

CITY OF CRAIG, ALASKA
BASIC FINANCIAL STATEMENTS

For the fiscal year ended

June 30, 2013

Prepared by:

Department of Finance

CITY OF CRAIG, ALASKA
BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013
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FINANCIAL SECTION

CHRISTINE E. HARRINGTON

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INDEPENDENT AUDITOR'S REPORT

Members of the City Council
City of Craig, Alaska

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Craig, Alaska, as of and for the year ended June 30, 2013, 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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 -11 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.

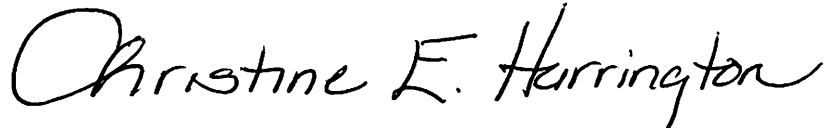
Other information

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated February 27, 2014, on my consideration of the City of Craig, Alaska's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Craig, Alaska's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Christine E. Harrington". The signature is written in a cursive, flowing style.

Sitka, Alaska
February 27, 2014

Management's Discussion and Analysis

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, 2013.

Financial Highlights

- The assets and deferred outflows of the City of Craig exceeded its liabilities at the close of the most recent fiscal year by \$61,002,791. Of this amount, \$12,305,633 (*unrestricted*) may be used to meet the government's ongoing obligations to residents and creditors.
- The government's total net position increased by \$2,794,989. Governmental type activities increased by \$3,066,200 and business type activities decreased by \$271,211.
- As of the close of the current fiscal year, the City of Craig's governmental funds reported combined ending fund balances of \$12,613,003 an increase of \$1,748,035 in comparison with the prior year. Approximately 16% of this amount (\$2,037,231) 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 \$2,037,231, or approximately 60% 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 18 through 20 of this report.

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

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

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

The City of Craig maintains fifteen 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 21 through 24 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 29 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30 through 48 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 50 through 63 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Craig, assets and deferred outflows exceeded liabilities by \$61,002,791 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, 2013

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current & other assets	15,835,619	\$ 13,305,749	(77,277)	\$ 57,686	\$ 15,758,342	\$ 13,363,435
Capital assets	27,063,985	26,013,641	23,506,532	23,901,740	50,570,517	49,915,381
Total assets	42,899,604	39,319,390	23,429,255	23,959,426	66,328,859	63,278,816
Long-term liabilities	230,000	497,857	1,814,588	1,921,132	2,044,588	2,418,989
Other liabilities	3,219,616	2,440,785	209,049	211,240	3,428,665	2,652,025
Total liabilities	3,449,616	2,938,642	2,023,637	2,132,372	5,473,253	5,071,014
Net assets						
Invested in capital assets, net of related debt	26,833,945	25,515,780	21,846,498	21,864,905	48,680,443	47,380,685
Restricted	21,044	21,044	0	-	21,044	21,044
Unrestricted	12,591,959	10,843,924	(286,326)	(37,851)	12,305,633	10,806,073
Total net position	\$ 39,446,948	\$ 36,380,748	\$ 21,560,172	\$ 21,827,054	\$ 61,007,120	\$ 58,207,802

By far the largest portion of the City of Craig's net position (70 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 (27 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 (\$1,785,869) 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 the all three 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 2013, the City of Craig's net position increased by \$3,066,200 for governmental activities. Highlights of governmental activities net position changes are as follows:

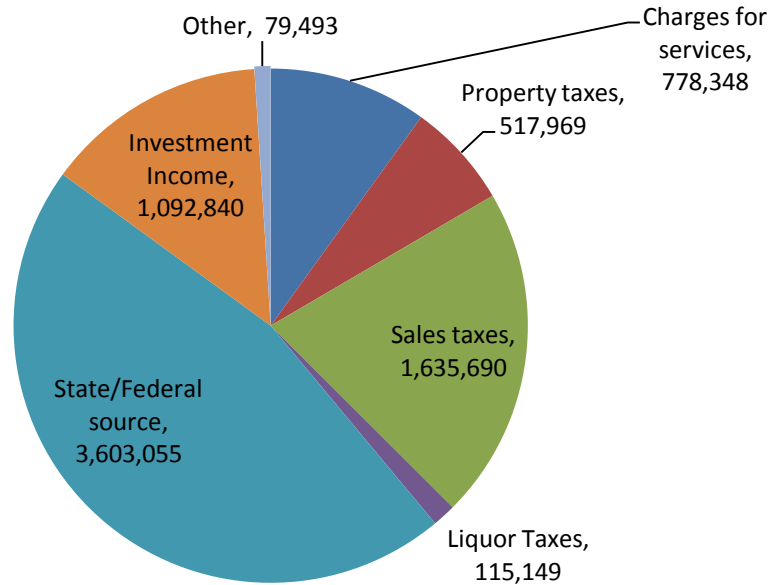
- Revenues for the City's governmental activities increased 10% from last year due to increased sales tax and the grants received in FY2013. This year the city continued street improvements with state and federal grants in the amount of \$1,743,600. The City also received grant funds for new LED street lights, and National Forest Receipts for road maintenance and police vehicles. In addition, a parcel of land was sold to Tyler Rental, LLC.
- The restricted Endowment fund recorded a \$1,092,840 increase in revenue as the equity investments had a good recovery year in the stock market.
- The general fund tax revenue increased \$49,387 which was largely an increase in sales and liquor tax.
- The governmental expenditures excluding the capital outlay increased by \$289,654. The Emergency Medical Services purchased supplies and small equipment in the amount of \$20,820 to upgrade the two ambulances the City maintains. The City started the development of vacant lots for utility services which is included in the increase of the Public Works expenditures of \$157,815. The Police department updated the jail and purchased two used Forest service vehicles.
- The expenditures includes a payment to the state retirement fund over and above the normal employer contributions. Wages paid during FY12 were less than the 2008 floor established by the state legislative and the City was required to pay an additional \$59,874 in the state retirement system.

City of Craig
Changes in Net Position
For the year ended June 30, 2013

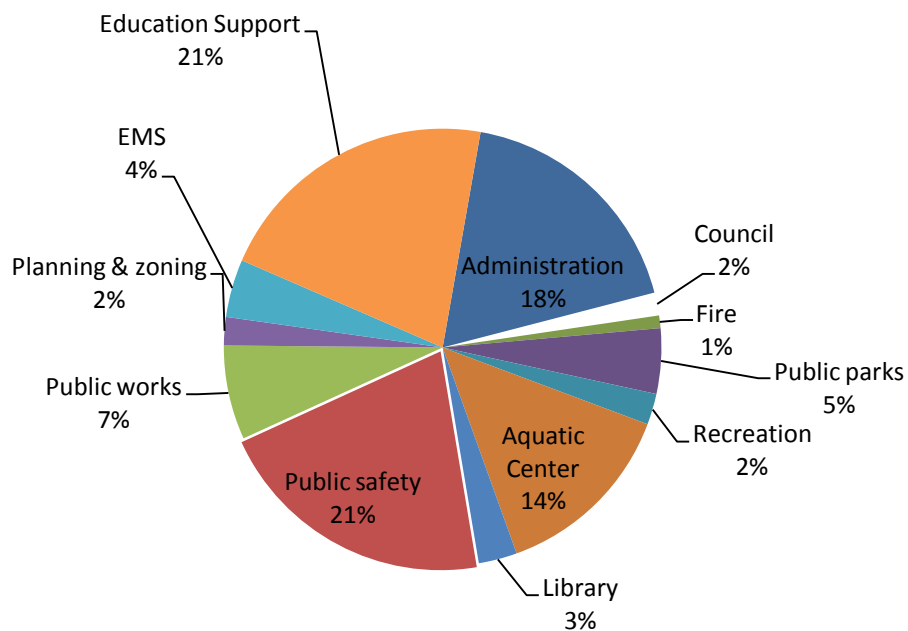
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Program Revenues						
Charges for services	778,348	\$ 710,638	\$ 1,409,822	\$ 1,483,541	\$ 2,188,170	2,194,179
Property taxes	517,969	513,931			517,969	513,931
Sales taxes	1,635,690	1,595,101			1,635,690	1,595,101
Liquor Taxes	115,149	110,389			115,149	110,389
State/Federal source	3,603,055	1,435,543	587,807	830,324	4,190,862	2,265,867
Investment Income	1,092,840	330,221		9	1,092,840	330,230
Other	79,493	22,837	11		79,504	22,837
Total Revenue	7,822,544	4,718,660	1,997,640	2,313,874	9,820,184	7,032,534
Expenses						
Administration	821,515	786,491			821,515	786,491
Council	65,639	73,247			65,639	73,247
Fire	36,103	40,299			36,103	40,299
Public parks	202,514	208,665			202,514	208,665
Recreation	95,703	99,075			95,703	99,075
Aquatic Center	573,150	597,295			573,150	597,295
Library	136,627	122,902			136,627	122,902
Public safety	956,866	901,127			956,866	901,127
Public works	605,622	301,135			605,622	301,135
Planning & zoning	86,957	90,399			86,957	90,399
EMS	254,124	185,004			254,124	185,004
Education Support	937,141	919,712			937,141	919,712
Sewer			480,736	438,168	480,736	438,168
Water			581,965	583,448	581,965	583,448
Garbage			332,440	353,754	332,440	353,754
JT Brown Industrial Park/Icehouse			428,512	422,806	428,512	422,806
Harbor			380,809	390,854	380,809	390,854
Cannery			48,772	90,445	48,772	90,445
Total Expenses	4,771,961	4,325,351	2,253,234	2,279,475	7,025,195	6,604,826
Increase in net position before transfers	3,050,583	393,309	(255,594)	34,399	2,794,989	427,708
Transfers	15,617	(1,208,210)	(15,617)	1,208,210	-	-
Increase (decrease) in net position	3,066,200	(814,901)	(271,211)	1,242,609	2,794,989	427,708

Expenses and Program Revenues – Governmental Activities

Revenue by Source - Governmental Activities



Expenditures by Department - Governmental Activities

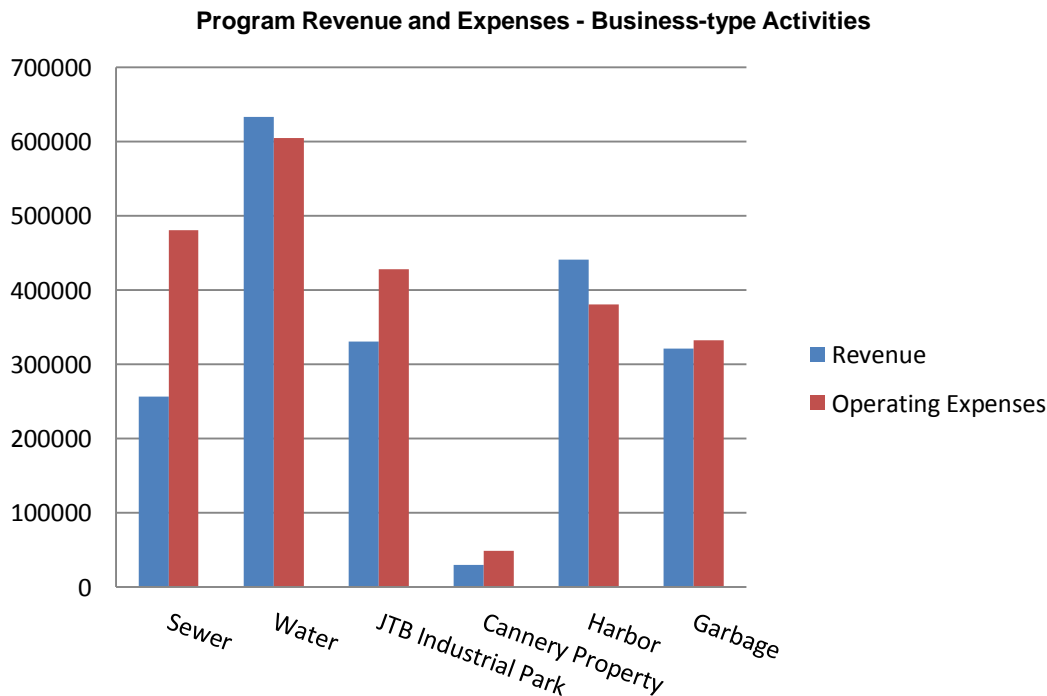


Business-type activities

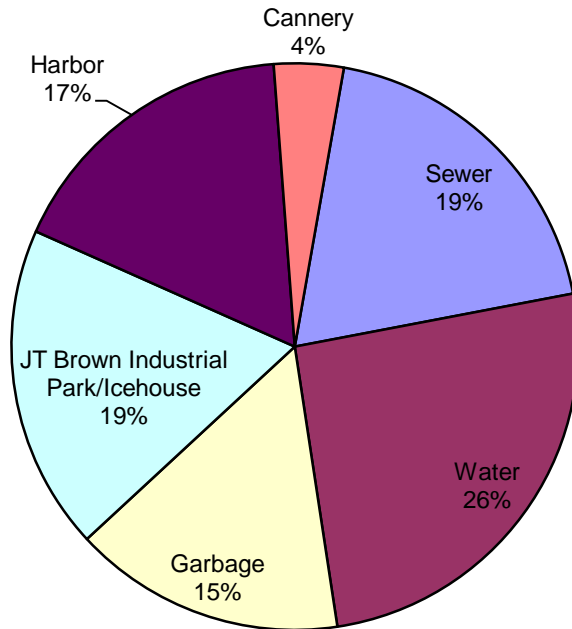
Business-type activities decreased the City of Craig net position by \$271,211. Key elements of this increase are as follows.

- Charges for services for business-type activities decreased by 5 percent. Last year the water and wastewater departments had one-time revenue from the local tribe for prior year expenses to replace water and wastewater lines along the Pt. St. Nick roadway. The utility charges received were comparable to last year. The harbor revenue had normal fluctuations due to the fish runs.
- Expenses for business-type activities remained consistent with 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.



Expenses by Department - 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	\$ 517,969
Sales Tax	1,617,754
General services	289,795

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.

Expenses — Business-type Activities

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 2013. The governmental fund expenditures were increased \$46,156 while the enterprise fund expenses were increased \$167,420 due to personnel changes and higher maintenance costs.

Capital Asset and Debt Administration

City of Craig Net Capital Assets As of June 30, 2013

	2013	2012	2013	2012	2013	2012
Land	\$ 90,864	\$ 90,864	\$ 3,938,727	\$ 3,938,726	\$ 4,029,591	\$ 4,029,590
Buildings	28,750,811	28,750,811	7,064,733	7,039,833	35,815,544	35,790,644
Equipment	1,635,256	1,453,291	885,224	831,529	2,520,480	2,284,820
Harbors			3,417,113	3,417,382	3,417,113	3,417,382
Water/Sewer Sys			17,685,839	17,635,882	17,685,839	17,635,882
Sewer plant			4,187,737	4,187,737	4,187,737	4,187,737
Construction in Progress	5,060,342	3,463,248	536,058	94,730	5,596,400	3,557,978
Total Assets	35,537,273	33,758,214	37,715,431	37,145,819	73,252,704	70,904,033
<i>Accumulated depreciation</i>	(8,473,324)	(7,744,573)	(14,058,675)	(13,244,078)	(22,531,999)	(20,988,651)
Net Capital Assets	\$ 27,063,949	\$ 26,013,641	\$ 23,656,756	\$ 23,901,741	\$ 50,720,705	\$ 49,915,382

Additional information on the City of Craig's capital assets is found in Note 3.C of the notes to the financial statements starting on page 39 of this report.

Long-term debt.

Bonds. At the end of the current fiscal year, the City of Craig had total bonded debt outstanding of \$230,000 backed by the full faith and credit of the government.

Notes Payable. In 1999, the City borrowed funds from the State of Alaska to upgrade the wastewater plant. The City owes \$395,870 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 \$147,514 loan with Alaska Department of Water for

water line improvements which is due in 2031. In 2009 the City borrowed funds to build a seafood processing plant with grant funds, a mortgage backed loan, and a short term note from First Bank. The mortgage backed loan balance at June 30, 2013 is \$1,271,204 and the short term note has been paid off.

Additional information on the City of Craig's long-term debt is found in note 3.E starting on page 42 of this report.

Economic Factors and Next Year's Budgets and Rates

- Inflation was assumed to be less than 2% as the Anchorage CPI for 2010 was 1.8%.
- The City of Craig's main industry, fishing is estimated to increase as it is the year for pink salmon run.
- The water and wastewater utility had major rate structure change and the City anticipates larger revenues and less consumption as the minimum usage of 8000 gallon was dropped and consumers will be charged per 1000 gallon of usage.
- The harbor will continue on an aggressive maintenance program to update the north and south cove harbors.
- Workers compensation insurance rates will increase by 17% and health insurance premiums will increase at least 12%.
-

These factors were taken into account when adopting the FY 2014 governmental budget. Amounts available for appropriation in the general and enterprise operating fund budgets are \$4.26 million, 10% decrease over the final 2013 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, 2013

	Primary Government			Component Unit:
	Governmental Activities	Business-type Activities	Total	Craig City School District
ASSETS				
Equity in Central Treasury	\$ 1,070,283	\$ -	\$ 1,070,283	\$ -
Cash and cash equivalents		19,401	19,401	4,067,463
Receivables (net of allowance for uncollectibles)	490,391	358,054	848,445	401,193
Internal balances	454,732	(454,732)	-	-
Prepaid items	11,719	-	11,719	2,000
Inventories	-	-	-	44,502
Restricted assets:				
Temporarily restricted:				
Equity in central treasury	20,890	-	20,890	-
Cash and cash equivalents	4,041,828	-	4,041,828	-
Investments	9,057,627	-	9,057,627	-
Receivables	664,361	-	664,361	-
Interest receivable	23,788	-	23,788	-
Capital assets (net of accumulated depreciation):				
Land	90,864	3,938,727	4,029,591	-
Buildings	21,446,040	6,135,530	27,581,570	-
Equipment	466,699	135,039	601,738	218,718
Harbors	-	602,724	602,724	-
Water and sewer system	-	10,284,338	10,284,338	-
Sewer plant	-	2,024,340	2,024,340	-
Construction in progress	5,060,342	536,058	5,596,400	-
Total assets	42,899,564	23,579,479	66,479,043	4,733,876
LIABILITIES				
Accounts payable and other current liabilities	226,344	144,412	370,756	599,615
Unearned revenue	14,912	-	14,912	50,285
Matured bonds and interest payable	-	64,636	64,636	-
Liabilities payable from restricted assets	2,981,360	-	2,981,360	-
Noncurrent liabilities:				
Due within one year	115,000	114,254	229,254	-
Due in more than one year	115,000	1,700,334	1,815,334	-
Total liabilities	3,452,616	2,023,636	5,476,252	649,900
NET POSITION				
Invested in capital assets, net of related debt	26,833,945	21,842,169	48,676,114	218,718
Restricted for:				
Public safety	21,044	-	21,044	-
Unrestricted	12,591,959	(286,326)	12,305,633	3,865,258
Total net position	\$ 39,446,948	\$ 21,555,843	\$ 61,002,791	\$ 4,083,976

See notes to financial statements.

CITY OF CRAIG, ALASKA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	
Primary government:				
Government activities:				
Administration	\$ 821,515	\$ 62,890	\$ 37,680	\$ -
Council	65,639	-	1,965	-
Fire	36,103	-	-	-
Parks and Recreation	871,367	75,796	33,943	254,624
Library	136,627	1,452	26,544	-
Police	956,866	527,141	127,026	-
Public Works	605,622	49,399	21,319	1,428,174
Planning	86,957	-	37,100	-
Medical Services	254,124	61,670	39,521	-
Support	937,141	-	554,975	254,624
	-	-	-	-
Total governmental activities	<u>4,771,961</u>	<u>778,348</u>	<u>880,073</u>	<u>1,937,422</u>
Business-type activities:				
Sewer	480,736	256,239	11,862	-
Water	581,965	254,042	14,614	337,629
Garbage	332,440	316,304	5,208	-
Harbor	380,809	251,542	14,722	175,000
Marine Industrial Park	428,512	327,755	2,940	-
Cannery Property	48,772	3,940	-	25,832
	-	-	-	-
Total business type activities	<u>2,253,234</u>	<u>1,409,822</u>	<u>49,346</u>	<u>538,461</u>
Total primary government	<u>\$ 7,025,195</u>	<u>\$ 2,188,170</u>	<u>\$ 929,419</u>	<u>\$ 2,475,883</u>
Component Units:				
Craig City School District	\$ 9,339,303	\$ 30,036	\$ 1,389,370	\$ -
Total component units	<u>\$ 9,339,303</u>	<u>\$ 30,036</u>	<u>\$ 1,389,370</u>	<u>\$ -</u>

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

Net position - end

See notes to financial statements.

Net (Expenses) Revenues and
Changes in Net Assets

Primary Government			Component Unit:
Governmental Activities	Business-type Activities	Total	Craig City School District
\$ (720,945)	\$ -	\$ (720,945)	-
(63,674)	-	(63,674)	-
(36,103)	-	(36,103)	-
(507,004)	-	(507,004)	-
(108,631)	-	(108,631)	-
(302,699)	-	(302,699)	-
893,270	-	893,270	-
(49,857)	-	(49,857)	-
(152,933)	-	(152,933)	-
(127,542)	-	(127,542)	-
<u>(1,176,118)</u>	<u>-</u>	<u>(1,176,118)</u>	<u>-</u>
-	(212,635)	(212,635)	-
-	24,320	24,320	-
-	(10,928)	(10,928)	-
-	60,455	60,455	-
-	(97,817)	(97,817)	-
-	(19,000)	(19,000)	-
<u>-</u>	<u>(255,605)</u>	<u>(255,605)</u>	<u>-</u>
<u>(1,176,118)</u>	<u>(255,605)</u>	<u>(1,431,723)</u>	
			<u>(7,919,897)</u>
			(7,919,897)
517,969	-	517,969	-
1,750,839	-	1,750,839	-
785,560	-	785,560	8,056,504
1,092,840	11	1,092,851	4,807
79,493	-	79,493	121,666
15,617	(15,617)	-	-
<u>4,242,318</u>	<u>(15,606)</u>	<u>4,226,712</u>	<u>8,182,977</u>
3,066,200	(271,211)	2,794,989	263,080
<u>36,380,748</u>	<u>21,827,054</u>	<u>58,207,802</u>	<u>3,820,896</u>
<u>\$ 39,446,948</u>	<u>\$ 21,555,843</u>	<u>\$ 61,002,791</u>	<u>\$ 4,083,976</u>

CITY OF CRAIG, ALASKA

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2013

	<u>General</u>	<u>Endowment</u>	<u>National Forest Receipts</u>	<u>Road Construction Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Equity in central treasury	\$ 1,070,283	\$ -	\$ -	\$ -	\$ -	\$ 1,070,283
Receivables:						
Customer	117,278	-	-	-	-	117,278
Taxes	398,267	-	-	-	-	398,267
Less allowance for doubtful accounts	(25,154)	-	-	-	-	(25,154)
Due from other funds	713,181	-	-	-	-	713,181
Prepaid items	11,719	-	-	-	-	11,719
Restricted assets:						
Equity in central treasury	-	-	-	-	20,890	20,890
Cash and cash equivalents	-	584,720	3,173,871	-	283,237	4,041,828
Investments	-	9,057,627	-	-	-	9,057,627
State of Alaska and Federal government	-	-	-	600,940	63,421	664,361
Interest receivable	-	23,788	-	-	-	23,788
Total assets	<u>\$ 2,285,574</u>	<u>\$ 9,666,135</u>	<u>\$ 3,173,871</u>	<u>\$ 600,940</u>	<u>\$ 367,548</u>	<u>\$ 16,094,068</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 116,260	\$ 4,632	\$ -	\$ -	\$ -	\$ 120,892
Accrued payroll and related	32,328	-	-	-	-	32,328
Accrued leave	73,124	-	-	-	-	73,124
Deferred revenue	14,912	-	-	-	-	14,912
Liabilities payable from restricted assets:						
Accounts payable	-	-	18,336	452,236	83,505	554,077
Deferred revenue	-	-	2,426,376	-	907	2,427,283
Due to other funds	-	-	43,564	148,704	66,181	258,449
Total liabilities	<u>236,624</u>	<u>4,632</u>	<u>2,488,276</u>	<u>600,940</u>	<u>150,593</u>	<u>3,481,065</u>
Fund balances:						
Nonspendable	\$ 11,719	\$ -	\$ -	\$ -	\$ -	\$ 11,719
Restricted	-	-	-	-	21,044	21,044
Committed	-	9,661,503	685,595	-	195,911	10,543,009
Unassigned	2,037,231	-	-	-	-	2,037,231
Total fund balances	<u>2,048,950</u>	<u>9,661,503</u>	<u>685,595</u>	<u>-</u>	<u>216,955</u>	<u>12,613,003</u>
Total liabilities and fund balances	<u>\$ 2,285,574</u>	<u>\$ 9,666,135</u>	<u>\$ 3,173,871</u>	<u>\$ 600,940</u>	<u>\$ 367,548</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

27,063,945

Long-term liabilities, including notes payable, are not due and payable in the current period and therefore, are not reported in the funds

(230,000)

Net position of governmental activities

\$ 39,446,948

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, 2013

	General	Endowment	National Forest Receipts	Road Construction Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes:						
Real and personal	\$ 517,969	\$ -	\$ -	\$ -	\$ -	\$ 517,969
Sales and bed	1,635,690	-	-	-	-	1,635,690
Liquor	115,149	-	-	-	-	115,149
State sources	1,274,873	-	-	168,722	499,092	1,942,687
Federal sources	289,795	-	635,225	1,080,296	110,227	2,115,543
Charges for services	152,260	-	-	-	-	152,260
Fines, forfeitures and penalties	9,587	-	-	-	-	9,587
Investment income	5,349	1,079,368	7,978	-	145	1,092,840
Uses of property	58,975	-	-	-	-	58,975
Licenses and permits	75,245	-	-	-	-	75,245
Other	4,493	-	-	-	102,106	106,599
Total revenue	4,139,385	1,079,368	643,203	1,249,018	711,570	7,822,544
EXPENDITURES						
Current:						
Administration	766,230	28,759	-	-	-	794,989
Council	65,639	-	-	-	-	65,639
Planning	86,442	-	-	-	-	86,442
Parks and facilities	202,514	-	-	-	-	202,514
Public works	211,506	-	12,096	-	267,991	491,593
Police	873,124	-	23,257	-	33,092	929,473
Emergency medical services	166,504	-	-	-	-	166,504
Fire	21,653	-	-	-	-	21,653
Library	114,177	-	-	-	19,024	133,201
Recreation	94,420	-	-	-	1,283	95,703
Aquatic facilities	459,250	-	-	-	-	459,250
Support	-	-	554,975	-	30,943	585,918
Debt service	278,188	-	-	-	-	278,188
Capital outlay	35,459	-	47,541	1,249,018	447,041	1,779,059
Total expenditures	3,375,106	28,759	637,869	1,249,018	799,374	6,090,126
Excess (deficit) of revenues over (under) expenditures	764,279	1,050,609	5,334	-	(87,804)	1,732,418
OTHER FINANCING SOURCES (USES)						
Transfers in	133,617	-	252,494	-	35,943	422,054
Transfers out	(288,437)	(118,000)	-	-	-	(406,437)
Total other financing sources (uses)	(154,820)	(118,000)	252,494	-	35,943	15,617
Net change in fund balances	609,459	932,609	257,828	-	(51,861)	1,748,035
Fund balances, beginning of year	1,439,491	8,728,894	427,767	-	268,816	10,864,968
Fund balances, end of year	\$ 2,048,950	\$ 9,661,503	\$ 685,595	\$ -	\$ 216,955	\$ 12,613,003

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, 2013

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

Net change in fund balances -- total governmental funds (page 22)	\$	1,748,035
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Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and should be reported as depreciation. This is the amount by which capital outlay exceeds depreciation in the current period.

Expenditures for capital outlay	\$ 1,779,059	
Less current year depreciation	<u>(728,751)</u>	1,050,308

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

Bond and loan payments		<u>267,857</u>
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Change in net position of governmental activities (page 20)	\$	<u><u>3,066,200</u></u>
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See notes to financial statements.

CITY OF CRAIG, ALASKA

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Real and personal	\$ 524,000	\$ 519,000	\$ 517,969	\$ (1,031)
Sales and bed	1,452,000	1,530,000	1,617,754	87,754
Liquor	120,000	110,000	115,149	5,149
State sources	835,812	1,110,823	1,274,873	164,050
Federal sources	235,000	285,487	289,795	4,308
Charges for services	114,000	144,600	152,260	7,660
Fines, forfeitures and penalties	10,000	10,000	9,587	(413)
Investment income	5,500	5,500	5,349	(151)
Uses of property	65,000	65,000	58,975	(6,025)
Licenses and permits	62,050	- 74,050	75,245	1,195
Other	5,500	2,500	4,493	1,993
Total revenues	3,428,862	3,856,960	4,121,449	264,489
EXPENDITURES				
Current:				
Administration	786,478	738,178	728,550	9,628
Council	81,056	62,148	63,674	(1,526)
Planning	90,534	89,483	79,342	10,141
Parks and facilities	213,726	196,976	189,837	7,139
Public works	208,003	217,420	202,283	15,137
Police	919,000	857,194	814,167	43,027
Emergency medical services	133,957	143,275	147,665	(4,390)
Fire	34,214	28,676	21,653	7,023
Library	88,173	115,094	108,842	6,252
Recreation	99,826	97,982	89,334	8,648
Aquatic facilities	435,022	463,602	443,070	20,532
Debt service	127,936	289,108	278,188	10,920
Capital outlay	13,055	38,000	35,459	2,541
Total expenditures	3,230,980	3,337,136	3,202,064	135,072
Excess (deficit) of revenues over (under) expenditures	197,882	519,824	919,385	399,561
OTHER FINANCING SOURCES (USES)				
Transfers in	120,000	120,000	133,617	13,617
Transfers out	(293,882)	(536,302)	(288,437)	247,865
Total other financing sources (uses)	(173,882)	(416,302)	(154,820)	261,482
Net change in fund balances	24,000	103,522	764,565	661,043
Fund balances, beginning of year	1,439,491	1,439,491	1,439,491	-
Fund balances, end of year	\$ 1,463,491	\$ 1,543,013	\$ 2,204,056	\$ 661,043

See notes to financial statements.

CITY OF CRAIG, ALASKA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2013

	Enterprise Fund	Total Proprietary Funds
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,401	\$ 19,401
Receivables:		
Accounts	132,709	132,709
Federal and State of Alaska	225,345	225,345
Total current assets	377,455	377,455
Noncurrent assets:		
Capital assets:		
Property, plant and equipment	37,179,373	37,179,373
Less accumulated depreciation	(14,058,675)	(14,058,675)
	23,120,698	23,120,698
Construction work-in-progress	536,058	536,058
Total property, plant and equipment	23,656,756	23,656,756
Total assets	\$ 24,034,211	\$ 24,034,211

See notes to financial statements.

CITY OF CRAIG, ALASKA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2013
(continued)

	Enterprise Fund	Total Proprietary Funds
LIABILITIES		
Current liabilities:		
Due to other funds	\$ 454,732	\$ 454,732
Accounts payable and accrued liabilities	144,412	144,412
Interest payable	64,636	64,636
Current portion of:		
Long-term notes payable	114,254	114,254
Total current liabilities	778,034	778,034
Noncurrent liabilities:		
Notes payable, net of current portion	1,700,334	1,700,334
Total liabilities	2,478,368	2,478,368
NET ASSETS		
Investment in capital assets, net of related debt	21,842,169	21,842,169
Unrestricted	(286,326)	(286,326)
Total net assets	\$ 21,555,843	\$ 21,555,843

See notes to financial statements.

CITY OF CRAIG, ALASKA
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Enterprise Fund</u>	<u>Total Proprietary Funds</u>
Operating revenue:		
Charges for services	\$ 1,409,822	\$ 1,409,822
Operating expenses:		
Salaries and benefits	678,587	678,587
Insurance	15,962	15,962
Utilities	167,052	167,052
Contractual services	245,525	245,525
Repairs and maintenance	60,328	60,328
Materials and supplies	76,643	76,643
Travel and per diem	9,063	9,063
Other	34,643	34,643
Depreciation	814,597	814,597
Total operating expenses	<u>2,102,400</u>	<u>2,102,400</u>
Operating loss	(692,578)	(692,578)
Nonoperating revenues		
(expenses):		
Investment income	11	11
Interest expense	(150,834)	(150,834)
Grant revenue	587,807	587,807
Total nonoperating revenue (expenses)	<u>436,984</u>	<u>436,984</u>
Income before contributions and transfers	(255,594)	(255,594)
Transfers out	<u>(15,617)</u>	<u>(15,617)</u>
Change in net assets	(271,211)	(271,211)
Total net assets - beginning	<u>21,827,054</u>	<u>21,827,054</u>
Total net assets - end	<u>\$ 21,555,843</u>	<u>\$ 21,555,843</u>

See notes to financial statements.

CITY OF CRAIG, ALASKA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Enterprise Fund</u>	<u>Total Proprietary Funds</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 1,634,954	\$ 1,634,954
Payments to suppliers	(572,566)	(572,566)
Payments to employees	(612,331)	(612,331)
	<hr/>	<hr/>
Net cash used by operating activities	450,057	450,057
	<hr/>	<hr/>
Cash flows from noncapital financing activities:		
Repayments to the General Fund	(51)	(51)
Transfers from other funds	(15,617)	(15,617)
	<hr/>	<hr/>
Net cash provided by noncapital financing activities	(15,668)	(15,668)
	<hr/>	<hr/>
Cash flows from capital and related financing activities:		
Capital expenditures	(569,614)	(569,614)
Interest paid	(93,006)	(93,006)
Repayment of notes payable	(222,247)	(222,247)
Government grants for construction	450,478	450,478
	<hr/>	<hr/>
Net cash used by capital and related financing activities	(434,389)	(434,389)
	<hr/>	<hr/>
Cash flows from investing activities:		
Interest received	11	11
	<hr/>	<hr/>
Net cash provided by investing activities	11	11
	<hr/>	<hr/>
Net increase in cash and cash equivalents	11	11
	<hr/>	<hr/>
Cash and cash equivalents, beginning of the year	19,390	19,390
	<hr/>	<hr/>
Cash and cash equivalents, end of year	<u>\$ 19,401</u>	<u>\$ 19,401</u>

See notes to financial statements.

CITY OF CRAIG, ALASKA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013
(continued)

	Enterprise Fund	Total Proprietary Funds
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (692,578)	\$ (692,578)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	814,597	814,597
On behalf of revenue	49,347	49,347
Changes in assets and liabilities		
Increase in accounts receivable	223,007	223,007
Decrease in accounts payable	55,684	55,684
Total adjustments	1,142,635	1,142,635
Net cash used by operating activities	\$ 450,057	\$ 450,057

See notes to financial statements.

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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
June 30, 2013

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
June 30, 2013

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 Road Construction Capital Project Fund accounts for a grant from the Federal Highway Administration for street paving. The paving started in June 2010 and will be completed in FY2014.

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
June 30, 2013

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 granting agencies 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.

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.

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 1. - continued

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:

<u>Assets</u>	<u>Years</u>
Sewer system	40 - 50 years
Water system	40 - 50 years
Harbor improvements	16 years
Buildings	50 years
Machinery and equipment	5 - 10 years
Trailers	15 - 30 years
Furnishings	5 years
Docks	40 years

Infrastructure acquired before June 30, 2003 has not been capitalized. There were no infrastructure acquisitions in FY2013.

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, as well as issuance costs, 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.

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 sometimes 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
June 30, 2013

Note 1. - continued

Fund balances

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net position."

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

Nonspendable Fund Balance

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 Fund Balance

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 Fund Balance

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 Fund Balance

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 Fund Balance

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
June 30, 2013

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, 2013 the City exceeded its appropriations in the following departments or funds:

Fund/Department	Excess Appropriation
General Fund – Council	\$ 1,526
General Fund – Emergency Medical Services	4,390
Enterprise Fund – Marine Industrial Park	6,259
Enterprise Fund – Transfers Out	15,617

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

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

The General Fund revenues and expenditures reported on page 22 of the basic financial statements differ from the amounts reported on page 24 in the column headed "actual amounts on a budgetary basis" due to timing differences in the recognition of sales tax revenue and on-behalf of payment made by the State of Alaska into PERS for the City of Craig.

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 3. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

As of June 30, 2013, the City had the following deposits and investments:

Cash on hand	\$ 4,900
Carrying amount of deposits	5,147,502
Carrying amount of investments	<u>9,057,627</u>
	<u>\$ 14,210,029</u>

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

Equity in Central Treasury	\$ 1,070,283
Equity in Central Treasury - Temporarily Restricted	20,890
Cash and cash equivalents	19,401
Cash and cash equivalents - Temporarily Restricted	4,041,828
Investments - Temporarily Restricted	<u>9,057,627</u>
	<u>\$ 14,210,029</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, 2013, as described by the nationally recognized statistical rating organization Standard & Poor's are shown below:

	<u>S&P Rating</u>	<u>Investment Fair Value</u>	<u>% of Total</u>
U.S. Treasury	AA+	\$ 993,216	10.97
Federal Agency	AA+	183,726	2.03
Asset-backed	AAA	85,857	.95
Asset-backed	AA+	104,227	1.15
Corporate	AA+	86,025	.95
Corporate	AA-	103,086	1.14
Corporate	A+	230,260	2.54
Corporate	A	464,884	5.13
Corporate	A-	292,710	3.23
Foreign government bonds	AAA	51,825	.57
Mutual funds	not rated	<u>6,461,811</u>	<u>71.34</u>
		<u>\$ 9,057,627</u>	<u>100.00</u>

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.

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 3. - continued

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, 2013, \$2,484,000 was covered by the Federal Deposit Insurance Corporation (FDIC); \$2,783,636 was subject to a collateral agreement, and the balance of \$88,577 was not 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, 2013 is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Modified Duration</u>
U.S. Treasury	\$ 993,216	4.82
Agency bonds	357,799	4.89
Foreign Government Bonds	51,825	4.00
Asset-backed	190,084	14.35
Corporate bonds	1,002,893	3.49
Open-end mutual funds	<u>6,461,810</u>	<u>0.00</u>
	<u>\$ 9,057,627</u>	
Portfolio modified duration		1.43

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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	\$ 398,267	\$ -	\$ -	\$ -	\$ 398,267
State of Alaska	-	-	186,850	224,842	411,692
US Government	-	-	38,495	439,219	477,714
Customer	117,278	-	148,798	300	266,376
Interest	<u>-</u>	<u>23,788</u>	<u>-</u>	<u>-</u>	<u>23,788</u>
Gross receivables	515,545	23,788	374,143	664,361	1,577,837
Less:					
Allowance for uncollectible	<u>(25,154)</u>	<u>-</u>	<u>(16,089)</u>	<u>(-)</u>	<u>(41,243)</u>
Net total receivables	<u>\$ 490,391</u>	<u>\$ 23,788</u>	<u>\$ 358,054</u>	<u>\$ 664,361</u>	<u>\$ 1,536,594</u>

C. CAPITAL ASSETS

Capital asset activity for year ended June 30, 2013 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 90,864	\$ -	\$ -	\$ 90,864
Construction in progress	<u>3,463,248</u>	<u>1,597,094</u>	<u>-</u>	<u>5,060,342</u>
Total capital assets, not being depreciated	<u>3,554,112</u>	<u>1,597,094</u>	<u>-</u>	<u>5,151,206</u>
Capital assets, being depreciated				
Buildings	28,750,811	-	-	28,750,811
Equipment	<u>1,453,291</u>	<u>181,965</u>	<u>-</u>	<u>1,635,256</u>
Total capital assets being depreciated	<u>30,204,102</u>	<u>181,965</u>	<u>-</u>	<u>30,386,067</u>
Less accumulated depreciation for:				
Buildings	(6,620,898)	(683,873)	-	(7,304,771)
Equipment	<u>(1,123,675)</u>	<u>(44,878)</u>	<u>-</u>	<u>(1,168,553)</u>
Total accumulated depreciation	<u>(7,744,573)</u>	<u>(728,751)</u>	<u>-</u>	<u>(8,473,324)</u>
Total capital assets, being depreciated, net	<u>22,459,529</u>	<u>(546,786)</u>	<u>-</u>	<u>21,912,743</u>
Governmental activities capital assets, net	<u>\$26,013,641</u>	<u>\$ 1,050,308</u>	<u>\$ -</u>	<u>\$ 27,063,949</u>

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 3. - continued

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 3,938,727	\$ -	\$ -	\$ 3,938,727
Construction in progress	<u>94,730</u>	<u>441,328</u>	<u>-</u>	<u>536,058</u>
Total capital assets, not being depreciated	<u>4,033,457</u>	<u>441,328</u>	<u>-</u>	<u>4,474,785</u>
Capital assets, being depreciated:				
Buildings	7,039,833	24,900	-	7,064,733
Equipment	831,798	53,426	-	885,224
Harbors	3,417,113	-	-	3,417,113
Water and sewer system	17,635,882	49,957	-	17,685,839
Sewer plant	<u>4,187,737</u>	<u>-</u>	<u>-</u>	<u>4,187,737</u>
Total capital assets, being depreciated	<u>33,112,363</u>	<u>128,283</u>	<u>-</u>	<u>33,240,646</u>
Less accumulated depreciation for:				
Buildings	(748,962)	(180,241)	-	(929,203)
Equipment	(694,357)	(55,828)	-	(750,185)
Harbors	(2,750,992)	(63,397)	-	(2,814,389)
Water and sewer system	(7,025,535)	(375,966)	-	(7,401,501)
Sewer plant	<u>(2,024,232)</u>	<u>(139,165)</u>	<u>-</u>	<u>(2,163,397)</u>
Total accumulated depreciation	<u>(13,244,078)</u>	<u>(814,597)</u>	<u>-</u>	<u>(14,058,675)</u>
Total capital assets, being depreciated, net	<u>19,868,285</u>	<u>(686,314)</u>	<u>-</u>	<u>19,181,971</u>
Business-type activities capital assets, net	<u>\$23,901,742</u>	<u>\$ (244,986)</u>	<u>-</u>	<u>\$ 23,656,756</u>

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

Governmental activities:

Administration	\$ 7,873
Fire	14,450
Library	3,426
Police	27,393
Public works	114,029
Parks and recreation	122,222
Planning	515
School support	351,223
Medical services	<u>87,620</u>
Total depreciation expense - governmental activities	<u>\$ 728,751</u>

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 3. - continued

Business - type activities:

Sewer	\$ 233,396
Water	281,737
Harbor	104,787
Marine industrial park	179,355
Cannery property	<u>15,322</u>
Total depreciation expense -business type activities	<u>\$ 814,597</u>

Construction commitments

The City has active construction projects as of June 30, 2013. The projects include street improvements and equipment to dry wood chips. At year end the City's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Street Improvements	\$ 4,712,419	\$ 1,354,941
Wood Chip Dryer	<u>348,540</u>	<u>1,852</u>
	<u>\$ 5,060,959</u>	<u>\$ 1,356,793</u>

D. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from other funds:		
General Fund	Nonmajor Governmental Funds	\$ 258,449
General Fund	Enterprise Fund	<u>454,732</u>
Total		<u>\$ 713,181</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.

Interfund Transfers:

Transfers are used to move general fund revenues from the collection of land sales and other revenue to special revenue funds in order to segregate those amount for special projects. During FY2013, the Endowment Fund made a transfer to the General Fund for debt retirement.

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 3. - continued

	Transfer In:		
	General Fund	Nonmajor Governmental Funds	Total
Transfer out:			
General Fund	\$ -	\$ 288,437	\$ 288,437
Enterprise Fund	15,617	-	15,617
Endowment Fund	<u>118,000</u>	<u>-</u>	<u>118,000</u>
	<u>\$ 133,617</u>	<u>\$ 288,437</u>	<u>\$ 422,054</u>

E. LONG-TERM DEBT

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The original amount of general obligation bonds issued in prior years was \$1,500,000.

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: Construction of swimming pool		
\$1,035,000 2004 Refunding, final payment due April 1, 2015	3.75 to 4.0%	<u>\$ 230,000</u>

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

Year Ending June 30,	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	115,000	8,912
2015	<u>115,000</u>	<u>4,600</u>
Total	<u>\$ 230,000</u>	<u>\$ 13,512</u>

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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%	218,428
\$357,696 note payable for wastewater treatment improvements; \$26,892 due annually on August 10 of each year through 2019	1.5%	177,442
\$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%	<u>147,514</u>
		<u>543,384</u>

The City also borrowed funds from a bank to build a cold storage facility at the JT Brown industrial park:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Note payable to a bank, due October 1, 2024; \$131,000 payable annually on October 1, with a final payment of \$492,859 due upon maturity; note is collateralized by municipal land	6.0%	<u>1,271,204</u>
Total debt - governmental and business-type		<u>\$2,044,588</u>

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

Year Ending June 30,

	<u>Principal</u>	<u>Interest</u>
2014	\$ 114,254	85,480
2015	118,427	81,306
2016	122,813	76,920
2017	127,241	72,493
2018	132,261	67,472
2019-2023	560,488	258,187
2024-2028	600,427	67,159
2029-2032	<u>38,677</u>	<u>1,580</u>
Total	<u>\$ 1,814,588</u>	<u>\$ 710,597</u>

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 3. - continued

Changes in long-term liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
General obligations					
bonds	\$ 345,000	\$ -	\$(115,000)	\$ 230,000	\$ 115,000
Notes payable:					
State of Alaska AEA	<u>\$ 152,857</u>	<u>\$ -</u>	<u>\$(152,857)</u>	<u>\$ -</u>	<u>\$ -</u>
Governmental activities					
Long-term liabilities	<u>\$ 497,857</u>	<u>\$ -</u>	<u>\$(267,857)</u>	<u>\$ 230,000</u>	<u>\$ 115,000</u>
Business-type activities:					
Notes payable:					
State of Alaska	599,130	-	(55,746)	543,384	60,583
Bank	<u>1,322,002</u>	<u>-</u>	<u>(50,798)</u>	<u>1,271,204</u>	<u>53,671</u>
Business-type activity					
Long-term liabilities	<u>\$ 1,921,132</u>	<u>\$ -</u>	<u>\$(106,544)</u>	<u>\$ 1,814,588</u>	<u>\$ 114,254</u>

Interest expense on all long-term debt was \$161,165 for the year ended June 30, 2013. 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>Nonmajor Fund</u>	<u>Total</u>
Nonspendable:				
Prepaid items	\$ 11,719	\$ -	\$ -	\$ 11,719
Restricted:				
Police	-	-	21,044	21,044
Committed:				
Economic development	-	-	195,009	195,009
Schools	-	-	685,595	685,595
Library services	-	-	902	902
Operating and capital support	-	9,661,503	-	9,661,503
Unassigned	<u>2,037,231</u>	<u>-</u>	<u>-</u>	<u>2,037,231</u>
Total Fund Balances	<u>\$2,048,950</u>	<u>\$ 9,661,503</u>	<u>\$ 902,550</u>	<u>\$12,613,003</u>

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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, 2012 because the amount of potential claims at year end was determined to be immaterial. The City made no claim payments of during FY 2013.

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. PUBLIC EMPLOYEES' RETIREMENT SYSTEM

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. The report is available at the following address:

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

Conversion to Cost Sharing

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.

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.

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS
 June 30, 2013

Note 4. - continued

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.

Funding Policy

Regular employees are required to contribute 6.75% of their annual covered salary (3.18% for pension and 3.57% for healthcare in FY13). The funding policy provides for periodic employer contributions based on actuarially determined rate that, expressed as a percentage of annual covered payroll, are sufficient to accumulate assets to pay both pension and postemployment healthcare benefits when due.

The employer contribution rate is statutorily capped at 22%, although State legislation currently provides that the State of Alaska will contribute any amount above the statutory limit such that the total contribution equals the Alaska Retirement Management Board adopted rates. The Board adopted rate will generally be consistent with the actuarially determined rate.

The GASB 43 rate is used to determine the long-term pension and healthcare liability for plan accounting purposes in accordance with generally accepted accounting principles as established by GASB. Certain actuarial methods and assumptions for this rate calculation are mandated by GASB. The GASB 43 rates disregards all future Medicare Part D payments. The GASB 43 rate differs significantly from ARM Board adopted rate as a direct result of the differences in actuarial valuation methodology and assumptions.

The City's contribution rates for 2013 were determined as part of the June 30, 2010 actuarial valuation and are as follows:

	<u>Contractual Rate</u>	<u>ARM Board Adopted Rate</u>	<u>GASB 43 Rate</u>
Pension	10.35%	15.45%	24.95%
Postemployment healthcare	<u>11.65</u>	<u>17.38</u>	<u>39.93</u>
Total contribution rate	<u><u>22.00</u></u> %	<u><u>32.83</u></u> %	<u><u>64.88</u></u> %

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projected benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the plan members at that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial values of assets.

Projected benefits for financial reporting purposes do not incorporate any potential effects of legal or contractual funding limitation.

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS
 June 30, 2013

Note 4. - continued

Annual Pension and Postemployment Healthcare Costs – PERS

The City is required to contribute 22% of covered payroll, subject to a wage floor. In addition, the State of Alaska contributed approximately 10.83% of covered payroll to the Plan. In addition, the State contributes an additional 3.01% for the defined benefit plan discussed below. The total on-behalf of rate is 13.84% of the City's PERS payroll. In accordance with the provisions of GASB Statement Number 24, the City has recorded the State on-behalf payment in the amount of \$209,894 for the year ending June 30, 2013 as revenue and expenditure. However, because the City is not statutorily obligated for these payments, this amount is excluded from pension and OPEB costs as described here.

<u>Fiscal year Ending June 30,</u>	<u>Annual Pension Cost</u>	<u>Annual OPEB Cost</u>	<u>Total Benefit Cost (TBC)</u>	<u>City Contri- bution</u>	<u>% of TBC Contributed</u>
2013	\$ 82,469	\$ 92,828	\$175,297	\$175,297	100.00%
2012	\$ 100,593	\$ 110,576	\$211,169	\$211,169	100.00%
2011	\$ 85,820	\$ 154,696	\$240,516	\$240,516	100.00%

PERS Salary Floor

Senate Bill 125, discussed above also established a salary floor, which was defined at 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 and requires the Division of Retirements and Benefits to collect employer contributions at a minimum based on that salary floor. During FY 2012 the City did not meet the salary floor and was required to pay an additional \$59,874 which amounts to 22% of the difference between the FY 2012 base salaries of \$1,278,463 and the salary floor of \$1,550,616. This amount was paid in FY 2013 and recognized as an expense in that year.

Defined Contribution Pension Plan

The State of Alaska Legislature approved Senate Bill 141 to create the Public Employees' Retirement System (PERS) Tier IV for employees hired after July 1, 2006 or for employees converting from the PERS Tier I, II, or III defined benefit plans. This plan is administered by the State of Alaska, Department of Administration, and 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. Employees are required to contribute 8% of their annual covered salary and the City is required to make the following contributions:

	<u>FY13 PERS Tier IV</u>
Individual account	5.00%
Health reimbursement arrangement (HRA)*	3.00
Retiree medical plan	.48
Occupational death and disability benefits	<u>.14</u>
	<u>8.62 %</u>

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 4. - continued

*Health Reimbursement Arrangement – AS 39.30.370 requires that the employer contribute “an amount equal to three percent of the employer’s average annual employee compensation.” For actual remittance, this amount is calculated as a flat rate for each full time or part-time employee per pay period.

Employees are immediately vested in their own contributions and vested 25% per year in employer contributions. The City and employees contributions to PERS including the HRA contribution for the year ended June 30, 2013 were \$64,090 and \$51,222, respectively. In addition, the City is required to contribute an amount which is the difference between the percentages detailed above and 22% (DBUL, Defined Benefit Unfunded Liability). The City’s DBUL contribution was \$76,689 for the year ended June 30, 2013.

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.

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.

Borough Study Grant - This fund accounts for a grant from the State of Alaska, Department of Commerce, Community, and Economic Development. The purpose of the grant was to fund a feasibility study as to the merits of the Prince of Wales Island communities organizing as a borough.

Alaska Police Standards Council - This fund accounts for a grant for fingerprinting equipment.

HOPE Grant - This fund accounts for a grant from the local domestic violence prevention nonprofit organization to promote reading at the local library.

Energy Grant - This fund accounts for a grant from the Alaska Energy Authority to replace the existing street lights with new LED lights.

Public Works Heavy Equipment Grant - 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.

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

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, 2013

	Special		Revenue	
	Facilities Development Fund	Police Drug Forfeiture	Land Development Fund	Local Emergency Planning Committee
ASSETS				
Equity in central treasury	\$ -	\$ -	\$ 18,984	\$ -
Cash and cash equivalents	80,284	21,044	181,909	-
Receivables, net of allowance for uncollectibles	300	-	-	15,827
Total assets	\$ 80,584	\$ 21,044	\$ 200,893	\$ 15,827
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ 82,083	\$ 332
Deferred revenue	-	-	-	-
Due to other funds	4,385	-	-	15,495
Total liabilities	4,385	-	82,083	15,827
Fund balances:				
Restricted	-	21,044	-	-
Committed	76,199	-	118,810	-
Total fund balances	76,199	21,044	118,810	-
Total liabilities and fund balances	\$ 80,584	\$ 21,044	\$ 200,893	\$ 15,827

Funds

<u>Alaska Police Standards Council</u>	<u>HOPE Grant</u>	<u>Library Grant IML</u>	<u>State of Alaska Library Grants</u>
\$ 191	\$ 716	\$ -	\$ 97
-	-	-	-
-	-	7,000	-
<u>\$ 191</u>	<u>\$ 716</u>	<u>\$ 7,000</u>	<u>\$ 97</u>
\$ -	\$ -	\$ 993	\$ 97
191	716	-	-
-	-	6,007	-
191	716	7,000	97
-	-	-	-
-	-	-	-
-	-	-	-
<u>\$ 191</u>	<u>\$ 716</u>	<u>\$ 7,000</u>	<u>\$ 97</u>

CITY OF CRAIG, ALASKA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2013

	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	
	<u>Library Special Projects</u>	<u>Wood Chip Dryer Construction</u>	<u>Total Nonmajor Governmental Funds</u>
Equity in central treasury	\$ 902	\$ -	\$ 20,890
Cash and cash equivalents	-	-	283,237
Receivables, net of allowance for uncollectibles	<u>-</u>	<u>40,294</u>	<u>63,421</u>
Total assets	<u>\$ 902</u>	<u>\$ 40,294</u>	<u>\$ 367,548</u>
Accounts payable	\$ -	\$ -	\$ 83,505
Deferred revenue	-	-	907
Due to other funds	<u>-</u>	<u>40,294</u>	<u>66,181</u>
Total liabilities	-	40,294	150,593
Restricted	-	-	21,044
Committed	<u>902</u>	<u>-</u>	<u>195,911</u>
Total fund balances	<u>902</u>	<u>-</u>	<u>216,955</u>
Total liabilities and fund balances	<u>\$ 902</u>	<u>\$ 40,294</u>	<u>\$ 367,548</u>

CITY OF CRAIG, ALASKA

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

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2013

	Special Revenue Funds			
	Facilities Special Revenue	Land Development Fund	Local Emergency Planning Committee	Borough Study Grant
REVENUES				
State sources	\$ -	\$ -	\$ 12,143	\$ 30,000
Federal sources	-	-	20,949	-
Investment income	23	122	-	-
Other	24,892	75,000	-	-
Total revenues	24,915	75,122	33,092	30,000
EXPENDITURES				
Current:				
Library	-	-	-	-
Police	-	-	33,092	-
Public works	29,985	157,815	-	-
Recreation	-	-	-	-
Support	-	-	-	30,943
Capital outlay	-	-	-	-
Total expenditures	29,985	157,815	33,092	30,943
Excess (deficit) of revenues over expenditures	(5,070)	(82,693)	-	(943)
Other financing sources(uses):				
Transfers in	35,000	-	-	943
Total other financing sources (uses)	35,000	-	-	943
Net change in fund balances	29,930	(82,693)	-	-
Fund balance, beginning of year	46,269	201,503	-	-
Fund balance, end of year	\$ 76,199	\$ 118,810	\$ -	\$ -

CITY OF CRAIG, ALASKA

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

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2013

	Special		Revenue	
	Hope Grant	Energy Grant	Public Works Heavy Equipment Grant	Library Grant IML
REVENUES				
State sources	\$ -	\$ -	\$ 98,965	\$ -
Federal sources	-	80,191	-	9,087
Investment income	-	-	-	-
Other	1,283	-	-	-
Total revenues	1,283	80,191	98,965	9,087
EXPENDITURES				
Current:				
Library	-	-	-	9,087
Police	-	-	-	-
Public works	-	80,191	-	-
Recreation	1,283	-	-	-
Support	-	-	-	-
Capital outlay	-	-	98,965	-
Total expenditures	1,283	80,191	98,965	9,087
Excess (deficit) of revenues over expenditures	-	-	-	-
Other financing sources(uses):				
Transfers in	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	-	-	-	-
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ -	\$ -

Funds		Capital Projects Funds	
State of Alaska Library Grants	Library Special Projects	Wood Chip Dryer Construction	Total Nonmajor Governmental Funds
\$ 9,908	\$ -	\$ 348,076	\$ 499,092
-	-	-	110,227
-	-	-	145
-	931	-	102,106
9,908	931	348,076	711,570
9,908	29	-	19,024
-	-	-	33,092
-	-	-	267,991
-	-	-	1,283
-	-	-	30,943
-	-	348,076	447,041
9,908	29	348,076	799,374
-	902	-	(87,804)
-	-	-	35,943
-	-	-	35,943
-	902	-	(51,861)
-	-	-	268,816
\$ -	\$ 902	\$ -	\$ 216,955

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 ASSETS

ENTERPRISE FUND

FOR THE YEAR ENDED JUNE 30, 2013

	Sewer Department	Water Department	Garbage Department	Harbor Department	Marine Industrial Park Department	Cannery Property Department	Total
Operating revenue:							
Charges for services	\$ 256,239	\$ 254,042	\$ 316,304	\$ 251,542	\$ 327,755	\$ 3,940	\$ 1,409,822
Operating expenses:							
Salaries and benefits	152,183	186,429	96,699	190,235	53,041	-	678,587
Insurance	1,635	3,174	644	4,663	5,667	179	15,962
Utilities	34,790	48,713	5,637	37,342	33,590	6,980	167,052
Contractual services	5,721	15,430	221,914	2,460	-	-	245,525
Repairs and maintenance	4,836	4,532	1,513	13,545	9,619	26,283	60,328
Materials and supplies	32,334	23,277	2,524	14,382	4,118	8	76,643
Travel and per diem	2,780	1,260	614	2,928	1,481	-	9,063
Other	5,992	11,123	2,893	10,467	4,168	-	34,643
Depreciation	233,396	281,737	-	104,787	179,355	15,322	814,597
Total operating expenses	473,667	575,675	332,438	380,809	291,039	48,772	2,102,400
Operating income (loss)	(217,428)	(321,633)	(16,134)	(129,267)	36,716	(44,832)	(692,578)
Nonoperating revenues (expenses):							
Investment income	11	-	-	-	-	-	11
Interest expense	(7,069)	(6,290)	(2)	-	(137,473)	-	(150,834)
Grant revenue	11,862	352,243	5,208	189,722	2,940	25,832	587,807
Total nonoperating revenue (expenses)	4,804	345,953	5,206	189,722	(134,533)	25,832	436,984
Income (loss) before transfers	(212,624)	24,320	(10,928)	60,455	(97,817)	(19,000)	(255,594)
Transfers out	-	(15,617)	-	-	-	-	(15,617)
Change in net assets	\$ (212,624)	\$ 8,703	\$ (10,928)	\$ 60,455	\$ (97,817)	\$ (19,000)	\$ (271,211)

CITY OF CRAIG, ALASKA
ENTERPRISE FUND - SEWER DEPARTMENT
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013

	Original Budget	Final Budget	Revenues, Expenses or Transfers	Adjustments	Actual on Budgetary Basis	Variance with Final Budget - Positive (Negative)
Operating revenues:						
Charges for services	\$ 262,000	\$ 255,000	\$ 256,239	\$ -	\$ 256,239	\$ 1,239
Operating expenses:						
Salaries and benefits	143,369	154,835	152,183	(11,862)	140,321	14,514
Insurance	10,606	5,675	1,635	-	1,635	4,040
Utilities	42,400	40,100	34,790	-	34,790	5,310
Contractual services	5,000	7,400	5,721	-	5,721	1,679
Repairs and maintenance	2,000	5,000	4,836	-	4,836	164
Materials and supplies	4,000	8,300	32,334	(26,497)	5,837	2,463
Travel	325	3,600	2,780	-	2,780	820
Capital Improvement	-	30,199	-	26,497	26,497	3,702
Other	-	-	5,992	-	5,992	(5,992)
	<u>207,700</u>	<u>255,109</u>	<u>240,271</u>	<u>(11,862)</u>	<u>228,409</u>	<u>26,700</u>
Depreciation and amortization	-	-	233,396	(233,396)	-	-
Debt service	59,997	59,997	-	60,329	60,329	(332)
	<u>267,697</u>	<u>315,106</u>	<u>473,667</u>	<u>(184,929)</u>	<u>288,738</u>	<u>26,368</u>
Operating income	<u>(5,697)</u>	<u>(60,106)</u>	<u>(217,428)</u>	<u>184,929</u>	<u>(32,499)</u>	<u>27,607</u>
Nonoperating revenues (expenses):						
Investment income	-	-	11	-	11	11
Interest expense	-	-	(7,069)	7,069	-	-
Grant revenue	-	-	11,862	(11,862)	-	-
	<u>-</u>	<u>-</u>	<u>4,804</u>	<u>(4,793)</u>	<u>11</u>	<u>11</u>
Income before transfers	<u>(5,697)</u>	<u>(60,106)</u>	<u>(212,624)</u>	<u>180,136</u>	<u>(32,488)</u>	<u>27,618</u>
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>\$ (5,697)</u>	<u>\$ (60,106)</u>	<u>\$ (212,624)</u>	<u>\$ 180,136</u>	<u>\$ (32,488)</u>	<u>\$ 27,618</u>

CITY OF CRAIG, ALASKA
ENTERPRISE FUND - WATER DEPARTMENT
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

	Original Budget	Final Budget	Revenues, Expenses or Transfers	Adjustments	Actual on Budgetary Basis	Variance with Final Budget - Positive (Negative)
Operating revenues:						
Charges for services	\$ 268,500	\$ 253,200	\$ 254,042	\$ -	\$ 254,042	\$ 842
Operating expenses:						
Salaries and benefits	147,191	175,015	186,429	(14,614)	171,815	3,200
Insurance	11,000	5,195	3,174	-	3,174	2,021
Utilities	51,100	51,300	48,713	-	48,713	2,587
Contractual services	7,000	7,000	15,430	-	15,430	(8,430)
Repairs and maintenance	5,000	5,000	4,532	-	4,532	468
Materials and supplies	41,000	34,500	23,277	-	23,277	11,223
Travel and per diem	1,190	3,000	1,260	-	1,260	1,740
Other	-	-	11,123	-	11,123	(11,123)
	<u>263,481</u>	<u>281,010</u>	<u>293,938</u>	<u>(14,614)</u>	<u>279,324</u>	<u>1,686</u>
Depreciation and amortization	-	-	281,737	(281,737)	-	-
Capital items	6,000	33,500	-	27,241	27,241	6,259
	<u>269,481</u>	<u>314,510</u>	<u>575,675</u>	<u>(269,110)</u>	<u>306,565</u>	<u>7,945</u>
Operating income (loss)	<u>(981)</u>	<u>(61,310)</u>	<u>(321,633)</u>	<u>269,110</u>	<u>(52,523)</u>	<u>8,787</u>
Nonoperating revenues (expenses):						
Interest expense	-	-	(6,290)	6,290	-	-
Grant revenue	-	-	352,243	(352,243)	-	-
	<u>-</u>	<u>-</u>	<u>345,953</u>	<u>(345,953)</u>	<u>-</u>	<u>-</u>
Income before transfers	<u>(981)</u>	<u>(61,310)</u>	<u>24,320</u>	<u>(76,843)</u>	<u>(52,523)</u>	<u>8,787</u>
Transfer out	<u>-</u>	<u>-</u>	<u>(15,617)</u>	<u>-</u>	<u>(15,617)</u>	<u>(15,617)</u>
Change in net assets	<u>\$ (981)</u>	<u>\$ (61,310)</u>	<u>\$ 8,703</u>	<u>\$ (76,843)</u>	<u>\$ (68,140)</u>	<u>\$ (6,830)</u>

CITY OF CRAIG, ALASKA
ENTERPRISE FUND - GARBAGE DEPARTMENT
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013

	Original Budget	Final Budget	Revenues, Expenses or Transfers	Adjustments	Actual on Budgetary Basis	Variance with Final Budget - Positive (Negative)
Operating revenues:						
Charges for services	\$ 338,000	\$ 338,000	\$ 316,304	\$ -	\$ 316,304	\$ (21,696)
Operating expenses:						
Salaries and benefits	83,185	92,559	96,699	(5,208)	91,491	1,068
Insurance	6,400	2,550	644	-	644	1,906
Utilities	4,000	6,000	5,637	-	5,637	363
Contractual services	230,000	230,000	221,914	-	221,914	8,086
Repairs and maintenance	2,000	4,000	1,513	-	1,513	2,487
Materials and supplies	2,200	4,400	2,524	-	2,524	1,876
Travel	-	800	614	-	614	186
Other	2,000	-	2,893	-	2,893	(2,893)
	<u>329,785</u>	<u>340,309</u>	<u>332,438</u>	<u>(5,208)</u>	<u>327,230</u>	<u>13,079</u>
Total operating expenses	329,785	340,309	332,438	(5,208)	327,230	13,079
Operating loss	8,215	(2,309)	(16,134)	5,208	(10,926)	(8,617)
Nonoperating revenue (expenses)						
Interest expense	-	-	(2)	-	(2)	(2)
Grant revenue	-	-	5,208	(5,208)	-	-
Total nonoperating expenses	-	-	5,206	(5,208)	(2)	(2)
Income before transfers	8,215	(2,309)	(10,928)	-	(10,928)	(8,619)
Transfers in	-	-	-	-	-	-
Change in net assets	<u>\$ 8,215</u>	<u>\$ (2,309)</u>	<u>\$ (10,928)</u>	<u>\$ -</u>	<u>\$ (10,928)</u>	<u>\$ (8,619)</u>

CITY OF CRAIG, ALASKA
ENTERPRISE FUND - HARBOR DEPARTMENT
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013

	Original Budget	Final Budget	Revenues, Expenses or Transfers	Adjustments	Actual on Budgetary Basis	Variance with Final Budget - Positive (Negative)
Operating revenues:						
Charges for services	\$ 240,750	\$ 267,000	\$ 251,542	\$ -	\$ 251,542	\$ (15,458)
Operating expenses:						
Salaries and benefits	193,785	191,916	190,235	(14,722)	175,513	16,403
Insurance	21,775	22,049	4,663	-	4,663	17,386
Utilities	34,875	36,100	37,342	-	37,342	(1,242)
Contractual services	-	2,600	2,460	-	2,460	140
Repairs and maintenance	2,000	10,500	13,545	-	13,545	(3,045)
Materials and supplies	15,482	15,478	14,382	(3,505)	10,877	4,601
Travel	5,700	3,650	2,928	-	2,928	722
Other	-	-	10,467	-	10,467	(10,467)
	<u>273,617</u>	<u>282,293</u>	<u>276,022</u>	<u>(18,227)</u>	<u>257,795</u>	<u>24,498</u>
Depreciation and amortization	-	-	104,787	(104,787)	-	-
Capital items	17,670	68,420	-	37,785	37,785	30,635
Total operating expenses	<u>291,287</u>	<u>350,713</u>	<u>380,809</u>	<u>(85,229)</u>	<u>295,580</u>	<u>55,133</u>
Operating loss	(50,537)	(83,713)	(129,267)	85,229	(44,038)	39,675
Nonoperating revenues						
Grant revenue	-	-	189,722	(189,722)	-	-
Total nonoperating expenses	-	-	189,722	(189,722)	-	-
Income before transfers	(50,537)	(83,713)	60,455	(294,509)	(44,038)	39,675
Transfers in	-	-	-	-	-	-
Change in net assets	<u>\$ (50,537)</u>	<u>\$ (83,713)</u>	<u>\$ 60,455</u>	<u>\$ (294,509)</u>	<u>\$ (44,038)</u>	<u>\$ 39,675</u>

CITY OF CRAIG, ALASKA

ENTERPRISE FUND - MARINE INDUSTRIAL PARK DEPARTMENT

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2013

	Original Budget	Final Budget	Revenues, Expenses or Transfers	Adjustments	Actual on Budgetary Basis	Variance with Final Budget - Positive (Negative)
Operating revenues:						
Charges for services	\$ 344,000	\$ 332,000	\$ 327,755	\$ -	\$ 327,755	\$ (4,245)
Operating expenses:						
Salaries and benefits	45,355	55,266	53,041	(2,940)	50,101	5,165
Insurance	22,900	5,996	5,667	-	5,667	329
Utilities	30,000	32,000	33,590	-	33,590	(1,590)
Repairs and maintenance	5,996	5,996	9,619	-	9,619	(3,623)
Materials and supplies	5,061	5,061	4,118	-	4,118	943
Travel	-	425	1,481	-	1,481	(1,056)
Other	-	-	4,168	-	4,168	(4,168)
	109,312	104,744	111,684	(2,940)	108,744	(4,000)
Depreciation and amortization	-	-	179,355	(179,355)	-	-
Debt service	162,570	162,570	-	167,579	167,579	(5,009)
Capital items	30,000	27,650	-	24,900	24,900	2,750
Total operating expenses	301,882	294,964	291,039	10,184	301,223	(6,259)
Operating income	42,118	37,036	36,716	(10,184)	26,532	(10,504)
Nonoperating revenues (expenses):						
Interest expense	-	-	(137,473)	137,473	-	-
Grant revenue	-	-	2,940	(2,940)	-	-
Net loss before transfers	42,118	37,036	(97,817)	124,349	26,532	(10,504)
Transfers in	-	-	-	-	-	-
Change in net assets	\$ 42,118	\$ 37,036	\$ (97,817)	\$ 124,349	\$ 26,532	\$ (10,504)

CITY OF CRAIG, ALASKA
ENTERPRISE FUND - CANNERY PROPERTY DEPARTMENT
SCHEDULE OF REVENUE, EXPENSE AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013

	Original Budget	Final Budget	Revenues, Expenses or Transfers	Adjustments	Actual on Budgetary Basis	Variance with Final Budget - Positive (Negative)
Operating revenues:						
Charges for services	\$ 6,500	\$ 6,500	\$ 3,940	\$ -	\$ 3,940	\$ (2,560)
Operating expenses:						
Insurance	500	500	179	-	179	321
Utilities	2,100	6,000	6,980	-	6,980	(980)
Contactual services	2,000	2,000	-	-	-	2,000
Repairs and maintenance	1,900	1,900	26,283	(25,832)	451	1,449
Materials and supplies	-	-	8	-	8	(8)
	<u>6,500</u>	<u>10,400</u>	<u>33,450</u>	<u>(25,832)</u>	<u>7,618</u>	<u>2,782</u>
Depreciation and amortization	-	-	15,322	(15,322)	-	-
Capital items	<u>2,000</u>	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000</u>
Total operating expenses	<u>8,500</u>	<u>12,400</u>	<u>48,772</u>	<u>(41,154)</u>	<u>7,618</u>	<u>4,782</u>
Operating income	<u>(2,000)</u>	<u>(5,900)</u>	<u>(44,832)</u>	<u>41,154</u>	<u>(3,678)</u>	<u>2,222</u>
Nonoperating revenues (expenses):						
Grant income	-	-	25,832	(25,832)	-	-
Total nonoperating expenses	<u>-</u>	<u>-</u>	<u>25,832</u>	<u>(25,832)</u>	<u>-</u>	<u>-</u>
Income before transfers	<u>(2,000)</u>	<u>(5,900)</u>	<u>(19,000)</u>	<u>15,322</u>	<u>(3,678)</u>	<u>2,222</u>
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>\$ (2,000)</u>	<u>\$ (5,900)</u>	<u>\$ (19,000)</u>	<u>\$ 15,322</u>	<u>\$ (3,678)</u>	<u>\$ 2,222</u>

CITY OF CRAIG, ALASKA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

<u>Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number or Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Department of Agriculture			
Forest Service Schools and Road Cluster			
North Fork Lake Watershed Improvement Project Passed through the State of Alaska, Department of Commerce Community and Economic Development National Forest Receipts - Municipal & Regional Assistance	10.665	11-DG-11100500-094	\$ 37,416
	10.665		<u>660,225</u>
Total CFDA 10.665 - Total Forest Service Schools and Road Cluster			<u>697,641</u>
Total Department of Agriculture			697,641
Department of Energy			
Passed through the State of Alaska, Alaska Energy Authority Energy Efficiency and Conservation Block Grant Program - ARRA	81.128	7510011	<u>80,191</u>
Total Department of Energy			80,191
Department of Homeland Security			
Passed through the State of Alaska, Department of Military and Veterans Affairs State Homeland Security Program	97.067	12SHSP-GR34077	<u>20,949</u>
Total Department of Homeland Security			20,949
Department of the Interior			
Payment in Lieu of Taxes	15.226		<u>261,795</u>
Total Department of the Interior			261,795

CITY OF CRAIG, ALASKA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

<u>Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number or Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Department of Transportation			
Highway Planning and Construction Cluster			
Federal Highway Administration			
Federal Lands Highway Program	20.205	DTFH70-08-E-00013	<u>1,080,297</u>
Total Highway Planning and Construction Cluster/ Total Department of Transportation			<u>1,080,297</u>
Environmental Protection Agency			
Passed Through the State of Alaska, Department of Environmental Conservation			
Alaska Drinking Water Fund	66.458	265051	27,156
Congressionally Mandated Projects			
City of Craig Water Main and Pump Station Replacement	66.202	XP-00J49301	<u>107,970</u>
Total Environmental Protection Agency			<u>135,126</u>
Institute of Museum and Library Services			
National Endowment for the Humanities Pass- Through Programs			
Passed through the Craig Community Association			
Native American and Native Hawaiian Library Services	45.311		<u>9,087</u>
Total National Endowment for the Humanities Pass-Through Programs			<u>9,087</u>
Total Federal Financial Assistance			<u><u>\$ 2,285,086</u></u>

CITY OF CRAIG, ALASKA
 SCHEDULE OF STATE FINANCIAL ASSISTANCE
 For the Year Ended June 30, 2013

Grantor and Program Title	Grant Number	State Expenditures
Department of Administration		
PERS Relief		* \$ 209,894
Community Revenue Sharing		* <u>221,713</u>
Total Department of Administration		431,607
Department of Commerce, Community & Economic Development		
Roads and Utilities	12-DC-341	* 168,722
Borough Study	13-DM-123	30,000
Public Works Heavy Equipment	13-DC-398	* 98,965
Design and Construction Harbor Shop	13-DM-086	25,000
Cannery Renovations	07-DC-495	25,832
Community Street Improvements	13-DC-341	* 145,942
Water and Wastewater System Cleaning, Inspection and Master Plan	13-DC-298	19,146
Craig Cannery Site Harbor Development	13-DC-351	* 150,000
Shared Fish Tax		<u>8,417</u>
Total Department Community and Economic Development		672,024
Department of Education and Early Development		
Craig Wood Fired Boiler Project		* 161,172
Public Library Assistance Grant		6,500
OWL Grant		<u>3,408</u>
Total Department of Education and Early Development		171,080
Department of Military and Veterans Affairs		
Local Emergency Planning Committee	13LEPC-GR35602	<u>12,143</u>
Total Department of Military and Veterans Affairs		12,143

CITY OF CRAIG, ALASKA

SCHEDULE OF STATE FINANCIAL ASSISTANCE
(CONTINUED)

For the Year Ended June 30, 2013

Grantor and Program Title	Grant Number	State Expenditures
Department of Revenue		
Fisheries Taxes		* 258,534
Liquor Licenses		<u>10,100</u>
Total Department of Revenue		268,634
Alaska Energy Authority		
Biomass Fuel Dryer Project	7020042	* <u>348,076</u>
Total Alaska Energy Authority		<u>348,076</u>
Total State of Alaska Financial Assistance		<u><u>\$ 1,903,564</u></u>

* Denotes a major program

CITY OF CRAIG, ALASKA

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

Year Ended June 30, 2013

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, 2013. The City's reporting entity is defined in Note 1 of the City's June 30, 2013 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	\$ 929,419
Capital grants and contributions	2,475,883
Grants and contributions not restricted to a specific purpose	<u>785,560</u>
Total from Statement of Activities	4,190,862
Grants from non-governmental entities	(2,212)
State of Alaska sources	<u>(1,903,564)</u>
Total expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 2,285,086</u>

SINGLE AUDIT SECTION

CHRISTINE E. HARRINGTON

Certified Public Accountant, LLC

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

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

Members of the City Council
City of Craig, Alaska

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Craig, Alaska, as of and for the year ended June 30, 2013, 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 February 27, 2014.

Internal Control Over Financial Reporting

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

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

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

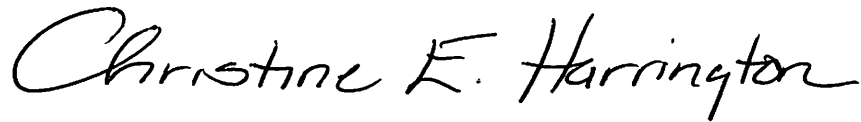
Compliance and Other Matters

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

Members of the City Council
City of Craig, Alaska

Purpose of this Report

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

A handwritten signature in black ink that reads "Christine E. Harrington". The signature is written in a cursive, flowing style.

Sitka, Alaska
February 27, 2014

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, 2013. 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 \$2,038,345 in federal awards which is not included in the schedule of expenditures of federal awards for the year ended June 30, 2013. 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, 2013 with an auditor's report date of August 2, 2013. 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, 2013.

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
February 27, 2014

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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, 2013. 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 \$6,464,350 in State awards which is not included in the schedule of state financial assistance for the year ended June 30, 2013. 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, 2013 with an auditor's report date of August 2, 2013. 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, 2013.

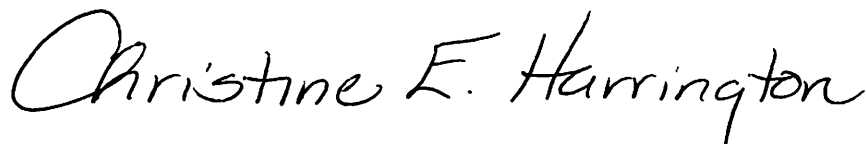
Report on Internal Control Over Compliance

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

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

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

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



Sitka, Alaska
February 27, 2014

City of Craig, Alaska

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

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>
10.665	School and Roads - Grants to States
66.202	Congressionally Mandated Projects

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, 2013

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.