

**CITY OF CRAIG, ALASKA**  
**BASIC FINANCIAL STATEMENTS**

For the fiscal year ended

June 30, 2019

Prepared by:

Department of Finance

**CITY OF CRAIG, ALASKA**  
**BASIC FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2019  
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**CITY OF CRAIG, ALASKA**  
**BASIC FINANCIAL STATEMENTS**  
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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, 2019, 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, 2019, 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 6 -16, the budgetary comparison on page 58, and the Schedules of Net Pension Liability, Net OPEB Liability and Pension and OPEB Contributions on pages 59 - 62 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 expenditures of federal awards is presented for the purpose of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the schedule of expenditures of federal awards 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 expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2019.

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

In accordance with *Government Auditing Standards*, I have also issued my report dated March 23, 2020, 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.

*Christine E. Harrington*

Sitka, Alaska  
March 23, 2020

## CITY OF CRAIG, ALASKA

### Management's Discussion and Analysis June 30, 2019

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, 2019.

#### 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 \$61,317,439. Of this amount, \$13,645,464 (*unrestricted*) may be used to meet the government's ongoing obligations to residents and creditors.
- The government's total net position decreased by \$755,629. Governmental type activities decreased by \$130,588 and business type activities decreased by \$625,041.
- As of the close of the current fiscal year, the City of Craig's governmental funds reported combined ending fund balances of \$19,354,309 an increase of \$708,715 in comparison with the prior year. Approximately 18% of this amount (\$3,496,777) 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 \$3,496,777 or approximately 67% 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 Position* 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 18 through 20 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 elsewhere in this report.

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 21 through 24 of this report.

***Proprietary funds.*** The City of Craig uses an enterprise fund to report the same functions presented as business-type activities in the government-wide financial statements. The City of Craig uses an enterprise fund 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 25 through 29 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 30 through 56 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 66 through 71 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 \$61,317,439 at the close of the most recent fiscal year. Net position decreased by \$755,629 from 2018 to 2019.

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

### City of Craig Net Position June 30, 2019

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
<b>Assets</b>						
Current & other assets	\$ 19,730,960	\$ 18,955,344	\$ 30,702	\$ 4,225,565	\$ 19,761,662	\$ 23,180,909
Capital assets	26,246,644	27,305,860	21,342,178	17,868,213	47,588,822	68,931,000
Total assets	<b>45,977,604</b>	<b>46,261,204</b>	<b>21,372,880</b>	<b>22,093,778</b>	<b>67,350,484</b>	<b>88,723,364</b>
Deferred outflows of resources	325,655	276,801	107,636	77,315	433,291	<b>354,116</b>
<b>Total Assets and Deferred Outflows</b>	<b>46,303,259</b>	<b>46,538,005</b>	<b>21,480,516</b>	<b>22,171,093</b>	<b>67,783,775</b>	<b>89,077,480</b>
<b>Liabilities</b>						
Long-term liabilities	\$ 4,395,081	\$ 1,734,296	\$ 1,165,422	\$ 386,296	5,560,503	\$ 2,120,592
Other liabilities	376,651	4,962,596	407,492	1,046,792	784,143	6,009,388
Total liabilities	<b>4,771,732</b>	<b>6,696,892</b>	<b>1,572,914</b>	<b>1,433,088</b>	<b>6,344,646</b>	<b>8,129,980</b>
Deferred Inflows	220,741	341,219	62,260	106,311	283,001	447,530
<b>Total Liabilities and Deferred Inflows</b>	<b>4,992,473</b>	<b>7,038,111</b>	<b>1,635,174</b>	<b>1,539,399</b>	<b>6,627,647</b>	<b>8,577,510</b>
<b>Net Position</b>						
Net Invested in capital assets,	24,513,348	25,496,292	21,342,178	21,823,110	45,855,526	47,319,402
Restricted	1,816,449	5,516			1,816,449	5,516
Unrestricted	14,980,989	13,998,086	(1,335,525)	(1,191,416)	13,645,464	12,806,670
<b>Total Net Position</b>	<b>\$ 41,310,786</b>	<b>\$ 39,499,894</b>	<b>\$ 20,006,653</b>	<b>\$ 20,631,694</b>	<b>\$ 61,317,439</b>	<b>\$ 60,131,588</b>

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 (4 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 (\$13,645,464) 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 can be found on page 71 of this report, provides more detail for individual business-type activities.

### **Governmental Activities.**

During fiscal year 2019, the City of Craig's net position decreased by \$130,588 for governmental activities. Highlights of governmental activities net position changes are as follows:

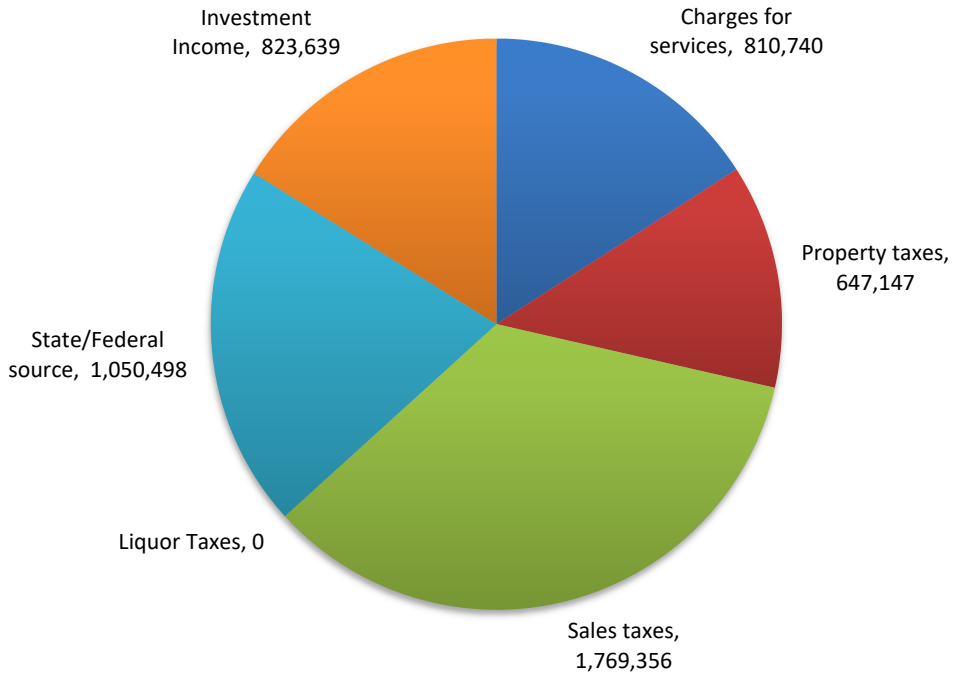
- Revenues for the City's governmental activities increased 5.3% due to sales tax and charges for services while federal and state revenue decreased.
- The sales tax revenue increased by 13%.
- The restricted Endowment fund recorded \$752,367 increase in revenue as the equity investments had a positive trend in the markets.
- The governmental expenditures increased by 10% (\$353,274)
- The capital outlay for the governmental funds was the park equipment. The reduction in the capital assets is due to depreciation.

**City of Craig**  
**Changes in Net Position**  
**For the year ended June 30, 2019**

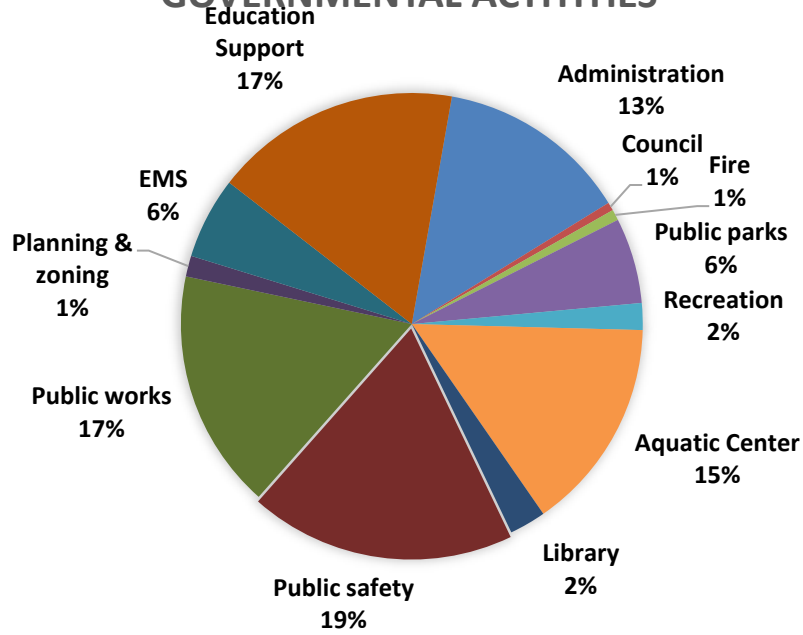
	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
<b>Program Revenues</b>						
Charges for services	810,740	908,972	\$ 1,710,090	\$ 1,612,408	\$ 2,520,830	2,521,380
Property taxes	647,147	631,966			647,147	631,966
Sales taxes	1,769,356	1,546,809			1,769,356	1,546,809
Liquor Taxes		113,732			-	113,732
State/Federal source	1,050,498	1,056,515	8,013	17,911	1,058,511	1,074,426
Investment Income	823,639	754,434	9	25	823,648	754,459
Other		-			-	-
<b>Total Revenue</b>	<b>5,101,380</b>	<b>5,012,428</b>	<b>1,718,112</b>	<b>1,630,344</b>	<b>6,819,492</b>	<b>6,642,772</b>
<b>Expenses</b>						
Administration	703,382	715,661			703,382	715,661
Council	29,682	81,272			29,682	81,272
Fire	40,009	34,285			40,009	34,285
Public parks	313,213	288,494			313,213	288,494
Recreation	98,509	93,895			98,509	93,895
Aquatic Center	781,405	777,423			781,405	777,423
Library	133,245	138,640			133,245	138,640
Public safety	974,687	952,983			974,687	952,983
Public works	877,414	820,817			877,414	820,817
Planning & zoning	76,421	69,195			76,421	69,195
EMS	299,669	305,137			299,669	305,137
Education Support	904,332	905,046			904,332	905,046
Sewer			455,176	445,846	455,176	445,846
Water			647,319	652,084	647,319	652,084
Garbage			308,579	303,432	308,579	303,432
JT Brown Industrial Park/Icehouse			445,195	453,474	445,195	453,474
Harbor			465,606	402,466	465,606	402,466
Cannery			21,278	18,021	21,278	18,021
<b>Total Expenses</b>	<b>5,231,968</b>	<b>5,182,848</b>	<b>2,343,153</b>	<b>2,275,323</b>	<b>7,575,121</b>	<b>7,458,171</b>
<b>Increase in net position before transfers</b>	<b>(130,588)</b>	<b>(170,420)</b>	<b>(625,041)</b>	<b>(644,979)</b>	<b>(755,629)</b>	<b>(815,399)</b>
<b>Transfers</b>		<b>(130,226)</b>		<b>130,226</b>	<b>-</b>	<b>-</b>
<b>Increase (decrease) in net position</b>	<b>(130,588)</b>	<b>(300,646)</b>	<b>(625,041)</b>	<b>(514,753)</b>	<b>(755,629)</b>	<b>(815,399)</b>
<b>Net position, July 1, 2018</b>	<b>41,441,374</b>	<b>41,742,020</b>	<b>20,631,694</b>	<b>21,146,447</b>	<b>62,073,068</b>	<b>62,888,467</b>
<b>Net position, June 30, 2019</b>	<b>\$ 41,310,786</b>	<b>\$ 41,441,374</b>	<b>\$ 20,006,653</b>	<b>\$ 20,631,694</b>	<b>\$ 61,317,439</b>	<b>\$ 62,073,068</b>

## Expenses and Program Revenues - Governmental Activities

### Revenue by Source - Governmental Activities



### EXPENDITURES BY DEPARTMENT - GOVERNMENTAL ACTIVITIES

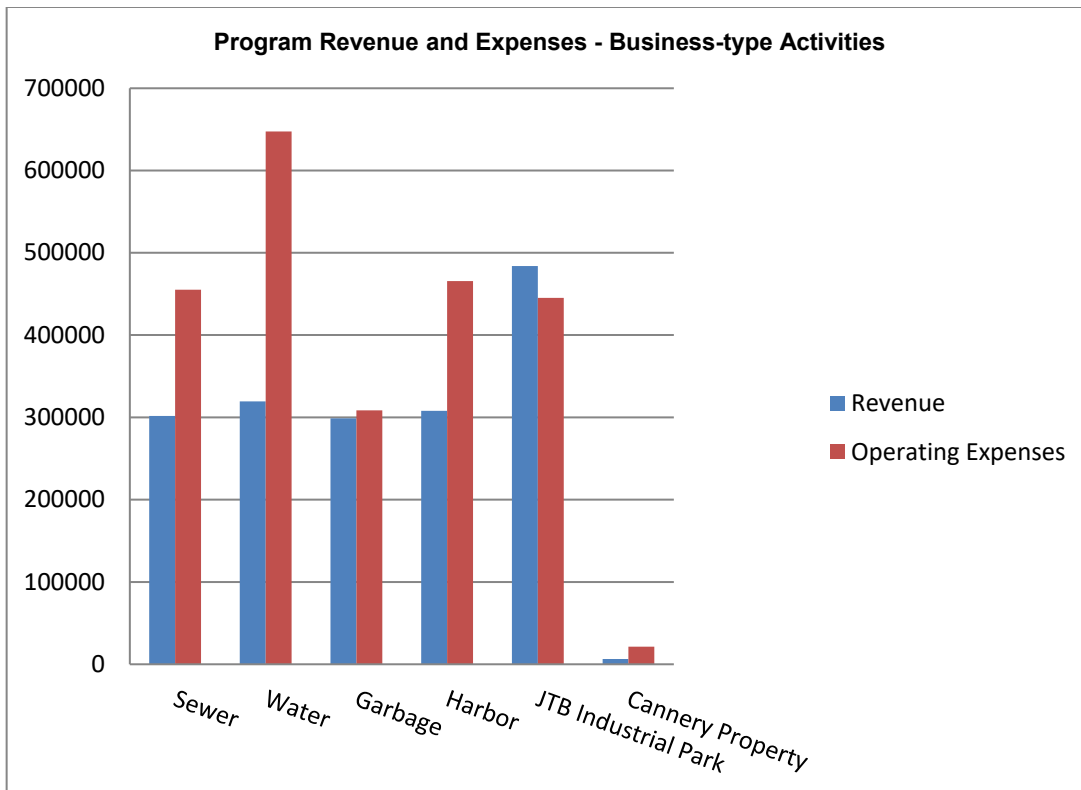


### Business-type activities

Business-type activities decreased the City of Craig net position by \$625,041. Key elements of this decrease are as follows.

- Revenue increased by 6%
- Expenses for business-type activities increased in 2019 due to additional harbor repairs.
- 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. The City Council authorized any surplus funds to be put aside in a reserve fund for future 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	\$ 647,147
Sales Tax	1,769,356
General services	756,934

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 2019. The governmental fund expenditures were increased \$239,277 due to health insurance premiums and fleet maintenance. The enterprise fund expenses were increased due to increased harbor repairs. Revenue for the enterprise fund increased due to wastewater fees and harbor services.



## Capital Asset and Debt Administration

### City of Craig Net Capital Assets

As of June 30, 2019

	Governmental Funds		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 90,864	\$ 90,864	\$ 3,954,898	\$ 3,954,898	\$ 4,045,762	\$ 4,045,762
Buildings	31,206,787	31,206,787	7,701,393	7,701,393	38,908,180	38,908,180
Equipment	2,441,233	2,237,454	1,138,464	1,138,464	3,579,697	3,375,918
Infrastructure	7,143,562	7,143,562			7,143,562	7,143,562
Harbors			4,008,333	4,008,333	4,008,333	4,008,333
Water/Sewer Sys			18,850,046	18,841,146	18,850,046	18,841,146
Sewer plant			4,246,636	4,246,636	4,246,636	4,246,636
Construction in Progress	220,650	220,650	400,000	400,000	620,650	620,650
<b>Total Assets</b>	<b>41,103,096</b>	<b>40,899,317</b>	<b>40,299,770</b>	<b>40,290,870</b>	<b>81,402,866</b>	<b>81,190,187</b>
<i>Accumulated depreciation</i>	(14,856,448)	(12,336,211)	(18,957,592)	(17,269,771)	(33,814,040)	(29,605,982)
<b>Net Capital Assets</b>	<b>\$ 26,246,648</b>	<b>\$ 28,563,106</b>	<b>\$ 21,342,178</b>	<b>\$ 23,021,099</b>	<b>\$ 47,588,826</b>	<b>\$ 51,584,205</b>

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 39 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 \$1,570,000 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 \$59,110 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 (\$106,873, \$220,313) with Alaska Department of Water for water line improvements which is due in 2031 and 2033, respectively. Additional information on the City of Craig's long-term debt is found in note 3.E starting on page 42 of this report.

## **Economic Factors and Rates for Next Fiscal Year**

The following factors affect the finances of the City of Craig and have been addressed in adopting the FY2020 governmental budget:

- The major fish processing plant only processed fish the summer of 2019 for a short time, which will affect the business fish tax.
- Online sales will be taxed, but estimates are unavailable.
- The health insurance has increased 14%.
- Infrastructure will need additional repairs such as the pool, water plant and parks

## **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, 2019

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	Craig City School District
<b>ASSETS</b>				
Cash and investments	\$ 3,223,497	\$ 12,970	\$ 3,236,467	\$ 4,227,351
Receivables ( net of allowance for uncollectibles)	439,363	179,043	618,406	521,712
Internal balances	161,311	(161,311)	-	-
Prepaid items	4,277	-	4,277	-
Inventories	-	-	-	35,264
Restricted assets:				
Temporarily restricted:				
Cash and investments	15,843,937	-	15,843,937	-
Federal and State of Alaska receivables	28,930	-	28,930	-
Interest receivable	29,645	-	29,645	-
Capital assets not being depreciated	311,514	4,354,898	4,666,412	-
Other capital assets, net of accumulated depreciation	25,935,130	16,987,280	42,922,410	296,649
<b>Total assets</b>	<b>45,977,604</b>	<b>21,372,880</b>	<b>67,350,484</b>	<b>5,080,976</b>
<b>DEFERRED OUTFLOWS</b>				
Deferred outflows related to pension	196,479	67,601	264,080	485,135
Deferred outflows related to OPEB	129,176	40,035	169,211	346,230
<b>Total deferred outflows</b>	<b>325,655</b>	<b>107,636</b>	<b>433,291</b>	<b>831,365</b>
<b>Total assets and deferred outflows</b>	<b>\$ 46,303,259</b>	<b>\$ 21,480,516</b>	<b>\$ 67,783,775</b>	<b>\$ 5,912,341</b>
<b>LIABILITIES</b>				
Accounts payable and other current liabilities	\$ 336,546	\$ 166,977	\$ 503,523	\$ 289,407
Liabilities payable from restricted assets	40,105	-	40,105	39,712
Noncurrent liabilities:				
Due within one year				
Bonds and notes payable, including unamortized premium	75,268	79,204	154,472	-
Due in more than one year				
Bonds and notes payable, including unamortized premium	1,659,028	307,092	1,966,120	-
Net pension obligation	2,203,205	713,612	2,916,817	4,106,063
Net OPEB obligation	457,580	144,718	602,298	715,335
<b>Total liabilities</b>	<b>4,771,732</b>	<b>1,411,603</b>	<b>6,183,335</b>	<b>5,150,517</b>
<b>DEFERRED INFLOWS</b>				
Deferred inflows related to pension	57,101	16,105	73,206	123,674
Deferred inflows related to OPEB	163,640	46,155	209,795	293,943
<b>Total deferred inflows</b>	<b>220,741</b>	<b>62,260</b>	<b>283,001</b>	<b>417,617</b>
<b>NET POSITION</b>				
Invested in capital assets, net of related debt	24,513,348	21,342,178	45,855,526	296,649
Restricted for:				
Public safety	5,521	-	5,521	-
Rural schools	1,810,928	-	1,810,928	-
Unrestricted	14,980,989	(1,335,525)	13,645,464	47,558
<b>Total net position</b>	<b>41,310,786</b>	<b>20,006,653</b>	<b>61,317,439</b>	<b>344,207</b>
<b>Total liabilities, deferred inflows and net position</b>	<b>\$ 46,303,259</b>	<b>\$ 21,480,516</b>	<b>\$ 67,783,775</b>	<b>\$ 5,912,341</b>

CITY OF CRAIG, ALASKA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2019

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government:</b>				
Government activities:				
Administration	\$ 703,382	\$ 75,152	\$ 14,911	\$ -
Council	29,682	-	1,142	-
Fire	40,009	-	-	-
Parks and Recreation	1,193,127	135,567	12,746	-
Library	133,245	10,759	15,654	-
Police	974,687	511,407	50,904	-
Public Works	877,414	-	19,032	-
Planning	76,421	14,851	3,454	-
Medical Services	299,669	63,004	27,521	-
Support	904,332	-	420,048	-
Total governmental activities	<u>5,231,968</u>	<u>810,740</u>	<u>565,412</u>	<u>-</u>
Business-type activities:				
Sewer	455,176	297,923	-	-
Water	647,319	319,020	-	-
Garbage	308,579	298,600	-	-
Harbor	465,606	304,803	-	-
Marine Industrial Park	445,195	483,321	-	-
Cannery Property	21,278	6,423	-	-
Total business type activities	<u>2,343,153</u>	<u>1,710,090</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 7,575,121</u>	<u>\$ 2,520,830</u>	<u>\$ 565,412</u>	<u>\$ -</u>
<b>Component Units:</b>				
Craig City School District	<u>\$ 7,768,986</u>	<u>\$ 193,496</u>	<u>\$ 1,311,883</u>	<u>\$ 623,415</u>
Total component units	<u>\$ 7,768,986</u>	<u>\$ 193,496</u>	<u>\$ 1,311,883</u>	<u>\$ 623,415</u>

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 - as restated

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
\$ (613,319)	\$ -	\$ (613,319)	\$ -
(28,540)	-	(28,540)	-
(40,009)	-	(40,009)	-
(1,044,814)	-	(1,044,814)	-
(106,832)	-	(106,832)	-
(412,376)	-	(412,376)	-
(858,382)	-	(858,382)	-
(58,116)	-	(58,116)	-
(209,144)	-	(209,144)	-
(484,284)	-	(484,284)	-
<u>(3,855,816)</u>	<u>-</u>	<u>(3,855,816)</u>	<u>-</u>
-	(157,253)	(157,253)	-
-	(328,299)	(328,299)	-
-	(9,979)	(9,979)	-
-	(160,803)	(160,803)	-
-	38,126	38,126	-
<u>-</u>	<u>(14,855)</u>	<u>(14,855)</u>	<u>-</u>
<u>-</u>	<u>(633,063)</u>	<u>(633,063)</u>	<u>-</u>
<u>(3,855,816)</u>	<u>(633,063)</u>	<u>(4,488,879)</u>	<u>-</u>
			<u>(5,640,192)</u>
			(5,640,192)
647,147	-	647,147	-
1,769,356	-	1,769,356	-
485,086	8,013	493,099	6,726,031
823,639	9	823,648	1,290
<u>-</u>	<u>-</u>	<u>-</u>	<u>108,242</u>
<u>3,725,228</u>	<u>8,022</u>	<u>3,733,250</u>	<u>6,835,563</u>
(130,588)	(625,041)	(755,629)	1,195,371
<u>41,441,374</u>	<u>20,631,694</u>	<u>62,073,068</u>	<u>(851,164)</u>
<u>\$ 41,310,786</u>	<u>\$ 20,006,653</u>	<u>\$ 61,317,439</u>	<u>\$ 344,207</u>

## CITY OF CRAIG, ALASKA

## BALANCE SHEET

## GOVERNMENTAL FUNDS

JUNE 30, 2019

	<u>General</u>	<u>Endowment</u>	<u>National Forest Receipts</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Equity in central treasury	\$ 3,223,497	\$ -	\$ -	\$ -	\$ 3,223,497
Receivables:					
Customer	97,392	-	-	-	97,392
Taxes	364,753	-	-	-	364,753
Less allowance for doubtful accounts	(22,782)	-	-	-	(22,782)
Due from other funds	182,130	-	-	-	182,130
Prepaid items	4,277	-	-	-	4,277
Restricted assets:					
Equity in central treasury	-	-	-	88,879	88,879
Cash and cash equivalents	-	553,450	311,407	1,161,457	2,026,314
Investments	-	10,314,715	3,414,029	-	13,728,744
State of Alaska and Federal government receivables	-	-	-	28,930	28,930
Interest receivable	-	20,161	9,484	-	29,645
<b>Total assets</b>	<b><u>\$ 3,849,267</u></b>	<b><u>\$ 10,888,326</u></b>	<b><u>\$ 3,734,920</u></b>	<b><u>\$ 1,279,266</u></b>	<b><u>\$ 19,751,779</u></b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 165,755	\$ -	\$ -	\$ -	\$ 165,755
Accrued payroll and related	90,061	-	-	-	90,061
Accrued leave	80,730	-	-	-	80,730
Deferred revenue	11,667	-	-	-	11,667
Liabilities payable from restricted assets:					
Accounts payable	-	2,585	-	13,135	15,720
Deferred revenue	-	-	-	12,718	12,718
Due to other funds	-	897	551	19,371	20,819
<b>Total liabilities</b>	<b><u>348,213</u></b>	<b><u>3,482</u></b>	<b><u>551</u></b>	<b><u>45,224</u></b>	<b><u>397,470</u></b>
Fund balances:					
Nonspendable	4,277	-	-	-	4,277
Restricted	-	-	1,810,928	5,521	1,816,449
Committed	-	10,884,844	1,923,441	1,228,521	14,036,806
Unassigned	3,496,777	-	-	-	3,496,777
<b>Total fund balances</b>	<b><u>3,501,054</u></b>	<b><u>10,884,844</u></b>	<b><u>3,734,369</u></b>	<b><u>1,234,042</u></b>	<b><u>19,354,309</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 3,849,267</u></b>	<b><u>\$ 10,888,326</u></b>	<b><u>\$ 3,734,920</u></b>	<b><u>\$ 1,279,266</u></b>	<b><u>\$ 19,751,779</u></b>

CITY OF CRAIG, ALASKA

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

YEAR ENDED JUNE 30, 2019

Total fund balances of governmental funds		\$ 19,354,309
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	31,206,787	
Equipment	2,441,233	
Infrastructure	7,143,562	
Construction in progress	<u>220,650</u>	
	41,103,096	
Accumulated depreciation	<u>(14,856,452)</u>	
Total capital assets, net		26,246,644
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	(1,570,000)	
Unamortized bond premiums	(164,296)	
Net pension and OPEB liabilities	<u>(2,660,785)</u>	
Total long-term liabilities		(4,395,081)
Certain changes in net pension liabilities and net OPEB liabilities are deferred rather than recognized immediately. These items are amortized over time.		
		<u>104,914</u>
Total net position of governmental funds		<u>\$ 41,310,786</u>



CITY OF CRAIG, ALASKA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2019

	<u>General</u>	<u>Endowment</u>	<u>National Forest Receipts</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
Taxes:					
Real and personal	\$ 647,147	\$ -	\$ -	\$ -	\$ 647,147
Sales and bed	1,769,356	-	-	-	1,769,356
State sources	286,963	-	-	23,590	310,553
Federal sources	317,274	-	420,048	27,120	764,442
Charges for services	555,719	-	-	-	555,719
Fines, forfeitures and penalties	12,342	-	-	-	12,342
Investment income	8,470	752,367	62,050	752	823,639
Uses of property	65,607	-	-	-	65,607
Licenses and permits	109,317	-	-	-	109,317
Other	13,949	-	-	53,806	67,755
	<u>3,786,144</u>	<u>752,367</u>	<u>482,098</u>	<u>105,268</u>	<u>5,125,877</u>
Total revenue	3,786,144	752,367	482,098	105,268	5,125,877
<b>EXPENDITURES</b>					
Current:					
Administration	688,275	33,544	-	-	721,819
Council	31,801	-	-	-	31,801
Planning	86,566	-	-	-	86,566
Parks and facilities	313,213	-	-	-	313,213
Public works	403,767	-	-	-	403,767
Police	976,546	-	-	45,563	1,022,109
Emergency medical services	207,502	-	-	-	207,502
Fire	24,915	-	-	-	24,915
Library	110,696	-	-	24,063	134,759
Recreation	98,509	-	-	-	98,509
Aquatic facilities	391,765	-	-	-	391,765
Hatchery	56,374	-	-	20,021	76,395
Support	-	-	553,109	-	553,109
Debt service	136,888	-	-	-	136,888
Capital outlay	214,045	-	-	-	214,045
	<u>3,740,862</u>	<u>33,544</u>	<u>553,109</u>	<u>89,647</u>	<u>4,417,162</u>
Total expenditures	3,740,862	33,544	553,109	89,647	4,417,162
Excess (deficit) of revenues over (under) expenditures	45,282	718,823	(71,011)	15,621	708,715
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	525,000	-	252,509	-	777,509
Transfers out	(252,509)	(383,000)	-	(142,000)	(777,509)
	<u>272,491</u>	<u>(383,000)</u>	<u>252,509</u>	<u>(142,000)</u>	<u>-</u>
Total other financing sources (uses)	272,491	(383,000)	252,509	(142,000)	-
Net change in fund balances	317,773	335,823	181,498	(126,379)	708,715
Fund balances, beginning of year - as restated	3,183,281	10,549,021	3,552,871	1,360,421	18,645,594
Fund balances, end of year	<u>\$ 3,501,054</u>	<u>\$ 10,884,844</u>	<u>\$ 3,734,369</u>	<u>\$ 1,234,042</u>	<u>\$ 19,354,309</u>

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, 2019

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

Net change in fund balances -- total governmental funds	\$	708,715
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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	\$ 214,045		
Less current year depreciation	<u>(1,273,257)</u>		(1,059,212)

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	65,000		
Amortization of bond premium	<u>10,268</u>		75,268

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

144,641

Change in net position of governmental activities	\$	<u>(130,588)</u>
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CITY OF CRAIG, ALASKA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2019

	<u>Enterprise Fund</u>	<u>Total Proprietary Funds</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 12,970	\$ 12,970
Receivables:		
Accounts	<u>179,043</u>	<u>179,043</u>
Total current assets	<u>192,013</u>	<u>192,013</u>
Noncurrent assets:		
Capital assets:		
Property, plant and equipment	39,899,770	39,899,770
Less accumulated depreciation	<u>(18,957,592)</u>	<u>(18,957,592)</u>
	20,942,178	20,942,178
Construction work-in-progress	<u>400,000</u>	<u>400,000</u>
Total noncurrent assets	<u>21,342,178</u>	<u>21,342,178</u>
Total assets	<u>21,534,191</u>	<u>21,534,191</u>
Deferred outflows of resources		
Pension related	67,601	67,601
OPEB related	<u>40,035</u>	<u>40,035</u>
Total deferred outflows	<u>107,636</u>	<u>107,636</u>
Total assets and deferred outflows	<u>\$ 21,641,827</u>	<u>\$ 21,641,827</u>

CITY OF CRAIG, ALASKA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2019  
(continued)

	<u>Enterprise Fund</u>	<u>Total Proprietary Funds</u>
<b>LIABILITIES</b>		
Current liabilities:		
Due to other funds	\$ 161,311	\$ 161,311
Accounts payable and accrued liabilities	166,977	166,977
Current portion of:		
Long-term notes payable	79,204	79,204
Total current liabilities	407,492	407,492
Noncurrent liabilities:		
Notes payable, net of current portion	307,092	307,092
Net pension obligation	713,612	713,612
Net OPEB obligation	144,718	144,718
Total noncurrent liabilities	1,165,422	1,165,422
Total liabilities	1,572,914	1,572,914
Deferred inflows of resources		
Pension related	16,105	16,105
OPEB related	46,155	46,155
Total deferred inflows	62,260	62,260
<b>NET POSITION</b>		
Investment in capital assets, net of related debt	21,342,178	21,342,178
Unrestricted	(1,335,525)	(1,335,525)
Total net position	20,006,653	20,006,653
Total liabilities, deferred inflows and net position	\$ 21,641,827	\$ 21,641,827

CITY OF CRAIG, ALASKA

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2019

	Enterprise Fund	Total Proprietary Funds
	<u>                    </u>	<u>                    </u>
Operating revenue:		
Charges for services	\$ 1,710,090	\$ 1,710,090
Operating expenses:		
Salaries and benefits	699,646	699,646
Insurance	52,559	52,559
Utilities	194,692	194,692
Contractual services	216,643	216,643
Repairs and maintenance	47,465	47,465
Materials and supplies	170,915	170,915
Travel and per diem	7,530	7,530
Small equipment	40,569	40,569
Other	17,411	17,411
Depreciation	889,831	889,831
	<u>2,337,261</u>	<u>2,337,261</u>
Total operating expenses		
Operating loss	(627,171)	(627,171)
Nonoperating revenues		
(expenses):		
Investment income	9	9
Interest expense	(5,892)	(5,892)
Noncapital grants	8,013	8,013
	<u>2,130</u>	<u>2,130</u>
Total nonoperating revenue (expenses)		
Income before contributions and transfers	(625,041)	(625,041)
Transfers in	<u>-</u>	<u>-</u>
Change in net position	(625,041)	(625,041)
Net position - beginning	<u>20,631,694</u>	<u>20,631,694</u>
Total net assets - end	<u>\$ 20,006,653</u>	<u>\$ 20,006,653</u>

CITY OF CRAIG, ALASKA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Enterprise Fund</u>	<u>Total Proprietary Funds</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 1,689,142	\$ 1,689,142
Payments to suppliers	(705,840)	(705,840)
Payments to employees	<u>(751,499)</u>	<u>(751,499)</u>
Net cash provided by operating activities	<u>231,803</u>	<u>231,803</u>
Cash flows from noncapital financing activities:		
Repayments to the General Fund	<u>(152,741)</u>	<u>(152,741)</u>
Net cash used by noncapital financing activities	<u>(152,741)</u>	<u>(152,741)</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(8,900)	(8,900)
Interest paid	(6,938)	(6,938)
Repayment of notes payable	<u>(78,225)</u>	<u>(78,225)</u>
Net cash used by capital and related financing activities	<u>(94,063)</u>	<u>(94,063)</u>
Cash flows from investing activities:		
Interest received	<u>9</u>	<u>9</u>
Net cash provided by investing activities	<u>9</u>	<u>9</u>
Net increase in cash and cash equivalents	(14,992)	(14,992)
Cash and cash equivalents, beginning of the year	<u>27,962</u>	<u>27,962</u>
Cash and cash equivalents, end of year	<u>\$ 12,970</u>	<u>\$ 12,970</u>

CITY OF CRAIG, ALASKA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2019  
(continued)

	Enterprise Fund	Total Proprietary Funds
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (627,171)	\$ (627,171)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	889,831	889,831
Noncapital grants	8,013	8,013
Changes in assets and liabilities		
Increase in accounts receivable	(22,285)	(22,285)
Decrease in inventory	390	390
Increase in accounts payable	41,554	41,554
Increase in accrued salaries	14,955	14,955
Decrease in accrued leave	(10,238)	(10,238)
Increase in deferred revenue	1,337	1,337
Decrease in OPEB liability	(37,828)	(37,828)
Decrease in pension liability	(26,755)	(26,755)
Total adjustments	858,974	858,974
Net cash provided by operating activities	\$ 231,803	\$ 231,803

**CITY OF CRAIG, ALASKA**

NOTES TO FINANCIAL STATEMENTS  
June 30, 2019

**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 within 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 uncollectible accounts. 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 \$10,000 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 2019.

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

<u>Assets</u>	<u>Years</u>
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 non-vesting 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 and Other Postemployment Benefits**

For purposes of measuring the net position and net OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pension and OPEB 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**

A deferred outflow of resources represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. A deferred inflow of resources represents an acquisition of net position or fund balance that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred outflow and inflow of resources consist of certain pension and OPEB related accounts.

##### **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. 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 23 of the basic financial statements differ from the amounts reported on page 58 in the column headed "actual amounts 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 the recognition of uncollectible receivables which are not budgeted.

**CITY OF CRAIG, ALASKA**

NOTES TO FINANCIAL STATEMENTS

**NOTE 3. DETAILED NOTES ON ALL FUNDS**

**A. DEPOSITS AND INVESTMENTS**

As of June 30, 2019, the City had the following deposits and investments:

Cash on hand	\$	2,123
Carrying amount of deposits		5,301,573
Carrying amount of investments		<u>13,776,708</u>
	\$	<u><u>19,080,404</u></u>

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

Cash and investments	\$	3,236,467
Cash and investments – Restricted		<u>15,843,937</u>
	\$	<u><u>19,080,404</u></u>

**Custodial Credit Risk - Investments**

For an investment, this is the risk that in the event of a 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 of the City's investments subject to custodial credit risk are held by the City's agent in its name.

The credit quality ratings of the City's investments subject to custodial credit risk as of June 30, 2019, as described by the nationally recognized statistical rating organization Standard & Poor's are shown below:

	<u>Credit Rating</u>	<u>Investment Fair Value</u>	<u>% of Total</u>
U.S. Treasury	AA+	\$ 4,984,509	36.18
U.S. Agency Securities	AA+	249,775	1.81
Corporate securities	A+ to A-	716,715	5.20
Money market funds	not rated	1,000,044	7.26
Exchange Traded Funds	not rated	<u>6,825,665</u>	<u>49.55</u>
		<u><u>\$ 13,776,708</u></u>	<u><u>100.00</u></u>

*Concentration of Credit Risk.* The City's investment policy states that one of the general objectives 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, 2019, \$500,000 was covered by the Federal Deposit Insurance Corporation (FDIC) and \$4,862,601 was subject to collateral agreements.

**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.

**CITY OF CRAIG, ALASKA**

**NOTES TO FINANCIAL STATEMENTS**

**Note 3. - continued**

As of June 30, 2019, investments subject to interest rate risk had the following maturities:

Investment Type	<u>Less than 1 year</u>	<u>1 – 2 Years</u>	<u>2 – 5 Years</u>	<u>Greater than 5 Years</u>
Corporate securities	\$ 99,965	\$ 101,831	\$ 359,484	\$ 155,435
U.S. Treasury securities	2,465,991	249,914	1,246,612	1,021,992
U.S. Agency securities	<u>-</u>	<u>-</u>	<u>99,759</u>	<u>150,016</u>
Total Investments Subject to Interest Rate Risk	<u>\$ 2,565,956</u>	<u>\$ 351,745</u>	<u>\$ 1,705,855</u>	<u>\$ 1,327,443</u>

**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>Enterprise</u>	<u>Nonmajor and other funds</u>	<u>Total</u>
Taxes	\$ 364,753	\$ -	\$ -	\$ 364,753
Federal	-	-	6,937	6,937
State of Alaska	-	-	21,393	21,393
Customer	97,392	221,308	600	319,300
Interest	<u>-</u>	<u>-</u>	<u>29,645</u>	<u>29,645</u>
Total receivables	462,145	221,308	58,575	742,028
Less allowance for doubtful accounts	<u>(22,782)</u>	<u>(42,265)</u>	<u>-</u>	<u>(65,047)</u>
Total net receivables	<u>\$ 439,363</u>	<u>\$ 179,043</u>	<u>\$ 58,575</u>	<u>\$ 676,981</u>



**CITY OF CRAIG, ALASKA**

NOTES TO FINANCIAL STATEMENTS

**Note 3. - continued**

**C. CAPITAL ASSETS**

Capital asset activity for year ended June 30, 2019 as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decrease</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
Capital Assets, not being depreciated:				
Land	\$ 90,864	\$ -	\$ -	\$ 90,864
Construction-in-progress	220,650	-	-	220,650
<b>Total capital assets not being depreciated</b>	<b>311,514</b>	<b>-</b>	<b>-</b>	<b>311,514</b>
Capital assets, being depreciated				
Buildings	31,206,787	-	-	31,206,787
Infrastructure	7,143,562	-	-	7,143,562
Equipment	2,237,454	214,045	(10,266)	2,441,233
<b>Total capital assets, being depreciated</b>	<b>40,587,803</b>	<b>214,045</b>	<b>(10,266)</b>	<b>40,791,582</b>
Less accumulated depreciation for				
Buildings	(10,975,737)	(807,422)	-	(11,783,159)
Infrastructure	(1,276,106)	(357,176)	-	(1,633,286)
Equipment	(1,341,614)	(108,659)	10,266	(1,440,007)
<b>Total accumulated depreciation</b>	<b>(13,593,457)</b>	<b>(1,273,257)</b>	<b>10,266</b>	<b>(14,856,452)</b>
<b>Total capital assets, being depreciated, net</b>	<b>26,994,346</b>	<b>(1,059,212)</b>	<b>-</b>	<b>25,935,130</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 27,305,860</b>	<b>\$ (1,059,212)</b>	<b>\$ -</b>	<b>\$ 26,246,644</b>

**CITY OF CRAIG, ALASKA**

NOTES TO FINANCIAL STATEMENTS

**Note 3. - continued**

**C. CAPITAL ASSETS - continued**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Capital assets, not being depreciated:				
Land	\$ 3,954,898	\$ -	\$ -	\$ 3,954,898
Construction-in-progress	400,000	-	-	400,000
<b>Total capital assets not being depreciated</b>	<b>4,354,898</b>	<b>-</b>	<b>-</b>	<b>4,354,898</b>
Capital assets, being depreciated				
Buildings	7,701,393	-	-	7,701,393
Equipment	1,138,464	-	-	1,138,464
Harbors	4,008,333	-	-	4,008,333
Water and sewer system	18,841,146	8,900	-	18,850,046
Sewer plant	4,246,636	-	-	4,246,636
<b>Total capital assets, being depreciated</b>	<b>35,935,972</b>	<b>8,900</b>	<b>-</b>	<b>35,944,872</b>
Less accumulated depreciation for				
Buildings	(2,024,275)	(239,232)	-	(2,263,507)
Equipment	(818,812)	(50,824)	-	(869,636)
Harbors	(3,061,868)	(62,779)	-	(3,124,647)
Water and sewer system	(9,300,225)	(395,442)	-	(9,695,667)
Sewer plant	(2,862,580)	(141,554)	-	(3,004,135)
<b>Total accumulated depreciation</b>	<b>(18,067,760)</b>	<b>(889,831)</b>	<b>-</b>	<b>(18,957,592)</b>
<b>Total capital assets, being depreciated, net</b>	<b>17,868,212</b>	<b>(880,931)</b>	<b>-</b>	<b>16,987,280</b>
<b>Business-type activities capital assets, net</b>	<b>\$ 22,223,110</b>	<b>\$ (880,931)</b>	<b>\$ -</b>	<b>\$ 21,342,178</b>

**CITY OF CRAIG, ALASKA**

NOTES TO FINANCIAL STATEMENTS

**Note 3. - continued**

**C. CAPITAL ASSETS - continued**

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

Governmental activities:

Administration	\$ 17,099
Fire	15,094
Library	3,426
Police	14,864
Public works	495,797
Parks and recreation	281,050
Planning	515
School support	351,223
Medical services	<u>94,189</u>
Total depreciation expense - governmental activities	<u>\$ 1,273,257</u>

Business - type activities:

Sewer	\$ 243,710
Water	300,063
Garbage	25,025
Harbor	64,998
Marine industrial park	240,713
Cannery property	<u>15,322</u>
Total depreciation expense -business type activities	<u>\$ 889,831</u>

**Construction commitments**

The City has no active construction projects as of June 30, 2019.

**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	\$ 19,371
General Fund	Enterprise Fund	161,311
General Fund	National Forest Receipts	551
General Fund	Endowment	<u>897</u>
		<u>\$ 182,130</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. In addition, some of the funds have not reimbursed the General Fund for expenditures made for the Land Development and Equipment Funds.

**CITY OF CRAIG, ALASKA**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 3. - continued**

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

Interfund Transfers:

	Transfer-in		
Transfer out	General Fund	National Forest Receipts Fund	Total
General Fund	\$ -	\$ 252,509	\$ 252,509
Nonmajor governmental funds	142,000	-	142,000
Endowment Fund	383,000	-	383,000
	<b>\$ 525,000</b>	<b>\$ 252,509</b>	<b>\$ 777,509</b>

**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 \$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:

Purpose	Interest Rates	Amount
Governmental activities: Renovation of Aquatic Center		
\$1,810,000 2015 Series One, final payment due October 1, 2034	3.25 to 5.0%	<u>\$ 1,570,000</u>

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

**CITY OF CRAIG, ALASKA**

NOTES TO FINANCIAL STATEMENTS

**Note 3. - continued**

Year Ending June 30,	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 65,000	\$ 69,287
2021	70,000	66,237
2022	70,000	62,737
2023	75,000	59,112
2024	80,000	55,237
2025-2029	475,000	209,315
2030-2034	600,000	84,490
2035	<u>135,000</u>	<u>2,194</u>
Total	<u>\$ 1,570,000</u>	<u>\$ 608,609</u>

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%	\$ 32,616
\$357,696 note payable for wastewater treatment improvements; \$26,892 due annually on August 10 of each year through 2019	1.5%	26,494
\$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%	106,873
\$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>220,313</u>
		<u>386,296</u>
Total debt - governmental and business-type		<u>\$ 1,956,296</u>

Annual debt service requirements to maturity for all business type notes payable is as follows:

**CITY OF CRAIG, ALASKA**

NOTES TO FINANCIAL STATEMENTS

**Note 3. - continued**

Year Ending June 30,

	<u>Principal</u>	<u>Interest</u>
2020	79,204	5,794
2021	20,201	4,606
2022	20,309	4,303
2023	20,420	3,999
2024	20,532	3,692
2025-2029	104,397	13,808
2030-2034	95,315	5,860
2035-2036	<u>25,918</u>	<u>583</u>
 Total	 <u>\$ 386,296</u>	 <u>\$ 42,645</u>

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>
Government activities:					
Bonds payable:					
GO Bonds	\$ 1,635,000	\$ -	\$ (65,000)	\$ 1,570,000	\$ 65,000
Issuance premiums	<u>174,564</u>	<u>-</u>	<u>(10,268)</u>	<u>164,296</u>	<u>10,268</u>
Total bonds payable	<u>1,809,564</u>	<u>-</u>	<u>(75,268)</u>	<u>1,734,296</u>	<u>75,268</u>
Net OPEB liability	364,183	93,397	-	457,580	-
Net pension liability	<u>2,271,911</u>	<u>-</u>	<u>(68,706)</u>	<u>2,203,205</u>	<u>-</u>
Government activities Long-term liabilities	<u>\$ 4,445,658</u>	<u>\$ 93,397</u>	<u>\$ (143,974)</u>	<u>\$ 4,395,081</u>	<u>\$ 75,268</u>
Business-type activities					
Notes payable					
State of Alaska	\$ 464,521	\$ -	\$ (78,225)	\$ 386,296	\$ 79,204
Total notes payable	464,521	-	(78,225)	386,296	79,204
Net OPEB liability	117,717	27,001	-	144,718	-
Net pension liability	<u>730,824</u>	<u>-</u>	<u>(17,212)</u>	<u>713,612</u>	<u>-</u>
Business-type activities Long-term liabilities	<u>\$ 1,313,062</u>	<u>\$ 27,001</u>	<u>\$ (95,437)</u>	<u>\$ 1,244,626</u>	<u>\$ 79,204</u>

Interest expense on all long-term debt was \$78,854 for the year ended June 30, 2019. The entire amount was charged to expense in the Statement of Activities.

**CITY OF CRAIG, ALASKA**

NOTES TO FINANCIAL STATEMENTS

**Note 3. - continued**

**F. FUND BALANCE**

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

	General Fund	Endow- ment Fund	National Forest Receipts Fund	Nonmajor Govern- mental Funds	Total
Nonspendable					
Prepaid items	\$ 4,277	\$ -	\$ -	\$ -	\$ 4,277
Restricted					
Police	-	-	-	5,521	5,521
Schools	-	-	1,810,928	-	1,810,928
Committed					
Library services	-	-	-	1,493	1,493
Hatchery support	-	-	-	111,589	111,589
Operating and capital support	-	10,884,844	-	1,115,439	12,000,283
Schools	-	-	1,923,441	-	1,923,441
Unassigned	3,496,777	-	-	-	3,496,777
<b>Total fund balances</b>	<b>\$ 3,501,054</b>	<b>\$ 10,884,844</b>	<b>\$ 3,734,369</b>	<b>\$ 1,234,042</b>	<b>19,354,309</b>

**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, 2019 because the amount of potential claims at year end was determined to be immaterial. The City made no claim payments during FY 2019.

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.

## CITY OF CRAIG, ALASKA

### NOTES TO FINANCIAL STATEMENTS

#### **NOTE 5. RETIREMENT PLANS**

##### **A. Defined Benefit (DB) Pension Plan**

###### **Plan descriptions**

The City participates in the Alaska Public Employees' Retirement System (PERS). PERS is a cost-sharing multiple employer plan which covers eligible State and local government employees, other than teachers. The plan was established and is administered by the State of Alaska to provide pension benefits. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Alaska State Legislature closed the plan to new members effective July 1, 2006.

The plan is included in a comprehensive annual financial report that includes financial statements and other required supplemental information. The report is available at the following address:

State of Alaska  
Department of Administration  
Division of Retirement and Benefits  
P.O. Box 110203  
Juneau, AK 99811-0203

or on the internet at <http://doa.alaska.drb>. Actuarial valuations reports, audited financial statements, and additional detailed plan information is also available on this website.

###### **Benefits provided**

PERS provides retirement, death and disability, and postemployment health care benefits. Participants are segregated into three tiers for PERS based on the participant's plan entry date. For all tiers within the defined benefits pension plans, full retirement benefits are generally calculated using a formula comprised of a multiplier times the average monthly salaries times the number of years of service. The multiplier is dependent upon years of services for most employees. Each tier within the Plan establishes the criteria for normal retirement age, early retirement ages, and the calculation of average monthly salary, COLA adjustments, and other postemployment retirement benefits. A complete benefit comparison chart is available at the website noted above.

###### **Special Funding Situation**

In connection with the conversion of the PERS plan in 2008 from an agent-multiple employer plan to a cost-sharing plan, the State of Alaska passed legislation which statutorily capped the employer contribution rate, established a state funded "on-behalf" contribution (subject to funding availability), and required that employer contributions be calculated against all PERS eligible wages, including those paid to participants of the PERS Tier IV defined contribution plan.

State of Alaska statute requires the state to contribute an amount equal to the difference between the statutory employer contribution rate and the rate sufficient to pay the past service liability contribution rate as adopted by the Alaska Retirement Management Board. As such, the plan is considered to be in a special funding situation as defined by GASB. The CITY has recorded the related on-behalf of contribution as both revenue and expense.

###### **Employee Contribution Rates**

City employees are required to contribute 6.75% of their annual covered salary for PERS. The funding policy provides for periodic employer contributions based on actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate assets to pay benefits when due.



**CITY OF CRAIG, ALASKA**

NOTES TO FINANCIAL STATEMENTS

**Note 5. - continued**

**Employer and Other Contribution Rates**

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

*Employer Effective Rate:* This is the rate paid by all participating employers. Under current legislation, this rate is statutorily capped at 22%, subject to a wage floor and other termination events. 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 change results in lower ARM Board rates than previously adopted.

*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 to contribute, based on funding availability, an on-behalf amount equal to the difference between the ARM Board Rate and the Employer Contractual Rate.

*GASB Rate:* This is the rate used to determine long-term pension and healthcare liability for plan accounting purposes in accordance with generally accepted accounting principles as established by GASB. The GASB rate and the ARM Board Adopted Rate differ significantly due to variances in actuarial methods and assumptions used.

Contribution rates for the year ended June 30, 2019 were determined in the June 30, 2016 actuarial valuation.

	Employer Effective Rate	ARM Board Adopted Rate	State Contribution Rate
Pension	16.17%	21.75%	5.58%
Postemployment healthcare	5.83%	5.83%	-
Total PERS contribution rates	<u>22.00%</u>	<u>27.58%</u>	<u>5.58%</u>

In 2019, the City was credited with the following contributions to the pension plan.

	Measurement Period FY18	FY19
Employer contributions (including DBUL)	\$ 253,292	\$ 259,557
Non-employer contributions (on-behalf)	57,230	104,053
Total PERS contributions	<u>\$ 310,522</u>	<u>\$ 363,610</u>

Participating employees contributed \$39,050 to PERS during the City's fiscal year.

**CITY OF CRAIG, ALASKA**

NOTES TO FINANCIAL STATEMENTS

**Note 5. - continued**

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

At June 30, 2019, 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 and the total portion of the net pension liability associated with the City were as follows:

City's proportionate share of the NPL	\$	2,916,817
State's proportionate share of the NPL associated with the City		845,804
Total net pension liability	<u>\$</u>	<u>3,762,621</u>

The net pension liabilities were measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability of the Plan was determined by an actuarial valuation as of June 20, 2017 rolled forward to June 30, 2018. The City's proportion of the net pension liabilities were based on a projection of the City's long-term contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2018, the City's proportion of the PERS net pension liability was 0.05870 percent, which is an increase of .00061% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City recognized pension expense of \$(14,521) for PERS.

At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Deferred Outflow of Resources**

Net difference between projected and actual investment earnings on pension plan investments	\$	64,419
Change in proportion and differences between City contributions and proportionate share of contributions		8,887
City contributions subsequent to the measurement date		190,774
Total deferred outflow of resources	<u>\$</u>	<u>264,080</u>

**Deferred Inflow of Resources**

Difference between actual and Expected experience	\$	73,206
Total deferred inflows of resources	<u>\$</u>	<u>73,206</u>

**CITY OF CRAIG, ALASKA**

**NOTES TO FINANCIAL STATEMENTS**

**Note 5. - continued**

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, 2020. 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	
2020	17,613
2021	35,224
2022	(49,913)
2023	(2,824)

**Actuarial Assumptions**

The total pension liability for the measurement period ending June 30, 2018 was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Actuarial cost method	Entry age normal; level percentage of payroll
Amortization method	Level dollar, closed
Inflation rate	3.12%
Salary increases	Increase range from 8.55% to 4.34% based on age and service.
Investment rate of return	8.00%, net of pension plan investment expenses. This is based on average inflation rate of 3.12% and a real rate of return of 4.88%

Mortality rates (pre-termination) for PERS were based on the 2010 to 2013 actual mortality experience. Mortality rates (post-termination) are based on 96% of all rates of the RP-2000 table, 2000 Base Year projected to 2018 with Projection Scale BB.

The actuarial assumptions used in the June 30, 2017 actuarial valuations were based on the results of an experience study for the period July 1, 2009 to June 30, 2013.

**Long-term Expected Rate of Return**

The long-term expected rate of return on PERS 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 an asset allocation percentage, which is based on the nature and mix of current and expected plan investments, and by adding expected inflation. Best estimates of arithmetic real return for each major asset class included in each Plan's current and expected asset allocation is summarized in the following table (note that the rates shown below exclude the inflation component):

**CITY OF CRAIG, ALASKA**

NOTES TO FINANCIAL STATEMENTS

**Note 5. - continued**

<u>Asset class</u>	<u>Long- term expected real rate of return</u>
Domestic equity	8.90%
Global equity (non-US)	7.85
Fixed income	1.25
Opportunistic	4.76
Real estate	6.20
Absolute return	4.76
Private equity	12.08
Cash equivalents	0.66

**Discount Rate**

The discount rate used to measure the total pension liability for PERS was 8.0%. The projection of cash flows used to determine the discount rate assumed that employer and nonemployee contributions will continue to follow the current funding policy, which meets State statutes. Based on those assumptions, the Plan fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the Plan as of June 30, 2018, calculated using the discount rate of 8% as well as what the Plan net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	<u>1% Decrease (7%)</u>	<u>Current Discount rate</u>	<u>1% Increase (9%)</u>
City proportional share of the net pension liability	\$ 3,862,605	\$ 2,916,817	\$ 2,116,799

**Pension Plan Fiduciary Net Position**

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

**B. Defined Contribution (DC) Pension Plan**

Employees hired on or after July 1, 2006 participate in PERS Tier IV, defined contribution plan. The Plan is administered by the State of Alaska, Department of Administration in conjunction with the defined benefit plan described in the notes 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 is an individual pension account, retiree medical insurance, and a separate Health Reimbursement Arrangement account that will help retired members pay medical premiums and other eligible medical expenses not covered by the medical plan. The Plan is included in the comprehensive annual financial reports for PERS at the following website, as noted above. <http://doa.alaska.gov/dr/b>.

**CITY OF CRAIG, ALASKA**

NOTES TO FINANCIAL STATEMENTS

**Note 5. - continued**

Contributions to the defined contribution plan consists solely of employer and employee contributions with no special funding or other nonemployer contributions. In addition, employers are required to contribute 22% of all PERS defined contribution wages. After deducting the required defined contribution pension and OPEB contributions, the remaining amount remitted (the DBUL) is deposited into the defined benefit plan discussed 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 at five years of service.

**Employee Contribution Rate**

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

**Employer Contribution Rates**

For the year ended June 30, 2019, the City was required to contribute 5% of covered salary into the PERS defined contribution plan.

The City and employee contributions to PERS for pensions for the year ended June 30, 2019 were \$124,477 and \$94,213, respectively. City contributions are recognized as pension expense.

**C. Defined Benefit OPEB Plan**

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

In 2019, the City was credited with the following contributions to the other postemployment benefit plans:

	Measurement Period FY18	FY19
	<u>                    </u>	<u>                    </u>
Employer contributions (including DBUL)	\$ 56,185	\$ 68,783
Non-employer contributions	<u>-</u>	<u>-</u>
Total PERS contributions	<u>\$ 43,988</u>	<u>\$ 68,783</u>

**CITY OF CRAIG, ALASKA**

NOTES TO FINANCIAL STATEMENTS

**Note 5. - continued**

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

At June 30, 2019, the City reported a liability of for its proportionate share of the net OPEB liability (NOL). The amount recognized by the City as its proportionate share of the net OPEB liability, the related State support and the total portion of the net OPEB liability associated with the City were as follows:

City's proportionate share of NOL - ARHCT	\$	602,298
City's proportionate share of NOL - RMP		12,675
City's proportionate share of NOL – ODD		(19,346)
State's proportionate share of the NOL associated with the City		<u>175,406</u>
Total net OPEB liability	\$	<u>771,033</u>

The total OPEB liabilities for the June 30, 2018 measurement date was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 to calculate the net OPEB liabilities as of that date. The City's proportion of the net OPEB liabilities were based on a projection of the City's long-term contributions to the OPEB plans relative to the projected contributions of all participating entities, actuarially determined.

	<u>June 30,2017 Measurement Date Employer Proportion</u>	<u>June 30, 2018 Measurement Date Employer Proportion</u>	<u>Change</u>
City's proportionate share of the net OPEB liability			
ARHCT	0.05812%	0.05869%	0.00057%
RMP	0.10122%	0.09961%	(0.00161)%
ODD	0.10122%	0.09961%	(0.00161)%

As a result of its requirement to contribute to the Plan, the City recognized OPEB expense of \$62,963 and no on-behalf of revenue. At June 30, 2019 the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**Deferred Outflow of Resources**

Changes in assumptions	91,375
Changes in proportion and differences between employer contributions	9,053
City contributions subsequent to the measurement date	<u>\$ 68,783</u>
Total deferred outflow of resources	<u>\$ 169,211</u>

**CITY OF CRAIG, ALASKA**

NOTES TO FINANCIAL STATEMENTS

**Note 5. - continued**

**Deferred Inflow of Resources**

Difference between actual and expected experience	\$	64,450
Net difference between projected and actual investment earnings or pension plan investments		127,632
Change in proportion and differences between City contributions and proportionate share of contributions		<u>17,713</u>
Total deferred inflows of resources	\$	<u>209,795</u>

The amount reported as deferred outflows of resources related to OPEB 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30	
2020	(39,299)
2021	(25,658)
2022	(41,611)
2023	(2,799)
2024	-
Thereafter	-

**Actuarial Assumptions**

The total OPEB liability for the measurement period ended June 30, 2018 was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2018.

Actuarial cost method	Entry age normal; level percentage of payroll
Amortization method	Level dollar, closed
Inflation rate	3.12%
Salary increases	Increase range from 8.55% to 4.34% based on age and service.
Investment rate of return	8.00%, net of pension plan investment expenses. This is based on average inflation rate of 3.12% and a real rate of return of 4.88%
Trend rates	Pre-65 medical: 8% grading down to 4% Post-65 medical: 5.5% grading down to 4% Prescription drugs: 9% grading down to 4% Retiree Drug Subsidy/Employer Group Waiver Plans: 6.5% grading down to 4%

**CITY OF CRAIG, ALASKA**

NOTES TO FINANCIAL STATEMENTS

**Note 5. - continued**

Mortality rates (pre-termination) for PERS were based on the 2010 to 2013 actual mortality experience. Mortality rates (post-termination) are based on 96% of all rates of the RP-2000 table, 2000 Base Year projected to 2018 with Projection Scale BB.

The actuarial assumptions used in the June 30, 2017 actuarial valuations for PERS were based on the results of an experience study for the period July 1, 2009 to June 30, 2013.

**Long-term Expected Rate of Return**

The long-term expected rate of return on 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 a target asset allocation percentage, which is based on the nature and mix of current and expected plan investments, and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation are summarized in the following table (note that the rates shown below exclude the inflation component):

<u>Asset class</u>	<u>Long- term expected real rate of return</u>
Domestic equity	8.90%
Global equity (non-US)	7.85
Fixed income	1.25
Opportunistic	4.76
Real estate	6.20
Absolute return	4.76
Private equity	12.08
Cash equivalents	0.66

**Discount Rate**

The discount rate used to measure the total OPEB liability for PERS was 8.0%. The projection of cash flows used to determine the discount rate assumed that employer and nonemployee contributions will continue to follow the current funding policy, which meets State statutes. Based on those assumptions, the Plan fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Sensitivity of the Net OPEB to Changes in the Discount Rate**

The following presents the net OPEB liability of the Plan, calculated using the discount rate of 8% as well as what the Plan net OPEB 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>1% Decrease (7%)</u>	<u>Current Discount rate</u>	<u>1% Increase (9%)</u>
ARHCT	\$ 1,216,352	\$ 602,298	\$ 85,081
RMP	37,852	12,675	(6,962)
ODD	(18,167)	(19,346)	(20,317)



**CITY OF CRAIG, ALASKA**

NOTES TO FINANCIAL STATEMENTS

**Note 5. - continued**

**Healthcare Cost Trend Rates Sensitivity**

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

	<u>1% Decrease</u> (7%)	<u>Current</u> <u>Discount rate</u>	<u>1% Increase</u> (9%)
ARHCT	\$ 11,692	\$ 602,298	\$ 1,313,742
RMP	(10,777)	12,675	44,062
ODD	-	(19,346)	-

**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 the Plan is included in the comprehensive annual financial report for the PERS noted above. The Plan provides for death, disability, and post-employment health care benefits.

**Employer Contribution Rates**

Employees do not contribute to the Defined Contribution OPEB plans. Employer contribution rates were as follows for the year ended June 30, 2019:

	<u>PERS</u> <u>Tier IV</u>
Retiree medical plan	0.94%
Occupational death and disability benefits	<u>0.76%</u>
Total contribution rates	<u>1.70%</u>

In addition, PERS defined contribution members also participate in the Health Reimbursement Arrangement. The contribution amount is “three percent of the average annual employee compensation of all employees for all employers of the plan”. As of July 1, 2015, this amount is calculated as a flat rate for each full time or part time employee per pay period and approximated \$2,103 per year for each full-time employee, and \$1.35 per hour for part-time employees.

In 2019, the City contributed \$68,247 to the DC OPEB plan. Of the amount \$52,909 related to the Health Reimbursement Arrangement and was recognized as an expense. The balance of \$15,388 was considered a deferred inflow and will be recognized as a expense in FY20.

**CITY OF CRAIG, ALASKA**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6. 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, and the actual impacts have not yet been determined.

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 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.

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

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

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

**NOTE 7. CHANGE IN ACCOUNTING PRINCIPLE**

In accordance with GASB Statement Number 33, Accounting and Reporting for Nonexchange Transactions, amounts received under the National Forest Receipts program are currently recorded directly to revenue and any unspent amounts are reported as restricted fund balance. In prior years, those amounts had been reported as deferred revenue until spent for school support. The effect of this change was to increase restricted fund balance in the National Forest Receipts fund by \$1,941,480.

## **REQUIRED SUPPLEMENTARY INFORMATION**

CITY OF CRAIG, ALASKA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2019

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Real and personal	\$ 650,000	\$ 645,000	\$ 647,147	\$ 2,147
Sales and bed	1,669,000	1,799,400	1,769,356	(30,044)
State sources	133,168	195,508	210,051	14,543
Federal sources	280,000	315,638	317,274	1,636
Charges for services	516,288	535,888	555,719	19,831
Fines, forfeitures and penalties	10,000	12,000	12,342	342
Investment income	1,000	5,400	8,470	3,070
Uses of property	72,000	72,000	65,607	(6,393)
Licenses and permits	69,100	102,300	109,317	7,017
Other	6,000	14,800	13,949	(851)
Total revenues	3,406,556	3,697,934	3,709,232	11,298
<b>EXPENDITURES</b>				
Current:				
Administration	656,724	666,330	672,333	(6,003)
Council	57,331	34,395	30,689	3,706
Planning	69,151	79,395	81,986	(2,591)
Parks and facilities	288,881	279,170	307,081	(27,911)
Public works	334,295	368,073	396,007	(27,934)
Police	967,739	1,079,010	946,920	132,090
Emergency medical services	189,326	181,395	178,536	2,859
Fire	34,406	16,216	18,322	(2,106)
Library	137,549	117,785	108,787	8,998
Recreation	96,695	101,723	95,961	5,762
Aquatic facilities	422,568	416,001	386,379	29,622
Hatchery	2,000	56,000	56,374	(374)
Debt service	136,887	136,887	136,887	-
Capital outlay	123,601	224,000	214,045	9,955
Total expenditures	3,517,153	3,756,380	3,630,307	126,073
Excess (deficit) of revenues over (under) expenditures	(110,597)	(58,446)	78,925	137,371
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	360,597	398,714	525,000	126,286
Transfers out	(250,000)	(340,268)	(252,509)	87,759
Total other financing sources (uses)	110,597	58,446	272,491	214,045
Net change in fund balances	\$ -	\$ -	351,416	\$ 351,416
Fund balances, beginning of year			3,183,281	
Fund balances, end of year			\$ 3,534,697	

CITY OF CRAIG, ALASKA

PUBLIC EMPLOYEES RETIREMENT SYSTEM

SCHEDULE OF THE CITY'S INFORMATION ON THE NET PENSION LIABILITY

<u>Year ended June 30,</u>	<u>City's Proportion of Net Pension Liability</u>	<u>City's Proportionate Share of the Net Pension Liability</u>	<u>State of Alaska Proportionate Share of the Net Pension Liability</u>	<u>Total Net Pension Liability</u>	<u>City's Covered Payroll</u>	<u>City's Proportionate Share of the Net Pension Liability as a Percentage of Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
2015	0.03545%	\$ 1,653,479	\$ 1,562,450	\$ 3,215,929	\$ 755,381	219%	62.37%
2016	0.06072%	2,945,168	791,170	3,736,338	699,061	421%	63.96%
2017	0.06438%	3,598,637	454,277	4,052,914	609,523	590%	59.55%
2018	0.05809%	3,002,736	1,170,000	4,172,736	608,534	493%	63.37%
2019	0.05870%	2,916,817	845,804	3,762,621	590,521	494%	65.19%

CITY OF CRAIG, ALASKA  
PUBLIC EMPLOYEES RETIREMENT SYSTEM  
SCHEDULE OF CITY'S CONTRIBUTIONS

Year Ended June 30,	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 143,028	\$ 143,028	\$ -	\$ 699,061	20.46%
2016	145,754	145,754	-	609,523	23.91%
2017	173,706	173,706	-	608,534	28.54%
2018	197,107	197,107	-	590,521	33.38%
2019	190,774	190,774	-	569,719	33.49%

CITY OF CRAIG, ALASKA

PUBLIC EMPLOYEES RETIREMENT SYSTEM OPEB PLAN

SCHEDULE OF THE CITY'S INFORMATION ON THE OPEB PLAN

<u>Year ended June 30,</u>	<u>City's Proportion of Net OPEB Liability</u>	<u>City's Proportionate Share of the Net OPEB Liability</u>	<u>State of Alaska Proportionate Share of the Net OPEB Liability</u>	<u>Total Net OPEB Liability</u>	<u>City's Covered Payroll</u>	<u>City's Proportionate Share of the Net OPEB Liability as a Percentage of Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability</u>
2018	0.05812%	\$ 490,984	\$ 182,679	\$ 673,663	\$ 608,534	81%	89.68%
2019	0.05869%	602,298	175,406	777,704	590,521	102%	88.14%

CITY OF CRAIG, ALASKA

PUBLIC EMPLOYEES RETIREMENT SYSTEM OPEB PLAN

SCHEDULE OF CITY'S CONTRIBUTIONS

<u>Year Ended June 30,</u>	<u>Contractually Required Contribution</u>	<u>Contributions Relative to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>City's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
2018	\$ 56,185	\$ 56,185	\$ -	\$ 590,521	9.51%
2019	68,783	68,783	-	569,719	12.07%



# CITY OF CRAIG, ALASKA

## Notes to Required Supplementary Information

June 30, 2019

### **Note 1. Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual**

The schedule is presented on the modified accrual basis with adjustments for timing differences for the recognition of sales tax revenue and the elimination of on-behalf revenues and expenditure for State of Alaska pension and OPEB amounts.

### **Note 2. Public Employees' Retirement System – Schedule of the City's Information on Net Pension Liability**

This table is presented based on the Plan measurement date. For June 30, 2019, the Plan measurement date is June 30, 2018.

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

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

There were no changes in allocation methodology.

### **Note 3. Schedule of the City's Contributions - Public Employees Retirement System Pension Plan**

This table is based on the City's contributions for each fiscal year presented. The contributions have been reported as a deferred outflow of resources on the Statement of Net Position.

### **Note 4. Public Employees' Retirement System – Schedule of the City's Information on Net OPEB Liability**

This table is presented based on the Plan measurement date. For June 30, 2019, the Plan measurement date is June 30, 2018.

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

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

There were no changes in allocation methodology.

### **Note 5. Schedule of the City's Contributions - Public Employees Retirement System OPEB Plan**

This table is based on the City's contributions for each fiscal year presented. The contributions have been reported as a deferred outflow of resources on the Statement of Net Position.

### **Note 6. All Pension and OPEB Tables**

All Pension and OPEB tables are required to present 10 years of information. Until a full 10-year trend is compiled, the City has only presented information for the years in which it is available.

## **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.

Fire and EMS Funds – This fund accounts for donations and other revenue for fire and EMS departments enhancements.

Library Funds – This fund accounts for the State of Alaska Library Assistance grant for public library purposes including the purchase of materials and books. It also includes a grant from the Institute of Library and Museum Services passed through Craig Community Association to provide basic library services to Native Americans. In addition, 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.

CITY OF CRAIG, ALASKA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2019

Special Revenue Funds

	Facilities Development Fund	Police Drug Forfeiture	Land Development Fund	Equipment Fund
<b>ASSETS</b>				
Equity in central treasury	\$ 19,535	\$ -	\$ -	\$ -
Cash and cash equivalents	69,643	5,573	567,936	452,148
Receivables, net of allowance for uncollectibles	600	-	-	-
<b>Total assets</b>	<b>\$ 89,778</b>	<b>\$ 5,573</b>	<b>\$ 567,936</b>	<b>\$ 452,148</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Deferred revenue	-	-	-	-
Due to other funds	-	52	122	-
<b>Total liabilities</b>	<b>-</b>	<b>52</b>	<b>122</b>	<b>-</b>
Fund balances:				
Restricted	-	5,521	-	-
Committed	89,778	-	567,814	452,148
<b>Total fund balances</b>	<b>89,778</b>	<b>5,521</b>	<b>567,814</b>	<b>452,148</b>
<b>Total liabilities and fund balances</b>	<b>\$ 89,778</b>	<b>\$ 5,573</b>	<b>\$ 567,936</b>	<b>\$ 452,148</b>

Salmon Derby Fund	Local Emergency Planning/ Homeland Security	Fire and EMS Funds	Library Funds	Total Nonmajor Governmental Funds
\$ 48,932	\$ -	\$ 5,699	\$ 14,713	\$ 88,879
66,157	-	-	-	1,161,457
-	21,393	-	6,937	28,930
\$ 115,089	\$ 21,393	\$ 5,699	\$ 21,650	\$ 1,279,266
\$ 3,500	\$ 3,116	\$ -	\$ 6,519	\$ 13,135
-	3,772	-	8,946	12,718
-	14,505	-	4,692	19,371
3,500	21,393	-	20,157	45,224
-	-	-	-	5,521
111,589	-	5,699	1,493	1,228,521
111,589	-	5,699	1,493	1,234,042
\$ 115,089	\$ 21,393	\$ 5,699	\$ 21,650	\$ 1,279,266

CITY OF CRAIG, ALASKA

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

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2019

Special Revenue Funds

	Facilities Special Revenue	Police Drug Forfeiture	Land Development Fund	Equipment Fund
<b>REVENUES</b>				
State sources	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	-
Investment income	43	5	259	379
Other	3,600	-	-	-
<b>Total revenues</b>	<b>3,643</b>	<b>5</b>	<b>259</b>	<b>379</b>
<b>EXPENDITURES</b>				
Current:				
Planning	-	-	-	-
Public works	-	-	-	-
Police	-	-	-	-
Library	-	-	-	-
Hatchery	-	-	-	-
Capital outlay	-	-	-	-
<b>Total expenditures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Excess (deficit) of revenues over expenditures	3,643	5	259	379
<b>Other financing sources(uses):</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	(142,000)
<b>Total other financing sources   (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(142,000)</b>
<b>Net change in fund balances</b>	<b>3,643</b>	<b>5</b>	<b>259</b>	<b>(141,621)</b>
Fund balance, beginning of year - as restated	86,135	5,516	567,555	593,769
Fund balance, end of year	<u>\$ 89,778</u>	<u>\$ 5,521</u>	<u>\$ 567,814</u>	<u>\$ 452,148</u>

Salmon Derby Fund	Local Emergency Planning/ Homeland Security	Fire and EMS Funds	Library Funds	Total Nonmajor Governmental Funds
\$ -	\$ 16,590	-	\$ 7,000	23,590
-	19,111	-	8,009	27,120
66	-	-	-	752
<u>25,591</u>	<u>7,362</u>	<u>8,199</u>	<u>9,054</u>	<u>53,806</u>
25,657	43,063	8,199	24,063	105,268
-	-	-	-	-
-	-	-	-	-
-	43,063	2,500	-	45,563
-	-	-	24,063	24,063
20,021	-	-	-	20,021
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
20,021	43,063	2,500	24,063	89,647
5,636	-	5,699	-	15,621
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(142,000)</u>
-	-	-	-	(142,000)
5,636	-	5,699	-	(126,379)
<u>105,953</u>	<u>-</u>	<u>-</u>	<u>1,493</u>	<u>1,360,421</u>
<u>\$ 111,589</u>	<u>\$ -</u>	<u>\$ 5,699</u>	<u>\$ 1,493</u>	<u>\$ 1,234,042</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, 2019

	<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	\$ <u>297,923</u>	\$ <u>319,020</u>	\$ <u>298,600</u>	\$ <u>304,803</u>	\$ <u>483,321</u>	\$ <u>6,423</u>	\$ <u>1,710,090</u>
Operating expenses:							
Salaries and benefits	130,928	179,235	72,564	200,132	116,787	-	699,646
Insurance	5,184	8,244	3,036	23,423	11,664	1,008	52,559
Utilities	50,462	54,402	-	31,675	56,653	1,500	194,692
Contractual services	4,553	16,451	189,466	5,760	413	-	216,643
Repairs and maintenance	4,370	1,398	1,360	27,201	9,982	3,154	47,465
Materials and supplies	5,005	60,450	12,801	86,301	6,314	44	170,915
Travel and per diem	1,600	1,993	-	3,687	-	250	7,530
Small equipment	8,405	20,100	4,297	5,474	2,293	-	40,569
Other	-	50	30	16,955	376	-	17,411
Depreciation	<u>243,710</u>	<u>300,063</u>	<u>25,025</u>	<u>64,998</u>	<u>240,713</u>	<u>15,322</u>	<u>889,831</u>
Total operating expenses	<u>454,217</u>	<u>642,386</u>	<u>308,579</u>	<u>465,606</u>	<u>445,195</u>	<u>21,278</u>	<u>2,337,261</u>
Operating income (loss)	(156,294)	(323,366)	(9,979)	(160,803)	38,126	(14,855)	(627,171)
Nonoperating revenues (expenses):							
Investment income	9	-	-	-	-	-	9
Interest expense	(959)	(4,933)	-	-	-	-	(5,892)
Noncapital grants	<u>3,805</u>	<u>364</u>	<u>145</u>	<u>3,165</u>	<u>534</u>	<u>-</u>	<u>8,013</u>
Total nonoperating revenue (expenses)	<u>2,855</u>	<u>(4,569)</u>	<u>145</u>	<u>3,165</u>	<u>534</u>	<u>-</u>	<u>2,130</u>
Change in net position	<u>\$ (153,439)</u>	<u>\$ (327,935)</u>	<u>\$ (9,834)</u>	<u>\$ (157,638)</u>	<u>\$ 38,660</u>	<u>\$ (14,855)</u>	<u>\$ (625,041)</u>

**CITY OF CRAIG, ALASKA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2019

Grantor and Program Title	Federal CFDA Number	Grant Number or Pass-Through Entity Identifying Number	Federal Expenditures
<b>Department of Agriculture</b>			
<b>Forest Service Schools and Road Cluster</b>			
Passed through the State of Alaska, Department of Commerce Community and Economic Development National Forest Receipts - Municipal & Regional Assistance	10.665		<u>447,787</u>
<b>Total Department of Agriculture</b>			447,787
<b>Department of Homeland Security</b>			
Passed through the State of Alaska, Department of Military and Veterans Affairs			
State Homeland Security Program	97.067	20SHSP-GY18	5,199
Emergency Medical Services	97.042	20EMPG-G18	<u>13,912</u>
<b>Total Department of Homeland Security</b>			19,111
<b>Department of the Interior</b>			
Passed through the State of Alaska, Department of Commerce Community and Economic Development Payment in Lieu of Taxes	15.226		<u>289,535</u>
<b>Total Department of the Interior</b>			289,535
Institute of Museum and Library Services National Endowment for the Humanities Pass- Through Programs			
Passed through the Craig Community Association Native American and Native Hawaiian Library Services	45.311		6,937
Passed through the State of Alaska, Department of Education and Early Development Continuing Education	45.311		<u>1,072</u>
<b>Total Institute of Museum and Library Sciences</b>			<u>8,009</u>
<b>Total Federal Financial Assistance</b>			<u>\$ 764,442</u>

See notes to the schedule of expenditures  
of federal awards.

CITY OF CRAIG, ALASKA

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "SEFA") includes the federal award activity for the City of Craig, Alaska under programs of the federal government for the year ended June 30, 2019. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a selected portion of the operations of the City of Craig, Alaska, it is not intended to and does not present the financial position, changes in net position or cash flows of the City of Craig, Alaska.

**Note 2. Summary of Significant Accounting Principles**

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note 3. Indirect Cost Rate**

The City of Craig, Alaska has elected not to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance.

**Note 4. Subrecipients**

The City of Craig, Alaska provided no federal awards to subrecipients during the fiscal year.

**Note 5. Reconciliation of the Schedule of Expenditures of Federal Awards to Amounts Reported as Grant Income in the Financial Statement**

The following is a reconciliation of grant revenue reported in the City of Craig, Alaska's financial statements to the expenditures of federal awards reported in the Schedule of Expenditures of Federal Awards:

From the Statement of Activities:	
Operating grants and contributions	\$ 565,412
Grants and contributions not restricted for specific programs	485,086
Less:	
State of Alaska funding	( 310,553)
Timing difference in recognition of PERS relief funding	<u>24,497</u>
Federal expenditures as reported on the Schedule of Expenditures of Federal Awards	<u>\$ 764,442</u>

**Note 6. National Forest Receipts**

National Forest Receipts are recorded directly to revenue and any unspent amounts are reported as restricted fund balance. The National Forest Receipts fund reports \$1,810,928 of restricted fund balance as of June 30, 2019 related to unspent grant funds.

## **COMPLIANCE REPORTS**

# 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 City of Craig, Alaska, as of and for the year ended June 30, 2019 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 23, 2020.

### 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 limitations, 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.

*Christine E Harrington*

Sitka, Alaska  
March 23, 2020

# **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 PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Members of the City Council  
City of Craig, Alaska

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

I have audited the City of Craig, Alaska's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Craig, Alaska's major federal programs for the year ended June 30, 2019. The City of Craig, Alaska's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The City of Craig, Alaska's basic financial statements include the operations of the Craig City School District, a governmental discretely presented component unit. My audit, described below, did not include the operations of the Craig City School District (District) because the District was subject to a separate audit. Those financial statements reported \$2,000,509 of federal awards subject to Uniform Guidance.

### **Management's Responsibility**

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

### **Auditor's Responsibility**

My responsibility is to express an opinion on compliance of each of the City of Craig, Alaska's major federal 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 audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Craig, Alaska's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

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

### **Opinion on Each Major Federal 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 federal programs for the year ended June 30, 2019.

## 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 federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Christine E Harrington*

Sitka, Alaska  
March 23, 2020



# City of Craig, Alaska

## Schedule of Findings and Questioned Costs

Year Ended June 30, 2019

### 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

#### Federal 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
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Audit findings disclosed that are required to be reported in accordance with 2CFR Section 200.516(a)	No
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#### Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.665	National Forest Receipts

Dollar threshold used to distinguish between a major program:	\$750,000
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Auditee qualifies as low risk auditee	No
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## **City of Craig, Alaska**

Schedule of Findings and Questioned Costs, continued

Year Ended June 30, 2019

### **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**

No findings or questioned costs

### **Section IV - Disposition of Prior Year Findings and Question Costs**

Prior year finding 2018-001, late submission of required reports to the Federal Clearinghouse has been resolved in 2019.

### **Section V - Corrective Action Plan**

No current year findings or questioned costs.