

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

For the fiscal year ended

June 30, 2015

Prepared by:

Department of Finance

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

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## INDEPENDENT AUDITOR'S REPORT

Members of the City Council  
City of Craig, Alaska

### Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Craig, Alaska, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Craig, Alaska's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, I have also issued my report dated March 28, 2016, on my consideration of the City of Craig, Alaska's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Craig, Alaska's internal control over financial reporting and compliance.

*Christine E. Harrington*

Sitka, Alaska  
March 28, 2016

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

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

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

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

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

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

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

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Craig, assets and deferred outflows exceeded liabilities by \$70,249,187 at the close of the most recent fiscal year.

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

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

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

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

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

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

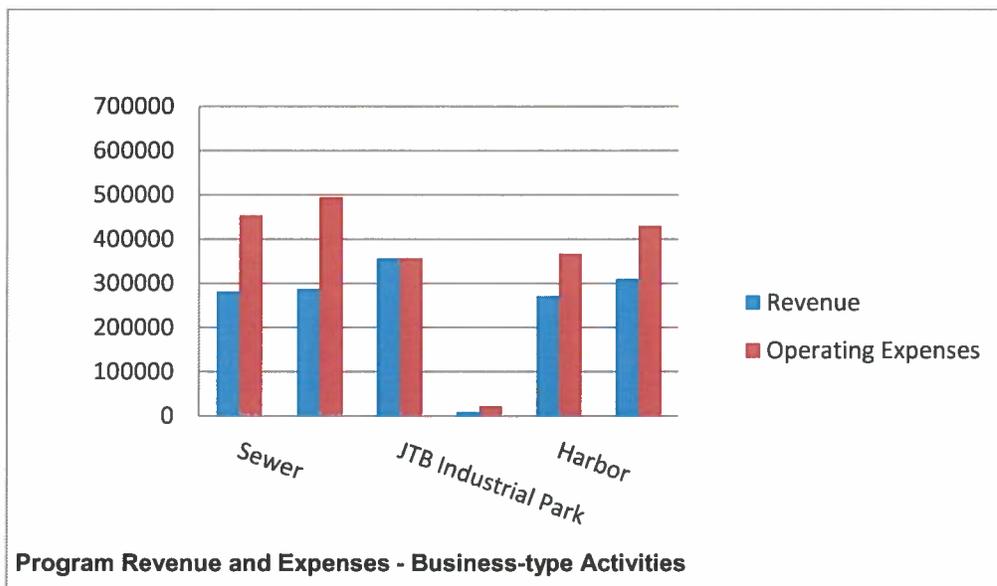
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Program Revenues</b>						
Charges for services	875,724	803,517	\$ 1,513,304	\$ 1,562,154	\$ 2,389,028	2,365,671
Property taxes	601,041	538,898			601,041	538,898
Sales taxes	1,608,222	1,709,363			1,608,222	1,709,363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

### Business-type activities

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

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

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



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

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

**Bonds.** In March, 2015 the City of Craig issued General Obligation Bond for \$1,810,000 with a premium of \$205,368. At the end of the current fiscal year, the City of Craig had total bonded debt outstanding of \$1,810,100 backed by the full faith and credit of the government.

**Notes Payable.** In 1999, the City borrowed funds from the State of Alaska to upgrade the wastewater plant. The City owes \$231,250 on two notes, which are due in 2019. The City makes one annual payment to the State on those notes. In May 2005, the state implemented an interest rate reduction approved by the legislature; these loans now carry an interest rate of 1.5%. The city has two loans (\$127,647, \$247,984) with Alaska Department of Water for water line improvements which is due in 2031 and 2033. Additional information on the City of Craig's long-term debt is found in note 3.E starting on page 42 of this report.

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

Sales Tax and property tax would remain consistent with prior years

There will be few local construction projects to increase activity in the city.

Electrical costs will remain high.

Employee Benefits would decrease due to changes in the health insurance premium structure.

Water consumption has decreased with the current rate schedule therefore revenue is projected to be less.

These factors were taken into account when adopting the FY 2016 governmental budget.

### **Requests for Information**

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

## **BASIC FINANCIAL STATEMENTS**

## CITY OF CRAIG, ALASKA

## STATEMENT OF NET POSITION

JUNE 30, 2015

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

See notes to financial statements

Net (Expenses) Revenues and  
Changes in Net Assets

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

See notes to financial statements

CITY OF CRAIG, ALASKA

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

YEAR ENDED JUNE 30, 2015

Total fund balances of governmental funds \$ 16,323,595

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

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

Land	\$ 90,864
Buildings	28,765,818
Equipment	2,166,710
Infrastructure	5,598,934
Construction in progress	<u>282,379</u>

Accumulated depreciation	36,904,705
	<u>(10,249,493)</u>

Total capital assets, net 26,655,212

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

Long-term debt	(1,810,000)
Unamortized bond premiums	(205,368)
Net pension liability	<u>(2,439,738)</u>

Total long-term liabilities (4,455,106)

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

Deferred outflows related to pensions	133,713
Deferred inflows related to pensions	<u>(281,577)</u>

Total deferred pension items (147,864)

Total net position of governmental funds \$ 38,375,837

See notes to financial statements

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

FOR THE YEAR ENDED JUNE 30, 2015

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

Net change in fund balances -- total governmental funds	\$	2,941,254
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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	\$ 333,094	
Less current year depreciation	<u>(1,046,733)</u>	(713,639)

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	115,000	
Proceeds from issuance of debt	<u>(2,015,368)</u>	(1,900,368)

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

		<u>10,180</u>
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Change in net position of governmental activities	\$	<u><u>337,427</u></u>
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See notes to financial statements

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

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

See notes to financial statements

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

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

See notes to financial statements

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

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. REPORTING ENTITY**

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

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

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

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

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

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

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

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

**Note 1. - continued**

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

**Financial Statement Presentation**

The City reports the following major governmental funds:

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

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

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

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

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

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

**Equity in Central Treasury**

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

**Cash and Cash Equivalents**

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

**Investments**

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

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

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

**Note 1. - continued**

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

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

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

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

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

**Compensated absences**

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

**Long-term obligations**

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

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

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

**Deferred Outflows/Inflows of Resources**

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

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

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

**Note 1. - continued**

**Management Estimates and Assumptions**

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

**Subsequent Events**

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

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

**A. Budgetary Information**

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

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

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

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

**B. Excess of Expenditures Over Appropriations**

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

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

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

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

**Note 3. - continued**

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

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

*Custodial Credit Risk - Investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of outside parties. All the City's investments subject to custodial credit risk are held by the City's agent in 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, 2015 is as follows:

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

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

**Note 3. - continued**

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

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

Governmental activities:

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

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

**Note 3. - continued**

Interfund Transfers:

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

**E. LONG-TERM DEBT**

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. During FY15 the City repaid the final amount due of \$115,000 on bonds issued to construct an indoor aquatic facility. In addition, the City issued a new series of bonds to renovate the aquatic center. The bonds were issued at a premium of the \$205,368.

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

General obligation bonds currently outstanding are as follows:

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

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

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

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

**Note 3. - continued**

Changes in long-term liabilities

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

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

**F. FUND BALANCE**

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

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

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

**Note 3. - continued**

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

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

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

**Employee Contribution Rates**

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

**Employer and Other Contribution Rates**

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

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

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

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

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

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

**Note 3. - continued**

Year ended June 30:

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

**Actuarial Assumptions**

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

Inflation rate	3.12%
Salary increases	Graded by age and service, from 9.60% to 3.62%
Investment rate of return	8.00%, net of pension plan investment expenses. This is based on average inflation rate of 3.12% and a real rate of return of 4.88%

Mortality rates (pre-termination) for PERS were based on the 2005 to 2009 actual mortality experience. For all others (excluding peace officer/firefighter) the 1994 GAM Table, sex-distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA, 75% of the male table for males and 55% of the female table for females were used. For post-termination mortality, the 1994 GAM Table, sex-distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and with a 1-year set-forward for females were used.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expenses and inflation) are developed for each major class of assets. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by an asset allocation percentage, which is based on the nature and mix of current and expected plan investments, and by adding expected inflation. Best estimates of arithmetic real return for each major asset class included in each System's current and expected asset allocation is summarized in the following table (note that the rates shown below exclude the inflation component):

<u>Asset class</u>	<u>Long-term expected real rate of return</u>
Equities:	
Broad domestic equity	5.40%
Large caps	5.25
Small/mid caps	5.60
International equity	5.25
Emerging market equities	5.65
Global ex-US equity	5.55

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

**Note 3. - continued**

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

**Benefit Terms**

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

**Employee Contribution Rate**

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

**Employer Contribution Rates**

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

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

The City contributions are recognized as pension expense.

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

**Defined Benefit OPEB**

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

**Employer Contribution Rates**

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

Employees do not contribute to the defined benefit OPEB plan.

**Annual Postemployment Healthcare Cost**

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

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

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

**Defined Contribution OPEB**

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

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

**Note 5. Change in Accounting Principle**

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

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

## **REQUIRED SUPPLEMENTARY INFORMATION**

## CITY OF CRAIG, ALASKA

## GENERAL FUND

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

## BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2015

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

See notes to Required Supplementary Information.

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

June 30, 2015

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

See notes to Required Supplementary Information.

**ADDITIONAL SUPPLEMENTARY INFORMATION**

## Nonmajor Governmental Funds

### Special Revenue Funds

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

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

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

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

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

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

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

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

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

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

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

### Capital Projects Fund

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

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

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

Funds

Local Emergency Planning Committee	Equipment Purchase Grant	Library Grant IML	State of Alaska Library Grants	Library Special Project
\$ -	\$ -	\$ 99	\$ -	\$ 2,411
6,084	39,754	-	8,000	5,000
<u>\$ 6,084</u>	<u>\$ 39,754</u>	<u>\$ 99</u>	<u>\$ 8,000</u>	<u>\$ 7,411</u>
\$ 82	\$ 207	\$ 30	\$ 2,034	\$ 266
6,002	39,547	69	5,966	4,653
6,084	39,754	99	8,000	4,919
-	-	-	-	-
-	-	-	-	2,492
-	-	-	-	2,492
<u>\$ 6,084</u>	<u>\$ 39,754</u>	<u>\$ 99</u>	<u>\$ 8,000</u>	<u>\$ 7,411</u>

CITY OF CRAIG, ALASKA

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

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2015

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

Capital Projects Funds

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

CITY OF CRAIG, ALASKA

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

ENTERPRISE FUND

FOR THE YEAR ENDED JUNE 30, 2015

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

**CITY OF CRAIG, ALASKA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended June 30, 2015

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

CITY OF CRAIG, ALASKA

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

Year Ended June 30, 2015

**Note A – General**

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

**Note B – Basis of Accounting**

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

**Note C – Subrecipients**

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

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

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

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

**SINGLE AUDIT SECTION**

# CHRISTINE E. HARRINGTON

Certified Public Accountant, LLC

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, 2015, and the related notes to the financial statements, which collectively comprise the City of Craig, Alaska's basic financial statements and have issued my report thereon dated March 28, 2016.

### Internal Control Over Financial Reporting

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

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

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

### Compliance and Other Matters

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

# CHRISTINE E. HARRINGTON

Certified Public Accountant, LLC

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Members of the City Council  
City of Craig, Alaska

### Report on Compliance for Each Major Federal Program

I have audited the City of Craig, Alaska's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Craig, Alaska's major federal programs for the year ended June 30, 2015. The City of Craig, Alaska's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

### Management's Responsibility

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

### Auditor's Responsibility

My responsibility is to express an opinion on compliance of each of the City of Craig, Alaska's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Craig, Alaska's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

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

### Opinion on Each Major Federal Program

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

# CHRISTINE E. HARRINGTON

Certified Public Accountant, LLC

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

Members of the City Council  
City of Craig, Alaska

### Report on Compliance for Each Major State Program

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

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

### Management's Responsibility

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

### Auditor's Responsibility

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

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

### Opinion on Each Major State Program

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

**City of Craig, Alaska**

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

**Section I - Summary of audit results:**

**Financial Statements:**

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

**Federal Financial Assistance:**

Internal control over major programs:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	No (none reported)
Type of auditor's report issued on compliance for major programs	Unmodified
Audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133	No

Identification of major programs:

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

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