

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

For the fiscal year ended

June 30, 2015

Prepared by:

Department of Finance

**CITY OF CRAIG, ALASKA**  
**BASIC FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2015  
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# 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, 2015, 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, 2015, 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.

### Change in Accounting Principle

As discussed in Note 5 to the financial statements, in 2015 the City of Craig, Alaska adopted the provisions of Governmental Accounting Standards Board Statement 68, *Accounting and Financial Reporting for Pensions*. My opinion is not modified with respect to the matter.

## Other matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 - 11, the budgetary comparison on page 53, and the Schedules of Net Pension Liability and Pension Contribution on pages 54 - 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

### *Other information*

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Craig, Alaska's basic financial statements. The accompanying combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the schedule of state financial assistance is presented for purposes of additional analysis, as required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, and are also not a required part of the basic financial statements.

The combining nonmajor fund financial statements, the schedule of expenditures of federal awards, and the schedule of state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to

prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining nonmajor fund financial statements, the schedule of expenditures of federal awards, and the schedule of state financial assistance are fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2015.

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

In accordance with *Government Auditing Standards*, I have also issued my report dated March 28, 2016, 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 28, 2016

## CITY OF CRAIG, ALASKA

### Management's Discussion and Analysis June 30, 2015

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, 2015.

#### **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 \$70,249,187. Of this amount, \$12,655,623 (*unrestricted*) may be used to meet the government's ongoing obligations to residents and creditors.
- The government's total net position increased by \$6,428,482. Governmental type activities increased by \$5,332,450 and business type activities increased by \$1,095,982.
- As of the close of the current fiscal year, the City of Craig's governmental funds reported combined ending fund balances of \$16,323,595 an increase of \$2,941,254 in comparison with the prior year. Approximately 16% of this amount (\$2,562,727) 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 \$2,562,727 or approximately 68% of total general fund expenditures.

#### **Overview of the Financial Statements**

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

**Other information.** The combining statements referred to earlier in connection with non-major governmental funds and enterprise funds are presented immediately following the notes to the financial statements. Combining statements and schedules can be found on page 59 through 66 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 \$70,249,187 at the close of the most recent fiscal year.

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

### City of Craig Net Position June 30, 2015

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current & other assets	\$ 19,179,990	\$ 16,219,334	\$ (95,208)	\$ (76,827)	\$ 19,084,782	\$ 16,142,507
Capital assets	26,654,939	27,368,851	24,333,734	23,882,590	50,988,673	51,251,441
Total assets	<b>45,834,929</b>	<b>43,588,185</b>	<b>24,238,526</b>	<b>23,805,763</b>	<b>70,073,455</b>	<b>67,393,948</b>
Total Deferred outflows of resources	133,733	-			133,733	
Long-term liabilities	4,389,838	115,000	1,383,073	1,814,588	5,772,911	1,929,588
Other liabilities	2,921,390	2,836,993	207,537	209,049	3,128,927	3,046,042
Total liabilities	<b>7,311,228</b>	<b>2,951,993</b>	<b>1,590,610</b>	<b>2,023,637</b>	<b>8,901,838</b>	<b>4,975,630</b>
Deferred Inflows	281,577		89,972		371,549	
Net position						
Invested in capital assets, net of related debt	24,639,844	21,200,964	23,653,230	23,399,788	48,293,074	44,600,752
Restricted	27,103	23,455			27,103	23,455
Unrestricted	13,708,890	19,411,773	(1,053,267)	(215,225)	12,655,623	19,196,548
Total net position	<b>\$ 38,375,837</b>	<b>\$ 40,636,192</b>	<b>\$ 22,599,963</b>	<b>\$ 23,184,563</b>	<b>\$ 60,975,800</b>	<b>\$ 63,820,755</b>

By far the largest portion of the City of Craig's net position (79 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City of Craig uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Craig's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Craig's net position (16 percent) represents the City's endowment funds, which have been committed for certain uses by City Council ordinance.

The remaining balance of unrestricted net assets (\$3,438,794) may be used to meet the government's ongoing obligations to residents and creditors.

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

### **Governmental Activities.**

During fiscal year 2015, the City of Craig's net position increased by \$5,332,450 for governmental activities. Highlights of governmental activities net position changes are as follows:

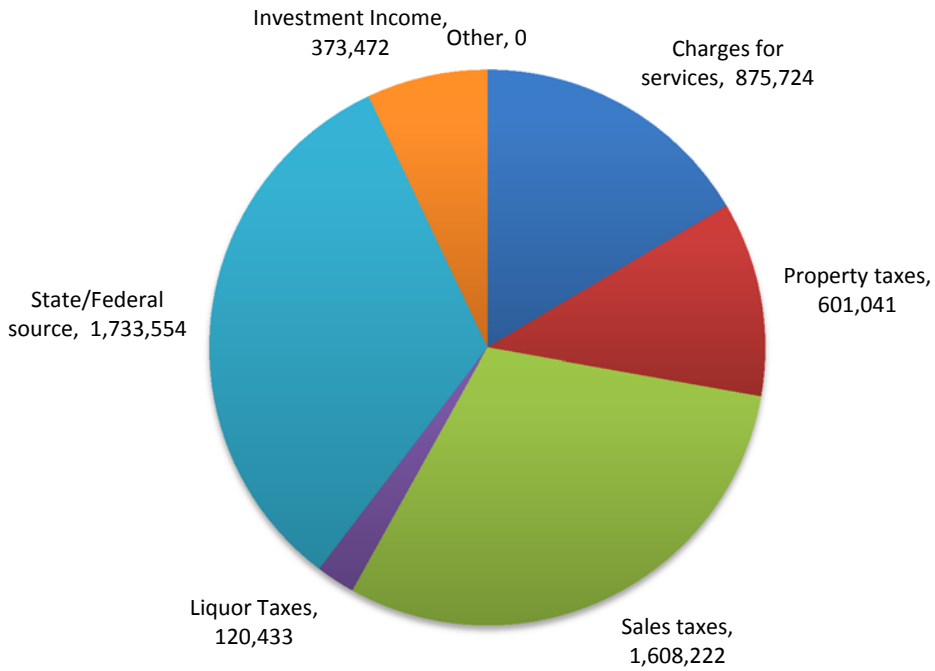
- Revenues for the City's governmental activities decreased 24% from last year due to less sales tax revenue and state grant proceeds.
- The sales tax and property tax revenue each decreased by 1.7%.
- The restricted Endowment fund recorded a \$1,147,139 decrease in revenue as the equity investments had a negative market trend in the markets.
- The governmental expenditures decreased by 12% (\$651,361) due to less capital spending. Non capital expenditures increased \$49,886.
- The capital outlay for the governmental funds was the equipment purchases and aquatic center improvements.

**City of Craig**  
**Changes in Net Position**  
**For the year ended June 30, 2015**

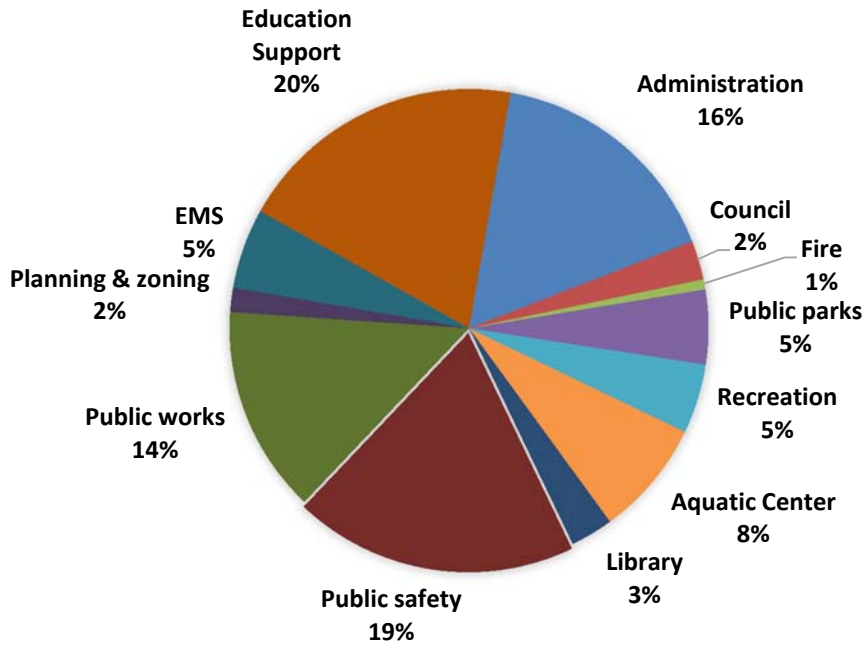
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Program Revenues</b>						
Charges for services	875,724	803,517	\$ 1,513,304	\$ 1,562,154	\$ 2,389,028	2,365,671
Property taxes	601,041	538,898			601,041	538,898
Sales taxes	1,608,222	1,709,363			1,608,222	1,709,363
Liquor Taxes	120,433	120,433			120,433	120,433
State/Federal source	1,733,554	2,554,058	790,509	1,085,385	2,524,063	3,639,443
Investment Income	373,472	1,520,611	12	12	373,484	1,520,623
Other		381,206		0	-	381,206
<b>Total Revenue</b>	<b>5,312,446</b>	<b>7,628,086</b>	<b>2,303,825</b>	<b>2,647,551</b>	<b>7,616,271</b>	<b>10,275,637</b>
<b>Expenses</b>						
Administration	801,854	849,309			801,854	849,309
Council	129,488	78,146			129,488	78,146
Fire	33,383	33,361			33,383	33,361
Public parks	247,895	219,312			247,895	219,312
Recreation	230,990	91,929			230,990	91,929
Aquatic Center	386,167	512,535			386,167	512,535
Library	142,318	160,655			142,318	160,655
Public safety	943,825	1,045,146			943,825	1,045,146
Public works	689,090	710,459			689,090	710,459
Planning & zoning	80,878	90,891			80,878	90,891
EMS	266,571	282,083			266,571	282,083
Education Support	965,560	945,083			965,560	945,083
Sewer			452,426	466,134	452,426	466,134
Water			493,350	804,372	493,350	804,372
Garbage			429,039	320,952	429,039	320,952
JT Brown Industrial Park/Icehouse			366,084	450,990	366,084	450,990
Harbor			356,126	366,974	356,126	366,974
Cannery			21,586	29,342	21,586	29,342
<b>Total Expenses</b>	<b>4,918,019</b>	<b>5,018,909</b>	<b>2,118,611</b>	<b>2,438,764</b>	<b>7,036,630</b>	<b>7,457,673</b>
<b>Increase in net position before transfers</b>	<b>394,427</b>	<b>2,609,177</b>	<b>185,214</b>	<b>208,787</b>	<b>579,641</b>	<b>2,817,964</b>
<b>Transfers</b>	<b>(57,000)</b>	<b>15,617</b>	<b>57,000</b>	<b>(15,617)</b>	<b>-</b>	<b>-</b>
<b>Increase (decrease) in net position</b>	<b>337,427</b>	<b>2,624,794</b>	<b>242,214</b>	<b>193,170</b>	<b>579,641</b>	<b>2,817,964</b>
<b>Net position, July 1, 2014</b>	<b>38,038,410</b>	<b>35,413,616</b>	<b>22,357,749</b>	<b>22,164,579</b>	<b>60,396,159</b>	<b>57,578,195</b>
<b>Net position, June 30, 2015</b>	<b>\$ 38,375,837</b>	<b>\$ 38,038,410</b>	<b>\$ 22,599,963</b>	<b>\$ 22,357,749</b>	<b>\$ 60,975,800</b>	<b>\$ 60,396,159</b>

**Expenses and Program Revenues – Governmental Activities**

**Revenue by Source - Governmental Activities**



**EXPENDITURES BY DEPARTMENT - GOVERNMENTAL ACTIVITIES**

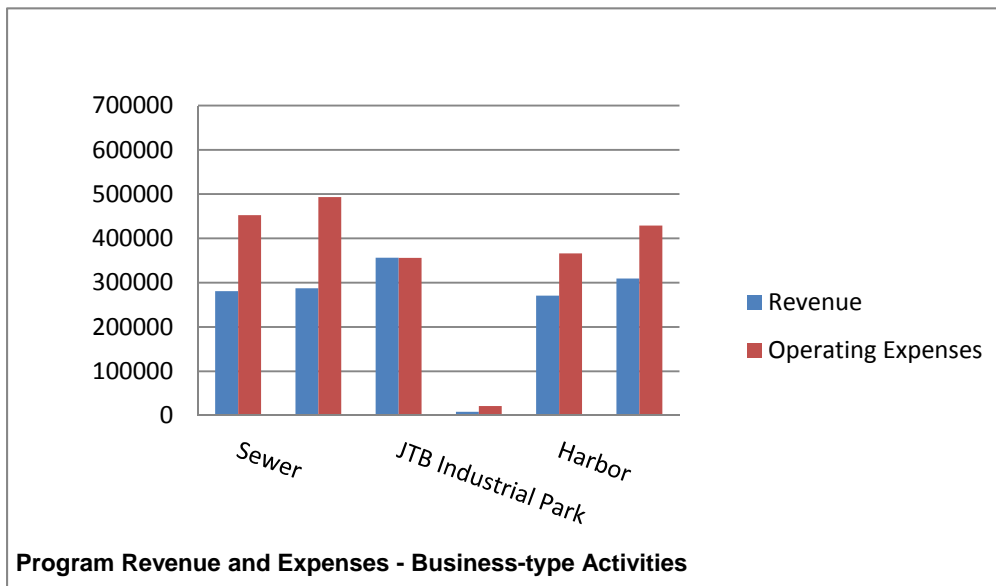


### Business-type activities

Business-type activities increased the City of Craig net position by \$242,214. Key elements of this increase are as follows.

- Expenses for business-type activities decreased in 2015 due to less maintenance costs.
- The fund received less federal and state grant funds due to major project were completed the prior year.
- Depreciation is a non-cash expense that is recorded to reflect the approximate devaluation of property and equipment over time. The concept is designed to match the cost of assets more accurately with the revenues that are generated by the assets. Most of the City's main capital improvement projects have been and will continue to be funded through grant projects. Readers can expect that the business-type activities do not generate enough revenue to offset the non-cash expense of depreciation.
- In order to replace capital assets in the future, the City Council and management intend to seek external funding for large capital projects. In a small Alaskan town such as Craig, it is unlikely that the local population could bear the full burden of the expense of such projects.

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



## Financial Analysis of the Government's Funds

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

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

Property Tax	\$ 601,041
Sales Tax	1,728,655
General services	875,724

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 2015. The governmental fund expenditures were decreased \$60,145 due to personnel turnover. The enterprise fund expenses were increased \$169,445 due to water main parts, ice house maintenance costs.

### Capital Asset and Debt Administration

#### City of Craig Net Capital Assets

As of June 30, 2015

	Governmental Funds		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 90,864	\$ 90,864	\$ 3,954,898	\$ 3,954,898	\$ 4,045,762	\$ 4,045,762
Buildings	28,765,818	28,765,818	7,064,733	7,064,733	35,830,551	35,830,551
Equipment	2,166,710	1,662,045	1,046,391	893,170	3,213,101	2,555,215
Infrastructure	5,598,934					
Harbors			4,486,296	3,417,113	4,486,296	3,417,113
Water/Sewer Sys			18,408,949	17,685,839	18,408,949	17,685,839
Sewer plant			4,187,737	4,187,737	4,187,737	4,187,737
Construction in Progress	282,379	6,012,887	527,134	1,497,581	809,513	7,510,468
<b>Total Assets</b>	<b>36,904,705</b>	<b>36,531,614</b>	<b>39,676,138</b>	<b>38,701,071</b>	<b>70,981,909</b>	<b>75,232,685</b>
<i>Accumulated depreciation</i>	(10,249,493)	(9,202,759)	(15,323,261)	(14,818,482)	(25,572,754)	(24,021,241)
<b>Net Capital Assets</b>	<b>\$ 26,655,212</b>	<b>\$ 27,328,855</b>	<b>\$ 24,352,877</b>	<b>\$ 23,882,589</b>	<b>\$ 45,409,155</b>	<b>\$ 51,211,444</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 38 of this report.

### **Long-term debt.**

**Bonds.** In March, 2015 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 \$1,810,100 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 \$231,250 on two notes, which are due in 2019. 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 (\$127,647, \$247,984) with Alaska Department of Water for water line improvements which is due in 2031 and 2033. Additional information on the City of Craig's long-term debt is found in note 3.E starting on page 41 of this report.

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

Sales Tax and property tax would remain consistent with prior years  
There will be few local construction projects to increase activity in the city.  
Electrical costs will remain high.  
Employee Benefits would decrease due to changes in the health insurance premium structure.  
Water consumption has decreased with the current rate schedule therefore revenue is projected to be less.  
These factors were taken into account when adopting the FY 2016 governmental budget.

### **Requests for Information**

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



## **BASIC FINANCIAL STATEMENTS**

CITY OF CRAIG, ALASKA

STATEMENT OF NET POSITION

JUNE 30, 2015

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	Craig City School District
<b>ASSETS</b>				
Cash and investments	\$ 1,514,305	\$ 120,891	\$ 1,635,196	\$ 3,917,170
Receivables ( net of allowance for uncollectibles)	431,166	418,006	849,172	331,897
Internal balances	649,833	(649,833)	-	
Prepaid items	3,139	-	3,139	2,000
Inventories	-	15,728	15,728	34,959
Restricted assets:				
Temporarily restricted:				
Cash and investments	16,401,669	-	16,401,669	-
Prepaid items	5,636	-	5,636	-
Federal and State of Alaska receivables	150,219	-	150,219	-
Interest receivable	23,750	-	23,750	-
Capital assets not being depreciated	373,243	4,482,032	4,855,275	
Other capital assets, net of accumulated depreciation	26,281,973	19,667,495	45,949,468	452,425
<b>Total assets</b>	<b>45,834,933</b>	<b>24,054,319</b>	<b>69,889,252</b>	<b>4,738,451</b>
<b>DEFERRED OUTFLOWS</b>				
Deferred outflows related to pension	133,713	42,019	175,732	316,919
<b>Total assets and deferred outflows</b>	<b>\$ 45,968,646</b>	<b>\$ 24,096,338</b>	<b>\$ 70,064,984</b>	<b>\$ 5,055,370</b>
<b>LIABILITIES</b>				
Accounts payable and other current liabilities	\$ 222,254	\$ 133,914	\$ 356,168	\$ 425,404
Unearned revenue	24,245	-	24,245	51,891
Liabilities payable from restricted assets	2,609,627	-	2,609,627	-
Noncurrent liabilities:				
Due within one year				
Bonds and notes payable	65,268	73,622	138,890	-
Due in more than one year				
Bonds and notes payable, including unamortized premium	1,950,100	606,882	2,556,982	-
Net pension obligation	2,439,738	776,191	3,215,929	10,795,514
<b>Total liabilities</b>	<b>7,311,232</b>	<b>1,590,609</b>	<b>8,901,841</b>	<b>11,272,809</b>
<b>DEFERRED INFLOWS</b>				
Deferred inflows related to pension	281,577	89,972	371,549	1,073,528
<b>NET POSITION</b>				
Invested in capital assets, net of related debt	24,639,844	23,653,230	48,293,074	452,451
Restricted for:				
Public safety	27,103	-	27,103	-
Unrestricted	13,708,890	(1,237,473)	12,471,417	(7,743,418)
<b>Total net position</b>	<b>38,375,837</b>	<b>22,415,757</b>	<b>60,791,594</b>	<b>(7,290,967)</b>
<b>Total liabilities, deferred inflows and net position</b>	<b>\$ 45,968,646</b>	<b>\$ 24,096,338</b>	<b>\$ 70,064,984</b>	<b>\$ 5,055,370</b>

See notes to financial statements

CITY OF CRAIG, ALASKA

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs	Program Revenues			Expenses
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary government:</b>				
Government activities:				
Administration	\$ 801,854	\$ 90,482	\$ 22,285	\$ -
Council	129,488	-	1,270	-
Fire	33,383	-	10,000	-
Parks and Recreation	865,052	79,093	18,043	101,226
Library	142,318	4,012	25,622	-
Police	943,825	489,939	68,243	-
Public Works	689,090	84,138	11,294	83,965
Planning	80,878	-	4,127	-
Medical Services	266,571	128,060	-	-
Support	965,560	-	580,917	15,000
	-	-	-	-
Total governmental activities	4,918,019	875,724	741,801	200,191
Business-type activities:				
Sewer	452,426	280,879	7,195	-
Water	677,556	287,490	9,827	290,247
Garbage	429,039	309,531	3,514	330,598
Harbor	366,084	270,665	8,020	38,315
Marine Industrial Park	356,126	356,164	2,558	100,235
Cannery Property	21,586	8,575	-	-
Total business type activities	2,302,817	1,513,304	31,114	759,395
Total primary government	\$ 7,220,836	\$ 2,389,028	\$ 772,915	\$ 959,586
<b>Component Units:</b>				
Craig City School District	\$ 9,200,864	\$ 64,500	\$ 1,287,555	\$ -
Total component units	\$ 9,200,864	\$ 64,500	\$ 1,287,555	\$ -

General revenues:

Property taxes

Sales and other taxes

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Other

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning - as restated

Net position - end

See notes to financial statements

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	Craig City School District
\$ (689,087)	\$ -	\$ (689,087)	-
(128,218)	-	(128,218)	-
(23,383)	-	(23,383)	-
(666,690)	-	(666,690)	-
(112,684)	-	(112,684)	-
(385,643)	-	(385,643)	-
(509,693)	-	(509,693)	-
(76,751)	-	(76,751)	-
(138,511)	-	(138,511)	-
(369,643)	-	(369,643)	-
<u>(3,100,303)</u>	<u>-</u>	<u>(3,100,303)</u>	<u>-</u>
-	(164,352)	(164,352)	-
-	(89,992)	(89,992)	-
-	214,604	214,604	-
-	(49,084)	(49,084)	-
-	102,831	102,831	-
-	(13,011)	(13,011)	-
<u>-</u>	<u>996</u>	<u>996</u>	<u>-</u>
<u>(3,100,303)</u>	<u>996</u>	<u>(3,099,307)</u>	
			<u>(7,848,809)</u>
			(7,848,809)
601,041	-	601,041	-
1,728,655	-	1,728,655	-
791,562	-	791,562	8,108,853
373,472	12	373,484	3,879
(57,000)	57,000	-	162,405
<u>3,437,730</u>	<u>57,012</u>	<u>3,494,742</u>	<u>8,275,137</u>
337,427	58,008	395,435	426,328
<u>38,038,410</u>	<u>22,357,749</u>	<u>60,396,159</u>	<u>(7,717,295)</u>
<u>\$ 38,375,837</u>	<u>\$ 22,415,757</u>	<u>\$ 60,791,594</u>	<u>\$ (7,290,967)</u>

See notes to financial statements

CITY OF CRAIG, ALASKA

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2015

	<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	\$ 1,514,305	\$ -	\$ -	\$ -	\$ 1,514,305
Receivables:					
Customer	103,999	-	-	-	103,999
Taxes	368,426	-	-	-	368,426
Less allowance for doubtful accounts	(41,259)	-	-	-	(41,259)
Due from other funds	863,751	-	-	-	863,751
Prepaid items	3,139	-	-	-	3,139
Restricted assets:					
Equity in central treasury	-	319	40,138	2,610	43,067
Cash and cash equivalents	-	578,779	3,935,107	2,802,355	7,316,241
Prepaid items	-	5,636	-	-	5,636
Investments	-	9,042,361	-	-	9,042,361
State of Alaska and Federal government	-	-	-	150,219	150,219
Interest receivable	-	23,750	-	-	23,750
<b>Total assets</b>	<u>\$ 2,812,361</u>	<u>\$ 9,650,845</u>	<u>\$ 3,975,245</u>	<u>\$ 2,955,184</u>	<u>\$ 19,393,635</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 95,524	\$ -	\$ -	\$ -	\$ 95,524
Accrued payroll and related	49,211	-	-	-	49,211
Accrued leave	77,515	-	-	-	77,515
Deferred revenue	24,245	-	-	-	24,245
Liabilities payable from restricted assets:					
Accounts payable	-	6,913	20,882	4,079	31,874
Deferred revenue	-	-	2,573,031	4,722	2,577,753
Due to other funds	-	-	-	213,918	213,918
<b>Total liabilities</b>	<u>246,495</u>	<u>6,913</u>	<u>2,593,913</u>	<u>222,719</u>	<u>3,070,040</u>
Fund balances:					
Nonspendable	\$ 3,139	\$ -	\$ -	\$ -	\$ 3,139
Restricted	-	-	1,381,332	1,938,168	3,319,500
Committed	-	9,643,932	-	794,297	10,438,229
Unassigned	2,562,727	-	-	-	2,562,727
<b>Total fund balances</b>	<u>2,565,866</u>	<u>9,643,932</u>	<u>1,381,332</u>	<u>2,732,465</u>	<u>16,323,595</u>
<b>Total liabilities and fund balances</b>	<u>\$ 2,812,361</u>	<u>\$ 9,650,845</u>	<u>\$ 3,975,245</u>	<u>\$ 2,955,184</u>	<u>\$ 19,393,635</u>

See notes to financial statements

CITY OF CRAIG, ALASKA

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

YEAR ENDED JUNE 30, 2015

Total fund balances of governmental funds		\$ 16,323,595
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	28,765,818	
Equipment	2,166,710	
Infrastructure	5,598,934	
Construction in progress	<u>282,379</u>	
	36,904,705	
Accumulated depreciation	<u>(10,249,493)</u>	
Total capital assets, net		26,655,212
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	(1,810,000)	
Unamortized bond premiums	(205,368)	
Net pension liability	<u>(2,439,738)</u>	
Total long-term liabilities		(4,455,106)
Certain changes in net pension liabilities are deferred rather than recognized immediately. These items are amortized over time.		
Deferred outflows related to pensions	133,713	
Deferred inflows related to pensions	<u>(281,577)</u>	
Total deferred pension items		<u>(147,864)</u>
Total net position of governmental funds		<u>\$ 38,375,837</u>

See notes to financial statements

CITY OF CRAIG, ALASKA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2015

	<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	\$ 601,041	\$ -	\$ -	\$ -	\$ 601,041
Sales and bed	1,607,101	-	-	-	1,607,101
Liquor	121,554	-	-	-	121,554
State sources	1,038,829	-	-	226,060	1,264,889
Federal sources	318,000	-	580,917	27,642	926,559
Charges for services	613,149	-	-	-	613,149
Fines, forfeitures and penalties	13,288	-	-	-	13,288
Investment income	4,183	345,926	22,942	421	373,472
Uses of property	65,809	-	-	-	65,809
Licenses and permits	77,655	-	-	-	77,655
Other	4,472	-	6,475	94,876	105,823
<b>Total revenue</b>	<b>4,465,081</b>	<b>345,926</b>	<b>610,334</b>	<b>348,999</b>	<b>5,770,340</b>
<b>EXPENDITURES</b>					
Current:					
Administration	850,086	29,751	-	-	879,837
Council	139,287	-	-	-	139,287
Planning	100,844	-	-	-	100,844
Parks and facilities	261,944	-	-	-	261,944
Public works	283,860	-	30,317	12,464	326,641
Police	1,081,557	-	-	34,755	1,116,312
Emergency medical services	194,487	-	-	-	194,487
Fire	16,969	-	-	-	16,969
Library	128,247	-	-	25,580	153,827
Recreation	109,763	-	-	-	109,763
Aquatic facilities	420,512	-	-	-	420,512
Hatchery	39,394	-	-	-	39,394
Support	-	-	559,943	15,000	574,943
Debt service	119,600	-	-	-	119,600
Capital outlay	-	-	-	333,094	333,094
<b>Total expenditures</b>	<b>3,746,550</b>	<b>29,751</b>	<b>590,260</b>	<b>420,893</b>	<b>4,787,454</b>
Excess (deficit) of revenues over (under) expenditures	718,531	316,175	20,074	(71,894)	982,886
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	150,948	-	352,535	347,948	851,431
Transfers out	(757,483)	(150,948)	-	-	(908,431)
General obligation bonds issued	-	-	-	1,810,000	1,810,000
Premium on general obligation bonds issue	-	-	-	205,368	205,368
<b>Total other financing sources (uses )</b>	<b>(606,535)</b>	<b>(150,948)</b>	<b>352,535</b>	<b>2,363,316</b>	<b>1,958,368</b>
<b>Net change in fund balances</b>	<b>111,996</b>	<b>165,227</b>	<b>372,609</b>	<b>2,291,422</b>	<b>2,941,254</b>
Fund balances, beginning of year	2,453,870	9,478,705	1,008,723	441,043	13,382,341
<b>Fund balances, end of year</b>	<b>\$ 2,565,866</b>	<b>\$ 9,643,932</b>	<b>\$ 1,381,332</b>	<b>\$ 2,732,465</b>	<b>\$ 16,323,595</b>

See notes to financial statements

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

FOR THE YEAR ENDED JUNE 30, 2015

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

Net change in fund balances -- total governmental funds	\$	2,941,254
<p>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.</p>		
Expenditures for capital outlay	\$ 333,094	
Less current year depreciation	<u>(1,046,733)</u>	(713,639)
<p>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.</p>		
Bond and loan payments	115,000	
Proceeds from issuance of debt	<u>(2,015,368)</u>	(1,900,368)
<p>Changes in net pension liability and related accounts can increase or decrease net position. This is the net increase in equity due to changes in net pension liability and the related deferred outflows and inflows</p>		
		<u>10,180</u>
Change in net position of governmental activities	\$	<u><u>337,427</u></u>

See notes to financial statements



CITY OF CRAIG, ALASKA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2015

	Enterprise Fund	Total Proprietary Funds
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 120,891	\$ 120,891
Receivables:		
Accounts	154,168	154,168
Federal and State of Alaska	263,838	263,838
Inventory	15,728	15,728
Total current assets	554,625	554,625
Noncurrent assets:		
Capital assets:		
Property, plant and equipment	39,129,858	39,129,858
Less accumulated depreciation	(15,507,465)	(15,507,465)
	23,622,393	23,622,393
Construction work-in-progress	527,134	527,134
Total noncurrent assets	24,149,527	24,149,527
Total assets	24,704,152	24,704,152
Deferred outflows of resources - pension related	42,019	42,019
Total assets and deferred outflows	\$ 24,746,171	\$ 24,746,171

See notes to financial statements

CITY OF CRAIG, ALASKA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2015  
(continued)

	Enterprise Fund	Total Proprietary Funds
<b>LIABILITIES</b>		
Current liabilities:		
Due to other funds	\$ 649,832	\$ 649,832
Accounts payable and accrued liabilities	127,558	127,558
Interest payable	6,357	6,357
Current portion of:		
Long-term notes payable	73,622	73,622
Total current liabilities	857,369	857,369
Noncurrent liabilities:		
Notes payable, net of current portion	606,882	606,882
Net pension obligation	776,191	776,191
Total noncurrent liabilities	1,383,073	1,383,073
Total liabilities	2,240,442	2,240,442
Deferred inflows of resources - pension related	89,972	89,972
<b>NET POSITION</b>		
Investment in capital assets, net of related debt	23,653,230	23,653,230
Unrestricted	(1,237,473)	(1,237,473)
Total net position	22,415,757	22,415,757
Total liabilities, deferred inflows and net position	\$ 24,746,171	\$ 24,746,171

See notes to financial statements

CITY OF CRAIG, ALASKA

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Enterprise Fund</u>	<u>Total Proprietary Funds</u>
Operating revenue:		
Charges for services	\$ 1,513,304	\$ 1,513,304
Operating expenses:		
Salaries and benefits	705,068	705,068
Insurance	34,834	34,834
Utilities	155,414	155,414
Contractual services	287,071	287,071
Repairs and maintenance	63,370	63,370
Materials and supplies	169,637	169,637
Travel and per diem	9,686	9,686
Other	50,022	50,022
Depreciation	823,657	823,657
Total operating expenses	<u>2,298,759</u>	<u>2,298,759</u>
Operating loss	(785,455)	(785,455)
Nonoperating revenues (expenses):		
Investment income	12	12
Interest expense	(4,058)	(4,058)
Noncapital grant revenue	31,114	31,114
Total nonoperating revenue (expenses)	<u>27,068</u>	<u>27,068</u>
Income before contributions and transfers	(758,387)	(758,387)
Capital contributions	759,395	759,395
Transfers in	57,000	57,000
Change in net position	58,008	58,008
Net position - beginning - as restated	<u>22,357,749</u>	<u>22,357,749</u>
Total net assets - end	<u>\$ 22,415,757</u>	<u>\$ 22,415,757</u>

See notes to financial statements

CITY OF CRAIG, ALASKA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015

	Enterprise Fund	Total Proprietary Funds
Cash flows from operating activities:		
Receipts from customers and users	\$ 1,508,264	\$ 1,508,264
Payments to suppliers	(784,052)	(784,052)
Payments to employees	(666,114)	(666,114)
Net cash provided by operating activities	58,098	58,098
Cash flows from noncapital financing activities:		
Repayments to the General Fund	(324,697)	(324,697)
Transfers from other funds	57,000	57,000
Net cash provided by noncapital financing activities	(267,697)	(267,697)
Cash flows from capital and related financing activities:		
Capital expenditures	(1,090,595)	(1,090,595)
Interest paid	(7,473)	(7,473)
Proceeds from borrowing	259,193	
Repayment of notes payable	(61,491)	(61,491)
Government grants for construction	1,211,430	1,211,430
Net cash used by capital and related financing activities	311,064	51,871
Cash flows from investing activities:		
Interest received	12	12
Net cash provided by investing activities	12	12
Net increase in cash and cash equivalents	101,477	(157,716)
Cash and cash equivalents, beginning of the year	19,414	19,414
Cash and cash equivalents, end of year	\$ 120,891	\$ (138,302)

See notes to financial statements

CITY OF CRAIG, ALASKA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015  
(continued)

	Enterprise Fund	Total Proprietary Funds
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (785,455)	\$ (785,455)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	823,657	823,657
On behalf of revenue	31,114	31,114
Changes in assets and liabilities		
Increase in accounts receivable	(5,040)	(5,040)
Increase in inventory	(2,440)	(2,440)
Decrease in accounts payable	(1,068)	(1,068)
Decrease in pension liability	(2,670)	(2,670)
Total adjustments	843,553	843,553
Net cash provided by operating activities	\$ 58,098	\$ 58,098

See notes to financial statements

**CITY OF CRAIG, ALASKA**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**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.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 are not applied in the preparation of the financial statements for business-type activities and enterprise funds. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting standards which constitute GAAP for governmental units. The more significant of these accounting policies are described below.

**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.

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

**Note 1. - continued**

**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.

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

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

**Basis of Accounting**

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

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

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

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

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

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

**Note 1. - continued**

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

**Financial Statement Presentation**

The City reports the following major governmental funds:

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

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

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

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

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

**D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY**

**Equity in Central Treasury**

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

**Cash and Cash Equivalents**

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

**Investments**

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

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



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

**Note 1. - continued**

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

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

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

**Receivables**

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

**Prepaid Items**

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

**Restricted Assets**

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

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

**Capital assets**

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

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

**Note 1. - continued**

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The City did not have any projects requiring interest capitalization in 2013.

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

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

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

**Compensated absences**

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

**Long-term obligations**

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

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

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

**Deferred Outflows/Inflows of Resources**

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

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

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

**Note 1. - continued**

**Fund balances**

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

**Nonspendable**

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

**Restricted**

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

**Committed**

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

**Assigned**

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

**Unassigned**

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

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

**Net Position**

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

**Net Investment in Capital Assets**

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

**Restricted Net Position**

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

**Unrestricted Net Position**

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

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

**Note 1. - continued**

**Management Estimates and Assumptions**

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

**Subsequent Events**

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

**NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgetary Information**

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

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

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

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

**B. Excess of Expenditures Over Appropriations**

For the year ended June 30, 2015 the City exceeded its appropriations in the following departments or funds:

Fund/Department	Excess Appropriation
General Fund – Council	\$ 30,742
General Fund – Fire	864
General Fund – Hatchery Support	4,394

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

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

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

The General Fund revenues and expenditures reported on page 23 of the basic financial statements differ from the amounts reported on page 50 in the column headed "actual amounts on a budgetary basis" due to timing differences in the recognition of sales tax revenue, on-behalf of payment made by the State of Alaska into PERS for the City of Craig and bad debt writeoffs which are not budgeted.

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

**A. DEPOSITS AND INVESTMENTS**

As of June 30, 2015, the City had the following deposits and investments:

Cash on hand	\$ 5,900
Carrying amount of deposits	8,911,948
Carrying amount of investments	<u>9,119,017</u>
	<u>\$ 18,036,865</u>

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

Cash and investments	\$ 1,635,196
Cash and investments - Temporarily Restricted	<u>16,401,669</u>
	<u>\$ 18,036,865</u>

**Credit Risk**

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

The credit quality ratings of the City's investments as of June 30, 2015, as described by the nationally recognized statistical rating organization Standard & Poor's are shown below:

	S&P Rating	Investment Fair Value	% of Total
U.S. Treasury	AA+	\$ 1,741,417	19.10
Federal Agency	AA+	147,981	1.62
Corporate	AA+	83,012	.91
Corporate	AA-	102,156	1.12
Corporate	A+	304,105	3.33
Corporate	A	206,100	2.26
Corporate	A-	170,163	1.87
Foreign government bonds	AAA	50,708	.56
Exchange traded funds	not rated	4,686,581	51.39
Mutual funds	not rated	<u>1,626,794</u>	<u>17.84</u>
		<u>\$ 9,119,017</u>	<u>100.00</u>

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

**Note 3. - continued**

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

*Custodial Credit Risk - Deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. It is the City's policy to mitigate this risk by requiring that all demand deposits be fully collateralized by securities pledged but not held in the City's name by an agent of the financial institution holding the demand deposits. Of the bank balance at June 30, 2015, \$3,409,816 was covered by the Federal Deposit Insurance Corporation (FDIC) and \$5,685,833 was subject to a collateral agreement.

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

**Interest Rate Risk**

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

**Modified Duration**

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

The modified duration of the City's investments as of June 30, 2015 is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Modified Duration</u>
U.S. Treasury	\$ 1,741,417	4.74
Agency bonds	147,981	5.54
Foreign Government Bonds	50,708	.92
Corporate bonds	865,536	5.46
Exchange traded funds	4,686,581	0.00
Open-end mutual funds	<u>1,626,794</u>	<u>0.00</u>
	<u>\$ 9,119,017</u>	
Portfolio modified duration		4.93

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

**Note 3. - continued**

**B. RECEIVABLES**

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

	<u>General</u>	<u>Endowment</u>	<u>Enterprise</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Taxes	\$ 368,426	\$ -	\$ -	\$ -	\$ 368,426
State of Alaska	-	-	162,762	132,990	295,752
US Government	-	-	101,075	16,929	118,004
Customer	103,999	-	171,437	300	275,736
Interest	-	<u>23,750</u>	-	-	<u>23,750</u>
Gross receivables	472,425	23,750	435,274	150,219	1,081,668
Less:					
Allowance for uncollectible	<u>( 41,259)</u>	<u>-</u>	<u>( 17,268)</u>	<u>( - )</u>	<u>( 58,527)</u>
Net total receivables	<u>\$ 431,166</u>	<u>\$ 23,750</u>	<u>\$ 418,006</u>	<u>\$ 150,219</u>	<u>\$ 1,023,141</u>

**C. CAPITAL ASSETS**

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

**Primary Government**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 90,864	\$ -	\$ -	\$ 90,864
Construction in progress	<u>6,052,887</u>	<u>178,426</u>	<u>( 5,948,934)</u>	<u>282,379</u>
Total capital assets, not being depreciated	<u>6,143,751</u>	<u>178,426</u>	<u>( 5,948,934)</u>	<u>373,243</u>
Capital assets, being depreciated				
Buildings	28,765,818	-	-	28,765,818
Infrastructure	-	5,598,934	-	5,598,934
Equipment	<u>1,662,045</u>	<u>504,668</u>	<u>-</u>	<u>2,166,713</u>
Total capital assets being depreciated	<u>30,427,863</u>	<u>6,103,602</u>	<u>-</u>	<u>36,531,465</u>
Less accumulated depreciation for:				
Buildings	( 7,990,145)	( 685,374)	-	( 8,675,519)
Infrastructure	-	( 279,947)	-	( 279,947)
Equipment	<u>( 1,212,614)</u>	<u>( 81,412)</u>	<u>-</u>	<u>( 1,294,026)</u>
Total accumulated depreciation	<u>( 9,202,759)</u>	<u>( 1,046,733)</u>	<u>-</u>	<u>( 10,249,492)</u>
Total capital assets, being depreciated, net	<u>21,225,104</u>	<u>5,056,869</u>	<u>-</u>	<u>26,281,973</u>
Governmental activities capital assets, net	<u>\$27,368,855</u>	<u>\$ 5,235,295</u>	<u>\$( 5,948,934)</u>	<u>\$ 26,655,216</u>

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

**Note 3. - continued**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 3,954,898	\$ -	\$ -	\$ 3,954,898
Construction in progress	<u>1,497,581</u>	<u>638,994</u>	<u>( 1,609,441)</u>	<u>527,134</u>
Total capital assets, not being depreciated	<u>5,452,479</u>	<u>638,994</u>	<u>( 1,609,441)</u>	<u>4,482,032</u>
Capital assets, being depreciated:				
Buildings	7,064,733	489,590	-	7,554,323
Equipment	893,170	268,747	( 134,672)	1,027,245
Harbors	3,417,113	579,592	-	3,996,705
Water and sewer system	17,685,839	723,111	-	18,408,950
Sewer plant	<u>4,187,737</u>	<u>-</u>	<u>-</u>	<u>4,187,737</u>
Total capital assets, being depreciated	<u>33,248,592</u>	<u>2,061,040</u>	<u>( 134,672)</u>	<u>35,174,960</u>
Less accumulated depreciation for:				
Buildings	( 1,109,652)	( 204,929)	-	( 1,314,581)
Equipment	( 798,791)	( 61,240)	134,672	( 725,359)
Harbors	( 2,837,000)	( 43,885)	-	( 2,880,885)
Water and sewer system	( 7,770,068)	( 373,747)	-	( 8,143,815)
Sewer plant	<u>( 2,302,971)</u>	<u>( 139,854)</u>	<u>-</u>	<u>( 2,442,825)</u>
Total accumulated depreciation	<u>( 14,818,482)</u>	<u>( 823,655)</u>	<u>134,672</u>	<u>( 15,507,465)</u>
Total capital assets, being depreciated, net	<u>18,430,110</u>	<u>1,237,385</u>	<u>-</u>	<u>19,667,495</u>
Business-type activities capital assets, net	<u>\$ 23,882,589</u>	<u>\$ 1,876,379</u>	<u>\$( 1,609,441)</u>	<u>\$ 24,149,527</u>

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

Governmental activities:

Administration	\$ 10,233
Fire	16,414
Library	3,426
Police	18,948
Public works	403,761
Parks and recreation	153,364
Planning	515
School support	351,223
Medical services	<u>88,849</u>
Total depreciation expense - governmental activities	<u>\$1,046,733</u>



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

**Note 3. - continued**

Business - type activities:

Sewer	\$ 233,254
Water	283,655
Garbage	12,513
Harbor	73,619
Marine industrial park	205,292
Cannery property	<u>15,322</u>
 Total depreciation expense -business type activities	 <u>\$ 823,655</u>

**Construction commitments**

The City has active construction projects as of June 30, 2015. The projects include street improvements and equipment to dry wood chips. At year end the City's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Street Improvements	\$ 5,599,550	\$ 471,355
North Ford Dam Improvements	<u>86,585</u>	<u>214,552</u>
	<u>\$ 5,686,135</u>	<u>\$ 685,907</u>

**D. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Receivable Fund	Payable Fund	Amount
Due to/from other funds:		
General Fund	Nonmajor Governmental Funds	\$ 52,715
General Fund	Capital Projects Fund	161,203
General Fund	Enterprise Fund	<u>649,833</u>
Total		<u>\$ 863,751</u>

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

Amounts due from the Enterprise Fund result from capital expenditures made by the General Fund for Enterprise Fund projects. Amounts will be repaid through the receipt of grant funds.

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

**Note 3. - continued**

Interfund Transfers:

	Transfer In:				
Transfer out:	General Fund	National Forest Receipts Fund	Nonmajor Governmental Funds	Enterprise Fund	Total
General Fund	\$ -	\$ 352,535	\$ 347,948	\$ 57,000	\$ 757,483
Endowment Fund	150,948	-	-	-	150,948
	\$ 150,948	\$ 352,535	\$ 347,948	\$ 57,000	\$ 908,431

**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. During FY15 the City repaid the final amount due of \$115,000 on bonds issued to construct an indoor aquatic facility. In addition, the City issued a new series of bonds to renovate the aquatic center. The bonds were issued at a premium of the \$205,368.

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

General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities: Renovation of Aquatic Center.		
\$1,810,000 2015 Series One, final payment due October 1, 2034	2.0 to 5.0%	\$ <u>1,810,000</u>

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

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2016	\$ 55,000	\$ 80,989
2017	60,000	76,487
2018	60,000	74,387
2019	65,000	71,887
2020	65,000	69,287
2021-2025	380,000	294,436
2026-2030	500,000	184,940
2031-2035	625,000	59,946
Total	\$ <u>1,810,000</u>	\$ <u>912,359</u>

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

**Note 3. - continued**

Business-Type Activities

State of Alaska, Department of Environmental Conservation Loan Program

The City borrowed funds from the State of Alaska to upgrade the wastewater system.

<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%	\$ 158,326
\$357,696 note payable for wastewater treatment improvements; \$26,892 due annually on August 10 of each year through 2019	1.5%	128,617
\$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%	134,368
\$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>259,193</u>
		<u>680,504</u>
Total debt - governmental and business-type		<u>\$2,490,504</u>

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

Year Ending June 30,

	<u>Principal</u>	<u>Interest</u>
2016	\$ 73,622	\$ 10,208
2017	74,727	9,104
2018	75,848	7,982
2019	76,986	6,844
2020	78,140	5,689
2021-2025	99,521	19,648
2026-2030	107,215	11,955
2031-2035	<u>94,445</u>	<u>3,824</u>
Total	<u>\$ 680,504</u>	<u>\$ 75,254</u>

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

**Note 3. - continued**

Changes in long-term liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
Bonds payable:					
General obligations bonds	\$ 115,000	\$ 1,810,000	\$( 115,000)	\$ 1,810,000	\$ 55,000
Issuance premiums	<u>-</u>	<u>205,368</u>	<u>-</u>	<u>205,368</u>	<u>10,268</u>
Governmental activities Long-term liabilities	<u>\$ 115,000</u>	<u>\$ 2,015,368</u>	<u>\$( 115,000)</u>	<u>\$ 2,015,368</u>	<u>\$ 65,268</u>
<b>Business-type activities:</b>					
Notes payable:					
State of Alaska	\$ 482,802	\$ 259,193	\$( 61,491)	\$ 680,504	\$ 73,622
Business-type activity Long-term liabilities	<u>\$ 482,802</u>	<u>\$ 259,193</u>	<u>\$( 61,491)</u>	<u>\$ 680,504</u>	<u>\$ 73,622</u>

Interest expense on all long-term debt was \$8,658 for the year ended June 30, 2015. The entire amount was charged to expense in the Statement of Activities.

**F. FUND BALANCE**

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

	<u>General Fund</u>	<u>Endowment Fund</u>	<u>National Forest Receipts</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Nonspendable:					
Prepaid items	\$ 3,139	\$ -	\$ -	\$ -	\$ 3,139
Restricted:					
Police	-	-	-	27,103	27,103
Schools	-	-	1,381,332	-	1,381,332
Aquatic Center renovation	-	-	-	1,938,168	1,938,168
Committed:					
Economic development	-	-	-	412,125	412,125
Library services	-	-	-	2,492	2,492
Operating and capital support	-	9,643,932	-	352,577	9,996,509
Unassigned	<u>2,562,727</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,562,727</u>
<b>Total Fund Balances</b>	<u><b>\$2,565,866</b></u>	<u><b>\$ 9,643,932</b></u>	<u><b>\$ 1,381,332</b></u>	<u><b>\$2,732,465</b></u>	<u><b>\$16,323,595</b></u>

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

**NOTE 4. OTHER INFORMATION**

**A. RISK MANAGEMENT**

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

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The City has not accrued a liability for claims and judgements at June 30, 2014 because the amount of potential claims at year end was determined to be immaterial. The City made no claim payments of during FY 2015.

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

**B. CONTINGENT LIABILITIES**

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

**C. Defined Benefit Pension Plan**

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

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

The Plan provides for retirement, death and disability, and post-employment health care benefits. There are three tiers of employees, based on entry date. For all tiers within the Plan, full retirement benefits are generally calculated using a formula comprised of a multiplier times the average monthly salary time the number of years of service. The multiplier is increased at longevity milestone markers for most employees. The tiers within the Plan establish differing criteria regarding normal retirement age, early retirement age, and the criteria of calculation of the average monthly salary. A complete benefit comparison chart is available at the website noted above.

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

**Historical Information**

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

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

**Note 3. - continued**

Legislation provides for State contributions in the event that the annually calculated and board adopted rate, which includes a provision to pay down the past-service liability, exceeds 22%. Any such additional contributions are recognized by each employer as an on-behalf of payment.

In addition, in fiscal year 2008, the State of Alaska passed legislation which requires that employer contributions be calculated on all PERS eligible wages, including wages attributable to the defined contribution plan described later in these footnotes.

Although current statutes call for the State of Alaska to contribute to the Plan, the Alaska Department of Law has determined that the statutes do not create a legal obligation to assume the liabilities of the Plan; rather it establishes a contribution mechanism to provide employer relief against rising contribution rates. This relief payment is subject to funding availability, and, therefore is not legally mandated. As a result, the State has determined that the Plan is not a special funding situation.

**Employee Contribution Rates**

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

**Employer and Other Contribution Rates**

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

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

*On-behalf Contribution Rate:* This is the rate normally paid by the State as an on-behalf payment under the current statute. The statute requires the State of contribute, based on funding availability, an on-behalf amount equal to the difference between the ARM Board Rate and the Employer Contractual Rate. However, in 2015, the State Legislature appropriated a one-time contribution to the Plan of \$1 billion. As a result , the On-behalf Contribution Rate for 2015 exceeds the statutory requirement. On-behalf of amounts are recognized as revenue and a reduction in the net pension obligation at the measurement period which is FY14 in the financial statements.

The City's contribution rates for FY2015 were determined as part of the June 30, 2012 actuarial valuation and are as follows:

	<u>Contractual Rate</u>	<u>ARM Board Adopted Rate</u>	<u>State Contribution Rate</u>	<u>GASB Rate</u>
Pension	12.54%	25.09%	42.41%	33.05%
Postemployment healthcare	<u>9.46</u>	<u>18.94</u>	<u>-</u>	<u>55.07</u>
Total contribution rate	<u>22.00 %</u>	<u>44.03 %</u>	<u>42.41 %</u>	<u>88.12%</u>

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

**Note 3. - continued**

For the year ended June 30, 2015, the City was credited with the following contributions to the pension plan:

	Measurement Period	
	<u>FY2014</u>	<u>FY2015</u>
Employer contributions (including DBUL)	\$ 135,973	\$ 141,663
Nonemployer contributions (on-behalf)	<u>128,487</u>	<u>729,059</u>
Total PERS contribution	<u>\$ 264,460</u>	<u>\$ 870,722</u>

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

At June 30, 2015, the City reported a liability of \$3,215,929 for its proportionate share of the net pension liability.

The net pension liability was determined by an actuarial valuation as of June 30, 2013 and rolled forward to the measurement date of June 30, 2014. The City's proportion of the net pension liability was based on the ratio of contributions made for each employer in the plan to total contributions made to the plan during the years ended June 30, 2014 and 2013.

For the year ended June 30, 2015, the City recognized pension expense of \$256,918. In addition, the City recognized on-behalf of revenue of \$128,487.

At June 30, 2015 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of <u>Resources</u>	Deferred Inflow of <u>Resources</u>
City's contributions subsequent to the measurement date	\$ 141,663	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	371,549
Changes in proportion and differences between the City's contributions and proportionate share of contributions	<u>34,069</u>	<u>-</u>
Total deferred outflows and deferred inflows	<u>\$ 175,732</u>	<u>\$ 371,549</u>

The amount reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

**Note 3. - continued**

Year ended June 30:

2016	\$ (66,680)
2017	(85,025)
2018	(92,887)
2019	(92,887)

**Actuarial Assumptions**

The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of June 30, 2013, which was rolled forward to June 30, 2014. The total pension liability for the June 30, 2013 measurement date was determined by an actuarial evaluation as of June 30, 2013. The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2005 to June 30, 2009, resulting in changes in the actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect expected future experience. This actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation rate	3.12%
Salary increases	Graded by age and service, from 9.60% to 3.62%
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 2005 to 2009 actual mortality experience. For all others (excluding peace officer/firefighter) the 1994 GAM Table, sex-distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA, 75% of the male table for males and 55% of the female table for females were used. For post-termination mortality, the 1994 GAM Table, sex-distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and with a 1-year set-forward for females were used.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expenses and inflation) are developed for each major class of assets. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by 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 System's current and expected asset allocation is 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>
Equities:	
Broad domestic equity	5.40%
Large caps	5.25
Small/mid caps	5.60
International equity	5.25
Emerging market equities	5.65
Global ex-US equity	5.55



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

**Note 3. - continued**

Fixed income:

Domestic fixed	0.75
TIPS	0.75

Other:

Real estate	3.95
Private equity	6.40
Hedge funds	2.85
Cash equivalents	(0.25)

**Discount Rate**

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that employer and nonemployer 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 Position Liability to Changes in the Discount Rate**

The following presents the net pension liability of the Plans as of June 30, 2014, calculated using the discount rate of 8% as well as what the Plans net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

<u>1% Decrease</u> (7%)	<u>Current discount rate</u> (8%)	<u>1% Increase</u> (9%)
\$ 4,216,701	3,215,929	2,373,186

**Salary Floor**

Senate Bill 125, discussed above also established a salary floor, which was defined as the total base salaries paid by a participating employer to active employees of the PERS system for the fiscal year ended June 30, 2008. AS 39.25.255 established a salary floor based on the FY 2008 salaries and requires the Division of Retirements and Benefits to collect employer contributions at a minimum based that salary floor. The City met the salary floor in FY14 and was not required to pay any additional amounts in FY15.

**D. Defined Contribution Pension Plan**

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

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

**Note 3. - continued**

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

**Benefit Terms**

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

**Employee Contribution Rate**

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

**Employer Contribution Rates**

The City was required to contribute 5% of the covered salary for the year ended June 30, 2015.

The City and employee contributions for pensions for the year ended June 30, 2015 were \$101,886 and \$70,816, respectively.

The City contributions are recognized as pension expense.

**E. Other Post-Employment Benefit (OPEB) Plans**

**Defined Benefit OPEB**

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

**Employer Contribution Rates**

The City is required to contribute 9.46% the covered payroll into the PERS OPEB plan. The State made no on-behalf of contributions to the OPEB in FY15.

Employees do not contribute to the defined benefit OPEB plan.

**Annual Postemployment Healthcare Cost**

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

Year Ended June 30,	Annual OPEB Costs	Contributions	% of Cost Contributed
2015	\$106,868	\$106,868	100%
2014	\$ 85,811	\$ 85,811	100%
2013	\$ 92,828	\$ 92,828	100%

On-behalf of contribution for PERS OPEB were \$0, \$98,604, and \$97,819 for 2015, 2014, and 2013, respectively. These amounts are not reflected in the OPEB costs in the table above.

**Defined Contribution OPEB**

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

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

**Note 3. - continued**

**Employer Contribution Rates**

Employees do not contribute to the DC OPEB plan. Employer contribution rates were as follows for the year ended June 30, 2015:

Retiree medical plan	1.66%
Occupational death and disability benefits	<u>0.22%</u>
Total contribution rate	<u>1.88%</u>

In addition, PERS defined contribution members also participate in the Health Reimbursement Arrangement. State statute establishes this contribution amount as “three percent of the average annual employee compensation of all employees of all employers in the plan.” As of July 1, 2014, for actual remittance, this amount is calculated as a flat rate for each full-time or part-time employee per pay period and approximates \$1,961 per year for each full-time employee, and \$1.26 per hour for part-time employees.

**Annual Postemployment Healthcare Cost**

In 2015, the City contributed \$57,712 in DC OPEB costs.

**Note 4. New Accounting Pronouncements**

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

GASB 72 - Fair Value Measurement and Application - Effective for year-ended June 30, 2016 - This statement defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. This statement is expected to primarily affect investment disclosures.

GASB 73 - Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 - This statement contains certain clarification and amendments to GASB 67 and 68 as well as establishing requirements for both defined benefit and defined contribution pensions not within the scope of GASB 68. Effective for fiscal year ended June 30, 2016 - except those provisions that address employers and governmental nonemployer contributing entities for pension that are not within the scope of Statement 68, which are effective for financial statements for year ending June 30, 2017.

GASB 74 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans- Effective for year ended June 30, 2017, with earlier application encouraged. - This statement contains financial reporting guidelines for Postemployment Benefit Plans. This is the Plan side requirement applicable to OPEB benefits and generally brings the OPEB reporting rules into alignment with the new GASB 67 pension rules.

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

GASB 76 - The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments - Effective for year-end June 30, 2016 with earlier application encouraged - This statement clarifies the hierarchy of generally accepted accounting principles to be used in the preparation of state and local government financial statements. This statement supercedes the previous hierarchy established in GASB 55.

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

**Note 5. Change in Accounting Principle**

As discussed in Note 3C to the financial statements, the City participates in a defined benefit plan, the Alaska Public Employee Retirement System (PERS). In 2015 the City adopted the provisions of GASB Statement No. 68 Accounting and Financial Reporting for Pensions, which, among other accounting and reporting criteria, requires the City to recognize its proportional share of the Net Pension Liability (and related deferred inflows/outflow amounts), as of the beginning of the City's fiscal year. As a result of the implementation of this statement, the City has recorded an opening balance adjustment to reflect opening balance pension liabilities and to decrease opening net position as follows:

Opening net position, as originally presented	\$ 63,820,755
Change in accounting principle adjustment:	
Beginning net pension liability	( 3,560,569)
Timing difference in employer contributions	<u>135,973</u>
Opening net position, as restated	<u>\$ 60,396,159</u>

## **REQUIRED SUPPLEMENTARY INFORMATION**

## CITY OF CRAIG, ALASKA

## GENERAL FUND

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

## BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Real and personal	\$ 604,000	\$ 600,000	\$ 601,041	\$ 1,041
Sales and bed	1,552,000	1,618,000	1,638,911	20,911
Liquor	120,000	121,000	121,554	554
State sources	368,154	483,564	483,562	(2)
Federal sources	220,000	308,000	318,000	10,000
Charges for services	599,760	609,205	613,149	3,944
Fines, forfeitures and penalties	7,000	13,200	13,288	88
Investment income	4,500	4,100	4,183	83
Uses of property	60,000	64,600	65,809	1,209
Licenses and permits	66,050	77,620	77,655	35
Other	5,500	3,400	4,472	1,072
Total revenues	3,606,964	3,902,689	3,941,624	38,935
<b>EXPENDITURES</b>				
Current:				
Administration	756,085	771,442	738,591	32,851
Council	77,590	98,214	128,956	(30,742)
Planning	80,420	83,430	76,786	6,644
Parks and facilities	211,303	229,458	222,465	6,993
Public works	270,405	245,137	236,725	8,412
Police	942,893	919,105	858,897	60,208
Emergency medical services	179,884	176,928	174,085	2,843
Fire	22,588	16,105	16,969	(864)
Library	124,828	111,492	110,549	943
Recreation	98,040	95,079	93,238	1,841
Aquatic facilities	440,064	397,565	375,027	22,538
Hatchery	35,000	35,000	39,394	(4,394)
Debt service	119,600	119,600	119,600	-
Total expenditures	3,358,700	3,298,555	3,191,282	107,273
Excess (deficit) of revenues over (under) expenditures	248,264	604,134	750,342	146,208
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	120,000	120,000	150,948	30,948
Transfers out	(588,303)	(674,239)	(757,483)	(83,244)
Total other financing sources (uses)	(468,303)	(554,239)	(606,535)	(52,296)
Net change in fund balances	(220,039)	49,895	143,807	93,912
Fund balances, beginning of year	2,453,870	2,453,870	2,453,870	-
Fund balances, end of year	\$ 2,233,831	\$ 2,503,765	\$ 2,597,677	\$ 93,912

See notes to Required Supplementary Information.

CITY OF CRAIG, ALASKA

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

PUBLIC EMPLOYEES RETIREMENT SYSTEM

June 30, 2015

	<u>2015</u>
City's proportion of net pension liability	.06895012%
City's proportionate share of the net pension liability	\$ 3,215,929
City's covered-employee payroll	\$ 755,381
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	426%
Plan fiduciary net position as a percentage of the total pension liability	62.37%

See notes to Required Supplementary Information.

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

	2015
Contractually required contribution	\$ 141,663
Contributions in relation to the contractually required contribution	(141,663)
Contribution deficiency (excess)	\$ -
City's covered-employee payroll	699,061
Contributions as a percentage of covered-employee payroll	20.265%



## CITY OF CRAIG, ALASKA

### Notes to Required Supplementary Information

#### Note 1. Budgetary Comparison Schedules

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

#### Note 2. Schedule of Proportionate Share of Net Pension Liability

The amounts presented in this schedule were determined as of the measurement date of June 30 of the year prior to the fiscal year presented. For June 30, 2015, the Plan measurement date in June 30, 2014.

#### Note 3. Schedule of Contributions

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

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

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

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

## **ADDITIONAL SUPPLEMENTARY INFORMATION**

## Nonmajor Governmental Funds

### Special Revenue Funds

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

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

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

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

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

Local Emergency Planning Committee - 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.

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

School Freezer Fund - This fund accounts for a grant from the State of Alaska, Department of Commerce, Community, and Economic Development. This grant was used by the Craig City School District to purchase a large freezer for the school lunch program.

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

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

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

### Capital Projects Fund

Aquatics Center Upgrade - This fund accounted for a grant from the State of Alaska for improvements to the aquatic center. Funds were used for an architectural firm to determine the needed improvements. In FY15, the City issued bonds in the amount of \$ 1,810,000 to finance the renovations. Those cost will be accounted for in this fund.

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

Wood Chip Dryer Construction - This fund accounts for the purchase and installation of drying equipment at a local sawmill. The equipment will dry the wood chips used as fuel in the City's wood boiler. This boiler heats the aquatic center and the elementary school.

CITY OF CRAIG, ALASKA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2015

	Special		Revenue	
	Facilities Development Fund	Police Drug Forfeiture	Land Development Fund	Equipment Fund
<b>ASSETS</b>				
Equity in central treasury	\$ -	\$ -	\$ 100	\$ -
Cash and cash equivalents	75,140	28,103	412,025	277,337
Receivables, net of allowance for uncollectibles	300	-	-	-
<b>Total assets</b>	<u>\$ 75,440</u>	<u>\$ 28,103</u>	<u>\$ 412,125</u>	<u>\$ 277,337</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Deferred revenue	-	-	-	-
Due to other funds	200	1,000	-	-
<b>Total liabilities</b>	200	1,000	-	-
Fund balances:				
Restricted	-	27,103	-	-
Committed	75,240	-	412,125	277,337
<b>Total fund balances</b>	75,240	27,103	412,125	277,337
<b>Total liabilities and fund balances</b>	<u>\$ 75,440</u>	<u>\$ 28,103</u>	<u>\$ 412,125</u>	<u>\$ 277,337</u>

Funds

Local Emergency Planning Committee	Equipment Purchase Grant	Library Grant IML	State of Alaska Library Grants	Library Special Project
\$ -	\$ -	\$ 99	\$ -	\$ 2,411
6,084	39,754	-	8,000	5,000
<u>\$ 6,084</u>	<u>\$ 39,754</u>	<u>\$ 99</u>	<u>\$ 8,000</u>	<u>\$ 7,411</u>
\$ 82	\$ 207	\$ 30	\$ 2,034	\$ 266
6,002	39,547	69	-	4,653
6,084	39,754	99	8,000	4,919
-	-	-	-	-
-	-	-	-	2,492
-	-	-	-	2,492
<u>\$ 6,084</u>	<u>\$ 39,754</u>	<u>\$ 99</u>	<u>\$ 8,000</u>	<u>\$ 7,411</u>

CITY OF CRAIG, ALASKA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2015

	<u>Capital Projects Funds</u>			<u>Total Nonmajor Governmental Funds</u>
	<u>Aquatics Center Upgrade</u>	<u>Road Construction</u>	<u>Wood Chip Dryer Construction</u>	
Equity in central treasury	\$ -	\$ -	\$ -	\$ 2,610
Cash and cash equivalents	2,009,750	-	-	2,802,355
Receivables, net of allowance for uncollectibles	<u>37,398</u>	<u>11,929</u>	<u>41,754</u>	<u>150,219</u>
<b>Total assets</b>	<u><u>\$ 2,047,148</u></u>	<u><u>\$ 11,929</u></u>	<u><u>\$ 41,754</u></u>	<u><u>\$ 2,955,184</u></u>
Accounts payable	\$ -	\$ -	\$ 1,460	\$ 4,079
Deferred revenue	-	-	-	4,722
Due to other funds	<u>108,980</u>	<u>11,929</u>	<u>40,294</u>	<u>213,918</u>
<b>Total liabilities</b>	108,980	11,929	41,754	222,719
Restricted	1,938,168	-	-	1,965,271
Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>767,194</u>
<b>Total fund balances</b>	<u>1,938,168</u>	<u>-</u>	<u>-</u>	<u>2,732,465</u>
<b>Total liabilities and fund balances</b>	<u><u>\$ 2,047,148</u></u>	<u><u>\$ 11,929</u></u>	<u><u>\$ 41,754</u></u>	<u><u>\$ 2,955,184</u></u>

CITY OF CRAIG, ALASKA

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

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2015

Special Revenue Funds

	Facilities Special Revenue	Police Drug Forfeiture	Land Development Fund	Equipment Fund
<b>REVENUES</b>				
State sources	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	-
Investment income	43	72	214	92
Other	3,600	7,341	80,538	-
<b>Total revenues</b>	<b>3,643</b>	<b>7,413</b>	<b>80,752</b>	<b>92</b>
<b>EXPENDITURES</b>				
Current:				
Library	-	-	-	-
Police	-	3,765	-	-
Public works	-	-	12,464	-
Support	-	-	-	-
Capital outlay	-	-	-	70,703
<b>Total expenditures</b>	<b>-</b>	<b>3,765</b>	<b>12,464</b>	<b>70,703</b>
Excess (deficit) of revenues over expenditures	3,643	3,648	68,288	(70,611)
<b>Other financing sources(uses):</b>				
Transfers in	-	-	-	347,948
Transfers out	-	-	-	-
General obligation bonds issued	-	-	-	-
Premium on general obligation bonds issued	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>347,948</b>
<b>Net change in fund balances</b>	<b>3,643</b>	<b>3,648</b>	<b>68,288</b>	<b>277,337</b>
Fund balance, beginning of year	71,597	23,455	343,837	-
Fund balance, end of year	<u>\$ 75,240</u>	<u>\$ 27,103</u>	<u>\$ 412,125</u>	<u>\$ 277,337</u>

CITY OF CRAIG, ALASKA

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

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2015

	Special Revenue Funds			
	Local Emergency Planning Committee	School Freezer Grant	Equipment Purchase Grant	Library Grant IML
<b>REVENUES</b>				
State sources	\$ 11,779	\$ 15,000	\$ 83,965	\$ -
Federal sources	19,211	-	-	6,931
Investment income	-	-	-	-
Other	-	-	-	-
Total revenues	30,990	15,000	83,965	6,931
<b>EXPENDITURES</b>				
Current:				
Library	-	-	-	6,931
Police	30,990	-	-	-
Public works	-	-	-	-
Support	-	15,000	-	-
Capital outlay	-	-	83,965	-
Total expenditures	30,990	15,000	83,965	6,931
Excess (deficit) of revenues over expenditures	-	-	-	-
<b>Other financing sources(uses):</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
General obligation bonds issued	-	-	-	-
Premium on general obligation bonds issued	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	-	-	-	-
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ -	\$ -



Capital Projects Funds

State of Alaska Library Grants	Library Special Projects	Aquatic Center Upgrade	Total Nonmajor Governmental Funds
\$ 14,090	\$ -	\$ 101,226	\$ 226,060
1,500	-	-	27,642
-	-	-	421
-	3,397	-	94,876
15,590	3,397	101,226	348,999
15,590	3,059	-	25,580
-	-	-	34,755
-	-	-	12,464
-	-	-	15,000
-	-	178,426	333,094
15,590	3,059	178,426	420,893
-	338	(77,200)	(71,894)
-	-	-	347,948
-	-	-	-
-	-	1,810,000	1,810,000
-	-	205,368	205,368
-	-	2,015,368	2,363,316
-	338	1,938,168	2,291,422
-	2,154	-	441,043
<u>\$ -</u>	<u>\$ 2,492</u>	<u>\$ 1,938,168</u>	<u>\$ 2,732,465</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, 2015

	Sewer Department	Water Department	Garbage Department	Harbor Department	Marine Industrial Park Department	Cannery Property Department	Total
Operating revenue:							
Charges for services	\$ 280,879	\$ 287,490	\$ 309,531	\$ 270,665	\$ 356,164	\$ 8,575	\$ 1,513,304
Operating expenses:							
Salaries and benefits	127,929	204,393	100,233	182,867	89,646	-	705,068
Insurance	3,878	3,994	1,784	19,093	6,079	6	34,834
Utilities	36,803	55,580	-	23,778	35,918	3,335	155,414
Contractual services	6,903	58,856	216,681	2,759	1,002	870	287,071
Repairs and maintenance	22,006	8,679	5,379	23,270	1,983	2,053	63,370
Materials and supplies	9,721	52,821	86,264	16,985	3,846	-	169,637
Travel and per diem	300	1,200	2,166	2,824	3,196	-	9,686
Small equipment	3,896	-	-	1,300	2,821	-	8,017
Other	6,537	5,594	3,942	19,589	6,343	-	42,005
Depreciation	233,256	283,655	12,513	73,619	205,292	15,322	823,657
Total operating expenses	451,229	674,772	428,962	366,084	356,126	21,586	2,298,759
Operating income (loss)	(170,350)	(387,282)	(119,431)	(95,419)	38	(13,011)	(785,455)
Nonoperating revenues (expenses):							
Investment income	12	-	-	-	-	-	12
Interest expense	(1,197)	(2,784)	(77)	-	-	-	(4,058)
Noncapital grants	7,195	9,827	3,514	8,020	2,558	-	31,114
Total nonoperating revenue (expenses)	6,010	7,043	3,437	8,020	2,558	-	27,068
Income (loss) before contributions and transfers	(164,340)	(380,239)	(115,994)	(87,399)	2,596	(13,011)	(758,387)
Capital contribution	-	290,247	330,598	38,315	100,235	-	759,395
Transfers in	57,000	-	-	-	-	-	57,000
Change in net position	\$ (107,340)	\$ (89,992)	\$ 214,604	\$ (49,084)	\$ 102,831	\$ (13,011)	\$ 58,008

**CITY OF CRAIG, ALASKA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended June 30, 2015

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>			
North Fork Lake Watershed Improvement Project Passed through the State of Alaska, Department of Commerce Community and Economic Development	10.665	11-DG-11100500-094	\$ 137,631
National Forest Receipts - Municipal & Regional Assistance	10.665		<u>590,917</u>
<b>Total Department of Agriculture</b>			728,548
<b>Department of Commerce</b>			
Passed through the State of Alaska, Department of Commerce, Community and Economic Development Chinook Salmon Mitigation Funds Ice House Storage Expansion	11.438	13-CSMI-004	100,235
<b>National Oceanic and Atmospheric Administration</b>			
Passed through the State of Alaska, Department of Military Affairs NOAA Tsunami Hazard Ready Program	11.467	13NOAA3-GR34082	<u>14,794</u>
<b>Total Department of Commerce</b>			115,029
<b>Department of Homeland Security</b>			
Passed through the State of Alaska, Department of Military and Veterans Affairs State Homeland Security Program	97.067	14SHSP-GR34094	<u>4,417</u>
<b>Total Department of Homeland Security</b>			4,417
<b>Department of the Interior</b>			
Payment in Lieu of Taxes Passed through the State of Alaska, Department of Fish and Game	15.226		308,000
False Island Moorage Float Replacement	15.622	COOP-12-034	<u>38,315</u>
<b>Total Department of the Interior</b>			346,315

**CITY OF CRAIG, ALASKA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2015

Grantor and Program Title	Federal CFDA Number	Grant Number or Pass-Through Entity Identifying Number	Federal Expenditures
<b>Environmental Protection Agency</b>			
Congressionally Mandated Projects			
City of Craig Water Main and Pump Station Replacement	66.202	XP-00J49301	<u>94,741</u>
<b>Total Environmental Protection Agency</b>			<u>94,741</u>
<b>Institute of Museum and Library Services</b>			
National Endowment for the Humanities Pass-Through Programs			
Passed through the Craig Community Association			6,931
Native American and Native Hawaiian Library Services	45.311		
Passed through the State of Alaska	45		<u>1,500</u>
<b>Total National Endowment for the Humanities</b>			<u>8,431</u>
<b>Total Federal Financial Assistance</b>			<u><u>\$ 1,297,481</u></u>

CITY OF CRAIG, ALASKA  
 SCHEDULE OF STATE FINANCIAL ASSISTANCE

For the Year Ended June 30, 2015

Grantor and Program Title	Grant Number	State Expenditures
<b>Department of Administration</b>		
PERS Relief		* \$ 729,059
Community Revenue Sharing		* 153,064
Total Department of Administration		882,123
<b>Department of Commerce, Community &amp; Economic Development</b>		
Repairs and Upgrades at the Aquatic Center	14-RR-059	* 101,226
City Schools Replacement Freezer and Cooler	15-DC-041	15,000
Municipal Drinking Water Source Storage	13-DC-126	8,878
and Master Plan	13-DC-298	48,997
Public Works Heavy Equipment	13-DC-398	* 414,563
Shared Fish Tax		9,694
Total Department Community and Economic Development		598,358
<b>Department of Education and Early Development</b>		
Public Library Assistance Grant		6,650
Inter-Library Cooperation Grant		6,500
ELC Grant		940
Total Department of Education and Early Development		14,090
<b>Department of Military and Veterans Affairs</b>		
Local Emergency Planning Committee	14LEPC-GR35602	11,779
Total Department of Military and Veterans Affairs		11,779
<b>Department of Revenue</b>		
Fisheries Taxes		* 314,704
Liquor Licenses		6,100
Total Department of Revenue		320,804
Total State of Alaska Financial Assistance		<u>\$ 1,827,154</u>

\* Denotes a major program

CITY OF CRAIG, ALASKA

Notes to Schedule of Expenditures of Federal Awards  
and the Schedule of State Financial Assistance

Year Ended June 30, 2015

**Note A – General**

The accompanying Schedule of Expenditures of Federal Awards and the Schedule of State Financial Assistance present the activity of all federal and State of Alaska awards programs of the City of Craig, Alaska (“City”) for the year ended June 30, 2015. The City’s reporting entity is defined in Note 1 of the City’s June 30, 2015 basic financial statements.

**Note B – Basis of Accounting**

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

**Note C – Subrecipients**

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

**Note D – Reconciliation of Reported Expenditures to the Basic Financial Statements Federal Awards**

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

Operating grants and contributions	\$ 772,915
Capital grants and contributions	959,586
Grants and contributions not restricted to a specific purpose	<u>791,562</u>
Total from Statement of Activities	2,524,063
State of Alaska sources	( 1,827,154)
FY15 PERS on-behalf of grant revenue - GASB 68 adjustment	729,059
FY14 PERS on-behalf of grant revenue - GASB 68 adjustment	<u>( 128,487)</u>
Total expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 1,297,481</u>

**SINGLE AUDIT SECTION**



# CHRISTINE E. HARRINGTON

Certified Public Accountant, LLC

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## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the City Council  
City of Craig, Alaska

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Craig, Alaska, as of and for the year ended June 30, 2015, 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 28, 2016.

### Internal Control Over Financial Reporting

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

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

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

### Compliance and Other Matters

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

Members of the City Council  
City of Craig, Alaska

**Purpose of this Report**

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

*Christine E Harrington*

Sitka, Alaska  
March 28, 2016

# 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 OMB CIRCULAR A-133

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 Circular A-133 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, 2015. 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, which received \$1,780,683 in federal awards which is not included in the schedule of expenditures of federal awards for the year ended June 30, 2015. My audit, described below, did not include the operations of the Craig City School District (District) because the District issued separate financial statements for the year ending June 30, 2015 with an auditor's report date of December 18, 2015. Those financial statements included the required reports on the federal awards for the Craig City School District.

### 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2015.

Members of the City Council  
City of Craig, Alaska

## **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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Christine E Harrington*

Sitka, Alaska  
March 28, 2016

# CHRISTINE E. HARRINGTON

Certified Public Accountant, LLC

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

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE STATE OF ALASKA AUDIT GUIDE AND COMPLIANCE SUPPLEMENT FOR STATE SINGLE AUDITS

Members of the City Council  
City of Craig, Alaska

### Report on Compliance for Each Major State Program

I have audited the City of Craig, Alaska's compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of the City of Craig, Alaska's major state programs for the year ended June 30, 2015. The City of Craig, Alaska's major state programs are identified in the accompanying schedule of state financial assistance.

The City of Craig, Alaska's basic financial statements include the operations of the Craig City School District, which received \$11,694,631 in State awards which is not included in the schedule of state financial assistance for the year ended June 30, 2015. My audit, described below, did not include the operations of the Craig City School District (District) because the District issued separate financial statements for the year ending June 30, 2015 with an auditor's report date of December 18, 2015. Those financial statements included the required reports on the State awards for the Craig City School District.

### Management's Responsibility

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

### Auditor's Responsibility

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

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

### Opinion on Each Major State Program

In my opinion, the City of Craig, Alaska, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2015.

## Report on Internal Control Over Compliance

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

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

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

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

*Christine E Harrington*

Sitka, Alaska  
March 28, 2016

**City of Craig, Alaska**

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

**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
Audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
11,438	Ice House Storage Expansion
15.226	Payment in Lieu of Taxes

Dollar threshold used to distinguish between a major program:	\$300,000
Auditee qualifies as low risk auditee	Yes

**City of Craig, Alaska**

Schedule of Findings and Questioned Costs, continued

Year Ended June 30, 2015

**State Financial Assistance**

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

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

None noted

**Section III - Federal Award Findings and Question Costs**

None noted

**Section III - State of Alaska Award Findings and Question Costs**

None noted

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

**Federal**

No prior year findings and questioned costs

**State of Alaska**

No prior year findings and questioned costs

**Section V - Corrective Action Plan**

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