Aleutians East Borough, Alaska

Basic Financial Statements, Required Supplementary Information, Supplementary Information and Single Audit Reports

Year Ended June 30, 2018

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Aleutians East Borough, Alaska

Basic Financial Statements, Required Supplementary Information,
Supplementary Information and Single Audit Reports
Year Ended June 30, 2018

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Aleutians East Borough, Alaska

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Aleutians East Borough, Alaska

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Tel: 907-278-8878
Fax: 907-278-5779
www.bdo.com

3601 C Street, Suite 600
Anchorage, AK 99503

Independent Auditor's Report

Honorable Mayor and Borough Assembly
Aleutians East Borough, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Aleutians East Borough, Alaska (the Borough), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Aleutians East Borough, Alaska, as of June 30, 2018, 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.

Emphasis of Matter

As discussed in Note 15 to the financial statements, in 2018 the Borough adopted the provisions of Governmental Accounting Standards Board (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

As discussed in Note 15 to the financial statements, amounts reported for deferred charges on refunding, accounts receivable, accounts payable, bond premiums, capital assets, opening fund balance and opening net position have been restated to correct for accounting errors. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 48 and the other required supplementary information on pages 49-57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough's basic financial statements. The individual fund financial statements and schedules listed in the table of contents and the Schedule of State Financial Assistance for the year ended June 30, 2018, as required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits,* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of State Financial Assistance, and the individual fund financial statements and schedules listed in the table of contents 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. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Borough's basic financial statements for the year ended June 30, 2017 (not presented herein) were audited by other auditors whose report thereon dated March 23, 2018, expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information. The report of the other auditors dated March 23, 2018 stated that the individual fund financial statements and schedules for the year ended June 30, 2018 were subjected to the auditing procedures applied in the audit of the 2017 basic financial statements and certain additional auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or to those basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and, in their opinion, were fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2017.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated XXXX, 2019 on our consideration of the 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Borough's 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 the Borough's internal control over financial reporting and compliance.

Anchorage, Alaska
XXXX, 2019

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Basic Financial Statements

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Aleutians East Borough, Alaska

Statement of Net Position

June 30, 2018	Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Unit: School District
Assets and Deferred Outflows of Resources				
Assets				
Cash and investments	$ 59,029,386	$ -	$ 59,029,386	$ 3,848,126
Investment in Southwest Governments, LLC	442,369	-	442,369	-
Receivables, net of allowance for uncollectible accounts:				
State of Alaska	99,881	-	99,881	-
Federal	-	-	-	159,211
School	23,009	-	23,009	-
Accrued interest	123,565	-	123,565	-
Other	846,932	14,260	861,192	218,316
Internal balances	(77,437)	77,437	-	-
Prepaid items	-	8,311	8,311	176,719
Inventory	-	-	-	29,496
Restricted cash and investments:				
Unspent bond proceeds	7,114,016	-	7,114,016	-
Accrued interest	20,688	-	20,688	-
Capital assets not being depreciated	5,323,074	-	5,323,074	-
Other capital assets, net of accumulated depreciation	77,334,644	5,021,690	82,356,334	333,343
Total Assets	150,280,127	5,121,698	155,401,825	4,765,211
Deferred Outflows of Resources				
Related to pensions	195,767	-	195,767	376,008
Related to other postemployment benefits	50,166	-	50,166	97,328
Deferred charge on refunding	383,597	-	383,597	-
Total Deferred Outflows of Resources	629,530	-	629,530	473,336
Total Assets and Deferred Outflows of Resources	$ 150,909,657	$ 5,121,698	$ 156,031,355	$ 5,238,547
Liabilities, Deferred Inflows of Resources and Net Position				
Liabilities				
Accounts payable	$ 3,806,013	$ 12,665	$ 3,818,678	$ 215,657
Accrued payroll and taxes	-	-	-	45,677
Accrued leave	80,981	-	80,981	54,978
Accrued interest	138,115	-	138,115	-
Unearned revenue	-	-	-	23,054
Due to primary government	-	-	-	17,248
Bonds payable, current	1,450,000	-	1,450,000	-
Bonds payable, noncurrent	23,031,711	-	23,031,711	-
Net pension liability	1,574,500	-	1,574,500	3,707,769
Net other postemployment benefits liability	254,875	-	254,875	407,168
Total Liabilities	30,336,195	12,665	30,348,860	4,471,551
Deferred Inflows of Resources				
Related to pensions	160,315	-	160,315	396,776
Related to other postemployment benefits	120,663	-	120,663	262,624
Total Deferred Inflows of Resources	280,978	-	280,978	659,400
Net Position				
Net investment in capital assets	65,673,620	5,021,690	70,695,310	333,343
Restricted:				
Construction	280,770	-	280,770	-
Permanent Fund	44,300,067	-	44,300,067	-
Unrestricted	10,038,027	87,343	10,125,370	(225,747)
Total Net Position	120,292,484	5,109,033	125,401,517	107,596
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 150,909,657	$ 5,121,698	$ 156,031,355	$ 5,238,547

See accompanying notes to financial statements.

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Aleutians East Borough, Alaska

Statement of Activities

Year Ended June 30, 2018	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants & Contri-butions	Program Revenues: Capital Grants & Contri-butions	Net Revenue (Expense) and Changes in Net Position – Primary Government: Govern-mental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Unit: School District
Primary Government								
Governmental Activities								
General government	$ 4,496,708	$ -	$ 1,130,168	$ -	$ (3,366,540)	$ -	$ (3,366,540)	
Infrastructure	3,182,413	-	-	140,676	(3,041,737)	-	(3,041,737)	
Interest on long-term debt	674,328	-	-	-	(674,328)	-	(674,328)	
Total Governmental Activities	8,353,449	-	1,130,168	140,676	(7,082,605)	-	(7,082,605)	
Business-Type Activities -								
Terminal	346,330	141,507	-	-	-	(204,823)	(204,823)	
Helicopter	1,735,262	920,439	-	-	-	(814,823)	(814,823)	
Total Business-Type Activities	2,081,592	1,061,946	-	-	-	(1,019,646)	(1,019,646)	
Total Primary Government	$ 10,435,041	$ 1,061,946	$ 1,130,168	$ 140,676	$ (7,082,605)	$ (1,019,646)	$ (8,102,251)	
Component Unit - School District	$ 8,355,525	$ 119,971	$ 476,560					$ (7,758,994)
General Revenues								
Borough fish tax					4,951,066	-	4,951,066	-
Unrestricted investment earnings					106,779	-	106,779	-
Restricted investment earnings					3,032,772	-	3,032,772	-
Local contributions					-	-	-	1,825,515
State grants and entitlements not restricted to specific program					2,595,355	-	2,595,355	4,589,027
Payment in lieu of taxes					600,878	-	600,878	-
Federal sources					-	-	-	2,498,293
PERS - on behalf					26,532	-	26,532	-
Loss on sale of asset					-	(1,103,423)	(1,103,423)	-
Miscellaneous					1,423,580	-	1,423,580	47,027
Transfers					3,085,409	(3,085,409)	-	-
Total General Revenues and Transfers					15,822,371	(4,188,832)	11,633,539	8,959,862
Change in Net Position					8,739,766	(5,208,478)	3,531,288	1,200,868
Net Position, beginning, as restated (Note 15)					111,552,718	10,317,511	121,870,229	(1,093,272)
Net Position, ending					$ 120,292,484	$ 5,109,033	$ 125,401,517	$ 107,596

See accompanying notes to financial statements.

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Exhibit B-1

Aleutians East Borough, Alaska

Balance Sheet - Governmental Funds

June 30, 2018	General Fund	Capital Improvements Capital Project	Trust Permanent Fund	Bond Construction Capital Project	Maintenance Reserve Capital Project	King Cove Access Project	Total Governmental Funds
	Major Funds					Nonmajor Fund	
Assets							
Cash and investments	$ 11,199,438	$ 1,303,558	$ 46,245,620	$ -	$ -	$ 280,770	$ 59,029,386
Investment in Southwest Governments, LLC	-	-	442,369	-	-	-	442,369
Receivables, net:							
State of Alaska	-	99,881	-	-	-	-	99,881
School	-	-	-	-	23,009	-	23,009
Accrued interest	7,614	-	115,951	-	-	-	123,565
Other	846,932	-	-	-	-	-	846,932
Due from other funds	6,258,574	-	-	-	-	-	6,258,574
Restricted cash and investments:							
Unspent bond proceeds	-	-	-	7,114,016	-	-	7,114,016
Accrued interest	-	-	-	20,688	-	-	20,688
Total Assets	$ 18,312,558	$ 1,403,439	$ 46,803,940	$ 7,134,704	$ 23,009	$ 280,770	$ 73,958,420
Liabilities and Fund Balances							
Liabilities							
Accounts payable	$ 2,515	$ 93	$ 3,921	$ 3,799,484	$ -	$ -	$ 3,806,013
Due to other funds	-	505,037	2,499,952	3,308,013	23,009	-	6,336,011
Total Liabilities	2,515	505,130	2,503,873	7,107,497	23,009	-	10,142,024
Fund Balances							
Restricted:							
Trust fund	-	-	44,300,067	-	-	-	44,300,067
King Cove access project funding	-	-	-	-	-	280,770	280,770
Assigned:							
Capital improvements	-	898,309	-	27,207	-	-	925,516
Unassigned	18,310,043	-	-	-	-	-	18,310,043
Total Fund Balances	18,310,043	898,309	44,300,067	27,207	-	280,770	63,816,396
Total Liabilities and Fund Balances	$ 18,312,558	$ 1,403,439	$ 46,803,940	$ 7,134,704	$ 23,009	$ 280,770	$ 73,958,420

See accompanying notes to financial statements.

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Aleutians East Borough, Alaska

Reconciliation of Governmental Funds Balance Sheet to Statement of Net Position

June 30, 2018

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

Total fund balances - All governmental funds		$ 63,816,396
Capital assets (shown here, net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the funds.		82,657,718
Deferred outflows of resources are not financial resources and, therefore, are not reported in the funds:		
Related to pensions	$ 195,767	
Related to other postemployment benefits	50,166	
Deferred charge on refunding	383,597	
Total deferred outflows of resources		629,530
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds:		
Accrued leave	(80,981)	
Accrued interest on bonds	(138,115)	
Bonds payable, including unamortized premium	(24,481,711)	
Net pension liability	(1,574,500)	
Net other postemployment liability	(254,875)	
Total long-term liabilities		(26,530,182)
Deferred inflows of resources are not financial resources and therefore, are not reported in the funds:		
Related to pensions	(160,315)	
Related to other postemployment benefits	(120,663)	
Total deferred inflows of resources		(280,978)
Total Net Position of Governmental Activities		$120,292,484

See accompanying notes to financial statements.

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Aleutians East Borough, Alaska

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

	Major Funds						Nonmajor Fund	
Year Ended June 30, 2018	General Fund	Capital Improve-ments Capital Project	Trust Permanent Fund	Debt Service	Bond Construc-tion Capital Project	Maint-enance Reserve Capital Project	King Cove Access Project	Total Govern-mental Funds
Revenues								
Federal government	$ 600,878	$ 100,636	$ -	$ -	$ -	$ -	$ -	$ 701,514
State of Alaska	3,651,419	140,676	-	-	-	-	-	3,792,095
Borough raw fish tax	4,951,066	-	-	-	-	-	-	4,951,066
Investment income	32,983	1,814	3,032,772	-	71,982	-	-	3,139,551
Other	1,356,921	-	-	-	66,659	-	-	1,423,580
Total Revenues	10,593,267	243,126	3,032,772	-	138,641	-	-	14,007,806
Expenditures								
Current:								
General government	3,983,551	-	53,939	-	-	-	-	4,037,490
Infrastructure	-	226,706	-	-	53,939	58,042	-	338,687
Debt service	-	-	-	2,447,903	-	-	-	2,447,903
Capital outlays	-	1,576,951	-	-	5,056	173,482	-	1,755,489
Total Expenditures	3,983,551	1,803,657	53,939	2,447,903	58,995	231,524	-	8,579,569
Excess of Revenues Over (Under) Expenditures	6,609,716	(1,560,531)	2,978,833	(2,447,903)	79,646	(231,524)	-	5,428,237
Other Financing Sources (Uses)								
Transfers in	3,948,896	3,896,577	-	2,447,903	-	420,314	-	10,713,690
Transfers out	(7,628,281)	-	-	-	-	-	-	(7,628,281)
Net Other Financing Sources (Uses)	(3,679,385)	3,896,577	-	2,447,903	-	420,314	-	3,085,409
Net Change in Fund Balances	2,930,331	2,336,046	2,978,833	-	79,646	188,790	-	8,513,646
Fund Balances, beginning, as restated (Note 15)	15,379,712	(1,437,737)	41,321,234	-	(52,439)	(188,790)	280,770	55,302,750
Fund Balances, ending	$ 18,310,043	$ 898,309	$ 44,300,067	$ -	$ 27,207	$ -	$280,770	$ 63,816,396

See accompanying notes to financial statements.

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Aleutians East Borough, Alaska

Reconciliation of Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2018

Net change in fund balances - All governmental funds		$ 8,513,646
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, on the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense of $3,683,560 exceeded capital outlays of $2,012,274 in the current period.		(1,671,286)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effects of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities:		
Principal repayment	$ 1,375,000	
Net change in premium and deferred charge on refunding	390,034	
		1,765,034
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds:		
Increase in accrued leave	(9,459)	
Decrease in accrued interest	8,541	
Decrease in net pension liability and related deferred outflows and inflows of resources	100,794	
Decrease in net other postemployment benefits liability and related deferred outflows and inflows of resources	32,496	
		132,372
Total Change in Net Position of Governmental Activities		$ 8,739,766

See accompanying notes to financial statements.

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Aleutians East Borough, Alaska

Statement of Net Position
Enterprise Funds

June 30, 2018	Major Funds Terminal	Major Funds Helicopter	Total
Assets			
Current Assets			
Prepaids	$ -	$ 8,311	$ 8,311
Receivables, net	5,704	8,556	14,260
Due from other funds	77,437	-	77,437
Total Current Assets	83,141	16,867	100,008
Noncurrent Assets			
Equipment, net of accumulated depreciation	5,008,683	13,007	5,021,690
Total Assets	$ 5,091,824	$ 29,874	$ 5,121,698
Liabilities and Net Position			
Current Liabilities			
Accounts payable	$ 7,081	$ 5,584	$ 12,665
Net Position			
Net investment in capital assets	5,008,683	13,007	5,021,690
Unrestricted	76,060	11,283	87,343
Total Net Position	5,084,743	24,290	5,109,033
Total Liabilities and Net Position	$ 5,091,824	$ 29,874	$ 5,121,698

See accompanying notes to financial statements.

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Aleutians East Borough, Alaska

Statement of Revenues, Expenses and Changes in Net Position
Enterprise Funds

Year Ended June 30, 2018	Major Funds Hovercraft	Terminal	Helicopter	Total
Operating Revenues	$ -	$ 141,507	$ 920,439	$ 1,061,946
Operating Expenses				
Salaries and benefits	-	30,376	138,343	168,719
Professional services	-	3,406	1,276,396	1,279,802
Travel and per diem	-	1,146	4,582	5,728
Telephone	-	4,187	5,112	9,299
Supplies	-	19,971	83,661	103,632
Rent	-	7,153	24,035	31,188
Utilities	-	11,249	1,300	12,549
Insurance	-	-	36,478	36,478
Fuel	-	15,945	145,844	161,789
Depreciation	-	252,897	19,511	272,408
Total Operating Expenses	-	346,330	1,735,262	2,081,592
Operating loss	-	(204,823)	(814,823)	(1,019,646)
Nonoperating Expenses				
Loss on sale of assets	(1,103,423)	-	-	(1,103,423)
Loss before transfers	(1,103,423)	(204,823)	(814,823)	(2,123,069)
Transfers in	-	-	863,487	863,487
Transfers out	(3,948,896)	-	-	(3,948,896)
Change in net position	(5,052,319)	(204,823)	48,664	(5,208,478)
Net Position (Deficit), beginning	5,052,319	5,289,566	(24,374)	10,317,511
Net Position, ending	$ -	$ 5,084,743	$ 24,290	$ 5,109,033

See accompanying notes to financial statements.

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Aleutians East Borough, Alaska

Statement of Cash Flows
Enterprise Funds

Year Ended June 30, 2018	Major Funds Hovercraft	Terminal	Helicopter	Total
Cash Flows from (for) Operating Activities				
Cash payments from customers	$ -	$ 141,497	$ 911,883	$ 1,053,380
Cash payments for goods and services	-	(55,975)	(1,580,318)	(1,636,293)
Cash payments for salaries and benefits	-	(30,376)	(138,343)	(168,719)
Net cash flows from (for) operating activities	-	55,146	(806,778)	(751,632)
Cash Flows from (for) Noncapital Financing Activities				
Increase (decrease) in due to other funds	-	22,291	(56,709)	(34,418)
Increase in due from other funds	-	(77,437)	-	(77,437)
Transfers in	-	-	863,487	863,487
Transfers out	(3,948,896)	-	-	(3,948,896)
Net cash flows from (for) noncapital financing activities	(3,948,896)	(55,146)	806,778	(3,197,264)
Cash Flows from Capital and Related Financing Activities -				
proceeds from sale of asset held for sale	3,948,896	-	-	3,948,896
Net Increase in Cash	-	-	-	-
Cash and Cash Equivalents, beginning	-	-	-	-
Cash and Cash Equivalents, ending	$ -	$ -	$ -	$ -
Reconciliation of Operating Loss to Net Cash Flows from (for) Operating Activities				
Operating loss	$ -	$ (204,823)	$ (814,823)	$ (1,019,646)
Adjustments to reconcile operating loss to net cash flows from (for) operating activities:				
Depreciation	-	252,897	19,511	272,408
Changes in operating assets and liabilities that provided (used) cash:				
Prepaids	-	-	(8,311)	(8,311)
Receivables, net	-	(10)	(8,556)	(8,566)
Accounts payable	-	7,082	5,401	12,483
Net Cash Flows from (for) Operating Activities	$ -	$ 55,146	$ (806,778)	$ (751,632)

See accompanying notes to financial statements.

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Aleutians East Borough, Alaska

Statement of Fiduciary Assets and Liabilities
Deferred Compensation Agency Fund

Year Ended June 30, 2018

Assets - investments	$ 617,620
Liabilities - due to employees	$ 617,620

See accompanying notes to financial statements.

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1. Summary of Significant Accounting Policies

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

(a) Reporting Entity

The Aleutians East Borough (Borough) was incorporated October 23, 1987, under the laws of the State of Alaska as a second-class Borough. All significant activities with which the Borough exercises oversight responsibilities have been included in the Borough's general purpose financial statements.

The accompanying financial statements include all activities of the Borough (the primary government) and The Aleutians East Borough School District (School District). The Borough Assembly, as the oversight authority, approves the total annual budget of the School District and also makes annual contributions to it. Based on financial interdependence, budget approval, responsibility for debt, and accountability and control of fiscal matters, The School District is a component unit of the Borough. The School District's audited financial statements may be obtained from their office at the address below:

Aleutians East Borough School District
PO Box 429
Sand Point, Alaska 99661-0429

No other entities exist over which the Borough has oversight responsibility.

(b) Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and statement of activities) report information in all nonfiduciary activities of the Borough. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include grants and contributions that are restricted to meeting the operations or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental fund types. Major individual governmental funds are reported in separate columns in the fund financial statements.

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The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenditures are recorded when 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.

(c) Measurement Focus, Basis of Accounting, and Basis of Presentation

The government-wide statements report using the economic resources measurement focus and accrual basis of accounting includes reclassification or elimination of internal activity (between or within funds). Financial statements of Borough component units also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The governmental fund financial statements report used the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Borough considers revenues to be available if they are collected within 180 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

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

(d) Fund Types and Major Funds

The Borough reports the following major governmental funds:

- General Fund - Reports as the primary fund of the Borough. This fund is used to account for all financial resources not reported in other funds.

- Capital Improvements Capital Project Fund – Accounts for all revenue received and expenditures made for the development and administration of capital projects.

- Trust Permanent Fund – Accounts for all investment activity, deposits and disbursements related to the permanent fund established by the assembly. The Borough Assembly may, in any fiscal year, appropriate an amount not to exceed four percent (4%) of the five-year average fund market value, to be computed using the five prior calendar years market value, additional income is added to the fund. The fund corpus is to be held in perpetuity except in circumstances of natural disaster or financial emergency.

- Debt Service Fund – Accounts for all expenditures made for the retirement of and interest on debt.

- Bond Construction Capital Project Fund – Accounts for all expenditures made on projects funded by bond proceeds.

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- Maintenance Reserve Capital Project Fund - Accounts for all expenditures made on maintenance-related projects. The Borough has elected to report this fund as major given significance to the users of the financial statements.

The Borough reports the following major proprietary funds:

- Hovercraft Enterprise Fund – Accounts for all activity associated with the operations and maintenance of the hovercraft.

- Terminal Enterprise Fund – Accounts for all activity associated with construction, operation, and maintenance of the airport terminal located in Cold Bay.

- Helicopter Enterprise Fund – Accounts for all activity associated with helicopter operations in Akutan.

The Borough reports the following fiduciary fund:

- Deferred Compensation Agency Fund – Accounts for the Borough's employee retirement plan.

(e) Budgetary Information

The Borough Assembly is required to approve an annual budget before the start of the new fiscal year. Public hearings are conducted to obtain taxpayer comments. The budget is legally enacted through passage of an ordinance. Budgets are prepared and presented on the modified accrual basis of accounting. Any revisions to the budget must be approved by passage of an ordinance by the Assembly. The Borough Assembly authorizes formal budget revisions several times each year to adjust revenues and expenditures to available resources and program needs. The final revised and approved budget is presented in these financial statements.

(f) Assets and Liabilities

Cash and Investments

The Borough's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposits, and short-term investments with original maturities of 3 months or less from the date of acquisition.

Investments are stated at fair value. Investments of all funds outside of the Permanent Fund are managed within the Borough's central treasury.

Investments in Southwest Governments, LLC

The Borough's investment in Southwest Governments, LLC is accounted for under the equity method. Under the equity method, original investments are recorded at cost and adjusted by the Borough's share of undistributed earnings or losses. The Borough would recognize an impairment loss when there is a loss in value in the equity method investment which is other than a temporary decline.

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Receivables

All receivables are shown net of an allowance for uncollectible accounts.

Interfund Receivables and Payables

All outstanding balances between funds are reported as "due to/from other funds." These balances represent the numerous transactions that occur during the course of operations between individual funds for goods provided or services rendered. All amounts due to/from other funds are short term in nature.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

The Borough's property, plant, equipment, and infrastructure with useful lives of more than 1 year are stated at historical cost and comprehensively reported in government-wide financial statements. The Borough maintains infrastructure asset records consistent with all other capital assets. Component unit capital assets are also reported in their respective fund and combining component unit financial statements. Donated assets are recorded at the acquisition value. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. The Borough generally capitalizes assets with a cost of $5,000 or more as purchase and construction outlays occur.

Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives in years for depreciable assets are as follows:

Buildings and improvements	25 years
Infrastructure	30 years
Furniture, vehicles and equipment	3-7 years

Accrued Leave

It is the Borough's policy to permit employees to accumulate earned but unused annual leave. Compensated absences are reported as accrued in government-wide and component unit financial statements. Governmental funds report only matured accrued leave payable to currently terminated employees and are included in wages and benefits payable.

Unearned Revenue

Amounts for which asset recognition criteria have been met but for which revenue recognition criteria have not been met are recorded as unearned revenue.

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Long-term Debt

In government-wide and component unit financial statements, outstanding debt is reported as liabilities. Governmental fund financial statements recognize proceeds of debt and premiums as other financing sources of the current period.

(g) Pensions and Other Postemployment Benefits (OPEB)

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

(h) Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Generally, the Borough reports deferred charges on bond refunding and pension and OPEB related items as deferred outflows of resources. These items are amortized to expense over time.

In addition to the liabilities, the financial statements may also present deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until later. The Borough reports certain pension and OPEB related items as deferred inflows of resources. These items are amortized as a reduction of expense over varying periods of time based on their nature.

(i) Equity

Fund Balances

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

Restricted

Reflects funds with externally imposed constraints placed on them by either creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

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Committed

These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the Assembly. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those requirements. Committed amounts cannot be used for any other purpose unless the Borough Assembly removes the constraint through a subsequent formal modification or rescinding action.

Assigned

This classification reflects the amounts constrained by the Borough's assembly members "intent" to be used for specific purposes, but are neither restricted nor committed. When Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned

This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds. When restricted, committed or assigned resources as well as unassigned resources are available for use, it is the Borough's policy to use restricted, committed, or assigned resources first, then unassigned resources as needed.

(j) Net Position

In the government-wide and proprietary fund financial statements, equity is displayed in three components as follows:

Net Investment in Capital Assets

This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted

This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

Unrestricted

This consists of net position that does not meet the definition of restricted or net investment in capital assets. When both restricted and unrestricted resources are available for use, it is the Borough's policy to use restricted resources first, then unrestricted resources as needed.

(k) Use of Estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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(l) Revenues, Expenditures and Expenses

Grants and Other Intergovernmental Revenues

In applying the measurable and available concept to grants and intergovernmental revenues, legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts are considered "earned"; therefore, revenues are recognized based on expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the measurable and available criteria are met.

2. Cash and Investments

The Borough utilizes a central treasury that is available for use by all funds. Each fund's portion of the central treasury is displayed on the balance sheet in each fund as "cash and investments."

Reconciliation of Deposit and Investment Balances

The following is a reconciliation of the Borough's deposit and investment balances to the financial statements as of June 30, 2018.

	Book Balance	Bank Balance
Bank deposits and petty cash	$ 8,866,243	$ 9,863,588
Investments	57,277,159	57,277,159
Total	$ 66,143,402	$ 67,140,747

Cash and investments	$ 59,029,386
Restricted cash and investments:	
Unspent bond proceeds	7,114,016
Total	$ 66,143,402

Cash and investments are further categorized as follows:

	Bank Deposits and Petty Cash	Investments	Total
Unrestricted cash and investments	$ 8,866,243	$ 3,917,523	$ 12,783,766
Restricted cash and investments	-	7,114,016	7,114,016
General cash and investments	8,866,243	11,031,539	19,897,782
Permanent fund	-	46,245,620	46,245,620
Total Cash and Investments	$ 8,866,243	$ 57,277,159	$ 66,143,402

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General Investments

Investment Policy
The investment policy for funds other than the Permanent Fund authorizes the Borough to invest only in the following instruments: U.S. Treasury securities; other obligations guaranteed by the U.S. government or its agencies or instrumentalities; repurchase agreements with financial institutions; certificates of deposits and other deposits at banks and savings and loan associations (collateralized); uncollateralized deposits at banks and savings and loan associations to the extent that the deposits are insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation; bonds and notes issued by any state or political subdivision thereof graded A or high by Moody's Investor's Service, Inc. or Standard and Poor's Corporation; prime commercial paper graded A1 or higher by Moody's Investor's Service, Inc. or P1 or higher by Standard and Poor's Corporation; obligations of corporations graded "Baa" or higher by Moody's Investor's Service, Inc. or Standard and Poor's Corporation and issued in the United States and denominated in US dollars; the Alaska Municipal League Investment Pool (AMLIP); income producing real estate investments.

General investment balances and maturities at June 30, 2018 are as follows:

		Investment Maturities (in years)	
Investment Type	Fair Value	Less than 1	1-5
Money market funds	$ 689,953	$ -	$ -
Certificates of deposit	787,315	787,315	-
U.S. treasuries	9,502,554	9,090,860	411,694
Local government investment pool (AMLIP)	51,717	51,717	-
Total General Investments	$ 11,031,539	$ 9,929,892	$ 411,694

Fair Value Measurement
The Borough categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Borough has the following recurring fair value measurements as of June 30, 2018:

U.S. treasury securities of 9,502,554 are valued using models with various inputs such as but not limited to daily cash flow, snapshots of market indices and spread scales (Level 2 inputs).

The Borough has investments in money market funds and certificates of deposit totaling $689,953 and $787,315, respectively, that are not held at fair value, but instead recorded at amortized cost, as of June 30, 2018. The Borough's investment in AMLIP of $51,717 is measured at net asset value, as of June 30, 2018. Management believes these values approximate fair value.

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

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fair value to changes in market interest rates. The Borough has no formal policy relating to interest rate risk.

Credit Risk
Money market funds are subject to credit risk because of the repurchase and sale agreement features within the money market demand deposit cash accounts.

The Borough's investments in U.S. treasury bonds are rated AA+ by Standard and Poor's. The AMLIP is an external investment pool and is rated AAAm for credit risk purposes. Alaska Statute 37.23 establishes regulatory oversight of the Pool. The law sets forth numerous requirements regarding authorized investments and reporting. The Pool is incorporated in the State of Alaska as a nonprofit corporation and reports to a board of directors. Alaska Statute 37.23.050 requires the retention of an investment manager. The manager is required to produce monthly disclosure statements on the Pool. The Pool also has retained an investment adviser who monitors the performance of the investment manager to ensure compliance with investment policies. All participation in the Pool is voluntary. The Pool must maintain a dollar-weighted average maturity of 90 days or less, and only purchase instruments having remaining maturities of 397 days or less. On a monthly basis, the investments in the Pool are reviewed for fair value by an independent pricing service. As of June 30, 2018, the fair value of the investments in the Pool approximates amortized cost and is equal to the value of Pool shares.

Separately issued financial statements for AMLIP may be obtained by contacting the sponsor at 212 Second Street, Suite 200, Juneau, AK 99801. A portion of the general cash pool represents bond proceeds and is subject to arbitrage yield restrictions.

Foreign Currency Risk
Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. As of June 30, 2018 the Borough did not have any investments in international debt obligations or equity mutual funds and was therefore not subject to Foreign Currency Risk.

Custodial Credit Risk – Deposits
In the case of deposits, this is the risk that in the event of a bank failure, the Borough's deposits may not be returned to it. The Borough's deposit policy for custodial credit risk is to collateralize its primary demand deposit account. As of June 30, 2018, the Borough had no bank deposits that were not insured or collateralized.

Custodial Credit Risk – Investments
For an investment, this is the risk that, in the event of the failure of the counterparty, the Borough will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Borough has no debt securities exposed to custodial credit risk at June 30, 2018 because the investments were held by a custodian in the name of the Borough.

Permanent Fund Investments

The Permanent Fund is reporting $46,245,620 in cash and investments at June 30, 2018.

Investment Policy
The investment policy for the Permanent Fund authorizes the Borough to invest in domestic (U.S.) equities (both large cap and mid cap), international equities, emerging market equities, real estate investment trusts, and fixed income investments. For 2018, the target allocation was 36% U.S. equities (large cap), 34% fixed income, 10% international equities, 10% real estate, 5% U.S. equities (mid-cap) and 5% emerging market equities. A range of 30-50% for U.S. equities (large cap), 25-60% for fixed

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income, 5-15% for international equities, 5-15% for real estate, 0-10% for U.S. equities (mid cap) and 0-10% for emerging market equities are allowed to accommodate normal market fluctuations and prevent frequent rebalancing.

Interest Rate Risk

Because the Permanent Fund is designed to hold principal investments perpetually in trust for the future earnings to benefit the present and future generations of Borough residents, there are no maturity limitations in the policy. The policy focuses more on limiting interest rate risk by diversification in many investment types. A segmented time distribution of all investment types is presented below in an effort to disclose those investment types and amounts that are subject to interest rate risk.

Permanent Fund investment balances and maturities at June 30, 2018 are as follows:

		Investment Maturities (in years)			
Investment type	Fair Value	Less than 1	1-5	6-10	More than 10
U.S. treasuries	$ 9,623,340	$ 697,746	$ 6,168,600	$ 2,756,994	$ -
U.S. agencies	1,100,930	-	413,695	687,235	-
Mortgage backed securities	450,008	-	-	21,374	428,634
Corporate bonds	4,435,613	452,124	2,231,370	1,752,119	-
Total	15,609,891	$ 1,149,870	$ 8,813,665	$ 5,217,722	$ 428,634
U.S. equities (large cap)	16,461,029				
U.S. equities (mid cap)	2,376,316				
International equities	4,915,928				
Emerging market equities	2,641,253				
Real estate investment trusts	4,090,824				
Money market funds	150,379				
Total Permanent Fund	$ 46,245,620				

As of June 30, 2018, an actual asset allocation to target allocation is presented below. All categories fell within the allowable range at June 30, 2018.

		Actual vs. Target Allocation			
Investment Class	Actual $	% Actual	% Target	% Difference	% out of Policy Range
U.S. equities (large cap)	$16,461,029	35.59%	36%	-0.41%	na
U.S. equities (mid cap)	2,376,316	5.14%	5%	0.14%	na
International equities	4,915,928	10.63%	10%	0.63%	na
Emerging market equities	2,641,253	5.71%	5%	0.71%	na
Real estate investment trusts	4,090,824	8.85%	10%	-1.15%	na
Fixed income	15,760,270	34.08%	34%	0.08%	na
Total	$46,245,620	100.00%	100%	0.00%	na

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Fair Value Measurement

The Borough categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Borough has the following recurring fair value measurements as of June 30, 2018:

Investments are classified in the fair value hierarchy as follows:

Investments by Fair Value Level	Fair Value	Level 1	Level 2
U.S. treasuries	$ 9,623,340	$ -	$ 9,623,340
U.S. agencies	1,100,930	-	1,100,930
Mortgage backed securities	450,008	-	450,008
Corporate bonds	4,435,613	-	4,435,613
U.S. equities (large cap)	16,461,029	16,461,029	-
U.S. equities (mid cap)	2,376,316	2,376,316	-
International equities	4,915,928	4,915,928	-
Emerging market equities	2,641,253	2,641,253	-
Real estate investment trusts	4,090,824	4,090,824	-
Total Investments by Fair Value Level	$ 46,095,241	$ 30,485,350	$ 15,609,891
Investments Measured at Amortized Cost -			
Money market funds	150,379		
Total Investments	$ 46,245,620		

The Permanent Fund's investments classified as Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Investments classified as Level 2 of the fair value hierarchy are valued using models with various inputs such as but not limited to daily cash flow, snapshots of market indices and spread scales.

The Borough has investments in money market funds totaling $150,379 that are not held at fair value, but are instead recorded at amortized cost as of June 30, 2018.

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Credit Risk

	Credit Quality Ratings			
		Moody's		
Investment Type	Fair Value	Aaa to A3	Baa1 to Baa3	Not Rated
U.S. treasuries	$ 9,623,340	$ 9,623,340	$ -	$ -
U.S. agencies	1,100,930	1,100,930	-	-
Mortgage backed securities	450,008	450,008	-	-
Corporate bonds	4,435,613	2,859,535	1,377,432	198,646
Investments not subject to credit risk	30,635,729	-	-	-
Total Investments	$ 46,245,620	$ 14,033,813	$ 1,377,432	$ 198,646

The Permanent Fund policies specifically limit the types of investments that can be purchased in an effort to limit credit risk. The policies allow for the investment in U.S. treasuries and U.S. agencies and obligations guaranteed by the U.S. government or its agencies and instrumentalities. The policies limit corporate bonds to those investments graded "Baa" or higher by Moody's Investor's Service Inc. or Standard and Poor's Corporation and issued in the United States and denominated in U.S dollars. Not more than 15% of the fixed income portfolio may be held in Baa rated securities.

Concentration of Credit Risk

The Permanent Fund aims to diversify and limit concentration investment risk by investing in a variety of issuers and fixed income securities; however, the Permanent Fund has no formal policy addressing concentration of credit risk.

Foreign Currency Risk

As of June 30, 2018, a total of $7,557,181 (16%) of the total fund value is invested in international and emerging market equities that are considered subject to Foreign Currency Risk.

Custodial Credit Risk

This is the risk that, in the event of the failure of the counterparty, the Borough will not be able to recover the value of its investments that are in the possession of an outside party. The Borough has no investments exposed to custodial credit risk at June 30, 2018 because the investments were held by a custodian in the name of the Borough.

3. Investments in Southwest Governments, LLC

The Borough has an interest in Southwest Governments, LLC. The partnership was formed by the City of Akutan (40%), the City of Sand Point (20%), the City of King Cove (10%), and the Borough (30%). The Borough leases office space from the partnership. There were no payments to the partnership for the year. The partnership paid the Borough no distributions during 2018. The balance of the Borough's ownership at June 30, 2018 was $442,369.

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4. Capital Assets

Capital asset activity for the year ended June 30, 2018 is as follows:

Governmental Activities	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets not being depreciated - land	$ 5,323,074	$ -	$ -	$ 5,323,074
Capital assets being depreciated:				
Buildings and improvements	46,078,343	-	-	46,078,343
Infrastructure	98,411,932	1,930,794	-	100,342,726
Furniture and equipment	244,298	39,200	-	283,498
Vehicles	405,021	42,280	(40,000)	407,301
Total capital assets being depreciated	145,139,594	2,012,274	(40,000)	147,111,868
Less accumulated depreciation	66,133,664	3,683,560	(40,000)	69,777,224
Total capital assets being depreciated, net	79,005,930	(1,671,286)	-	77,334,644
Governmental Activities Capital Assets, net	$ 84,329,004	$ (1,671,286)	$ -	$ 82,657,718

Business-type Activities	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets being depreciated:				
Terminal	$ 7,403,571	-	-	$ 7,403,571
Helicopter	97,554	-	-	97,554
Total capital assets being depreciated	7,501,125	-		7,501,125
Less accumulated depreciation	2,207,027	272,408	-	2,479,435
Business-type Activities Capital Assets, net	$ 5,294,098	$ (272,408)	$ -	$ 5,021,690

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Depreciation expense was charged to the functions as follows for the year ended June 30, 2018:

Governmental Activities	
General government	$ 622,249
Infrastructure	3,061,311
Total Depreciation Expense - Governmental Activities	$ 3,683,560

Business-type Activities	
Terminal	$ 252,897
Helicopter	19,511
Total Depreciation Expense - Business-type Activities	$ 272,408

5. Interfund Receivables, Payables and Transfers

Interfund receivables and payables are shown as "due from other funds" and "due to other funds" in each individual funds. These balances at June 30, 2018, were as follows:

	Due from Other Funds	Due to Other Funds
Governmental Funds:		
General Fund	$ 6,258,574	$ -
Capital Improvements	-	(505,037)
Trust Fund	-	(2,499,952)
Bond Construction	-	(3,308,013)
Maintenance Reserve	-	(23,009)
Total Governmental Funds	6,258,574	(6,336,011)
Enterprise Funds -		
Terminal	77,437	-
Total Due From (to) Other Funds	$ 6,336,011	$ (6,336,011)

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A schedule of interfund transfers for the year ended June 30, 2018, follows:

From the General Fund to Debt Service Fund for debt service	$ 2,447,903
From the General Fund to the Helicopter Enterprise Fund for operating subsidies	863,487
From the General Fund to the Capital Improvements Capital Projects Fund for future capital projects and acquisitions	3,896,577
From the General Fund to the Maintenance Reserve Capital Project Fund for future capital projects and acquisitions	420,314
From the Hovercraft Enterprise Fund to the General Fund to close the fund following the sale of the Hovercraft	3,948,896
Total Transfers to Other Funds	$ 11,577,177

6. Long-term Debt

Following is a summary of general obligation bond transactions of the Borough for the year ended June 30, 2018:

Governmental Activities	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Due Within One Year
Bonds Payable:					
General Obligation bonds	$ 23,275,000	$ -	$ (1,375,000)	$ 21,900,000	$ 1,450,000
Issuance premiums	3,008,278	-	(426,567)	2,581,711	-
Total bonds payable	26,283,278	-	(1,801,567)	24,481,711	1,450,000
Accrued leave	71,522	64,139	(54,680)	80,981	80,981
Total Governmental Activities	$ 26,354,800	$ 64,139	$ (1,856,247)	$ 24,562,692	$ $1,530,981

General obligation bonds payable at June 30, 2018, are comprised of the following:

$4,900,000 - 2010 Series A&B for Akutan Airport and King Cove Access Project, due in annual installments ranging from $225,000 to $1,560,000 through October 1, 2031; interest rate is variable from 2.0 to 5.4 percent	$ 3,530,000
$3,450,000 - 2011 Refunding series three for Aleutians East Borough bonds, due in annual installments ranging from $195,000 to $225,000 through September 2021; interest rate is variable from 2.0 to 5.0 percent	835,000
$2,205,000 - 2015 Refunding series one for Aleutians East Borough bonds, due in annual installments ranging from $190,000 to $360,000 through October 1, 2025; interest rate is variable from 2.0 to 5.0 percent	1,415,000

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$17,155,000 - 2016 Refunding series three for refinancing of 2007 refunding bonds, due in annual installments ranging from $840,000 to $2,155,000 through December 1, 2028; interest rate is variable from 3.75 to 5.0 percent		16,120,000
Total bonds payable	$	21,900,000

Annual required installments on all Borough general obligation bonds as of June 30 are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	1,450,000	1,022,203	2,472,203
2020	1,520,000	962,416	2,482,416
2021	1,595,000	897,493	2,492,493
2022	1,685,000	825,302	2,510,302
2023	1,805,000	743,191	2,548,191
2024-2028	10,760,000	2,193,454	12,953,454
2029-2030	3,085,000	130,737	3,215,737
	$ 21,900,000	$ 6,774,796	$ 28,674,796

Component Units

The following is a summary of long-term debt transactions for the Borough's discretely presented component unit for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Due Within One Year
Accrued leave	$ 32,193	$ 162,349	$ (139,564)	$ 54,978	$ 54,978

7. Excess of Expenditures Over Appropriations

The Assembly approves operating budgets and appropriations of direct costs at the department level. For the year ended June 30, 2018, expenditures exceeded appropriations in the following departments:

Assembly	$	3,064
Clerk and planning management		3,016
Administration		8,322
Finance		7,426
Communications manager		3,288
Public works		1,680
Other		152,352

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8. Retirement Plans

(a) Defined Benefit (DB) Pension Plan

General Information About the Plan

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

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

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

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

Historical Context and Special Funding Situation

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

Alaska Statute 39.35.255 requires the State of Alaska to contribute to the Plan an amount such that, when combined with the employer contribution, is sufficient to pay the Plan's past service liability contribution rate as adopted by the Alaska Retirement Management Board. As such, the Plan is considered to be in a special funding situation as defined by GASB, and management has recorded all pension related liabilities, deferred inflows/outflows of resources, and disclosures on this basis.

The Borough recorded the related on-behalf contributions as revenue and expense or expenditures as prescribed by GAAP, pursuant to the relevant basis of accounting based on fund type.

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It is important to note that the Alaska Legislature has the power and authority to change the aforementioned statute through the legislative process.

Employee Contribution Rates

Regular employees are required to contribute 6.75% of their annual covered salary. Police and firefighters are required to contribute 7.50% of their annual covered salary.

Employer and Other Contribution Rates

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

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

ARM Board Adopted Rate: This is the rate formally adopted by the Alaska Retirement Management Board. This rate is actuarially determined and used to calculate annual Plan funding requirements, without regard to the statutory rate cap or the GASB accounting rate. Effective July 1, 2015, the Legislature requires the ARM Board to adopt employer contribution rates for past service liabilities using a level percent of pay method over a closed 25 year term which ends in 2039. This change results in lower ARM Board Rates than previously adopted.

On-behalf Contribution Rate: This is the rate paid in by the State as an on-behalf payment under the current statute. The statute requires the State to contribute, based on funding availability, an on-behalf amount equal to the difference between the ARM Board Rate and the Employer Effective Rate. In the governmental fund financial statements, on-behalf contribution amounts have been recognized as additional revenues and expenditures. In the enterprise fund and government-wide financial statements, the on-behalf amounts reflect revenue and expense only during the measurement period in which the Plan recognizes the payments, resulting in a significant timing difference between the cash transfers and revenue and expense recognition.

GASB Rate: This is the rate used to determine the long-term pension and healthcare liability for plan accounting purposes in accordance with generally accepted accounting principles as established by GASB. Certain actuarial methods and assumptions for this rate calculation are mandated by GASB. Additionally, the GASB Rate disregards all future Medicare Part D payments. For FY18, the rate uses an 8% pension discount rate and a 4.30% healthcare discount rate.

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

Contribution rates for the year ended June 30, 2018 were determined in the June 30, 2015 actuarial valuation.

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	Employer Effective Rate	ARM Board Adopted Rate	State Contribution Rate	GASB Rate
Pension	17.12%	21.90%	3.01 %	29.07%
Postemployment healthcare (ARHCT)	4.88%	3.11%	0.00 %	66.85%
Total Contribution Rates	22.00%	25.01%	3.01 %	95.92%

In 2018, the Borough was credited with the following contributions to the pension plan.

	Measurement Period Borough FY17	Borough FY18
Employer contributions (including DBUL)	$ 117,153	$ 144,604
Nonemployer contributions (on-behalf)	42,279	28,644
Total Contributions	$ 159,432	$ 173,248

In addition, employee contributions to the Plan totaled $33,564 during the Borough's fiscal year.

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

At June 30, 2018, the Borough reported a liability for its proportionate share of the net pension liability (NPL) that reflected a reduction for State pension support provided to the Borough. The amount recognized by the Borough for its proportional share, the related State proportion, and the total were as follows:

	2018
Borough proportionate share of NPL	$ 1,574,500
State's proportionate share of NPL associated with the Borough	588,884
Total Net Pension Liability	$ 2,163,384

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 to calculate the net pension liability as of that date. The Borough's proportion of the net pension liability was based on a projection of the Borough's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, including the State, actuarially determined. At the June 30, 2017 measurement date, the Borough's proportion was 0.03046 percent, which was a decrease of 0.00604 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Borough recognized pension expense of $65,010 and on-behalf revenue of $46,741 for support provided by the State. At June 30, 2018, the Borough reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ (28,308)
Net difference between projected and actual earnings on pension plan investments	42,234	-
Changes in proportion and differences between Borough contributions and proportionate share of contributions	8,929	(132,007)
Borough contributions subsequent to the measurement date	144,604	-
Total Deferred Outflows and Deferred Inflows of Resources Related to Pensions	$ 195,767	$ (160,315)

The $144,604 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2019	$ (148,439)
2020	43,978
2021	19,742
2022	(24,433)
Total Amortization	$ (109,152)

Actuarial Assumptions

The total pension liability for the measurement period ended June 30, 2017 was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2017. The actuarial assumptions used in the June 30, 2016 actuarial valuation (latest available) were based on the results of an actuarial experience study for the period from July 1, 2009 to June 30, 2013, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect expected future experience.

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Actuarial cost method	Entry age normal; level percentage of payroll
Amortization method	Level dollar, closed
Inflation	3.12%
Salary increases	Graded by service, from 9.66% to 4.92% for peace officer/ firefighter Graded by age and service, from 8.55% to 4.34% for all others
Allocation Methodology	Amounts for FY17 were allocated to employers based on the projected present value of contributions for FY2019-FY2039. The liability is expected to go to zero at 2039.
Investment Return / Discount Rate	8.00%, net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%.
Mortality	Pre-termination – Based on the 2010-2013 actual mortality experience, 60% of male and 65% of female post-termination rates. Deaths are assumed to be occupational 70% of the time for peace officers/firefighters, 50% of the time for others. Post-termination – 96% of all rates of the RP-2000 table, 2000 base year projected to 2018 with projection scale BB.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad domestic equity	26%	8.83%
Global ex-U.S. equity	22%	7.79%
Intermediate Treasuries	13%	1.29%
Opportunistic	5%	4.76%
Real assets	17%	4.94%
Absolute return	7%	4.76%
Private equity	9%	12.02%
Cash equivalents	1%	0.63%

Discount Rate

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

Discount Rate Sensitivity

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

	Proportional Share	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Borough's proportionate share of the net pension liability	0.03046%	$ 2,068,251	$ 1,574,500	$ 1,157,547

Pension Plan Fiduciary Net Position

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

(b) Defined Contribution (DC) Pension Plan

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

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

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Benefit Terms

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

Employee Contribution Rate

Employees are required to contribute 8% of their annual covered salary. This amount goes directly to the individual's account.

Employer Contribution Rate

For the year ended June 30, 2018, the Borough was required to contribute 5% of covered salary into the Plan.

The Borough and employee contributions to PERS for pensions for the year ended June 30, 2018 were $18,700 and $29,920, respectively. The Borough contribution amount was recognized as pension expense/expenditures.

(c) Defined Benefit OPEB Plan

As part of its participation in the PERS DB Plan (Tiers I, II, III), which is a cost-sharing multiple employer plan, the District participates in the Alaska Retiree Healthcare Trust (ARHCT), Retiree Medical Plan (RMP) and Occupational Death and Disability Plan (ODD). The ARHCT is self-funded and provides major medical coverage to retirees of the DB Plan. Benefits vary by Tier level. The RMP provides major medical coverage to retirees of the PERS DC Plan (Tier IV). The ODD provides death benefits for beneficiaries of plan participants and long-term disability benefits to all active members within PERS. The Plans are administered by the State of Alaska, Department of Administration.

Employer Contribution Rate

The Borough is required to contribute 4.88% of covered payroll into the OPEB plan. Employees do not contribute.

In 2018, the Borough was credited with the following contributions to the OPEB plan:

	Measurement Period Borough FY17	Borough FY18
Employer contributions	$ 59,767	$ 49,849
Nonemployer contributions (on-behalf)	-	-
Total Contributions	$ 59,767	$ 49,849

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB Plans

At June 30, 2018, the Borough reported a liability for its proportionate share of the net OPEB liabilities (NOL) that reflected a reduction for State OPEB support provided to the Borough. The amount recognized by the Borough for its proportional share, the related State proportion, and the total were as follows:

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	2018
Borough's proportionate share of NOL – ARHCT	$ 257,835
Borough's proportionate share of NOL – RMP	1,721
Borough's proportionate share of NOL – ODD	(4,681)
State's proportionate share of the NOL associated with the Borough	96,277
Total Net OPEB Liabilities	$ 351,152

The total OPEB liabilities for the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 to calculate the net OPEB liabilities as of that date. The Borough's proportion of the net OPEB liabilities were based on a projection of the Borough's long-term share of contributions to the OPEB plans relative to the projected contributions of all participating entities, actuarially determined.

	June 30, 2016 Measurement Date Employer Proportion	June 30, 2017 Measurement Date Employer Proportion	Change
Borough's proportionate share of the net OPEB liabilities:			
ARHCT	0.03562%	0.03052%	(0.00510%)
RMP	0.02913%	0.03299%	0.00386%
ODD	0.02913%	0.03299%	0.00386%

As a result of its requirement to contribute to the Plan, the Borough recognized OPEB expense of $31,401 and on-behalf revenue of $15,128 for support provided by the State. At June 30, 2018, the Borough reported deferred outflows of resources and deferred inflows of resources related to OPEB plans from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ (14,056)
Net difference between projected and actual earnings on OPEB plan investments	-	(81,871)
Changes in proportion and differences between Borough contributions and proportionate share of contributions	317	(24,736)
Borough contributions subsequent to the measurement date	49,849	-
Total Deferred Outflows and Deferred Inflows of Resources Related to OPEB Plans	$ 50,166	$ (120,663)

The $49,849 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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Year Ending June 30,	
2019	$ (41,668)
2020	(37,438)
2021	(20,519)
2022	(20,519)
2023	(51)
Thereafter	(151)
Total Amortization	$ (120,346)

Actuarial Assumptions

The total OPEB liability for the measurement period ended June 30, 2017 (Borough fiscal year 2018) was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2017. The actuarial assumptions used in the June 30, 2016 actuarial valuation (latest available) were based on the results of an actuarial experience study for the period from July 1, 2009 to June 30, 2013, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect expected future experience.

Actuarial cost method	Entry age normal; level percentage of payroll
Amortization method	Level dollar, closed
Inflation	3.12%
Salary increases	Graded by service from 9.66% to 4.92% for peace officer/ firefighter Graded by service from 8.55% to 4.34% for all others
Allocation Methodology	Amounts for FY17 were allocated to employers based on the projected present value of contributions for FY2019-FY2039. The liability is expected to go to zero at 2039.
Investment Return / Discount Rate	8.00%, net of postemployment healthcare plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%.
Healthcare cost trend rates	Pre-65 medical; 8.8% grading down to 4.4% Post-65 medical; 5.8% grading down to 4.0% Prescription drug; 5.4% grading down to 4.0%
Mortality	Pre-termination – Based on the 2010-2013 actual mortality experience, 60% of male and 65% of female post-termination rates. Deaths are assumed to be occupational 70% of the time for peace officers/firefighters, 50% of the time for all others. Post-termination – 96% of all rates of the RP-2000 table, 2000 base year projected to 2018 with projection scale BB.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad domestic equity	26%	8.83%
Global ex-U.S. equity	22%	7.79%
Intermediate treasuries	13%	1.29%
Opportunistic	5%	4.76%
Real assets	17%	4.94%
Absolute return	7%	4.76%
Private equity	9%	12.02%
Cash equivalents	1%	0.63%

Discount Rate

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

Discount Rate Sensitivity

The following presents the Borough's proportionate share of the net OPEB liabilities calculated using the discount rate of 8.00%, as well as what the Borough's proportionate share of the net OPEB liabilities would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	Proportional Share	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Borough's proportionate share of the net OPEB liabilities:				
ARHCT	0.03052%	$ 551,795	$ 257,835	$ 10,575
RMP	0.03299%	$ 8,061	$ 1,721	$ (3,230)
ODD	0.03299%	$ (4,226)	$ (4,681)	$ (5,054)

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Healthcare Cost Trend Rates Sensitivity

The following presents the Borough's proportionate share of the net OPEB liabilities calculated using the healthcare cost trend rate, as well as what the Borough's proportionate share of the net OPEB liabilities would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Proportional Share	1% Decrease	Current Discount Rate	1% Increase
Borough's proportionate share of the net OPEB liabilities:				
ARHCT	0.03052%	$ (28,601)	$ 257,835	$ 602,201
RMP	0.03299%	$ (4,259)	$ 1,721	$ 9,732
ODD	0.03299%	$ -	$ (4,681)	$ -

OPEB Plan Fiduciary Net Position

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

(d) Defined Contribution OPEB Plans

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

Employer Contribution Rates

Employees do not contribute to the DC OPEB plans. Employer contribution rates for the year ended June 30, 2018 were as follows:

	Tier IV
Health reimbursement arrangement	3.00%
Retiree medical plan	1.03%
Occupational death and disability benefits	0.16%
Total Contribution Rates	4.19%

In addition, PERS defined contribution members also participate in the Health Reimbursement Arrangement. AS 39.30.370 establishes this contribution amount as "three percent of the average annual employee compensation of *all employees of all employers* in the plan". As of July 1, 2017, for actual remittance, this amount is calculated as a flat rate for each full-time or part-time employee per pay period and approximates $2,084 per year for each full-time employee, and $1.34 per hour for part-time employees.

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Annual Postemployment Healthcare Cost

In 2018, the Borough contributed $11,653 in DC OPEB costs. These amounts have been recognized as expense/expenditures.

9. Deferred Compensation Plan

The Borough offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights (until paid or made available to the employee or other beneficiary) are solely the property and rights of the Borough (without being restricted to provisions of benefits under the plan), subject only to claims of the Borough's general creditors. Participants' rights under the plan are equal to those of general creditors of the Borough in the amount equal to fair market value of the deferred account for each participant.

The Borough has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The Borough believes it is unlikely it will use the assets to satisfy claims of general creditors in the future. Assets of the fund totaled $617,620 at June 30, 2018, and are accounted for in the deferred compensation agency fund.

10. Contribution to Aleutians East Borough School District

During the year ended June 30, 2018, the Borough contributed $848,691 to the Aleutians East Borough School District, which is a component unit of the Borough. Of this amount, $800,000 was for a local contribution, $25,011 was for scholarships, and $23,680 was for student travel.

11. Hovercraft Sale

During the year ended June 30, 2018, the Borough completed the sale of the hovercraft asset to JSC Circle Maritime Invest, a Kazakhstan joint stock company, for $4,440,000 less costs of $543,423 paid to the buyer. Upon completion of the sale, the Borough closed the Hovercraft Enterprise Fund, transferring all residual net position to the General Fund.

12. Commitments and Contingencies

(a) Grants

The Borough participates in a number of federal and state grant programs. These programs are subject to program compliance audits by grantors or their representatives. The amount, if any, of expenditures that may be disallowed by granting agencies cannot be determined at this time, although the Borough expects such amounts, if any, to be immaterial.

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(b) Helicopter Transportation Contract

During fiscal year 2014, the Borough entered into a contract to transport people and mail from Akutan Airport to the City of Akutan. The contract was renewed during November of 2016 for an additional two years.

(c) Litigation

A restitution payable by the Army Corps of Engineers of $20,650,253 was awarded on December 5, 2017 in regards to the claim from Kelly-Ryan, Inc., against the Army Corps of Engineers arising from a contract dispute relating to the construction of the False Pass Harbor. Since the project cooperation agreement between the Department of the Army and the Borough provides for cost sharing on the part of the Borough, the Borough is liable for part of the restitution awarded. As of XXXX, 2019, no agreement has been reached between the Borough and the Army Corps of Engineers as to the restitution payable by the Borough.

At the date of the financial statements, the amount of loss contingencies, if any, were not reasonably determinable, and deemed neither probable nor remote, hence no contingencies have been booked in the current year.

13. Subsequent Events

In preparing these financial statements, the Borough has evaluated all other events and transactions for potential recognition or disclosure through XXXX, 2019, the date the financial statements were issued, and has concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

14. 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, and actual impacts have not yet been determined.

GASB 83 – *Certain Asset Retirement Obligations* – Effective for year-end June 30, 2019, with earlier application encouraged – This statement addresses accounting and financial reporting for certain asset retirement obligations that are legally enforceable liabilities associated with the retirement of a tangible capital asset.

GASB 84 – *Fiduciary Activities* – Effective for year-end June 30, 2020, with earlier application encouraged – This statement addresses criteria for identifying and reporting fiduciary activities.

GASB 87 – *Leases* – Effective for year-end June 30, 2021, with earlier application encouraged – This statement addresses accounting and financial reporting for certain lease assets and liabilities for leases that previously were classified as operating leases. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

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GASB 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* - Effective for year-end June 30, 2019, with earlier application encouraged – This statement addresses note disclosures related to debt, clarifies which liabilities to include when disclosing information related to debt, and defines debt for the purpose of disclosure. It requires additional essential information related to debt be disclosed in the notes, as well as information for direct borrowings and direct placements.

GASB 89 - *Accounting for Interest Cost Incurred before the End of a Construction Period* – Effective for year-end June 30, 2021, with earlier application encouraged – This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus.

GASB 90 – *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61* – Effective for year-end June 30, 2020, with earlier application encouraged – This statement addresses accounting and financial reporting for a majority equity interest in a legally separate organization. It provides a definition of a majority equity interest and provides guidance for further presentation as either an investment or a component unit, based on specific criteria.

GASB 91 – *Conduit Debt Obligations* - Effective for year-end June 30, 2022, with earlier application encouraged – This statement addresses accounting and financial reporting for conduit debt obligations by issuers. It provides a single reporting method for conduit debt obligations, clarifies the existing definition, establishes that conduit debt is not a liability of the issuer, and addresses accounting and financial reporting for additional and voluntary commitments extended by issuers.

15. Restatements

During 2018, the Borough recorded the following prior period adjustments to restate fund balance and net position:

1. The adoption of the provisions of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This restatement resulted in a decrease in opening net position of the governmental activities of $357,868 and the Aleutians East Borough School District discretely presented component unit $610,552.
2. The amortization of a deferred charge on refunding relating to a previous fiscal period. This restatement resulted in a decrease in opening net position of the governmental activities of $17,266.
3. The removal of accounts receivable balances collected in a prior fiscal period. This restatement resulted in a decrease in opening fund balance of the General Fund and opening net position of the governmental activities of $378,248.
4. The removal of accounts payable balances determined to not exist as of the opening balance sheet date. This restatement resulted in an increase in opening fund balance to the Capital Improvements Fund ($23,035), Bond Construction Fund ($576,233) and opening net position of the governmental activities ($599,268).
5. The recognition of debt subsidy revenue earned in a prior fiscal year. This restatement resulted in an increase in opening fund balance of the General Fund and opening net position of the governmental activities of $38,934.
6. The recognition of interest expense accrued but not paid as of June 30, 2017. This restatement resulted in a decrease in opening net position of governmental activities of $146,656.

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7. The recognition of unamortized bond premiums as of June 30, 2017. This restatement resulted in a decrease in opening net position of governmental activities of $366,123.
8. The recognition of contributed capital assets associated with the Akutan Harbor received in a prior fiscal year. This restatement resulted in an increase in opening net position of governmental activities of $21,184,665.
9. The removal of various capital assets identified by the Borough as no longer in service as of June 30, 2017. This restatement resulted in a decrease in opening net position of governmental activities of $2,900,800.

The net effect of all prior period adjustments on opening fund balance and net position is as follows:

	Fund Balance (Deficit), Beginning of Year	Prior Period Adjustments	Fund Balance (Deficit), Beginning of Year, Restated
Governmental Funds:			
General Fund	$ 15,719,026	$ (339,314)	$ 15,379,712
Capital Improvements Fund	(1,460,772)	23,035	(1,437,737)
Bond Construction Fund	(628,672)	576,233	(52,439)

	Net Position (Deficit), Beginning of Year	Prior Period Adjustments	Net Position (Deficit), Beginning of Year, Restated
Primary government - Governmental activities	$ 93,896,812	$ 17,655,906	$ 111,552,718

	Net Position (Deficit), Beginning of Year	Prior Period Adjustments	Net Position (Deficit), Beginning of Year, Restated
Component unit - Aleutians East Borough School District	$ (482,700)	$ (610,552)	$ (1,093,272)

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Required Supplementary Information

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Aleutians East Borough, Alaska

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

Year Ended June 30, 2018	Original Budget	Final Budget	Actual Amounts	Variance With Final Budget
Revenues				
Federal government	$ 559,000	$ 600,878	$ 600,878	$ -
State of Alaska	3,774,273	3,267,294	3,651,419	384,125
Borough raw fish tax	3,200,779	4,951,066	4,951,066	-
Investment income	35,000	32,983	32,983	-
Other	86,256	1,356,921	1,356,921	-
Total Revenues	7,655,308	10,209,142	10,593,267	384,125
Expenditures				
Current:				
Mayor's office	268,696	281,548	281,548	-
Assembly	158,000	208,347	211,411	(3,064)
Clerk and planning management	189,920	188,231	191,247	(3,016)
Administration	344,450	320,988	329,310	(8,322)
Assistant administrator	150,688	124,273	124,273	-
Planning commission	55,500	-	-	-
Finance	266,914	311,510	318,936	(7,426)
Resource department	201,936	190,539	171,364	19,175
Communications manager	178,047	167,886	171,174	(3,288)
Public works	118,657	104,272	105,952	(1,680)
King Cove Access Project	127,500	126,318	126,318	-
Other	1,552,922	1,799,666	1,952,018	(152,352)
Total Expenditures	3,613,230	3,823,578	3,983,551	(159,973)
Excess of Revenues Over Expenditures	4,042,078	6,385,564	6,609,716	224,152
Other Financing Sources (Uses):				
Transfers in	-	-	3,948,896	3,948,896
Transfers out	(3,770,000)	(3,838,726)	(7,628,281)	(3,789,555)
Total Other Financing Sources (Uses)	(3,770,000)	(3,838,726)	(3,679,385)	159,341
Net Change in Fund Balances	$ 272,078	$ 2,546,838	$ 2,930,331	$ 383,493
Fund Balances, beginning, as restated (Note 15)			15,379,712	
Fund Balances, ending			$ 18,310,043	

See accompanying notes to Required Supplementary Information.

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Aleutians East Borough, Alaska

Public Employees Retirement System Pension Plan
Schedule of the Borough's Proportionate Share of the Net Pension Liability

Years Ended June 30,	Borough's Proportion of the Net Pension Liability	Borough's Proportionate Share of the Net Pension Liability	State of Alaska Proportionate Share of the Net Pension Liability	Total Net Pension Liability	Borough's Covered Payroll	Borough's Proportionate Share of the Net Pension Liability as a Percentage of Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.03046%	$ 1,574,500	$ 588,884	$ 2,163,384	$ 532,514	295.67%	63.37%
2017	0.03650%	2,040,097	260,943	2,301,040	616,773	330.77%	59.55%
2016	0.03284%	1,592,614	426,877	2,019,491	576,627	276.19%	63.96%
2015	0.02858%	1,332,935	782,704	2,115,639	498,241	267.53%	62.37%
2014	*	*	*	*	*	*	*
2013	*	*	*	*	*	*	*
2012	*	*	*	*	*	*	*
2011	*	*	*	*	*	*	*
2010	*	*	*	*	*	*	*
2009	*	*	*	*	*	*	*

*Information for these years is not available.

See accompanying notes to Required Supplementary Information.

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Exhibit F-2

Aleutians East Borough, Alaska

Public Employees Retirement System Pension Plan
Schedule of the Borough's Contributions

Years Ended June 30,	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	Borough's Covered Payroll	Contributions as a Percentage of Covered Payroll
2018	$ 144,604	$ 144,604	$ -	$ 871,241	16.60%
2017	117,153	117,153	-	532,514	22.00%
2016	135,690	135,690	-	616,773	22.00%
2015	126,858	126,858	-	576,627	22.00%
2014	*	*	*	*	*
2013	*	*	*	*	*
2012	*	*	*	*	*
2011	*	*	*	*	*
2010	*	*	*	*	*
2009	*	*	*	*	*

*Information for these years is not available.

See accompanying notes to Required Supplementary Information.

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Aleutians East Borough, Alaska

Public Employees Retirement System OPEB Plan

Schedule of the Borough's Proportionate Share of the Net OPEB Liability - ARHCT

Years Ended June 30,	Borough's Proportion of the Net OPEB Liability	Borough's Proportionate Share of the Net OPEB Liability	State of Alaska Proportionate Share of the Net OPEB Liability	Total Net OPEB Liability	Borough's Covered Payroll	Borough's Proportionate Share of the Net OPEB Liability as a Percentage of Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2018	0.03052%	$ 257,835	$ 96,277	$ 354,112	$ 532,514	48.42%	89.68%
2017	*	*	*	*	*	*	*
2016	*	*	*	*	*	*	*
2015	*	*	*	*	*	*	*
2014	*	*	*	*	*	*	*
2013	*	*	*	*	*	*	*
2012	*	*	*	*	*	*	*
2011	*	*	*	*	*	*	*
2010	*	*	*	*	*	*	*
2009	*	*	*	*	*	*	*

*Information for these years is not available.

See accompanying notes to Required Supplementary Information.

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Aleutians East Borough, Alaska

Public Employees Retirement System OPEB Plan

Schedule of the Borough's Proportionate Share of the Net OPEB Liability - RMP

Years Ended June 30,	Borough's Proportion of the Net OPEB Liability	Borough's Proportionate Share of the Net OPEB Liability	State of Alaska Proportionate Share of the Net OPEB Liability	Total Net OPEB Liability	Borough's Covered Payroll	Borough's Proportionate Share of the Net OPEB Liability as a Percentage of Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2018	0.03299%	$ 1,721	$ -	$ 1,721	$ 532,514	0.32%	93.98%
2017	*	*	*	*	*	*	*
2016	*	*	*	*	*	*	*
2015	*	*	*	*	*	*	*
2014	*	*	*	*	*	*	*
2013	*	*	*	*	*	*	*
2012	*	*	*	*	*	*	*
2011	*	*	*	*	*	*	*
2010	*	*	*	*	*	*	*
2009	*	*	*	*	*	*	*

*Information for these years is not available.

See accompanying notes to Required Supplementary Information.

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Aleutians East Borough, Alaska

Public Employees Retirement System OPEB Plan

Schedule of the Borough's Proportionate Share of the Net OPEB Liability - ODD

Years Ended June 30,	Borough's Proportion of the Net OPEB Liability	Borough's Proportionate Share of the Net OPEB Liability	State of Alaska Proportionate Share of the Net OPEB Liability	Total Net OPEB Liability	Borough's Covered Payroll	Borough's Proportionate Share of the Net OPEB Liability as a Percentage of Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2018	0.03299%	$ (4,681)	$ -	$ (4,681)	$ 532,514	-0.88%	212.97%
2017	*	*	*	*	*	*	*
2016	*	*	*	*	*	*	*
2015	*	*	*	*	*	*	*
2014	*	*	*	*	*	*	*
2013	*	*	*	*	*	*	*
2012	*	*	*	*	*	*	*
2011	*	*	*	*	*	*	*
2010	*	*	*	*	*	*	*
2009	*	*	*	*	*	*	*

*Information for these years is not available.

See accompanying notes to Required Supplementary Information.

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Aleutians East Borough, Alaska

Public Employees Retirement System OPEB Plan
Schedule of the Borough's Contributions - ARHCT

Years Ended June 30,	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	Borough's Covered Payroll	Contributions as a Percentage of Covered Payroll
2018	$ 45,399	$ 45,399	$ -	$ 871,241	5.21%
2017	*	*	*	*	*
2016	*	*	*	*	*
2015	*	*	*	*	*
2014	*	*	*	*	*
2013	*	*	*	*	*
2012	*	*	*	*	*
2011	*	*	*	*	*
2010	*	*	*	*	*
2009	*	*	*	*	*

*Information for these years is not available.

See accompanying notes to Required Supplementary Information.

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Aleutians East Borough, Alaska

Public Employees Retirement System OPEB Plan
Schedule of the Borough's Contributions - RMP

Years Ended June 30,	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	Borough's Covered Payroll	Contributions as a Percentage of Covered Payroll
2018	$ 3,852	$ 3,852	$ -	$ 871,241	0.44%
2017	*	*	*	*	*
2016	*	*	*	*	*
2015	*	*	*	*	*
2014	*	*	*	*	*
2013	*	*	*	*	*
2012	*	*	*	*	*
2011	*	*	*	*	*
2010	*	*	*	*	*
2009	*	*	*	*	*

*Information for these years is not available.

See accompanying notes to Required Supplementary Information.

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Aleutians East Borough, Alaska

Public Employees Retirement System OPEB Plan
Schedule of the Borough's Contributions - ODD

Years Ended June 30,	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	Borough's Covered Payroll	Contributions as a Percentage of Covered Payroll
2018	$ 598	$ 598	$ -	$ 871,241	0.07%
2017	*	*	*	*	*
2016	*	*	*	*	*
2015	*	*	*	*	*
2014	*	*	*	*	*
2013	*	*	*	*	*
2012	*	*	*	*	*
2011	*	*	*	*	*
2010	*	*	*	*	*
2009	*	*	*	*	*

*Information for these years is not available.

See accompanying notes to Required Supplementary Information.

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1. General Fund Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual

The budgetary comparison schedule is presented on the modified accrual basis of accounting.

2. Public Employees Retirement System - Schedule of the Borough's Proportionate Share of the Net Pension Liability

This table is presented based on the Plan measurement date. For June 30, 2018, the Plan measurement date is June 30, 2017.

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

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

There were no changes in allocation methodology.

3. Public Employees Retirement System Pension Plan - Schedule of the Borough's Contributions

This table reports the Borough's pension contributions to PERS Defined Benefit Pension Plan during fiscal year 2018. These contributions are reported as a deferred outflow of resources on the June 30, 2018 Statement of Net Position.

The plan is reporting no changes in benefit terms from the prior measurement period.

The plan is reporting no changes in assumptions from the prior measurement period.

4. Public Employees Retirement System OPEB Plan– Schedule of the Borough's Proportionate Share of the Net OPEB Liability – ARHCT, RMP and ODD Plans

These tables are presented based on the Plan measurement date. For June 30, 2018, the Plan measurement date is June 30, 2017.

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

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

There were no changes in allocation methodology.

5. Public Employees Retirement System OPEB Plan - Schedule of the Borough's Required Contributions – ARHCT, RMP and ODD Plans

These tables are based on the Borough's contributions for each fiscal year presented. These contributions have been reported as a deferred outflow of resources on the Statement of Net Position.

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Supplementary Information

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Aleutians East Borough, Alaska

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

Year Ended June 30, 2018	Budget	Actual	Variance
Revenues			
Federal government - payment in lieu of taxes	$ 600,878	600,878	$ -
State of Alaska:			
Raw fish tax	2,093,687	2,093,687	-
State bond rebate	671,939	1,029,532	357,593
State fish landing tax	5,017	5,017	-
State extraterritorial fish tax	180,820	180,820	-
PERS on-behalf	-	26,532	26,532
State revenue sharing	315,831	315,831	-
Total State of Alaska	3,267,294	3,651,419	384,125
Borough raw fish tax	4,951,066	4,951,066	-
Investment income	32,983	32,983	-
Other	1,356,921	1,356,921	-
Total Revenues	$ 10,209,142	$ 10,593,267	$ 384,125
Expenditures			
Mayor's Office:			
Salaries	$ 93,757	$ 93,757	$ -
Fringe benefits	38,310	38,310	-
Travel and per diem	29,883	29,883	-
Telephone	736	736	-
Supplies	1,262	1,262	-
Lobbying	117,600	117,600	-
Total Mayor's Office	281,548	281,548	-
Assembly:			
Salaries	31,500	31,500	-
Fringe benefits	131,118	134,182	(3,064)
Travel and per diem	41,309	41,309	-
Supplies	4,420	4,420	-
Total Assembly	208,347	211,411	(3,064)

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Aleutians East Borough, Alaska

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

Year Ended June 30, 2018	Budget	Actual	Variance
Expenditures, continued:			
Clerk and planning management:			
Salaries	$ 100,450	$ 100,450	$ -
Fringe benefits	40,504	43,520	(3,016)
Travel and per diem	9,756	9,756	-
Telephone	5,840	5,840	-
Postage	474	474	-
Supplies	3,263	3,263	-
Utilities	18,084	18,084	-
Dues and fees	5,160	5,160	-
Elections	4,700	4,700	-
Total clerk and planning management	188,231	191,247	(3,016)
Administration:			
Salaries	177,863	177,863	-
Fringe benefits	73,498	81,820	(8,322)
Engineering	1,238	1,238	-
Travel and per diem	15,908	15,908	-
Telephone	6,904	6,904	-
Postage	396	396	-
Supplies	18,027	18,027	-
Rent	26,104	26,104	-
Dues and fees	1,050	1,050	-
Total administration	320,988	329,310	(8,322)
Assistant administrator:			
Salaries	75,000	75,000	-
Fringe benefits	23,548	23,548	-
Travel and per diem	14,318	14,318	-
Telephone	1,204	1,204	-
Supplies	1,208	1,208	-
Rent	8,995	8,995	-
Total assistant administrator	124,273	124,273	-

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Aleutians East Borough, Alaska

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

Year Ended June 30, 2018	Budget	Actual	Variance
Expenditures, continued:			
Finance:			
Salaries	$ 138,063	$ 138,063	$ -
Fringe benefits	64,102	68,220	(4,118)
Travel and per diem	9,846	9,846	-
Telephone	9,826	9,826	-
Postage	507	507	-
Supplies	7,500	10,808	(3,308)
Utilities	4,362	4,362	-
Audit	77,304	77,304	-
Total finance	311,510	318,936	(7,426)
Resource department:			
Salaries	92,571	92,571	-
Fringe benefits	40,353	43,396	(3,043)
Travel and per diem	12,674	12,674	-
Telephone	1,404	1,404	-
NPFMC	9,043	9,043	-
Supplies	2,331	2,331	-
BOF Meeting	2,000	-	2,000
Rent	9,945	9,945	-
Contract Labor	20,218	-	20,218
Total resource department	190,539	171,364	19,175
Communications manager:			
Salaries	101,447	101,447	-
Fringe benefits	28,652	31,940	(3,288)
Travel and per diem	8,867	8,867	-
Telephone	3,108	3,108	-
Supplies	1,282	1,282	-
Rent	10,196	10,196	-
Advertising	14,334	14,334	-
Total communications manager	167,886	171,174	(3,288)
Public works:			
Salaries	56,507	56,507	-
Fringe benefits	20,612	22,292	(1,680)
Travel and per diem	18,718	18,718	-
Telephone	1,274	1,274	-
Supplies	6,216	6,216	-
Utilities	945	945	-
Total public works	104,272	105,952	(1,680)

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Aleutians East Borough, Alaska

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

Year Ended June 30, 2018	Budget	Actual	Variance
Expenditures, continued:			
King Cove Access Project:			
Fringe benefits	$ 18,062	$ 18,062	$ -
Supplies	3,764	3,764	-
Maintenance	104,492	104,492	-
Total King Cove Access Project	126,318	126,318	-
Other:			
Local school contribution	800,000	800,000	-
Student scholarship	25,011	25,011	-
Student travel	20,000	20,000	-
Repairs	8,253	8,253	-
Utilities	29,075	29,075	-
Equipment	72,254	70,945	1,309
Legal	244,268	244,268	-
Insurance	155,331	155,331	-
Bank fees	33,222	33,222	-
Contribution to Eastern Aleutians Tribes	150,000	150,000	-
Revenue sharing - Nelson Lagoon	15,789	15,789	-
Aleutian Crab	49,949	49,949	-
Donations	23,500	23,500	-
Contractual	-	20,694	(20,694)
Web service	24,953	24,953	-
Miscellaneous expense	148,061	281,028	(132,967)
Total other	1,799,666	1,952,018	(152,352)
Total Expenditures	3,823,578	3,983,551	(159,973)
Excess of Revenues Over Expenditures	6,385,564	6,609,716	224,152
Other Financing Sources (Uses):			
Transfers in	-	3,948,896	3,948,896
Transfers out	(3,838,726)	(7,628,281)	(3,789,555)
Total Other Financing Sources (Uses)	(3,838,726)	(3,679,385)	159,341
Net Change in Fund Balance	$ 2,546,838	2,930,331	$ 383,493
Fund Balance, beginning, as restated (Note 15)		15,379,712	
Fund Balance, ending		$ 18,310,043	

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Aleutians East Borough, Alaska

Capital Improvements Capital Project Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance

Year Ended June 30, 2018

Revenues	
Federal government	$ 100,636
State of Alaska	140,676
Investment income	1,814
Total Revenues	243,126
Expenditures	
Salaries	26,787
Travel	10,020
Contractual	121,008
Supplies	340
Equipment	46,498
Capital outlays	1,576,951
Other	22,053
Total Expenditures	1,803,657
Deficit of Revenues Over Expenditures	(1,560,531)
Other Financing Sources - transfer in	3,896,577
Net Change in Fund Balance (Deficit)	2,336,046
Fund Deficit, beginning, as restated (Note 15)	(1,437,737)
Fund Balance, ending	$ 898,309

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Aleutians East Borough, Alaska

Trust Permanent Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance

Year Ended June 30, 2018	
Revenues - investment income	$ 3,032,772
Expenditures - management fee	53,939
Net Change in Fund Balance	2,978,833
Fund Balance, beginning	41,321,234
Fund Balance, ending	$ 44,300,067

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Aleutians East Borough, Alaska

Debt Service Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance

Year Ended June 30, 2018

Expenditures	
Principal	$ 1,375,000
Interest	1,072,903
Total Expenditures	2,447,903
Other Financing Sources - transfers in	2,447,903
Net Change in Fund Balance	-
Fund Balance, beginning	-
Fund Balance, ending	$ -

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Aleutians East Borough, Alaska

Bond Construction Capital Project Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance

Year Ended June 30, 2018

Revenues		
Investment income	$	71,982
Other		66,659
Total Revenues		138,641
Expenditures		
Contractual		53,939
Capital outlays		5,056
Total Expenditures		58,995
Net Change in Fund Balance (Deficit)		79,646
Fund Deficit, beginning, as restated (Note 15)		(52,439)
Fund Balance, ending	$	27,207

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Aleutians East Borough, Alaska

Maintenance Reserve Capital Project Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance

Year Ended June 30, 2018

Expenditures		
Salaries and benefits	$	7,562
Supplies		1,239
Capital outlays		173,482
Maintenance		29,898
Other		19,343
Total Expenditures		(231,524)
Other financing sources - transfers in		420,314
Net Change in Fund Balances		188,790
Fund Deficit, beginning		(188,790)
Fund Balance, ending	$	-

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Aleutians East Borough, Alaska

Schedule of State Financial Assistance

Year Ended June 30, 2018

Grant Title	Grant Number	Total Grant Award	Total State Expend-itures
Department of Commerce, Community and Economic Development			
* Shared Fisheries Tax Program	FY18	$ 185,837	$ 185,837
* Community Assistance Program	FY18	315,831	315,831
Cold Bay Airport	13-DC-501	2,000,000	18,915
Total Department of Commerce, Community and Economic Development			520,583
Department of Transportation and Public Facilities			
* Harbor Debt Retirement Program	FY18	396,527	396,527
King Cove Access Project	14-RR-067	1,958,992	121,762
Total Department of Transporation and Public Facilities			518,289
Department of Revenue			
* Fisheries Business Taxes	FY18	2,093,687	2,093,687
Department of Education and Early Development			
* Debt Retirement Program	FY18	671,939	633,005
Department of Administration			
PERS on-behalf	FY18	28,644	28,644
Total State Financial Assistance			$ 3,794,208

* Denotes major program

The accompanying notes are an intergral part of this schedule.

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1. Basis of Presentation

The accompanying schedule of state financial assistance (the "Schedule") includes the state grant activity of Aleutians East Borough, Alaska (the Borough), excluding its component unit, Aleutians East Borough School District, under programs of the state government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits.* Because the Schedule presents only a selected portion of the operations of the Borough, it is not intended to and does not present the financial position, changes in net position or cash flows of the Borough.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are presented using the modified accrual basis of accounting.

3. PERS On-Behalf

The Borough has recorded $28,644 in PERS On-Behalf payments in the schedule of state financial assistance. This represents the PERS relief payment appropriated and transferred into the plan during fiscal year 2018. In the governmental fund financial statements, on-behalf revenue and expenditures have been recognized in the year appropriated and transferred to the plan. However, in the full accrual financial statements, GASB 68 provisions prescribe that on-behalf pension contributions in a special funding situation may only be recognized during the measurement period in which the plan recognizes the contributions, effectively creating a one-year timing difference between the cash contribution and revenue and expense recognition by the Borough.

As a result of these perspective and timing differences, amounts reported in the financial statements do not agree to the amounts reported on the schedule of state financial assistance.

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Single Audit Section

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Tel: 907-278-8878
Fax: 907-278-5779
www.bdo.com

3601 C Street, Suite 600
Anchorage, AK 99503

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

Honorable Mayor and Borough Assembly
Aleutians East Borough, Alaska

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Aleutians East Borough, Alaska (the Borough), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements, and have issued our report thereon dated XXX, 2019.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material* weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-001 to be a material weakness.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-002, 2018-003, and 2018-004 to be significant deficiencies.

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Compliance and Other Matters

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

The Borough's Response to Findings

The Borough's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Borough's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Anchorage, Alaska
XXXX, 2019

DRAFT

Tel: 907-278-8878
Fax: 907-278-5779
www.bdo.com

3601 C Street, Suite 600
Anchorage, AK 99503

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

Honorable Mayor and Borough Assembly
Aleutians East Borough, Alaska

Report on Compliance for Each Major State Program

We have audited Aleutians East Borough's (the Borough) compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of the Borough's major state programs for the year ended June 30, 2018. The Borough's major state programs are identified in the accompanying schedule of state financial assistance.

The Borough's basic financial statements include the operations of Aleutians East Borough School District which received $4,736,937 in state awards which is not included in the Borough's schedule of state financial assistance during the year ended June 30, 2018. Our audit, described below, did not include the operations of Aleutians East Borough School District because it was subjected to a separate audit in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.

Management's Responsibility

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

Auditor's Responsibility

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

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

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Opinion on Each Major State Program

In our opinion, the Borough complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-007 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2018-005 and 2018-006 to be significant deficiencies.

DRAFT

The Borough's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Borough's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Anchorage, Alaska
XXXX, 2019

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Aleutians East Borough, Alaska

Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited, were prepared in accordance with GAAP:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	X yes	___ no
Significant deficiency(ies) identified?	X yes	___
Noncompliance material to financial statements noted?	___ yes	X no

State Financial Assistance

Internal control over major state programs:		
Material weakness(es) identified?	X yes	___ no
Significant deficiency(ies) identified?	X yes	___ (none reported)
Type of auditor's report issued on compliance for major state programs:	Unmodified	
Dollar threshold used to distinguish a state major program:		$ 150,000

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

Finding 2018-001 General Ledger Reconciliation and External Financial Reporting – Internal Control over Financial Reporting – Material Weakness

Criteria *Government Auditing Standards* states that management is responsible for establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; using resources efficiently, economically, effectively, and equitably, and safeguarding resources; following laws and regulations; and ensuring that management and financial information is reliable and properly reported. Internal controls over financial reporting should allow management to prevent, or detect and correct misstatements on a timely basis.

Condition There were material adjustments made to the general ledger and the financial statements during the course of the audit. Specifically, adjustments were required to properly restate opening net position, and adjust accounts receivable, accounts payable, interfund transfers, intergovernmental revenue, capital outlay, and investment income. We noted errors in opening balances and transactions not properly recorded in accordance with GAAP during the year.

Cause Internal controls were not established to ensure that all general ledger accounts were properly reconciled and adjusted at year-end for GAAP based reporting.

Effect or possible effect Individual accounts were misstated, leading to materially misstated balances when the audit began. Entries were made to net position, accounts receivable, accounts payable, interfund transfers, intergovernmental revenue, capital outlay, and investment income.

Recommendation Borough staff must closely review the activity in the general ledger. Information should be reviewed for completeness and accuracy. Year-end balances should be reviewed prior to closing of the books.

Views of responsible officials and planned corrective actions Management concurs with the finding and will adhere to the corrective action plan included in this report.

DRAFT

<u>Finding 2018-002</u> Approved Pay Rates – Internal Control over Financial Reporting – Significant Deficiency

Criteria — *Government Auditing Standards* states that management is responsible for establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; using resources efficiently, economically, effectively, and equitably, and safeguarding resources; following laws and regulations; and ensuring that management and financial information is reliable and properly reported. Internal controls over financial reporting should allow management to prevent, or detect and correct misstatements on a timely basis.

Condition — We noted the Borough does not require employees to have signed and approved pay rates on file. Payroll expenditures were recorded to the general ledger for which the underlying transaction was not supported by documented approved pay rates.

Cause — Internal controls were not established to ensure that all employees have approved pay rates included in the personnel files.

Effect or possible effect — Lack of properly documented pay rates increases the likelihood that payroll expense could be misstated.

Recommendation — Borough staff should review pay rates of employees and adopt policy to have pay rates formally approved and physically documented in employee personnel files.

Views of responsible officials and planned corrective actions — Management concurs with the finding and will adhere to the corrective action plan included in this report.

DRAFT

Finding 2018-003 **Segregation of Duties – Internal Control over Financial Reporting – Significant Deficiency**

Criteria *Government Auditing Standards* states that management is responsible for establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; using resources efficiently, economically, effectively, and equitably, and safeguarding resources; following laws and regulations; and ensuring that management and financial information is reliable and properly reported. Internal controls over financial reporting should allow management to prevent, or detect and correct misstatements on a timely basis.

Condition We noted in our understanding of internal controls that the finance director was able to create, approve, and process their personal expense reports without review or approval by a separate individual. Cash disbursements are processed and recorded to the general ledger without proper segregation of duties between initiation and review/approval prior to posting.

Cause Internal controls were not established to ensure that all transactions must be reviewed and approved by an individual who did not initiate the transaction.

Effect or possible effect Lack of proper internal controls related to cash disbursements and segregation of duties increases the risk that inappropriate or inaccurate transactions will be recorded to the general ledger.

Recommendation Borough staff should review policies and procedures related to the disbursement review and approval process and ensure that a separate individual reviews all transactions prior to processing.

Views of responsible officials and planned corrective actions Management concurs with the finding and will adhere to the corrective action plan included in this report.

DRAFT

Finding 2018-004 **Journal Entry Review – Internal Control over Financial Reporting – Significant Deficiency**

Criteria

Government Auditing Standards states that management is responsible for establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; using resources efficiently, economically, effectively, and equitably, and safeguarding resources; following laws and regulations; and ensuring that management and financial information is reliable and properly reported. Internal controls over financial reporting should allow management to prevent, or detect and correct misstatements on a timely basis.

Condition

We noted that the finance director was able to create and post journal entries to the general ledger without separate review and approval. Fringe benefit expense was recorded to the general ledger that were not properly reviewed and approved.

Cause

Internal controls were not established to ensure that all journal entries be reviewed and approved by an individual who did not prepare the entry and who is knowledgeable of the facts and circumstances related to the entry.

Effect or possible effect

Lack of proper internal controls related to journal entries increases the risk that inappropriate or inaccurate transactions will be recorded to the general ledger.

Recommendation

Borough staff should review policies and procedures related to the journal entry review and approval process and ensure that a separate individual reviews all journal entries prior to posting.

Views of responsible officials and planned corrective actions

Management concurs with the finding and will adhere to the corrective action plan included in this report.

DRAFT

Section III – State Award Findings and Questioned Costs

Finding 2018-005 **Types of Services Allowed and Unallowed – Internal Control over Compliance – Significant Deficiency**

State Agency	Department of Commerce, Community and Economic Development
Grant Name	Community Assistance Program
Grant Number	Award Year FY 18
Criteria	Management is responsible to provide reasonable assurance that the costs paid for by state financial assistance are allowable and in accordance with the types of activities allowed per the compliance supplement.
Condition	Payroll expenditures were not supported by approved pay rates.
Questioned Costs	None.
Context	We noted the Borough does not require employees to have signed and approved pay rates on file.
Effect	State funds could be expended for unallowed activities.
Cause	Internal controls were not established to ensure that all employees have approved pay rates included in the personnel files.
Recommendation	Borough staff should review pay rates of employees and adopt policy to have pay rates formally approved and physically documented in employee personnel files.
Views of responsible officials and planned corrective actions	Management concurs with the finding and will adhere to the corrective action plan included in this report.

DRAFT

Finding 2018-006 **Types of Services Allowed and Unallowed – Internal Control over Compliance – Significant Deficiency**

State Agency	Department of Commerce, Community and Economic Development
Grant Name	Community Assistance Program
Grant Number	Award Year FY 18
Criteria	Management is responsible to provide reasonable assurance that the costs paid for by state financial assistance are allowable and in accordance with the types of activities allowed per the compliance supplement.
Condition	Cash disbursements were processed and recorded to the general ledger that lack proper segregation of duties between initiation and review/approval prior to posting.
Questioned Costs	*None*.
Context	We noted that the finance director was able to create, approve, and process their personal expense report without review or approval by a separate individual. The total of these costs was $800 charged to the program.
Effect	State funds could be expended for unallowed activities.
Cause	Internal controls were not established to ensure that all transactions must be reviewed and approved by an individual who did not initiate the transaction.
Recommendation	Borough staff should review policies and procedures related to the disbursement review and approval process and ensure that a separate individual reviews all transactions prior to processing.
Views of responsible officials and planned corrective actions	Management concurs with the finding and will adhere to the corrective action plan included in this report.

DRAFT

Finding 2018-007 **Deadline for State Single Audit – Internal Control over Compliance – Material Weakness**

State Agency Department of Commerce, Community and Economic Development; Department of Transportation and Public Facilities; Department of Revenue; Department Education and Early Development

Grant Name Shared Fisheries Tax Program, Community Assistance Program, Harbor Debt Retirement Program, Fisheries Business Taxes, Debt Retirement Program

Grant Number Award Year FY 18

Criteria 2 AAC 45.010 (b) states an entity that expends a cumulative total of $750,000 or more shall submit an audit report for the audit period by…"the earlier of 30 days after the entity receives its audit report for the audit period; or nine months after the end of the audit period" or a later date agreed upon in writing in advance of the date in this section.

Condition The Borough's books and records were not properly prepared and in condition to allow a qualified audit firm to complete and submit the audit in a timely manner.

Questioned Costs None.

Context The Borough's audit in accordance with 2 AAC 45 was not completed within nine months after the audit period.

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

Cause Internal controls were not established to ensure that all general ledger accounts were properly reconciled and adjusted at year-end for GAAP based reporting.

Recommendation Borough staff must closely review the activity in the general ledger. Information should be reviewed for completeness and accuracy. Year-end balances should be reviewed prior to closing of the books.

Views of responsible officials and planned corrective actions Management concurs with the finding and will adhere to the corrective action plan included in this report.

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Aleutians East Borough, Alaska

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2018

There were no prior audit findings.

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Aleutians East Borough, Alaska

Corrective Action Plan
Year Ended June 30, 2018

Name of Contact Person Anne Bailey
Borough Administrator
abailey@aeboro.org
907-274-7580

Financial Statement Findings Required to be Reported in Accordance with *Government Auditing Standards*

Finding 2018-001	**General Ledger Reconciliation and External Financial Reporting – Internal Control over Financial Reporting – Material Weakness**
Corrective Action Plan	Management will work to ensure the fiscal year is fully closed prior to the start of the financial audit. Management will review the general ledger and trial balance and verify the completeness and accuracy of information presented and record necessary adjustments in a timely manner.
Expected Completion Date	June 30, 2019
Finding 2018-002	**Approved Pay Rates – Internal Control over Financial Reporting – Significant Deficiency**
Corrective Action Plan	Management will adopt a policy requiring all pay rates be reviewed annually for accuracy. Management will also require pay rates be documented in writing and retained in employee personnel files.
Expected Completion Date	June 30, 2019

DRAFT

Aleutians East Borough, Alaska

Corrective Action Plan
Year Ended June 30, 2018

Finding 2018-003 Segregation of Duties – Internal Control over Financial Reporting – Significant Deficiency

Corrective Action Plan Management is in the process of updating their employee handbook, which will include a section regarding the reimbursement policy. In the interim, Management will require that all Borough employees send an e-mail to the Administrator or Mayor regarding their travel reimbursements or per diem prior to having it sent to the Finance Director for payment.

Expected Completion Date June 30, 2019

Finding 2018-004 Journal Entry Review – Internal Control over Financial Reporting – Significant Deficiency

Correction Action Plan The Finance Director will prepare all entries. The Finance Director will have entries batched and send to Administration or a third-party for review on a monthly basis.

Expected Completion Date June 30, 2019

Finding 2018-005 Types of Services Allowed and Unallowed – Internal Control over Compliance – Significant Deficiency

Corrective Action Plan Management will adopt a policy requiring all pay rates be reviewed annually for accuracy. Management will also require pay rates be documented in writing and retained in employee personnel files.

Expected Completion Date June 30, 2019

DRAFT

Aleutians East Borough, Alaska

Corrective Action Plan
Year Ended June 30, 2018

Finding 2018-006 Types of Services Allowed and Unallowed – Internal Control over Compliance – Significant Deficiency

Corrective Action Plan Management is in the process of updating their employee handbook, which will include a section regarding the reimbursement policy. In the interim, Management will require that all Borough employees send an e-mail to the Administrator or Mayor regarding their travel reimbursements or per diem or prior to having it sent to the Finance Director for payment.

Expected Completion Date June 30, 2019

Finding 2018-007 Deadline for State Single Audit – Internal Control over Compliance – Material Weakness

Correction Action Plan Management will work to ensure the fiscal year is fully closed prior to the start of the financial audit. Management will review the general ledger and trial balance and verify the completeness and accuracy of information presented and record necessary adjustments in a timely manner.

Expected Completion Date June 30, 2019

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