taxes	23,635	27,513	-	-	23,635	27,513
Revenues not restricted to specific programs	166,851	161,094	-	-	166,851	161,094
Unrestricted investment and interest earnings	56	3,108	-	-	56	3,108
Net gain on sale of assets	-	-	-	-	-	-
Miscellaneous	56,366	2,809	-	-	56,366	2,809
Total general revenues	<u>246,908</u>	<u>194,524</u>	<u>-</u>	<u>-</u>	<u>246,908</u>	<u>194,524</u>
Total revenues	<u>1,219,271</u>	<u>1,169,288</u>	<u>289,688</u>	<u>271,223</u>	<u>1,508,959</u>	<u>1,440,511</u>
Expenses:						
Administration	304,787	389,593	-	-	304,787	389,593
Public safety	72,085	52,325	-	-	72,085	52,325
Public housing	54,405	49,065	-	-	54,405	49,065
Road maintenance	363,359	673,275	-	-	363,359	673,275
Equipment rentals	201,199	139,881	-	-	201,199	139,881
Public works	49,417	113,848	-	-	49,417	113,848
Airport maintenance	14,664	11,811	-	-	14,664	11,811
Liquor store	-	-	201,007	214,952	201,007	214,952
Total expenses	<u>1,059,916</u>	<u>1,429,798</u>	<u>201,007</u>	<u>214,952</u>	<u>1,260,923</u>	<u>1,644,750</u>
Change in net position	<u>159,355</u>	<u>(260,510)</u>	<u>88,681</u>	<u>56,271</u>	<u>248,036</u>	<u>(204,239)</u>
Net position, beginning of year	12,773,911	13,034,421	173,335	117,064	12,947,246	13,151,485
Cumulative effect of a change in accounting principle	(224,585)	-	-	-	(224,585)	-
Net position, beginning of year, as restated	<u>12,549,326</u>	<u>13,034,421</u>	<u>173,335</u>	<u>117,064</u>	<u>12,722,661</u>	<u>13,151,485</u>
Net position, end of year	<u>\$ 12,708,681</u>	<u>12,773,911</u>	<u>262,016</u>	<u>173,335</u>	<u>12,970,697</u>	<u>12,947,246</u>

Capital grants and contributions remained about the same from 2014 and the City spent less money on road maintenance project in 2015 than in 2014. Expenses decreased from 2014 primarily due to decreases in expenses related to the road maintenance, administration and public works function expenses.

Financial Analysis of the City's Funds

Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds have total revenues of \$1,190,463 and expenditures of \$1,683,959 and net other financing sources of \$12,303. The net change in fund balance was a decrease of \$481,193.

City General Fund Budgetary Highlights

The City'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 expenditures in the General Fund were \$497,557 more than budgeted. This variance was related primarily to salaries and benefit costs being more than what was budgeted.

Capital Assets

By the end of 2015, the City had invested \$12,461,513 in capital assets. The following table displays the capital assets (net of depreciation) for the current and prior year:

	Capital Assets at June 30, Net of Depreciation					
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 128,325	120,325	19,315	19,315	147,640	139,640
Construction in progress	240,562	7,657,364	-	-	240,562	7,657,364
Building and infrastructure	11,319,597	3,297,188	68,669	71,557	11,388,266	3,368,745
Vehicles and equipment	685,045	747,002	-	-	685,045	747,002
Total	\$ 12,373,529	11,821,879	87,984	90,872	12,461,513	11,912,751

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

Economic Factors and Next Year's Budget

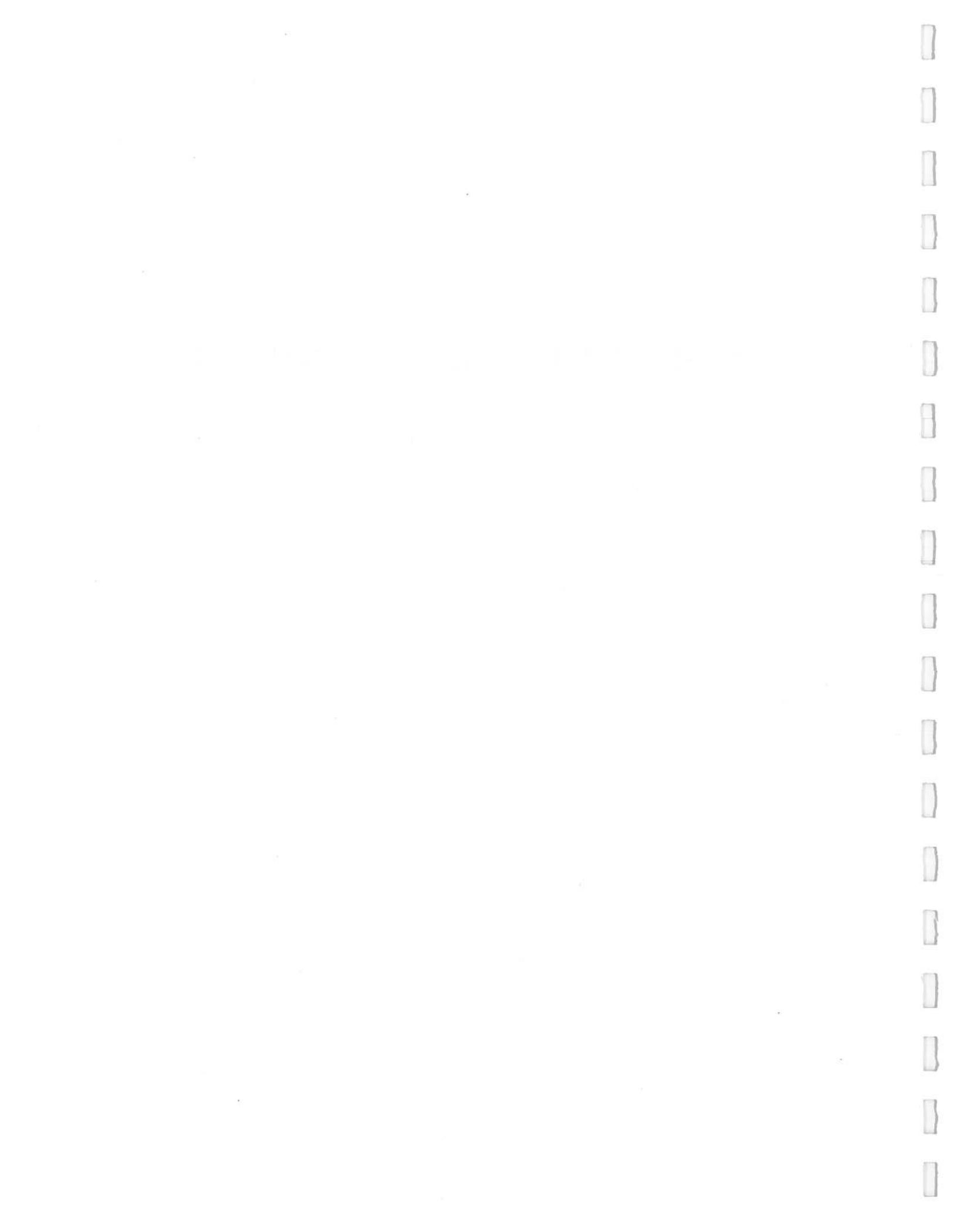
In setting the budget for FY15, the City considered a number of issues with government wide impact, among them:

- State revenue sharing and PILT income is expected to continue to be a major source of revenue for the City.
- The City expects to spend the insurance proceeds related to the school on major maintenance projects for the school.

Contacting the City's Financial Management

This financial report is designed to provide the City's citizens, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Finance office, City of Tanana, Alaska.

BASIC FINANCIAL STATEMENTS



CITY OF TANANA, ALASKA

Statement of Net Position

June 30, 2015

Assets	Primary Government		Total	Component
	Governmental Activities	Business-type Activities		Unit School District
Current assets:				
Cash and cash equivalents	\$ 322,148	-	322,148	512,994
Accounts receivable, net	430,681	-	430,681	112,195
Inventory	-	84,561	84,561	28,618
Internal balances	(89,471)	89,471	-	-
Prepaid items	7,194	-	7,194	-
Total current assets	<u>670,552</u>	<u>174,032</u>	<u>844,584</u>	<u>653,807</u>
Non-current assets:				
Capital assets	14,184,778	105,956	14,290,734	280,415
Accumulated depreciation	(1,811,249)	(17,972)	(1,829,221)	(170,543)
Capital assets, net	<u>12,373,529</u>	<u>87,984</u>	<u>12,461,513</u>	<u>109,872</u>
Investment in LLC	29,808	-	29,808	-
Total non-current assets	<u>12,403,337</u>	<u>87,984</u>	<u>12,491,321</u>	<u>109,872</u>
Deferred outflows of resources:				
Pension deferrals	7,708	-	7,708	27,680
Total assets and deferred outflows of resources	<u>\$ 13,081,597</u>	<u>262,016</u>	<u>13,343,613</u>	<u>791,359</u>
Liabilities and Net Position				
Current liabilities:				
Accounts payable	\$ 170,939	-	170,939	109,618
Accrued liabilities	23,976	-	23,976	25,343
Due to student groups	-	-	-	26,343
Unearned revenue	-	-	-	940
Total current liabilities	<u>194,915</u>	<u>-</u>	<u>194,915</u>	<u>162,244</u>
Long-term liabilities:				
Net pension liability	154,160	-	154,160	276,669
Deferred inflows of resources:				
Pension deferrals	23,841	-	23,841	25,013
Total liabilities and deferred inflows of resources	<u>372,916</u>	<u>-</u>	<u>372,916</u>	<u>463,926</u>
Net position:				
Net investment in capital assets	12,373,529	87,984	12,461,513	109,872
Unrestricted	335,152	174,032	509,184	217,561
Total net position	<u>\$ 12,708,681</u>	<u>262,016</u>	<u>12,970,697</u>	<u>327,433</u>

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

CITY OF TANANA, ALASKA

Statement of Activities

Year Ended June 30, 2015

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit School District
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	
Primary Government activities:							
Governmental activities:							
Administration	\$ 304,787	-	10,103	-	(294,684)	-	(294,684)
Public safety	72,085	-	-	25,341	(46,744)	-	(46,744)
Public housing	54,405	99,798	-	43,080	88,473	-	88,473
Road maintenance	363,359	141,558	422,493	114,035	314,727	-	314,727
Equipment rentals	201,199	-	-	63,353	(137,846)	-	(137,846)
Public works	49,417	-	-	7,602	(41,815)	-	(41,815)
Airport maintenance	14,664	-	45,000	-	30,336	-	30,336
Total governmental activities	1,059,916	241,356	477,596	253,411	(87,553)	-	(87,553)
Business-type activities:							
Liquor Store	201,007	289,688	-	-	-	88,681	88,681
Total primary government activities	1,260,923	531,044	477,596	253,411	(87,553)	88,681	1,128
Component Unit:							
School District	\$ 1,786,054	-	434,790	-	-	-	(1,351,264)
General revenues:							
City appropriations							35,382
E-rate revenue							168,018
Grants and revenues not restricted to specific programs					166,851		983,695
Unrestricted investment and interest earnings					56		404
Sales taxes					23,635		23,635
Miscellaneous					56,366		56,366
Total general revenues					246,908		246,908
Change in net position					159,355	88,681	248,036
Net position, beginning, as previously stated					12,773,911	173,335	12,947,246
Cumulative effect of a change in accounting principle					(224,585)	-	(224,585)
Net position, beginning of year, restated					12,549,326	173,335	12,722,661
Net position, end of year					\$ 12,708,681	262,016	12,970,697

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

CITY OF TANANA, ALASKA

Balance Sheet - Governmental Funds

June 30, 2015

	General Fund	Capital Project Funds			Total Governmental Funds
		AK Housing Finance Corp THP-15-COT-1	Maudry J Sommers K-12 School Major Maintenance		
<u>Assets</u>					
Cash and cash equivalents	\$ 89,291	-	232,857		322,148
Accounts receivable, net	190,029	240,652	-		430,681
Prepaid items	7,194	-	-		7,194
Due from other funds	240,652	-	-		240,652
Total assets	\$ 527,166	240,652	232,857		1,000,675
<u>Liabilities, Deferred Inflows and Fund Balances</u>					
<u>Liabilities:</u>					
Accounts payable	165,939	-	5,000		170,939
Accrued payroll liabilities	23,976	-	-		23,976
Due to other funds	89,471	240,652	-		330,123
Total liabilities	279,386	240,652	5,000		525,038
<u>Deferred inflows of resources:</u>					
Unavailable revenue	34,606	-	-		34,606
Total liabilities and deferred inflows of resources	313,992	240,652	5,000		559,644
<u>Fund balances:</u>					
Nonspendable - prepaid items	7,194	-	-		7,194
Committed for school renovation	-	-	227,857		227,857
Unassigned	205,980	-	-		205,980
Total fund balances	213,174	-	227,857		441,031
Total liabilities and fund balances	\$ 527,166	240,652	232,857		1,000,675

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

CITY OF TANANA, ALASKA

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

June 30, 2015

Total fund balances for governmental funds	\$ 441,031
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and are not reported in the funds, net of accumulated depreciation of \$1,811,249	12,373,529
Receivable balances that are not collected within 60 days of year end are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.	34,606
Proportionate share of the collective net pension liability: PERS	(154,160)
Deferred inflows and outflows of resources are the results of timing differences in the actuarial report. Pension related assets in the current fiscal year are presented as deferred outflows of resources: PERS	7,708
Pension related liabilities in the current fiscal year are presented as deferred inflows of resources: PERS	(23,841)
Equity interests in capital assets of Tanana Alternative Energy, LLC are not current financial resources and are not reported in the funds.	<u>29,808</u>
Net position of governmental activities	\$ <u><u>12,708,681</u></u>

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

CITY OF TANANA, ALASKA

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

Year Ended June 30, 2015

	General Fund	Capital Project Funds		Total Governmental Funds
		AK Housing Finance Corp THP-15-COT-1	Maudry J Sommers K-12 School Major Maintenance	
Revenues:				
Intergovernmental:				
Federal sources	\$ 59,326	-	-	59,326
State sources	601,276	240,562	12,775	854,613
Local Sources:				
Taxes	23,635	-	-	23,635
Charges for services	206,750	-	-	206,750
Other	46,065	-	74	46,139
Total revenues	<u>937,052</u>	<u>240,562</u>	<u>12,849</u>	<u>1,190,463</u>
Expenditures:				
Current:				
Administration	417,180	-	-	417,180
Public safety	55,595	-	-	55,595
Public housing	26,371	-	-	26,371
Road maintenance	289,153	-	-	289,153
Equipment rentals	159,974	-	-	159,974
Public works	44,470	-	-	44,470
Airport maintenance	14,664	-	-	14,664
Capital outlay	-	240,562	435,990	676,552
Total expenditures	<u>1,007,407</u>	<u>240,562</u>	<u>435,990</u>	<u>1,683,959</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(70,355)</u>	<u>-</u>	<u>(423,141)</u>	<u>(493,496)</u>
Other financing sources:				
Proceeds from sale of city assets	<u>12,303</u>	<u>-</u>	<u>-</u>	<u>12,303</u>
Net change in fund balance	(58,052)	-	(423,141)	(481,193)
Fund balances, beginning of year	<u>271,226</u>	<u>-</u>	<u>650,998</u>	<u>922,224</u>
Fund balances, end of year	<u>\$ 213,174</u>	<u>-</u>	<u>227,857</u>	<u>441,031</u>

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

CITY OF TANANA, ALASKA

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

Year Ended June 30, 2015

Net change in fund balance - total governmental funds \$ (481,193)

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 capital outlay exceeded depreciation in the current period:

Capital outlay	716,552	
Depreciation expense	<u>(164,902)</u>	551,650

Certain revenues in the statement of activities do not provide current financial resources and are reported as unavailable revenues in the fund financial statements	34,606
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Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.

Change in the unfunded net pension liability: PERS	40,624
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Amortization of deferred outflows and inflows of resources: PERS	5,960
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Contributions to the pension plan in the current fiscal year are included in the fund financial statements and are presented as changes in deferred outflow of resources in the government-wide financial statements. PERS	<u>7,708</u>
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Changes in net position of governmental activities	<u>\$ 159,355</u>
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The notes to the financial statements are an integral part of this statement.

CITY OF TANANA, ALASKA

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

Year Ended June 30, 2015

	Budgeted Amounts Original and Final	Actual Amounts	Variance with Final Budget- Positive (Negative)
Revenues:			
Intergovernmental:			
Federal sources	\$ 50,000	59,326	9,326
State sources	212,000	601,276	389,276
Local sources:			
Taxes	23,000	23,635	635
Charges for services	92,000	206,750	114,750
Other	30,000	46,065	16,065
Total revenues	<u>407,000</u>	<u>937,052</u>	<u>530,052</u>
Expenditures:			
Current:			
Administration	334,500	417,180	(82,680)
Public safety	29,550	55,595	(26,045)
Public housing	-	26,371	(26,371)
Road maintenance	21,400	289,153	(267,753)
Equipment rentals	103,200	159,974	(56,774)
Public works	-	44,470	(44,470)
Airport maintenance	21,200	14,664	6,536
Total expenditures	<u>509,850</u>	<u>1,007,407</u>	<u>(497,557)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(102,850)</u>	<u>(70,355)</u>	<u>32,495</u>
Other financing sources:			
Proceeds from sale of city assets	<u>30,000</u>	<u>12,303</u>	<u>(17,697)</u>
Net change in fund balance	\$ <u>(72,850)</u>	<u>(58,052)</u>	<u>14,798</u>
Fund balance, beginning of year		<u>271,226</u>	
Fund balance, end of year		\$ <u>213,174</u>	

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

CITY OF TANANA, ALASKA
 Proprietary Fund - Liquor Store
 Statement of Net Position
 June 30, 2015

Assets

Current assets:		
Inventory	\$	84,561
Due from other funds		89,471
Total current assets		174,032
Non-current assets:		
Land		19,315
Liquor store		86,641
Accumulated depreciation		(17,972)
Total non-current assets		87,984
Total assets		262,016

Net Position

Net investment in capital assets		87,984
Unrestricted		174,032
Total net position	\$	262,016

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

CITY OF TANANA, ALASKA

Proprietary Fund - Liquor Store

Statement of Revenues, Expenses, and Changes in Net Position

Year Ended June 30, 2015

Operating revenues:	
Sales	\$ 289,688
Less: cost of goods sold	(146,942)
Total operating revenues	<u>142,746</u>
Operating expenses:	
Salaries and benefits	27,480
Contract labor/consultants	480
Travel	75
Facility	3,143
Insurance	2,650
Supplies	432
Freight	10,342
Depreciation	2,888
License, dues and subscriptions	6,575
Total operating expenses	<u>54,065</u>
Change in net position	88,681
Net position, beginning of year	<u>173,335</u>
Net position, end of year	<u>\$ 262,016</u>

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

CITY OF TANANA, ALASKA

Proprietary Fund - Liquor Store

Statement of Cash Flows

Year Ended June 30, 2015

Cash flows from operating activities:	
Cash received from customers	\$ 289,688
Cash paid to suppliers	(154,071)
Cash paid to employees	(27,480)
Net cash provided by operating activities	<u>108,137</u>
Cash flows from noncapital financing activities:	
Internal activity	<u>(108,137)</u>
Net change in cash	-
Cash and cash equivalents, beginning of year	<u>-</u>
Cash and cash equivalents, end of year	\$ <u><u>-</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income	88,681
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	2,888
(Increase) decrease in inventory	<u>16,568</u>
Net cash provided by operating activities	\$ <u><u>108,137</u></u>

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

CITY OF TANANA, ALASKA

Notes to Basic Financial Statements

Year Ended June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The financial statements of the City of Tanana, Alaska, 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 City of Tanana, Alaska, was incorporated under the laws of the State of Alaska as a first class city in 1961. The City operates under a City Manager/Council form of government. Members of the City Council 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 City of Tanana has the responsibility of establishing, maintaining and operating a system of public schools. The voters elect the members of the School City's governing body. The Tanana City School City is a component unit and integral part of the reporting entity, which is the City of Tanana, Alaska. The City Council, as the oversight authority, approves the total annual budget of the School City 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.

Complete financial statements for the component unit may be obtained from the Tanana City School City, Tanana, Alaska.

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 non-fiduciary activities of the primary government and its component units. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely primarily on fees and charges to external parties. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

CITY OF TANANA, ALASKA
Notes to Basic Financial Statements, Continued

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

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

Separate financial statements are provided for governmental funds and proprietary funds. Major governmental funds are reported as separate columns in the fund financial statements. The only proprietary fund reported by the City is the Liquor Store Enterprise Fund.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses.

The City reports two different types of funds: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. Major individual governmental funds are reported as separate columns in the Fund Financial Statements.

Proprietary or enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the liquor store fund.

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

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

CITY OF TANANA, ALASKA
Notes to Basic Financial Statements, Continued

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 City 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.

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:

Sales tax revenue is recognized when earned and measurable. Rental revenues are recognized when earned. Interest earnings on investments are recognized as earned.

The City reports the following major funds:

Major Governmental Funds:

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

The *Alaska Housing Finance Corporation THP-15-COT-1 Capital Project Fund* accounts for funds received from the Alaska Housing Finance Corporation for the construction of teacher professional housing.

The *Maudry J Sommers K-12 School Major Maintenance Capital Project Fund* accounts for funds received from the State of Alaska for the renovation of Tanana's public school.

CITY OF TANANA, ALASKA
Notes to Basic Financial Statements, Continued

Major Proprietary Fund:

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

As a general rule, the effect of interfund activity had been eliminated from the government-wide financial statements. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales at the liquor store. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation of capital assets.

D. Assets, Liabilities and Net Position or Equity

1. Cash and Cash Equivalents and Investments

The City'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.

The City has no defined investment policy, at year end investments consist of ownership interest in a limited partnership and are accounted for as an asset on the equity basis in the government-wide statements.

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, thus, an equivalent portion of fund balance is classified as nonspendable in the fund financial statements.

CITY OF TANANA, ALASKA
Notes to Basic Financial Statements, Continued

4. Receivables

Receivables are comprised of amounts due from the federal government, the State of Alaska and other local sources. All trade receivables are shown net of an allowance for doubtful receivables, which management has determined to be \$17,000 as of June 30, 2015. The allowance for doubtful receivables is an estimate of the amount uncollectible based on past experience.

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, sales tax payments made after year-end and within 60 days of year end, relating to the tax period ending at June 30, 2015, are recorded as receivable.

5. Capital Assets

The accounting treatment over property, plant, and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In government-wide financial statements, property, plant and equipment with a cost greater than \$5,000 are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is generally provided over the assets' estimated lives using the straight-line method of depreciation.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives or are not individually greater than \$5,000 are not capitalized.

CITY OF TANANA, ALASKA
Notes to Basic Financial Statements, Continued

All capital assets 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	30-60
Improvements other than buildings	20
Vehicles	10
Equipment	5

6. Unearned Revenues

Unearned revenue arises when resources are received before the City 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 City'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. Net position

Government-wide net position is divided into three components:

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

9. Fund Balance

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

Nonspendable fund balance – amounts that cannot be spent because they are in a nonspendable form (such as inventory and prepaids) or legally or contractually required to be maintained intact (such as the corpus of an endowment fund).

CITY OF TANANA, ALASKA
Notes to Basic Financial Statements, Continued

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

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

Assigned Fund Balance – Amounts intended to be used by the City for specific purposes: intent can be expressed by the Council or by the management, having been designated such authority. Such constraint is binding unless modified or eliminated by the Council or Management. In governmental funds other than the General Fund, assigned fund balance represents the amount that is not restricted or committed.

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

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

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

Special Revenue Funds are used to account for specific revenue sources that are restricted or committed to expenditures for specific purposes other than capital projects.

11. Statement of Cash Flows

The City follows GAAP related to the reporting of cash flows in Proprietary Funds. For purposes of the Statement of Cash Flows, the City has defined cash as the demand deposits and all investments maintained in the cash management pool, regardless of maturity period, since the various funds use the cash management pool essentially as a demand deposit account.

CITY OF TANANA, ALASKA
Notes to Basic Financial Statements, Continued

12. Retirement Plans

All full time employees and certain permanent part-time employees of the City participate in the State of Alaska Public Employees Retirement System (PERS).

The City has adopted 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 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.

13. Use of Estimates

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 amounts reported in these financial statements. Actual results may differ from the estimates. Significant estimates include the allowance for doubtful accounts and the useful lives of assets and related accumulated depreciation.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted consistent with accounting principles generally accepted in the United States of America for all governmental fund types except capital project funds which adopt project-length budgets. Budgets are prepared on the modified accrual basis of accounting.

The City Council adopts a yearly budget and the expenditure authority for the General Fund is limited to the total approved budget and functional areas of expenditures.

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 City Council. Expenditure authority for Special Revenue Fund programs is limited to the actual combined revenues and transfers from other funds.

Project budgets are adopted for 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.

CITY OF TANANA, ALASKA
Notes to Basic Financial Statements, Continued

The following functions within the General Fund had expenditures over appropriations:

		<u>Amount in Excess of Appropriations</u>
General Fund:		
Administration	\$	82,680
Public safety		26,045
Public housing		26,371
Road maintenance		267,753
Equipment rentals		56,774
Public works		<u>44,470</u>
Total expenditures exceeding appropriation	\$	<u>504,093</u>

III. DETAILED NOTES ON ALL FUNDS

A. Cash and Cash Equivalents and Investments

A listing of the City's cash and cash equivalents at June 30, 2015 is as follows:

		<u>Carrying Value</u>	<u>Bank Balance</u>
Demand Deposits	\$	<u>322,148</u>	<u>322,148</u>

Custodial Credit Risk is the risk that in the event of a bank or counter-party failure, the City's deposits/investments will not be returned.

At June 30, 2015 the City's cash and cash equivalents were fully insured.

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

B. Receivables

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

	<u>General Fund</u>	<u>AHFC THP-15-Cot-1</u>	<u>Total</u>
Receivables:			
Other	207,029	-	190,029
Grants	-	240,652	240,652
Allowance for doubtful accounts	<u>(17,000)</u>	<u>-</u>	<u>(17,000)</u>
Total	\$ <u>190,029</u>	<u>240,652</u>	<u>430,681</u>

CITY OF TANANA, ALASKA
Notes to Basic Financial Statements, Continued

C. Deferred Inflows and Unearned Revenues

Governmental funds report *deferred inflows* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenues in connection with resources that have been received, but not yet earned. At June 30, 2015 the various components of *deferred inflows* and *unearned revenue* reported in the governmental funds were as follows:

		<u>Unavailable</u>
Unavailable rental receivable	\$	<u>34,600</u>

D. Capital Assets

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

	<u>Balance</u> <u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2015</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 120,325	8,000	-	128,325
Construction in progress	<u>7,657,364</u>	<u>676,552</u>	<u>(8,093,354)</u>	<u>240,562</u>
Total	<u>7,777,689</u>	<u>684,552</u>	<u>(8,093,354)</u>	<u>368,887</u>
Capital assets, being depreciated:				
Buildings and infrastructure	4,351,811	8,125,353	-	12,477,164
Vehicles and equipment	<u>1,338,727</u>	<u>-</u>	<u>-</u>	<u>1,338,727</u>
Total capital assets being depreciated	<u>5,690,538</u>	<u>8,125,353</u>	<u>-</u>	<u>13,815,891</u>
Less accumulated depreciation:				
Buildings and infrastructure	1,054,623	102,945	-	1,157,568
Vehicles and equipment	<u>591,725</u>	<u>61,956</u>	<u>-</u>	<u>653,681</u>
Net accumulated depreciation	<u>1,646,348</u>	<u>164,902</u>	<u>-</u>	<u>1,811,249</u>
Net capital assets, being depreciated	<u>4,044,190</u>	<u>7,960,451</u>	<u>-</u>	<u>12,004,642</u>
Total net governmental activities capital assets	<u>\$ 11,821,879</u>	<u>8,645,003</u>	<u>(8,093,354)</u>	<u>12,373,529</u>

CITY OF TANANA, ALASKA
Notes to Basic Financial Statements, Continued

Depreciation expense was charged to governmental activities functions of the City as follows:

Public safety	\$ 16,490
Public housing	28,033
Road maintenance	74,206
Equipment rental	41,225
Public works	<u>4,948</u>
Total depreciation expense per function – governmental	\$ <u>164,902</u>

Business-type activities:

	Balance <u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2015</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ <u>19,315</u>	-	-	19,315
Capital assets, being depreciated:				
Buildings and infrastructure	\$ <u>86,641</u>	-	-	86,641
Less accumulated depreciation:				
Buildings and infrastructure	<u>15,084</u>	<u>2,888</u>	-	<u>17,972</u>
Net capital assets, being depreciated	\$ <u>71,557</u>	<u>(2,888)</u>	-	<u>68,669</u>
Total net business-type activities capital assets	\$ <u>90,872</u>	<u>(2,888)</u>	-	<u>87,984</u>

Depreciation expense for business-type activities for the year ended June 30, 2015 was \$2,888.

E. 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, 2015 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	AHFC THP-15-COT-1 Capital Project Fund	\$ 240,652
Liquor Store Enterprise Fund	General Fund	<u>89,471</u>
		\$ <u>330,123</u>

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.

CITY OF TANANA, ALASKA
Notes to Basic Financial Statements, Continued

F. Investment in Limited Partnership

The City is a 33.3% owner of Tanana Alternate Energy Company LLC. The City accounts for their investment in the LLC on the equity method. The other partners with 33.3% ownership each are ABS Alaskan, Inc. and Alfred R. Ketzler, Jr. The partnership has various provisions concerning future cash contributions, if any. The purpose of the LLC is to purchase an Alaskan franchise for interior wood furnaces. During the year, there were no distributions made to the City from the LLC.

IV. OTHER INFORMATION

A. Related Party Transactions

Due to the nature and size of the community, it is inevitable that transactions will occur between related entities, City Council members, and/or employees of these entities. The services provided are not considered significant for individual disclosure.

B. Change in Accounting Principle

As discussed in Note IV. C to the financial statements, the City participates in the Alaska Public Employees' Retirement System (PERS). In 2015, the City adopted the provisions of GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, which, among other accounting and reporting criteria, requires the City to recognize its proportional share of the Net Pension Liability (and related deferred inflow/outflow accounts), as of the beginning of the City's fiscal year. As a result of the implementation of these statements, the City has recorded an opening balance adjustment to increase liabilities and to decrease opening net position as follows:

Governmental Activities:	
Opening net position, as originally presented	\$ 12,773,911
Change in accounting principle adjustment	<u>(224,585)</u>
Opening net position, as restated	\$ <u>12,549,326</u>

C. Employee Retirement Systems and Plans

The City 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.

CITY OF TANANA, ALASKA
Notes to Basic Financial Statements, Continued

All full-time employees and certain permanent part-time employees of the City of Tanana participate in either the State of Alaska Public Employees' Retirement System (PERS). In addition to the pension plan the system also administers other post-employment benefit plans.

The system is governed by the Alaska Retirement Management Board. The benefit and contribution provisions are established by State law and may be amended only by the State legislature.

Summary of Significant Accounting Policies. The financial statements for PERS and TRS are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City'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 value.

PERS acts as the common investment and administrative agency for the following multiple-employer plans:

<u>Plan Name</u>	<u>Type of Plan</u>
Defined Benefit Pension Plan (DB)	Cost-sharing, Defined Benefit Pension
Defined Contribution Pension Plan (DC)	Defined Contribution Pension
Defined Benefit Other Postemployment Benefits (DB)	
Occupational Death and Disability Plan	Cost-sharing, Defined Benefits OPEB
Alaska Retiree Healthcare Trust Plan	Cost-sharing, Defined Benefits OPEB
Retiree Medical Plan	Cost-sharing, Defined Benefits OPEB
Defined Contribution Other Postemployment Benefits (DC)	
Healthcare Reimbursement Arrangement Plan	Defined Contribution OPEB

Other Postemployment Benefit Plans (OPBP)

Occupational Death and Disability Plan (DB)

The Occupational Death and Disability Plan provides death benefits for beneficiaries of plan participants and long-term disability benefits to all active members within the System.

Alaska Retiree Healthcare Trust Plan (DB)

Beginning July 1, 2007, the Alaska Retiree Healthcare Trust Plan (ARHCT), a Healthcare Trust Fund of the State, was established. The ARHCT is self-funded and provides major medical coverage to retirees of the System. The System retains the risk of loss of allowable claims for eligible members. The ARHCT began paying member healthcare claims on March 1, 2008. Prior to that, healthcare claims were paid for by the Retiree Health Fund (RHF).

CITY OF TANANA, ALASKA
Notes to Basic Financial Statements, Continued

Healthcare Reimbursement Arrangement Plan (DC)

The Healthcare Reimbursement Arrangement Plan was established to allow medical expenses to be reimbursed from individual savings accounts established for eligible participants.

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

Plan Description. The City of Tanana participates in the Alaska Public Employees Retirement System (PERS), a cost sharing multiple employer defined benefit pension plan. PERS provides retirement benefits, disability and death benefits, and post-employment healthcare to plan members and beneficiaries. The Public Employee's Retirement System issues a publicly 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 or online at <http://doa.alaska.gov/drb/pers>.

Pension Benefits. All tier employee benefits vest with five years of credited service. There are three tiers of employees based on entry date. Tier I 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 tier II and III employees enrolled after June 30, 1986, but before July 1, 2006, the normal and early retirement ages are 60 and 55, respectively. All tier employees with 30 or more years of credited service may retire at any age and receive a normal benefit.

The PERS defined benefit is closed to new hires enrolled on or after July 1, 2006. New hires after this date participate in the PERS defined contribution plan (DC) described later in these notes.

Currently there are 159 employers participating in PERS, including the State of Alaska and 158 political subdivisions and public organizations.

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.

CITY OF TANANA, ALASKA
Notes to Basic Financial Statements, Continued

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. In April 2008 the Alaska Legislature passed legislation which statutorily capped the employer contribution, established a state funded "on-behalf" contribution, and required that employer contributions be calculated against all PERS eligible wages, including wages paid to participants of the PERS Tier IV defined contribution plan (DC) described later in these footnotes. The state legislature capped the rate at 22%, with the State contributing an on-behalf payment for the difference between the actuarial contribution and the cap.

Salary Floor. During the 25th 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.

Termination Costs. If the City 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 City function, all affected employees in that department, group or other classification of members become immediately vested in the plan. The City must pay to have a termination study completed. The purpose of the study is to calculate the City'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 City 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 2015 the past service rate is 20.90%.

Employee Contribution Rate. The City PERS active members are required to contribute 6.75% (3.85% pension costs and 2.90% OPEB) and non-teacher school City employees required to contribute 9.60% (5.47% pension and 4.13% OPEB) of their annual covered salary.

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

CITY OF TANANA, ALASKA
Notes to Basic Financial Statements, Continued

Employer Effective Rate: This is the actual employer pay-in rate. Under current legislation, this rate is statutorily capped at 22% (12.54 pension costs and 9.46% OPEB) of eligible wages, subject to the salary floor, and other termination costs as described above. This 22% rate is calculated on all PERS participating wages, including those wages attributable to employees in the defined contribution plan.

ARM Board Adopted Rate: This is the rate formally adopted by the Alaska Retirement Management Board. This rate is actuarially determined and used to calculate annual Plan funding requirements, without regard to the statutory rate cap or the GASB accounting rate. This rate is 44.03% (25.09% pension and 18.94% OPEB). Prior to July 1, 2015, there were no constraints or restrictions on the actuarial cost method or other assumptions used in the ARM Board valuation. Effective July 1, 2015, the Legislature requires the ARM Board to adopt employer contribution rates for past service liabilities using a level percent of pay method over a closed 25 year term which ends in 2039. This will result in lower ARM Board Rates in future years.

On-behalf Contribution Rate: This is the rate paid in by the State as an on-behalf payment as mandated under current statute. Under state law, subject to annual appropriation, the state will contribute an on-behalf payment into the plan in an amount equal to the difference between the ARM Board Rate and the Employer Effective Rate. Note that in 2015, the State legislature appropriated a one-time contribution to the plan in the amount of \$1 billion. As a result, the On-behalf Contribution Rate for 2015 is 42.41% (100% pension costs), which significantly exceeds the statutory amount. On-behalf contribution amounts have been recognized in these financial statements as both revenue and expenditures.

GASB Rate: This is the rate used to determine the long-term pension and healthcare liability for plan accounting purposes. Certain actuarial methods and assumptions for this rate calculation are mandated by the *Governmental Accounting Standards Board (GASB)*. Medicare Part D subsidies are not reflected in this rate. The rate uses an 8% pension discount rate and a 4.90% healthcare discount rate. The current rate is 88.12% (33.05% pension and 55.07% OPEB).

Employer contributions for the years ended June 30, 2015, 2014 and 2013 are as follows:

	Pensions (DB)	Other Post-Employment Benefits (DB)	Total
2015	7,708	5,814	13,522
2014	12,844	13,369	26,213
2013	14,932	19,004	33,936

For the year ended June 30, 2015 the State of Alaska contributed \$26,258 or 42.41% (pension cost) on-behalf of the City which has been recorded in the fund financial statements under the modified-accrual basis of accounting. In the government-wide financial statements the on-behalf contributions has been adjusted as of the measurement date of June 30, 2014 to a total of \$8,157, to represent the on-behalf contribution made by the State under the full accrual basis of accounting.

CITY OF TANANA, ALASKA
Notes to Basic Financial Statements, Continued

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At June 30, 2015, the City reported a liability that reflected a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of net pension liability, the related State support, and the total portion of the net pension liability that was associated with the City were as follows:

City's proportionate share of the net pension liability	\$	154,160
State's proportionate share of the net pension liability		<u>113,696</u>
Total	\$	<u>267,856</u>

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers and the State, actuarially determined. At June 30, 2014, the City's proportion was 0.000003305%, which is a decrease of 0.00000404% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City recognized pension expense of \$40,624. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	-
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	(23,841)
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	7,708	-
Total	7,708	(23,841)

CITY OF TANANA, ALASKA
Notes to Basic Financial Statements, Continued

\$7,708 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2016	\$ (5,960)
2017	(5,960)
2018	(5,960)
2019	(5,961)
	<u>\$ (23,841)</u>

For the year ending June 30, 2015, the City recognized amortization of \$5,960 related to deferred inflows and outflows of resources.

Actuarial Assumptions: The total pension liability in the June 30, 2014 (latest available) actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement. The actuarial assumptions were based upon the results of an actuarial experience study performed as of June 30, 2013.

Investment return / discount rate	8% per year (geometric), compounded annually, net of expenses
Salary scale	Inflation – 3.12% per year Productivity – 0.50% per year
Payroll growth	3.62% per year (inflation + productivity)
Total inflation	Total inflation as measured by the Consumer Price Index for urban and clerical workers from Anchorage is assumed to increase 3.12% annually.
Mortality (Pre-termination)	Based upon 2010-2013 actual mortality experience. 60% of male rates and 65% of female rates of post termination mortality rates. Deaths are assumed to be occupational 70% of the time for peace officers, and firefighters, 50% of the time for others.
Mortality (Post-termination)	96% of all rates of the RP-2000 combined mortality table, 2000 base year projected to 2018.

CITY OF TANANA, ALASKA
Notes to Basic Financial Statements, Continued

Total turnover	Based upon the 2010-2013 actual withdrawal experience.
Disability	Incidence rates based on 2010-2013 actual experience. Post-disability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table. Disabilities are assumed to be occupational 70% of the time for peace officers / firefighters, 50% of the time for others.
Retirement	Retirement rates based upon the 2010-2013 actual experience. Deferred vested members are assumed to retire at their earliest unreduced retirement date for others. For peace officers/firefighters, Tier 1 deferred vested members are assumed to retire at age 55 and Tiers 2 and 3 deferred vested members are assumed to retire at age 60.
Marriage and age difference	Wives are assumed to be three years younger than husbands. For others, 75% of male members and 70% of female members are assumed to be married. For peace officers/firefighters, 85% of male members and 60% female members are assumed to be married.

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

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	6.77%
International Equity	7.50%
Private Equity	10.86%
Fixed Income	2.05%
Real Estate	3.63%
Absolute Return	4.80%

CITY OF TANANA, ALASKA
Notes to Basic Financial Statements, Continued

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the System calculated using the discount rate of 8%, as well as what the Systems' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	<u>1% Decrease</u> <u>(7%)</u>	<u>Current Rate</u> <u>(8%)</u>	<u>1% Increase</u> <u>(9%)</u>
Net pension liability	\$ <u>202,133</u>	<u>154,160</u>	<u>113,762</u>

D. Contingent Liabilities

The City participates in a number of grant programs that are subject to program compliance audits by the grantors or their representatives. Since the grantors have not evaluated the effects of the findings, if any, and since in some cases audits of these grants have not occurred, the amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time.

The City treats the on-behalf funding, created by AS 39.35.280 and AS 14.25.085, as a special funding situation. AS 39.35.255 established the uniform contribution rate for PERS employers at 22%, with the State of Alaska contributing the difference between the total PERS actuarial required contributions and the amount employers contribute at 22% of covered payroll.

Per GASB 68, a special funding situation is created when a non-employer entity is legally responsible for making contributions directly to the pension plan that is used to provide pensions to the employees of another entity. Under GASB 68, "legal responsible" is determined by State statute. The State of Alaska created AS 39.35.80 and AS 14.25.085, which established the required contributions for the Employer and the State.

The determination of whether the on-behalf payments should be considered a special funding situation is still being debated. If through litigation a decision is made by the courts that the on-behalf payment is not considered a special funding situation, the City's net pension liability for PERS would increase by \$113,696, as of June 30, 2015.

CITY OF TANANA, ALASKA
Notes to Basic Financial Statements, Continued

E. Economic Dependency

The General Fund of the City is dependent on revenues earned from equipment rentals and administration fees from state and federal grants to fund the current level of service.

F. Municipal Solid Waste Landfill

The City operates a landfill for disposal of solid waste and in November 2007 received a permit with the State to operate as a Class III landfill. A Class III landfill permit allows up to 5 tons per day to be deposited. Operators of Class III landfills are exempt from post-closure financial responsibilities; however, must still follow the closure standards outlined in 18 AAC 60.390 of the State of Alaska code.

G. Subsequent Accounting Pronouncements

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

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

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

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

CITY OF TANANA, ALASKA
Notes to Basic Financial Statements, Continued

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

**REQUIRED SUPPLEMENTARY
INFORMATION**



City of Tanana, Alaska

Schedule of City's Proportionate Share of the Net Pension Liability

Public Employees' Retirement System

June 30, 2015

City's proportion of the net pension liability		0.000003%
City's proportionate share of net pension liability	\$	154,160
State's proportionate share of the net pension liability associated with the City		113,696
Total	\$	<u>267,856</u>
City's covered employee payroll	\$	61,464
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll		251%
Plan fiduciary net position as a percentage of the total pension liability		62.37%

Notes to schedule

1. Information presented for 2015 is based upon Plan measurement date June 30, 2014.
2. This schedule is intended to present 10 years of information. Additional years will be included as it becomes available.

City of Tanana, Alaska
 Schedule of City's Contributions
 Public Employees' Retirement System
 June 30, 2015

Contractually required contribution	\$	26,213
Contributions in relation to the contractually required contribution		<u>(26,213)</u>
Contribution deficiency (excess)		<u>-</u>
City's covered-employee payroll	\$	119,150
Contributions as a percentage of covered employee payroll		22.00%

Notes to schedule

1. Valuation date: June 30, 2013
 2. Actuarially determined contribution rates are calculated as of June 30th, two years prior to the fiscal year in which contributions are reported.
- Methods and assumptions used to determine contribution rates:
3. Actuarial cost method: Entry Age Normal.
 4. Amortization method: Level dollar, closed.
 5. Amortization period: 25 years, layered.
 6. Equivalent single amortization period: 17 years.
 7. Asset valuation method: Actuarial value that smooths investment gains and losses over 5 years, constrained to a range of 80% - 120% of fair value.
 8. Inflation: 3.12% per annum.
 9. Salary increases: Ranges from 6.36% to 4.12% based on service for Peace Officer/Firefighter.
Ranges from 9.60% to 3.62% based on age and service for All Others.
 10. Investment rate of return: 8%, net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%.
 11. Retirement age: An age-related assumption is used for participants not yet receiving payments.
 12. Mortality: 1994 Group Annuity Mortality (GAM) Table, sex distinct, 1994 Base Year without margin projected to 2013 using projection Scale AA, 80% of the male table for males and 60% of the female table for females for pre-termination mortality for Peace Officer/Firefighter, 1994 Base Year without margin projected to 2013 using Projection Scale AA, 75% of the male table for males and 55% of the female table for females for pre-termination mortality for All Others and the 1994 GAM Table, sex-distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and with a 1-year set-forward for females for post-termination mortality.
 13. This schedule is intended to present 10 years of information. Additional years will be included as it becomes available.

**ADDITIONAL SUPPLEMENTARY
INFORMATION**



CITY OF TANANA, ALASKA

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

Year Ended June 30, 2015

	Final Approved <u>Budget</u>	<u>Actual</u>	Variance with Final Budget- Positive <u>(Negative)</u>
Revenues:			
Intergovernmental:			
Federal:			
Payment in lieu of taxes	\$ 50,000	59,326	9,326
State of Alaska:			
DOT - Aviation	45,000	-	(45,000)
DOT - Road	60,000	195,636	135,636
Community revenue sharing	107,000	107,525	525
PERS on-behalf contribution	-	26,258	26,258
Contract revenue	-	271,857	271,857
Total state sources	<u>212,000</u>	<u>601,276</u>	<u>389,276</u>
Local:			
Sales taxes	23,000	23,635	635
Charges for services:			
Equipment rental	60,000	141,558	81,558
Public housing rental	32,000	65,192	33,192
Total charges for services	<u>92,000</u>	<u>206,750</u>	<u>114,750</u>
Other:			
Administration fee	30,000	46,009	16,009
Interest income	-	56	56
Total other	<u>30,000</u>	<u>46,065</u>	<u>16,065</u>
Total revenues	<u>407,000</u>	<u>937,052</u>	<u>530,052</u>

(continued)

CITY OF TANANA, ALASKA

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

	Final Approved <u>Budget</u>	<u>Actual</u>	Variance with Final Budget- Positive <u>(Negative)</u>
Expenditures:			
Current:			
Administration:			
Salaries	120,000	144,097	(24,097)
Employee benefits	29,000	36,797	(7,797)
Council stipend	-	7,911	(7,911)
Insurance	45,000	18,855	26,145
Accounting and audit services	24,000	22,719	1,281
Vehicle	6,000	8,818	(2,818)
Supplies	15,000	29,977	(14,977)
Facility	36,000	37,285	(1,285)
Contract labor	10,000	4,896	5,104
Travel	6,000	29,123	(23,123)
Meeting fees	9,000	-	9,000
Legal fees	5,000	-	5,000
License, dues and subscriptions	-	2,687	(2,687)
Freight	10,000	7,555	2,445
Computer costs	2,000	1,239	761
Training	3,000	600	2,400
Postage	500	89	411
Firewood	12,000	600	11,400
Property and land	-	32,000	(32,000)
Other	2,000	31,932	(29,932)
Total Administration	<u>334,500</u>	<u>417,180</u>	<u>(82,680)</u>
Public safety:			
Salaries	-	15,711	(15,711)
Employee benefits	-	6,831	(6,831)
Insurance	1,500	-	1,500
Vehicle	2,700	5,018	(2,318)
Supplies	2,800	8,142	(5,342)
Facility	12,500	12,765	(265)
Street lights	5,500	5,536	(36)
Sewer	1,800	-	1,800
Travel	800	1,075	(275)
Licenses, permits, dues and subscriptions	1,600	45	1,555
Other	350	472	(122)
Total public safety	<u>29,550</u>	<u>55,595</u>	<u>(26,045)</u>

(continued)

CITY OF TANANA, ALASKA

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

	Final Approved <u>Budget</u>	<u>Actual</u>	Variance with Final Budget- Positive <u>(Negative)</u>
Expenditures (continued):			
Public housing:			
Salaries	-	2,933	(2,933)
Employee benefits	-	456	(456)
Facility	-	18,144	(18,144)
Supplies	-	1,521	(1,521)
Maintenance and repair	-	2,516	(2,516)
Firewood	-	600	(600)
Other	-	201	(201)
Total public housing	<u>-</u>	<u>26,371</u>	<u>(26,371)</u>
Road maintenance:			
Salaries	10,000	209,942	(199,942)
Employee benefits	1,400	43,578	(42,178)
Insurance	3,000	-	3,000
Vehicle	2,500	205	2,295
Supplies	2,500	13,270	(10,770)
Contract labor	-	5,136	(5,136)
Travel	500	17,022	(16,522)
Other	1,500	-	1,500
Total road maintenance	<u>21,400</u>	<u>289,153</u>	<u>(267,753)</u>
Equipment rentals:			
Salaries	30,000	34,102	(4,102)
Employee benefits	4,200	4,673	(473)
Insurance	5,000	3,861	1,139
Equipment	-	44,000	(44,000)
Vehicle	15,000	30,775	(15,775)
Supplies	10,000	8,913	1,087
Facility	32,000	27,742	4,258
License, dues and subscriptions	-	1,765	(1,765)
Freight	7,000	4,063	2,937
Other	-	80	(80)
Total equipment rentals	<u>103,200</u>	<u>159,974</u>	<u>(56,774)</u>
Public works:			
Salaries	-	9,618	(9,618)
Employee benefits	-	560	(560)
Vehicle	-	153	(153)
Supplies	-	1,249	(1,249)
Travel	-	65	(65)
Firewood	-	32,825	(32,825)
Total public works	<u>-</u>	<u>44,470</u>	<u>(44,470)</u>

(continued)

CITY OF TANANA, ALASKA

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

	Final Approved Budget	Actual	Variance with Final Budget- Positive (Negative)
Expenditures (continued):			
Airport maintenance:			
Salaries	20,000	14,664	5,336
Vehicle	1,000	-	1,000
Supplies	200	-	200
Total airport maintenance	<u>21,200</u>	<u>14,664</u>	<u>6,536</u>
Total expenditures	<u>509,850</u>	<u>1,007,407</u>	<u>(497,557)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(102,850)</u>	<u>(70,355)</u>	<u>32,495</u>
Other financing sources:			
Proceeds from sale of city assets	<u>30,000</u>	<u>12,303</u>	<u>(17,697)</u>
Net change in fund balance	<u>\$ (72,850)</u>	<u>(58,052)</u>	<u>14,798</u>
Fund balance, beginning of year		<u>271,226</u>	
Fund balance, end of year		<u>\$ 213,174</u>	

COMPLIANCE REPORTS



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

Honorable Mayor and Council Members
City of Tanana
Tanana, Alaska

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of City of Tanana, Alaska, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Tanana, Alaska's basic financial statements, and have issued our report thereon dated February 1, 2016.

Internal Control Over Financial Reporting

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

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

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

Honorable Mayor and Council Members
City of Tanana

Compliance and Other Matters

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

Purpose of this Report

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

Altman, Rogers & Co.

Anchorage, Alaska
February 1, 2016

CITY OF TANANA, ALASKA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

Significant deficiency(ies) identified?	<u> X </u>	Yes	<u> </u>	No
Material weakness(es) identified?	<u> </u>	Yes	<u> X </u>	No

Noncompliance material to financial statements noted? Yes X No

Section II – Financial Statement Findings

Finding 2015-001

Significant Deficiency

Internal Controls over Payroll

Condition: During our review of payroll transactions we found two errors. We found one employee was paid a different rate than was on the employee’s approved payroll action form. We also found a paycheck where the employee was paid for a different number of hours than was on their timesheet for that pay period.

Criteria: Proper internal controls over payroll require employees to be paid for actual hours worked and to be paid an approved payrate.

Context: Out of a sample of 40 payroll transactions we found two errors.

Cause: There was a breakdown in the review process of recalculation of timesheets as well as review of authorized pay rates.

Effect: Misstatement of payroll expense

Recommendation: Controls should be established to ensure that employees are paid their approved and authorized rate as well as are paid for hours worked and documented on approved timesheets.

Management response: Management concurs with finding, see corrective action plan.

CITY OF TANANA, ALASKA

Schedule of Findings and Questioned Costs, Continued

Section III – Status of Prior Year Audit Findings

Finding 2014-001

Significant Deficiency

Internal Controls over Purchases/Cash Disbursements

Condition:

During review of purchase documentation for a large piece of equipment, we found that there was not adequate documentation supporting the purchase.

Status:

Finding has been resolved

Finding 2014-002

Significant Deficiency

Internal Controls over Inventory

Condition:

During review of inventory, we found that the liquor store did not have a perpetual inventory system and the employee in charge only performed a physical inventory count at year end.

Status:

Finding has been resolved

CITY OF TANANA, ALASKA

Corrective Action Plan

June 30, 2015

Financial Statement Findings

Finding 2015-001

Internal Controls over Payroll

Name of Contact: Jeff Weltzin, City Manager

Corrective Action Plan: The City concurs with Finding 2015-001 and agrees to establish controls to ensure that employees are paid their approved and authorized rate as well as are paid for worked and documented on approved timesheets.

Proposed Completion Date: March 1, 2016.



CITY OF TANANA, ALASKA

Letter to the Governing Board

Year Ended June 30, 2015



February 1, 2016

Honorable Mayor and City Council
City of Tanana
Tanana, Alaska

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

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Tanana are described in Note I to the financial statements. As described in Note IV – C to the financial statements, the City implemented the Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, which, among other accounting and reporting criteria, requires the City to recognize its proportional share of the Net Pension Liability and related deferred inflow/outflow accounts. We noted no transactions entered into by the governmental unit during the year for each there is a lack of authoritative Guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

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

Government wide and business-type activities opinion unit:

Management's estimate of the useful lives and depreciation is based upon the expected life of an asset. We evaluated the key factors and assumptions used to develop the useful lives and depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimates of the City's proportionate share of the collective net pension liability and related deferred outflows and inflows of resources are based on information furnished by the State of Alaska and actuarial reports generated during the audit of the Public Employees' Retirement System. The amortization of these deferrals is based on guidance provided by the Governmental Accounting Standards Board. We evaluated the key factors and assumptions used to develop the estimates of the City's proportionate share of the collective net pension liability and deferred outflows and inflows of resources and related amortization in determining that it is in reasonable in relation to the financial statements as a whole.

All opinion units:

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

Financial Statement Disclosures

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We did not propose any adjusting entries.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 1, 2016.

Management Consultations with Other Independent Accountants

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

Internal Controls and Other Matters

See the June 30, 2015 Financial Statements, Compliance Section for definition and description of deficiencies, significant deficiencies, material weaknesses and any related findings.

Major Issues Discussed with Management Prior to Retention

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

Accounting Assistance

During the audit we provided technical accounting assistance associated with Governmental Accounting Standards Board (GASB) guidance for certain reporting items, including the summarization and recording of capital assets in the government-wide financial statements. As part of our engagement, we assisted management in the drafting of the basic financial statements of the City from the City's accounting records; however, management of the City was involved in the drafting process and retains responsibility for the basic financial statements.

Other Matters

Grant Reform

The Office of Management and Budget published final guidelines on grant reforms which went into effect on December 26, 2014. The new threshold for federal audits was raised from \$500,000 to \$750,000. Included in the new guidelines were significant reforms to administrative requirements, cost principles, requirements for risk assessment, standards for financial and program management, subrecipient monitoring and audit requirements. Written policies are strongly encouraged and the lack of written policies may result in compliance findings.

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

These new requirements are for all new awards obtained after December 26, 2014. Any new awards obtained after that date were subject to the new guidelines under the audit for the year ended June 30, 2016. We encourage management to review these new guidelines and establish written policies and procedures to remain in compliance with all new requirements related to this grant reform.

Supplementary Information Accompanying the Financial Statements

We applied certain limited procedures to Management Discussion and Analysis, and Schedules of the City's Share of the Net Pension Liabilities and Contributions for the Public Employees' Retirement System, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

Restriction on Use

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

Sincerely,

Altman, Rogers & Co.

Anchorage, Alaska