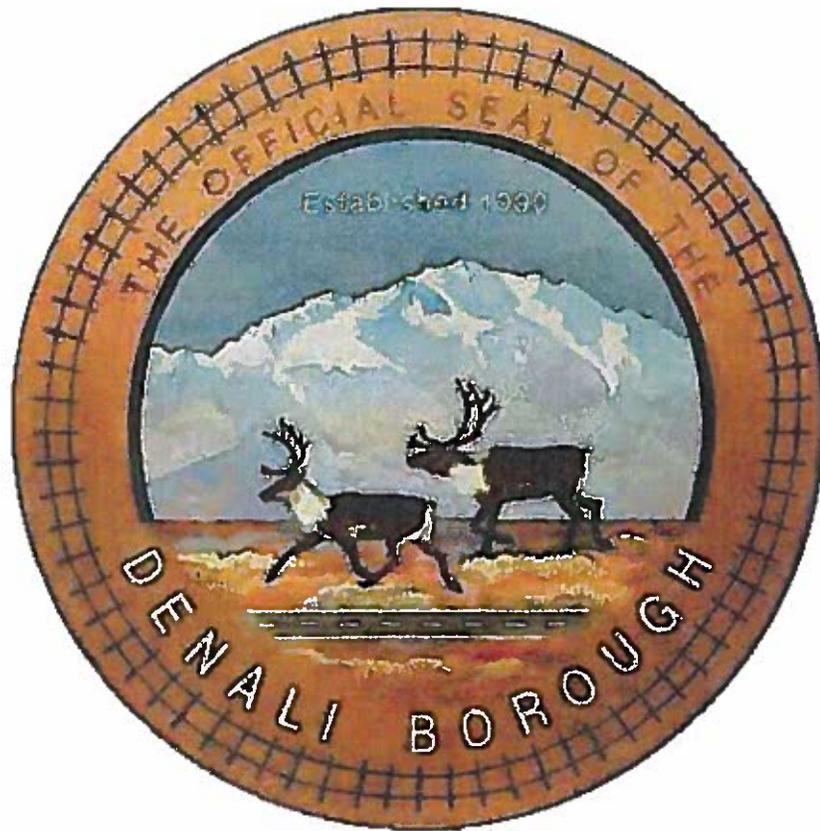


DENALI BOROUGH



ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2014

DENALI BOROUGH



DENALI BOROUGH

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis (MD&A)	3
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements	
Balance Sheet- Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	15
Statement of Revenues, Expenditures, and Changes in Fund Balances- Governmental Funds	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	17
Statement of Net Position- Proprietary Funds	18
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds	19
Statement of Cash Flows- Proprietary Funds	20
Notes to Basic Financial Statements	21
Required Supplementary Information	
Budgetary comparisons – general fund	
Schedule of Revenues and Expenditures and Changes in Fund Balance – Budget and Actual General Fund	40
Notes to Required Supplementary Information	42
Combining and Individual Fund Statements and Schedules	
Combining Balance Sheet – Non-Major Governmental Funds	43
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds	44
Schedules of Revenues and Expenditures – Budget and Actual – Special Revenue Funds	
Emergency Management Performance Grant	45
Local Emergency Planning Committee Grant	46
Homeland Security Grant Program	47
Solid Fuel Stove Change-Out Program	48
Legislative Grant Fund	49

DENALI BOROUGH





KOHLER, SCHMITT & HUTCHISON
A Professional Corporation

Certified Public Accountants

714 4th Avenue, Suite 303 • (907) 456-6676 • Fax 456-6431
P.O. Box 70607, Fairbanks, Alaska 99707-0607 • ksh@kshcpa.com

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the Borough Assembly
Denali Borough

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Denali Borough (Borough) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Denali Borough School District, a discretely presented component unit of the Denali Borough. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Denali Borough School District, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Denali Borough, as of June 30, 2014, and the respective changes in financial position, and where applicable cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United State of America require that the management's discussion and analysis and budgetary comparison information on pages 3-11 and 40-42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Denali Borough's basic financial statements. The combining and individual non-major fund statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, the combining and individual nonmajor fund financial statements are 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 November 26, 2014, on our consideration of the Denali 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 Denali Borough's internal control over financial reporting and compliance.

Kohler, Schmitt & Hutchison PC

Fairbanks, Alaska
November 26, 2014

DENALI BOROUGH



DENALI BOROUGH
Management's Discussion and Analysis
June 30, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Denali Borough offers readers of our financial statements this narrative overview and analysis of the financial activities of the Denali Borough for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

The Borough's net position increased from \$32,232,728 to \$32,425,391 as a result of Fiscal Year 2014 (FY 2014) operations, an increase of \$192,663 or 0.60 percent. Governmental activities net position increased by \$83,992, or 0.28 percent while business-type activities net position increased \$108,671, or 4.65 percent. The Denali Borough's governmental activities assets exceeded liabilities at the close of FY 2014 by \$29,979,736. Of this amount; \$19,430,152 is invested in capital assets, net of accumulated depreciation, \$3,113,797 is restricted for permanent investment, \$4,987,159 is restricted for forward funding of subsequent year expenditures, and \$2,448,628 is unrestricted.

During FY 2014, the Borough's general fund revenues were \$576,931 more than the expenditures for governmental programs, before transfers of \$260,000. This compares to FY 2013, when revenues were \$464,999 more than expenditures before transfers of \$691,200.

In the Borough's business-type activities, operating revenues in Landfill operations totaled \$564,780, a significant 67 percent increase over FY 2013. Landfill operating expenses totaled \$589,179, resulting in an operating loss of \$24,399. Land revenues totaling \$52,319 decreased by \$9,830, or 16 percent, from the previous year. Land operating expenses totaling \$181,589, decreased by \$7,357, or 4 percent, resulting in an operating loss of \$129,270. Operating losses in business type activities totaled \$153,669. However, a governmental funds transfer of \$251,604 to the business-type funds increased net assets. In total, net position from business-type activities increased from the previous fiscal year by \$108,671, or 4.7 percent, ending FY 2014 with a total of \$2,445,655.

The Denali Borough governmental funds financial statements reported a combined ending fund balance of \$10,549,584 at June 30, 2014, an increase of \$499,329 in comparison with the prior year. The following is a breakout of the governmental fund balances:

Non-spendable	
Reserved for permanent investment	\$ 3,003,648
Committed	
Subsequent year expenditures	4,987,159
Permanent investment	110,149
Major school maintenance	536,656
Capital projects	378,934
Capital improvement	43,292
Assigned	
Disaster Contingency	119,036
Unassigned	1,370,710

See Figure 1 for a graphic breakout of the governmental fund balances.

Breakout of the Governmental Fund Balances

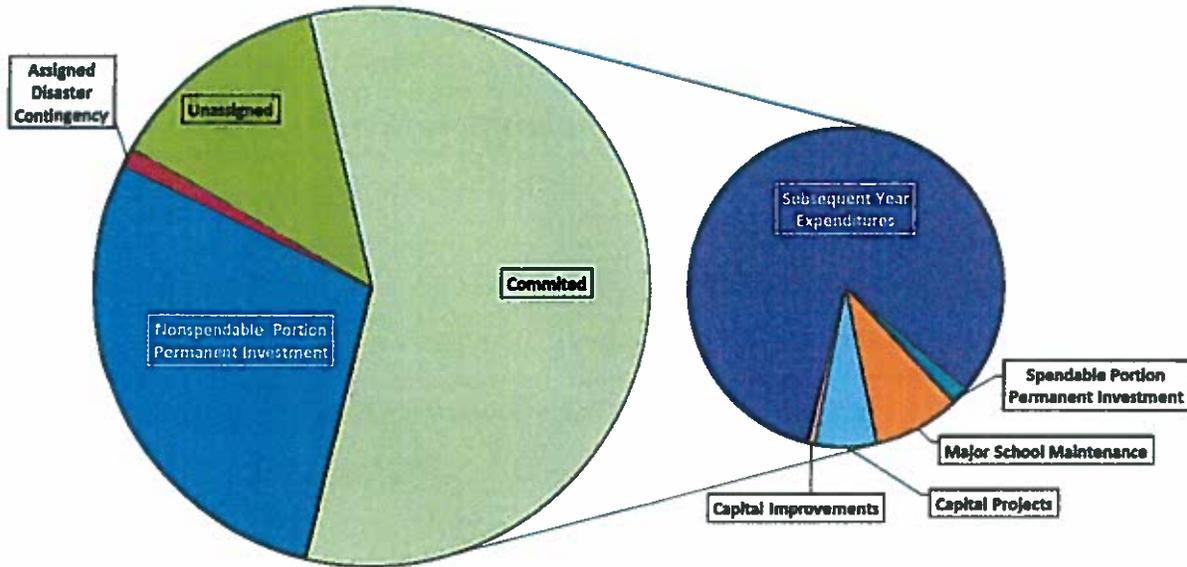


Figure 1. Breakout of the governmental fund balances.

OVERVIEW OF FINANCIAL STATEMENTS

Basic Financial Statements

The discussion and analysis provided here is intended to serve as an introduction to the Denali Borough's basic financial statements. The Denali Borough's basic financial statements consist of three components: 1) government-wide financial statements; 2) fund financial statements, and 3) the notes to the financial statements. This report also includes other supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Financial Statements

The Borough's basic financial statements include two government-wide financial statements, the *Statement of Net Position* and the *Statement of Activities*. The government-wide financial statements are designed to provide readers with a broad overview of the Denali Borough's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents financial information on all of the Denali Borough's assets and liabilities with the difference reported as total net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Denali Borough is improving or deteriorating.

DENALI BOROUGH
Management's Discussion and Analysis
June 30, 2014

The *Statement of Activities* presents information showing how the Denali Borough's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish governmental activities of the Denali Borough that are principally supported by taxes and intergovernmental revenues from business-type activities that are intended to recover all or a portion of their costs through user fees and charges. The governmental activities of the Denali Borough include general administration and education. The business-type activities of the Denali Borough include solid waste (landfill) operations and land planning, and are supplemented by transfers appropriated in the general fund annual budget.

The government-wide financial statements include not only the funds of the Denali Borough itself (known as the primary government), but also a legally separate school district (component unit) for which the Denali Borough is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself. The School District's audited financial statements may be obtained directly from the School District's administrative offices.

The government-wide financial statements can be found on pages 12-13 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Denali Borough, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Denali Borough can be divided into governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements provide a detailed short-term view of the Borough's operations. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Borough's programs. The relationship (or differences) between governmental activities and governmental funds is described in reconciliations following the fund financial statements.

The Denali Borough maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, and the permanent investment fund, which are considered to be major funds. Data from the other six governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The Denali Borough adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The governmental funds financial statements can be found on pages 14-17.

DENALI BOROUGH
Management's Discussion and Analysis
June 30, 2014

Proprietary Funds

Proprietary funds are reported in the fund financial statement and generally report services for which the Borough charges customers a fee. There are two types of proprietary funds, enterprise funds and internal service funds. The Borough has no internal service funds.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. The Denali Borough uses enterprise funds to account for its landfill and land planning operations.

Proprietary fund statements provide financial information consistent with the focus provided by the government-wide financial statements, but with more detail. The proprietary fund financial statements provide separate information for the landfill, a major fund, and the land planning operations, a non-major fund.

The proprietary funds financial statements can be found on pages 18-20 of this report.

Notes to the Financial Statements

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes are a required part of the basic financial statements and can be found on pages 21-39.

Required and Other Supplementary Information

Budgetary to actual comparison on the general fund on pages 40-42 is required supplementary information. The combining statements and individual fund budget to actual comparison schedules of the non-major governmental funds are presented on pages 43-49.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

Over time, net position may serve as a useful indicator of a government's overall financial condition. In the case of the Denali Borough, assets exceeded liabilities by \$32,425,391 at June 30, 2014.

The following table reflects the condensed Statement of Net Position for fiscal years ending June 30, 2014 and 2013:

DENALI BOROUGH
Management's Discussion and Analysis
June 30, 2014

Denali Borough's Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 11,173,213	10,665,551	1,534,549	1,118,265	12,707,762	11,783,816
Restricted cash	-	-	18,799	242,900	18,799	242,900
Capital assets	19,430,152	19,852,455	1,155,743	1,238,772	20,585,895	21,091,227
Total assets	30,603,365	30,518,006	2,709,091	2,599,937	33,312,456	33,117,943
Long-term liabilities	-	6,967	247,900	242,900	247,900	249,867
Other liabilities	623,629	615,295	15,536	20,053	639,165	635,348
Total liabilities	623,629	622,262	263,436	262,953	887,065	885,215
Net position						
Net investment in capital assets	19,430,152	19,845,488	1,155,743	1,238,772	20,585,895	21,084,260
Restricted						
Permanent investment	3,113,797	2,970,706	-	-	3,113,797	2,970,706
Forward funding of subsequent year expenditures	4,987,159	4,850,572	-	-	4,987,159	4,850,672
Unrestricted	2,448,628	2,228,878	1,289,912	1,098,212	3,738,540	3,327,090
Total net position	\$ 29,979,736	29,895,744	2,445,655	2,336,984	32,425,391	32,232,728

The largest portion of the Denali Borough's net position, \$20,585,895 or 63 percent, reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles), less related outstanding debt that was used to acquire those assets. An additional portion of the Denali Borough's net position, \$8,100,956, or 25 percent, represents resources that are subject to restrictions on how they may be used. The remaining balance of \$3,738,540, or 11.5 percent, is unrestricted and may be used to meet the Borough's ongoing obligations to its citizens and creditors.

At the end of FY 2014, the Denali Borough is able to report positive balances in all reported categories of net assets, both for the Borough as a whole, as well as for its business-type activities. The same situation was true for FY 2013. The Denali Borough's overall net position increased \$192,663 from FY 2013 to FY 2014. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

Changes in Net Position

The tables below provide a summary of the changes in net position for the years ending June 30, 2014 and 2013.

DENALI BOROUGH
Management's Discussion and Analysis
June 30, 2014

Schedule of Changes in Net Position

	Governmental Activities		Buisness-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Charges for services	\$ -	-	589,763	366,446	589,763	366,446
Operating grants	955,959	1,143,484	27,336	33,959	983,295	1,177,443
Capital grants and contributions	106,816	706,601	-	-	106,816	706,601
Taxes	3,159,536	2,825,357	-	-	3,159,536	2,825,357
Other	292,502	190,012	10,736	14,825	303,238	204,837
Total revenue	4,514,813	4,865,454	627,835	415,230	5,142,648	5,280,684
Expenses						
Assembly	414,924	381,373	-	-	414,924	381,373
Mayor	879,778	775,722	-	-	879,778	775,722
School District	2,735,789	3,433,363	-	-	2,735,789	3,433,363
Borough matching grants	33,788	71,385	-	-	33,788	71,385
General government	114,938	51,824	-	-	114,938	51,824
Landfill	-	-	589,179	662,510	589,179	662,510
Land	-	-	181,589	188,946	181,589	188,946
Total expenses	4,179,217	4,713,667	770,768	851,456	4,949,985	5,565,123
Change in net position						
before transfer	335,596	151,787	(142,933)	(436,226)	192,663	(284,439)
Transfers	(251,604)	(599,200)	251,604	599,200	-	-
Change in net position	83,992	(447,413)	108,671	162,974	192,663	(284,439)
Net position, beginning	29,895,744	30,343,157	2,336,984	2,174,010	32,232,728	32,517,167
Net position, ending	\$ 29,979,736	29,895,744	2,445,655	2,336,984	32,425,391	32,232,728

Governmental Activities

During FY 2014, the net position for governmental activities increased \$83,992 from FY 2013 for an ending balance of \$29,979,736. The balance of assets restricted to a specific purpose increased \$279,578 from FY 2013, a change of 3.57 percent.

DENALI BOROUGH
Management's Discussion and Analysis
June 30, 2014

Business-type Activities

Denali Borough business-type activities' net position increased by \$108,671 in FY 2014, which resulted in an ending net position of \$2,445,655. Revenues from landfill services were significantly higher in FY 2014 than the previous year, with an increase of \$232,496, or 74 percent due to a large volume of waste received related to local construction projects. A revised staff structure resulted in a decrease in landfill operations expenditures of \$73,332. Despite increased waste volume and cost cutting measures, landfill operations reflected an operating loss of \$24,399 for FY 2014. Land revenues decreased by \$9,829, or 16 percent, in FY 2014, while expenditures related to land planning operations decreased by \$7,357, or 4 percent. Land planning operations reflected an operating loss of \$129,270. Total business type operating losses totaled \$153,669 in FY 2014. These losses were offset by a transfer from the general fund in the amount of \$251,604 and interest earned on investments in the amount \$10,736, resulting in an increase in net assets of proprietary funds in the amount of \$108,671.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

Denali Borough uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Denali Borough's governmental funds is to provide information on how money flows into and out of those funds and the balances left at year end that are non-spendable, restricted, committed, assigned, or unassigned. These classifications show the nature and extent of constraints placed on fund balances by law, creditors, Borough assembly, and the Borough's annually adopted budget. On June 30, 2014, the Denali Borough's governmental funds reported combined fund balances of \$10,549,584, an increase of \$499,329 as compared to FY 2013. Approximately 13 percent of this amount, \$1,370,710, constitutes unassigned fund balance, which is available for spending at the Borough's discretion. The remainder of the fund balance is either non-spendable, committed, or assigned to indicate that it is: 1) not in spendable form such as the \$3,003,648 permanent investment fund; 2) constrained for specific purposes such as \$4,987,159 for FY 2015 expenditures, \$536,656 for major school maintenance projects, \$378,934 for capital projects, \$110,149 for permanent investment and \$43,292 for capital improvements; or 3) \$119,036 assigned for disaster contingency.

The *General Fund* is the chief operating fund of the Denali Borough. At June 30, 2014, the unassigned fund balance of the general fund was \$1,370,710, while the total fund balance increased by \$316,931 during FY 2014 to end the year at \$6,476,905. Unassigned fund balance represents approximately 21 percent of total general fund expenditures for FY 2014.

The *Permanent Investment Fund*, a major fund, increased \$143,091 in fund balance during FY 2014, ending the year with \$3,113,797. This increase was due to income earned in FY 2014 of \$220,299 less \$77,208 appropriated to the major school maintenance reserve and solid waste equipment reserve funds for future needs.

Other General Funds, which represent a summarization of all the other non-major governmental funds, ended the year with total fund balance of \$958,882, an increase of \$39,307 or 4 percent. The funds reflected a deficit of revenues over expenditures of \$46,297 with special revenue expenditures the most significant factor.

DENALI BOROUGH
Management's Discussion and Analysis
June 30, 2014

Proprietary Funds

The Denali Borough's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position for the landfill at June 30, 2014 amounted to \$739,786, and \$550,126 for land planning. Landfill experienced an increase in unrestricted net position of \$236,416, and land planning reflected a decrease in unrestricted net position of \$44,716. Reasons for the increase/decrease are noted earlier in discussion of business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Original budget compared to final budget.

Two ordinances to amend the FY 2014 budget were approved by the Denali Borough Assembly in FY 2014. Ordinance 13-10, approved on August 14, 2013, contained a number of reductions in line items and reflected actual PILT revenue received, to bring the total budget amount within forward funding parameters. A second amendment was approved on May 14, 2014. Ordinance 14-03 reflected expanded amounts for overnight accommodations tax revenues and revenue sharing, included a line item for audit expenses that was mistakenly not included in the original budget, and adjusted various line items to bring them closer to revised expectations. Fund account transfer adjustments include an appropriation of permanent investment fund income to the major school maintenance reserve and solid waste equipment reserve funds per Denali Borough Charter 9.17.

Final budget compared to actual results.

The most significant difference between estimated revenues and actual revenues is seen in the overnight accommodation tax revenues, where estimated revenues were \$2,700,000 and actual revenues received \$3,067,967, a positive variance of \$367,967, or 14 percent. Penalties and interest on overdue amounts resulted in \$22,566 of unexpected revenue. A positive variance of \$5,103, or 11 percent, in Electricity/Telephone tax was a pleasant surprise in FY 2014.

During Fiscal Year 2014, expenditures for non-staff benefits exceeded those budgeted by \$1,079 due to correction of payroll tax liability coding errors made during the payroll process. Staff and mayor salaries exceeded those budgeted by \$641 and \$250, respectively, due to end of year accrual adjustments. Mayor benefits exceeded those budgeted by \$5,842 due to a miscalculation of PERS benefits paid by the borough during the budgeting process. Expenditures for dues/subscriptions/advertisements exceeded those budgeted by \$1,837, largely due to onboarding fees associated with a new IT subscription entered into at the end of the fiscal year. Equipment expenditures exceed those budgeted by \$813 due to final payments made on leased equipment that were incorrectly budgeted under a different line item.

CAPITAL ASSETS

The Denali Borough's net investment in capital assets for its governmental and business-type activities as of June 30, 2014 amounted to \$20,585,895 (net of accumulated depreciation), a decrease of \$505,332, or 2.4 percent, from the previous year. This investment in capital assets includes land, buildings, machinery, equipment, and vehicles.

In FY 2014, obsolete equipment, mostly computer equipment, was removed from the list of capital assets. Two fire safe security file cabinets were purchased, as well as two staff computers. A highlight of enterprise fund equipment purchases were two 31-yard containers and a utility trailer for the solid waste department.

DENALI BOROUGH
Management's Discussion and Analysis
June 30, 2014

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

While developing the FY 2015 budget, the Denali Borough kept the following factors under consideration.

- The borough continued its practice of conservative revenue estimates.
- Severance revenue was very close to the budgeted amount in FY 2014. The FY 2015 estimate is cautiously optimistic, holding at \$90,000.
- State of Alaska estimated revenue sharing is based upon an application that is submitted the previous spring. Estimated Federal PILT revenue is slightly reduced from the amount received the previous year.
- Staff salaries are based upon staffing realities at time of budget creation, and reflect scheduled step and consumer price index increases. Staff benefit calculations estimate an increase in health insurance premiums of ten percent.
- The Borough's contribution to the Denali Borough School District is based upon an amount included in the School District's budget provided to the Borough the previous Spring, and was funded in its entirety.
- The budgetary reserve amount is calculated as fifteen percent of the amount of funds available for budgeting on January 1, per DBC3.05.040(c).
- The Mayor's salary was increased to \$72,000 for FY 2015, with a stipulation for an increase of 3.5% annually for two budget cycles (FY 2016 and FY 2017).
- Fund accounts allow the Borough to prepare for future expenses in a methodical manner.
- Remaining balances in enterprise funds at June 30 may decrease estimated transfer amounts to those funds.
- The assembly has approved funding three matching grants in FY 2015, for a total of \$45,717.
- The Borough plans for a large capital expenditure related to the twenty percent match for the Cantwell sprinkler project. However, funds come from major school maintenance reserve funds and are not included in the general fund budget.

Land enterprise activities may include increased Land Administration expenses for consulting services to provide assistance to the planning commission and to foster progress on planning activities. Solid Waste operations continue to place a priority on repairs and maintenance and updating of equipment, while cost savings due to a revised staffing structure are expected to continue. In FY 2015, development of a new municipal solid waste pit will be an ongoing project.

At June 30, 2014, the Denali Borough had committed \$4,987,159 to subsequent year expenditures, and the unassigned fund balance in the general fund was \$1,370,710.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Denali Borough's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Mayor
Denali Borough
PO Box 480
Healy, Alaska 99743
(907) 683-1330
dbgovt@mtaonline.net

BASIC FINANCIAL STATEMENTS

Basic Financial Statements
Government-wide Financial Statements
Fund Financial Statements
Notes to Financial Statements

DENALI BOROUGH



DENALI BOROUGH
STATEMENT OF NET POSITION
June 30, 2014

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit School District
ASSETS				
Cash and cash equity	\$ 4,696,550	1,209,359	5,905,909	2,690,389
Investments	5,299,057	248,915	5,547,972	-
Receivables	1,056,920	196,961	1,253,881	71,040
Interfund balances	120,686	(120,686)	-	-
Inventory	-	-	-	14,935
Prepaid items	-	-	-	209,509
Restricted cash and equivalents	-	18,799	18,799	-
Capital assets, net of accumulated depreciation	19,430,152	1,155,743	20,585,895	426,391
Total assets	\$ 30,603,365	2,709,091	33,312,456	3,412,264
LIABILITIES				
Accounts payable	145,084	654	145,738	23,321
Accrued payroll and accrued expenses	51,445	14,882	66,327	145,843
Unearned revenue	427,100	-	427,100	-
Long-term liabilities				
Due within one year				
Accrued leave	-	-	-	33,622
Capital leases	-	-	-	3,648
Due in more than one year				
Estimated liability for landfill closure and post-closure care costs	-	247,900	247,900	-
Total liabilities	623,629	263,436	887,065	206,434
NET POSITION				
Net investment in capital assets	19,430,152	1,155,743	20,585,895	422,743
Restricted for:				
Permanent investment	3,113,797	-	3,113,797	-
Forward funding of subsequent year expenditures	4,987,159	-	4,987,159	-
Unrestricted	2,448,628	1,289,912	3,738,540	2,783,087
Total net position	29,979,736	2,445,655	32,425,391	3,205,830
Total liabilities and net position	\$ 30,603,365	2,709,091	33,312,456	3,412,264

See accompanying notes to basic financial statements.

DENALI BOROUGH
STATEMENT OF ACTIVITIES
Year ended June 30, 2014

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services and Other</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
Assembly	\$ 414,924	-	-	-
Mayor	879,778	-	40,468	-
School district	2,735,789	-	-	60,975
Borough matching grants	33,788	-	-	-
General government	114,938	-	22,601	45,841
Total governmental activities	4,179,217	-	63,069	106,816
Business-type activities:				
Landfill	589,179	545,773	19,007	-
Land enterprise	181,589	43,990	8,329	-
Total business type activities	770,768	589,763	27,336	-
Total primary government	4,949,985	589,763	90,405	106,816
Component unit:				
School District	\$ -	-	-	-

General revenues:

Taxes, grants and revenues not restricted to specific purposes:

Overnight accommodation tax

Severance tax

Federal grants

State grants and entitlements

Local grants

Borough local contribution

Investment earnings

Other

Transfers

Total general revenues

Changes in net position

Net position, July 1

Net position, June 30

Net (Expense) Revenue and Changes in Net Position			Component Unit
Governmental Activities	Business-type Activities	Total	School District
\$ (414,924)		(414,924)	
(839,310)		(839,310)	
(2,674,814)		(2,674,814)	
(33,788)		(33,788)	
(46,496)		(46,496)	
<u>(4,009,332)</u>		<u>(4,009,332)</u>	
	(24,399)	(24,399)	
	(129,270)	(129,270)	
	<u>(153,669)</u>	<u>(153,669)</u>	
<u>(4,009,332)</u>	<u>(153,669)</u>	<u>(4,163,001)</u>	
			<u>(9,219,500)</u>
3,067,967	-	3,067,967	-
91,569	-	91,569	-
304,186	-	304,186	10,492
554,208	-	554,208	7,384,954
34,496	-	34,496	-
-	-	-	2,228,613
286,907	10,736	297,643	15
5,595	-	5,595	95,253
(251,604)	251,604	-	-
<u>4,093,324</u>	<u>262,340</u>	<u>4,355,664</u>	<u>9,719,327</u>
83,992	108,671	192,663	499,827
<u>29,895,744</u>	<u>2,336,984</u>	<u>32,232,728</u>	<u>2,706,003</u>
\$ <u>29,979,736</u>	<u>2,445,655</u>	<u>32,425,391</u>	<u>3,205,830</u>

See accompanying notes to basic financial statements.

DENALI BOROUGH
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2014

	<u>General</u>	<u>Permanent Investment</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equity	\$ 3,582,803	55,497	1,058,250	4,696,550
Taxes receivable, net	1,002,097	-	-	1,002,097
Other receivables, net	51,158	-	-	51,158
Due from other funds	120,686	-	-	120,686
Receivables from other governments	-	-	3,665	3,665
Investments	2,240,757	3,058,300	-	5,299,057
Total assets	<u>\$ 6,997,501</u>	<u>3,113,797</u>	<u>1,061,915</u>	<u>11,173,213</u>
LIABILITIES				
Accounts payable	145,084	-	-	145,084
Unearned revenue	324,067	-	103,033	427,100
Other accrued expenses	51,445	-	-	51,445
Total liabilities	<u>520,596</u>	<u>-</u>	<u>103,033</u>	<u>623,629</u>
FUND BALANCES				
Fund balances:				
Nonspendable				
Permanent investment	-	3,003,648	-	3,003,648
Committed to				
Subsequent year expenditures	4,987,159	-	-	4,987,159
Permanent investment	-	110,149	-	110,149
School major maintenance	-	-	536,656	536,656
Capital projects	-	-	378,934	378,934
Capital improvements	-	-	43,292	43,292
Assigned to				
Disaster contingency	119,036	-	-	119,036
Unassigned	1,370,710	-	-	1,370,710
Total fund balances	<u>6,476,905</u>	<u>3,113,797</u>	<u>958,882</u>	<u>10,549,584</u>
Total liabilities and fund balances	<u>\$ 6,997,501</u>	<u>3,113,797</u>	<u>1,061,915</u>	<u>11,173,213</u>

See accompanying notes to basic financial statements

DENALI BOROUGH
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2014

Total fund balances for governmental funds \$ 10,549,584

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.

19,430,152

Net position of governmental activities in the Statement of Net Position

\$ 29,979,736

See accompanying notes to basic financial statements.

DENALI BOROUGH
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Year ended June 30, 2014

	General	Permanent Investment	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 3,159,536	-	-	3,159,536
Intergovernmental	898,862	-	129,417	1,028,279
Local sources	-	-	34,496	34,496
Investment earnings	65,944	220,299	664	286,907
Miscellaneous	5,595	-	-	5,595
Total revenues	<u>4,129,937</u>	<u>220,299</u>	<u>164,577</u>	<u>4,514,813</u>
EXPENDITURES				
Assembly	405,254	-	-	405,254
Mayor	883,261	-	-	883,261
School district	2,230,703	-	-	2,230,703
Borough matching grants	33,788	-	-	33,788
Special revenue and capital projects	-	-	210,874	210,874
	<u>3,553,006</u>	<u>-</u>	<u>210,874</u>	<u>3,763,880</u>
Excess (deficiency) of revenues over expenditures	576,931	220,299	(46,297)	750,933
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	<u>(260,000)</u>	<u>(77,208)</u>	85,604	<u>(251,604)</u>
Net change in fund balance	316,931	143,091	39,307	499,329
FUND BALANCES, July 1	<u>6,159,974</u>	<u>2,970,706</u>	<u>919,575</u>	<u>10,050,255</u>
FUND BALANCES, June 30	<u>\$ 6,476,905</u>	<u>3,113,797</u>	<u>958,882</u>	<u>10,549,584</u>

See accompanying notes to basic financial statements.

DENALI BOROUGH
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
 Year ended June 30, 2014

Net change in fund balances - total governmental funds	\$	499,329
Amounts reported for governmental activities in the Statement of Activities is different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources		10,026
Statement of Activities reports the cost of capital assets over the estimated useful lives as depreciation expense		(432,329)
Repayment of long term debt principal is considered an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position		<u>6,966</u>
Changes in net assets of governmental activities	\$	<u><u>83,992</u></u>

See accompanying notes to basic financial statements.

DENALI BOROUGH
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

	Business-type - Enterprise Funds		
	Landfill	Land Enterprise	Total
ASSETS			
Current assets			
Cash and cash equity	\$ 756,320	453,039	1,209,359
Accounts receivable, net	49,562	147,399	196,961
Investments	248,915	-	248,915
Total current assets	<u>1,054,797</u>	<u>600,438</u>	<u>1,655,235</u>
Non-current assets			
Restricted cash and equivalents	18,799	-	18,799
Capital assets, net of accumulated depreciation	<u>1,149,991</u>	<u>5,752</u>	<u>1,155,743</u>
Total assets	<u>\$ 2,223,587</u>	<u>606,190</u>	<u>2,829,777</u>
LIABILITIES			
Current liabilities			
Accounts payable	599	55	654
Accrued liabilities	8,278	6,604	14,882
Due to other funds	77,033	43,653	120,686
Total current liabilities	<u>85,910</u>	<u>50,312</u>	<u>136,222</u>
Non-current liabilities			
Estimated liability for landfill closure and post-closure care costs	<u>247,900</u>	-	<u>247,900</u>
Total liabilities	<u>333,810</u>	<u>50,312</u>	<u>384,122</u>
NET POSITION			
Invested in capital assets	1,149,991	5,752	1,155,743
Unrestricted	<u>739,786</u>	<u>550,126</u>	<u>1,289,912</u>
	<u>1,889,777</u>	<u>555,878</u>	<u>2,445,655</u>
Total liabilities and net position	<u>\$ 2,223,587</u>	<u>606,190</u>	<u>2,829,777</u>

See accompanying notes to basic financial statements.

DENALI BOROUGH
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
Year ended June 30, 2014

	Business-type - Enterprise Funds		
	Landfill	Land Enterprise	Total
OPERATING REVENUES			
Charges for services	\$ 545,518	-	545,518
Land sales and usage fees	-	42,515	42,515
Intergovernmental	19,007	8,329	27,336
Other	255	1,475	1,730
Total operating revenue	<u>564,780</u>	<u>52,319</u>	<u>617,099</u>
OPERATING EXPENSES			
Wages and benefits	287,266	124,469	411,735
Land administration	-	22,380	22,380
Planning Commission stipends	-	9,000	9,000
Cantwell Transfer Station haul and tipping fees	29,108	-	29,108
Well monitoring	18,594	-	18,594
Repairs and maintenance	27,527	1,369	28,896
Landfill closure and postclosure care costs	5,000	-	5,000
Equipment fuel	24,468	-	24,468
Rent	3,617	7,235	10,852
Heating fuel	8,045	-	8,045
Insurance	5,174	-	5,174
Professional fees	8,250	-	8,250
DEC inspections	3,171	-	3,171
Utilities	9,227	746	9,973
Training and travel	5,788	10,767	16,555
Equipment	3,759	289	4,048
Supplies	4,387	640	5,027
Hazardous waste fees	14,841	-	14,841
Miscellaneous	7,834	1,480	9,314
Depreciation	123,123	3,214	126,337
Total operating expenses	<u>589,179</u>	<u>181,589</u>	<u>770,768</u>
Operating income (loss)	(24,399)	(129,270)	(153,669)
NONOPERATING REVENUES			
Interest and investment revenue	3,305	7,431	10,736
Income (loss) before transfers	<u>(21,094)</u>	<u>(121,839)</u>	<u>(142,933)</u>
Operating transfers in	176,604	75,000	251,604
Change in net position	<u>155,510</u>	<u>(46,839)</u>	<u>108,671</u>
NET ASSETS - July 1	<u>1,734,267</u>	<u>602,717</u>	<u>2,336,984</u>
NET ASSETS - June 30	<u>\$ 1,889,777</u>	<u>555,878</u>	<u>2,445,655</u>

See accompanying notes to basic financial statements.

DENALI BOROUGH
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended June 30, 2014

	Business-type - Enterprise Funds		
	Landfill	Land Enterprise	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 568,798	47,083	615,881
Operating grants	19,007	8,329	27,336
Miscellaneous revenue	255	1,475	1,730
Cash payments to suppliers	(118,690)	(54,807)	(173,497)
Cash payments to employees	(292,009)	(122,489)	(414,498)
Net cash provided (used) by operating activities	<u>177,361</u>	<u>(120,409)</u>	<u>56,952</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	2,567	-	2,567
Interest received on investments	3,305	7,431	10,736
Net cash provided (used) by investing activities	<u>5,872</u>	<u>7,431</u>	<u>13,303</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES			
Transfers from General Fund	176,604	75,000	251,604
Net cash provided (used) by non-capital and related financing activities	<u>176,604</u>	<u>75,000</u>	<u>251,604</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(42,217)	(1,091)	(43,308)
Net cash provided (used) by capital and related financing activities	<u>(42,217)</u>	<u>(1,091)</u>	<u>(43,308)</u>
Net increase (decrease) in cash	317,620	(39,069)	278,551
CASH, July 1	<u>457,499</u>	<u>492,108</u>	<u>949,607</u>
CASH, June 30	<u>\$ 775,119</u>	<u>453,039</u>	<u>1,228,158</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating loss	(24,399)	(129,270)	(153,669)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	123,123	3,214	126,337
Changes in assets and liabilities:			
(Increase) decrease in net accounts receivable	23,280	4,568	27,848
(Increase) decrease in due to other funds	56,863	(910)	55,953
Increase (decrease) in accounts payable	(1,763)	9	(1,754)
Increase (decrease) in accrued expenses	(4,743)	1,980	(2,763)
Increase (decrease) in estimated liability for landfill closure and postclosure care costs	5,000	-	5,000
Net cash provided (used) by operating activities	<u>\$ 177,361</u>	<u>(120,409)</u>	<u>56,952</u>
RECONCILIATION OF CASH TO STATEMENT OF NET POSITION			
Cash and equivalents, unrestricted	756,320	453,039	1,209,359
Cash and equivalents, restricted	<u>18,799</u>	<u>-</u>	<u>18,799</u>
	<u>\$ 775,119</u>	<u>453,039</u>	<u>1,228,158</u>

See accompanying notes to basic financial statements.

DENALI BOROUGH



DENALI BOROUGH
NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Financial Reporting Entity

Denali Borough was organized December 7, 1990 and operates under an elected mayor/assembly form of government. The Borough powers include general administration, solid waste, education and land use planning. The accompanying financial statements present the government and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Discretely presented component unit – The Denali Borough School District (School District or DBSD) is responsible for elementary and secondary education within the government's jurisdiction. The District is governed by an independently elected school board. The Denali Borough government is accountable for the School District because the government's assembly approves the District's budget, levies taxes (if necessary) and is responsible for providing local funds for school operations. However the School District develops and approves their budget independently.

The School District's audited financial statements may be obtained directly from the School District's administrative offices.

b) Basis of Presentation

Government-Wide and Fund Financial Statements - The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. 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. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is 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 or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operations or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements

DENALI BOROUGH
NOTES TO FINANCIAL STATEMENTS, CONTINUED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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, as are the proprietary fund financial statements. 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 the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the primary operating fund of the Borough and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

The *permanent investment* fund accounts for the investment of funds designated by the Denali Borough as a permanent fund and its related earnings.

The government reports the following major proprietary funds:

The *landfill* enterprise fund accounts for the activities of the government's landfill operation.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

DENALI BOROUGH
NOTES TO FINANCIAL STATEMENTS, CONTINUED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

c) Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

d) Assets, Liabilities and Equity

Cash and cash equity - The government's cash and cash equity are considered to be cash on hand, demand deposits, savings accounts, certificates of deposits and short-term investments with an original maturity of three months or less.

Deposits and Investments - The Borough's formal policy governing types of investments it is authorized to hold requires that necessary cash balances be maintained in demand deposit accounts. Excess cash is invested in securities of the United States, any state or local government, commercial paper, time certificates of deposit or any other form of security as may be authorized by law commensurate with the following stipulations: 1) preference is to be given to Alaskan securities and financial institutions, 2) investment in corporate stocks and bonds is prohibited, 3) all transactions will be made and held in the name of the Borough.

DENALI BOROUGH
NOTES TO FINANCIAL STATEMENTS, CONTINUED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

d) Assets, Liabilities and Equity, continued

In 1993 a permanent investment special revenue fund was established with a \$1 million transfer from the general fund. The following securities are authorized for investment of the permanent investment fund: 1) obligations of the United States Treasury, 2) obligations of agencies of the United States government including FDIC insured certificates of deposit, 3) Certificates of deposit that do not exceed the current FDIC insurance limit, 4) Exchange traded funds or stock mutual funds, 5) bank deposits or money market mutual funds, 6) state investment pool formed within the State of Alaska and comprised of agencies of the state and/or its political subdivisions, 7) common and preferred stock of U.S. domiciled corporations listed on a national exchange or NASDAQ or a mutual fund that invests in these stocks. No investment shall be made in any one security in excess of five percent of the total investment portfolio except for obligations of the United States Treasury and its agencies.

One-half the annual income earned by the fund may be appropriated by the Borough Assembly for the general fund in the following fiscal year. Disbursement of the principal requires an ordinance by the Assembly and voter approval. In 2014, \$77,208 was appropriated from income earned by the fund to the general fund.

Investments are carried at fair value. Fair value is based on quoted market price.

Receivables and Payables - During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position.

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include overnight accommodation taxes, severance taxes, and state and federal grants. Business-type activities report fees for operation of the landfill, and land sales as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals for overnight accommodation taxes, severance taxes, grants, and other similar intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions, collectible but not available, are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Fees for operation of the landfill and land sales comprise the majority of proprietary fund receivables.

Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

DENALI BOROUGH
NOTES TO FINANCIAL STATEMENTS, CONTINUED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

d) Assets, Liabilities, and Equity, continued

Capital Assets - Capital assets, which include property, plant, and equipment are reported under governmental or business-type activities in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. The accounting treatment over property, plant, and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In the government-wide financial statements, capital assets are accounted for as assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation. Major general infrastructure has not been retroactively capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

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

The capital assets of the School District consist of equipment, furnishings, and vehicles. The Borough owns and provides to the School District all land, buildings and improvements. Capital assets are valued at cost or estimated historical cost when the original cost is not available. Donated fixed assets are valued at their estimated fair market value on the date received.

The range of estimated useful lives by type of asset is as follows:

<u>Assets</u>	<u>Years</u>
School buildings	70-80
Infrastructure	25-50
Landfill building	40
Transfer station	10-40
Improvements	10-80
School equipment	3-10
Machinery and equipment	5-15

DENALI BOROUGH
NOTES TO FINANCIAL STATEMENTS, CONTINUED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

d) Assets, Liabilities, and Equity, continued

Land - Under AS 29.65.030, when a municipality is incorporated it is entitled to 10 percent of the vacant, un-appropriated and unreserved lands within its boundaries. It has been determined that the Denali Borough is entitled to receive 49,789 acres. A total of 48,650 acres have been approved for conveyance to the Borough. The Borough holds the patent to 4,160 acres and has 44,490 acres under management authority. In the Panguingue Creek Subdivision 128 acres (21 lots) of the patented land are for sale. Of those, 102 acres (16 lots) have been sold. The financial statements do not reflect the value of the land at this time; as the value is not reasonably determinable.

Long-term Debt - The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as a liability in the government-wide statements. The long-term debt consists primarily of estimated liability for landfill closure and post-closure costs.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. Debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for long-term debt in the proprietary funds is the same as it is in the government-wide statements.

Net Position - In the government-wide financial statements net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, if any.
- b. Restricted
 - i. Permanent investment - Borough ordinances require that only the earnings of the permanent fund, not principal, may be used for purposes that support the Borough's programs.
 - ii. Forward funding of subsequent year expenditures - Borough ordinances require the forward funding of general fund expenditures. The reserve for subsequent year expenditures is the amount of budgeted expenditures for the next fiscal year.
- c. Unrestricted - All other amounts that do not meet the definition of "restricted" or "net investment in capital assets."

Proprietary net position is classified the same as in the government-wide financial statements.

DENALI BOROUGH
NOTES TO FINANCIAL STATEMENTS, CONTINUED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

d) Assets, Liabilities, and Equity, continued

Fund Balance - In the fund financial statements, governmental fund balance is classified into five specifically defined classifications. Classifications are hierarchical and are based primarily on the extent to which the Borough is bound to honor constraints on the specific purposes for which amounts in the funds may be spent. The Borough's accounting and finance policies are used to interpret the nature and/or requirements of the funds and their corresponding assignment of non-spendable, restricted, committed, assigned, or unassigned. The Borough's spending policy is for funds to be expended in the following order: Restricted, Committed, Assigned, and Unassigned.

The Borough reports the following classifications:

Non-spendable - The amounts of fund balance that cannot be spent because they are either (a) not in spendable form, such as consumable inventories or prepaid items, or (b) required to be maintained intact legally or contractually.

Restricted - The amounts of fund balance constrained for specific purpose by external parties, such as contractors, or imposed by law through constitutional provisions or enabling legislation.

Committed - The amounts of fund balance constrained for specific purposes imposed by formal action of the Borough Assembly. Commitments may only be changed by the assembly taking the same formal action that imposed the constraint originally. Commitments of fund balance must be in place before the end of the fiscal year.

Assigned - The amounts of fund balance constrained for a specific purpose by the Borough Assembly, such as departmental budgets. These amounts are not restricted or committed, and are intended to be used for the purpose of the fund. An assigned fund balance can never be negative.

Unassigned Fund Balance - The residual classification of fund balance that represents amounts not assigned to other funds, and not restricted, committed, or assigned to specific purposes within the general fund.

e) Revenues, Expenditures and Expenses

Overnight accommodation and severance tax - Denali Borough collects overnight accommodation and severance taxes, which represent approximately 74 percent of the Borough's general fund revenue. The overnight accommodation tax is assessed at 7 percent of gross rental sales and approximately 54 percent of this income is received from two merchants. The severance tax is assessed on coal, gravel and limestone extracted within the Borough at \$.05 per yard/ton.

In-kind support to the School District - Certain services are provided by the Borough to the School District. These include use of various Borough facilities. The costs of the facilities have not been charged to the School District.

DENALI BOROUGH
NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a) Budgetary Information

Budgets for the general fund are adopted annually and all unencumbered appropriations lapse at the end of the fiscal year. Budgets are presented as originally adopted or as amended by the Assembly.

The budgetary data for the general fund presented in the financial statements was established by Assembly ordinance. A proposed operating budget for the following fiscal year is submitted to the Borough Assembly. The operating budget includes proposed expenditures and the means of financing them. At least one public hearing is held and the Assembly adopts the budget no later than June 15. Transfers between categories within a fund require Borough Assembly approval. Budget amendments are adopted by Assembly Ordinance.

Since encumbrances constitute the equivalent of expenditures for budgetary purposes, the accompanying statements present comparisons of actual results to the annual budgets of the general fund on the basis of budgeting. Adjustments to convert actual expenditures to the basis of budgeting are reflected in the actual on budgetary basis column in the accompanying statements. The adjustments include the addition for current year encumbrances and the deduction for expenditures of prior year encumbrances. However, there were no outstanding encumbrances for either the current or prior years.

b) Budget Variances

During Fiscal Year 2014, expenditures for non-staff benefits exceeded those budgeted by \$1,079 due to correction of payroll tax liability coding errors made during the payroll process. Staff and mayor salaries exceeded those budgeted by \$641 and \$250, respectively, due to end of the year accrual adjustments. Mayor benefits exceeded those budgeted by \$5,842 due to a miscalculation of PERS benefits paid by the borough during the budgeting process. Expenditures for mayor's equipment exceeded budget by \$813 due to final payments on leased equipment. Expenditures for matching grants exceeded budget by \$1,371 due to prior year expenses received after year end and not included in current year budget. Expenditures for dues/subscriptions/advertisements exceeded those budgeted by \$1,837, largely due to fees associated with a new IT subscription.

DENALI BOROUGH
NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. DETAIL NOTES ON TRANSACTIONS CLASSES/ACCOUNTS

a) Cash and Equivalents

At June 30, 2014 the Borough's cash and equivalents are as follows:

Governmental activities	
Petty cash	\$ 200
General checking	717,895
General savings	2,668,055
AMLIP Disaster contingency fund	119,037
TVI/ProEquities cash	98,593
AMLIP - Capital improvement fund	83,292
Capital projects fund	377,627
Major school maintenance reserve - checking	40,943
Major school maintenance reserve - savings	535,411
Permanent investment savings	6,077
Morgan Stanley money market	11,574
Morgan Stanley cash	2,317
Wells Fargo cash	<u>35,530</u>
Total governmental activity cash and equivalents	\$ <u>4,696,550</u>
 Business-type activities	
Solid waste checking	94,607
Equipment reserve fund	86,778
Solid waste savings	574,536
Petty cash	400
Land sales savings	27,347
Land enterprise fund	293,899
Land management savings	85,068
Land management fund	<u>46,724</u>
Total business-type activity cash and equivalents	<u>1,209,359</u>
 Total cash and equivalents	 \$ <u>5,905,909</u>

DENALI BOROUGH
NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. DETAIL NOTES ON TRANSACTIONS CLASSES/ACCOUNTS, CONTINUED

b) Investments

Investments at fair value consist of the following as of June 30, 2014:

	General	Permanent Investment	Landfill	Total
Mutual funds	\$ -	600,561	-	600,561
Exchange-traded funds	-	606,622	-	606,622
US Government securities	-	9,641	-	9,641
Certificates of deposit	2,240,757	1,339,016	248,915	3,828,688
Vanguard Index Trust 500	-	502,460	-	502,460
Total Fair Value	\$ 2,240,757	3,058,300	248,915	5,547,972

Interest rate risk: The US Government securities consist of notes and investment pools of governmental bonds with interest rates of 6.0 to 6.5 percent interest and maturities ranging from 2032 to 2033. These notes and bonds are sensitive to changes in interest rates, which affect their fair value.

Credit Risk: The Borough's formal policy governing types of investments it is authorized to hold requires that necessary cash balances be maintained in demand deposit accounts. Excess cash is invested in securities of the United States, any state or local government, commercial paper, time certificates of deposit or any other form of security as may be authorized by law. The AML investment pool is considered to be an external investment pool as defined by GASB Statement No. 31. The AML investment pool is not SEC-registered, but is a 2a-7 like pool, operating in a manner consistent with that rule.

Concentration of credit risk: The Borough investment policies provide for investment of excess cash in securities of the United States, any state or local governments, commercial paper, time certificates of deposit, or the Alaska Municipal League Investment Pool. Borough investment policies for the Borough Permanent Investment Fund provide guidelines for investment allocation as follows: FDIC insured debt instruments, and/ or obligations of the US Government and agencies - 60 to 90 percent; diversified index mutual funds or exchange traded funds - 10 to 40 percent.

Custodial credit risk – deposits: In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Neither the government nor the School District, a discretely presented component unit, has a deposit policy for custodial credit risk. As of June 30, 2014, \$5,339,541 of the government's bank balance of \$5,589,541 was exposed to custodial credit risk because it was uninsured. However, the uninsured balance of \$5,339,541 was covered by collateral. All of the School District's bank balances of \$3,237,141 and their separately maintained agency fund bank balances of \$68,755 were either insured or collateralized.

DENALI BOROUGH
NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. DETAIL NOTES ON TRANSACTIONS CLASSES/ACCOUNTS, CONTINUED

c. Receivables

Accounts receivable of the business-type activities consists of transfer-site and landfill receivables. Accounts receivable of the governmental activities consists of overnight accommodation tax, and severance tax.

Management believes accounts receivable are fully collectable and therefore no allowance for uncollectable receivables has been recorded

d. Capital Assets

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

	Beginning Balance	Additions	Deletions	Ending Balance
Primary Government				
Governmental Activities				
School Buildings	\$ 30,872,061	-	-	30,872,061
Equipment	201,843	10,026	(15,012)	196,857
Leasehold improvements	9,110	-	-	9,110
	<u>\$ 31,083,014</u>	<u>10,026</u>	<u>(15,012)</u>	<u>31,078,028</u>
Less accumulated depreciation				(11,647,876)
				<u>\$ 19,430,152</u>
Business-type Activities				
Landfill	894,062	-	-	894,062
Landfill building	281,585	-	-	281,585
Landfill equipment	1,023,313	6,192	(4,519)	1,024,986
Cantwell transfer station	242,372	36,025	-	278,397
Land enterprise fund	44,102	1,091	-	45,193
	<u>\$ 2,485,434</u>	<u>43,308</u>	<u>(4,519)</u>	<u>2,524,223</u>
Less accumulated depreciation				(1,368,480)
				<u>\$ 1,155,743</u>
Component Unit - School District				
Equipment	620,235	213,297	-	833,532
Vehicles	305,818	37,788	-	343,606
	<u>\$ 926,053</u>	<u>251,085</u>	<u>-</u>	<u>1,177,138</u>
Less accumulated depreciation				(750,747)
				<u>\$ 426,391</u>

Depreciation expense was charged to governmental activities as follows: General Government \$23,179; Education \$409,150.

DENALI BOROUGH
NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. DETAIL NOTES ON TRANSACTIONS CLASSES/ACCOUNTS, CONTINUED

e. Leases

The Borough leases office space from the Tri-Valley Volunteer Fire Department, under a month-to-month operating lease. The lease currently requires monthly rental payments in the amount of \$3,052. Lease expense was \$36,624 for the year ended June 30, 2014.

The Borough entered into a lease agreement as lessee for financing the acquisition of computer and network equipment valued at \$34,176. The equipment has a five-year estimated useful life. This year, \$6,835 was included in depreciation expense. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date.

The School District rents office equipment under non-cancelable leases expiring in years through May 2015. Assets under capital leases are as follows: equipment \$182,982; vehicles \$126,384; accumulated depreciation \$199,246; net asset \$110,120.

Future capital lease payments are as follows:

		School District
Year ending June 30, 2015	\$	5,923
Less amount representing interest		(2,275)
Capital lease obligation	\$	3,648

f. Long-term liabilities

The Denali Borough's School District component unit long-term liability activity for the year ended June 30, 2014 is as follows:

		Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital leases	\$	9,077	-	5,429	3,648	3,648
Accrued leave		24,504	18,203	9,085	33,622	33,622
	\$	33,581	18,203	14,514	37,270	37,270

DENALI BOROUGH
NOTES TO FINANCIAL STATEMENTS, CONTINUED

3. DETAIL NOTES ON TRANSACTIONS CLASSES/ACCOUNTS, CONTINUED

g. Interfund Receivables, Payable and Transfers

Interfund balances for the purposes of the entity-wide financial statements have been eliminated with the exception of balances that represent amounts receivable/payable between the governmental and business-type activities, resulting primarily from revenues and expenses recorded in general fund cash, but accounted for in other funds. The composition of interfund balances are as follows:

	Due from other funds	Due to other funds
Major governmental funds		
General	\$ 120,686	-
Landfill	-	77,033
Landfill enterprise fund	-	43,653
	\$ 120,686	120,686

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers consist of the following:

	General Fund	Permanent Investments	Other Governmental Funds	Proprietary Funds
Transfer in (out)				
General fund	\$ 77,208	(77,208)	-	-
Landfill	(176,604)	-	-	176,604
Land enterprise	(75,000)	-	-	75,000
Capital projects	(5,000)	-	5,000	-
Major school maint	(68,604)	-	68,604	-
Emergency Mgt	(12,000)	-	12,000	-
	\$ (260,000)	(77,208)	85,604	251,604

4. OTHER NOTES

a. Risk Management

The Borough and its component unit the School District are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

DENALI BOROUGH
NOTES TO FINANCIAL STATEMENTS, CONTINUED

4. OTHER NOTES, CONTINUED

a. Risk Management, continued

The Borough has joined the Alaska Municipal League Joint Insurance Association, Inc., a public entity risk pool, to insure against these potential losses. The Borough pays the Association an annual premium for liability, workers compensation, and property insurance. The Association insures general liability losses up to \$5,000,000 per occurrence; workers compensation losses up to statutory limits; property losses up to \$1,000,000,000 per occurrence with deductibles of \$5,000 to \$10,000 for most assets; \$50,000,000 per earthquake occurrence with a \$100,000 minimum deductible; and \$175,000,000 per flood occurrence with deductibles from \$100,000 to \$250,000. As a member of the public entity risk pool, the Borough is subject to premiums based on its loss experience and also the loss experience of the other pool members. However, Borough management believes any future premium increases, if any, due to loss claims would have an immaterial impact on the financial statements.

The School District participates in the Alaska Public Entity Insurance (APEI) which provides insurance coverage for property, general liability, and worker's compensation. APEI is a public entity risk pool organized to share risks among its members. The APEI's bylaws provide for the assessment of supplemental contributions from members in the event that losses and expenses for any coverage year exceed the annual contributions and income earned on such contributions for the year or at the discretion of the Board. Supplemental contributions are based on each member's annual deposit contribution in comparison to the aggregate annual deposit contribution of all members. No supplemental contributions have been assessed for the last several years. The District has no coverage for environmental damages. The School District participates in National Education Association (NEA) which provides insurance coverage for a health and insurance benefit program which covers all permanent full time employees.

b. Related Parties

Assemblyman David Evans is an owner of Evans Industries - Borough contracts with Evans Industries were approximately \$34,653 in FY2014.

c. Denali Borough Landfill

Under an agreement with State of Alaska Department of Environmental Conservation, the Borough has accepted ownership and responsibility for operation and maintenance of a landfill and transfer station. The Borough is required to assess user fees to ensure the system is self-supporting, and select individuals trained to operate and maintain the facility. The Borough will also be required to maintain and monitor the landfill for 30 years after closure.

The Borough operates the landfill. Revenue earned from operations is used to cover operating costs and future required closure and post-closure costs. In 2014, the Borough earned net tipping fees of \$451,357.

DENALI BOROUGH
NOTES TO FINANCIAL STATEMENTS, CONTINUED

4. OTHER NOTES, CONTINUED

c. Denali Borough Landfill, continued

State and federal laws and regulations require that the Borough cover its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to current expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and post-closure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and post-closure care costs is \$247,900 as of June 30, 2014, which is based on 42 percent usage (capacity) of the landfill. The Landfill Closure Plan and Cost Estimate dated June 27, 2014 projects the estimated remaining landfill life at 31 years.

It is estimated an additional \$249,386 will be recognized as closure and post-closure care expenses between the date of the balance sheet and the date the landfill is expected to be filled to capacity in 2045. The estimated total current cost of the landfill closure and post-closure care (\$497,286) is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of June 30, 2014. However, the actual cost of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. During the year, post-closure care costs totaled \$5,000, the same amount by which the liability increased.

The Borough is required by state and federal laws and regulations to provide financial assurance for closure and post-closure care. The Borough is in compliance with these requirements. It is anticipated that future inflation costs will be financed in part from earnings on investments held by the Borough for the landfill. The remaining portion of anticipated future inflation costs, including inadequate earnings on investments, if any, and additional costs that might arise from changes in post-closure requirements due to changes in technology or more rigorous environmental regulations, for example, may need to be covered by charges to future landfill users

d. Employee Retirement Systems and Pension Plans

As of June 30, 2014 all permanent employees and participating assembly members of the Denali Borough and of the School District component unit are members of either the Alaska Public Employees' Retirement System (PERS) or of the Alaska Teachers' Retirement System (TRS). Stand-alone financial statements for either plan can be obtained by contacting the Alaska Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska 99811-0203, or by calling 1-800-821-2251. The financial statements are also available on the web at <http://doa.alaska.gov/drbc/portal.html>. The Borough and the School District participate in the PERS under separate agreements.

DENALI BOROUGH
NOTES TO FINANCIAL STATEMENTS, CONTINUED

4. OTHER NOTES, CONTINUED

d. Employee Retirement Systems and Pension Plans, continued

Alaska Public Employees' Retirement System

Plan Description

The Public Employees' Retirement System (PERS) is established and administered by the State of Alaska (State) to provide pension, post-employment healthcare, survivor, and disability benefits to eligible employees. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. Local government participation in the PERS is optional. Tiers I, II, and III are a defined benefit plan. Effective July 1, 2006, the State Legislature (Senate Bill 141) closed the defined benefit plan to new members and created PERS Tier IV, a defined contribution plan with a component of defined benefit post-employment healthcare. Effective July 1, 2008, the State Legislature (Senate Bill 125) changed Tiers II and III of the PERS from an agent multiple-employer to a cost sharing multiple-employer plan.

Defined Benefit Plan (Tiers I through III)

Funding Policy. Employee contribution rates for the defined benefit plan are 6.75 percent of their annual cover salary. The PERS's funding policy provides for actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate the assets necessary to meet both pension and post-employment healthcare benefit obligations when due. In accordance with Alaska Statutes, those actuarially determined rates are paid by a combination of periodic employer contributions and a direct contribution by the State.

Effective July 1, 2008 the employer rate was statutorily set at the greater of 22 percent or the actuarially determined normal cost rate. When the 22 percent exceeds the normal cost rate, the excess is applied to the past service liability of the plan. The PERS total employer contribution rate for fiscal year 2014 is capped at 22 percent. The actuarially determined PERS contribution rate for FY14 is 35.68 percent (8.12 percent normal cost rate plus 24.19 percent past service rate plus a 3.37 percent defined contribution retirement rate.)

Plan Contributions. Borough contributions to the PERS defined benefit plan for fiscal years ended June 30, 2014, 2013, and 2012 were \$26,837, \$32,153, and \$38,387, respectively, equal to the mandatory employer contributions for each year. School District contributions to the PERS defined benefit plan for fiscal years ended June 30, 2014, 2013, and 2012, were \$174,665, \$167,497, and \$198,319, respectively, equal to the mandatory employer contributions for each year. Borough on-behalf payments made by the State of Alaska for fiscal year 2014, 2013, and 2012 recorded as revenue and expenditures were \$67,804, \$69,046, and \$54,992, respectively. As reported by the School District on-behalf payments made by the State of Alaska for fiscal year 2014, 2013, and 2012 recorded as revenue and expenditures were \$155,866, \$157,942, and \$134,494, respectively.

DENALI BOROUGH
NOTES TO FINANCIAL STATEMENTS, CONTINUED

4. OTHER NOTES, CONTINUED

d. Employee Retirement Systems and Pension Plans, continued

Defined Contribution Plan (Tier IV)

Funding Policy. Employee contribution rates for the defined contribution plan are 8.00 percent of eligible compensation. Effective July 1, 2008, the employer contribution rate is statutorily set at the same rate as the defined benefit plan. That rate is the greater of 22 percent or the actuarially determined normal cost rate of the defined benefit plan. The 22 percent rate for the defined contribution plan is comprised of five elements: 5 percent to each member's individual pension account, 0.48 percent into the retiree medical plan, 0.20 percent for occupational death and disability benefits, a flat dollar amount per employee based on 3.00 percent of the employer's average annual employee compensation (into the employee's Health Reimbursement Arrangement account), and a residual contribution applied as a payment to the defined benefit plan's unfunded liability. The flat dollar amount per employee for fiscal year 2014 was \$1,897 per year for full-time employees and \$1.22 per hour for part-time employees.

Plan Contributions . Borough contributions to the PERS defined contribution plan for years ended June 30, 2014, 2013, and 2012 were \$75,584, \$71,852, and \$63,519, respectively, and employee contributions to the plan were \$27,479, \$26,126, and \$23,098, respectively. As reported by the School District contributions to the PERS defined contribution plan for years ended June 30, 2014, 2013, and 2012 were \$70,700, \$71,069, and \$54,529, respectively, and employee contributions to the plan were \$55,906, \$52,736, and \$39,905, respectively.

Teachers' Retirement System as reported by the School District in their financial statements dated November 5, 2014.

Plan Description

The Teachers' Retirement System (TRS) is created and administered by the State of Alaska (State) to provide pension, post-employment healthcare, survivor and disability benefits to eligible employees. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. Local government participation in the TRS is optional. Tiers I and II of the TRS are a cost sharing multiple-employer defined benefit plan. Effective July 1, 2006, the State Legislature closed the defined benefit plan to new members and created Tier III as a defined contribution retirement plan with a component of defined benefit post-employment healthcare.

Defined Benefit Plan (Tier I and II)

Funding Policy. Employee contribution rates for the defined benefit plan are 8.65 percent of eligible compensation. The TRS's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay both pension and post-employment healthcare benefits when due. In accordance with Alaska Statutes, those actuarially determined rates are paid by a combination of periodic employer contributions and a direct contribution by the State.

DENALI BOROUGH
NOTES TO FINANCIAL STATEMENTS, CONTINUED

4. OTHER NOTES, CONTINUED

d. Employee Retirement Systems and Pension Plans, continued

Effective July 1, 2008 the employer rate is statutorily set at the greater of 12.56 percent or the actuarially determined normal cost rate. When the 12.56 percent exceeds the normal cost rate, the excess is applied to the past service liability of the plan. The actuarially determined contribution rate for fiscal year 2014 was 53.62 percent (6.59 percent normal cost rate plus 43.51 percent past service rate, plus a 3.52 percent defined contribution retirement rate),

Plan Contributions. School District contributions to the TRS defined benefit plan for fiscal years ended June 30, 2014, 2013, and 2012 were \$149,060, \$201,320, and \$184,704, respectively, equal to the mandatory employer contributions for each year. On-behalf payments made by the State of Alaska for fiscal year 2014, 2013, and 2012, recorded as revenue and expenditures in the general fund, were \$808,003, \$832,905, and \$558,276, respectively.

Defined Contribution Plan (Tier III)

Funding Policy. Employee contribution rates for the defined contribution plan are 8 percent of eligible compensation. Effective July 1, 2008, the employer contribution rate is statutorily set at the same rate as the defined benefit plan. That rate is the greater of 12.56 percent or the actuarially determined normal cost rate of the defined benefit plan. The 12.56 percent rate for the defined contribution plan is comprised of four elements: 7.00 percent to each member's individual pension account, 0.47 percent into the retiree medical plan, a flat dollar amount per employee based on 3.00 percent of the employer's average annual employee compensation (into the employee's Health Reimbursement Arrangement account), and a residual contribution applied as a payment to the defined benefit plan's unfunded liability. The flat dollar amount per employee for fiscal year 2014 was \$1,897 per year for full-time employees and \$1.22 per hour for part-time employees.

Plan Contributions. School District contributions to the TRS defined contribution plan for years ended June 30, 2014, 2013, and 2012 were \$96,295, \$61,671, and \$36,955, respectively, and employee contributions to the plan were \$67,678, \$45,469, and \$26,888, respectively

5. CONTINGENCIES

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, any current legal proceedings, commitments or contingent liabilities will not materially affect the financial position of the Borough.

DENALI BOROUGH
NOTES TO FINANCIAL STATEMENTS, CONTINUED

6. NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates. Management has not fully evaluated the potential effects of these statements, but believes GASB Statement 68 will result in the biggest reporting change.

GASB 68- Accounting and Financial Reporting for Pensions- Effective for year ended June 30, 2015- This statement changes the reporting and disclosure requirements for governments that participate in pension plans. This statement modifies the participating employer side of reporting in connection with plan reporting in accordance with GASB 67.

GASB 69- Government Combinations and Disposal of Government Operations- Effective for year-end June 30, 2015- This statement contains certain disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and effects of these transactions.

GASB 71-Pension Transition for Contributions Made Subsequent to the Measurement Date- Effective for year-end June 30, 2015- This statement is a companion to GASB 68 and clarifies treatment of contributions made by a contributing entity to a defined benefit pension plan after the measurement date of the government's net pension liability.

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

Required Supplementary Information (RSI)
Budgetary Comparisons - General Fund
Notes to Required Supplementary Information

DENALI BOROUGH
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
Year ended June 30, 2014

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Taxes:				
Overnight accommodation tax	\$ 2,400,000	2,700,000	3,067,967	367,967
Severance tax	90,000	90,000	91,569	1,569
	<u>2,490,000</u>	<u>2,790,000</u>	<u>3,159,536</u>	<u>369,536</u>
Intergovernmental:				
Federal				
PILT Act	300,930	304,186	304,186	-
State of Alaska				
PERS on-behalf payment	40,000	35,000	40,468	5,468
Shared taxes				
Revenue sharing	461,000	503,105	503,105	-
Electric/telephone co-op	46,000	46,000	51,103	5,103
	<u>847,930</u>	<u>888,291</u>	<u>898,862</u>	<u>10,571</u>
Other:				
Miscellaneous	2,000	2,000	5,595	3,595
Gains (losses) on investments	-	-	1,874	1,874
Interest Income	18,000	18,000	64,070	46,070
	<u>20,000</u>	<u>20,000</u>	<u>71,539</u>	<u>51,539</u>
Total revenues	<u>3,357,930</u>	<u>3,698,291</u>	<u>4,129,937</u>	<u>431,646</u>
EXPENDITURES				
Assembly:				
Nonstaff stipends	22,200	22,200	20,600	1,600
Nonstaff benefits	2,500	2,500	3,579	(1,079)
Staff salaries	115,475	115,475	116,116	(641)
Staff benefits	158,526	158,526	144,382	14,144
Nonstaff travel	18,000	8,000	4,948	3,052
Staff travel	8,000	6,000	2,916	3,084
Staff training	4,000	3,000	1,238	1,762
Nonstaff training	4,000	2,000	150	1,850
Rent	30,000	30,000	25,773	4,227
Utilities	7,000	5,000	4,266	734
Postage	8,000	5,000	4,180	820
Janitorial Services	2,400	2,400	2,268	132
Dues/subscriptions/advertisement	7,000	7,000	8,837	(1,837)
Codification of municipal code	3,000	3,000	1,284	1,716
Elections	12,000	8,000	6,000	2,000
Equipment	22,000	17,000	16,639	361
Repairs and maintenance	4,000	4,000	2,726	1,274
Equipment rental	2,000	2,000	1,152	848
Supplies	10,000	8,000	5,078	2,922
Standing committees	1,000	-	-	-
Overnight Accommodations Audit Fees	-	8,500	5,419	3,081
Audit Fees	30,000	30,000	25,274	4,726
Budgetary reserve	868,716	-	-	-
Contingency	5,000	5,000	2,429	2,571
	<u>1,344,817</u>	<u>452,601</u>	<u>405,254</u>	<u>47,347</u>

DENALI BOROUGH
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
Year ended June 30, 2014

EXPENDITURES, CONTINUED	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Mayor:				
Mayor salary	\$ 65,000	65,000	65,250	(250)
Mayor benefits	80,751	78,751	84,593	(5,842)
Staff salary	109,311	99,311	74,779	24,532
Staff benefits	184,740	184,740	173,938	10,802
Staff leave replacement	5,000	5,000	-	5,000
Workmen's compensation	2,750	1,500	1,500	-
Staff travel	5,000	4,000	2,180	1,820
Mayor travel	7,000	7,000	6,842	158
Staff training	2,000	1,000	975	25
Utilities	1,800	1,800	737	1,063
Equipment	4,000	3,000	3,813	(813)
Vehicle insurance	1,000	800	709	91
Property insurance	150	150	100	50
Bonding & insurance	11,000	12,500	11,410	1,090
Attorney fees	20,000	18,000	10,800	7,200
Overnight Accomodations Audit Fees	6,000	-	-	-
Consultant fees	20,000	20,000	15,161	4,839
Bank fees	5,000	5,000	3,511	1,489
Emergency fuel reserve	10,000	6,000	-	6,000
Public safety contributions	298,553	298,553	274,682	23,871
Public safety per capita funding	44,794	44,794	44,794	-
Nonprofit contributions	68,705	68,705	60,281	8,424
Revenue sharing distribution	-	41,508	41,508	-
Community Events	8,000	5,000	3,522	1,478
Contingency	6,000	4,000	2,176	1,824
	<u>966,554</u>	<u>976,112</u>	<u>883,261</u>	<u>92,851</u>
School District:				
School operating fund				
Mandatory contribution	658,294	658,294	658,294	-
Additional contribution	1,594,540	1,572,409	1,572,409	-
	<u>2,252,834</u>	<u>2,230,703</u>	<u>2,230,703</u>	<u>-</u>
Borough matching grants				
Matching grants	32,417	32,417	33,788	(1,371)
	<u>32,417</u>	<u>32,417</u>	<u>33,788</u>	<u>(1,371)</u>
Total expenditures	<u>4,596,622</u>	<u>3,691,833</u>	<u>3,553,006</u>	<u>138,827</u>
Excess (deficiency) of revenues over expenditures	<u>(1,238,692)</u>	<u>6,458</u>	<u>576,931</u>	<u>570,473</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in(out)				
From Permanent Investment Fund	-	-	77,208	77,208
To Disaster Contingency Fund	(5,000)	(1,000)	-	1,000
To Capital Projects Fund	(30,000)	(5,000)	(5,000)	-
To Major School Maintenance Reserve Fund	(100,000)	(68,604)	(68,604)	-
To Land Management Fund	(312,000)	(75,000)	(75,000)	-
To Landfull Closure Fund	(10,000)	(5,000)	(5,000)	-
To Solid Waste Equipment Reserve Fund	(10,000)	(46,604)	(46,604)	-
To Solid Waste Enterprise Fund	(208,000)	(125,000)	(125,000)	-
To Special Revenue	-	(12,000)	(12,000)	-
Total other financing uses	<u>(675,000)</u>	<u>(338,208)</u>	<u>(260,000)</u>	<u>78,208</u>
Net change in fund balance	<u>(1,913,692)</u>	<u>(331,750)</u>	<u>316,931</u>	<u>648,681</u>
FUND BALANCE, July 1	<u>6,159,974</u>	<u>6,159,974</u>	<u>6,159,974</u>	<u>-</u>
FUND BALANCE, June 30	<u>\$ 4,246,282</u>	<u>5,828,224</u>	<u>6,476,905</u>	<u>648,681</u>

See accompanying notes to required supplementary information.

DENALI BOROUGH
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year ended June 30, 2014

BUDGETARY BASIS OF ACCOUNTING

The adopted budget of the Borough is prepared on the modified accrual basis of accounting.

EXCESS OF EXPENDITURES OVER BUDGET

At June 30, 2014, the Borough had expenditures in funds that exceeded the budget; however, this does not constitute a violation of any legal provisions.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

Non-Major Governmental Funds

Combining Balance Sheet

Combining Statement of Revenues, Expenditures and
Changes in Fund Balances

Schedules of Revenues and Expenditures – Budget and Actual
Special Revenue Funds

DENALI BOROUGH
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2014

	Special Revenue Fund		
	Emergency Management Performance Grant	Local Emergency Planning Committee	Homeland Security Grant Program
<u>ASSETS</u>			
Cash and cash equity	\$ (3,386)	(279)	-
Receivables from other governments	3,386	279	-
Total Assets	\$ -	-	-
<u>LIABILITIES</u>			
Unearned revenue	-	-	-
<u>FUND EQUITY</u>			
Committed to			
School major maintenance	-	-	-
Capital projects	-	-	-
Capital improvements	-	-	-
Total fund balances	-	-	-
Total liabilities and fund balances	\$ -	-	-

<u>Special Revenue Fund</u>				
	<u>Solid Fuel Stove Change Out</u>	<u>Legislative Grant Program</u>	<u>Capital Projects</u>	<u>Total</u>
\$	37,905	207,584	816,426	1,058,250
	-	-	-	3,665
\$	<u>37,905</u>	<u>207,584</u>	<u>816,426</u>	<u>1,061,915</u>
	<u>37,905</u>	<u>65,128</u>	<u>-</u>	<u>103,033</u>
	<u>37,905</u>	<u>65,128</u>	<u>-</u>	<u>103,033</u>
	-	142,456	394,200	536,656
	-	-	378,934	378,934
	-	-	43,292	43,292
	-	<u>142,456</u>	<u>816,426</u>	<u>958,882</u>
\$	<u>37,905</u>	<u>207,584</u>	<u>816,426</u>	<u>1,061,915</u>

See Independent Auditor's Report.

DENALI BOROUGH
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
Year ended June 30, 2014

	Special Revenue Fund		
	Emergency Management Performance Grant	Local Emergency Planning Committee	Homeland Security Grant Program
REVENUES			
Intergovernmental	\$ 12,000	10,601	38,000
Local sources	-	-	-
Investment income	-	-	-
Total revenues	<u>12,000</u>	<u>10,601</u>	<u>38,000</u>
EXPENDITURES			
Current			
General government	24,000	10,601	-
Capital Outlay	-	-	38,000
Total expenditures	<u>24,000</u>	<u>10,601</u>	<u>38,000</u>
Excess (deficiency) of revenues over expenditures	<u>(12,000)</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)			
Operating transfer (to) from general fund	12,000	-	-
	<u>12,000</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	-
FUND BALANCE, July 1	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, June 30	<u>\$ -</u>	<u>-</u>	<u>-</u>

<u>Special Revenue Fund</u>				
	<u>Solid Fuel Stove Change Out</u>	<u>Legislative Grant Program</u>	<u>Capital Projects</u>	<u>Total</u>
\$	-	68,816	-	129,417
	34,496	-	-	34,496
	-	-	664	664
	<u>34,496</u>	<u>68,816</u>	<u>664</u>	<u>164,577</u>
	34,496	-	-	69,097
	-	102,576	1,201	141,777
	<u>34,496</u>	<u>102,576</u>	<u>1,201</u>	<u>210,874</u>
	-	(33,760)	(537)	(46,297)
	-	176,216	(102,612)	85,604
	-	-	(102,612)	85,604
	-	142,456	(103,149)	39,307
	-	-	919,575	919,575
\$	<u>-</u>	<u>142,456</u>	<u>816,426</u>	<u>958,882</u>

See Independent Auditor's Report.

DENALI BOROUGH
SPECIAL REVENUE FUND
EMERGENCY MANAGEMENT PERFORMANCE GRANT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
 Year ended June 30, 2014

	Award	Prior	Actual Current	Total	Variance (Unfavorable)
REVENUES					
State of Alaska -					
Division of Homeland Security and Emergency Management	\$ 12,000	-	12,000	12,000	-
EXPENDITURES					
Division of Homeland Security and Emergency Management	24,000	-	24,000	24,000	-
Excess (deficiency) of revenues over expenditures	(12,000)	-	(12,000)	(12,000)	-
OTHER FINANCING SOURCES					
Transfers in	12,000	-	12,000	12,000	-
Excess of revenues over expenditures and other financing sources	\$ -	-	-	-	-

See Independent Auditor's Report.

DENALI BOROUGH
SPECIAL REVENUE FUND
LOCAL EMERGENCY PLANNING COMMITTEE GRANT
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
Year ended June 30, 2014

	<u>Award</u>	<u>Prior</u>	<u>Actual Current</u>	<u>Total</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES					
State of Alaska -					
Division of Homeland Security and Emergency Management	\$ 12,143	-	10,601	10,601	1,542
EXPENDITURES					
Division of Homeland Security and Emergency Management	12,143	-	10,601	10,601	1,542
Excess (deficiency) of revenues over expenditures	\$ -	-	-	-	-

See Independent Auditor's Report.

DENALI BOROUGH
SPECIAL REVENUE FUND
HOMELAND SECURITY GRANT PROGRAM
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
Year ended June 30, 2014

	Award	Prior	Actual Current	Total	Variance Favorable (Unfavorable)
REVENUES					
State of Alaska -					
Division of Homeland Security and Emergency Management					
2013 SHSP Award	\$ 39,200	-	38,000	38,000	1,200
Total revenues	<u>39,200</u>	<u>-</u>	<u>38,000</u>	<u>38,000</u>	<u>1,200</u>
EXPENDITURES					
Division of Homeland Security and Emergency Management					
2013 SHSP Award	39,200	-	38,000	38,000	1,200
Total expenditures	<u>39,200</u>	<u>-</u>	<u>38,000</u>	<u>38,000</u>	<u>1,200</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

See Independent Auditor's Report.

DENALI BOROUGH
SPECIAL REVENUE FUND
SOLID FUEL STOVE CHANGE OUT PROGRAM
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
 Year ended June 30, 2014

	<u>Award</u>	<u>Prior</u>	<u>Actual Current</u>	<u>Total</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES					
Other					
Golden Valley Electric Association	\$ 75,000	2,599	34,496	37,095	37,905
EXPENDITURES					
Other					
Golden Valley Electric Association	75,000	2,599	34,496	37,095	37,905
Excess (deficiency) of revenues over expenditures	\$ -	-	-	-	-

See Independent Auditor's Report.

DENALI BOROUGH
SPECIAL REVENUE FUND
LEGISLATIVE GRANT PROGRAM
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
Year ended June 30, 2014

	Award	Actual		Total	Variance Favorable (Unfavorable)
		Prior	Current		
REVENUES					
State of Alaska -					
Department of Commerce, Community and Economic Development					
11-DC-207 Tri-Valley Fire Department Well	\$ 30,000	3,461	7,841	11,302	18,698
11-DC-204 Cantwell School Repairs and Upgrades	50,000	23,032	26,968	50,000	-
13-DM-161 School District Asbestos Hazard Emergency Response	35,000	-	21,867	21,867	13,133
13-DM-203 Anderson School Fuel Heating Fuel Storage Tank Replacement	45,000	32,860	12,140	45,000	-
Department of Education and Early Development					
GR-14-009 Cantwell K-12 School Sprinkler and Fire Alarm Upgrades	704,863	-	-	-	-
Total revenues	<u>864,863</u>	<u>59,353</u>	<u>68,816</u>	<u>128,169</u>	<u>31,831</u>
EXPENDITURES					
State of Alaska -					
Department of Commerce, Community and Economic Development					
11-DC-207 Tri-Valley Fire Department Well	30,000	3,461	7,841	11,302	18,698
11-DC-204 Cantwell School Repairs and Upgrades	50,000	23,032	26,968	50,000	-
13-DM-161 School District Asbestos Hazard Emergency Response	35,000	-	21,867	21,867	13,133
13-DM-203 Anderson School Fuel Heating Fuel Storage Tank Replacement	45,000	32,860	12,140	45,000	-
Department of Education and Early Development					
GR-14-009 Cantwell K-12 School Sprinkler and Fire Alarm Upgrades	704,863	-	33,760	33,760	33,760
Total expenditures	<u>864,863</u>	<u>59,353</u>	<u>102,576</u>	<u>161,929</u>	<u>65,591</u>
OTHER FINANCING SOURCES					
Transfers in	-	-	176,216	176,216	176,216
Excess (deficiency) of revenues over expenditures	\$ -	-	<u>142,456</u>	<u>142,456</u>	<u>142,456</u>

See Independent Auditor's Report.

