

CITY OF CRAIG, ALASKA
BASIC FINANCIAL STATEMENTS

For the fiscal year ended

June 30, 2014

Prepared by:

Department of Finance

CITY OF CRAIG, ALASKA
BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014
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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, 2014, 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, 2014, 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 and budgetary comparison information on pages 5 -11 and 50 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

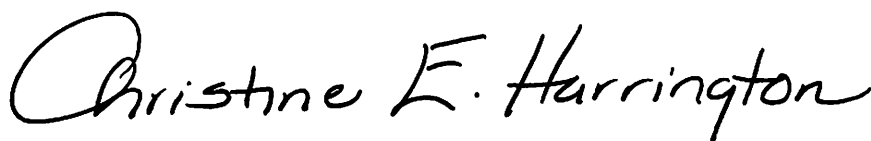
My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Craig, Alaska's basic financial statements. The accompanying combining nonmajor fund financial statements and enterprise fund combining department statement are presented for 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 enterprise fund combining department statement, 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 enterprise fund combining department statement, 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 December 15, 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
December 15, 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, 2014.

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 \$63,820,755. Of this amount, \$19,196,548 (*unrestricted*) may be used to meet the government's ongoing obligations to residents and creditors.
- The government's total net position increased by \$2,817,964. Governmental type activities increased by \$1,189,244 and business type activities increased by \$1,628,720.
- As of the close of the current fiscal year, the City of Craig's governmental funds reported combined ending fund balances of \$13,382,341 an increase of \$769,338 in comparison with the prior year. Approximately 18% of this amount (\$2,446,837) 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 \$2,446,837 or approximately 72% of total general fund expenditures.

Overview of the Financial Statements

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

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

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

The *statement of net position* presents information on all of the City of Craig's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Craig is improving or deteriorating.

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

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

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

The government-wide financial statements can be found on pages 18 through 20 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Craig, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Craig can be divided into two categories: governmental funds and proprietary 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, Endowment Fund, National Forest Receipts Fund and the Road Construction Capital Project Fund, all of which are considered to be major funds. Data from other non-major governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements 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. That statement can be found on page 50 of this report.

The basic governmental fund financial statements can be found on pages 21 through 24 of this report.

Proprietary funds. The City of Craig uses an enterprise fund to report the same functions presented as business-type activities in the government-wide financial statements. The City of Craig uses 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 data for each of these enterprise fund departments is provided in the form of a combining statement elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 25 through 29 of this report.

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

Other information. The combining statements referred to earlier in connection with non-major governmental funds and the enterprise fund are presented following the notes to the financial statements. Combining statements and schedules can be found on page 51 through 65 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 \$63,820,755 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, 2014

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current & other assets	\$ 16,219,334	\$ 15,835,619	\$ 897,703	\$ 532,009	\$ 17,117,037	\$ 16,367,628
Capital assets	27,368,851	27,063,985	23,882,590	23,506,532	51,251,441	50,570,517
Total assets	43,588,185	42,899,604	24,780,293	24,038,541	68,368,478	66,938,145
Long-term liabilities	115,000	230,000	138,398	1,814,588	253,398	2,044,588
Other liabilities	2,836,993	3,219,616	1,457,332	663,781	4,294,325	3,883,397
Total liabilities	2,951,993	3,449,616	1,595,730	2,478,369	4,547,723	5,927,985
Net position						
Invested in capital assets, net of related debt	21,200,964	26,833,945	23,399,788	21,846,498	44,600,752	48,680,443
Restricted	23,455	21,044		-	23,455	21,044
Unrestricted	19,411,773	12,591,959	(215,225)	(286,326)	19,196,548	12,305,633
Total net position	\$ 40,636,192	\$ 39,446,948	\$ 23,184,563	\$ 21,560,172	\$ 63,820,755	\$ 61,007,120

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 (15 percent) represents the City's endowment fund, which have been committed for certain uses by City Council ordinance. The remaining balance of unrestricted net position (\$19,196,548) may be used to meet the government's ongoing obligations to residents and creditors.

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

Governmental Activities.

During fiscal year 2013, the City of Craig's net position increased by \$1,189,244 for governmental activities. Highlights of governmental activities net position changes are as follows:

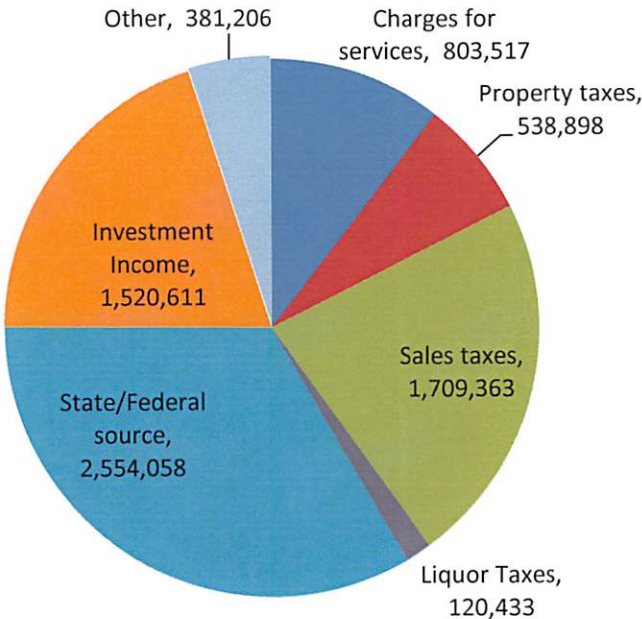
- Revenues for the City's governmental activities decreased 2% from last year due to less federal and state grant proceeds.
- The sales tax and property tax revenue each increased by 4%.
- The restricted Endowment fund recorded a \$1,520,611 increase in revenue as the equity investments had a positive market trend in the markets.
- The city sold 13 lots of residential land for \$368,779 which is included in the governmental revenues.
- The governmental expenditures increased by 5% (\$246,948).
- Health insurance premiums for the employees increased 10% and other employee benefits increased by 5%.
- Other expenditures with the exception of personnel and benefits decreased to offset the personnel costs.
- The capital outlay for the governmental funds was the paving of the streets which was funded by federal highway funds and the library exterior was painted.
- The expenditures includes a payment to the state retirement fund over and above the normal employer contributions. Wages paid during FY13 were less than the 2008 floor established by the state legislative and the City was required to pay an additional \$24,980 in the state retirement system.

City of Craig
Changes in Net Position
For the year ended June 30, 2014

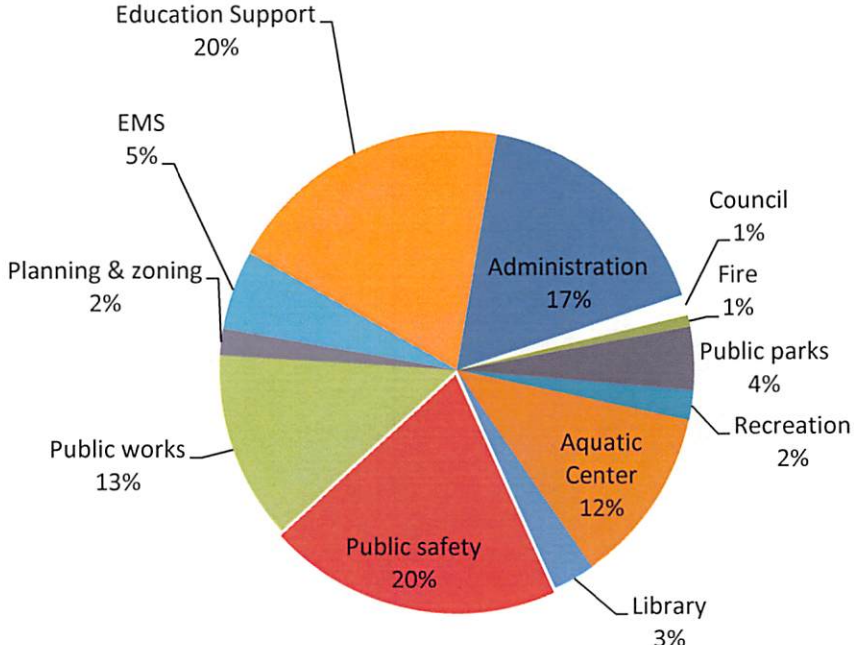
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Program Revenues						
Charges for services	\$ 803,517	\$ 778,348	\$ 1,562,154	\$ 1,409,822	\$ 2,365,671	2,188,170
Property taxes	538,898	517,969			538,898	517,969
Sales taxes	1,709,363	1,635,690			1,709,363	1,635,690
Liquor Taxes	120,433	115,149			120,433	115,149
State/Federal source	2,554,058	3,603,055	1,085,385	614,963	3,639,443	4,218,018
Investment Income	1,520,611	1,092,840			1,520,611	1,092,840
Other	381,206	79,493	12	11	381,218	79,504
Total Revenue	7,628,086	7,822,544	2,647,551	2,024,796	10,275,637	9,847,340
Expenses						
Administration	849,309	821,515			849,309	821,515
Council	78,146	65,639			78,146	65,639
Fire	33,361	36,103			33,361	36,103
Public parks	219,312	202,514			219,312	202,514
Recreation	91,929	95,703			91,929	95,703
Aquatic Center	512,535	573,150			512,535	573,150
Library	160,655	136,627			160,655	136,627
Public safety	1,045,146	956,866			1,045,146	956,866
Public works	710,459	605,622			710,459	605,622
Planning & zoning	90,891	86,957			90,891	86,957
EMS	282,083	254,124			282,083	254,124
Education Support	945,083	937,141			945,083	937,141
Sewer			466,134	480,736	466,134	480,736
Water			804,372	609,121	804,372	609,121
Garbage			320,952	332,440	320,952	332,440
JT Brown Industrial Park/Icehouse			450,990	428,512	450,990	428,512
Harbor			366,974	380,809	366,974	380,809
Cannery			29,342	48,772	29,342	48,772
Total Expenses	5,018,909	4,771,961	2,438,764	2,280,390	7,457,673	7,052,351
<i>Increase in net position before transfers</i>	2,609,177	3,050,583	208,787	(255,594)	2,817,964	2,794,989
<i>Transfers</i>	(1,419,933)	15,617	1,419,933	(15,617)	-	-
<i>Increase (decrease) in net position</i>	1,189,244	3,066,200	1,628,720	(271,211)	2,817,964	2,794,989
<i>Net position, July 1, 2013</i>	39,446,948	36,380,748	21,555,843	21,827,054	61,002,791	58,207,802
Net position, June 30, 2014	\$ 40,636,192	\$ 39,446,948	\$ 23,184,563	\$ 21,555,843	\$ 63,820,755	\$ 61,002,791

Expenses and Program Revenues – Governmental Activities

Revenue by Source - Governmental Activities



Expenditures by Department - Governmental Activities

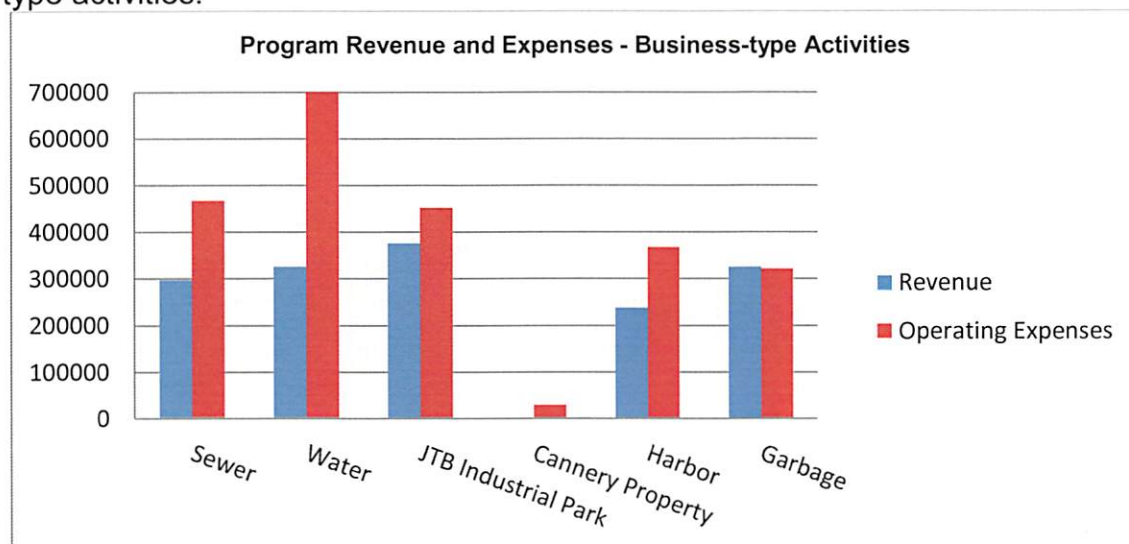


Business-type activities

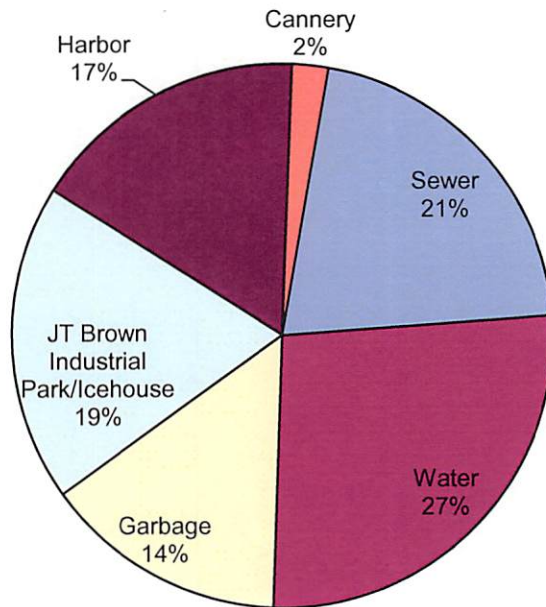
Business-type activities increased the City of Craig net position by \$1,628,720. Key elements of this increase are as follows.

- Charges for services for business-type activities increased by 10 percent. The City restructured the water and sewer rates in FY14. The City eliminated the minimum usage of 8,000 gallons of water per customer and charged \$3.20 for each 1000 gallons used. Water revenues increased 22%.
- Expenses for business-type activities included purchasing meter parts for \$23,518. The chemical usage increased by \$13,553 or 102% because of the extra water usage from the fish processing plant during the summer months. The water department expenses include contractual services to develop a water/wastewater master plan for future utility development.
- Fiscal year 2014 was the third year extra maintenance has been budgeted for the harbor department. Electrical pedestals, water facets, and planking have been replace.
- 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	\$ 538,898
Sales Tax	1,709,363
General services	803,517

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 2014. The governmental fund revenues were increased \$456,915 due to state transfer payments while the expenditures were increased by \$8,678. The excess were designed to reserve funds for capital improvements and large equipment purchases. The enterprise fund expenses were increased \$87,983 due to meter supplies, chemical and higher maintenance costs. The City Council authorized the transfer of \$1,318,000 from the governmental endowment fund to retire the debt in the industrial park fund.

Capital Asset and Debt Administration

City of Craig Net Capital Assets As of June 30, 2014

	2014	2013	2014	2013	2014	2013
Land	\$ 90,864	\$ 90,864	\$ 3,954,898	\$ 3,938,727	\$ 4,045,762	\$ 4,029,591
Buildings	28,765,818	28,750,811	7,064,733	7,064,733	35,830,551	35,815,544
Equipment	1,662,045	1,635,256	893,170	885,224	2,555,215	2,520,480
Harbors			3,417,113	3,417,113	3,417,113	3,417,113
Water/Sewer Sys			17,685,839	17,685,839	17,685,839	17,685,839
Sewer plant			4,187,737	4,187,737	4,187,737	4,187,737
Construction in Progress	6,012,887	5,060,342	1,497,581	536,058	7,510,468	5,596,400
Total Assets	36,531,614	35,537,273	38,701,071	37,715,431	75,232,685	73,252,704
<i>Accumulated depreciation</i>	<i>(9,202,759)</i>	<i>(7,744,573)</i>	<i>(14,818,482)</i>	<i>(13,244,078)</i>	<i>(24,021,241)</i>	<i>(20,988,651)</i>
Net Capital Assets	\$ 27,328,855	\$ 27,792,700	\$ 23,882,589	\$ 24,471,353	\$ 51,211,444	\$ 52,264,053

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 \$115,000 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 \$341,812 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 \$140,990 loan with Alaska Department of Water for water line improvements which is due in 2031.

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 Fiscal Year 2015's Budgets and Rates

- Electric cost per kwh will increase 11.8%
- Higher predicted runs of pink salmon in 2015 should positively impact the City of Craig's main industry.
- The water and wastewater utility will implement main water line replacement. The wastewater lift stations will need extra maintenance
- The new garbage truck and carts will be purchased and major restructuring of the department to implement a one man operation vs. the current two man operation.
- The harbor will continue on an aggressive maintenance program to update the north and south cove harbors.
- Workers compensation insurance rates will increase by 10% and health insurance premiums will increase at least 12%.

These factors were taken into account when adopting the FY 2015 governmental budget. Amounts available for appropriation in the general and enterprise operating fund budgets are \$4.92 million, 5% increase over the final 2014 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, 2014

	Primary Government			Component Unit:
	Governmental Activities	Business-type Activities	Total	Craig City School District
ASSETS				
Equity in Central Treasury	\$ 1,092,571	\$ -	\$ 1,092,571	\$ -
Cash and cash equivalents		19,414	19,414	3,377,317
Receivables (net of allowance for uncollectibles)	471,399	865,001	1,336,400	533,727
Internal balances	974,530	(974,530)	-	-
Prepaid items	7,033	-	7,033	2,000
Inventories	-	13,288	13,288	47,416
Restricted assets:				
Temporarily restricted:				
Equity in central treasury	6,549	-	6,549	-
Cash and cash equivalents	4,684,562	-	4,684,562	-
Prepaid items	1,500	-	1,500	-
Investments	8,756,957	-	8,756,957	-
Receivables	197,634	-	197,634	-
Interest receivable	26,599	-	26,599	-
Capital assets (net of accumulated depreciation):				
Land	90,864	3,954,897	4,045,761	-
Buildings	20,775,673	5,955,081	26,730,754	-
Equipment	449,427	94,379	543,806	461,828
Harbors	-	580,113	580,113	-
Water and sewer system	-	9,915,773	9,915,773	-
Sewer plant	-	1,884,766	1,884,766	-
Construction in progress	6,052,887	1,497,581	7,550,468	-
Total assets	43,588,185	23,805,763	67,393,948	4,422,288
LIABILITIES				
Accounts payable and other current liabilities	239,668	128,626	368,294	439,945
Unearned revenue	12,328	-	12,328	54,524
Matured bonds and interest payable	-	9,772	9,772	-
Liabilities payable from restricted assets	2,584,997	-	2,584,997	-
Noncurrent liabilities:				
Due within one year	115,000	61,491	176,491	-
Due in more than one year	-	421,311	421,311	-
Total liabilities	2,951,993	621,200	3,573,193	494,469
NET POSITION				
Invested in capital assets, net of related debt	21,200,964	23,399,788	44,600,752	461,828
Restricted for:				
Public safety	23,455	-	23,455	-
Unrestricted	19,411,773	(215,225)	19,196,548	3,465,991
Total net position	\$ 40,636,192	\$ 23,184,563	\$ 63,820,755	\$ 3,927,819

See notes to financial statements.

CITY OF CRAIG, ALASKA

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Government activities:				
Administration	\$ 849,309	\$ 128,379	\$ 39,389	\$ -
Council	78,146	-	2,244	-
Fire	33,361	-	10,000	90,445
Parks and Recreation	823,776	104,074	31,888	14,238
Library	160,655	1,406	21,724	-
Police	1,045,146	463,042	145,324	-
Public Works	710,459	-	13,243	887,132
Planning	90,891	-	7,294	-
Medical Services	282,083	106,616	6,719	-
Support	945,083	-	570,820	730
Total governmental activities	<u>5,018,909</u>	<u>803,517</u>	<u>848,645</u>	<u>992,545</u>
Business-type activities:				
Sewer	466,134	296,478	12,717	-
Water	804,372	324,931	17,368	199,610
Garbage	320,952	325,391	6,210	-
Harbor	366,974	237,595	14,175	691,019
Marine Industrial Park	450,990	375,634	4,521	139,765
Cannery Property	29,342	2,125	-	-
Total business type activities	<u>2,438,764</u>	<u>1,562,154</u>	<u>54,991</u>	<u>1,030,394</u>
Total primary government	<u>\$ 7,457,673</u>	<u>\$ 2,365,671</u>	<u>\$ 903,636</u>	<u>\$ 2,022,939</u>
Component Units:				
Craig City School District	\$ 8,998,429	\$ 38,241	\$ 1,595,128	\$ -
Total component units	<u>\$ 8,998,429</u>	<u>\$ 38,241</u>	<u>\$ 1,595,128</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
\$ (681,541)	\$ -	\$ (681,541)	-
(75,902)	-	(75,902)	-
67,084	-	67,084	-
(673,576)	-	(673,576)	-
(137,525)	-	(137,525)	-
(436,780)	-	(436,780)	-
189,916	-	189,916	-
(83,597)	-	(83,597)	-
(168,748)	-	(168,748)	-
(373,533)	-	(373,533)	-
<u>(2,374,202)</u>	<u>-</u>	<u>(2,374,202)</u>	<u>-</u>
-	(156,939)	(156,939)	-
-	(262,463)	(262,463)	-
-	10,649	10,649	-
-	575,815	575,815	-
-	68,930	68,930	-
-	(27,217)	(27,217)	-
<u>-</u>	<u>208,775</u>	<u>208,775</u>	<u>-</u>
<u>(2,374,202)</u>	<u>208,775</u>	<u>(2,165,427)</u>	<u>-</u>
			<u>(7,365,060)</u>
			(7,365,060)
538,898	-	538,898	-
1,829,796	-	1,829,796	-
712,868	-	712,868	7,057,271
1,520,611	12	1,520,623	3,115
381,206	-	381,206	148,517
(1,419,933)	1,419,933	-	-
<u>3,563,446</u>	<u>1,419,945</u>	<u>4,983,391</u>	<u>7,208,903</u>
1,189,244	1,628,720	2,817,964	(156,157)
<u>39,446,948</u>	<u>21,555,843</u>	<u>61,002,791</u>	<u>4,083,976</u>
<u>\$ 40,636,192</u>	<u>\$ 23,184,563</u>	<u>\$ 63,820,755</u>	<u>\$ 3,927,819</u>

See notes to financial statements.

CITY OF CRAIG, ALASKA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	<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	\$ 1,092,571	\$ -	\$ -	\$ -	\$ -	\$ 1,092,571
Receivables:						
Customer	119,106	-	-	-	-	119,106
Taxes	400,236	-	-	-	-	400,236
Less allowance for doubtful accounts	(47,943)	-	-	-	-	(47,943)
Due from other funds	1,145,073	319	12,140	-	-	1,157,532
Prepaid items	7,033	-	-	-	-	7,033
Restricted assets:						
Equity in central treasury	-	-	-	-	6,549	6,549
Cash and cash equivalents	-	697,079	3,543,383	-	444,100	4,684,562
Prepaid items	-	-	-	-	1,500	1,500
Investments	-	8,756,957	-	-	-	8,756,957
State of Alaska and Federal government	-	-	-	11,929	185,705	197,634
Interest receivable	-	26,599	-	-	-	26,599
Total assets	<u>\$ 2,716,076</u>	<u>\$ 9,480,954</u>	<u>\$ 3,555,523</u>	<u>\$ 11,929</u>	<u>\$ 637,854</u>	<u>\$ 16,402,336</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 98,138	\$ 2,249	\$ -	\$ -	\$ -	\$ 100,387
Accrued payroll and related	56,976	-	-	-	-	56,976
Accrued leave	82,305	-	-	-	-	82,305
Deferred revenue	12,328	-	-	-	-	12,328
Liabilities payable from restricted assets:						
Accounts payable	-	-	10,082	-	35,770	45,852
Deferred revenue	-	-	2,536,718	-	2,427	2,539,145
Due to other funds	12,459	-	-	11,929	158,614	183,002
Total liabilities	<u>262,206</u>	<u>2,249</u>	<u>2,546,800</u>	<u>11,929</u>	<u>196,811</u>	<u>3,019,995</u>
Fund balances:						
Nonspendable	\$ 7,033	\$ -	\$ -	\$ -	\$ -	\$ 7,033
Restricted	-	-	-	-	23,455	23,455
Committed	-	9,478,705	1,008,723	-	417,588	10,905,016
Unassigned	2,446,837	-	-	-	-	2,446,837
Total fund balances	<u>2,453,870</u>	<u>9,478,705</u>	<u>1,008,723</u>	<u>-</u>	<u>441,043</u>	<u>13,382,341</u>
Total liabilities and fund balances	<u>\$ 2,716,076</u>	<u>\$ 9,480,954</u>	<u>\$ 3,555,523</u>	<u>\$ 11,929</u>	<u>\$ 637,854</u>	<u>\$ 16,402,336</u>

See notes to financial statements.

CITY OF CRAIG, ALASKA

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

YEAR ENDED JUNE 30, 2014

Total fund balances of governmental funds \$ 13,382,341

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

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

Land	\$	90,864	
Buildings		28,765,818	
Equipment		1,662,042	
Construction in progress		6,052,887	
		36,571,611	
Accumulated depreciation		(9,202,760)	27,368,851
Total capital assets, net			

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

Long-term debt	(115,000)
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Total net position of governmental funds	\$ 40,636,192
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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, 2014

	<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>
REVENUES						
Taxes:						
Real and personal	\$ 538,898	\$ -	\$ -	\$ -	\$ -	\$ 538,898
Sales and bed	1,709,363	-	-	-	-	1,709,363
Liquor	120,433	-	-	-	-	120,433
State sources	626,885	-	-	887,132	126,798	1,640,815
Federal sources	268,086	-	570,820	-	74,339	913,245
Charges for services	638,221	-	-	-	-	638,221
Fines, forfeitures and penalties	5,253	-	-	-	-	5,253
Investment income	4,548	1,483,739	23,548	-	8,776	1,520,611
Uses of property	79,878	-	-	-	-	79,878
Licenses and permits	76,261	-	-	-	-	76,261
Other	3,904	-	-	-	381,204	385,108
Total revenue	4,071,730	1,483,739	594,368	887,132	591,117	7,628,086
EXPENDITURES						
Current:						
Administration	810,539	28,537	-	-	-	839,076
Council	78,146	-	-	-	-	78,146
Planning	90,376	-	-	-	-	90,376
Parks and facilities	219,329	-	-	-	-	219,329
Public works	217,957	-	20,220	-	355,066	593,243
Police	946,576	-	-	-	82,147	1,028,723
Emergency medical services	193,234	-	-	-	-	193,234
Fire	16,947	-	-	-	-	16,947
Library	137,929	-	-	-	19,300	157,229
Recreation	91,929	-	-	-	-	91,929
Aquatic facilities	378,470	-	-	-	-	378,470
Hatchery	40,596	-	-	-	-	40,596
Support	-	-	553,264	-	-	553,264
Debt service	123,912	-	-	-	-	123,912
Capital outlay	41,796	-	-	887,132	105,413	1,034,341
Total expenditures	3,387,736	28,537	573,484	887,132	561,926	5,438,815
Excess (deficit) of revenues over (under) expenditures	683,994	1,455,202	20,884	-	29,191	2,189,271
OTHER FINANCING SOURCES (USES)						
Transfers in	125,103	-	302,244	-	200,650	627,997
Transfers out	(404,177)	(1,638,000)	-	-	(5,753)	(2,047,930)
Total other financing sources (uses)	(279,074)	(1,638,000)	302,244	-	194,897	(1,419,933)
Net change in fund balances	404,920	(182,798)	323,128	-	224,088	769,338
Fund balances, beginning of year	2,048,950	9,661,503	685,595	-	216,955	12,613,003
Fund balances, end of year	\$ 2,453,870	\$ 9,478,705	\$ 1,008,723	\$ -	\$ 441,043	\$ 13,382,341

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, 2014

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

Net change in fund balances -- total governmental funds (page 22)	\$	769,338
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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	\$ 1,034,341	
Less current year depreciation	<u>(729,435)</u>	304,906

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>115,000</u>
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Change in net position of governmental activities (page 20)	\$	<u><u>1,189,244</u></u>
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See notes to financial statements.

CITY OF CRAIG, ALASKA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2014

	Enterprise Fund	Total Proprietary Funds
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,414	\$ 19,414
Receivables:		
Accounts	149,128	149,128
Federal and State of Alaska	715,873	715,873
Inventory	13,288	13,288
Total current assets	897,703	897,703
Noncurrent assets:		
Capital assets:		
Property, plant and equipment	37,203,491	37,203,491
Less accumulated depreciation	(14,818,482)	(14,818,482)
	22,385,009	22,385,009
Construction work-in-progress	1,497,581	1,497,581
Total property, plant and equipment	23,882,590	23,882,590
Total assets	\$ 24,780,293	\$ 24,780,293

See notes to financial statements.

CITY OF CRAIG, ALASKA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2014
(continued)

	<u>Enterprise Fund</u>	<u>Total Proprietary Funds</u>
LIABILITIES		
Current liabilities:		
Due to other funds	\$ 974,530	\$ 974,530
Accounts payable and accrued liabilities	128,626	128,626
Interest payable	9,772	9,772
Current portion of:		
Long-term notes payable	61,491	61,491
Total current liabilities	1,174,419	1,174,419
Noncurrent liabilities:		
Notes payable, net of current portion	421,311	421,311
Total liabilities	1,595,730	1,595,730
NET ASSETS		
Investment in capital assets, net of related debt	23,399,788	23,399,788
Unrestricted	(215,225)	(215,225)
Total net assets	\$ 23,184,563	\$ 23,184,563

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, 2014

	<u>Enterprise Fund</u>	<u>Total Proprietary Funds</u>
Operating revenue:		
Charges for services	\$ 1,562,154	\$ 1,562,154
Operating expenses:		
Salaries and benefits	704,545	704,545
Insurance	31,616	31,616
Utilities	154,807	154,807
Contractual services	409,562	409,562
Repairs and maintenance	97,590	97,590
Materials and supplies	104,449	104,449
Travel and per diem	8,503	8,503
Other	38,492	38,492
Depreciation	759,807	759,807
Total operating expenses	<u>2,309,371</u>	<u>2,309,371</u>
Operating loss	(747,217)	(747,217)
Nonoperating revenues		
(expenses):		
Investment income	12	12
Interest expense	(129,393)	(129,393)
Grant revenue	1,085,385	1,085,385
Total nonoperating revenue (expenses)	<u>956,004</u>	<u>956,004</u>
Income before contributions and transfers	208,787	208,787
Transfers in	<u>1,419,933</u>	<u>1,419,933</u>
Change in net assets	1,628,720	1,628,720
Total net assets - beginning	<u>21,555,843</u>	<u>21,555,843</u>
Total net assets - end	<u>\$ 23,184,563</u>	<u>\$ 23,184,563</u>

See notes to financial statements.

CITY OF CRAIG, ALASKA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Enterprise Fund</u>	<u>Total Proprietary Funds</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 1,532,259	\$ 1,532,259
Payments to suppliers	(868,537)	(868,537)
Payments to employees	(641,634)	(641,634)
	<hr/>	<hr/>
Net cash provided by operating activities	22,088	22,088
	<hr/>	<hr/>
Cash flows from noncapital financing activities:		
Repayments to the General Fund	519,798	519,798
Transfers from other funds	1,419,933	1,419,933
	<hr/>	<hr/>
Net cash provided by noncapital financing activities	1,939,731	1,939,731
	<hr/>	<hr/>
Cash flows from capital and related financing activities:		
Capital expenditures	(985,641)	(985,641)
Interest paid	(184,257)	(184,257)
Repayment of notes payable	(1,331,786)	(1,331,786)
Government grants for construction	539,866	539,866
	<hr/>	<hr/>
Net cash used by capital and related financing activities	(1,961,818)	(1,961,818)
	<hr/>	<hr/>
Cash flows from investing activities:		
Interest received	12	12
	<hr/>	<hr/>
Net cash provided by investing activities	12	12
	<hr/>	<hr/>
Net increase in cash and cash equivalents	13	13
	<hr/>	<hr/>
Cash and cash equivalents, beginning of the year	19,401	19,401
	<hr/>	<hr/>
Cash and cash equivalents, end of year	<u>\$ 19,414</u>	<u>\$ 19,414</u>

See notes to financial statements.

CITY OF CRAIG, ALASKA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(continued)

	<u>Enterprise Fund</u>	<u>Total Proprietary Funds</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (747,217)	\$ (747,217)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	759,807	759,807
On behalf of revenue	54,991	54,991
Changes in assets and liabilities		
Increase in accounts receivable	(16,419)	(16,419)
Increase in inventory	(13,288)	(13,288)
Decrease in accounts payable	(15,786)	(15,786)
Total adjustments	<u>769,305</u>	<u>769,305</u>
Net cash provided by operating activities	<u>\$ 22,088</u>	<u>\$ 22,088</u>

See notes to financial statements.

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

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

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

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

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 1. - continued

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

Measurement Focus

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

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

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

Basis of Accounting

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

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

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

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

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

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 1. - continued

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

Financial Statement Presentation

The City reports the following major governmental funds:

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

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

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

The 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

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

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 FY2014.

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

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

Note 1. - continued

Management Estimates and Assumptions

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

Subsequent Events

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

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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

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

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

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

B. Excess of Expenditures Over Appropriations

For the year ended June 30, 2014 the City exceeded its appropriations in the following departments or funds:

Fund/Department	Excess Appropriation
General Fund – Administration	\$ 3,965
General Fund – Council	674
General Fund – Police	514
General Fund – Emergency Medical Services	1,093
General Fund – Library	12,238
General Fund – Hatchery Support	5,596

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

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

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

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

NOTE 3. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

As of June 30, 2014, the City had the following deposits and investments:

Cash on hand	\$ 4,900
Carrying amount of deposits	5,798,196
Carrying amount of investments	<u>8,756,957</u>
	<u>\$ 14,560,053</u>

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

Equity in Central Treasury	\$ 1,092,571
Equity in Central Treasury - Temporarily Restricted	6,549
Cash and cash equivalents	19,414
Cash and cash equivalents - Temporarily Restricted	4,684,562
Investments - Temporarily Restricted	<u>8,756,957</u>
	<u>\$ 14,560,053</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, 2014, 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+	\$ 974,301	11.13
Federal Agency	AA+	259,790	2.97
Asset-backed	AA+	117,603	1.34
Corporate	AA+	85,937	.98
Corporate	AA-	52,919	.60
Corporate	A+	228,540	2.61
Corporate	A	351,899	4.02
Corporate	A-	176,932	2.02
Corporate	BBB+	118,261	1.35
Foreign government bonds	AAA	51,488	.59
Exchange traded funds	not rated	5,311,505	60.65
Mutual funds	not rated	<u>1,027,782</u>	<u>11.74</u>
		<u>\$ 8,756,957</u>	<u>100.00</u>

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 3. - continued

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

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. It is the City's policy to mitigate this risk by requiring that all demand deposits be fully collateralized by securities pledged but not held in the City's name by an agent of the financial institution holding the demand deposits. Of the bank balance at June 30, 2014, \$3,054,705 was covered by the Federal Deposit Insurance Corporation (FDIC); \$2,944,567 was subject to a collateral agreement, and the balance of \$195,711 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 it's name.

Interest Rate Risk

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

Modified Duration

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

The modified duration of the City's investments as of June 30, 2014 is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Modified Duration</u>
U.S. Treasury	\$ 974,301	5.32
Agency bonds	436,722	4.03
Foreign Government Bonds	51,488	1.92
Asset-backed	117,603	4.50
Corporate bonds	837,556	3.04
Exchange traded funds	5,311,505	0.00
Open-end mutual funds	<u>1,027,782</u>	<u>0.00</u>
	<u>\$ 8,756,957</u>	
Portfolio modified duration		1.16

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 3. - continued

B. RECEIVABLES

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

	<u>General</u>	<u>Endowment</u>	<u>Enterprise</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Taxes	\$ 400,236	\$ -	\$ -	\$ -	\$ 400,236
State of Alaska	-	-	552,630	183,334	735,964
US Government	-	-	163,243	-	163,243
Customer	119,106	-	167,529	14,300	300,935
Interest	<u>-</u>	<u>26,599</u>	<u>-</u>	<u>-</u>	<u>26,599</u>
Gross receivables	519,342	26,599	883,402	197,634	1,626,977
Less:					
Allowance for uncollectible	<u>(47,943)</u>	<u>-</u>	<u>(18,401)</u>	<u>(-)</u>	<u>(66,344)</u>
Net total receivables	<u>\$ 471,399</u>	<u>\$ 26,599</u>	<u>\$ 865,001</u>	<u>\$ 197,634</u>	<u>\$ 1,560,633</u>

C. CAPITAL ASSETS

Capital asset activity for year ended June 30, 2014 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>5,060,342</u>	<u>952,545</u>	<u>-</u>	<u>6,012,887</u>
Total capital assets, not being depreciated	<u>5,151,206</u>	<u>952,545</u>	<u>-</u>	<u>6,103,751</u>
Capital assets, being depreciated				
Buildings	28,750,811	15,007	-	28,765,818
Equipment	<u>1,635,256</u>	<u>26,789</u>	<u>-</u>	<u>1,662,045</u>
Total capital assets being depreciated	<u>30,386,067</u>	<u>41,796</u>	<u>-</u>	<u>30,427,863</u>
Less accumulated depreciation for:				
Buildings	(7,304,771)	(685,374)	-	(7,990,145)
Equipment	<u>(1,168,553)</u>	<u>(44,061)</u>	<u>-</u>	<u>(1,212,614)</u>
Total accumulated depreciation	<u>(8,473,324)</u>	<u>(729,435)</u>	<u>-</u>	<u>(9,202,759)</u>
Total capital assets, being depreciated, net	<u>21,912,743</u>	<u>(687,639)</u>	<u>-</u>	<u>21,225,104</u>
Governmental activities capital assets, net	<u>\$27,063,949</u>	<u>\$ 264,906</u>	<u>\$ -</u>	<u>\$ 27,328,855</u>

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 3. - continued

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 3,938,727	\$ 16,171	\$ -	\$ 3,954,898
Construction in progress	<u>536,058</u>	<u>961,523</u>	<u>-</u>	<u>1,497,581</u>
Total capital assets, not being depreciated	<u>4,474,785</u>	<u>977,694</u>	<u>-</u>	<u>5,452,479</u>
Capital assets, being depreciated:				
Buildings	7,064,733	-	-	7,064,733
Equipment	885,224	7,946	-	893,170
Harbors	3,417,113	-	-	3,417,113
Water and sewer system	17,685,839	-	-	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>33,240,646</u>	<u>7,946</u>	<u>-</u>	<u>33,248,592</u>
Less accumulated depreciation for:				
Buildings	(929,203)	(180,449)	-	(1,109,652)
Equipment	(750,185)	(48,606)	-	(798,791)
Harbors	(2,814,389)	(22,611)	-	(2,837,000)
Water and sewer system	(7,401,501)	(368,567)	-	(7,770,068)
Sewer plant	<u>(2,163,397)</u>	<u>(139,574)</u>	<u>-</u>	<u>(2,302,971)</u>
Total accumulated depreciation	<u>(14,058,675)</u>	<u>(759,807)</u>	<u>-</u>	<u>(14,818,482)</u>
Total capital assets, being depreciated, net	<u>19,181,971</u>	<u>(751,861)</u>	<u>-</u>	<u>18,430,110</u>
Business-type activities capital assets, net	<u>\$23,656,756</u>	<u>\$ 225,833</u>	<u>-</u>	<u>\$ 23,882,589</u>

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

Governmental activities:

Administration	\$ 10,233
Fire	16,414
Library	3,426
Police	16,423
Public works	117,216
Parks and recreation	125,136
Planning	515
School support	351,223
Medical services	<u>88,849</u>
Total depreciation expense - governmental activities	<u>\$ 729,435</u>

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 3. - continued

Business - type activities:

Sewer	\$ 225,995
Water	283,576
Harbor	55,351
Marine industrial park	179,563
Cannery property	<u>15,322</u>
Total depreciation expense -business type activities	<u>\$ 759,807</u>

Construction commitments

The City has active construction projects as of June 30, 2014. The projects include street improvements and equipment to dry wood chips. At year end the City's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Street Improvements	\$ 5,599,550	\$ 471,355
Port St. Nick Water Line	27,155	361,650
North Ford Dam Improvements	86,585	214,552
Ice House Expansion	241,699	80,445
JTB Industrial Park Sport Float Dock	<u>541,019</u>	<u>52,838</u>
	<u>\$ 6,496,008</u>	<u>\$ 1,180,840</u>

D. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Receivable Fund	Payable Fund	Amount
Due to/from other funds:		
General Fund	Nonmajor Governmental Funds	\$ 158,614
General Fund	Road Construction Capital Projects Fund	11,929
Endowment Fund	General Fund	319
National Forest Receipts Fund	General Fund	12,140
General Fund	Enterprise Fund	<u>974,530</u>
Total		<u>\$ 1,157,532</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 FY2014, the Endowment Fund made a transfer to the Enterprise Fund for debt retirement.

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 3. - continued

	Transfer In:				
Transfer out:	General Fund	National Forest Receipts Fund	Nonmajor Governmental Funds	Enterprise Fund	Total
General Fund	\$ -	\$ 302,244	\$ -	\$ 101,933	\$ 404,177
Nonmajor Governmental Funds	5,103	-	650	-	5,753
Endowment Fund	120,000	-	200,000	1,318,000	1,638,000
	<u>\$ 125,103</u>	<u>\$ 302,244</u>	<u>\$ 200,650</u>	<u>\$ 1,419,933</u>	<u>\$2,047,930</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>115,000</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>
2015	115,000	4,600
Total	<u>\$ 115,000</u>	<u>\$ 4,600</u>

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 3. - continued

Business-Type Activities

State of Alaska, Department of Environmental Conservation Loan Program

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

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
\$440,316 note payable for wastewater treatment improvements; \$33,104 due annually on August 10 of each year through 2019	1.5%	188,600
\$357,696 note payable for wastewater treatment improvements; \$26,892 due annually on August 10 of each year through 2019	1.5%	153,212
\$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>140,990</u>
		<u>482,802</u>
 Total debt - governmental and business-type		 <u>\$ 597,802</u>

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

Year Ending June 30,

	<u>Principal</u>	<u>Interest</u>
2015	\$ 61,491	\$ 7,242
2016	62,413	6,320
2017	63,350	5,384
2018	64,300	4,433
2019	65,265	3,468
2020-2024	95,865	7,814
2025-2029	39,597	4,088
2030-2032	<u>30,521</u>	<u>1,000</u>
 Total	 <u>\$ 482,802</u>	 <u>\$ 39,749</u>

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 3. - continued

Changes in long-term liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
General obligations bonds	\$ 230,000	\$ -	\$(115,000)	\$ 115,000	\$ 115,000
Governmental activities Long-term liabilities	<u>\$ 497,857</u>	<u>\$ -</u>	<u>\$(115,000)</u>	<u>\$ 115,000</u>	<u>\$ 115,000</u>
Business-type activities:					
Notes payable:					
State of Alaska	543,384	-	(60,582)	482,802	61,491
Bank	<u>1,271,204</u>	<u>-</u>	<u>(1,271,204)</u>	<u>-</u>	<u>-</u>
Business-type activity Long-term liabilities	<u>\$ 1,814,588</u>	<u>\$ -</u>	<u>\$(1,331,786)</u>	<u>\$ 482,802</u>	<u>\$ 61,491</u>

Interest expense on all long-term debt was \$138,305 for the year ended June 30, 2014. The entire amount was charged to expense in the Statement of Activities.

F. FUND BALANCE

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

	<u>General Fund</u>	<u>Endowment Fund</u>	<u>National Forest Receipts</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Nonspendable:					
Prepaid items	\$ 7,033	\$ -	\$ -	\$ -	\$ 7,033
Restricted:					
Police	-	-	-	23,455	23,455
Committed:					
Economic development	-	-	-	415,434	415,434
Schools	-	-	1,008,723	-	1,008,723
Library services	-	-	-	2,154	2,154
Operating and capital support	-	9,478,705	-	-	9,478,705
Unassigned	<u>2,446,837</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,446,837</u>
Total Fund Balances	<u>\$2,453,870</u>	<u>\$ 9,478,705</u>	<u>\$ 1,008,723</u>	<u>\$ 441,043</u>	<u>\$13,382,341</u>

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 4. OTHER INFORMATION

A. RISK MANAGEMENT

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

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

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

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 (2.97% for pension and 3.78% for healthcare). 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 2014 were determined as part of the June 30, 2011 actuarial valuation and are as follows:

	<u>Contractual Rate</u>	<u>ARM Board Adopted Rate</u>	<u>GASB 43 Rate</u>
Pension	10.64%	18.38%	27.94%
Postemployment healthcare	<u>11.36</u>	<u>17.30</u>	<u>52.55</u>
Total contribution rate	<u><u>22.00 %</u></u>	<u><u>32.83 %</u></u>	<u><u>80.49 %</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 STATEMENT

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 13.68% of covered payroll to the Plan. In accordance with the provisions of GASB Statement Number 24, the City has recorded the State on-behalf payment in the amount of \$227,091 for the year ending June 30, 2014 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.

Fiscal year Ending June 30,	Annual Pension Cost	Annual OPEB Cost	Total Benefit Cost (TBC)	City Contri- bution	% of TBC Contributed
2014	\$ 80,373	\$ 85,811	\$166,184	\$166,184	100.00%
2013	\$ 82,469	\$ 92,828	\$175,297	\$175,297	100.00%
2012	\$ 100,593	\$ 110,576	\$211,169	\$211,169	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 salaries and requires the Division of Retirements and Benefits to collect employer contributions at a minimum based on that salary floor. During FY 2013 the City did not meet the salary floor and was required to pay an additional \$24,980 which amounts to 22% of the difference between the FY 2013 base salaries of \$1,437,071 and the salary floor of \$1,550,616. This amount was paid in FY 2014 and recognized as an expenditure 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:

	PERS Tier IV
Individual account	5.00%
Retiree medical plan	.48
Occupational death and disability benefits	<u>.20</u>
	<u>5.68 %</u>

CITY OF CRAIG, ALASKA
NOTES TO FINANCIAL STATEMENTS

Note 4. - continued

In addition, the employer must contribute to the Health Reimbursement Arrangement. AS 39.30.370 establishes this contribution amount as “three percent of the employer’s average annual employee compensation.” As of July 1, 2013, for actual remittance, this amount is calculated as a flat rate for each full time or part-time employee per pay period and approximates \$1,897 per year for each full-time employee and \$1.22 per hour for each part-time employee.

The total employer contribution must equal 22% of covered payroll. After subtracting the defined contribution rates and the HRA contribution, any residual amount of the 22% is deposited into the defined benefit plan discussed above. Known as the defined benefit unfunded liability (DBUL) payment, this amount is intended to mitigate against the declining payroll base that resulted from the creation of the defined benefit plan.

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, 2014 were \$62,015 and \$171,829, respectively

D. Subsequent Event

On October 7, 2014 the voters of the City of Craig, Alaska approved an ordinance for the issuance of general obligation bonds in the principal amount not to exceed \$3,000,000 for the purpose of securing funds necessary to pay the costs of designing, repairing, constructing and equipping of capital improvements to the Craig Municipal Swimming Pool and related facilities. The City anticipates issuing these bonds through the Alaska Municipal Bond Bank late in early calendar year 2015.

E. New Accounting Pronouncements

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates. Of the numerous statements, the following are expected to have some effect on the District’s financial reporting. Actual impacts have not yet been determined.

GASB 68 – Accounting and Financial Reporting for Pensions – Effective for year end June 30, 2015 – This statement will require all governments that participate in defined benefit pension plans to report any “net pension liability” (as newly defined). An additional GASB statement provides guidance for the Plan reporting with a one year earlier implementation.

GASB 69 - Government Combinations and Disposals of Government Operations - Effective for year-end June 30, 2015 - This statement contains certain disclosures to be made about government combinations and disposals of government operation to enable financial statement users to evaluate the nature and effects of these transactions.

GASB 71 - Pension Transitions for Contributions Made Subsequent to the Measurement Date - Effective for year-end June 30, 2015 - This statement is a companion to GASB Statement 68 and clarifies treatment of contributions made by the contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CRAIG, ALASKA

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Real and personal	\$ 534,000	\$ 534,000	\$ 538,898	\$ 4,898
Sales and bed	1,452,000	1,665,000	1,709,363	44,363
Liquor	120,000	120,000	120,433	433
State sources	316,000	454,000	454,784	784
Federal sources	219,825	268,000	268,086	86
Charges for services	573,760	632,000	638,221	6,221
Fines, forfeitures and penalties	7,000	5,000	5,253	253
Investment income	5,500	4,500	4,548	48
Uses of property	90,000	78,000	79,878	1,878
Licenses and permits	59,050	74,050	76,261	2,211
Other	5,500	5,000	3,904	(1,096)
Total revenues	3,382,635	3,839,550	3,899,629	60,079
EXPENDITURES				
Current:				
Administration	713,272	732,137	736,102	(3,965)
Council	66,487	75,228	75,902	(674)
Planning	89,357	82,677	83,082	(405)
Parks and facilities	207,988	211,631	206,258	5,373
Public works	212,343	212,353	204,714	7,639
Police	902,954	880,220	880,734	(514)
Emergency medical services	127,998	165,858	166,951	(1,093)
Fire	31,982	23,171	16,947	6,224
Library	108,652	120,209	132,447	(12,238)
Recreation	97,629	97,982	86,704	11,278
Aquatic facilities	447,090	380,364	364,878	15,486
Hatchery	35,000	35,000	40,596	(5,596)
Debt service	123,912	123,912	123,912	-
Capital outlay	46,746	79,346	41,796	37,550
Total expenditures	3,211,410	3,220,088	3,161,023	59,065
Excess (deficit) of revenues over (under) expenditures	171,225	619,462	738,606	119,144
OTHER FINANCING SOURCES (USES)				
Transfers in	137,586	120,000	120,000	-
Transfers out	(300,000)	(386,853)	(399,074)	(12,221)
Total other financing sources (uses)	(162,414)	(266,853)	(279,074)	(12,221)
Net change in fund balances	8,811	352,609	459,532	106,923
Fund balances, beginning of year	2,048,950	2,048,950	2,048,950	-
Fund balances, end of year	\$ 2,057,761	\$ 2,401,559	\$ 2,508,482	\$ 106,923

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.

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

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

Pool Improvement Grant - This fund accounts for a grant from the State of Alaska for improvements to the aquatic center. Funds have been used for an architectural firm to determine the needed improvements.

Public Safety Building Grant - This fund accounts for a grant from the State of Alaska for the design and engineering of a fire and emergency medical services building.

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, 2014

	Special		Revenue	
	Facilities Development Fund	Police Drug Forfeiture	Land Development Fund	Local Emergency Planning Committee
ASSETS				
Equity in central treasury	\$ -	\$ -	\$ -	\$ -
Cash and cash equivalents	71,497	23,455	349,148	-
Receivables, net of allowance for uncollectibles	300	-	-	69,863
Prepaid expenses	-	-	-	-
Total assets	<u>\$ 71,797</u>	<u>\$ 23,455</u>	<u>\$ 349,148</u>	<u>\$ 69,863</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ 4,661	\$ 4,213
Deferred revenue	-	-	-	-
Due to other funds	200	-	650	65,650
Total liabilities	200	-	5,311	69,863
Fund balances:				
Restricted	-	23,455	-	-
Committed	71,597	-	343,837	-
Total fund balances	<u>71,597</u>	<u>23,455</u>	<u>343,837</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 71,797</u>	<u>\$ 23,455</u>	<u>\$ 349,148</u>	<u>\$ 69,863</u>

Funds

HOPE Grant	Library Grant IML	State of Alaska Library Grants	Library Special Project
\$ 716	\$ -	\$ -	\$ 5,833
-	-	-	-
-	14,000	-	-
-	-	1,500	-
<u>\$ 716</u>	<u>\$ 14,000</u>	<u>\$ 1,500</u>	<u>\$ 5,833</u>
\$ -	\$ -	\$ 1,500	\$ 1,968
716	-	-	1,711
-	14,000	-	-
716	14,000	1,500	3,679
-	-	-	-
-	-	-	2,154
-	-	-	2,154
<u>\$ 716</u>	<u>\$ 14,000</u>	<u>\$ 1,500</u>	<u>\$ 5,833</u>

CITY OF CRAIG, ALASKA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2014

	<u>Capital Projects Funds</u>			<u>Total Nonmajor Governmental Funds</u>
	<u>Pool Improvements Grant</u>	<u>Public Safety Building</u>	<u>Wood Chip Dryer Construction</u>	
Equity in central treasury	\$ -	\$ -	\$ -	\$ 6,549
Cash and cash equivalents	-	-	-	444,100
Receivables, net of allowance for uncollectibles	12,338	47,450	41,754	185,705
Prepaid expenses	-	-	-	1,500
Total assets	<u>\$ 12,338</u>	<u>\$ 47,450</u>	<u>\$ 41,754</u>	<u>\$ 637,854</u>
Accounts payable	\$ 12,338	\$ 9,630	\$ 1,460	\$ 35,770
Deferred revenue	-	-	-	2,427
Due to other funds	-	37,820	40,294	158,614
Total liabilities	12,338	47,450	41,754	196,811
Restricted	-	-	-	23,455
Committed	-	-	-	417,588
Total fund balances	-	-	-	441,043
Total liabilities and fund balances	<u>\$ 12,338</u>	<u>\$ 47,450</u>	<u>\$ 41,754</u>	<u>\$ 637,854</u>

CITY OF CRAIG, ALASKA

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

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2014

	Special Revenue Funds			
	Facilities Special Revenue	Police Drug Forfeiture	Land Development Fund	Local Emergency Planning Committee
REVENUES				
State sources	\$ -	\$ -	\$ -	\$ 12,143
Federal sources	-	-	-	66,322
Investment income	51	560	8,165	-
Other	3,600	4,516	368,778	-
Total revenues	3,651	5,076	376,943	78,465
EXPENDITURES				
Current:				
Library	-	-	-	-
Police	-	2,665	-	78,465
Public works	3,800	-	351,266	-
Capital outlay	-	-	-	-
Total expenditures	3,800	2,665	351,266	78,465
Excess (deficit) of revenues over expenditures	(149)	2,411	25,677	-
Other financing sources(uses):				
Transfers in	650	-	200,000	-
Transfers out	(5,103)	-	(650)	-
Total other financing sources (uses)	(4,453)	-	199,350	-
Net change in fund balances	(4,602)	2,411	225,027	-
Fund balance, beginning of year	76,199	21,044	118,810	-
Fund balance, end of year	\$ 71,597	\$ 23,455	\$ 343,837	\$ -

CITY OF CRAIG, ALASKA

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

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2014

	Special Revenue Funds			
	Justice Assistance Grant	Library Grant IML	State of Alaska Library Grants	Library Special Projects
REVENUES				
State sources	\$ -	\$ -	\$ 6,600	\$ 2,642
Federal sources	1,017	7,000		
Investment income	-	-	-	-
Other	-	-	-	4,310
Total revenues	1,017	7,000	6,600	6,952
EXPENDITURES				
Current:				
Library	-	7,000	6,600	5,700
Police	1,017	-	-	-
Public works	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	1,017	7,000	6,600	5,700
Excess (deficit) of revenues over expenditures	-	-	-	1,252
Other financing sources(uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	-	-	-	1,252
Fund balance, beginning of year	-	-	-	902
Fund balance, end of year	\$ -	\$ -	\$ -	\$ 2,154

Capital Projects Funds

<u>Pool Improvements Grant</u>	<u>Public Safety Building</u>	<u>Wood Chip Dryer Construction</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 13,508	\$ 90,445	\$ 1,460	\$ 126,798
-	-	-	74,339
-	-	-	8,776
-	-	-	381,204
13,508	90,445	1,460	591,117
-	-	-	19,300
-	-	-	82,147
-	-	-	355,066
13,508	90,445	1,460	105,413
13,508	90,445	1,460	561,926
-	-	-	29,191
-	-	-	200,650
-	-	-	(5,753)
-	-	-	194,897
-	-	-	224,088
-	-	-	216,955
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 441,043</u>

Enterprise Fund Departments

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

The Enterprise Fund accounts for the following activities:

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

CITY OF CRAIG, ALASKA

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

ENTERPRISE FUND

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Sewer Department</u>	<u>Water Department</u>	<u>Garbage Department</u>	<u>Harbor Department</u>	<u>Marine Industrial Park Department</u>	<u>Cannery Property Department</u>	<u>Total</u>
Operating revenue:							
Charges for services	\$ 296,478	\$ 324,931	\$ 325,391	\$ 237,595	\$ 375,634	\$ 2,125	\$ 1,562,154
Operating expenses:							
Salaries and benefits	144,521	208,938	86,928	185,084	75,361	3,713	704,545
Insurance	2,125	3,375	851	18,425	6,831	9	31,616
Utilities	34,333	51,122	-	23,332	40,024	5,996	154,807
Contractual services	5,052	176,081	218,776	3,925	4,320	1,408	409,562
Repairs and maintenance	24,127	5,663	2,438	42,423	20,151	2,788	97,590
Materials and supplies	6,907	64,980	9,278	17,336	5,842	106	104,449
Travel and per diem	568	4,017	7	2,827	1,084	-	8,503
Small equipment	5,320	-	-	574	4,874	-	10,768
Other	3,599	3,084	2,674	17,697	670	-	27,724
Depreciation	225,995	283,576	-	55,351	179,563	15,322	759,807
Total operating expenses	<u>452,547</u>	<u>800,836</u>	<u>320,952</u>	<u>366,974</u>	<u>338,720</u>	<u>29,342</u>	<u>2,309,371</u>
Operating income (loss)	(156,069)	(475,905)	4,439	(129,379)	36,914	(27,217)	(747,217)
Nonoperating revenues (expenses):							
Investment income	12	-	-	-	-	-	12
Interest expense	(13,587)	(3,536)	-	-	(112,270)	-	(129,393)
Grant revenue	12,717	216,978	6,210	705,194	144,286	-	1,085,385
Total nonoperating revenue (expenses)	<u>(858)</u>	<u>213,442</u>	<u>6,210</u>	<u>705,194</u>	<u>32,016</u>	<u>-</u>	<u>956,004</u>
Income (loss) before transfers	(156,927)	(262,463)	10,649	575,815	68,930	(27,217)	208,787
Transfers in	-	-	-	-	1,419,933	-	1,419,933
Change in net assets	<u>\$ (156,927)</u>	<u>\$ (262,463)</u>	<u>\$ 10,649</u>	<u>\$ 575,815</u>	<u>\$ 1,488,863</u>	<u>\$ (27,217)</u>	<u>\$ 1,628,720</u>

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, 2014

	Original Budget	Final Budget	Revenues, Expenses or Transfers	Adjustments	Actual on Budgetary Basis	Variance with Final Budget - Positive (Negative)
Operating revenues:						
Charges for services	\$ 287,000	\$ 298,000	\$ 296,478	\$ -	\$ 296,478	\$ (1,522)
Operating expenses:						
Salaries and benefits	131,916	138,518	144,521	(12,717)	131,804	6,714
Insurance	3,400	3,000	2,125	-	2,125	875
Utilities	40,900	35,500	34,333	-	34,333	1,167
Contractual services	5,500	5,500	5,052	-	5,052	448
Repairs and maintenance	28,000	26,000	24,127	-	24,127	1,873
Materials and supplies	9,056	6,650	6,907	-	6,907	(257)
Travel	3,000	600	568	-	568	32
Small equipment	1,000	5,500	5,320	-	5,320	180
Other	4,231	4,100	3,599	-	3,599	501
	<u>227,003</u>	<u>225,368</u>	<u>226,552</u>	<u>(12,717)</u>	<u>213,835</u>	<u>11,533</u>
Depreciation and amortization	-	-	225,995	(225,995)	-	-
Debt service	59,997	59,997	-	67,645	67,645	(7,648)
Total operating expenses	<u>287,000</u>	<u>285,365</u>	<u>452,547</u>	<u>(171,067)</u>	<u>281,480</u>	<u>3,885</u>
Operating income	<u>-</u>	<u>12,635</u>	<u>(156,069)</u>	<u>171,067</u>	<u>14,998</u>	<u>2,363</u>
Nonoperating revenues (expenses):						
Investment income	-	-	12	-	12	12
Interest expense	-	-	(13,587)	13,587	-	-
Grant revenue	-	-	12,717	(12,717)	-	-
Total nonoperating expenses	<u>-</u>	<u>-</u>	<u>(858)</u>	<u>870</u>	<u>12</u>	<u>12</u>
Change in net assets	<u>\$ -</u>	<u>\$ 12,635</u>	<u>\$ (156,927)</u>	<u>\$ 171,937</u>	<u>\$ 15,010</u>	<u>\$ 2,375</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, 2014

	Original Budget	Final Budget	Revenues, Expenses or Transfers	Adjustments	Actual on Budgetary Basis	Variance with Final Budget - Positive (Negative)
Operating revenues:						
Charges for services	\$ 281,500	\$ 316,500	\$ 324,931	\$	\$ 324,931	\$ 8,431
Operating expenses:						
Salaries and benefits	157,977	187,092	208,938	(17,368)	191,570	(4,478)
Insurance	5,275	5,275	3,375	-	3,375	1,900
Utilities	49,600	52,400	51,122	-	51,122	1,278
Contractual services	8,000	4,400	176,081	(170,804)	5,277	(877)
Repairs and maintenance	4,500	7,000	5,663	-	5,663	1,337
Materials and supplies	37,258	65,000	64,980	-	64,980	20
Travel and per diem	2,190	4,200	4,017	-	4,017	183
Other	2,000	3,000	3,084	-	3,084	(84)
	<u>266,800</u>	<u>328,367</u>	<u>517,260</u>	<u>(188,172)</u>	<u>329,088</u>	<u>(721)</u>
Depreciation and amortization	-	-	283,576	(283,576)	-	-
Debt service	7,500	8,737	-	3,536	3,536	5,201
Capital items	7,200	9,700	-	11,482	11,482	(1,782)
	<u>281,500</u>	<u>346,804</u>	<u>800,836</u>	<u>(456,730)</u>	<u>344,106</u>	<u>2,698</u>
Operating income (loss)	<u>-</u>	<u>(30,304)</u>	<u>(475,905)</u>	<u>456,730</u>	<u>(19,175)</u>	<u>11,129</u>
Nonoperating revenues (expenses):						
Interest expense	-	-	(3,536)	3,536	-	-
Grant revenue	-	-	216,978	(216,978)	-	-
	<u>-</u>	<u>-</u>	<u>213,442</u>	<u>(213,442)</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>\$ -</u>	<u>\$ (30,304)</u>	<u>\$ (262,463)</u>	<u>\$ 243,288</u>	<u>\$ (19,175)</u>	<u>\$ 11,129</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, 2014

	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	\$ 325,000	\$ 325,391	\$ -	\$ 325,391	\$ 391
Operating expenses:						
Salaries and benefits	88,926	81,087	86,928	(6,210)	80,718	369
Insurance	1,325	1,325	851	-	851	474
Contractual services	230,000	230,000	218,776	-	218,776	11,224
Repairs and maintenance	7,149	5,149	2,438	-	2,438	2,711
Materials and supplies	6,700	9,000	9,278	-	9,278	(278)
Travel	-	-	7	-	7	(7)
Small equipment	2,000	1,000	-	-	-	1,000
Other	1,900	2,800	2,674	-	2,674	126
	<u>338,000</u>	<u>330,361</u>	<u>320,952</u>	<u>(6,210)</u>	<u>314,742</u>	<u>15,619</u>
Total operating expenses	<u>338,000</u>	<u>330,361</u>	<u>320,952</u>	<u>(6,210)</u>	<u>314,742</u>	<u>15,619</u>
Operating loss	-	(5,361)	4,439	6,210	10,649	16,010
Nonoperating revenue (expenses)						
Grant revenue	-	-	6,210	(6,210)	-	-
Total nonoperating expenses	-	-	6,210	(6,210)	-	-
Change in net assets	<u>\$ -</u>	<u>\$ (5,361)</u>	<u>\$ 10,649</u>	<u>\$ -</u>	<u>\$ 10,649</u>	<u>\$ 16,010</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, 2014

	Original Budget	Final Budget	Revenues, Expenses or Transfers	Adjustments	Actual on Budgetary Basis	Variance with Final Budget - Positive (Negative)
Operating revenues:						
Charges for services	\$ 258,550	\$ 250,550	\$ 237,595	\$ -	\$ 237,595	\$ (12,955)
Operating expenses:						
Salaries and benefits	167,285	176,684	185,084	(14,175)	170,909	5,775
Insurance	8,215	21,600	18,425	-	18,425	3,175
Utilities	29,100	29,100	23,332	-	23,332	5,768
Contractual services	5,215	5,215	3,925	-	3,925	1,290
Repairs and maintenance	23,894	43,270	42,423	-	42,423	847
Materials and supplies	18,007	16,299	17,336	-	17,336	(1,037)
Travel	200	2,900	2,827	-	2,827	73
Small equipment	-	-	574	-	574	(574)
Other	3,474	5,575	17,697	(13,475)	4,222	1,353
	<u>255,390</u>	<u>300,643</u>	<u>311,623</u>	<u>(27,650)</u>	<u>283,973</u>	<u>16,670</u>
Depreciation and amortization	-	-	55,351	(55,351)	-	-
Capital items	3,160	-	-	-	-	-
Total operating expenses	<u>258,550</u>	<u>300,643</u>	<u>366,974</u>	<u>(83,001)</u>	<u>283,973</u>	<u>16,670</u>
Operating loss	-	(50,093)	(129,379)	83,001	(46,378)	3,715
Nonoperating revenues						
Grant revenue	-	-	705,194	(705,194)	-	-
Total nonoperating expenses	-	-	705,194	(705,194)	-	-
Change in net assets	<u>\$ -</u>	<u>\$ (50,093)</u>	<u>\$ 575,815</u>	<u>\$ (622,193)</u>	<u>\$ (46,378)</u>	<u>\$ 3,715</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, 2014

	Original Budget	Final Budget	Revenues, Expenses or Transfers	Adjustments	Actual on Budgetary Basis	Variance with Final Budget - Positive (Negative)
Operating revenues:						
Charges for services	\$ 339,456	\$ 369,470	\$ 375,634	\$ -	\$ 375,634	\$ 6,164
Operating expenses:						
Salaries and benefits	112,758	64,748	75,361	(4,521)	70,840	(6,092)
Insurance	11,264	11,264	6,831	-	6,831	4,433
Utilities	30,000	43,000	40,024	-	40,024	2,976
Contractual services	175	395	4,320	-	4,320	(3,925)
Repairs and maintenance	9,750	19,000	20,151	-	20,151	(1,151)
Materials and supplies	4,498	5,498	5,842	-	5,842	(344)
Travel	-	-	1,084	-	1,084	(1,084)
Small equipment	10,750	10,750	924	-	924	9,826
Other	300	300	670	-	670	(370)
	<u>179,495</u>	<u>154,955</u>	<u>155,207</u>	<u>(4,521)</u>	<u>150,686</u>	<u>4,269</u>
Depreciation and amortization	-	-	179,563	(179,563)	-	-
Capital purchases	10,640	10,640	3,950	-	3,950	14,590
Debt service	132,000	1,450,000	-	1,383,474	1,383,474	66,526
Total operating expenses	<u>322,135</u>	<u>1,615,595</u>	<u>338,720</u>	<u>1,199,390</u>	<u>1,538,110</u>	<u>85,385</u>
Operating income	17,321	(1,246,125)	36,914	(1,199,390)	(1,162,476)	91,549
Nonoperating revenues (expenses):						
Interest expense	-	-	(112,270)	112,270	-	-
Grant revenue	-	-	144,286	(144,286)	-	-
Net loss before transfers	17,321	(1,246,125)	68,930	(1,231,406)	(1,162,476)	91,549
Transfers in	-	1,318,000	1,419,933	(101,933)	1,318,000	-
Change in net assets	<u>\$ 17,321</u>	<u>\$ 71,875</u>	<u>\$ 1,488,863</u>	<u>\$ (1,333,339)</u>	<u>\$ 155,524</u>	<u>\$ 91,549</u>

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, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Revenues, Expenses or Transfers</u>	<u>Adjustments</u>	<u>Actual on Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Operating revenues:						
Charges for services	\$ 7,500	\$ 4,000	\$ 2,125	\$ -	\$ 2,125	\$ (1,875)
Operating expenses:						
Salaries and benefits	-	8,500	3,713	-	3,713	4,787
Insurance	335	335	9	-	9	326
Utilities	2,100	6,500	5,996	-	5,996	504
Contactual services	2,000	500	1,408	-	1,408	(908)
Repairs and maintenance	500	3,500	2,788	-	2,788	712
Materials and supplies	300	300	106	-	106	194
	<u>5,235</u>	<u>19,635</u>	<u>14,020</u>	<u>-</u>	<u>14,020</u>	<u>5,615</u>
Depreciation and amortization	-	-	15,322	(15,322)	-	-
Capital items	2,000	2,000	-	-	-	2,000
Total operating expenses	<u>7,235</u>	<u>21,635</u>	<u>29,342</u>	<u>(15,322)</u>	<u>14,020</u>	<u>7,615</u>
Operating income	<u>265</u>	<u>(17,635)</u>	<u>(27,217)</u>	<u>15,322</u>	<u>(11,895)</u>	<u>5,740</u>
Change in net assets	<u>\$ 265</u>	<u>\$ (17,635)</u>	<u>\$ (27,217)</u>	<u>\$ 15,322</u>	<u>\$ (11,895)</u>	<u>\$ 5,740</u>

CITY OF CRAIG, ALASKA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2014

<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	10.665	11-DG-11100500-094	\$ 16,771
National Forest Receipts - Municipal & Regional Assistance	10.665		<u>580,820</u>
Total CFDA 10.665 - Total Forest Service Schools and Road Cluster			<u>597,591</u>
Total Department of Agriculture			597,591
Department of Commerce			
Passed through the State of Alaska, Department of Commerce, Community and Economic Development			
Chinook Salmon Mitigation Funds			
False Island Moorage Float Replacement	11.438	13-CSMI-007	179,100
Ice House Storage Expansion	11.438	13-CSMI-004	139,765
National Oceanic and Atmospheric Administration			
Passed through the State of Alaska, Department of Military Affairs			
NOAA Tsunami Hazard Ready Program	11.467	09NOAA3-GR34286	<u>25,205</u>
Total Department of Commerce			344,070
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>41,117</u>
Total Department of Homeland Security			41,117
Department of the Interior			
Payment in Lieu of Taxes	15.226		258,086
Passed through the State of Alaska, Department of Fish and Game			
False Island Moorage Float Replacement	15.622	COOP-12-034	<u>271,439</u>
Total Department of the Interior			529,525

CITY OF CRAIG, ALASKA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

<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 Justice			
FY 2009 Recovery Act Edward Bryne Memorial JAG	16.803	2009-SB-B9-0799	<u>1,017</u>
Total Department of Justice			<u>1,017</u>
Environmental Protection Agency			
Passed Through the State of Alaska, Department of Environmental Conservation			
Alaska Drinking Water Fund	66.458	265051	
Congressionally Mandated Projects			
City of Craig Water Main and Pump Station Replacement	66.202	XP-00J49301	<u>12,035</u>
Total Environmental Protection Agency			<u>12,035</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>7,000</u>
Total National Endowment for the Humanities Pass-Through Programs			<u>7,000</u>
Total Federal Financial Assistance			<u><u>\$ 1,532,355</u></u>

CITY OF CRAIG, ALASKA
 SCHEDULE OF STATE FINANCIAL ASSISTANCE
 For the Year Ended June 30, 2014

Grantor and Program Title	Grant Number	State Expenditures
Department of Administration		
PERS Relief		* \$ 227,091
Community Revenue Sharing		* <u>155,320</u>
Total Department of Administration		382,411
Department of Commerce, Community & Economic Development		
Roads and Utilities	12-DC-341	* 887,132
Repairs and Upgrades at the Aquatic Center	14-RR-059	13,508
Public Safety Building Engineering and Design	13-DC-127	* 90,445
Water and Wastewater System Cleaning, Inspection and Master Plan	13-DC-298	* 170,804
Craig Cannery Site Harbor Development	13-DC-351	* 150,000
Shared Fish Tax		<u>7,153</u>
Total Department Community and Economic Development		1,319,042
Department of Education and Early Development		
Public Library Assistance Grant	PLA-14-726-16	6,600
OWL Grant		<u>2,642</u>
Total Department of Education and Early Development		9,242
Department of Fish and Game		
False Island Moorage Float Replacement	COOP-12-034	* <u>90,480</u>
Total Department of Fish and Game		90,480
Department of Military and Veterans Affairs		
Local Emergency Planning Committee	14LEPC-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, 2014

Grantor and Program Title	Grant Number	State Expenditures
Department of Revenue		
Fisheries Taxes		* 282,111
Liquor Licenses		<u>10,200</u>
Total Department of Revenue		292,311
Alaska Energy Authority		
Biomass Fuel Dryer Project	7020042	<u>1,459</u>
Total Alaska Energy Authority		<u>1,459</u>
Total State of Alaska Financial Assistance		<u>\$ 2,107,088</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, 2014

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, 2014. The City's reporting entity is defined in Note 1 of the City's June 30, 2014 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	\$ 903,636
Capital grants and contributions	2,022,939
Grants and contributions not restricted to a specific purpose	<u>712,868</u>
Total from Statement of Activities	3,639,443
State of Alaska sources	<u>(2,107,088)</u>
Total expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 1,532,355</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, 2014, 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 December 15, 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.

Christine E. Harrington

Sitka, Alaska
December 15, 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, 2014. The City of Craig, Alaska's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The City of Craig, Alaska's basic financial statements include the operations of the Craig City School District, which received \$1,861,647 in federal awards which is not included in the schedule of expenditures of federal awards for the year ended June 30, 2014. 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, 2014 with an auditor's report date of October 30, 2014. 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, 2014.

Members of the City Council
City of Craig, Alaska

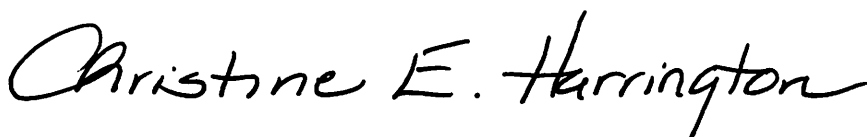
Report on Internal Control Over Compliance

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.



Sitka, Alaska
December 15, 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 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, 2014. 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 \$6,084,702 in State awards which is not included in the schedule of state financial assistance for the year ended June 30, 2014. 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, 2014 with an auditor's report date of October 30, 2014. 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, 2014.

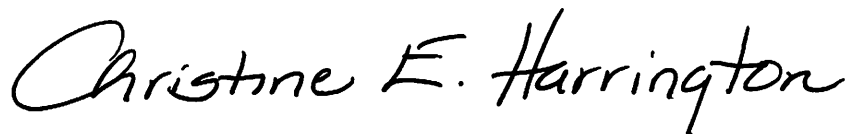
Report on Internal Control Over Compliance

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
December 15, 2014

City of Craig, Alaska

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

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>
14.438	Pacific Coast Salmon Recovery - Pacific Coast Treaty Program
15.622	Sportsfishing and Boating Safety Act

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, 2014

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.