

CITY OF CRAIG, ALASKA
BASIC FINANCIAL STATEMENTS

For the fiscal year ended

June 30, 2017

Prepared by:
Department of Finance

CITY OF CRAIG, ALASKA
BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017
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FINANCIAL SECTION

CHRISTINE E. HARRINGTON

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INDEPENDENT AUDITOR'S REPORT

Members of the City Council
City of Craig, Alaska

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Craig, Alaska, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Craig, Alaska'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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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 judgement, including the assessment of the risk 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, I 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.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Craig, Alaska, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 - 15, the budgetary comparison on page 53, and the Schedules of Net Pension Liability and Pension Contribution on pages 54 - 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

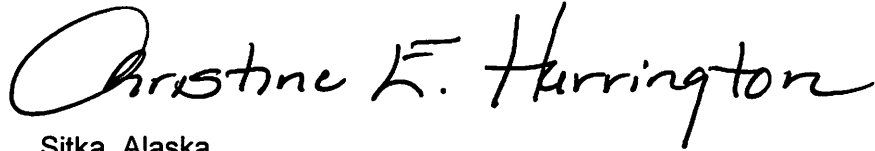
Other information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Craig, Alaska's basic financial statements. The accompanying combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of state financial assistance is presented for purposes of additional analysis, as required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the schedule of state financial assistance 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 my opinion, the combining nonmajor fund financial statements and the schedule of state financial assistance are 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*, I have also issued my report dated March 19, 2018, on my consideration of the City of Craig, Alaska's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 City of Craig, Alaska's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Christine E. Harrington". The signature is written in a cursive style with a large initial "C".

Sitka, Alaska
March 19, 2018

CITY OF CRAIG, ALASKA

Management's Discussion and Analysis June 30, 2017

As management of the City of Craig, we offer readers of the City of Craig's financial statements this narrative overview and analysis of the financial activities of the City of Craig for the fiscal year ended June 30, 2017.

Financial Highlights

- The assets and deferred outflows of the City of Craig exceeded its liabilities at the close of the most recent fiscal year by \$61,511,283. Of this amount, \$11,968,588 (*unrestricted*) may be used to meet the government's ongoing obligations to residents and creditors.
- The government's total net position increased by \$72,706. Governmental type activities increased by \$922,583 and business type activities decreased by \$849,877.
- As of the close of the current fiscal year, the City of Craig's governmental funds reported combined ending fund balances of \$15,899,448 a decrease of \$168,747 in comparison with the prior year. Approximately 20% of this amount (\$3,097,237) is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,097,237 or approximately 86% of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Craig's basic financial statements. The City of Craig's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

- *Government-wide financial statements* provide both short-term and long-term information about the City's overall financial condition in a summary format.
- *Fund financial statements* focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Craig's finances in a manner similar to a private-sector business.

The *statement of net positions* presents information on all of the City of Craig's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases

or decreases in net position may serve as a useful indicator of whether the financial position of the City of Craig is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City of Craig that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Craig include general government, public safety, streets, public parks and facilities, planning and zoning, library, recreation and aquatic center, voluntary fire and emergency medical services. The business-type activities of the City of Craig include utilities, leased lots and ice house at JT Brown Industrial Park, and harbors.

The government-wide financial statements include not only the City of Craig itself (known as the *primary government*), but also a legally separate school district for which the City of Craig is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 17 through 19 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Craig, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Craig can be divided into three categories: governmental funds, proprietary funds, and special revenue funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources; as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund

balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Craig maintains thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the endowment fund and the national forest receipts fund, all of which are considered to be major funds. Data from other non-major governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements immediately following the notes to the basic financial statements.

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

The basic governmental fund financial statements can be found on pages 20 through 23 of this report.

Proprietary funds. The City of Craig uses enterprise funds to report the same functions presented as business-type activities in the government-wide financial statements. The City of Craig uses enterprise funds to account for its sewer, water, garbage, leased lots at JT Brown Industrial Park, icehouse, and docks and harbors.

Proprietary funds provide the same type of information as the government-wide financial statements only in more detail. The proprietary fund departments are combined into a single, aggregated presentation. Individual fund data for each of these enterprise fund departments is provided in the form of a combining statement elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 24 through 28 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29 through 51 of this report.

Other information. The combining statements referred to earlier in connection with non-major governmental funds and enterprise funds are presented following the notes to the financial statements. Combining statements and schedules can be found on page 59 through 67 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Craig, assets and deferred outflows exceeded liabilities by \$61,583,989 at the close of the most recent fiscal year. Net position increased \$72,706 from 2016 to 2017.

The following table provides a summary of the City's net assets:

City of Craig Net Position June 30, 2017

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current & other assets	\$ 19,250,853	\$ 18,928	128,331	\$ (212,536)	\$ 19,038,317	\$ (193,608)
Capital assets	28,225,997	26,936,365	22,552,210	23,643,743	51,869,740	50,580,108
Total assets	47,476,850	26,955,293	22,680,541	23,431,207	70,157,391	50,386,500
Deferred outflows of resources	477,925	579,056	156,491	184,621	634,416	763,677
Total Assets and Deferred Outflows	\$ 47,954,775	\$ 27,534,349	\$ 22,837,032	\$ 23,615,828	\$ 70,791,807	\$ 51,150,177
Liabilities						
Long-term liabilities	\$ 4,534,445	\$ 4,126,485	\$ 1,338,276	\$ 1,250,563	\$ 5,872,721	\$ 5,377,048
Other liabilities	3,110,159	2,920,216	184,825	198,971	3,294,984	3,119,187
Total liabilities	7,644,604	7,046,701	1,523,101	1,449,534	9,167,705	8,496,235
Deferred Inflows	30,085	39,628	10,028	46,259	40,113	85,887
Total Liabilities and Deferred Inflows	7,674,689	7,086,329	1,533,129	1,495,793	9,207,818	8,582,122
Net Position						
Net Invested in capital assets,	26,657,679	24,986,265	22,952,210	23,025,653	49,609,889	48,011,918
Restricted	5,512	951,515			5,512	951,515
Unrestricted	13,616,895	13,419,723	(1,648,307)	(871,873)	11,968,588	12,547,850
Total Net Position	\$ 40,280,086	\$ 39,357,503	\$ 21,303,903	\$ 22,153,780	\$ 61,583,989	\$ 61,511,283

By far the largest portion of the City of Craig's net position (59 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City of Craig uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Craig's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt

must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Craig's net position (16 percent) represents the City's endowment funds, which have been committed for certain uses by City Council ordinance. The remaining balance of unrestricted net assets (\$11,968,588) may be used to meet the government's ongoing obligations to residents and creditors.

At the end of the current fiscal year, the City of Craig is able to report positive balances in all of the categories of net position for the governmental activities. While business-type activities are designed to generate revenue to offset most or all of the direct operating costs, some departments may not fully recover the costs of operations. The general fund will cover budget shortfalls for departments when necessary. The combining statement for the departments within the enterprise fund, which follow the notes to the financial statements, provide more detail for individual business-type activities.

Governmental Activities.

During fiscal year 2017, the City of Craig's net position increased by \$922,583 for governmental activities. Highlights of governmental activities net position changes are as follows:

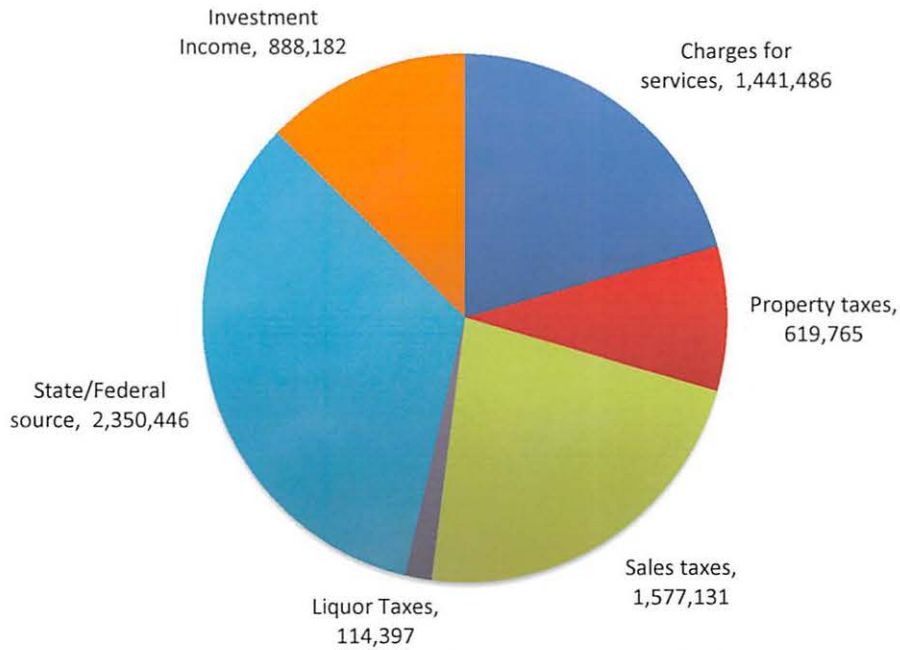
- Revenues for the City's governmental activities increased 55% due to development and sale of city property. The city sold seven parcels of land for a total of \$323,785 as a onetime increase in revenue.
- The sales tax revenue increased by 1.5%,
- The restricted Endowment fund recorded \$868,954 increase in revenue as the equity investments had a positive trend in the markets.
- The governmental expenditures increased by 14% (\$376,619) due to cost to develop the land sold, additional support for the Pt. St. Nicholas King Salmon Hatchery, and capital spending. Non capital expenditures decreased \$399,601.
- The capital outlay for the governmental funds was the final street paving project and aquatic center improvements of which both projects were completed this fiscal year.

City of Craig
Changes in Net Position
For the year ended June 30, 2017

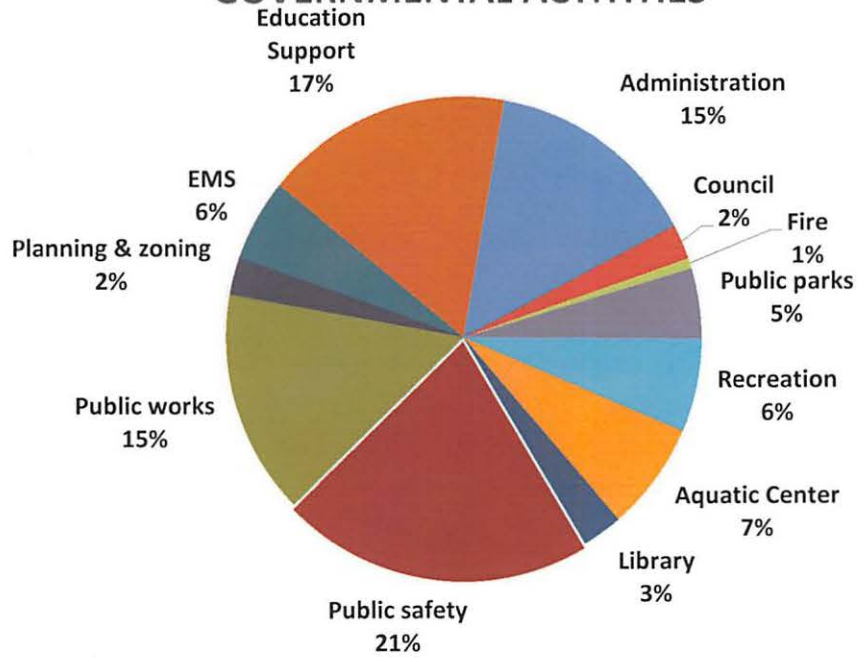
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Program Revenues						
Charges for services	1,441,486	643,228	\$ 1,517,608	\$ 1,517,011	\$ 2,959,094	2,160,239
Property taxes	619,765	602,456			619,765	602,456
Sales taxes	1,577,131	1,552,530			1,577,131	1,552,530
Liquor Taxes	114,397	115,238			114,397	115,238
State/Federal source	2,350,446	1,772,146		241,035	2,350,446	2,013,181
Investment Income	888,182	445,497		12	888,182	445,509
Other		225,391		0	-	225,391
Total Revenue	6,991,407	5,356,486	1,517,608	1,758,058	8,509,015	7,114,544
Expenses						
Administration	885,668	796,004			885,668	796,004
Council	143,803	138,490			143,803	138,490
Fire	41,141	44,692			41,141	44,692
Public parks	286,009	337,497			286,009	337,497
Recreation	380,767	239,322			380,767	239,322
Aquatic Center	444,795	456,282			444,795	456,282
Library	169,750	150,142			169,750	150,142
Public safety	1,287,595	1,236,633			1,287,595	1,236,633
Public works	916,830	869,581			916,830	869,581
Planning & zoning	151,757	119,610			151,757	119,610
EMS	335,917	331,895			335,917	331,895
Education Support	1,024,792	972,057			1,024,792	972,057
Sewer			486,798	471,175	486,798	471,175
Water			741,597	725,205	741,597	725,205
Garbage			323,394	332,653	323,394	332,653
JT Brown Industrial Park/Icehouse			455,122	439,968	455,122	439,968
Harbor			410,037	429,056	410,037	429,056
Cannery			17,035	19,446	17,035	19,446
Total Expenses	6,068,824	5,692,205	2,433,983	2,417,503	8,502,807	8,109,708
<i>Increase in net position before transfers</i>	922,583	(335,719)	(916,375)	(659,445)	6,208	(995,164)
<i>Transfers</i>		16,253		(16,263)	-	(10)
<i>Increase (decrease) in net position</i>	922,583	(319,466)	(916,375)	(675,708)	6,208	(995,174)
<i>Net position, July 1, 2016</i>	39,357,493	39,676,959	22,153,780	22,829,488	61,511,273	62,506,447
Net position, June 30, 2017	\$ 40,280,076	\$ 39,357,493	\$ 21,237,405	\$ 22,153,780	\$ 61,517,481	\$ 61,511,273

Expenses and Program Revenues – Governmental Activities

Revenue by Source - Governmental Activities



EXPENDITURES BY DEPARTMENT - GOVERNMENTAL ACTIVITIES

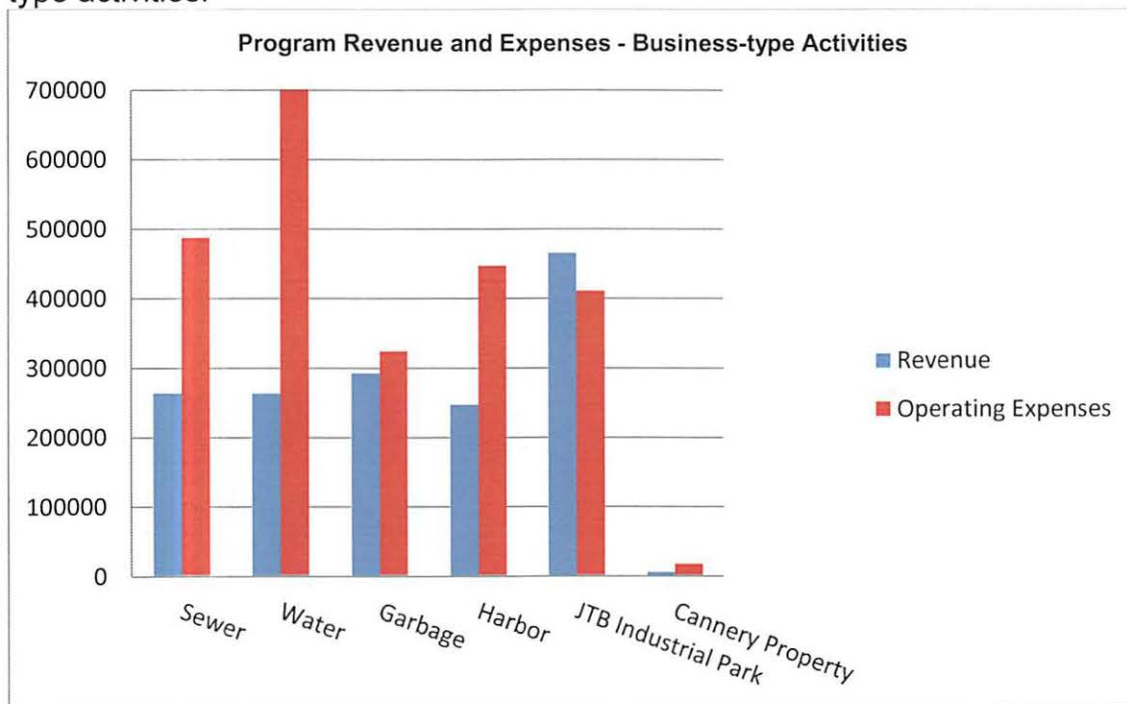


Business-type activities

Business-type activities decreased the City of Craig net position by \$893,501. Key elements of this increase are as follows.

- Revenue remained constant with 2017
- Expenses for business-type activities increased in 2017 due to higher personnel costs, maintenance costs, and electrical costs.
- Depreciation is a non-cash expense that is recorded to reflect the approximate devaluation of property and equipment over time. The concept is designed to match the cost of assets more accurately with the revenues that are generated by the assets. Most of the City's main capital improvement projects have been and will continue to be funded through grant projects. Readers can expect that the business-type activities do not generate enough revenue to offset the non-cash expense of depreciation.
- In order to replace capital assets in the future, the City Council and management intend to seek external funding for large capital projects. In a small Alaskan town such as Craig, it is unlikely that the local population could bear the full burden of the expense of such projects.

The following graph shows the comparison of the revenues to expenses of the business-type activities.



Financial Analysis of the Government's Funds

As noted earlier, the City of Craig uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Craig's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Craig's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The primary sources of revenue for the governmental funds are:

Property Tax	\$ 619,765
Sales Tax	1,689,744
General services	711,367

Property taxes and sales taxes support general fund operations. Property and sales taxes are also available to support school funding. Twenty percent of sales tax is used to operate the Craig Aquatic Center and Recreation Department. In recent history, National Forest Receipts funding has provided full-funding for local school support.

Proprietary (Enterprise) Funds. Enterprise funds for the City of Craig are the same as the business-type activities. Detailed fund statements are provided following the notes to the financial statements.

General Fund Budgetary Highlights

The City of Craig's budget was amended with a supplemental budget in June 2017. The governmental fund expenditures were increased \$204,458 due to health insurance premiums. The enterprise fund expenses were increased \$157,697 due to increased boat haul out trailer overhaul and maintenance. Revenue for the enterprise fund increased \$88,000 due to additional leases at the JT Brown Industrial Park.

Capital Asset and Debt Administration

City of Craig Net Capital Assets As of June 30, 2017

Land	\$ 90,864	\$ 90,864	\$ 3,954,898	\$ 3,954,898	\$ 4,045,762	\$ 4,045,762
Buildings	31,206,787	28,765,818	7,649,488	7,629,683	38,856,275	36,395,501
Equipment	2,211,863	2,120,927	1,159,415	1,049,541	3,371,278	3,170,468
Infrastructure	7,143,562	5,636,137				
Harbors			4,009,226	3,996,705	4,009,226	3,996,705
Water/Sewer Sys			18,861,218	18,861,218	18,861,218	18,861,218
Sewer plant			4,187,737	4,187,737	4,187,737	4,187,737
Construction in Progress	220,650	1,412,481	399,999	349,999	620,649	1,762,480
Total Assets	40,873,726	38,026,227	40,221,981	40,029,781	73,952,145	78,056,008
Accumulated depreciation	(12,336,211)	(11,089,858)	(17,269,771)	(16,386,038)	(29,605,982)	(27,475,896)
Net Capital Assets	\$ 28,537,515	\$ 26,936,369	\$ 22,952,210	\$ 23,643,743	\$ 44,346,163	\$ 50,580,112

Additional information on the City of Craig's capital assets is found in Note 3.C of the notes to the financial statements starting on page 38 of this report.

Long-term debt.

Bonds. In March, 2016 the City of Craig issued General Obligation Bond for \$1,810,000 with a premium of \$205,368. At the end of the current fiscal year, the City of Craig had total bonded debt outstanding of \$1,695,000 backed by the full faith and credit of the government.

Notes Payable. In 1999, the City borrowed funds from the State of Alaska to upgrade the wastewater plant. The City owes \$174,722 on two notes, which are due in fiscal year 2020. The City makes one annual payment to the State on those notes. In May 2005, the State implemented an interest rate reduction approved by the legislature; these loans now carry an interest rate of 1.5%. The City has two loans (\$120,825, \$237,040) with Alaska Department of Water for water line improvements which is due in 2031 and 2033. Additional information on the City of Craig's long-term debt is found in note 3.E starting on page 41 of this report.

Economic Factors and Rates for Next Fiscal Year

The major fish processing plant only processed fish the summer of 2017 for a short time, which will affect the business fish tax.
Two major retail businesses closed this year so sales tax receipts will be down.
The electrical supplier has increased the electrical rates.
These factors were taken into account when adopting the FY 2018 governmental budget.

Requests for Information

This financial report is designed to provide a general overview of the City of Craig's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, 500 Third Street, PO Box 725, Craig, Alaska 99921.

BASIC FINANCIAL STATEMENTS

CITY OF CRAIG, ALASKA
STATEMENT OF NET POSITION

JUNE 30, 2017

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	Craig City School District
ASSETS				
Cash and investments	\$ 1,900,810	\$ 27,950	\$ 1,928,760	\$ 3,378,813
Receivables (net of allowance for uncollectibles)	487,733	190,845	678,578	421,199
Internal balances	491,410	(491,410)	-	-
Prepaid items	4,551		4,551	2,000
Inventories		946	946	26,970
Restricted assets:				
Temporarily restricted:				
Cash and investments	15,104,951	-	15,104,951	-
Prepaid items	367	-	367	-
Federal and State of Alaska receivables	928,630	-	928,630	-
Interest receivable	20,883	-	20,883	-
Capital assets not being depreciated	311,514	4,354,897	4,666,411	-
Other capital assets, net of accumulated depreciation	28,226,001	18,597,313	46,823,314	404,362
Total assets	47,476,850	22,680,541	70,157,391	4,233,344
DEFERRED OUTFLOWS				
Deferred outflows related to pension	477,925	156,491	634,416	1,102,207
Total assets and deferred outflows	\$ 47,954,775	\$ 22,837,032	\$ 70,791,807	\$ 5,335,551
LIABILITIES				
Accounts payable and other current liabilities	\$ 174,905	\$ 107,565	\$ 282,470	\$ 442,699
Unearned revenue	9,485	-	9,485	58,763
Liabilities payable from restricted assets	2,855,501	-	2,855,501	-
Noncurrent liabilities:				
Due within one year				
Bonds and notes payable	70,268	77,260	147,528	-
Due in more than one year				
Bonds and notes payable, including unamortized premium	1,809,564	464,520	2,274,084	-
Net pension obligation	2,724,881	873,756	3,598,637	5,093,116
Total liabilities	7,644,604	1,523,101	9,167,705	5,594,578
DEFERRED INFLOWS				
Deferred inflows related to pension	30,085	10,028	40,113	214,065
NET POSITION				
Invested in capital assets, net of related debt	26,657,679	22,952,210	49,609,889	404,362
Restricted for:				
Public safety	5,512	-	5,512	-
Unrestricted	13,616,895	(1,648,307)	11,968,588	(877,454)
Total net position	40,280,086	21,303,903	61,583,989	(473,092)
Total liabilities, deferred inflows and net position	\$ 47,954,775	\$ 22,837,032	\$ 70,791,807	\$ 5,335,551

CITY OF CRAIG, ALASKA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	
Primary government:				
Government activities:				
Administration	\$ 885,668	\$ 87,529	\$ 9,380	\$ -
Council	143,803	-	981	-
Fire	41,141	-	9,778	-
Parks and Recreation	1,111,571	81,704	7,579	-
Library	169,750	21,187	22,437	-
Police	1,287,595	457,592	21,629	-
Public Works	916,830	175,217	43,694	1,022,268
Planning	151,757	335,237	75,730	-
Medical Services	335,917	144,155	2,217	-
Support	1,024,792	138,865	572,980	-
Total governmental activities	6,068,824	1,441,486	766,405	1,022,268
Business-type activities:				
Sewer	486,798	260,405	3,430	-
Water	741,597	241,773	5,921	-
Garbage	323,394	290,779	1,538	-
Harbor	455,122	257,877	4,459	-
Marine Industrial Park	410,037	457,890	1,150	-
Cannery Property	17,035	8,884	-	50,000
Total business type activities	2,433,983	1,517,608	16,498	50,000
Total primary government	\$ 8,502,807	\$ 2,959,094	\$ 782,903	\$ 1,072,268
Component Units:				
Craig City School District	\$ 8,855,340	\$ 34,062	\$ 1,494,908	\$ -
Total component units	\$ 8,855,340	\$ 34,062	\$ 1,494,908	\$ -

General revenues:
Property taxes
Sales and other taxes
Grants and contributions not restricted to specific programs
Unrestricted investment earnings
Other

Total general revenues and transfers

Change in net position

Net position - beginning

Net position - end

Net (Expenses) Revenues and
Changes in Net Assets

Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	Craig City School District
\$ (788,759)	\$ -	\$ (788,759)	-
(142,822)	-	(142,822)	-
(31,363)	-	(31,363)	-
(1,022,288)	-	(1,022,288)	-
(126,126)	-	(126,126)	-
(808,374)	-	(808,374)	-
324,349	-	324,349	-
259,210	-	259,210	-
(189,545)	-	(189,545)	-
(312,947)	-	(312,947)	-
<u>(2,838,665)</u>	<u>-</u>	<u>(2,838,665)</u>	<u>-</u>
-	(222,963)	(222,963)	-
-	(493,903)	(493,903)	-
-	(31,077)	(31,077)	-
-	(192,786)	(192,786)	-
-	49,003	49,003	-
-	41,849	41,849	-
<u>-</u>	<u>(849,877)</u>	<u>(849,877)</u>	<u>-</u>
<u>(2,838,665)</u>	<u>(849,877)</u>	<u>(3,688,542)</u>	<u>-</u>
			<u>(7,326,370)</u>
			(7,326,370)
619,765	-	619,765	-
1,691,528	-	1,691,528	-
561,773	-	561,773	6,076,180
888,182	-	888,182	3,449
<u>-</u>	<u>-</u>	<u>-</u>	<u>122,216</u>
<u>3,761,248</u>	<u>-</u>	<u>3,761,248</u>	<u>6,201,845</u>
922,583	(849,877)	72,706	(1,124,525)
<u>39,357,503</u>	<u>22,153,780</u>	<u>61,511,283</u>	<u>651,433</u>
<u>\$ 40,280,086</u>	<u>\$ 21,303,903</u>	<u>\$ 61,583,989</u>	<u>\$ (473,092)</u>

CITY OF CRAIG, ALASKA

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2017

	General	Endowment	National Forest Receipts	Other Governmental Funds	Total Governmental Funds
ASSETS					
Equity in central treasury	\$ 1,900,810	\$ -	\$ -	\$ -	\$ 1,900,810
Receivables:					
Customer	114,735	-	-	-	114,735
Taxes	401,574	-	-	-	401,574
Less allowance for doubtful accounts	(28,576)	-	-	-	(28,576)
Due from other funds	893,084	-	-	-	893,084
Prepaid items	4,551	-	-	-	4,551
Restricted assets:					
Equity in central treasury	-	319	35,056	60,258	95,633
Cash and cash equivalents	-	542,448	3,460,786	1,331,280	5,334,514
Prepaid items	-	371	-	-	371
Investments	-	9,674,804	-	-	9,674,804
State of Alaska and Federal government receivables	-	-	22,040	906,590	928,630
Interest receivable	-	20,883	-	-	20,883
Total assets	<u>\$ 3,286,178</u>	<u>\$ 10,238,825</u>	<u>\$ 3,517,882</u>	<u>\$ 2,298,128</u>	<u>\$ 19,341,013</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 46,752	\$ -	\$ -	\$ -	\$ 46,752
Accrued payroll and related	54,922	-	-	-	54,922
Accrued leave	73,231	-	-	-	73,231
Deferred revenue	9,485	-	-	-	9,485
Liabilities payable from restricted assets:					
Accounts payable	-	5,048	1,398	877,995	884,441
Deferred revenue	-	-	1,966,826	4,234	1,971,060
Due to other funds	-	-	-	401,674	401,674
Total liabilities	<u>184,390</u>	<u>5,048</u>	<u>1,968,224</u>	<u>1,283,903</u>	<u>3,441,565</u>
Fund balances:					
Nonspendable	4,551	371	-	-	4,922
Restricted	-	-	1,549,658	5,512	1,555,170
Committed	-	10,233,406	-	1,008,713	11,242,119
Unassigned	3,097,237	-	-	-	3,097,237
Total fund balances	<u>3,101,788</u>	<u>10,233,777</u>	<u>1,549,658</u>	<u>1,014,225</u>	<u>15,899,448</u>
Total liabilities and fund balances	<u>\$ 3,286,178</u>	<u>\$ 10,238,825</u>	<u>\$ 3,517,882</u>	<u>\$ 2,298,128</u>	<u>\$ 19,341,013</u>

CITY OF CRAIG, ALASKA

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

YEAR ENDED JUNE 30, 2017

Total fund balances of governmental funds \$ 15,899,448

Total net assets reported for the governmental activities
in the Statement of Net Assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets, net of accumulated depreciation, consist of the following

Land	\$ 90,864
Buildings	31,206,784
Equipment	2,211,863
Infrastructure	7,143,562
Construction in progress	<u>220,649</u>

Accumulated depreciation	40,873,722
	<u>(12,336,211)</u>

Total capital assets, net 28,537,511

Long-term liabilities are not due and payable in the current period and therefore are not reported as fund liabilities.

Long-term liabilities reported in these statements are:

Long-term debt	(1,695,000)
Unamortized bond premiums	(184,832)
Net pension liability	<u>(2,724,881)</u>

Total long-term liabilities (4,604,713)

Certain changes in net pension liabilities are deferred rather than recognized immediately. These items are amortized over time.

Deferred outflows related to pensions	477,925
Deferred inflows related to pensions	<u>(30,085)</u>

Total deferred pension items 447,840

Total net position of governmental funds \$ 40,280,086

CITY OF CRAIG, ALASKA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	General	Endowment	National Forest Receipts	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes:					
Real and personal	\$ 619,765	\$ -	\$ -	\$ -	\$ 619,765
Sales and bed	1,577,131	-	-	-	1,577,131
Liquor	114,397	-	-	-	114,397
State sources	316,703	-	-	1,102,238	1,418,941
Federal sources	304,129	-	572,980	61,269	938,378
Charges for services	543,318	-	-	-	543,318
Fines, forfeitures and penalties	9,329	-	-	-	9,329
Investment income	4,284	868,954	14,255	689	888,182
Uses of property	71,074	-	-	-	71,074
Licenses and permits	79,770	-	-	-	79,770
Other	80,958	-	19,101	637,936	737,995
Total revenue	3,720,858	868,954	606,336	1,802,132	6,998,280
EXPENDITURES					
Current:					
Administration	702,950	33,240	-	-	736,190
Council	133,203	-	-	-	133,203
Planning	89,806	-	-	38,276	128,082
Parks and facilities	286,009	-	-	-	286,009
Public works	326,812	-	12,132	44,556	383,500
Police	937,360	-	-	100,240	1,037,600
Emergency medical services	221,378	-	-	-	221,378
Fire	14,824	-	-	-	14,824
Library	108,925	-	-	39,279	148,204
Recreation	99,331	-	-	-	99,331
Aquatic facilities	305,307	-	-	-	305,307
Hatchery	100,100	-	-	19,528	119,628
Support	-	-	553,941	-	553,941
Debt service	136,488	-	-	-	136,488
Capital outlay	106,779	-	-	2,756,563	2,863,342
Total expenditures	3,569,272	33,240	566,073	2,998,442	7,167,027
Excess (deficit) of revenues over (under) expenditures	151,586	835,714	40,263	(1,196,310)	(168,747)
OTHER FINANCING SOURCES (USES)					
Transfers in	148,496	-	3,000	732,000	883,496
Transfers out	(88,941)	(457,981)	-	(336,574)	(883,496)
Total other financing sources (uses)	59,555	(457,981)	3,000	395,426	-
Net change in fund balances	211,141	377,733	43,263	(800,884)	(168,747)
Fund balances, beginning of year	2,890,647	9,856,044	1,506,395	1,815,109	16,068,195
Fund balances, end of year	\$ 3,101,788	\$ 10,233,777	\$ 1,549,658	\$ 1,014,225	\$ 15,899,448

See notes to financial statements.

CITY OF CRAIG, ALASKA
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

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

Net change in fund balances -- total governmental funds	\$	(168,747)
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Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and should be reported as depreciation. This is the amount by which capital outlay exceeds depreciation in the current period.

Expenditures for capital outlay	\$	2,863,342	
Less current year depreciation		(1,252,293)	
Loss on disposition of capital assets		<u>(9,903)</u>	1,601,146

The issuance of long-term debt (e.g., notes payable) provides current financial resources to governmental funds, while the repayment of the principal on long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Bond and loan payments		60,000	
Amortization of bond premium		<u>10,268</u>	70,268

Changes in net pension liability and related accounts can increase or decrease net position. This is the net increase in equity due to changes in net pension liability and the related deferred outflows and inflows

(580,084)

Change in net position of governmental activities (page 19)	\$	<u>922,583</u>
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CITY OF CRAIG, ALASKA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

	Enterprise Fund	Total Proprietary Funds
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 27,950	\$ 27,950
Receivables:		
Accounts	140,845	140,845
Grants	50,000	50,000
Inventory	946	946
Total current assets	219,741	219,741
Noncurrent assets:		
Capital assets:		
Property, plant and equipment	39,821,983	39,821,983
Less accumulated depreciation	(17,269,773)	(17,269,773)
	22,552,210	22,552,210
Construction work-in-progress	400,000	400,000
Total noncurrent assets	22,952,210	22,952,210
Total assets	23,171,951	23,171,951
Deferred outflows of resources - pension related	156,491	156,491
Total assets and deferred outflows	\$ 23,328,442	\$ 23,328,442

CITY OF CRAIG, ALASKA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS

JUNE 30, 2017
(continued)

	<u>Enterprise Fund</u>	<u>Total Proprietary Funds</u>
LIABILITIES		
Current liabilities:		
Due to other funds	\$ 491,410	\$ 491,410
Accounts payable and accrued liabilities	102,575	102,575
Interest payable	4,990	4,990
Current portion of:		
Long-term notes payable	<u>77,260</u>	<u>77,260</u>
Total current liabilities	676,235	676,235
Noncurrent liabilities:		
Notes payable, net of current portion	464,520	464,520
Net pension obligation	<u>873,756</u>	<u>873,756</u>
Total noncurrent liabilities	<u>1,338,276</u>	<u>1,338,276</u>
Total liabilities	2,014,511	2,014,511
Deferred inflows of resources - pension related	10,028	10,028
NET POSITION		
Investment in capital assets, net of related debt	22,952,210	22,952,210
Unrestricted	<u>(1,648,307)</u>	<u>(1,648,307)</u>
Total net position	<u>21,303,903</u>	<u>21,303,903</u>
Total liabilities, deferred inflows and net position	<u>\$ 23,328,442</u>	<u>\$ 23,328,442</u>

CITY OF CRAIG, ALASKA
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Enterprise Fund</u>	<u>Total Proprietary Funds</u>
Operating revenue:		
Charges for services	\$ 1,517,608	\$ 1,517,608
Operating expenses:		
Salaries and benefits	891,105	891,105
Insurance	34,830	34,830
Utilities	182,098	182,098
Contractual services	233,974	233,974
Repairs and maintenance	34,997	34,997
Materials and supplies	126,582	126,582
Travel and per diem	3,303	3,303
Other	37,603	37,603
Depreciation	<u>883,733</u>	<u>883,733</u>
Total operating expenses	<u>2,428,225</u>	<u>2,428,225</u>
Operating loss	(910,617)	(910,617)
Nonoperating revenues (expenses):		
Interest expense	(5,758)	(5,758)
Noncapital grants	<u>16,498</u>	<u>16,498</u>
Total nonoperating revenue (expenses)	<u>10,740</u>	<u>10,740</u>
Income before contributions and transfers	(899,877)	(899,877)
Capital contributions	<u>50,000</u>	<u>50,000</u>
Change in net position	(849,877)	(849,877)
Net position - beginning	<u>22,153,780</u>	<u>22,153,780</u>
Total net assets - end	<u>\$ 21,303,903</u>	<u>\$ 21,303,903</u>

CITY OF CRAIG, ALASKA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Enterprise Fund	Total Proprietary Funds
Cash flows from operating activities:		
Receipts from customers and users	\$ 1,525,366	\$ 1,525,366
Payments to suppliers	(656,012)	(656,012)
Payments to employees	(679,597)	(679,597)
Net cash provided by operating activities	189,757	189,757
Cash flows from noncapital financing activities:		
Borrowings from the General Fund	93,023	93,023
Net cash provided by noncapital financing activities	93,023	93,023
Cash flows from capital and related financing activities:		
Capital expenditures	(192,199)	(192,199)
Interest paid	(5,758)	(5,758)
Repayment of notes payable	(76,310)	(76,310)
Net cash used by capital and related financing activities	(274,267)	(274,267)
Net increase in cash and cash equivalents	8,513	8,513
Cash and cash equivalents, beginning of the year	19,437	19,437
Cash and cash equivalents, end of year	\$ 27,950	\$ 27,950

CITY OF CRAIG, ALASKA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017
(continued)

	<u>Enterprise Fund</u>	<u>Total Proprietary Funds</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (910,617)	\$ (910,617)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	883,733	883,733
Noncapital grants	16,498	16,498
Changes in assets and liabilities		
Decrease in accounts receivable	7,769	7,769
Decrease in inventory	16,852	16,852
Decrease in accounts payable	(15,095)	(15,095)
Increase in pension liability	190,617	190,617
Total adjustments	<u>1,100,374</u>	<u>1,100,374</u>
Net cash provided by operating activities	<u>\$ 189,757</u>	<u>\$ 189,757</u>

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The City of Craig, Alaska ("City") is a first class city incorporated March 1, 1922. The City operates under a Council-Mayor form of government. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government. The City has no blended component units.

Discretely presented component units. The Craig City School District (District) is responsible for elementary and secondary education within the government's jurisdiction. The members of the District's governing board are elected by the voters. However, the District is fiscally dependent upon the City because the City's Council approves the District's budget. The City provides operating support from real and personal property tax assessments and other sources. The funds are used for the operation of the school system. Complete financial statements for the District may be obtained at the administrative office.

Craig City School District
P.O. Box 800
Craig, Alaska 99921

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Measurement Focus

The government-wide financial statements are reported using the *economic resources measurement focus*. All assets and all liabilities of the City are included on the statement of net position. The statement of activities reports revenues and expenses.

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 1. - continued

Governmental fund financial statements are reported using the *current financial resources measurement focus*. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus on both financial reporting levels. All assets and all liabilities associated with the operation of these funds are included on the statements of net position. The statements of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. At the fund reporting level, governmental funds use the modified accrual basis of accounting. Proprietary funds use the accrual basis of accounting at both reporting levels. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, the phrase "available for exchange transaction" means expected to be received within sixty days of year-end.

Revenues - Non-exchange Transactions - Nonexchange transactions, in which the City receives value without directly, giving equal value, in return, include sales taxes, property taxes, grants, and donations. On an accrual basis, revenues from sales taxes is recognized in the period in which the taxable sale takes place. Revenue from property taxes is recognized in the fiscal year in which the taxes are levied. Revenue from grants, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions also must be available (i.e., collected within sixty days) before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be susceptible to accrual, property taxes, sales taxes, interest and federal and state grants.

Unearned Revenue - Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 1. - continued

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. On the modified accrual basis, expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

Financial Statement Presentation

The City reports the following major governmental funds:

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

The Endowment Fund was established with monies from the federal Southeast Alaska Disaster Fund and federal payments in lieu of entitlement lands. The principal and interest are being retained in the fund for future use.

The National Forest Receipts Fund accounts for Federal funds passed-through the State of Alaska. Receipts are based upon timber sales on Federal lands in Alaska. The funds are used for schools, roads, search and rescue and fire suppression.

The City has only one proprietary fund which combines the operations of the sewer, water, garbage, harbor, marine industrial park, and cannery property.

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

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY

Equity in Central Treasury

Equity in central treasury represents a fund's equity in cash and investments of the central treasury of the City. For funds with a negative equity in the central treasury, the amount is shown as an interfund payable to the General Fund.

Cash and Cash Equivalents

For purposes of the statement of cash flows for the proprietary funds, the City has defined cash and cash equivalents as the equity maintained in the central treasury since the various funds use the central treasury essentially as a demand deposit account and the cash accounts maintained within the enterprise fund.

Investments

Craig Municipal Code 3.14.030 authorizes the City to invest its operating funds in the following securities:

1. Federally insured or fully collateralized certificates of deposit of bank and credit unions maturing within two years;
2. U.S. Government treasury, agency and instrumentality securities;
3. Notes or bonds issued by the State of Alaska or its political subdivisions or other states of the United States, maturing within two years, with a credit rating of A-/A3 or better from two national rating agencies, maturing within two years;
4. Repurchase agreements collateralized by U.S. Treasury securities and marked-to-market. If repurchase agreements are overnight investments or if securities are collateralized in excess of 102%, marked-to-market is not necessary;
5. A state investment pool formed within the State of Alaska and comprised of agencies of the state and/or its political subdivisions;
6. Money market mutual funds whose portfolios consist entirely of U.S. Government securities.

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 1. - continued

Craig Municipal Code 3.15.050 authorizes the City to invest its endowment funds in the following securities:

1. U.S. Government treasury, agency and instrumentality securities;
2. Notes or bonds issued by the State of Alaska or its political subdivisions or other states of the United States, maturing with two years, with a credit rating of A-/A3 or better from two national rating agencies;
3. Federally insured or fully collateralized certificates of deposit of banks and credit unions, maturing within two years;
4. Repurchase agreements collateralized by U.S. Treasury securities and marked-to-market. If repurchase agreements are overnight investments or if securities are collateralized in excess of 102%, marked-to-market is not necessary;
5. A state investment pool formed within the State of Alaska and comprised of agencies of the State and/or its political subdivisions;
6. Money market mutual funds whose portfolios consist entirely of U.S. government securities;
7. Any of the following:
 - a. Mortgage-backed and asset-backed obligations denominated in U.S. dollars with a credit rating of A-/A3 or better from two national ratings agencies;
 - b. Corporate debt obligations of U.S. domiciled corporations denominated in U.S. dollars with a rating of A-/A3 or better from at least two national rating agencies;
 - c. Convertible debt obligations of U.S. domiciled corporations denominated in U.S. dollars with a credit rating of A-/A3 or better from two national rating agencies;
 - d. Common and preferred stock of U.S. domiciled corporations listed on a national exchange or NASDAQ with a minimum capitalization of five hundred million dollars or a mutual fund that invests in these stocks.

Investments are stated at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. All of the City's investments have established market values. As a result, fair value and market value are the same.

Receivables

All trades and property tax receivables are shown net of an allowance for uncollectibles. Property taxes are levied and statements are mailed on July 1 of each year. Amounts under \$50 are payable in one installment on September 30. Larger amounts can be paid in two installments, one-half on September 30 and the remaining balance on December 31. Property taxes attach as an enforceable lien on the property when assessed. Property tax revenue is recognized when levied to the extent that it results in current receivables.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Restricted Assets

Assets in the Endowment Fund are reported as restricted. These assets can only be expended with the consent of the City Council. The City's municipal code allows the Council to appropriate up to four percent of the endowment fund's five-year average market value to specific projects each year.

Assets in other non-major governmental funds are restricted by grant agreements, bond covenants or by the City's municipal code.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 1. - continued

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The City did not have any projects requiring interest capitalization in 2017.

Property, plant and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Sewer and Water systems	40 - 50
Harbor improvements	16
Buildings	50
Machinery and equipment	5 - 10
Furnishings	5
Docks	40
Infrastructure	20

Infrastructure acquired before June 30, 2003 has not been capitalized.

Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discounts on the government-wide Statement of Net Position.

Bond issuance costs are recognized as an outflow of resources in the reporting period in which they are paid.

At the government fund reporting level, bond premiums and discounts are reported as other financing sources and uses, separately from the face amount of the bonds issued. Bond issuance costs are reported as debt service expenditures.

Pensions

For purposes of measuring the net position liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension 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.

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 1. - continued

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will report a separate section for deferred outflows of resources. The separate financial statement element, deferred outflow of resources, represents a consumption of net position that applies to future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Fund balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balance based on constraints imposed on the use of these resources:

Nonspendable

The portion of a fund balance that cannot be spent because it is either: (a) not in a spendable form, such as prepaid items, inventories of supplies, or loans receivable; or (b) legally or contractually required to be maintained intact, such as the principal portion of an endowment.

Restricted

The portion of fund balance that has constraints placed on the use of resources that are either: (a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed

The portion of a fund balance that includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action, such as an ordinance, of the City Council and remain binding unless removed by ordinance or resolution. Commitments may be changed or lifted only by the City Council taking formal action.

Assigned

The portion of a fund balance that includes amounts that are constrained by the government's intent to be used for specific purposes that are neither restricted or committed.

Unassigned

The portion of fund balance that includes amounts that do not fall into one of the above four categories.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balances are depleted in the order of restricted, committed, assigned, and unassigned.

Net Position

Net position represents the difference between assets and deferred outflows less liabilities and deferred inflows.

Net Investment in Capital Assets

Net investment in capital assets, net of accumulated depreciation, reduced by the expended and outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets.

Restricted Net Position

Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Unrestricted Net Position

This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 1. - continued

Management Estimates and Assumptions

The 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 the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through the date of the Independent Auditor's Report, which is commensurate with the date the financial statements were available to be issued.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Prior to June 15 the City Administrator submits a proposed operating budget for the fiscal year beginning July 1 to the City Council. The operating budget includes proposed expenditures and the means to finance them. Annual appropriated budgets are adopted for the general fund; municipal land sales, police drug forfeiture and national forest receipts special revenue funds and each of the enterprise fund departments. Public hearings are conducted and prior to June 30 the budget is legally adopted as a non-permanent ordinance by the City Council.

Authority to transfer appropriated expenditures within and between departments and between funds is held by the City Council. Transfers of up to \$10,000 of expenditures annually to different budgeted line items within a department can be made by the City Administrator. Other transfers require an amendment to the budget ordinance.

All annual appropriations lapse at fiscal year end. Project-length financial plans are adopted for all capital projects. Special revenue fund budgets are approved when the Council accepts grant funds from the State of Alaska.

The operating budget for the Craig City School District is approved by the Craig School Board. The budget is then submitted to the City Council for final approval.

B. Excess of Expenditures Over Appropriations

For the year ended June 30, 2017 the City exceeded its appropriations in the following departments or funds:

Fund/Department	Excess Appropriation
General Fund – Emergency Medical Service	\$ 310
General Fund – Hatchery	55,100

These over expenditures were funded by available revenues or fund balance.

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

C. Differences Between Actual Revenues and Expenditures and Actual on a Budgetary Basis for the General Fund

The General Fund revenues and expenditures reported on page 22 of the basic financial statements differ from the amounts reported on page 53 in the column headed "actual amounts on a budgetary basis" due to timing differences in the recognition of sales tax revenue, on-behalf of payment made by the State of Alaska into PERS for the City of Craig and bad debt writeoffs which are not budgeted.

NOTE 3. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

As of June 30, 2017, the City had the following deposits and investments:

Cash on hand	\$ 1,630
Carrying amount of deposits	7,318,575
Carrying amount of investments	<u>9,713,506</u>
	<u>\$ 17,033,711</u>

Deposits and investments were reported in the Statement of Net Assets as follows:

Cash and investments	\$ 1,928,760
Cash and investments - Temporarily Restricted	<u>15,104,951</u>
	<u>\$ 17,033,711</u>

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The City limits its exposure to credit risk by limiting investments to the quality permitted in its investment policies.

The credit quality ratings of the City's investments as of June 30, 2017, as described by the nationally recognized statistical rating organization Standard & Poor's are shown below:

	S&P Rating	Investment Fair Value	% of Total
U.S. Treasury	AA+	\$ 1,892,193	19.56
Federal Agency	AA+	210,331	2.17
Corporate	AA-	100,294	1.04
Corporate	A+	152,212	1.58
Corporate	A	247,992	2.56
Corporate	A-	311,027	3.21
Corporate	BBB+	108,470	1.12
Exchange Traded Funds	not rated	<u>6,652,285</u>	<u>68.76</u>
		<u>\$ 9,674,804</u>	<u>100.00</u>

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 3. - continued

Concentration of Credit Risk. The City's investment policy states that one of the general objective of investing will be to diversify the portfolio so that potential losses on individual securities will be minimized. The policy does not limit the investment in any one security to a percentage of the total portfolio.

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. It is the City 's policy to mitigate this risk by requiring that all demand deposits be fully collateralized by securities pledged but not held in the City 's name by an agent of the financial institution holding the demand deposits. Of the bank balance at June 30, 2017, \$1,876,907 was covered by the Federal Deposit Insurance Corporation (FDIC) and \$5,697,516 was subject to a collateral agreement.

Custodial Credit Risk - Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of outside parties. All the City's investments subject to custodial credit risk are held by the City's agent in it's name.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City has a formal investment policy that limits certain investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City currently hold no investments to which the limit applies. Certificates of deposit are limited to two year maturities. They are included with deposits rather than investments.

Modified Duration

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates.

The modified duration of the City's investments as of June 30, 2017 is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Modified Duration</u>
U.S. Treasury	\$ 1,892,193	4.63
Agency bonds	210,331	4.84
Corporate bonds	919,995	3.22
Exchange traded funds	<u>6,652,285</u>	<u>0.00</u>
	<u>\$ 9,674,804</u>	
Portfolio modified duration		1.32

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 3. - continued

B. RECEIVABLES

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregate columns. Below is the detail of receivables including the applicable allowance for uncollectible accounts:

	<u>General</u>	<u>Endowment</u>	<u>Enterprise</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Taxes	\$ 401,574	\$ -	\$ -	\$ -	\$ 401,574
State of Alaska	-	-	50,000	928,630	978,630
US Government	-	-	-	-	-
Customer	114,735	-	152,517	-	267,252
Interest	-	<u>20,883</u>	-	-	<u>20,883</u>
Gross receivables	516,309	20,883	202,517	928,630	1,668,339
Less:					
Allowance for uncollectible	<u>(28,576)</u>	<u>-</u>	<u>(11,672)</u>	<u>(-)</u>	<u>(40,248)</u>
Net total receivables	<u>\$ 487,733</u>	<u>\$ 20,883</u>	<u>\$ 190,845</u>	<u>\$ 928,630</u>	<u>\$1,628,091</u>

C. CAPITAL ASSETS

Capital asset activity for year ended June 30, 2017 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 90,864	\$ -	\$ -	\$ 90,864
Construction in progress	<u>1,412,481</u>	<u>1,249,138</u>	<u>(2,440,969)</u>	<u>220,650</u>
Total capital assets, not being depreciated	<u>1,503,345</u>	<u>1,249,138</u>	<u>(2,440,969)</u>	<u>311,514</u>
Capital assets, being depreciated				
Buildings	28,765,818	2,440,969	-	31,206,787
Infrastructure	5,636,137	1,507,425	-	7,143,562
Equipment	<u>2,120,927</u>	<u>106,779</u>	<u>(15,843)</u>	<u>2,211,863</u>
Total capital assets being depreciated	<u>36,522,882</u>	<u>4,055,173</u>	<u>(15,843)</u>	<u>40,562,212</u>
Less accumulated depreciation for:				
Buildings	(9,360,893)	(807,422)	-	(10,168,315)
Infrastructure	(561,754)	(357,176)	-	(918,930)
Equipment	<u>(1,167,211)</u>	<u>(87,695)</u>	<u>5,940</u>	<u>(1,248,966)</u>
Total accumulated depreciation	<u>(11,089,858)</u>	<u>(1,252,293)</u>	<u>5,940</u>	<u>(12,336,211)</u>
Total capital assets, being depreciated, net	<u>25,433,024</u>	<u>2,802,880</u>	<u>(9,903)</u>	<u>28,226,001</u>
Governmental activities capital assets, net	<u>\$26,936,369</u>	<u>\$ 4,052,018</u>	<u>\$(2,450,872)</u>	<u>\$ 28,537,515</u>

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 3. - continued

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 3,954,898	\$ -	\$ -	\$ 3,954,898
Construction in progress	<u>349,999</u>	<u>50,000</u>	<u>-</u>	<u>399,999</u>
Total capital assets, not being depreciated	<u>4,304,897</u>	<u>50,000</u>	<u>-</u>	<u>4,354,897</u>
Capital assets, being depreciated:				
Buildings	7,629,683	19,805	-	7,649,488
Equipment	1,049,541	109,874	-	1,159,415
Harbors	3,996,705	12,521	-	4,009,226
Water and sewer system	18,861,218	-	-	18,861,218
Sewer plant	<u>4,187,737</u>	<u>-</u>	<u>-</u>	<u>4,187,737</u>
Total capital assets, being depreciated	<u>35,724,884</u>	<u>142,200</u>	<u>-</u>	<u>35,867,084</u>
Less accumulated depreciation for:				
Buildings	(1,547,757)	(237,935)	-	(1,785,692)
Equipment	(766,465)	(48,740)	-	(815,205)
Harbors	(2,937,203)	(62,779)	-	(2,999,982)
Water and sewer system	(8,552,197)	(394,688)	-	(8,946,885)
Sewer plant	<u>(2,582,416)</u>	<u>(139,591)</u>	<u>-</u>	<u>(2,722,007)</u>
Total accumulated depreciation	<u>(16,386,038)</u>	<u>(883,733)</u>	<u>-</u>	<u>(17,269,771)</u>
Total capital assets, being depreciated, net	<u>19,338,846</u>	<u>(741,533)</u>	<u>-</u>	<u>18,597,313</u>
Business-type activities capital assets, net	<u>\$ 23,643,743</u>	<u>\$ (691,533)</u>	<u>\$ -</u>	<u>\$ 22,952,210</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Administration	\$ 9,713
Fire	16,414
Library	3,426
Police	15,542
Public works	485,795
Parks and recreation	278,146
Planning	515
School support	351,223
Medical services	<u>91,519</u>
Total depreciation expense - governmental activities	<u>\$1,252,293</u>

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 3. - continued

Business - type activities:

Sewer	\$ 242,347
Water	299,309
Garbage	25,025
Harbor	63,173
Marine industrial park	238,557
Cannery property	<u>15,322</u>
 Total depreciation expense -business type activities	 <u>\$ 883,733</u>

Construction commitments

The City has no active construction projects as of June 30, 2017.

D. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from other funds:		
General Fund	Nonmajor Governmental Funds	\$ 401,674
General Fund	Enterprise Fund	<u>491,410</u>
 Total		 <u>\$ 893,084</u>

Amounts due between the General Fund and nonmajor governmental funds result from negative equity in central treasury because expenditures are made prior to the receipt of revenue, as in the case of funds that account for the activity of noncapital grants. As the grant receivables are collected, the liability to the General Fund is repaid.

Amounts due from the Enterprise Fund result from inadequate revenue to cover operating and capital expenses in prior years.

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 3. - continued

Interfund Transfers:

	Transfer In:			
	General Fund	National Forest Receipts Fund	Nonmajor Governmental Funds	Total
Transfer out:				
General Fund	\$ -	\$ 3,000	\$ 85,941	\$ 88,941
Nonmajor governmental funds	-	-	336,574	336,574
Endowment Fund	<u>148,496</u>	<u>-</u>	<u>309,485</u>	<u>457,981</u>
	<u>\$ 148,496</u>	<u>\$ 3,000</u>	<u>\$ 732,000</u>	<u>\$ 883,496</u>

E. LONG-TERM DEBT

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. In FY15, the City issued bonds to renovate the aquatic center. The bonds were issued at a premium of the \$205,368. The premium is being amortized over the life of the bonds at \$10,268 each year.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. All of the bonds outstanding are held by the Alaska Municipal Bond Bank Authority. This State of Alaska agency purchases bonds from municipalities within the state, while simultaneously selling its own bonds to third parties in order fund the bond purchases.

General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities: Renovation of Aquatic Center.		
\$1,810,000 2015 Series One, final payment due October 1, 2034	3.0 to 5.0%	\$ <u>1,695,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 60,000	\$ 74,387
2019	65,000	71,887
2020	65,000	69,287
2021	70,000	66,237
2022	70,000	62,737
2023-2027	425,000	254,313
2028-2032	550,000	134,765
2033-2035	<u>390,000</u>	<u>21,270</u>
Total	<u>\$1,695,000</u>	<u>\$ 754,883</u>

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 3. - continued

Business-Type Activities

State of Alaska, Department of Environmental Conservation Loan Program

The City borrowed funds from the State of Alaska to upgrade the wastewater and water distribution systems.

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
\$440,316 note payable for wastewater treatment improvements; \$33,104 due annually on August 10 of each year through 2019	1.5%	\$ 96,406
\$357,696 note payable for wastewater treatment improvements; \$26,892 due annually on August 10 of each year through 2019	1.5%	78,316
\$150,000 note payable for water distribution improvement system through the Alaska Drinking Water Fund; \$8,737 (except for the first payment of \$7,403) due annually on August 1 of each year.	1.5%	120,825
\$259,193 note payable for water distribution improvements system through the Alaska Drinking Water Fund; \$15,097 due annually on June 24 of each year	1.5%	<u>246,233</u>
		<u>541,780</u>
 Total debt - governmental and business-type		 <u>\$2,236,780</u>

Annual debt service requirements to maturity for all notes payable are as follows:

Year Ending June 30,

	<u>Principal</u>	<u>Interest</u>
2018	\$ 77,260	\$ 8,126
2019	78,225	6,967
2020	79,203	5,794
2021	20,201	4,606
2022	20,309	4,303
2023-2027	103,236	16,913
2028-2032	111,510	9,085
2033-2036	<u>51,836</u>	<u>1,944</u>
 Total	 <u>\$ 541,780</u>	 <u>\$ 57,738</u>

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 3. - continued

Changes in long-term liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
General obligations bonds	\$ 1,755,000	\$ -	\$(60,000)	\$ 1,695,000	\$ 60,000
Issuance premiums	<u>195,100</u>	<u>-</u>	<u>(10,268)</u>	<u>184,832</u>	<u>10,268</u>
Governmental activities Long-term liabilities	<u>\$ 1,950,100</u>	<u>\$ -</u>	<u>\$(70,268)</u>	<u>\$ 1,879,832</u>	<u>\$ 70,268</u>
Business-type activities:					
Notes payable:					
State of Alaska	\$ 618,090	\$ -	\$(76,310)	\$ 541,780	\$ 77,260
Business-type activity Long-term liabilities	<u>\$ 618,090</u>	<u>\$ -</u>	<u>\$(76,310)</u>	<u>\$ 541,780</u>	<u>\$ 77,260</u>

Interest expense on all long-term debt was \$82,276 for the year ended June 30, 2017. The entire amount was charged to expense in the Statement of Activities.

F. FUND BALANCE

Fund balance, reported in the aggregate on the governmental funds balance sheet, is subject to the following constraints:

	<u>General Fund</u>	<u>Endowment Fund</u>	<u>National Forest Receipts</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Nonspendable:					
Prepaid items	\$ 4,551	\$ 371	\$ -	\$ -	\$ 4,922
Restricted:					
Police	-	-	-	5,512	5,512
Schools	-	-	1,549,658	-	1,549,658
Committed:					
Library services	-	-	-	1,492	1,492
Hatchery support	-	-	-	106,958	106,958
Operating and capital support	-	10,233,406	-	900,263	11,133,669
Unassigned	<u>3,097,237</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,097,237</u>
Total Fund Balances	<u>\$3,101,788</u>	<u>\$10,233,777</u>	<u>\$1,549,658</u>	<u>\$1,014,225</u>	<u>\$15,899,448</u>

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 4. OTHER INFORMATION

A. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for all risks of loss.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The City has not accrued a liability for claims and judgements at June 30, 2017 because the amount of potential claims at year end was determined to be immaterial. The City made no claim payments of during FY 2017.

Effective January 1, 1989 the City was self-insured with respect to unemployment claims made by former employees. The City accounts for claims on a pay-as-you-go basis.

B. CONTINGENT LIABILITIES

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

C. Defined Benefit Pension Plan

General Information About the Plan

The City participates in the State of Alaska Public Employees' Retirement System (PERS). PERS is a cost-sharing multiple employer plan which covers eligible State and local government employees. The plan was established and is administered by the State of Alaska to provide pension, postemployment healthcare, death and disability benefits. Benefits and contribution provisions are established by State law and may be amended only by the State Legislature. The Alaska Retirement Management Board is responsible for prescribing policies and adopting regulations and for performing other activities necessary to carry out the provisions of the PERS system.

The Plan is included in a comprehensive annual financial report that includes financial statements and other required supplemental information. These reports are available via the internet at <http://doa.alaska.gov.drb>. Actuarial valuation reports, audited financial statements, and other detailed plan information are also available at 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 Plan, full retirement benefits are generally calculated using a formula comprised of a multiplier times the average monthly salary time the number of years of service. The multiplier is increased at longevity milestone markers for most employees. The tiers within the Plan establish differing criteria regarding normal retirement age, early retirement age, and the criteria of calculation of the average monthly salary. A complete benefit comparison chart is available at the website noted above.

The plan was closed to new entrants on July 1, 2006. New employees hired after that date participate in the PERS Defined Contribution Plan described late in these notes.

Historical Information

In April 2008 the Alaska Legislature passed Senate Bill (SB) 125 which converted the existing PERS from an agent-multiple employer plan to a cost-sharing plan with an effective date of July 1, 2008. Under the cost-sharing arrangement, the State of Alaska, Division of Retirement and Benefits no longer tracks individual employer assets and liabilities. Rather, all plan costs and past service liabilities will be shared among all participating employers. The cost-sharing plan requires a uniform employer contribution rate of 22% of active members wages, subject to a wage floor.

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 3. - continued

Alaska Statutes 14.25.085 and 39.35.255 require 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 a special funding situation as defined by GASB, and the City has recorded all pension related liabilities, deferred inflows/outflows, and disclosures on this basis. The City records the related on-behalf contributions as revenue and expense or expenditure as prescribed by GAAP, based on the relevant basis of accounting for the related fund type.

It is important to note that the Alaska Legislature has the power and authority to change the statutes mention in the previous paragraph through legislative process.

Employee Contribution Rates

City employees are required to contribute 6.75% of their annual covered salary for PERS.

Employer and Other Contribution Rates

Employer Effective Rate: This the rate paid by all participating employers. As mentioned above this rate was capped at 22% by the Alaska Legislature in 2008. The rate is applied to all wages attributable to employees participating in the Plan. In addition, the wages of employees participating in the defined contribution plan discussed later are subject to a percentage which is the difference between the required contribution rate and 22%. This amount is referred as the Defined Benefit Unfunded Liability or DBUL contribution to the defined benefit plan.

ARM Board Adopted Rate: This is the rate formally adopted by the Alaska Retirement Management Board. This rate is actuarially determined and used to calculate annual Plan funding requirements. Prior to July 1, 2015, there were no constraints or restriction on the actuarial cost method or other assumptions used in the ARM Board valuation. Effective July 1, 2015, the Legislature requires the ARM Board to adopt employer contribution rates for past service liabilities using a level percentage of pay method over a closed 25 year term which ends in 2039. This will result in lower ARM Board rates in future years.

On-behalf Contribution Rate: This is the rate normally paid by the State as an on-behalf payment under the current statute. The statute requires the State of contribute, based on funding availability, an on-behalf amount equal to the difference between the ARM Board Rate and the Employer Contractual Rate.

In the governmental fund financial statements, on-behalf contribution amounts have been recognized as revenue and expenditures. In government-wide financial statements, on-behalf of amounts reflect revenue and expenses only during the measurement period in which the Plan recognizes payments, resulting in a one-year timing lag between the cash transfers and revenue and expense recognition. In the proprietary funds, on-behalf of amounts are recorded as revenue and expenses on the same basis in both the fund and the government-wide financial statements.

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 FY17, the GASB Rate uses an 8.00% pension discount rate and a 4.3% 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.

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 3. - continued

The City's contribution rates for FY2017 were determined as part of the June 30, 2014 actuarial valuation and are as follows:

	<u>Contractual Rate</u>	<u>ARM Board Adopted Rate</u>	<u>State Contribution Rate</u>	<u>GASB Rate</u>
Pension	14.96%	20.34%	4.14%	24.49%
Postemployment healthcare	<u>7.04</u>	<u>5.80</u>	<u>-</u>	<u>56.64</u>
Total contribution rate	<u><u>22.00</u></u> %	<u><u>26.14</u></u> %	<u><u>4.14</u></u> %	<u><u>81.13</u></u> %

For the year ended June 30, 2017, the City was credited with the following contributions to the pension plan:

	Measurement Period	
	<u>FY2016</u>	<u>FY2017</u>
Employer contributions (including DBUL)	\$ 149,251	\$ 173,697
Nonemployer contributions (on-behalf)	<u>67,025</u>	<u>75,311</u>
Total PERS contribution	<u><u>\$ 216,276</u></u>	<u><u>\$ 249,008</u></u>

In addition, employee contributions to the Plan totaled \$41,625 during the year ended June 30, 2017.

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

At June 30, 2017, the City reported a liability for its proportionate share of the net pension liability. The amount recognized by the City as its proportionate share of the net pension liability, the related State support the total portion of the net pension liability associated with the City were as follows:

City's proportionate share of NPL	\$ 3,598,637
State's proportionate share of NPL associated with the City	<u>454,277</u>
Total Net Pension Liability	<u><u>\$ 4,052,914</u></u>

The net pension liabilities were measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability for the Plan was determined by an actuarial valuation as of that date. The City's proportion of the net pension liabilities were based on a projection of the City's long-term share of contributions to the pension plan relative the projected contributions of all participating entities, actuarially determined. At June 30, 2016, the City's proportion of the net pension liability was 0.06438%, which was an increase of 0.00366% from its proportion as of the prior measurement date.

For the year ended June 30, 2017, the City recognized pension expense of \$876,894. In addition, the City recognized on-behalf of revenue of \$67,025.

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 3. - continued

At June 30, 2017 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
City's contributions subsequent to the measurement date	\$ 173,696	\$ -
Difference between expected and actual experience	331	40,113
Changes in assumptions	16,598	-
Net difference between projected and actual earnings on pension plan investments	353,729	-
Changes in proportion and differences between City's contributions and proportionate share of contributions	<u>90,062</u>	<u>-</u>
Total deferred outflows and deferred inflows	<u>\$ 634,416</u>	<u>\$ 40,113</u>

The amount reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2018	\$	123,299
2019		59,326
2020		144,605
2021		93,377

Actuarial Assumptions

The total pension liability for the measurement period ended June 30, 2016 (City's fiscal year 2017) was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2016. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2009 to June 30, 2013, resulting in changes in the actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect expected future experience.

Actuarial Cos Method	Entry Age Normal - Level Percentage of Payroll
Asset Valuation Method	Invested assets are reported at fair value
Allocation Methodology	Amounts for FY15 were allocated to employers based on the projected present value of contributions for FY17-FY19, as determined by projections based on the June 30, 2014 valuation.
	Amounts for FY16 were allocated to employers based on the present value of contributions for FY18-FY39, as determined by projections based on the June 30, 2015 valuation. The liability is expected to go to zero at 2039.
Investment Return/ Discount Rate	8.00% per year, compounded annually, net of expenses for pension and 4.3% for healthcare.

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 3. - continued

Salary Scale	Inflation - 3%; Productivity - 0.50% per year; graded by age and years of services from 8.55% to 4.34%
Total Inflation	Measured by the consumer price index for urban and clerical workers for Anchorage and is assumed to increase 3.12% annually
Mortality	Pre-termination - Based on the 2010-2013 actual mortality experience Post-termination - 95% of all rates of the RP-2000 table, 2000 base year projected to 2018 with projection scale BB

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 investment expenses and inflation) are developed for each major class of assets. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real return for each major asset class are summarized in the following table (note that the rates shown below exclude the inflation component):

Asset class	Long-term expected real rate of return
Equities:	
Domestic equity	5.35%
Global equity (non-US)	5.55
Private equity	6.25
Fixed income composite	0.80
Real estate	3.65
Alternative equity	4.70

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. The Actuarial Value of Assets after June 30, 2015 reflects the deferred gains and losses generated by the smoothing method. The current deferred amount is recognized in the first four years of the projections.

Sensitivity of the Net Position Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 8% as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

<u>Proportional Share</u>	<u>1% Decrease (7%)</u>	<u>Current discount rate (8%)</u>	<u>1% Increase (9%)</u>
0.06438%	\$ 4,634,862	\$ 3,598,637	\$ 2,724,628

Pension Plan Fiduciary Net Position

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

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 3. - continued

D. Defined Contribution Pension Plan

Employees hired after July 1, 2006 participate in PERS Tier IV defined contribution plan. This plan is administered by the State of Alaska, Department of Administration in conjunction with the defined benefit plan discussed 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 insurance premiums and other eligible medical expenses not covered by the medical plan. The Plan is included in the comprehensive annual report for PERS which is available at the following website, <http://doa.alaska.gov/drdb>.

Contributions to the defined contribution plan consist solely of employer and employee contributions with no special funding or other nonemployer contributions. In addition, actual payments to the PERS system require that the City contribute 22%. After deducting the defined contribution pension plan contributions and related OPEB contributions, the remaining amount (the DBUL) is deposited into the defined benefit plan as noted earlier.

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 with five years of service.

Employee Contribution Rate

Employees are required to contribute 8.0% of their annual covered salary. This amount goes directly into the individual's account.

Employer Contribution Rates

The City was required to contribute 5% of the covered salary for the year ended June 30, 2017.

The City and employee contributions for pensions for the year ended June 30, 2017 were \$52,666 and \$84,266, respectively.

The City contributions are recognized as pension expense.

E. Other Post-Employment Benefit (OPEB) Plans

Defined Benefit OPEB

As part of it's participation in the PERS plan (Tiers I, II, III), the City participates in the Alaska Retiree Healthcare Trust (ARHCT). The ARHCT is self-funded and provides major medical coverage for retirees. Benefits vary by Tier Level. The Plan is administered by the State of Alaska, Department of Administration. Employer contribution rates are established within the Defined Benefit Pension Plan discuss previously.

Employer Contribution Rates

The City is required to contribute 8.75% the covered payroll into the PERS OPEB plan.

Employees do not contribute to the defined benefit OPEB plan.

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 3. - continued

Annual Postemployment Healthcare Cost

Actual contributions to the Plan for the last three years were as follows:

Year Ended June 30,	Annual OPEB Costs	Contributions	% of Cost Contributed
2017	\$ 81,740	\$ 81,740	100%
2016	\$ 53,333	\$ 53,333	100%
2015	\$106,868	\$106,868	100%

On-behalf of contribution for PERS OPEB were \$0, \$28,702, and \$0 for 2017, 2016, and 2015, respectively. These amounts are not reflected in the OPEB costs in the table above.

Defined Contribution OPEB

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 from the PERS 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 plan. Employer contribution rates were as follows for the year ended June 30, 2017:

Retiree medical plan	1.18%
Occupational death and disability benefits	<u>0.17%</u>
Total contribution rate	<u>1.35%</u>

In addition, PERS defined contribution members also participate in the Health Reimbursement Arrangement. State statute 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, 2014, for actual remittance, this amount is calculated as a flat rate for each full-time or part-time employee per pay period and approximates \$2,049 per year for each full-time employee, and \$1.31 per hour for part-time employees.

Annual Postemployment Healthcare Cost

In 2017, the City contributed \$59,554 in DC OPEB costs.

Note 4. New Accounting Pronouncements

The Government Accounting Standards Board has issued several new accounting standards with upcoming implementation dates. Management has not fully evaluated the potential effects of these statements, but believes that GASB Statement 75 will result in the biggest reporting change. However, actual impacts have not yet been determined.

GASB 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions - Effective for year-end June 30, 2018, with earlier application encouraged - This statement contains accounting and financial reporting guidelines for OPEB related activities at the participating employer level and generally bring the OPEB reporting rules into alignment with the new GASB 68 pension rules.

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 4. - continued

GASB 81 - Irrevocable Split-Interest Agreements - Effective for year-end June 30, 2018, with earlier application encourages - This statement establishes recording and recognition criteria for governments who receive resources under an irrevocable split-interest agreement.

GASB 83 - Certain Asset Retirement Obligations - Effective for year-end June 30, 2019, with earlier application encouraged - The 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 85 - Omnibus - Effective for year-end June 30, 2018, with earlier application encouraged - This statement addresses practice issues that have been identified during implementation and application of certain GASB statements. Issues covered including blending of component units, goodwill, fair value measurement and application, postemployment benefits.

GASB 86 - Certain Debt Extinguishment Issues - Effective for year-end June 30, 2018, with earlier application encouraged - This statement addresses accounting and financial reporting for in-substance defeasance of debt when only existing resources are used, as well as accounting and financial reporting for prepaid insurance on extinguished debt.

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.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CRAIG, ALASKA

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Real and personal	\$ 597,000	\$ 616,000	\$ 619,765	\$ 3,765
Sales and bed	1,502,000	1,516,100	1,577,131	61,031
Liquor	120,000	115,000	114,397	(603)
State sources	355,661	256,761	316,703	59,942
Federal sources	273,000	302,000	304,129	2,129
Charges for services	441,584	484,500	543,318	58,818
Fines, forfeitures and penalties	10,000	7,500	9,329	1,829
Investment income	1,000	3,000	4,284	1,284
Uses of property	53,000	64,000	71,074	7,074
Licenses and permits	69,100	74,100	79,770	5,670
Other	5,000	5,000	11,989	6,989
Total revenues	3,427,345	3,443,961	3,651,889	207,928
EXPENDITURES				
Current:				
Administration	637,376	729,789	689,717	40,072
Council	147,621	148,869	132,230	16,639
Planning	91,296	94,216	87,253	6,963
Parks and facilities	276,462	298,939	281,177	17,762
Public works	289,110	334,410	320,710	13,700
Police	930,456	937,787	916,142	21,645
Emergency medical services	170,264	176,444	176,754	(310)
Fire	15,606	18,106	14,824	3,282
Library	129,438	134,988	107,212	27,776
Recreation	98,849	100,184	97,642	2,542
Aquatic facilities	407,856	403,476	302,703	100,773
Hatchery	45,000	45,000	100,100	(55,100)
Debt service	136,488	136,488	136,488	-
Capital outlay	-	38,200	37,810	390
Total expenditures	3,375,822	3,596,896	3,400,762	196,134
Excess (deficit) of revenues over (under) expenditures	51,523	(152,935)	251,127	404,062
OTHER FINANCING SOURCES (USES)				
Transfers in	207,605	251,860	242,212	(9,648)
Transfers out	(259,128)	(98,925)	(182,657)	(83,732)
Total other financing sources (uses)	(51,523)	152,935	59,555	(93,380)
Net change in fund balances	-	-	310,682	310,682
Fund balances, beginning of year	2,890,647	2,890,647	2,890,647	-
Fund balances, end of year	<u>\$ 2,890,647</u>	<u>\$ 2,890,647</u>	<u>\$ 3,201,329</u>	<u>\$ 310,682</u>

See notes to required supplementary information.

CITY OF CRAIG, ALASKA

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

PUBLIC EMPLOYEES RETIREMENT SYSTEM

June 30, 2017, 2016, and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of net pension liability	0.06438%	0.06072%	0.03545%
City's proportionate share of the net pension liability	\$ 3,598,637	\$ 2,945,168	\$ 1,653,479
State of Alaska proportionate share of net pension liability	<u>454,277</u>	<u>791,170</u>	<u>1,562,450</u>
Total net pension liability	\$ 4,052,914	\$ 3,736,338	\$ 3,215,929
City's covered-employee payroll	\$ 609,523	\$ 699,061	\$ 755,381
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	590%	421%	219%
Plan fiduciary net position as a percentage of the total pension liability	59.55%	63.96%	62.37%

CITY OF CRAIG, ALASKA
SCHEDULE OF CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT SYSTEM
June 30, 2017, 2016, and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 173,697	\$ 145,754	\$ 141,663
Contributions in relation to the contractually required contribution	<u>(173,697)</u>	<u>(145,754)</u>	<u>(141,663)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 608,534	\$ 609,523	\$ 699,061
Contributions as a percentage of covered-employee payroll	28.54%	23.91%	20.26%

CITY OF CRAIG, ALASKA

Notes to Required Supplementary Information

Note 1. Budgetary Comparison Schedules

The budgetary comparison schedules are presented on the modified accrual basis of accounting. Actual amounts have been adjusted to reflect timing differences for the recognition of sales tax revenue and items which are not budget including on-behalf of payments make by the State of Alaska and bad debt writeoffs.

Note 2. Schedule of Proportionate Share of Net Pension Liability

The amounts presented in this schedule were determined as of the measurement date of June 30 of the year prior to the fiscal year presented. For June 30, 2017, the Plan measurement date is June 30, 2016.

Note 3. Schedule of Contributions

The information in this schedule is for the years ending June 30, 2017, 2016, and 2015. It reports the employer's contribution to PERS for the current fiscal year. Amount contributed during the period are reported as deferred outflows of resources in the basic financial statements.

Both pension tables are required to present 10 years of information. The current pension reporting requirements were implemented for fiscal year end June 30, 2015 and until a full 10-year trend is compiled, the City has only presented information for the years in which it is available.

The Plan is not reporting any changes in benefit terms from the prior measurement date.

The Plan is not reporting any changes in assumptions from the prior measurement date.

ADDITIONAL SUPPLEMENTARY INFORMATION

Nonmajor Governmental Funds

Special Revenue Funds

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Facilities Development Fund - This fund accounts for amounts set aside for special projects for facilities that the City is developing. Current projects which are being developed include: a marine memorial park; improvements to the Port St. Nick Hatchery, future maintenance on the medical clinic and a program to acquire fishing quota shares.

Police Drug Forfeiture Fund - This fund accounts for amounts received from the disposal of assets pursuant to drug convictions.

Land Development Fund - This fund accounts for the utility development, appraisal, and platting for City owned lots. The lots will eventually be sold to the general public.

Equipment Fund - This fund accounts for amounts set aside in prior years in various other funds for equipment replacement. Each year, department managers submit requests for equipment upgrades to be paid for by this fund.

Salmon Derby Fund - This fund accounts for proceeds from the annual Salmon Derby and related prize payments. The net proceeds generated by the derby support the Port St. Nicolas Salmon Hatchery.

Local Emergency Planning/Homeland Security - This fund accounts for a grant from the State of Alaska, Division of Homeland Security and Emergency Management. The purpose of the grant is to fund the preparation and maintenance of a local emergency plan.

Volunteer Fire Assistance Grant - This fund accounts for a grant from the State of Alaska, Department of Natural Resources for equipment for the volunteer fire department.

USFS Road Project - This fund accounts for funds received from the Tongass National Forest to improve old logging roads in the forest to provide accessibility for sport fishing and hunting

Equipment Purchase Fund - This fund accounts for a grant from the State of Alaska, Division of Commerce, Community, and Economic Development. The funds are to replace old Public Works equipment such as a garbage truck, backhoe, and street sweeper.

State of Alaska Library Assistance Grant - This fund accounts for a grant from the State of Alaska, Department of Education for public library purposes including the purchase of materials and books

Library Grant IML - This fund accounts for a grant from the Institute of Library and Museum Services passed through Craig Community Association to provide basic library services to Native Americans.

Library Special Projects - This fund accounts for donations from patrons that wish to have a new library constructed. The project is just in the initial stage of development.

Capital Projects Fund

Aquatics Center Upgrade - The City issued bonds in the amount of \$ 1,810,000 to finance the aquatic center renovation. The fund accounted for the bond proceeds and the related renovation costs. This project was completed in FY17

Road Construction Fund - This fund accounts for a grant from the State of Alaska, Division of Commerce, Community, and Economic Development. The grant is being used to finish paving and constructing proper drainage for the streets in residential areas of Craig.

CITY OF CRAIG, ALASKA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2017

Special Revenue Funds

	<u>Facilities Development Fund</u>	<u>Police Drug Forfeiture</u>	<u>Land Development Fund</u>	<u>Equipment Fund</u>
ASSETS				
Equity in central treasury	\$ 14,947	\$ -	\$ -	\$ -
Cash and cash equivalents	67,285	5,512	818,491	342,697
Receivables, net of allowance for uncollectibles	<u>300</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 82,532</u>	<u>\$ 5,512</u>	<u>\$ 818,491</u>	<u>\$ 342,697</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Deferred revenue	-	-	-	-
Due to other funds	<u>-</u>	<u>-</u>	<u>343,457</u>	<u>-</u>
Total liabilities	-	-	343,457	-
Fund balances:				
Restricted	-	5,512	-	-
Committed	<u>82,532</u>	<u>-</u>	<u>475,034</u>	<u>342,697</u>
Total fund balances	<u>82,532</u>	<u>5,512</u>	<u>475,034</u>	<u>342,697</u>
Total liabilities and fund balances	<u>\$ 82,532</u>	<u>\$ 5,512</u>	<u>\$ 818,491</u>	<u>\$ 342,697</u>

Salmon Derby Fund	Local Emergency Planning/ Homeland Security	Library Grant IMLS	Library Special Project
\$ 9,663	\$ -	\$ 4,270	\$ -
97,295	-	-	-
<u>-</u>	<u>59,959</u>	<u>-</u>	<u>1,903</u>
<u>\$ 106,958</u>	<u>\$ 59,959</u>	<u>\$ 4,270</u>	<u>\$ 1,903</u>
\$ -	\$ 443	\$ 1,746	\$ -
-	1,710	2,524	-
<u>-</u>	<u>57,806</u>	<u>-</u>	<u>411</u>
-	59,959	4,270	411
-	-	-	-
<u>106,958</u>	<u>-</u>	<u>-</u>	<u>1,492</u>
<u>106,958</u>	<u>-</u>	<u>-</u>	<u>1,492</u>
<u>\$ 106,958</u>	<u>\$ 59,959</u>	<u>\$ 4,270</u>	<u>\$ 1,903</u>

CITY OF CRAIG, ALASKA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2017

Capital Projects Funds

	<u>Road Construction</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS		
Equity in central treasury	\$ 31,378	\$ 60,258
Cash and cash equivalents	-	1,331,280
Receivables, net of allowance for uncollectibles	<u>844,428</u>	<u>906,590</u>
Total assets	<u>\$ 875,806</u>	<u>\$ 2,298,128</u>
 LIABILITIES AND FUND BALANCES		
Accounts payable	\$ 875,806	\$ 877,995
Deferred revenue	-	4,234
Due to other funds	<u>-</u>	<u>401,674</u>
Total liabilities	875,806	1,283,903
Fund balances:		
Restricted	-	5,512
Committed	<u>-</u>	<u>1,008,713</u>
Total fund balances	<u>-</u>	<u>1,014,225</u>
Total liabilities and fund balances	<u>\$ 875,806</u>	<u>\$ 2,298,128</u>

CITY OF CRAIG, ALASKA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2017

Special Revenue Funds

	Facilities Special Revenue	Police Drug Forfeiture	Land Development Fund	Equipment Fund
REVENUES				
State sources	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	-
Investment income	46	4	372	221
Other	3,600	-	323,784	-
Total revenues	3,646	4	324,156	221
EXPENDITURES				
Current:				
Planning	-	-	38,276	-
Public works	-	-	-	-
Police	-	7,307	-	-
Library	-	-	-	-
Hatchery	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	-	7,307	38,276	-
Excess (deficit) of revenues over expenditures	3,646	(7,303)	285,880	221
Other financing sources(uses):				
Transfers in	-	953	-	84,988
Transfers out	-	-	(336,574)	-
Total other financing sources (uses)	-	953	(336,574)	84,988
Net change in fund balances	3,646	(6,350)	(50,694)	85,209
Fund balance, beginning of year	78,886	11,862	525,728	257,488
Fund balance, end of year	\$ 82,532	\$ 5,512	\$ 475,034	\$ 342,697

CITY OF CRAIG, ALASKA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2017

	Special Revenue Funds			
	Salmon Derby Fund	Local Emergency Planning/ Homeland Security	Volunteer Fire Department Equipment Grant	USFS Road Project
REVENUES				
State sources	\$ -	\$ 67,001	\$ -	\$ -
Federal sources	-	6,485	9,778	33,461
Investment income	46	-	-	-
Other	126,440	16,998	-	-
Total revenues	126,486	90,484	9,778	33,461
EXPENDITURES				
Current:				
Planning	-	-	-	-
Public works	-	7,329	-	33,461
Police	-	83,155	9,778	-
Library	-	-	-	-
Hatchery	19,528	-	-	-
Capital outlay	-	-	-	-
Total expenditures	19,528	90,484	9,778	33,461
Excess (deficit) of revenues over expenditures	106,958	-	-	-
Other financing sources(uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	106,958	-	-	-
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ 106,958	\$ -	\$ -	\$ -

<u>Equipment Purchase Grant</u>	<u>State of Alaska Library Grants</u>	<u>IMLS Library Grants</u>	<u>Library Special Projects</u>
\$ 3,766	\$ 9,203	\$ -	\$ -
-	-	11,545	-
-	-	-	-
-	-	-	18,531
<u>3,766</u>	<u>9,203</u>	<u>11,545</u>	<u>18,531</u>
-	-	-	-
3,766	-	-	-
-	9,203	11,545	18,531
-	-	-	-
-	-	-	-
<u>3,766</u>	<u>9,203</u>	<u>11,545</u>	<u>18,531</u>
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	1,492
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,492</u>

CITY OF CRAIG, ALASKA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2017

	<u>Capital Projects Funds</u>		
	<u>Aquatic Center Upgrade</u>	<u>Road Construction</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES			
State sources	\$ -	\$ 1,022,268	\$ 1,102,238
Federal sources	-	-	61,269
Investment income	-	-	689
Other	-	148,583	637,936
	<u>-</u>	<u>1,170,851</u>	<u>1,802,132</u>
EXPENDITURES			
Current:			
Planning	-	-	38,276
Public works	-	-	44,556
Police	-	-	100,240
Library	-	-	39,279
Hatchery	-	-	19,528
Capital outlay	1,249,138	1,507,425	2,756,563
	<u>1,249,138</u>	<u>1,507,425</u>	<u>2,998,442</u>
Total expenditures	<u>1,249,138</u>	<u>1,507,425</u>	<u>2,998,442</u>
Excess (deficit) of revenues over expenditures	(1,249,138)	(336,574)	(1,196,310)
Other financing sources(uses):			
Transfers in	309,485	336,574	732,000
Transfers out	-	-	(336,574)
	<u>-</u>	<u>-</u>	<u>(336,574)</u>
Total other financing sources (uses)	<u>309,485</u>	<u>336,574</u>	<u>395,426</u>
Net change in fund balances	(939,653)	-	(800,884)
Fund balance, beginning of year	<u>939,653</u>	<u>-</u>	<u>1,815,109</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,014,225</u>

Enterprise Fund Departments

An enterprise fund is a proprietary fund and is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the City is that the costs of providing services to the general public on a continuing basis be financed primarily through user charges.

The Enterprise Fund accounts for the following activities:

1. Sewer, water and garbage service to the residents of Craig,
2. Operation of a municipal boat harbor and dock financed by moorage and storage fees,
3. Operation of a marine industrial park financed by tenant property rental fees,
4. Development of a facility on the site of the former Wards Cove cannery.

CITY OF CRAIG, ALASKA

COMBINING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN DEPARTMENT NET POSITION

ENTERPRISE FUND

FOR THE YEAR ENDED JUNE 30, 2017

	<u>Sewer Department</u>	<u>Water Department</u>	<u>Garbage Department</u>	<u>Harbor Department</u>	<u>Marine Industrial Park Department</u>	<u>Cannery Property Department</u>	<u>Total</u>
Operating revenue:							
Charges for services	\$ 260,405	\$ 241,773	\$ 290,779	\$ 257,877	\$ 457,890	\$ 8,884	\$ 1,517,608
Operating expenses:							
Salaries and benefits	174,775	306,199	85,240	241,718	83,173	-	891,105
Insurance	3,877	4,194	2,252	18,412	6,095	-	34,830
Utilities	46,455	56,446	-	32,744	44,988	1,465	182,098
Contractual services	4,393	8,195	201,536	19,459	391	-	233,974
Repairs and maintenance	825	2,832	-	10,155	21,029	156	34,997
Materials and supplies	6,452	51,787	6,460	47,912	13,879	92	126,582
Travel and per diem	1,514	956	-	833	-	-	3,303
Small equipment	594	-	104	1,696	-	-	2,394
Other	2,127	9,360	2,777	19,020	1,925	-	35,209
Depreciation	242,347	299,309	25,025	63,173	238,557	15,322	883,733
Total operating expenses	<u>483,359</u>	<u>739,278</u>	<u>323,394</u>	<u>455,122</u>	<u>410,037</u>	<u>17,035</u>	<u>2,428,225</u>
Operating income (loss)	(222,954)	(497,505)	(32,615)	(197,245)	47,853	(8,151)	(910,617)
Nonoperating revenues (expenses):							
Interest expense	(3,439)	(2,319)	-	-	-	-	(5,758)
Noncapital grants	3,430	5,921	1,538	4,459	1,150	-	16,498
Total nonoperating revenue (expenses)	<u>(9)</u>	<u>3,602</u>	<u>1,538</u>	<u>4,459</u>	<u>1,150</u>	<u>-</u>	<u>10,740</u>
Income (loss) before contributions and transfers	(222,963)	(493,903)	(31,077)	(192,786)	49,003	(8,151)	(899,877)
Capital contribution	-	-	-	-	-	50,000	50,000
Change in net position	<u>\$ (222,963)</u>	<u>\$ (493,903)</u>	<u>\$ (31,077)</u>	<u>\$ (192,786)</u>	<u>\$ 49,003</u>	<u>\$ 41,849</u>	<u>\$ (849,877)</u>

CITY OF CRAIG, ALASKA
 SCHEDULE OF STATE FINANCIAL ASSISTANCE

For the Year Ended June 30, 2017

Grantor and Program Title		State Expenditures
Department of Administration		
PERS Relief	*	\$ 75,311
Community Revenue Sharing	*	<u>96,626</u>
Total Department of Administration		171,937
Department of Commerce, Community & Economic Development		
Community Streets Improvements	15-DC-042 *	600,000
Prince of Wales Emergency Communications	15-DC-043	55,000
Public Works Heavy Equipment	13-DC-398	3,766
Community Street Improvements	12-DC-341 *	422,267
Craig Cannery Site Harbor Development	13-DC-351	50,000
Shared Fish Tax		<u>4,782</u>
Total Department Community and Economic Development		1,135,815
Department of Education and Early Development		
Public Library Assistance Grant		6,900
Inter-Library Cooperation Grant		<u>2,303</u>
Total Department of Education and Early Development		9,203
Department of Military and Veterans Affairs		
Local Emergency Planning Committee	20LEPC-GY17	<u>12,001</u>
Total Department of Military and Veterans Affairs		12,001
Department of Revenue		
Fisheries Taxes	*	150,045
Liquor Licenses		<u>7,350</u>
Total Department of Revenue		<u>157,395</u>
Total State of Alaska Financial Assistance		<u><u>\$ 1,486,351</u></u>

* Denotes a major program

CITY OF CRAIG, ALASKA

Notes to the Schedule of State Financial Assistance

Year Ended June 30, 2017

Note A – General

The accompanying Schedule of State Financial Assistance present the activity of all State of Alaska awards programs of the City of Craig, Alaska ("City") for the year ended June 30, 2017. The City's reporting entity is defined in Note 1 of the City's June 30, 2017 basic financial statements.

Note B – Basis of Accounting

The accompanying Schedule of State Financial Assistance are presented using a basis of accounting which is consistent with the basic financial statements, as described in Note 1 of the City's basic financial statements.

Note C – Basis of Presentation

The information in the Schedule of State Financial Assistance is presented in accordance with the requirements of the *State Single Audit Guide and Compliance Supplement for State Single Audits*. Because the schedule presents only portions of the operations of the City, they are not intended to and do not present the financial position, changes in net assets or cash flows of the City.

Note D – Subrecipients

The City provided no State of Alaska awards to a subrecipient during the fiscal year.

**Note E – Reconciliation of Schedule of State Financial Assistance to the Basic Financial Statements
Federal**

State of Alaska financial assistance revenues reported in City of Craig Alaska's basic financial statements are included with operating grants and contributions, capital grants and contributions and grants and contributions not restricted to specific programs. The following is a reconciliation between the amounts report in the Statement of Activities from those sources and the total expenditures of Federal awards reported in Schedule of Expenditures of Federal Awards:

Operating grants and contributions	\$ 782,903
Capital grants and contributions	1,072,268
Grants and contributions not restricted to a specific purpose	<u>561,773</u>
Total from Statement of Activities	2,416,944
Federal awards	(350,978)
PERS on-behalf of grant revenue - GASB 68 adjustment	8,286
Reimbursements from federal and State agencies	(3,500)
Non-grant federal contracts	<u>(584,401)</u>
Total expenditures per Schedule of State Financial Assistance	<u>\$ 1,486,351</u>

SINGLE AUDIT SECTION

CHRISTINE E. HARRINGTON

Certified Public Accountant, LLC

329 Harbor Drive, Suite 210, P.O. Box 1328 Sitka, Alaska 99835 (907) 747-5500

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

Members of the City Council
City of Craig, Alaska

I 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 aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Craig, Alaska, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Craig, Alaska's basic financial statements and have issued my report thereon dated March 19, 2018.

Internal Control Over Financial Reporting

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

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitation, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

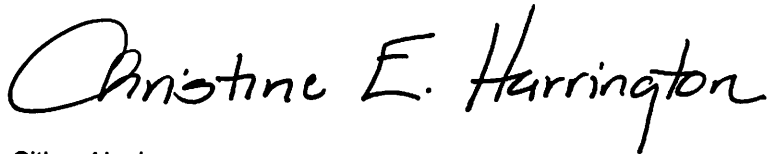
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Craig, Alaska's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Members of the City Council
City of Craig, Alaska

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

A handwritten signature in black ink that reads "Christine E. Harrington". The signature is written in a cursive style with a large initial 'C'.

Sitka, Alaska
March 19, 2018

CHRISTINE E. HARRINGTON

Certified Public Accountant, LLC

329 Harbor Drive, Suite 210, P.O. Box 1328 Sitka, Alaska 99835 (907) 747-5500

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

Members of the City Council
City of Craig, Alaska

Report on Compliance for Each Major State Program

I have audited the City of Craig, Alaska's compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of the City of Craig, Alaska's major state programs for the year ended June 30, 2017. The City of Craig, Alaska's major state programs are identified in the accompanying schedule of state financial assistance.

The City of Craig, Alaska's basic financial statements include the operations of the Craig City School District, which received \$5,256,671 in State awards which is not included in the schedule of state financial assistance for the year ended June 30, 2017. My audit, described below, did not include the operations of the Craig City School District (District) because the District issued separate financial statements for the year ending June 30, 2017 with an auditor's report date of November 11, 2017. Those financial statements included the required reports on the State awards for the Craig City School District.

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

My responsibility is to express an opinion on compliance for each of the City of Craig, Alaska's major state programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to about 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 City of Craig, Alaska's compliance with those requirements and performing such other procedures as I consider necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major state program. However, my audit does not provide a legal determination of the City of Craig, Alaska's compliance.

Opinion on Each Major State Program

In my opinion, the City of Craig, Alaska, 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, 2017.

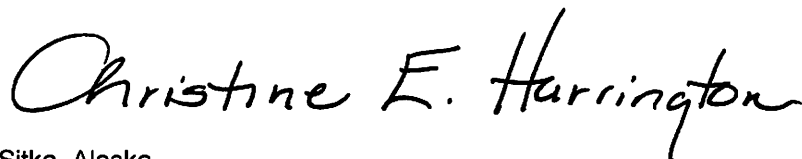
Report on Internal Control Over Compliance

Management of the City of Craig, Alaska is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the City of Craig, Alaska'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, I do not express an opinion on the effectiveness of the City of Craig, Alaska'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 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. *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.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my 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



Sitka, Alaska
March 19, 2018

City of Craig, Alaska

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

Section I - Summary of audit results:

Financial Statements:

Type of report issued on financial statements	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified	No (none reported)
Noncompliance material to the financial statements noted	No

State Financial Assistance

Internal control over major programs:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	No (none reported)
Type of auditor's report issued on compliance for major programs	Unmodified
Dollar threshold used to distinguish a state major program	\$75,000

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

None noted

Section III - Federal Award Findings and Question Costs

None noted

Section III - State of Alaska Award Findings and Question Costs

None noted

Section IV - Disposition of Prior Year Findings and Question Costs

Federal

No prior year findings and questioned costs

State of Alaska

No prior year findings and questioned costs

Section V - Corrective Action Plan

There are no current year findings; therefore, no corrective action plan is required.