

LAKE AND PENINSULA BOROUGH

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

Year Ended June 30, 2015



LAKE AND PENINSULA BOROUGH

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**Independent Auditor's Report**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lake and Peninsula Borough, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

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

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

Members of Borough Assembly  
Lake and Peninsula Borough

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lake and Peninsula Borough, as of June 30, 2015, and the respective changes in financial position, and the budgetary comparisons for the General Fund 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 - F to the financial statements, in 2015 the Borough 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 and Schedules of Borough's Share of the Net Pension Liabilities and Contributions for the Public Employees' Retirement System on pages 4-10 and 44-45, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

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

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

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

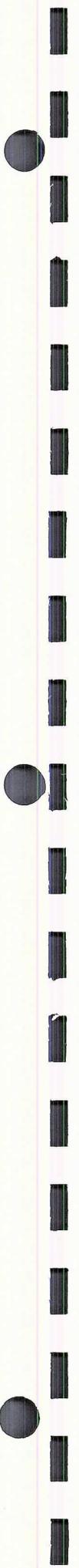
In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2016 on our consideration of Lake and Peninsula Borough's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lake and Peninsula Borough's internal control over financial reporting and compliance.

*Altman, Rogers & Co.*

Anchorage, Alaska  
August 23, 2016

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**MANAGEMENT DISCUSSION  
AND ANALYSIS**



**Lake and Peninsula Borough**  
**Management Discussion and Analysis**  
**Year Ended June 30, 2015**

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

**Financial Highlights**

Key financial highlights for 2015 are as follows:

- The assets of the Lake and Peninsula Borough exceeded its liabilities at the end of the fiscal year by \$23,911,791 (net position) compared to \$36,660,131 in 2014.
- In total, net position decreased by \$11,762,315 in 2015 compared to a decrease of \$4,011,104 in 2014. All activities in the Borough are governmental activities. There were no business-type activities in 2015 or 2014.
- Total general revenues accounted for \$3,728,576 or 56% percent of all revenues. Program specific revenues in the form charges for services and grants accounted for \$2,891,251 or 44% percent of total revenues of \$6,619,827. In 2014 total revenues were \$6,202,214.
- The Borough had \$5,610,491 in expenses in 2015 compared to \$8,168,853 in 2014. Only \$2,891,251 of these expenses in fiscal year 2015 were offset by program specific charges for services and grants. General revenues (primarily from unrestricted grants, investment earnings and raw fish and bed taxes) of \$3,728,576 were not adequate to provide for the balance of expenses. There were net transfers to the component unit, the Lake and Peninsula School District of \$13,808,851 in 2015, excluding capital asset transfers, compared to \$2,125,901 in 2014.

**Overview of the Financial Statements**

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

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

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

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

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

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

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

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

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

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

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

The Borough has only governmental funds:

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

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

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

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

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Lake and Peninsula Borough, assets exceeded liabilities by \$23,911,791 at the close of the most recent fiscal year. There was a \$11,762,315 decrease in net position in 2015. The main cause of this decrease were drawdowns from invested bond proceeds for school construction, required contribution for the Chignik dock project, and operational cash needs. Additionally, mandated accounting change required the Borough to book unfunded pension liability of \$451,098.

In 2015 revenues were \$417,613 more than 2014. Taxes revenue increased by \$27,620 in 2015 due to a slightly larger fish run. The Borough spent substantially more state funds related to capital grant projects in 2015. General revenues decreased by \$453,765 from 2014 to 2015. The main cause of the decrease came from a decrease in investment and interest earnings compared to 2014. Expenses decreased by \$2,558,362 in 2015, due mostly to a decrease in cultural, education and recreation expense of \$3,250,835.

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

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

The following table provides a summary of the Borough's net position for 2015 compared with 2014:

	<u>Condensed Statement of Net position</u>	
	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014</u>
<b>Assets and Deferred Outflows of Resources</b>		
Current assets	\$ 28,398,577	41,722,631
Capital assets	16,827,842	17,222,032
Deferred outflows of resources	<u>28,859</u>	<u>-</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u>45,255,278</u>	<u>58,944,663</u>
<b>Liabilities and Deferred Inflows of Resources</b>		
Current liabilities	1,912,365	1,869,272
Long-term liabilities	19,266,358	20,415,260
Deferred inflows of resources	<u>164,764</u>	<u>-</u>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<u>21,343,487</u>	<u>22,284,532</u>
<b>Net position</b>		
Net investment in capital assets	-	-
Restricted	234,303	244,232
Unrestricted	<u>23,677,488</u>	<u>36,415,899</u>
<b>Total net position</b>	\$ <u>23,911,791</u>	<u>36,660,131</u>

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The following table shows the changes in net position for fiscal year 2015 compared to fiscal year 2014.

	<u>Change in Net position</u>	
<b>Revenues:</b>	<u>2015</u>	<u>2014</u>
Program revenues:		
Charges for services	\$ 371,660	332,401
Operating grants and contributions	657,837	786,399
Capital grants and contributions	1,861,754	901,073
General revenues:		
Taxes	1,645,707	1,618,087
Permit fees	280,611	180,367
Earnings on interest and investments	137,313	906,747
Shared revenues	1,185,524	1,039,987
Payment in lieu of taxes	260,895	283,664
Other	<u>218,526</u>	<u>153,489</u>
<b>Total revenues</b>	<u>6,619,827</u>	<u>6,202,214</u>
 <b>Expenses:</b>		
Governmental activities:		
Assembly	198,125	172,930
Planning commission	38,422	57,829
Administration	681,768	961,323
Elections	14,357	8,257
Economic development	-	328,950
Community development	1,130,523	1,377,584
Resource management	59,586	70,966
Culture, education, and recreation	1,419,373	4,670,208
Appropriations to communities	1,004,305	367,839
Scholarships	12,212	11,767
Unallocated interest	<u>1,051,820</u>	<u>111,200</u>
<b>Total governmental activities</b>	<u>5,610,491</u>	<u>8,168,853</u>
 Changes in net position before transfers	1,009,336	(1,966,639)
 Transfers:		
Component unit – Net transfers (to)	(13,808,851)	(2,125,901)
Capital assets transferred to the Borough	<u>1,037,200</u>	<u>81,436</u>
<b>Net transfers</b>	<u>(12,771,651)</u>	<u>(2,044,465)</u>
 Change in net position	<u>(11,862,315)</u>	<u>(4,011,104)</u>
 Net position, beginning of year as previously stated	36,660,131	40,909,356
Prior period adjustment	-	(238,121)
Cumulative effect of a change in accounting principle	(986,025)	-
Net position, beginning of year as restated	<u>35,674,106</u>	<u>40,671,235</u>
Ending net position	\$ <u>23,911,791</u>	<u>36,660,131</u>

The Lake and Peninsula Borough implemented GASB Statement 68 this year. With the new reporting change, the Borough is allocated its proportionate share of the State of Alaska net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased beginning net position by \$986,025. Decisions regarding the allocations are made by the administrators of the pension plan, not by the Lake and Peninsula Borough's management.

#### **Financial Analysis of the Borough's Funds**

Governmental funds are accounted for using the modified accrual basis of accounting. Governmental funds saw an increase in total revenue of \$619,901 from 2014 to 2015. The main cause of this increase was due to significantly more Capital Grants and contributions revenue collected in 2015 compared to 2014. Governmental funds expenditures increased by \$1,573,442, this was mainly caused by an increase in appropriations to communities and debt services expenses. All governmental funds have total revenues of \$6,729,323 in FY15 and \$6,109,422 in FY14 and expenditures of \$6,150,411 in FY15 and \$4,576,969 in FY14. The net change in fund balances, after transfers, was a decrease of \$13,229,939 in FY15 and an increase of \$19,487,396 in FY14. The Borough transferred \$13,808,851 to its component unit the Lake and Peninsula Borough School District in FY15. In FY14, the Borough transferred \$2,125,901 to its component unit. The large increase in transfers to the component unit is to fund the construction of the Tanlian School Addition.

#### ***Borough Operating Fund Budgetary Highlights***

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

The actual revenues in the General Fund were \$309,152 less than anticipated. This variance was related primarily to receiving less revenue from taxes and negative investment earnings. The Borough received \$765,834 less in tax revenue compared to what was budgeted and a loss of \$584 was incurred in investment earnings, a variance of \$250,584 less than anticipated.

The actual expenditures in the General Fund were \$594,551 over budget. This variance was due a budget variance of \$612,612 in the Appropriation to Communities function.

## Capital Assets

By the end of 2015, the Borough had invested \$16,827,842 in equipment, buildings and improvements, all as governmental activities. The following table shows fiscal 2015 compared to 2014:

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

	<u>2015</u>	<u>2014</u>
Land	\$ 681,368	681,368
Buildings	6,376,861	6,477,716
Improvements other than buildings	9,743,815	10,033,925
Vehicles and equipment	<u>25,798</u>	<u>29,023</u>
Totals	\$ <u>16,827,842</u>	<u>17,222,032</u>

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

## Long-Term Debt

In FY15, the Borough expended \$2,421,820 in current year debt service retirements and interest. As of June 30, 2015, the Borough has \$18,745,000 in outstanding long-term bonds payable. This balance is made up of \$965,000 AMBBA 2006 Series A, General Obligation Bond Issue and \$17,780,000 AMBBA 2014 Series E, General Obligation Bond Issue. Additional information on the Borough's long-term debt can be found in the notes to the financial statements.

## Current Considerations

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

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

## Contacting the Borough's Financial Management

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

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# **BASIC FINANCIAL STATEMENTS**



## LAKE AND PENINSULA BOROUGH

## Statement of Net Position

June 30, 2015

<u>Assets and deferred outflows of resources</u>	<u>Primary Government</u>	<u>Component Unit School District</u>
Current assets:		
Cash and cash equivalents	\$ 9,533,042	533,513
Investments	18,441,937	1,243,629
Accrued interest	-	9,026
Inventories	-	339,219
Receivables:		
Taxes	345,245	-
Grants	13,680	-
Other	64,673	1,352,861
Prepaid items	-	487,333
Total current assets	<u>28,398,577</u>	<u>3,965,581</u>
Long-term assets:		
Long-term investments	-	2,164,436
Accounts receivable	-	183,441
Deferred contributions to Lake and Peninsula Borough	-	16,241,828
Capital assets	56,315,456	1,840,451
Accumulated depreciation	(39,487,614)	(1,617,016)
Total long-term assets	<u>16,827,842</u>	<u>18,813,140</u>
Deferred outflows of resources:		
Pension deferrals	<u>28,859</u>	<u>21,969</u>
Total assets and deferred outflows of resources	<u>\$ 45,255,278</u>	<u>22,800,690</u>
<u>Liabilities and deferred inflows of resources</u>		
Current liabilities:		
Accounts payable	\$ 268,572	228,709
Accrued payroll and payroll liabilities	43,793	500,718
Accrued health claims	-	265,357
Unearned revenue	-	168,584
Due to student groups	-	511,475
Notes payable - due within one year	1,600,000	-
Total current	<u>1,912,365</u>	<u>1,674,843</u>
Long term liabilities:		
Bonds payable	18,815,260	-
Net pension liability	451,098	17,364,182
Total long term liabilities	<u>19,266,358</u>	<u>17,364,182</u>
Deferred inflows of resources:		
Pension deferrals	<u>164,764</u>	<u>1,769,091</u>
Total liabilities and deferred inflows of resources	<u>21,343,487</u>	<u>20,808,116</u>
<u>Net Position</u>		
Net investment in capital assets	-	223,435
Restricted:		
Unearned contributions	-	16,241,829
Career and vocational education	-	45,269
Scholarships	234,303	-
Unrestricted	23,677,488	(14,517,959)
Total net position	<u>\$ 23,911,791</u>	<u>1,992,574</u>

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

## LAKE AND PENINSULA BOROUGH

## Statement of Activities

Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Unit
					Total Governmental Activities	School District
Primary government:						
Governmental activities:						
Assembly	\$ 198,125	-	-	-	(198,125)	-
Planning commission	38,422	-	-	-	(38,422)	-
Administration	681,768	-	14,193	-	(667,575)	-
Elections	14,357	-	-	-	(14,357)	-
Community development	1,130,523	-	643,144	-	(487,379)	-
Resource management	59,586	-	-	-	(59,586)	-
Culture, education, and recreation	1,419,373	371,660	-	1,861,754	814,041	-
Appropriations to communities	1,004,305	-	-	-	(1,004,305)	-
Scholarships	12,212	-	500	-	(11,712)	-
Unallocated interest	1,051,820	-	-	-	(1,051,820)	-
Total primary government	\$ 5,610,491	371,660	657,837	1,861,754	(2,719,240)	-
Component Unit - School District	\$ 24,459,011	288,851	11,760,760	13,601,640	-	1,192,240
General revenues:						
Raw fish taxes				\$ 1,382,705	-	
Bed tax				263,002	-	
Permit fees				280,611	-	
Unrestricted Borough appropriation				-	722,424	
Unrestricted investment and interest earnings				137,313	27,119	
Unrestricted local revenue				-	187,367	
E-rate				-	684,690	
Grants not restricted to specific programs				2,449	11,017,777	
Fisheries business tax				556,758	-	
Shared fisheries taxes				26,182	-	
State revenue sharing				590,483	-	
Refuge revenue sharing				9,652	-	
Payment in lieu of taxes - federal				260,895	-	
Other				218,526	-	
Total general revenues				3,728,576	12,639,377	
Net transfers				(13,808,851)	-	
Capital assets transferred to the Borough				1,037,200	(1,037,200)	
Total general revenues and transfers				(9,043,075)	11,602,177	
Change in net position				(11,762,315)	12,794,417	
Net position - beginning of year, as previously stated				36,660,131	8,616,801	
Cumulative effect of a change in accounting principle				(986,025)	(19,418,644)	
Net position - beginning as restated				35,674,106	(10,801,843)	
Net position - end of year				\$ 23,911,791	1,992,574	

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

LAKE AND PENINSULA BOROUGH  
Balance Sheet - Governmental Funds

June 30, 2015

Assets	Special Revenue Funds					Total Governmental Funds
	General Fund	School Endowment	Borough Permanent Reserve	Tanlian School Addition	Other Governmental Funds	
Cash and cash equivalents	\$ 1,171,036	-	1,073,505	7,034,437	254,064	9,533,042
Investments	1,952,661	6,574,439	7,046,031	2,420,059	448,747	18,441,937
Receivables:						
Taxes	345,245	-	-	-	-	345,245
Grants	-	-	-	-	13,680	13,680
Other	64,673	-	-	-	-	64,673
Due from other funds	3,787,786	-	-	-	783	3,788,569
Total assets	\$ 7,321,401	6,574,439	8,119,536	9,454,496	717,274	32,187,146
<u>Liabilities and Fund Balances</u>						
Liabilities:						
Accounts payable	130,937	-	-	-	137,635	268,572
Accrued payroll and payroll liabilities	43,793	-	-	-	-	43,793
Due to other funds	783	21,254	-	3,712,541	53,991	3,788,569
Total liabilities	175,513	21,254	-	3,712,541	191,626	4,100,934
Fund Balances:						
Restricted -						
Scholarships	-	-	-	-	234,303	234,303
Committed:						
School Endowment	-	6,553,185	-	-	-	6,553,185
Borough Permanent Reserve	-	-	8,119,536	-	-	8,119,536
Kokhanok Wind Generation	-	-	-	-	17,372	17,372
Resident Fish Sampling	-	-	-	-	29,988	29,988
Borough Capital Projects	-	-	-	-	276,620	276,620
Tanlian School Addition	-	-	-	5,741,955	-	5,741,955
Unassigned	7,145,888	-	-	-	(32,635)	7,113,253
Total fund balances	7,145,888	6,553,185	8,119,536	5,741,955	525,648	28,086,212
Total liabilities and fund balances	\$ 7,321,401	6,574,439	8,119,536	9,454,496	717,274	32,187,146

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

## LAKE AND PENINSULA BOROUGH

Reconciliations of Net Position Between the  
Government-wide and Fund Financial Statements

June 30, 2015

Amounts reported as fund balances on the governmental fund balance sheet	\$	28,086,212
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds		16,827,842
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Long-term debt		(18,745,000)
Bond premium		(1,670,260)
Proportionate share of the collective net pension liability		(451,098)
Pension related assets in the current fiscal year are presented as a change in deferred outflows of resources.		28,859
Pension related liabilities in the current fiscal year are presented as a change in deferred inflows of resources.		(164,764)
	\$	<u>23,911,791</u>

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

LAKE AND PENINSULA BOROUGH

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

Year Ended June 30, 2015

	General Fund	Special Revenue Funds				Debt Service Fund	Other Governmental Funds	Total Governmental Funds
		School Endowment	Borough Permanent Reserve	Tanlian School Addition				
<b>Revenues:</b>								
Local sources:								
Taxes	\$ 1,369,166	-	276,541	-	-	-	-	1,645,707
Permit fees	280,611	-	-	-	-	-	-	280,611
Charges for services	371,660	-	-	-	-	-	-	371,660
Investment earnings (loss)	(584)	33,701	36,540	65,048	-	-	2,608	137,313
Other	218,526	-	-	-	-	-	10,635	229,161
Intergovernmental:								
State of Alaska	1,303,334	-	-	-	-	1,861,754	134,991	3,300,079
Federal sources	270,547	-	-	-	-	494,245	764,792	1,529,584
Total revenues	<u>3,813,260</u>	<u>33,701</u>	<u>313,081</u>	<u>65,048</u>	<u>1,861,754</u>	<u>642,479</u>		<u>6,729,323</u>
<b>Expenditures:</b>								
Current:								
Assembly	198,125	-	-	-	-	-	-	198,125
Planning commission	38,422	-	-	-	-	-	-	38,422
Administration	1,080,273	-	-	-	-	-	-	1,080,273
Elections	14,357	-	-	-	-	-	-	14,357
Community development	162,228	-	-	-	-	1,075,083	-	1,237,311
Resource management	59,586	-	-	-	-	-	-	59,586
Culture, education, and recreation	84,000	-	-	-	-	-	-	84,000
Appropriations to communities	1,004,305	-	-	-	-	-	-	1,004,305
Scholarships	-	-	-	-	-	12,212	-	12,212
Debt service:								
Principal	-	-	-	-	1,370,000	-	-	1,370,000
Interest	-	-	-	-	1,051,820	-	-	1,051,820
Total expenditures	<u>2,641,296</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,421,820</u>	<u>1,087,295</u>		<u>6,150,411</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,171,964</u>	<u>33,701</u>	<u>313,081</u>	<u>65,048</u>	<u>(560,066)</u>	<u>(444,816)</u>		<u>578,912</u>
<b>Other financing sources (uses):</b>								
Transfers in	-	-	-	-	560,066	-	397,252	957,318
Transfers out	(957,318)	-	-	-	-	-	-	(957,318)
Transfers out - Component Unit	(722,424)	-	-	(13,086,427)	-	-	-	(13,808,851)
Net other financing sources (uses)	<u>(1,679,742)</u>	<u>-</u>	<u>-</u>	<u>(13,086,427)</u>	<u>560,066</u>	<u>397,252</u>		<u>(13,808,851)</u>
Net change in fund balances	(507,778)	33,701	313,081	(13,021,379)	-	(47,564)		(13,229,939)
Fund balance, beginning of year	7,653,666	6,519,484	7,806,455	18,763,334	-	573,212		41,316,151
Fund balances, end of year	<u>\$ 7,145,888</u>	<u>6,553,185</u>	<u>8,119,536</u>	<u>5,741,955</u>	<u>-</u>	<u>525,648</u>		<u>28,086,212</u>

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

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

Year Ended June 30, 2015

Net change in fund balances - total governmental funds \$ (13,229,939)

The change in net position reported for governmental activities in the Statement of Activities is different because:

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 328,972

Amortization of deferred outflow of resources 41,191

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

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

Capital outlay	-
Capital assets transferred to borough from the school district	1,037,200
Depreciation expense	<u>(1,381,390)</u>
	<u>(344,190)</u>

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

Cost of assets disposed	(79,507)
Accumulated depreciation of assets disposed	<u>29,507</u>
	<u>(50,000)</u>

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

Bond premium amortization	92,792
Principal payments	<u>1,370,000</u>
	<u>1,462,792</u>

Changes in deferred inflow and outflow of resources are the results of timing differences in the actuarial report.

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.

28,859

Change in net position of governmental activities \$ (11,762,315)

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

## LAKE AND PENINSULA BOROUGH

## General Fund

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

Year Ended June 30, 2015

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget- Positive (Negative)
Revenues:			
Local sources:			
Taxes	\$ 2,135,000	1,369,166	(765,834)
Permit fees	332,500	280,611	(51,889)
Charges for services	365,600	371,660	6,060
Investment earnings (loss)	250,000	(584)	(250,584)
Other	1,000	218,526	217,526
Total local sources	<u>3,084,100</u>	<u>2,239,379</u>	<u>(844,721)</u>
Intergovernmental:			
State of Alaska	1,028,000	1,303,334	275,334
Federal sources	10,312	270,547	260,235
Total revenues	<u>4,122,412</u>	<u>3,813,260</u>	<u>(309,152)</u>
Expenditures:			
Current:			
Assembly	207,780	198,125	9,655
Nonvoting representatives	1,600	-	1,600
Planning commission	67,475	38,422	29,053
Administration	1,060,033	1,080,273	(20,240)
Elections	9,250	14,357	(5,107)
Community development	167,414	162,228	5,186
Resource management	52,500	59,586	(7,086)
Culture, education, and recreation	89,000	84,000	5,000
Appropriations to communities	391,693	1,004,305	(612,612)
Total expenditures	<u>2,046,745</u>	<u>2,641,296</u>	<u>(594,551)</u>
Excess of revenues over expenditures	<u>2,075,667</u>	<u>1,171,964</u>	<u>(903,703)</u>
Other financing sources (uses):			
Transfers out	(1,055,385)	(957,318)	98,067
Transfers out - Component unit	(776,424)	(722,424)	54,000
Net other financing sources (uses)	<u>(1,831,809)</u>	<u>(1,679,742)</u>	<u>152,067</u>
Net change in fund balance	<u>\$ 243,858</u>	<u>(507,778)</u>	<u>(751,636)</u>
Fund balance, beginning of year		<u>7,653,666</u>	
Fund balance, end of year		<u>\$ 7,145,888</u>	

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

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# LAKE AND PENINSULA BOROUGH

## Notes to Financial Statements

June 30, 2015

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

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

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

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

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

**B. Government-Wide and Fund Financial Statements**

The Government-Wide Financial Statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Borough and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Borough does not presently have any business-type activities. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers who purchase, use or directly benefit from goods or services provided by a given function or department and 2) grants and contributions that are restricted to meeting the operations or capital requirements of a particular function or department. Other items not properly included among program revenues are reported instead as *general revenues*.

Deferred inflows of resources are the acquisition of fund balance/net position by the Borough that are applicable to a future reporting period. Deferred outflows of resources are the consumption of fund balance/net position by the Borough that are applicable to future reporting period.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the Fund Financial Statements. All other funds are presented in a single column as "other governmental funds".

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

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

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

LAKE AND PENINSULA BOROUGH

Notes to Financial Statements, Continued

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

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

**Intergovernmental Revenue:**

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

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

**Local Revenue:**

Fish tax, bed tax and permit fees revenue are recognized when earned and measurable. Rental revenues are recognized when earned.

Interest earnings on investments are recognized as earned.

**The Borough reports the following major governmental funds:**

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

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

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

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

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

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

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

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

LAKE AND PENINSULA BOROUGH

Notes to Financial Statements, Continued

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

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

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

- (a) Obligations of, or obligations insured by or guaranteed by, the United States or agencies or instrumentalities of the United States. At least 50% of the investment portfolio shall be invested in government securities at the time of purchase;
- (b) Certificates of Deposit and term deposits of United States domestic banks that are members of the Federal Deposit Insurance Corporation, those over \$250,000 must be secured by eligible collateral;
- (c) Repurchase and reverse repurchase agreements secured by obligations of the Treasury of the United States and obligations of an agency or instrumentality of the United States. A Master Repurchase Agreement must be signed with the bank or dealer, before repurchase agreements are entered into. Investments in terms of repurchase agreements shall not exceed 50% of the investment portfolio at the time of purchase;
- (d) The Alaska Municipal League Investment Pool, Inc. made in accordance with the terms of that Pool's "Common Investment Agreement"; and in accordance with AS 37.23.013 - 37.23.900;
- (e) Commercial paper and other short-term taxable Instruments that, at the time of investment, maintain the highest rating by at least two nationally recognized rating services. Not more than 20% of the portfolio will be invested in Commercial Paper at the time of purchase and not more than 2.5% of the portfolio may be invested in the Commercial Paper of any one issuer. In addition, Commercial Paper will not be purchased unless the spread in interest rates above similar term government securities is at least 25 basis points (.25%) at the time of purchase;
- (f) Obligations of a corporation domiciled in the United States or obligations of a municipality if the obligations are rated AA or higher by at least one nationally recognized rating service at the time of the investment. Not more than 10% of the portfolio will be invested in Corporate Debt at the time of purchase and not more than 2.5% of the portfolio may be invested in the Corporate Debt of any one user. In addition, Corporate Debt will not be purchased unless the spread in interest rates above similar term government securities is at least 20 basis points (.20%) at the time of purchase;
- (g) Money market funds in which the securities of the funds consist of obligations listed in this section and otherwise meet the requirements of this investment policy;

LAKE AND PENINSULA BOROUGH

Notes to Financial Statements, Continued

- (h) Mutual funds in which the holdings of the funds consist of: preferred and/or common stock of corporations incorporated in the United States; preferred and/or common stock of nondomestic corporations, corporate debt of corporations incorporated in the United States; corporate debt of nondomestic corporations; real estate, real estate related securities and Real Estate Investment Trust (REIT's); and/or other securities or obligations listed in this section and which otherwise meet the requirements of this investment policy. At least 75% of the Mutual fund portfolio shall have at least a 4 Star Overall or 4 Star 3-Year Rating by Morningstar, Inc. at the time of purchase. Funds with a 4 Star Overall or 4 Star 3-Year Rating shall have a Category Rating of 5 and/or a Category Risk Rating of Low or Below Average at the time of purchase. No more than 25% of the mutual fund portfolio may be invested in mutual funds not meeting these criteria. Not more than 20% of the total investment portfolio will be invested in Equity and Real Estate Mutual Funds at the time of purchase. This will consist of no more than 5% of the total investment portfolio being invested in international (nondomestic) funds at the time of purchase and no more than 5% of the total investment portfolio being invested in Real Estate funds at the time of purchase. No more than 10% of the total investment portfolio may be invested in any one fund.

As of June 30, 2015 the Borough was not in compliance with its investment policy regarding 50% of the investment portfolio being invested in government securities. At year-end, only 49% of the investment portfolio was invested in government securities. This was caused by management's needs for high liquidity investments that could be sold to pay for construction costs associated with the Tanlian School Addition. Management is aware they are not in compliance with the policy and believe the situation will be resolved by June 30, 2016.

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

The manager is required to produce monthly disclosure statements on the pool. The pool also has retained an investment adviser who monitors the performance of the investment manager to ensure compliance with investment policies. All participation in the pool is voluntary. The pool must maintain a dollar-weighted average maturity of 90 days or less, and only purchase instruments having remaining maturities of 397 days or less. On a monthly basis, the investments in the pool are reviewed for fair value by an independent pricing service. As of June 30, 2015, the fair value of the investments in the pool approximates amortized cost and is equal to the value of pool shares. To obtain a copy of AMLIP's financial statements contact Key Trust of Alaska at 101 West Benson Blvd., Room 302, Anchorage, AK 99503.

LAKE AND PENINSULA BOROUGH

Notes to Financial Statements, Continued

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

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

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

**3. Inventories and Prepaid Items**

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

**4. Receivables**

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

Revenues from taxes, net of estimated refunds, are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period in the Fund Financial Statements. As a result, Raw Fish Tax and Bed Tax payments made after year-end and within 60 days of year end, relating to the tax period ending at June 30, 2015, are recorded as receivable.

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

**5. Capital Assets**

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

## LAKE AND PENINSULA BOROUGH

### Notes to Financial Statements, Continued

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

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

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

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

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

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

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

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

#### **9. 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 Borough'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. The Borough has restricted net position for scholarships.
- Unrestricted – all other net position is reported in this category.

**10. Fund Balance**

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

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

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

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

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

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

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

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

# LAKE AND PENINSULA BOROUGH

## Notes to Financial Statements, Continued

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

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and Special Revenue Funds. Encumbrances outstanding at year end are reported in assigned fund balances since they do not constitute expenditures or liabilities. The amount of encumbrances, if significant, are disclosed in the Notes to the Basic Financial Statements as commitments. Unexpended balances and appropriations of grants from the state and federal government for the Special Revenue Funds lapse at June 30.

### 11. Retirement Plans

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

The Borough has adopted GASB Codification P20, *Accounting for Pensions by State and Local Governmental Employers* and GASB Codification P50, *Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pension*. GASB Codification P20 and P50 establish uniform standards for the measurement, recognition, and display of pension and postretirement health and expenditures/expense and related liabilities, assets, note disclosure and applicable required supplementary information in the financial reports of the state and local governmental employers.

## II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### A. Budgetary Information

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

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

LAKE AND PENINSULA BOROUGH

Notes to Financial Statements, Continued

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

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

No budget is prepared for the Debt Service Fund.

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

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

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

	Amount in Excess of <u>Appropriations</u>
General Fund:	
Administration	\$ 20,240
Elections	5,107
Resource management	7,086
Appropriations to communities	612,612

**III. DETAILED NOTES ON ALL FUNDS**

**A. Cash and Investments**

A listing of the Borough's investments at June 30, 2015 is as follows:

	Fair Value	Maturities	
		1 - 5	6 - 10
U.S. Government obligations	\$ 11,836,845	11,836,845	-
Certificates of Deposit	6,605,092	6,605,092	-
Total	\$ 18,441,937	18,441,937	-

At June 30, 2015, the Borough also had cash and cash equivalents of \$9,533,042, including \$5,566,981 of cash equivalents held in various investment accounts.

LAKE AND PENINSULA BOROUGH

Notes to Financial Statements, Continued

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

Concentration of Credit Risk – The Borough limits its corporate and debt bonds to AA or higher. At June 30<sup>th</sup>, all corporate and debt bonds were AA1 to AAA. At June 30, 2015 the Borough had 49% of its investments in U.S. Government agency securities, which is in violation of the investment policy. This was due to the proceeds from the bond issue being invested in highly liquid, short term investments to pay construction costs for the new school building.

Custodial Credit Risk is the risk, for investments, that in the event of the failure of the counterparty, the Borough will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Borough had no debt securities exposed to credit risk at June 30, 2015. Custodial Credit Risk for deposits is reduced by the Borough policy requiring all deposits to be fully insured or collateralized. All deposits were fully insured or collateralized at June 30, 2015.

**B. Receivables**

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

	General Fund	Other Governmental Funds	Total
Taxes	\$ 345,245	-	345,245
Grant	-	13,680	13,680
Other	64,673	-	64,673
Total	\$ <u>409,918</u>	<u>13,680</u>	<u>423,598</u>

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

LAKE AND PENINSULA BOROUGH

Notes to Financial Statements, Continued

**C. Capital Assets**

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

	Balance June 30, 2014	Transfer from School District	Increases	Decreases	Balance June 30, 2015
Land	\$ 681,368	-	-	-	681,368
Buildings	39,053,967	603,394	-	(50,000)	39,607,361
Improvements other than buildings	15,536,769	433,806	-	-	15,970,575
Vehicles	61,755	-	-	(29,507)	32,248
Equipment	23,904	-	-	-	23,904
Total	<u>54,676,395</u>	<u>1,037,200</u>	<u>-</u>	<u>(79,507)</u>	<u>55,634,088</u>
Accumulated depreciation:					
Buildings	32,576,251	-	654,249	-	33,230,500
Improvements other buildings	5,502,844	-	723,916	-	6,226,760
Vehicles	32,732	-	3,225	(29,507)	6,450
Equipment	23,904	-	-	-	23,904
Total accumulated depreciation	<u>38,135,731</u>	<u>-</u>	<u>1,381,390</u>	<u>(29,507)</u>	<u>39,487,614</u>
Net capital assets being depreciated	<u>16,540,664</u>	<u>1,037,200</u>	<u>(1,381,390)</u>	<u>(50,000)</u>	<u>16,146,474</u>
Total capital assets	<u>\$ 17,222,032</u>	<u>1,037,200</u>	<u>(1,381,390)</u>	<u>(50,000)</u>	<u>16,827,842</u>

During the year, it was determined that the Pedro Bay School building and improvements had become impaired. The number of school age children in the village was so low, it was determined that the likelihood of the school opening again was extremely remote. Therefore, an impairment loss of \$50,000 was recognized in the current year to write down the book value of this asset. The impairment loss was recorded in the Culture, Education and Recreation function in the Statement of Activities.

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

Administration	\$ 3,225
Culture, education and recreation	<u>1,378,165</u>
	<u>\$ 1,381,390</u>

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

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

LAKE AND PENINSULA BOROUGH

Notes to Financial Statements, Continued

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

Interfund receivables and payables are shown as "Due To" and "Due From" in each of the individual funds. These balances for the primary government at June 30, 2015 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	School Endowment Special Revenue Fund	\$ 21,254
	Tanlian School Addition Special Revenue Fund	3,712,541
	Other Governmental Funds	53,991
Other Governmental Funds	General Fund	<u>783</u>
		<u>\$ 3,788,569</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.

Interfund transfers for the year ended June 30, 2015 consisted of the following:

	<u>Transfers In</u>			<u>Total</u>
	<u>Debt</u>	<u>Other</u>		
<u>Transfers Out</u>	<u>Service</u>	<u>Governmental</u>		
	<u>Fund</u>	<u>Funds</u>		
General Fund	\$ <u>560,066</u>	<u>397,252</u>		<u>957,318</u>

Transfers are used to move unrestricted General Fund revenues to finance various programs that the Borough must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs. The Borough also transferred \$722,424 to its component unit from the General Fund as part of the Borough's annual appropriation. The Borough transferred \$13,086,427 to its component unit from the Tanlian School Addition Special Revenue Fund to pay for ongoing construction costs of a few school building.

LAKE AND PENINSULA BOROUGH

Notes to Financial Statements, Continued

**E. Long-Term Debt**

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

	Balance July 1, 2014	Debt Acquired	Debt Retired	Balance June 30, 2015	Due Within One Year
2006 Series A Capital Improvement Bond, issued May 22, 2006 for \$8,122,000, interest rate of 4.0%, due in installments through 2016, payable to Alaska Municipal Bond Bank Authority.	\$ 1,890,000	-	925,000	965,000	965,000
2014 Series E Capital Improvement Bond, issued Nov 22, 2014 for \$18,255,000, variable interest rates of 2.0%-5.0%, due in installments through 2033, payable to Alaska Municipal Bond Bank Authority. Authorized amount was \$18,225,000.	18,225,000	-	445,000	17,780,000	635,000
Total Bonds	\$ <u>20,115,000</u>	<u>-</u>	<u>1,370,000</u>	<u>18,745,000</u>	<u>1,600,000</u>
Unamortized premium on 2014 Capital Improvement Bond				1,670,260	
				\$ <u>20,415,260</u>	

Annual debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 1,600,000	828,051	2,428,051
2017	645,000	775,088	1,420,088
2018	665,000	756,950	1,421,950
2019	690,000	729,850	1,419,850
2020	715,000	708,900	1,423,900
2021-2025	4,070,000	3,046,375	7,116,375
2026-2030	5,200,000	1,905,750	7,105,750
2031-2034	5,160,000	525,500	5,685,500
	\$ <u>18,745,000</u>	<u>9,276,464</u>	<u>28,021,464</u>

LAKE AND PENINSULA BOROUGH

Notes to Financial Statements, Continued

**IV. OTHER INFORMATION**

**A. Related Party Transactions**

As a result of the Borough's business activities and location of its operations, some airline services are somewhat limited. A local airline, Lake Clark Airlines is owned by a member of the Borough's Assembly. The total services purchased from this airline company amounted to \$5,975 for the fiscal year.

An annual appropriation is made to the School District. For the year ended June 30, 2015 the annual appropriation was \$722,424.

During the year the School District transferred \$1,037,200 of capital assets to the Borough.

**B. Employee Retirement Systems and Plans**

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

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

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 are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The Borough's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair value.

LAKE AND PENINSULA BOROUGH

Notes to Financial Statements, Continued

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

Plan Name	Type of Plan
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).

*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 Borough 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/dr/pers>.

LAKE AND PENINSULA BOROUGH

Notes to Financial Statements, Continued

*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.

*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.

## LAKE AND PENINSULA BOROUGH

### Notes to Financial Statements, Continued

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

*Termination Costs.* If the Borough decides to terminate coverage for a department, group, or other classification of members, even if that termination results from the decision to divest of a particular Borough function, all affected employees in that department, group or other classification of members become immediately vested in the plan. The Borough must pay to have a termination study completed. The purpose of the study is to calculate the Borough's one-time termination costs. The costs represent the amount necessary to fully fund the costs of plan members who become vested through this process and for other changes in actuarial assumptions, such as, earlier than expected retirement, that arise from the act of termination of coverage. The Borough must pay a lump sum within 60 days of termination or arrange a payment plan that is acceptable to the PERS Administrator. For fiscal year 2015 the past service rate is 20.90%.

*Employee Contribution Rate.* The Borough PERS active members are required to contribute 6.75% (3.85% pension costs and 2.90% 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.

*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.

LAKE AND PENINSULA BOROUGH

Notes to Financial Statements, Continued

*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	\$ 28,859	21,771	50,630
2014	19,068	20,358	39,426
2013	22,817	29,094	51,911

For the year ended June 30, 2015 the State of Alaska contributed \$127,462 or 42.41% (pension cost) on-behalf of the Borough, which has been recorded in the fund financial statement under the modified-accrual basis of accounting. In the government-wide financial statements the on-behalf contribution has been adjusted to a total of \$17,966, to represent the on-behalf contribution made by the State under the full accrual basis of accounting.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:* At June 30, 2015, the Borough reported a liability that reflected a reduction for State pension support provided to the Borough. The amount recognized by the Borough 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 Borough were as follows:

Borough's proportionate share of the net pension liability	\$ 451,098
State's proportionate share of the net pension liability	<u>263,813</u>
Total	\$ <u>714,911</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 Borough's proportion of the net pension liability was based on a projection of the Borough'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 Borough's proportion was 0.0097%, which is a decrease of .0052% from its proportion measured as of June 30, 2013.

LAKE AND PENINSULA BOROUGH

Notes to Financial Statements, Continued

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%

*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 (7%)</u>	<u>Current Rate (8%)</u>	<u>1% Increase (9%)</u>
Net pension liability	\$ 591,476	451,098	332,887

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

*Plan Description and Funding Requirements.* School Boroughs and Public Employers in the State of Alaska have a defined contribution retirement plan (PERS Tier IV) for new hires first enrolled on or after July 1, 2006. Plan members make mandatory contributions of 8% of gross eligible compensation. This amount goes directly to the individual's account. State statutes require the employer to contribute 5% of employees' eligible compensation. Additionally, employers are required to contribute to OPEB (DB): 1.66% for the retiree medical plan (DB), 0.22% for occupational and death and disability benefits (DB) and 3% of employers average annual employee compensation to the health reimbursement arrangement (HRA DC). The effective employer contribution is 22%. Plan members are 100% vested with their contributions.

LAKE AND PENINSULA BOROUGH

Notes to Financial Statements, Continued

Members become vested in employers' contributions as follows:

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

Plan provisions and contribution requirements and amendments are established by the Alaska Retirement Management Board (ARMB). Total contributions for the year ended June 30, 2015 are as follows:

	<u>Employer</u>	<u>Employee</u>
Defined contribution – pension (DC)	\$ 13,674	21,878
Other post-employment benefits (DB):		
Retiree medical plan	4,540	-
Occupational death and disability benefits	602	-
Other post-employment benefits (DC) –		
Health reimbursement agreement (HRA )	7,681	-
Defined benefit unfunded liability (DBUL)	<u>33,668</u>	<u>-</u>
	<u>\$ 60,165</u>	<u>21,878</u>

Actual contributions were equal to the annual required contributions. The Defined Benefit Unfunded Liability (DBUL) is computed as the difference between the statutory employer contribution rate less employer contributions for the defined contribution, major medical, occupational death and disability and the health reimbursement arrangement. The DBUL calculation is allocated 57% pension and 43% OPEB.

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

		<u>Other Post-Employment</u>	
	<u>Pensions</u>	<u>Benefits</u>	<u>Total</u>
2015	\$ 32,865	27,300	60,165
2014	30,444	26,631	57,075
2013	27,557	26,918	54,475

**C. Alaska Supplemental Benefits Systems**

The Borough provides pension benefits for all of its classified employees through a defined contribution plan in lieu of participation in the federal social security system. In a defined contribution plan benefits depend solely on amounts contributed to the plan plus investment earning. Employees are eligible to participate from the date of employment. The State requires that both the employee and the Borough contribute an amount equal to 6.13% of the employee's base salary each month. The Borough's contributions for each employee (and interest allocated to the employee's amount) are immediately vested. The Borough's total SBS eligible payroll in fiscal year 2015 was \$322,116.

Both the Borough and the covered employees made the required 6.13% contribution, amounting to \$19,746 from each sources, or \$39,492 in total.

LAKE AND PENINSULA BOROUGH

Notes to Financial Statements, Continued

**D. Risk Management**

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

JIA Insurance

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

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

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

**E. Contingent Liabilities**

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

LAKE AND PENINSULA BOROUGH

Notes to Financial Statements, Continued

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

**F. Change in Accounting Principle**

As discussed in Note IV.C. to the financial statements, the Borough participates in the Alaska Public Employees' Retirement System (PERS). In 2015, the Borough 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 Borough to recognize its proportional share of the Net Pension Liability (and related deferred inflow/outflow accounts), as of the beginning of the Borough's fiscal year. As a result of the implementation of this statement, the Borough 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	\$ 36,660,131
Change in accounting principle adjustment	<u>(986,025)</u>
Opening net position, as restated	\$ <u>35,674,106</u>

**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 Borough.

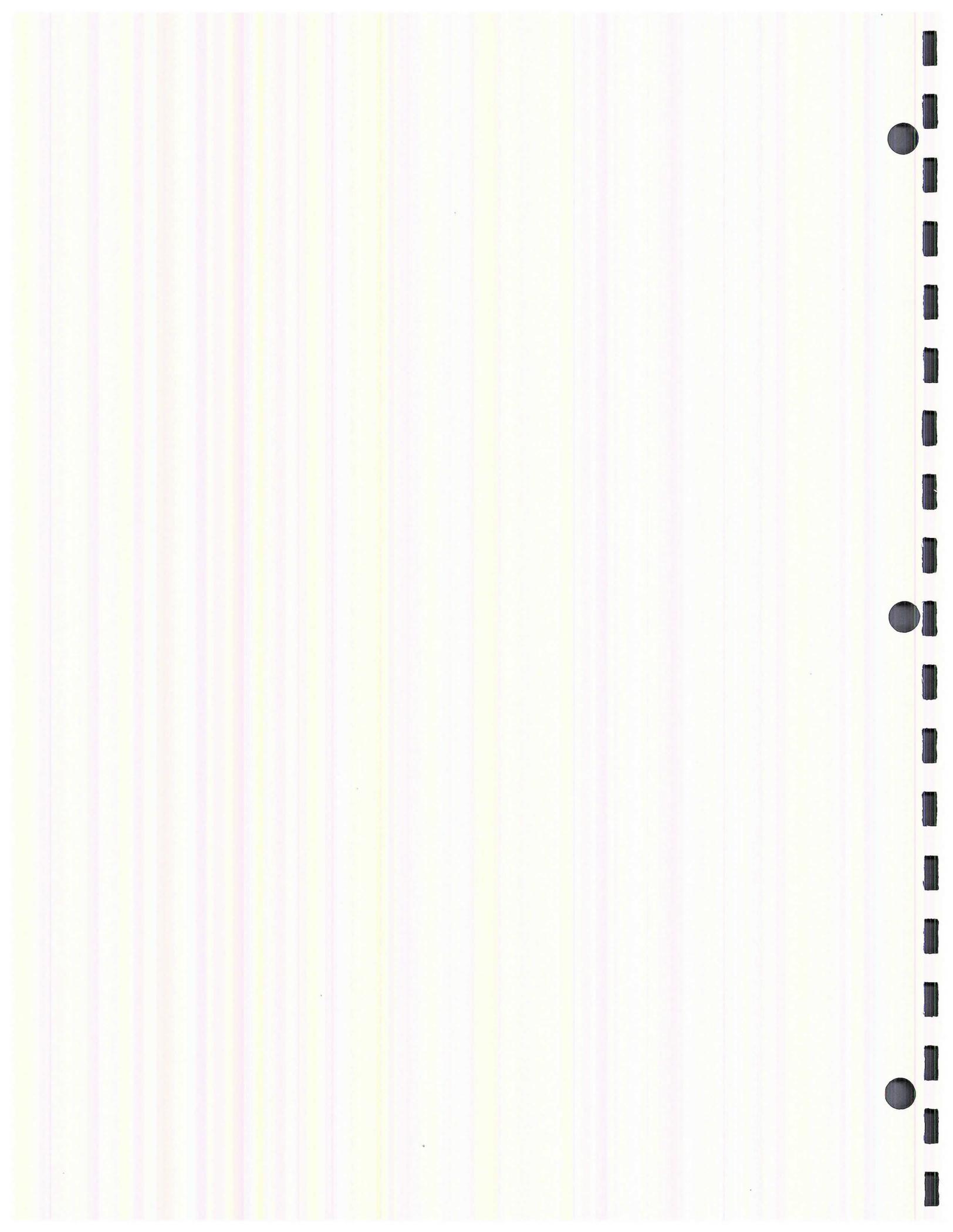
LAKE AND PENINSULA BOROUGH

Notes to Financial Statements, Continued

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

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

**REQUIRED SUPPLEMENTARY  
INFORMATION**



## LAKE AND PENINSULA BOROUGH

## Schedule of Borough's Proportionate Share of the Net Pension Liability

## Public Employees' Retirement System

June 30, 2015

Borough's proportion of the net pension liability		0.0097%
Borough's proportionate share of net pension liability	\$	451,098
State's proportionate share of the net pension liability associated with the Borough		263,813
Total	\$	<u>714,911</u>
Borough's covered employee payroll	\$	259,432
Borough's proportionate share of the net pension liability as a percentage of its covered-employee payroll		174%
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.

LAKE AND PENINSULA BOROUGH  
 Schedule of Borough's Contributions  
 Public Employees' Retirement System  
 June 30, 2015

Contractually required contribution	\$	28,859
Contributions in relation to the contractually required contribution		<u>(28,859)</u>
Contribution deficiency		<u>-</u>
 Borough's covered-employee payroll	 \$	 230,136
Contributions as a percentage of covered employee payroll		12.54%

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**



LAKE AND PENINSULA BOROUGH

General Fund

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

Year Ended June 30, 2015

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget- Positive (Negative)
<b>Revenues:</b>			
Local sources:			
Taxes:			
Raw fish taxes	\$ 2,000,000	1,106,164	(893,836)
Bed tax	135,000	262,832	127,832
Penalties and interest on taxes	-	170	170
Total taxes	<u>2,135,000</u>	<u>1,369,166</u>	<u>(765,834)</u>
Permit fees:			
Licenses and permits	-	6,325	6,325
Professional guides	20,000	39,717	19,717
Development	1,500	800	(700)
Payment in lieu of development fees	310,000	232,500	(77,500)
Land use	1,000	1,269	269
Total permit fees	<u>332,500</u>	<u>280,611</u>	<u>(51,889)</u>
Charges for services -			
Rents	<u>365,600</u>	<u>371,660</u>	<u>6,060</u>
Investment earnings:			
Interest	65,000	41,233	(23,767)
Earnings on investment	185,000	(41,817)	(226,817)
Total investment earnings	<u>250,000</u>	<u>(584)</u>	<u>(250,584)</u>
Other			
Total local sources	<u>3,084,100</u>	<u>2,239,379</u>	<u>(844,721)</u>
Intergovernmental:			
State of Alaska:			
Shared fisheries taxes	35,000	26,182	(8,818)
Fisheries business tax	380,000	556,758	(380,000)
State revenue sharing	610,000	590,483	(19,517)
PERS on-behalf payment and rebate	-	127,462	127,462
Telephone/electric tax	3,000	2,449	(551)
Total State of Alaska	<u>1,028,000</u>	<u>1,303,334</u>	<u>275,334</u>
Federal sources:			
Payment in lieu of taxes	-	260,895	260,895
Refuge revenue sharing	10,312	9,652	(660)
Total federal sources	<u>10,312</u>	<u>270,547</u>	<u>260,235</u>
Total revenues	<u>4,122,412</u>	<u>3,813,260</u>	<u>(309,152)</u>
<b>Expenditures:</b>			
Current:			
Assembly:			
Insurance - health and life	85,000	82,564	2,436
Fringe benefits	1,900	1,619	281
Communications	2,250	1,142	1,108
Food	8,500	8,635	(135)
Travel	66,380	69,827	(3,447)
Registration and tuition	500	360	140
Stipends	13,000	11,200	1,800
Per diem	15,000	14,000	1,000
Lodging	15,000	8,728	6,272
Dues and fees	250	50	200
Total assembly	<u>207,780</u>	<u>198,125</u>	<u>9,655</u>
Nonvoting representatives -			
Transportation	1,000	-	1,000
Per diem	600	-	600
Total nonvoting representatives	<u>1,600</u>	<u>-</u>	<u>1,600</u>

(continued)

## LAKE AND PENINSULA BOROUGH

## General Fund

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

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget- Positive (Negative)
Expenditures, continued:			
Planning commission:			
Fringe benefits	\$ 525	311	214
Communications	-	85	(85)
Food	3,200	3,376	(176)
Travel	35,000	19,619	15,381
Stipends	7,750	4,100	3,650
Per diem	11,000	7,000	4,000
Lodging	10,000	3,931	6,069
Total planning commission	<u>67,475</u>	<u>38,422</u>	<u>29,053</u>
Administration:			
Salaries	350,356	305,211	45,145
Insurance - health and life	45,000	56,020	(11,020)
Fringe benefits	130,772	210,756	(79,984)
Accounting services	35,000	46,845	(11,845)
Advisory and consultant services	-	4,974	(4,974)
Legal services	125,000	83,635	41,365
Advertising	1,000	345	655
Lobbyist	55,000	55,593	(593)
Other contracted services	137,000	125,344	11,656
Utilities	7,850	7,247	603
Communications	13,750	13,952	(202)
Other purchased services	-	629	(629)
Rentals	2,500	3,773	(1,273)
Office equipment	5,100	5,798	(698)
Site repair and maintenance	7,500	118	7,382
Insurance and bond premiums	17,250	16,483	767
Supplies	8,100	14,595	(6,495)
Computer hardware/software	33,055	32,216	839
Office rental	4,350	3,012	1,338
Freight	-	191	(191)
Postage	5,750	5,137	613
Gas and oil	1,700	2,313	(613)
Food	2,500	2,196	304
Books and subscriptions	450	-	450
Travel	38,500	50,544	(12,044)
Registration and tuition	5,000	1,105	3,895
Per diem	7,500	3,400	4,100
Lodging	11,750	8,300	3,450
Dues and fees	3,500	5,680	(2,180)
Donations	1,000	-	1,000
Bank fees and charges	2,800	4,760	(1,960)
Other	1,000	10,101	(9,101)
Total administration	<u>1,060,033</u>	<u>1,080,273</u>	<u>(20,240)</u>

(continued)

## LAKE AND PENINSULA BOROUGH

## General Fund

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

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget- Positive (Negative)
Expenditures, continued:			
Elections:			
Advertising	1,000	179	821
Supplies	6,500	9,803	(3,303)
Computer hardware	-	3,100	
Food	250	145	105
Postage	1,000	1,030	(30)
Per diem	-	100	(100)
Other	500	-	500
Total elections	9,250	14,357	(5,107)
Community development:			
Salaries	83,274	73,680	9,594
Insurance - health and life	6,500	9,302	(2,802)
Fringe benefits	24,640	47,177	(22,537)
Advisory and consultant services	3,000	-	3,000
Advertising	500	-	500
Mapping	27,000	17,376	9,624
Computer hardware	-	3,100	(3,100)
Postage	-	13	(13)
Food	-	103	(103)
Books and periodicals	500	-	500
Travel	10,000	6,441	3,559
Registration and tuition	1,500	455	1,045
Per diem	5,000	3,040	1,960
Lodging	5,000	1,541	3,459
Other	500	-	500
Total community development	167,414	162,228	5,186
Resource management:			
Fisheries advisory committee:			
Advisory and consultant services	45,000	58,500	(13,500)
Transportation	5,000	936	4,064
Registration and tuition	-	150	(150)
Lodging	2,500	-	2,500
Total resource management	52,500	59,586	(7,086)
Culture, education, and recreation:			
Vo-tech program	54,000	54,000	-
Donations	35,000	30,000	5,000
Total culture, education, and recreation	89,000	84,000	5,000
Appropriations to communities:			
Shared fisheries business tax	35,000		35,000
Borough revenue sharing	171,227	201,181	(29,954)
State community revenue sharing	185,466	181,800	3,666
Community development	-	564,401	(564,401)
Engineering and architecture	-	51,479	(51,479)
Other - Iliamna dock transfers	-	4,444	(4,444)
Other - site repair	-	1,000	(1,000)
Total appropriations to communities	391,693	1,004,305	(612,612)
Total expenditures	2,046,745	2,641,296	(594,551)
Excess of revenues over expenditures	2,075,667	1,171,964	(903,703)

(continued)

LAKE AND PENINSULA BOROUGH

General Fund

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

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget- Positive (Negative)
Other financing sources (uses) -			
Transfers out:			
Debt service fund	\$ (545,385)	(560,066)	(14,681)
Permanent Fund	(400,000)	-	400,000
Special revenue funds:			
CIAP Levelock Erosion	-	(12,217)	(12,217)
Chignik Dock	-	(6,108)	(6,108)
Chignik Lake Generators	-	(47,335)	(47,335)
Egegik Wind Feasibility	(30,000)	(4,003)	25,997
AEA Levelock Wind Study	-	(7,525)	(7,525)
Borough Projects Capital Project Fund	(80,000)	(320,064)	(240,064)
Component unit	(776,424)	(722,424)	54,000
Net other financing sources (uses)	<u>(1,831,809)</u>	<u>(1,679,742)</u>	<u>152,067</u>
Net change in fund balance	\$ <u>243,858</u>	(507,778)	<u>(751,636)</u>
Fund balance, beginning of year		<u>7,653,666</u>	
Fund balance, end of year		\$ <u><u>7,145,888</u></u>	

LAKE AND PENINSULA BOROUGH

School Endowment Special Revenue Fund

Schedule of Revenues, Expenditures and Changes  
in Fund Balance

Year Ended June 30, 2015

Revenues - local sources - investment earnings	\$	33,701
Expenditures		<u>-</u>
Excess of revenues over expenditures		33,701
Fund balance, beginning of year		<u>6,519,484</u>
Fund balance, end of year	\$	<u><u>6,553,185</u></u>

LAKE AND PENINSULA BOROUGH  
 Borough Permanent Reserve Special Revenue Fund  
 Schedule of Revenues, Expenditures and Changes  
 in Fund Balance  
 Year Ended June 30, 2015

Revenues:		
Local sources:		
Taxes	\$	276,541
Investment earnings		36,540
Total revenues		<u>313,081</u>
Expenditures		<u>-</u>
Excess of revenues over expenditures		313,081
Fund balance, beginning of year		<u>7,806,455</u>
Fund balance, end of year	\$	<u><u>8,119,536</u></u>

LAKE AND PENINSULA BOROUGH

Tanlian School Addition Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in  
Fund Balance

Year Ended June 30, 2015

Revenues - local sources - investment earnings	\$	65,048
Expenditures		<u>-</u>
Excess of revenues over expenditures		<u>65,048</u>
Other financing sources (uses) - Transfer to Component Unit		<u>(13,086,427)</u>
Net change in fund balance		(13,021,379)
Fund balance, beginning of year		<u>18,763,334</u>
Fund balance, end of year	\$	<u><u>5,741,955</u></u>

LAKE AND PENINSULA BOROUGH

Other Governmental Funds

Combining Balance Sheet

Year Ended June 30, 2015

	Special Revenue Funds										Totals	Borough Projects Capital Project Fund	Total Other Governmental Funds
	CIAP Scrap Cleanup	Chignik Dock Program	Egegik Wind Feasibility	Perryville Barge Landing	Kokhanok Wind Generator	Resident Fish Sampling	Iliamna Dock Rehab	Linda Johnson Memorial Scholarship					
<b>Assets</b>													
Cash and cash equivalents	\$ -	-	-	-	17,372	29,205	4,445	-	-	203,042	254,064	203,042	254,064
Investments	-	-	-	-	-	-	-	270,169	-	178,578	448,747	178,578	448,747
Grants receivables	5,896	-	784	7,000	-	-	-	-	-	-	13,680	-	13,680
Due from General Fund	-	-	-	-	-	783	-	-	-	-	783	-	783
Total assets	\$ 5,896	-	784	7,000	17,372	29,988	4,445	270,169	-	381,620	717,274	381,620	717,274
<b>Liabilities and Fund Balances</b>													
Accounts payable	\$ -	32,635	-	-	-	-	-	-	-	105,000	137,635	105,000	137,635
Unearned revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to General Fund	5,896	-	784	7,000	-	-	4,445	35,866	-	-	53,991	-	53,991
Total liabilities	5,896	32,635	784	7,000	-	-	4,445	35,866	-	105,000	191,626	105,000	191,626
Fund balances (deficit):													
Restricted -													
Scholarships	-	-	-	-	-	-	-	234,303	-	-	234,303	-	234,303
Committed:													
Kokhanok Wind Generation	-	-	-	-	17,372	-	-	-	-	-	17,372	-	17,372
Resident Fish Sampling	-	-	-	-	-	29,988	-	-	-	-	29,988	-	29,988
Borough Capital Projects	-	-	-	-	-	-	-	-	-	276,620	276,620	276,620	276,620
Unassigned fund balance	-	(32,635)	-	-	-	-	-	-	-	-	(32,635)	-	(32,635)
Total fund balances (deficit)	\$ -	(32,635)	-	-	17,372	29,988	-	234,303	-	276,620	525,648	276,620	525,648
	\$ 5,896	-	784	7,000	17,372	29,988	4,445	270,169	-	381,620	717,274	381,620	717,274

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LAKE AND PENINSULA BOROUGH

Other Governmental Funds

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

Year Ended June 30, 2015

Special Revenue Funds

	CAP - SSSE Program	CIAP Black Lake Study	CIAP Levelock Erosion	CIAP Scrap Cleanup	Chignik Dock Program	Chignik Lake Generators	Egegik Wind Feasibility	Perryville Barge Landing
Revenues:								
Local sources:								
\$	-	-	-	-	-	-	-	7,000
Other	-	-	-	-	-	-	-	-
Investment earnings	-	-	-	-	-	-	-	-
Intergovernmental:								
State sources	-	-	-	-	-	-	-	-
Federal sources	1,572	107,800	46,000	126,682	-	212,191	27,033	100,000
Total revenues	<u>1,572</u>	<u>107,800</u>	<u>46,000</u>	<u>126,682</u>	<u>-</u>	<u>212,191</u>	<u>27,033</u>	<u>107,000</u>
Expenditures:								
Current:								
Community development Scholarships	1,572	107,800	58,217	126,682	38,743	259,526	31,036	107,000
Total expenditures	<u>1,572</u>	<u>107,800</u>	<u>58,217</u>	<u>126,682</u>	<u>38,743</u>	<u>259,526</u>	<u>31,036</u>	<u>107,000</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	(12,217)	-	(38,743)	(47,335)	(4,003)	-
Other financing sources - Transfers in	-	-	12,217	-	6,108	47,335	4,003	-
Net change in fund balances	-	-	-	-	(32,635)	-	-	-
Fund balances, beginning of year	-	-	-	-	-	-	-	-
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (32,635)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

LAKE AND PENINSULA BOROUGH

Other Governmental Funds

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

Year Ended June 30, 2015

	Special Revenue Funds						Totals	Borough Projects Capital Project Fund	Total Other Governmental Funds
	Kokhanok Wind Generator	AEA Levelock Wind Study	Resident Fish Sampling	Williama Dock Rehab	Linda Johnson Memorial Scholarship				
Revenues:									
Local sources:									
Other	\$ -	-	-	3,135	500	10,635	-	10,635	
Investment earnings	-	-	-	-	1,783	1,783	825	2,608	
Intergovernmental:									
State sources	-	7,958	-	-	-	134,991	-	134,991	
Federal sources	-	-	-	-	-	494,245	-	494,245	
Total revenues	-	7,958	-	3,135	2,283	641,654	825	642,479	
Expenditures:									
Current:									
Community development	-	15,483	-	3,135	-	749,194	325,889	1,075,083	
Scholarships	-	-	-	-	12,212	12,212	-	12,212	
Total expenditures	-	15,483	-	3,135	12,212	761,406	325,889	1,087,295	
Excess (deficiency) of revenues over (under) expenditures	-	(7,525)	-	-	(9,929)	(119,752)	(325,064)	(444,816)	
Other financing sources:									
Transfers in	-	7,525	-	-	-	77,188	320,064	397,252	
Net change in fund balances									
Fund balances, beginning of year	17,372	-	29,988	-	(9,929)	291,592	281,620	573,212	
Fund balances, end of year	\$ 17,372	-	29,988	-	234,303	249,028	276,620	525,648	

LAKE AND PENINSULA BOROUGH

CAP - SSSE Program Special Revenue Fund

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

Year Ended June 30, 2015

	Final Budget Amounts	Actual Amounts	Variance with Final Budget- Positive (Negative)
Revenues - Intergovernmental - Federal sources passed through the State of Alaska	\$ <u>4,719</u>	<u>1,572</u>	<u>(3,147)</u>
Expenditures: Current: Community development - Travel and training	<u>4,719</u>	<u>1,572</u>	<u>3,147</u>
Excess of revenues over expenditures	\$ <u><u>-</u></u>	<u>-</u>	<u>-</u>
Fund balance, beginning of year		<u>-</u>	
Fund balance, end of year		\$ <u><u>-</u></u>	

LAKE AND PENINSULA BOROUGH

CIAP Black Lake Study Special Revenue Fund

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

Year Ended June 30, 2015

	<u>Final Budget Amounts</u>	<u>Actual Amounts</u>	Variance with Final Budget- Positive (Negative)
Revenues - Intergovernmental - Federal sources	\$ <u>107,800</u>	<u>107,800</u>	<u>-</u>
Expenditures:			
Current:			
Community development:			
Salaries		83,251	
Travel		6,053	
Supplies		9,546	
Contractual		8,950	
Total expenditures	<u>107,800</u>	<u>107,800</u>	<u>-</u>
Excess of revenues over expenditures	\$ <u><u>-</u></u>	-	<u><u>-</u></u>
Fund balance, beginning of year		<u>-</u>	
Fund balance, end of year		\$ <u><u>-</u></u>	

LAKE AND PENINSULA BOROUGH

CIAP Levelock Erosion Special Revenue Fund

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

Year Ended June 30, 2015

	Final Budget <u>Amounts</u>	Actual <u>Amounts</u>	Variance with Final Budget- Positive <u>(Negative)</u>
Revenues - Intergovernmental - Federal sources	\$ <u>46,000</u>	<u>46,000</u>	<u>-</u>
Expenditures:			
Current:			
Community development - Professional services	<u>46,000</u>	<u>58,217</u>	<u>(12,217)</u>
Excess (deficiency) of revenues over (under) expenditures	-	(12,217)	(12,217)
Other financing sources - Transfers in - General Fund	<u>-</u>	<u>12,217</u>	<u>12,217</u>
Net change in fund balance	<u>-</u>	<u>12,217</u>	<u>12,217</u>
Fund balance, beginning of year	\$ <u><u>-</u></u>	<u>-</u>	<u><u>-</u></u>
Fund balance, end of year		\$ <u><u>-</u></u>	

LAKE AND PENINSULA BOROUGH

CIAP Scrap Cleanup Special Revenue Fund

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

Year Ended June 30, 2015

	Final Budget Amounts	Actual		Variance with Final Budget- Positive (Negative)	
		Prior Years	Current Year		Total
Revenues - Intergovernmental - Federal sources	\$ 976,521	30,789	126,682	157,471	(819,050)
Expenditures:					
Current:					
Community development:					
Salaries		-	18,000	18,000	
Contractual		30,789	95,442	126,231	
Equipment		-	12,033	12,033	
Other		-	1,207	1,207	
Total expenditures	976,521	30,789	126,682	157,471	819,050
Excess of revenues over expenditures	\$ -	-	-	-	-
Fund balance, beginning of year			-		
Fund balance, end of year			\$ -		

## LAKE AND PENINSULA BOROUGH

## Chignik Dock Special Revenue Funds

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

Year Ended June 30, 2015

	Final Budget Amounts	Actual Amounts	Variance with Final Budget- Positive (Negative)
Revenues - Intergovernmental - Federal sources	\$ <u>2,000,000</u>	<u>-</u>	<u>(2,000,000)</u>
Expenditures:			
Current:			
Community development - Professional services	<u>2,086,000</u>	<u>38,743</u>	<u>2,047,257</u>
Excess (deficiency) of revenues over (under) expenditures	(86,000)	(38,743)	47,257
Other financing sources - Transfers in - General Fund	<u>86,000</u>	<u>6,108</u>	<u>92,108</u>
Net change in fund balance	\$ <u><u>-</u></u>	<u>(32,635)</u>	<u>139,365</u>
Fund balance, beginning of year		<u>-</u>	
Fund (deficit), end of year		\$ <u><u>(32,635)</u></u>	

LAKE AND PENINSULA BOROUGH

Chignik Lake Generators Special Revenue Funds

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

Year Ended June 30, 2015

	<u>Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
Revenues - Intergovernmental - Federal sources passed through the State of Alaska	\$ <u>212,191</u>	<u>212,191</u>	<u>-</u>
Expenditures:			
Current:			
Community development - Professional services	<u>212,191</u>	<u>259,526</u>	<u>(47,335)</u>
Excess (deficiency) of revenues over (under) expenditures	-	(47,335)	(47,335)
Other financing sources - Transfers in - General Fund	<u>-</u>	<u>47,335</u>	<u>47,335</u>
Net change in fund balance	\$ <u><u>-</u></u>	<u>-</u>	<u><u>-</u></u>
Fund balance, beginning of year		<u>-</u>	
Fund balance, end of year		\$ <u><u>-</u></u>	

LAKE AND PENINSULA BOROUGH  
 Egegik Wind Feasibility Special Revenue Fund  
 Schedule of Revenues, Expenditures and Changes  
 in Fund Balance - Budget and Actual  
 Year Ended June 30, 2015

	Final Budget Amounts	Prior Years	Actual Current Year	Total	Variance with Final Budget- Positive (Negative)
Revenues - Intergovernmental - State sources	\$ 60,000	13,551	27,033	40,584	(19,416)
Expenditures:					
Current:					
Community development - Professional services	60,000	14,057	31,036	45,093	14,907
Excess (deficiency) of revenues over (under) expenditures	-	(506)	(4,003)	(4,509)	(4,509)
Other financing sources:					
Transfers in - General Fund	-	506	4,003	4,509	4,509
Net change in fund balance	\$ -	-	-	-	-
Fund balance, beginning of year			-		
Fund balance, end of year			\$ -		

## LAKE AND PENINSULA BOROUGH

## Perryville Barge Landing Special Revenue Fund

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

Year Ended June 30, 2015

	Final Budget Amounts	Actual Amounts	Variance with Final Budget- Positive (Negative)
Revenues:			
Intergovernmental - State sources	\$ 100,000	100,000	-
Local sources - other	<u>-</u>	<u>7,000</u>	<u>(7,000)</u>
Total revenues	<u>100,000</u>	<u>107,000</u>	<u>7,000</u>
Expenditures:			
Current:			
Community development - Equipment	<u>100,000</u>	<u>107,000</u>	<u>(7,000)</u>
Excess of revenues over expenditures	\$ <u>-</u>	-	<u>-</u>
Fund balance, beginning of year		<u>-</u>	
Fund balance, end of year		<u>\$ -</u>	

## LAKE AND PENINSULA BOROUGH

## Kokhanok Wind Generator Special Revenue Fund

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

Year Ended June 30, 2015

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

LAKE AND PENINSULA BOROUGH

AEA Levelock Wind Study Special Revenue Fund

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

Year Ended June 30, 2015

	Final Budget Amounts	Prior Years	Current Year	Total	Variance with Final Budget- Positive (Negative)
Revenues - Intergovernmental - State sources	\$ 10,000	2,042	7,958	10,000	-
Expenditures:					
Current:					
Community development - Professional services	10,000	2,246	15,483	17,729	(7,729)
Excess (deficiency) of revenues over (under) expenditures	-	(204)	(7,525)	(7,729)	(7,729)
Other financing sources:					
Transfers in - General Fund	-	204	7,525	7,729	7,729
Net change in fund balance	\$ -	-	-	-	-
Fund balance, beginning of year			-		
Fund balance, end of year			\$ -		

LAKE AND PENINSULA BOROUGH  
Resident Fish Sampling Special Revenue Fund  
Schedule of Revenues, Expenditures and Changes in  
Fund Balance  
Year Ended June 30, 2015

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

LAKE AND PENINSULA BOROUGH

Iliamna Dock Rehab Special Revenue Fund

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

Year Ended June 30, 2015

	Final Budget Amounts	Prior Years	Actual Current Year	Total	Variance with Final Budget- Positive (Negative)
Revenues:					
Intergovernmental - federal sources	\$ 608,000	535,416	-	535,416	(72,584)
Local sources - other	-	-	3,135	3,135	3,135
Total revenues	<u>608,000</u>	<u>535,416</u>	<u>3,135</u>	<u>538,551</u>	<u>(69,449)</u>
Expenditures:					
Current:					
Community development -					
Professional services	<u>608,000</u>	<u>535,416</u>	<u>3,135</u>	<u>538,551</u>	<u>69,449</u>
Excess of revenues over expenditures	\$ <u>-</u>	<u>-</u>	-	<u>-</u>	<u>-</u>
Fund balance, beginning of year			-		
Fund balance, end of year			\$ <u>-</u>		

## LAKE AND PENINSULA BOROUGH

## Linda Johnson Memorial Scholarship Special Revenue Fund

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

Year Ended June 30, 2015

	Final Budget Amounts	Actual Amounts	Variance with Final Budget- Positive (Negative)
Revenues - local sources:			
Other	\$ -	500	500
Investment earnings	-	1,783	1,783
Total revenues	<u>-</u>	<u>2,283</u>	<u>2,283</u>
Expenditures:			
Current:			
Scholarships - grants to individuals	-	12,212	(12,212)
Excess (deficiency) of revenues over (under) expenditures	\$ <u>-</u>	(9,929)	<u>(9,929)</u>
Fund balance, beginning of year		<u>244,232</u>	
Fund balance, end of year		\$ <u><u>234,303</u></u>	

LAKE AND PENINSULA BOROUGH  
Borough Projects Capital Projects Fund  
Schedule of Revenues, Expenditures and Changes in  
Fund Balance  
Year Ended June 30, 2015

Revenues - local sources - investment earnings	\$ <u>825</u>
Expenditures:	
Community development - grants to communities	<u>325,889</u>
Excess (deficiency) of revenues over (under) expenditures	(325,064)
Other financing sources -	
Transfers in - General Fund	<u>320,064</u>
Net change in fund balance	(5,000)
Fund balance, beginning of year	<u>281,620</u>
Fund balance, end of year	\$ <u><u>276,620</u></u>

LAKE AND PENINSULA BOROUGH  
 Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2015

<u>Grant Title</u>	<u>Grant Number</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Total Grant Award</u>	<u>Federal Share of Expenditures</u>
U.S. Department of Housing and Urban Development - Passed through State of Alaska Department of Commerce, Community and Economic Development - Chignik Lake Generators	12-CDBG-006	14.228	\$ <u>212,191</u>	<u>212,191</u>
U.S. Department of Homeland Security - Passed through State of Alaska Department of Commerce, Community and Economic Development - CAP-SSSE Program	AR #29820	97.023	<u>4,719</u>	<u>1,572</u>
U.S. Department of the Interior: Direct:				
Refuge Revenue Sharing Act	None	15.659	9,652	9,652
Levelock Shoreline Erosion Study	F14AF00194	15.668	46,000	46,000
Black Lake Smolt Study	F12AF01296	15.668	107,800	107,800
Village Scrap and Hazardous Waste Collection, Preparation and Haul Out Project	F14AF00060	15.668	<u>976,521</u>	<u>126,682</u>
Total CFDA #15.668			<u>1,130,321</u>	<u>280,482</u>
Payment in Lieu of Taxes	None	15.226	<u>260,895</u>	<u>260,895</u>
Total U.S. Department of the Interior			<u>1,400,868</u>	<u>551,029</u>
Total federal expenditures			<u>\$ 1,617,778</u>	<u>764,792</u>

Notes to Schedule

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

LAKE AND PENINSULA BOROUGH  
 Schedule of State Financial Assistance  
 Year Ended June 30, 2015

<u>Grant Title</u>	<u>Grant Number</u>	<u>Total Grant Award</u>	<u>Eligible Expenditures</u>
Alaska Department of Commerce, Community and Economic Development -			
* Revenue Sharing	None	\$ 590,483	590,483
* Perryville Barge Landing Dock Design and Construction	07-DC-334	100,000	100,000
Total		<u>690,483</u>	<u>690,483</u>
Alaska Department of Administration -			
* Senate Bill 119 PERS Supplement on-behalf payment	None	127,462	127,462
Alaska Department of Education and Early Development -			
* Debt service	None	1,861,754	1,861,754
Alaska Energy Authority:			
Levelock Wind Reconnaissance Study	7060911	10,000	7,958
Egegik Wind Feasibility Study	7060912	60,000	27,033
Total		<u>70,000</u>	<u>34,991</u>
Alaska Department of Revenue:			
* Fisheries business tax	None	556,758	556,758
Shared fisheries tax	None	26,182	26,182
Telephone/Electric Tax	None	2,449	2,449
Total		<u>585,389</u>	<u>585,389</u>
Total state financial assistance		<u>\$ 3,335,088</u>	<u>3,300,079</u>

Notes to Schedule

1. This schedule was prepared on the modified accrual basis of accounting.
2. \* Denotes a major program for compliance auditing purposes.
3. No funds were passed through to subrecipients.

**COMPLIANCE SECTION**



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

**Independent Auditor's Report**

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lake and Peninsula Borough as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Lake and Peninsula Borough's basic financial statements, and have issued our report thereon dated August 23, 2016.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying Federal Schedule of Findings and Questioned Costs as Finding 2015-001, to be a material weakness.

Members of the Board  
Lake and Peninsula Borough

### **Compliance and Other Matters**

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

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

Lake and Peninsula Borough's response to the finding identified in our audit is described in the accompanying Federal Schedule of Findings and Questioned Costs and Corrective Action Plan. We did not audit Lake and Peninsula Borough's response and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

*Altman, Rogers & Co.*

Anchorage, Alaska  
August 23, 2016

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

**Independent Auditor's Report**

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

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

We have audited Lake and Peninsula Borough's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Lake and Peninsula Borough's major federal programs for the year ended June 30, 2015. Lake and Peninsula Borough's major federal programs are identified in the summary of auditor's results section of the accompanying Federal Schedule of Findings and Questioned Costs.

Lake and Peninsula Borough's basic financial statements include the operations of its component unit, Lake and Peninsula School District, which expended \$2,972,952 in federal awards which are not included in the Schedule of Expenditures of Federal Awards for the year ended June 30, 2015. Our audit, described below did not include the operations of Lake and Peninsula School District because it was subjected to a separate audit performed in accordance with *OMB Circular A-133*.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

Members of the Board  
Lake and Peninsula Borough

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

**Basis for Qualified Opinion on Community Development Block Grant (CFDA #14.228) and Payment in Lieu of Taxes Program (CFDA #15.226)**

As described in the accompanying Federal Schedule of Findings and Questioned Costs, Lake and Peninsula borough did not comply with reporting requirements related to the Community Development Block Grant (CFDA #14.228) and Payment in Lieu of Taxes Program (CFDA #15.226) as described in Finding 2015-002. Compliance with these requirements is necessary, in our opinion, for Lake and Peninsula to comply with the requirements applicable to those programs.

**Qualified Opinion on the Community Development Block Grant (CFDA #14.228) and Payment in Lieu of Taxes Program (CFDA #15.226)**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Lake and Peninsula Borough complied, in all material aspects, with the types of compliance requirements referred to above that could have direct and material effect on the Community Development Block Grant (CFDA #14.228) and Payment in Lieu of Taxes Program (CFDA #15.226) for the year ended June 30, 2015.

**Other Matters**

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

**Report on Internal Control Over Compliance**

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

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

Members of the Board  
Lake and Peninsula Borough

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Federal Schedule of Findings and Questioned Costs as Finding 2015-002 to be a material weakness.

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

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

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

*Altman, Rogers & Co.*

Anchorage, Alaska  
August 23, 2016

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LAKE AND PENINSULA BOROUGH

Federal 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

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

Internal control over financial reporting:  
 Material weakness(es) identified?  Yes  No  
 Significant deficiency(ies) identified?  Yes  None noted

Noncompliance material to financial statements noted?  Yes  No

Federal Awards

Internal Control over major programs:  
 Material weakness(es) identified (Section .510 (a)(1))?  Yes  No  
 Significant deficiency(ies) identified (Section .510 (a)(1))?  Yes  None noted

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

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant
15.226	Payment in Lieu of Taxes

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

Auditee qualified as low-risk auditee?  Yes  No

LAKE AND PENINSULA BOROUGH

Federal Schedule of Findings and Questioned Costs, Continued

**Section II – Financial Statement Findings**

**Finding 2015-001**

**Internal Control over Year End Closing**

**Material Weakness**

**Condition:**

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

**Criteria:**

Internal control procedures should be in place to ensure that all balance sheet items and grants are properly identified and reconciled at year end. Year-end closing procedures are especially important and require that the Borough be diligent in reviewing all transactions from year end until the printing of the audit report to ensure the financial statements are not materially misstated.

**Context:**

During our preliminary review over the year-end balance sheet, we noted that the Borough failed to record in the general ledger accruals over accounts receivable, accounts payable, deferred revenue and cash. These amounts were adjusted based on the auditor's recommendation.

**Cause:**

Management not assuring all balance sheet items are properly identified and reconciled at year end.

**Effect:**

Preliminary balance sheet items were misstated. Unrecorded accounts receivable totaled \$343,592, unrecorded accounts payable totaled \$53,552, unrecorded accrued payroll totaled \$39,373, and unrecorded deferred revenue totaled \$77,500.

**Recommendation:**

The Borough needs to ensure that necessary balance sheet accounts are reconciled at year-end.

**Management Response:**

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

LAKE AND PENINSULA BOROUGH

Federal Schedule of Findings and Questioned Costs, Continued

*Section III – Federal Award Findings and Questioned Costs*

**Finding 2015-002**

**Internal Control over Reporting**

**Material Weakness/  
Material Noncompliance**

**Community Development Block Grant, CFDA #14.228, Grant #  
12-CDBG-006; Payment in Lieu of Taxes, CFDA #15.226**

**Condition:**

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

**Criteria:**

OMB Circular A-133 requires that reporting packages be submitted no later than 30 days after the date of issuance or nine months after the fiscal year end.

**Context:**

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

**Cause:**

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

**Effect:**

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

**Recommendation:**

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

**Management Response:**

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

*Section IV – Summary of Prior Audit Findings*

**Financial Statement Findings**

**Finding 2014-001**

**Internal Control over Grants Receivable**

**Material Weakness**

**Condition:**

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

**Status:**

This finding has been resolved.

LAKE AND PENINSULA BOROUGH

Federal Schedule of Findings and Questioned Costs, Continued

**Federal Award Findings**

**Finding 2014-002**

**Internal Control over Reporting / Reporting Noncompliance**

**Material Weakness /  
Material Noncompliance**

**Condition:**

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

**Status:**

This finding has not been resolved and is repeated as Finding 2015-002 in the current year.

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

**Independent Auditor's Report**

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

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

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

Lake and Peninsula Borough's basic financial statements include the operations of its component unit, Lake and Peninsula School District, which expended \$20,139,577 in state awards which are not included in the Schedule of State Financial Assistance for the year ended June 30, 2015. Our audit, described below did not include the operations of Lake and Peninsula School District because it was subjected to a separate audit performed in accordance with *State of Alaska Single Audit Guide and Compliance Supplement for State Single Audits*.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

Members of the Borough Assembly  
Lake and Peninsula Borough

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However our audit does not provide a legal determination of Lake and Peninsula Borough's compliance.

**Basis for Qualified Opinion on Revenue Sharing, Debt Service, Fisheries Business Tax, Senate Bill 119 PERS Supplement On-behalf Payment and Perryville Barge Landing Dock Design and Construction (Grant # 07-DC-334) Programs**

As described in the accompanying State Schedule of Findings and Questioned Costs, Lake and Peninsula Borough did not comply with requirements regarding reporting as described in Finding 2015-003. Compliance with such requirements is necessary, in our opinion, for Lake and Peninsula Borough to comply with the requirements applicable to those programs.

**Qualified Opinion on Revenue Sharing, Debt Service, Fisheries Business Tax, Senate Bill 119 PERS Supplement On-behalf Payment and Perryville Barge Landing Dock Design and Construction (Grant # 07-DC-334) Programs**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Lake and Peninsula Borough complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Revenue Sharing, Debt Service, Fisheries Business Tax, Senate Bill 119 PERS Supplement On-behalf Payment and Perryville Barge Landing Dock Design and Construction Programs for the year ended June 30, 2015.

**Other Matters**

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

**Report on Internal Control over Compliance**

Management of Lake and Peninsula Borough is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lake and Peninsula Borough's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Lake and Peninsula Borough's internal control over compliance.

Members of the Borough Assembly  
Lake and Peninsula Borough

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance in the accompanying State Schedule of Findings and Questioned Costs as Finding 2015-003 to be a material weakness.

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

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

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

*Altman, Rogers & Co.*

Anchorage, Alaska  
August 23, 2016

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LAKE AND PENINSULA BOROUGH  
State 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

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

Internal control over financial reporting:  
Material weakness(es) identified?   X   Yes        No  
Significant deficiency(ies) identified?        Yes   X   None reported

Noncompliance material to financial statements noted?        Yes   X   No

State Awards

Internal Control over major programs:  
Material weakness(es) identified?   X   Yes        No  
Significant deficiency(ies) identified?        Yes   X   None reported

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

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

**Section II – Financial Statement Findings**

See Federal Schedule of Findings and Questioned Costs

LAKE AND PENINSULA BOROUGH

State Schedule of Findings and Questioned Costs, Continued

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

**Finding 2015-003**

**Internal Control over Reporting**

**Material Weakness/  
Material Noncompliance**

Alaska Department of Commerce, Community and Economic Development – Revenue Sharing and Perryville Barge Landing Dock Design and Construction (Grant #07-DC-334); Alaska Department of Education and Early Development – Debt Service; Alaska Department of Revenue – Fisheries Business Tax; Alaska Department of Administration Senate Bill 119 PERS Supplement On-behalf Payment

**Condition:**

The Borough did not engage a qualified audit firm within the required timeline to complete and submit the audit in a timely manner.

**Criteria:**

2 AAC 45.010(b) states an entity that expends a cumulative total of \$500,000 or more shall submit an audit report for the period by the earlier of 30 days after the entity receives its audit report for the audit period or nine months after the end of the audit period.

**Context:**

The audit firm was engaged to perform an audit in accordance with the 2 AAC 45 more than nine months after the audit period.

**Cause:**

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

**Effect:**

The organization is not in compliance with 2 AAC 45.010(b)(1).

**Recommendation:**

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

**Management Response:**

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

LAKE AND PENINSULA BOROUGH

State Schedule of Findings and Questioned Costs, Continued

*Section IV – Summary of Prior Audit Findings*

**State Award Findings**

**Finding 2014-003**

**Internal Control over Reporting / Reporting Noncompliance**

**Material Weakness /  
Material Noncompliance**

**Condition:**

The Borough did not adhere to 2 AAC 45.010(b) requirement that the financial statements must be submitted within nine months of year end.

**Status:**

This finding has not been resolved and is repeated as Finding 2015-003 in the current year.

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LAKE AND PENINSULA BOROUGH

Corrective Action Plan

Year Ended June 30, 2015

**Financial Statement Findings**

**Finding 2015-001**

**Internal Control over Year End Closing**

**Name of Contact:**

Susan Edwards, Finance Officer

**Corrective Action:**

Internal control procedures will be developed to ensure that all balance sheet items and grants are properly identified and reconciled at year end.

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

**Federal Award Findings**

**Finding 2014-002**

**Internal Control over Reporting / Reporting Noncompliance**

**Name of Contact:**

Susan Edwards, Finance Officer

**Corrective Action:**

Grant reporting has be put on a calendar with reporting reminders, this coupled with monthly closing routine to insure grant reporting compliance.

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

**State Award Findings**

**Finding 2015-003**

**Internal Control over Reporting**

**Name of Contact:**

Susan Edwards, Finance Officer

**Corrective Action:**

Grant reporting has be put on a calendar with reporting reminders, this coupled with monthly closing routine to insure grant reporting compliance.

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

