

MUNICIPALITY OF SKAGWAY

FINANCIAL REPORT WITH SUPPLEMENTARY REPORTS
AND SCHEDULES IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS*, THE UNIFORM GUIDANCE, AND
THE *STATE OF ALASKA AUDIT GUIDE AND COMPLIANCE
SUPPLEMENT FOR STATE SINGLE AUDITS*

JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor, Members of
the Borough Assembly, and Borough Manager
Municipality of Skagway
Skagway, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Skagway, Alaska, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Municipality of Skagway'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; 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

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Skagway School District (the discretely presented component unit). Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Skagway School District, is based solely on the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States, 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 we 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 judgment, including the assessment of the risks 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the Municipality of Skagway, Alaska, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

Change in Accounting Principle

As discussed in Note 12 to the financial statements, in 2018 the Municipality of Skagway adopted new accounting guidance, GASB Statement No. 75, Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 4 to 12, the budgetary comparison information on pages 55 to 57, and the schedules related to the net pension and OPEB liabilities on pages 58 to 69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Skagway's basic financial statements. The schedule of expenditures of federal awards and schedule of state financial assistance 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 and the schedule of state financial assistance are required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the State of Alaska Audit Guidance and Compliance Supplement for State Single Audits, respectively.

The other information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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. In our opinion, the information is 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*, we have also issued our report dated January 22, 2019, on our consideration of the Municipality of Skagway's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our 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 Municipality of Skagway's internal control over financial reporting and compliance.

Peterson Sullivan LLP

January 22, 2019

MUNICIPALITY OF SKAGWAY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018

The Municipality of Skagway ("the Borough") Management's Discussion and Analysis ("MD&A") provides the narrative overview and analysis of the financial activities of the Borough for the fiscal year ended June 30, 2018.

FINANCIAL HIGHLIGHTS

- Of the amount attributable to the primary government, the Borough's net position increased by \$2.8 million (3.0%) (prior to the effects of the change in accounting principle). The governmental net position increased by \$2.9 million (5.7%). Business-type net position decreased by approximately \$50,000 (0.1%).
- Net capital assets decreased by \$0.7 million (0.9%) due to depreciation exceeding additions. Capital purchases were primarily financed by cash and cash equivalents and capital grants.
- Noncurrent liabilities decreased by \$0.8 million (2.7%) primarily due to a decrease in the net pension liability from \$8.6 million to \$6.6 million, offset by the recognition of other post-employment benefit obligations of \$1.1 million (as the result of a change in accounting principle). Additionally, the Borough issued debt of \$1.1 million and made repayments of principal of \$0.9 million.
- Operating grants and contributions (on the statement of activities) increased by \$0.4 million to \$1.6 million due to increased grant funding earned at the Health Clinic.
- Earnings on investments decreased by \$0.8 million (48.1%) to \$0.8 million due to weaker returns.
- General government expenses decreased by \$1.2 million (30.1%) to \$2.8 million due primarily to decreases in certain net pension liabilities.

REPORT FORMAT

The financial report is presented with the MD&A. The report consists of government-wide financial statements, fund financial statements, notes to the financial statements, and supplementary information.

The report layout is presented in the following order:

MD&A (pages 4 – 12)

Basic Financial Statements:

Government-Wide Financial Statements (pages 13 and 14)

Fund Financial Statements (pages 15 – 21)

Notes to the Basic Financial Statements (pages 22 – 43)

Required Supplementary Information (pages 55 – 70)

The first statements are highly condensed and present a government-wide view of the Borough's finances. Within this view, all operations are reported as either governmental or business-type activities. Governmental activities include basic services such as general government, public safety (police and fire), public works and streets, education and culture, tourism promotion, recreation, and library. Business-type activities are water, sewer, garbage, small boat harbor, health clinic services, and port commission. The government-wide statements include the statement of net position and statement of activities.

The focus is on both the Borough as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow the users to focus on the more relevant financial issues and broaden their basis for year-to-year or government-to-government comparisons.

OVERVIEW OF FINANCIAL STATEMENTS

The MD&A is intended to serve as an introduction to the Borough's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The statement of net position presents information on all of the Borough's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as an indicator of whether the Borough's financial position is improving or deteriorating.

The statement of activities demonstrates how the net position changed during the 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. Revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation and sick leave).

Both of the government-wide financial statements distinguish functions 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).

These financial statements discretely present the financial position and activities of the Skagway School District, which is a component unit.

The government-wide financial statements can be found on pages 13 and 14 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 Borough, 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 Borough can be divided into two categories: governmental funds and enterprise funds.

Governmental funds – Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements help determine whether there are more or fewer financial resources that can be spent in the near future to finance the Borough's programs.

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 governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. A reconciliation is presented to facilitate this comparison between governmental funds and governmental activities.

The Borough maintains eight 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 major governmental funds. The major governmental funds are the general fund, sales tax special revenue fund, excise tax special revenue fund, permanent trust fund, debt service fund, and Port Development capital project fund. Data from the remaining special revenue and capital projects funds are presented in aggregate.

The basic governmental fund financial statements can be found on pages 15 through 17 of this report.

Enterprise funds – Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

The enterprise fund financial statements provide separate information for the water and sewer utilities, waste management, small boat harbor operations, health clinic services, and port commission. All are considered major funds.

The basic enterprise fund financial statements can be found on pages 18 through 21 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as an indicator of a government's financial position. In the case of the Borough, assets exceeded liabilities by \$98.5 million as of June 30, 2018, compared to \$97.3 million as of June 30, 2017.

The largest portion of the Borough's net position (67.6%) reflects its investment in capital assets (e.g., land, buildings, improvements, road network, and equipment), less any related debt that is still outstanding. The Borough uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Borough's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this outstanding debt must be provided from other sources, as the capital assets themselves cannot be used as a source of funds to liquidate these liabilities. The amount of debt related to the investment in capital assets is \$22.2 million as of June 30, 2018.

The following is a condensed version of the Borough's statements of net position:

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Current and Other Assets	\$ 46,728,672	\$ 42,559,427	\$ 2,333,402	\$ 2,469,226	\$ 49,062,074	\$ 45,028,653
Deposits on Equipment				65,550		65,550
Capital Assets, net	38,587,985	39,206,218	45,306,211	45,411,237	83,894,196	84,617,455
Deferred Outflows of Resources	667,597	1,406,284	264,918	841,703	932,515	2,247,987
Total assets and deferred outflows	<u>\$ 85,984,254</u>	<u>\$ 83,171,929</u>	<u>\$ 47,904,531</u>	<u>\$ 48,787,716</u>	<u>\$ 133,888,785</u>	<u>\$ 131,959,645</u>
Current and Other Liabilities	\$ 4,340,972	\$ 3,883,926	\$ 190,204	\$ 332,976	\$ 4,531,176	\$ 4,216,902
Long-Term Liabilities	27,059,451	26,965,208	2,455,675	3,364,983	29,515,126	30,330,191
Deferred Inflows of Resources	1,045,225	59,814	256,955	35,801	1,302,180	95,615
Total liabilities and deferred inflows	32,445,648	30,908,948	2,902,834	3,733,760	35,348,482	34,642,708
Net Position						
Net investment in capital assets	21,340,808	22,016,464	45,306,211	45,411,237	66,647,019	67,427,701
Restricted	36,128,880	33,160,442			36,128,880	33,160,442
Unrestricted	<u>(3,931,082)</u>	<u>(2,913,925)</u>	<u>(304,514)</u>	<u>(357,281)</u>	<u>(4,235,596)</u>	<u>(3,271,206)</u>
Total net position	<u>\$ 53,538,606</u>	<u>\$ 52,262,981</u>	<u>\$ 45,001,697</u>	<u>\$ 45,053,956</u>	<u>\$ 98,540,303</u>	<u>\$ 97,316,937</u>

A portion of the Borough's net position (\$36.1 million or 36.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position represents a deficit of \$4.2 million. Unrestricted net position is used to meet the government's ongoing obligations to citizens and creditors. The deficit increased in 2018 primarily due to the recognition of other post-employment benefit obligations, resulting from a change in accounting principle.

The government's net position increased by \$1.2 million during the current fiscal year (after the effects of the change in accounting principle) compared to \$0.7 million in the prior fiscal year. This change is primarily due to the decrease in the net pension liability, offset by the recognition of other post-employment benefits obligations.

The following is a condensed version of the Borough's statements of activities:

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues						
Fees, fines, and charges for services	\$ 289,356	\$ 299,954	\$ 2,328,218	\$ 2,478,683	\$ 2,617,574	\$ 2,778,637
Operating grants and contributions	116,684	21,656	1,467,725	1,183,391	1,584,409	1,205,047
Capital grants and contributions	8,700	127,401			8,700	127,401
General revenues						
Property taxes	1,885,954	1,840,307			1,885,954	1,840,307
Sales taxes	8,329,094	7,635,406			8,329,094	7,635,406
Excise tax appropriations	4,201,437	4,053,374			4,201,437	4,053,374
Intergovernmental revenue - unrestricted	455,518	418,354	44,934	63,947	500,452	482,301
Earnings on investments	823,233	1,586,735			823,233	1,586,735
Other	704,777	540,332			704,777	540,332
Total revenues	16,814,753	16,523,519	3,840,877	3,726,021	20,655,630	20,249,540
Expenses						
General government	2,834,566	4,056,012			2,834,566	4,056,012
Public safety	2,694,792	2,393,274			2,694,792	2,393,274
Public works and streets	985,935	942,153			985,935	942,153
Education	201,710	201,710			201,710	201,710
Culture, recreation, and library	1,818,583	1,629,752			1,818,583	1,629,752
Interest on long-term debt	936,647	963,265			936,647	963,265
Water and sewer			1,289,347	1,302,983	1,289,347	1,302,983
Garbage			555,596	639,657	555,596	639,657
Small boat harbor			1,011,231	1,055,465	1,011,231	1,055,465
Health clinic			3,357,410	3,896,110	3,357,410	3,896,110
Port commission			122,075	422,682	122,075	422,682
Total expenses	9,472,233	10,186,166	6,335,659	7,316,897	15,807,892	17,503,063
Increase (Decrease) in Net Position Before Transfers and Payments to School	7,342,520	6,337,353	(2,494,782)	(3,590,876)	4,847,738	2,746,477
Transfers and Payments to School	(4,448,292)	(3,457,843)	2,442,523	1,460,488	(2,005,769)	(1,997,355)
Change in Net Position	\$ 2,894,228	\$ 2,879,510	\$ (52,259)	\$ (2,130,388)	\$ 2,841,969	\$ 749,122
Net Position, beginning of year, as previously stated	\$ 52,262,981	\$ 49,383,471	\$ 45,053,956	\$ 47,184,344	\$ 97,316,937	\$ 96,567,815
Cumulative change in accounting principle	(1,618,603)				(1,618,603)	
Net Position, beginning of year, as restated	50,644,378	49,383,471	45,053,956	47,184,344	95,698,334	96,567,815
Change in Net Position	2,894,228	2,879,510	(52,259)	(2,130,388)	2,841,969	749,122
Net Position, end of year	\$ 53,538,606	\$ 52,262,981	\$ 45,001,697	\$ 45,053,956	\$ 98,540,303	\$ 97,316,937

Governmental Activities – Governmental activities net position increased by \$2.9 million in 2018 (prior to the effects of the change in accounting principle) and 2017. While comparable in total between years, the major changes include increased revenues, decreased expenses, and an increase of transfers of capital assets to business-type funds.

Business-Type Activities – Business-type activities decreased the Borough's net position by \$0.1 million in 2018. In 2017, business-type activities net position decreased by \$2.1 million. The key element of this improvement in 2018 are higher transfers from the Water Well #4 Capital Project Fund to the Water and Sewer Fund, and a reduction in contractor spending at the Port Commission Fund.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of the end of the current fiscal year, the Borough's governmental funds reported a combined ending fund balance of \$28.4 million, an increase of \$2.4 million (9.4%) from the prior year primarily due to an excess of revenues over expenditures of \$2.3 million. Of this amount, \$3.6 million is non-spendable, as it is for the purpose of the permanent trust fund; \$22.1 million is restricted for general purposes of the sales tax fund, tourism, and capital projects; and \$0.3 million is assigned for the purpose of debt service and transfers to other funds. The remaining fund balance of \$2.4 million is unassigned.

The general fund is the primary operating fund of the Borough. At the end of the current fiscal year, the unassigned fund balance of the general fund had a \$0.6 million surplus.

Significant changes in governmental funds are as follows:

- Sales tax revenues increased by \$0.7 million (8.8%) due to increased commerce within the Borough.
- Excise tax revenues decreased by \$2.2 million (43.3%) due to less spending and completion of the Public Safety Building capital project.
- Earnings on investments decreased by \$0.8 million (48.1%) to \$0.8 million due to weaker returns.
- Capital outlays for public safety decreased by \$11.6 million (95.5%) due to decreased spending on the Public Safety Building capital project.

Other governmental funds (with the exclusion of the general fund) have a combined fund balance of \$27.8 million, which is \$2.4 million higher than 2017.

Enterprise funds – The Borough's enterprise funds encompass the business-type activities presented in the government-wide financial statements.

As of the end of the current fiscal year, enterprise funds' total combined net position was \$45.0 million, a decrease of \$0.1 million (<1%). Of this amount, \$0.3 million represented a deficit in unrestricted net position.

Significant changes in enterprise funds are as follows:

- Deferred outflows of resources decreased by \$0.6 million (68.5%), and long-term liabilities decreased by \$0.9 million (27.0%) primarily due to decreases in the net pension liability and related deferred outflows.
- Operating grants and contributions increased by \$0.3 million (24.0%) due to increased grants at the health clinic.
- Health clinic expenses decreased by \$0.5 million (13.8%) due primarily to a decrease in the net pension liability.
- Contributions of capital assets increased by \$1.0 million (67.2%) due primarily to increases in contributions related to the Water Well #4 project in 2018.
- The Borough continues to assess insufficient user fees to cover the cost of depreciation in all enterprise funds. In light of the fact that major replacement costs for needed infrastructure in these areas will most likely come from sales tax or other outside agency sources, this is not an immediate concern. However, fees that more accurately reflect the cost associated with these business-type activities should certainly be a consideration in the future.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were minimal differences between the original budgeted revenues and expenditures and the final amended budgeted revenues and expenditures.

Actual revenues, excluding transfers in and out, were greater than budgeted by \$0.3 million (10.6%), while actual expenditures were less than budgeted expenditures by \$0.5 million (6.5%).

Actual revenues in the general operating budget, as reflected in the financial statements, do not include transfers from other funds. For purposes of establishing the municipal budget, the Borough considers dollars transferred from all other funds (most importantly the sales tax and excise tax funds) into the general fund.

There were no departments within the general fund budget with expenses exceeding appropriations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets – The Borough's investment in capital assets for its governmental and business-type activities as of June 30, 2018, amounted to \$83.9 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment, road networks, and water/sewer systems. The total decrease in the Borough's investment in capital assets for the current fiscal year was \$0.7 million (0.9%). Governmental capital assets decreased by \$0.6 million (1.6%), while business-type capital assets decreased by \$0.1 million (0.2%).

The decrease in capital assets for the current year came due to depreciation exceeding capital outlays.

Debt administration – As of June 30, 2018, the Borough had a total of \$21.4 million in bonds and loans payable, which consisted of five general obligation bond issues, five loans payable to the State of Alaska, and one loan payable to the Corporation of the Catholic Bishop of Juneau. The general obligation bonds accounted for \$19.1 million, and the loans accounted for \$2.3 million. As of June 30, 2018, the Borough also had \$0.8 million of unamortized bond premiums.

The total debt remained unchanged from the previous year (\$22.2 million). This included issuances of \$1.1 million, offset by repayments of principal and amortization of premiums in the current year.

The Borough's borrowing limit for long-term debt is 25.0% of the assessed value of the taxable real property in the Borough. The noncurrent portion of long-term debt is approximately 6% of the current assessed value of the taxable real property.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Economic Forecast for Skagway is positive for 2019. 2018 sales tax revenues came in higher than expected, and current revenues are strong. Volatile crude oil prices cause uncertainty for the State of Alaska oil-dependent economy and, therefore, local revenue sharing in the form of grants is not expected. The U.S. financial markets are down for 2018. Borough investment return should meet our budgeted level. The Borough's large investment portfolio is relatively conservative and well-diversified, which would cushion any sharp swings in the market.

Cruise Ship arrivals for 2019 are expected to increase over 2018 with an increase in megaship calls. We are currently focused on making improvements to the physical facilities and management of the Port of Skagway. A floating dock port improvement is anticipated, which should allow the port to better accommodate the larger class ships.

Both the State and the Yukon Territorial government are showing interest in our port. Both entities are completing transportation improvements to and from Skagway, including the replacement of the Nares River Bridge, Moore Bridge, and the rehabilitation of State Street, all of which facilitate the transportation of commodities and passengers between the Port of Skagway and Canada. The State will be replacing the ferry dock in Skagway and establishing a wastewater connection to the municipal system, which will improve the transportation needs of both Skagway residents and visitors.

During 2018, fixed budgeted expenditures reached a level equal to annual revenue. Debt payments continue to weigh heavily in this balance of annual expenditure and revenue. The Assembly kept operational and capital expenditures for FY 2019 low, focusing on necessary infrastructure improvements and programs. The Assembly continues a rational approach to capital expenditures, proceeding only when the revenues for the project are first identified. The Assembly has recently raised solid waste, water, and waste water service fees to reduce the subsidy needed for these services. Overall the economy and budget are in good shape and will remain so if prudent decisions are made.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Borough's finances and to demonstrate the Borough's accountability for the money it receives. If you have any questions about this report or need additional financial information, a request should be addressed to the Municipality of Skagway, P.O. Box 415, Skagway, AK 99840 or please call (907) 983-2297.

The Borough's component unit issues its own separate audited financial statements. These statements may be obtained by directly contacting the Skagway School District, P.O. Box 497, Skagway, AK 99840.

MUNICIPALITY OF SKAGWAY

STATEMENT OF NET POSITION

June 30, 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Primary Government			Component Unit (School)
	Governmental Activities	Business-Type Activities	Total	
Current Assets				
Cash and cash equivalents	\$ 4,188,612	\$ 776,680	\$ 4,965,292	\$ 904,538
Investments	28,970,211		28,970,211	
Receivables, less allowance for uncollectibles	5,450,604	458,395	5,908,999	43,265
Prepaid expenses				36,762
Internal balances	(920,290)	920,290		
Inventories		178,037	178,037	6,788
Total current assets	37,689,137	2,333,402	40,022,539	991,353
Restricted Assets				
Cash and cash equivalents	5,425,601		5,425,601	
Investments	3,138,118		3,138,118	
Receivables	475,816		475,816	
Noncurrent Assets				
Capital assets, net	38,587,985	45,306,211	83,894,196	97,018
Total assets	85,316,657	47,639,613	132,956,270	1,088,371
Deferred Outflows of Resources	667,597	264,918	932,515	202,305
Total assets and deferred outflows of resources	\$ 85,984,254	\$ 47,904,531	\$ 133,888,785	\$ 1,290,676
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
Current Liabilities				
Accounts payable	\$ 729,735	\$ 190,204	\$ 919,939	\$ 62,707
Grant refundable to grantor	255,713		255,713	
Accrued interest payable	250,910		250,910	
Unearned revenue	2,201,037		2,201,037	
Current portion of long-term obligations	903,577		903,577	
Total current liabilities	4,340,972	190,204	4,531,176	62,707
Noncurrent Portion of Long-Term Obligations	21,676,531	131,374	21,807,905	
Net Pension and OPEB Liabilities	5,382,920	2,324,301	7,707,221	1,577,643
Total liabilities	31,400,423	2,645,879	34,046,302	1,640,350
Deferred Inflows of Resources	1,045,225	256,955	1,302,180	204,900
Total liabilities and deferred inflows of resources	32,445,648	2,902,834	35,348,482	1,845,250
NET POSITION				
Net Investment in Capital Assets	21,340,808	45,306,211	66,647,019	97,018
Restricted for:				
Various purposes including debt service, school funding, and capital and special projects	31,937,153		31,937,153	732,180
Permanent trust				
Nonexpendable	4,037,450		4,037,450	
Expendable	154,277		154,277	
Unrestricted	(3,931,082)	(304,514)	(4,235,596)	(1,383,772)
Total net position	53,538,606	45,001,697	98,540,303	(554,574)
Total liabilities, deferred inflows of resources and net position	\$ 85,984,254	\$ 47,904,531	\$ 133,888,785	\$ 1,290,676

See Notes to Financial Statements

MUNICIPALITY OF SKAGWAY

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

	Program Revenues				Net (Expense) Revenue and Change in Net Position			Component Unit (School)
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary Government								
Governmental activities								
General government	\$ 2,834,566	\$ -	\$ -	\$ -	\$ (2,834,566)	\$ -	\$ (2,834,566)	\$ -
Public safety	2,694,792	30,357	109,684		(2,554,751)		(2,554,751)	
Public works and streets	985,935			7,762	(978,173)		(978,173)	
Education	201,710				(201,710)		(201,710)	
Culture, recreation, and library	1,818,583	258,999	7,000	938	(1,551,646)		(1,551,646)	
Interest on long-term debt	936,647				(936,647)		(936,647)	
Total governmental activities	9,472,233	289,356	116,684	8,700	(9,057,493)		(9,057,493)	
Business-type activities								
Water and sewer	1,289,347	436,749				(852,598)	(852,598)	
Garbage	555,596	467,598				(87,998)	(87,998)	
Small boat harbor	1,011,231	353,448				(657,783)	(657,783)	
Health clinic	3,357,410	943,223	1,467,725			(946,462)	(946,462)	
Port commission	122,075	127,200				5,125	5,125	
Total business-type activities	6,335,659	2,328,218	1,467,725			(2,539,716)	(2,539,716)	
Total	15,807,892	2,617,574	1,584,409	8,700	(9,057,493)	(2,539,716)	(11,597,209)	
Component Unit - Skagway School District	\$ 3,467,486	\$ 56,183	\$ 750,330	\$ -				(2,660,973)
General Revenues								
Property taxes					1,885,954		1,885,954	
Sales taxes					8,329,094		8,329,094	
Excise tax appropriations					4,201,437		4,201,437	
Intergovernmental revenue not restricted to specific programs					455,518	44,934	500,452	426,846
Earnings on investments					823,233		823,233	
Licenses and permits					140,216		140,216	
Rentals					226,828		226,828	
Contributions and other					112,708		112,708	26,024
Payments in lieu of taxes					195,873		195,873	
Sale of capital assets					29,152		29,152	
Payments from primary government to school					(2,005,769)		(2,005,769)	2,005,769
Transfers (to fund operations)					(991,687)	991,687		
Transfers (contributions of capital assets)					(1,450,836)	1,450,836		
Total general revenue and transfers					11,951,721	2,487,457	14,439,178	2,458,639
Change in net position					2,894,228	(52,259)	2,841,969	(202,334)
Net Position, beginning of year, as previously stated					52,262,981	45,053,956	97,316,937	(119,827)
Cumulative Effect of a Change in Accounting Principle					(1,618,603)		(1,618,603)	(232,413)
Net Position, beginning of year, as restated					50,644,378	45,053,956	95,698,334	(352,240)
Net Position, end of year					\$ 53,538,606	\$ 45,001,697	\$ 98,540,303	\$ (554,574)

See Notes to Financial Statements

MUNICIPALITY OF SKAGWAY

BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2018

ASSETS	General	Sales Tax	Excise Tax	Permanent Trust	Debt Service	Port Development	Other Governmental Funds	Total Governmental Funds
Cash and Cash Equivalents	\$ 1,689,336	\$ 2,060,480	\$ -	\$ 728,959	\$ 119,714	\$ 5,002,084	\$ 13,640	\$ 9,614,213
Investments	100,000	11,803,333	17,066,878	3,138,118				32,108,329
Receivables, less allowance for uncollectibles	2,036,521	2,947,240		496,698			445,961	5,926,420
Due from Other Funds	1,028,700	379,076					88,360	1,496,136
	<u>\$ 4,854,557</u>	<u>\$ 17,190,129</u>	<u>\$ 17,066,878</u>	<u>\$ 4,363,775</u>	<u>\$ 119,714</u>	<u>\$ 5,002,084</u>	<u>\$ 547,961</u>	<u>\$ 49,145,098</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES								
Liabilities								
Accounts payable	\$ 148,922	\$ -	\$ -	\$ 1,784	\$ -	\$ -	\$ 579,029	\$ 729,735
Grant refundable to grantor	255,713							255,713
Due to other funds	1,697,456		522,260	170,264			26,446	2,416,426
Unearned revenue	253,737		14,708,895					14,962,632
Total liabilities	2,355,828		15,231,155	172,048			605,475	18,364,506
Deferred Inflows of Resources								
Unavailable revenue - property taxes	1,947,300							1,947,300
Unavailable revenue - land sales				475,816				475,816
Total deferred inflows of resources	1,947,300			475,816				2,423,116
Fund Balances								
Non-spendable								
Permanent trust principal				3,561,634				3,561,634
Restricted for:								
General purposes of the sales tax fund		17,190,129						17,190,129
Tourism							38,129	38,129
Capital projects						5,002,084	(95,643)	4,906,441
Assigned to:								
Debt service					119,714			119,714
Transfer to other funds				154,277				154,277
Unassigned	551,429		1,835,723					2,387,152
Total fund balances	551,429	17,190,129	1,835,723	3,715,911	119,714	5,002,084	(57,514)	28,357,476
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 4,854,557</u>	<u>\$ 17,190,129</u>	<u>\$ 17,066,878</u>	<u>\$ 4,363,775</u>	<u>\$ 119,714</u>	<u>\$ 5,002,084</u>	<u>\$ 547,961</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds listed above	38,587,985
Receivables to be collected in future years are not available to pay for current-period expenditures and, therefore, are treated as deferred inflows in the governmental funds listed above	475,816
Excise tax appropriations from the State of Alaska have been received but have not been expended for their restricted purpose and, therefore, are treated as unearned revenue in the governmental funds listed above	14,708,895
Long-term liabilities, including bonds and loans payable, accrued interest, bond premiums and discounts, and the net pension and OPEB liabilities are not due and payable in the current period and, therefore, are not treated as liabilities in the governmental funds	(28,213,938)
Certain changes in net pension and OPEB liabilities are deferred rather than recognized immediately and, therefore, are not reported in the governmental funds listed above	(377,628)
Net position of governmental activities	<u>\$ 53,538,606</u>

See Notes to Financial Statements

MUNICIPALITY OF SKAGWAY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

	General	Sales Tax	Excise Tax	Permanent Trust	Debt Service	Port Development	Other Governmental Funds	Total Governmental Funds
Revenues								
Taxes								
Property	\$ 1,885,954	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,885,954
Sales		8,109,415					219,679	8,329,094
Excise			2,859,078					2,859,078
Intergovernmental	488,729						8,700	497,429
Service and admission fees	289,356							289,356
Licenses and permits	140,216							140,216
Rentals	226,828							226,828
Investment earnings	8,298	242,696	447,114	125,125				823,233
Contributions and other	112,708							112,708
Payments in lieu of taxes	195,873							195,873
Total revenues	3,347,962	8,352,111	3,306,192	125,125			228,379	15,359,769
Expenditures								
Current								
General government	2,048,139			11,519			464,178	2,523,836
Public safety	2,322,117							2,322,117
Streets and public works	547,907							547,907
Education		2,005,769						2,005,769
Culture, recreation, and library	1,437,064							1,437,064
Debt service								
Principal					884,957			884,957
Interest	136,780				913,169			1,049,949
Capital outlay								
General government	7,296						10,146	17,442
Public safety	214,137						329,009	543,146
Streets and public works							1,648,384	1,648,384
Culture, recreation, and library							83,884	83,884
Total expenditures	6,713,440	2,005,769		11,519	1,798,126		2,535,601	13,064,455
Excess (deficiency) of revenues over expenditures	(3,365,478)	6,346,342	3,306,192	113,606	(1,798,126)		(2,307,222)	2,295,314
Other Financing Sources (Uses)								
Transfers in	3,485,550				1,798,126		1,149,836	6,433,512
Transfers out	(135,362)	(4,329,637)	(2,859,078)	(101,122)				(7,425,199)
Sale of capital assets				66,763				66,763
Loan issuance proceeds							1,061,743	1,061,743
Total other financing sources and uses	3,350,188	(4,329,637)	(2,859,078)	(34,359)	1,798,126		2,211,579	136,819
Net change in fund balances	(15,290)	2,016,705	447,114	79,247			(95,643)	2,432,133
Fund Balances, beginning of year	566,719	15,173,424	1,388,609	3,636,664	119,714	5,002,084	38,129	25,925,343
Fund Balances, end of year	\$ 551,429	\$ 17,190,129	\$ 1,835,723	\$ 3,715,911	\$ 119,714	\$ 5,002,084	\$ (57,514)	\$ 28,357,476

See Notes to Financial Statements

MUNICIPALITY OF SKAGWAY

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, 2018

Net change in fund balances - total governmental funds	\$	2,432,133
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 reported as depreciation expense. This is the amount by which depreciation (\$1,432,277) was greater than capital outlays (\$814,044) in the current period.		(618,233)
Other transactions involving capital assets consist of the disposal or sale of capital assets and cash collected on previous sales. Cash collected on sales of capital assets is current income in the fund statements, and the gain on any sale is revenue in the period the sale takes place (not just when collected) for the statement of activities.		(37,611)
Excise tax appropriations received from the State of Alaska and expended for their restricted purpose are reported as revenues in governmental funds. Appropriations received and not expended are recorded as revenue in the statement of activities.		1,342,359
The issuance of long-term debt provides current financial resources to governmental funds while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items. Issuances of long-term debt were \$1,061,743, and principal paid on long-term debt was \$884,957.		(176,786)
Change in:		
Compensated absences		(38,637)
Accrued interest (including amortization of bond premiums) on bonds and loans		113,302
Net pension and OPEB liabilities and related deferred inflows and outflows		(122,299)
Change in net position of governmental activities	\$	<u><u>2,894,228</u></u>

See Notes to Financial Statements

MUNICIPALITY OF SKAGWAY

STATEMENT OF NET POSITION – PROPRIETARY FUNDS

June 30, 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Business-Type Activities - Enterprise Funds					Total
	Water and Sewer	Garbage	Small Boat Harbor	Health Clinic	Port Commission	
Current Assets						
Cash and cash equivalents	\$ -	\$ -	\$ 764,882	\$ 11,798	\$ -	\$ 776,680
Receivables	81,577	48,695	39,725	277,798	10,600	458,395
Inventories	132,546			45,491		178,037
Due from other funds	47,559		632,927	304,293	245,241	1,230,020
Total current assets	261,682	48,695	1,437,534	639,380	255,841	2,643,132
Property, Plant, and Equipment						
Land and improvements		271,314				271,314
Distribution and collection systems	7,680,154					7,680,154
Buildings	7,455,565	3,031,577	1,033,250	8,964,627		20,485,019
Harbor seawall			7,014,362			7,014,362
Harbor seawalk			5,905,264			5,905,264
Harbor infrastructure			12,613,133			12,613,133
Other improvements	580,404	368,266	2,960,433	52,486		3,961,589
Equipment	2,949,052	1,072,504	301,159	621,741		4,944,456
Construction in progress	694,129	181,881	2,648		3,813,293	4,691,951
	19,359,304	4,925,542	29,830,249	9,638,854	3,813,293	67,567,242
Less: accumulated depreciation	(8,581,644)	(3,777,086)	(7,532,148)	(2,370,153)		(22,261,031)
	10,777,660	1,148,456	22,298,101	7,268,701	3,813,293	45,306,211
Deferred Outflows of Resources	42,658	8,111	15,775	198,374		264,918
Total assets and deferred outflows of resources	<u>\$ 11,082,000</u>	<u>\$ 1,205,262</u>	<u>\$ 23,751,410</u>	<u>\$ 8,106,455</u>	<u>\$ 4,069,134</u>	<u>\$ 48,214,261</u>

See Notes to Financial Statements

MUNICIPALITY OF SKAGWAY

STATEMENT OF NET POSITION – PROPRIETARY FUNDS

(Continued)

June 30, 2018

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	Business-Type Activities - Enterprise Funds					
	Water and Sewer	Garbage	Small Boat Harbor	Health Clinic	Port Commission	Total
Current Liabilities						
Accounts payable	\$ 23,939	\$ 28,886	\$ 7,239	\$ 127,203	\$ 2,937	\$ 190,204
Due to other funds		309,730				309,730
Total current liabilities	23,939	338,616	7,239	127,203	2,937	499,934
Accrued Vacation and Sick Leave	44,820	995	10,204	75,355		131,374
Net Pension Liability	374,264	71,165	138,404	1,740,468		2,324,301
Total liabilities	443,023	410,776	155,847	1,943,026	2,937	2,955,609
Deferred Inflows of Resources	41,375	7,867	15,301	192,412		256,955
Total liabilities and deferred inflows of resources	484,398	418,643	171,148	2,135,438	2,937	3,212,564
Net Position						
Net investment in capital assets	10,777,660	1,148,456	22,298,101	7,268,701	3,813,293	45,306,211
Unrestricted	(180,058)	(361,837)	1,282,161	(1,297,684)	252,904	(304,514)
Total net position	10,597,602	786,619	23,580,262	5,971,017	4,066,197	45,001,697
Total liabilities, deferred inflows of resources, and net position	<u>\$ 11,082,000</u>	<u>\$ 1,205,262</u>	<u>\$ 23,751,410</u>	<u>\$ 8,106,455</u>	<u>\$ 4,069,134</u>	<u>\$ 48,214,261</u>

See Notes to Financial Statements

MUNICIPALITY OF SKAGWAY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION – PROPRIETARY FUNDS

For the Year Ended June 30, 2018

	Business-Type Activities - Enterprise Funds					Total
	Water and Sewer	Garbage	Small Boat Harbor	Health Clinic	Port Commission	
Operating Revenue						
Charges for services	\$ 436,749	\$ 467,598	\$ 353,448	\$ 943,223	\$ 127,200	\$ 2,328,218
Grant revenue				1,459,375		1,459,375
Contributions				8,350		8,350
Total operating revenue	436,749	467,598	353,448	2,410,948	127,200	3,795,943
Operating Expenses						
Salaries and benefits	383,447	61,032	177,450	1,917,791		2,539,720
Depreciation	600,513	172,154	735,011	264,393		1,772,071
Contracted services	25,992	45,873		498,701	119,910	690,476
Utilities	124,824	156,068	40,113	95,472	587	417,064
Repairs and maintenance	111,673	34,190	25,248	130,190		301,301
Administration	16,637	4,684	7,836	219,098	1,578	249,833
Supplies				159,061		159,061
Other	8,834	44,581	10,223	19,622		83,260
Travel and training				53,082		53,082
Insurance	17,427	14,276	15,350			47,053
Recycling		22,738				22,738
Total operating expenses	1,289,347	555,596	1,011,231	3,357,410	122,075	6,335,659
Operating income (loss)	(852,598)	(87,998)	(657,783)	(946,462)	5,125	(2,539,716)
Capital Contributions (contribution of capital assets)	1,324,520	61,656	57,782		6,878	1,450,836
State Pension Contribution	7,235	1,376	2,676	33,647		44,934
Transfers From Other Funds	181,380	100,413		709,894		991,687
Change in net position	660,537	75,447	(597,325)	(202,921)	12,003	(52,259)
Net Position, beginning of year	9,937,065	711,172	24,177,587	6,173,938	4,054,194	45,053,956
Net Position, end of year	<u>\$ 10,597,602</u>	<u>\$ 786,619</u>	<u>\$ 23,580,262</u>	<u>\$ 5,971,017</u>	<u>\$ 4,066,197</u>	<u>\$ 45,001,697</u>

See Notes to Financial Statements

MUNICIPALITY OF SKAGWAY

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

For the Year Ended June 30, 2018

	Business-Type Activities - Enterprise Funds					Total
	Water and Sewer	Garbage	Small Boat Harbor	Health Clinic	Port Commission	
Cash Flows from Operating Activities						
Receipts from customers	\$ 437,610	\$ 464,654	\$ 340,065	\$ 947,507	\$ 116,600	\$ 2,306,436
Receipts from grants and contributions				1,471,985		1,471,985
Payments to suppliers	(326,121)	(341,183)	(96,878)	(1,207,543)	(200,163)	(2,171,888)
Payments to employees	(186,884)	(148,552)	(128,785)	(1,183,888)		(1,648,109)
Payments of employee benefits	(135,390)	(82,874)	(41,598)	(698,184)		(958,046)
Net cash flows from operating activities	(210,785)	(107,955)	72,804	(670,123)	(83,563)	(999,622)
Cash Flows from Non-Capital Financing Activity						
Net cash transferred from other funds	276,335	124,575	67,293	746,115	83,563	1,297,881
Cash Flows from Capital and Related Activity						
Purchases of property, plant, and equipment	(65,550)	(16,620)		(68,489)		(150,659)
Net change in cash and cash equivalents			140,097	7,503		147,600
Cash and Cash Equivalents, beginning of year			624,785	4,295		629,080
Cash and Cash Equivalents, end of year	\$ -	\$ -	\$ 764,882	\$ 11,798	\$ -	\$ 776,680
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities						
Operating income (loss)	\$ (852,598)	\$ (87,998)	\$ (657,783)	\$ (946,462)	\$ 5,125	\$ (2,539,716)
Adjustments						
Depreciation	600,513	172,154	735,011	264,393		1,772,071
Pension income	(18,866)	(248,181)	(39,592)	(535,907)		(842,546)
Changes in operating assets						
Receivables	861	(2,944)	(13,383)	8,544	(10,600)	(17,522)
Inventories	(3,093)			(2,155)		(5,248)
Deferred outflows of resources for pensions	62,265	75,940	31,573	407,007		576,785
Changes in operating liabilities						
Accounts payable and accrued vacation and sick leave	(36,779)	(21,218)	3,691	(32,206)	(78,088)	(164,600)
Deferred inflows of resources for pensions	36,912	4,292	13,287	166,663		221,154
Net cash flows from operating activities	\$ (210,785)	\$ (107,955)	\$ 72,804	\$ (670,123)	\$ (83,563)	\$ (999,622)
Supplemental Information						
Property, plant, and equipment contributed by capital project funds and governmental activities	\$ 1,324,520	\$ 61,656	\$ 57,782	\$ -	\$ 6,878	\$ 1,450,836

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The City of Skagway ("the City") was incorporated on June 26, 1900, under Federal Statute 31 and U.S. Statute at Large 321, as a city in Alaska. On June 20, 2007, the City formally dissolved in conjunction with the incorporation of the Municipality of Skagway ("the Borough"), a first-class borough of Alaska. The corporate boundaries of the Borough are identical to those of the former City. The Borough also succeeded to all rights, powers, duties, assets, and liabilities of the former City. The Borough operates under an Assembly-Manager form of government and provides the following services: public safety (police and fire), streets and sidewalks, water and sanitation (garbage and waste treatment), health, culture-recreation, tourism promotion, port authority, public improvements, planning and zoning, and general administrative services.

Discretely Presented Component Unit

The accompanying financial statements present the Borough and its component unit, the Skagway School District ("the District"), for which the Borough is considered to be financially accountable. Information about the District, a discretely presented component unit, is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Borough.

The District is responsible for elementary and secondary education within the Borough's jurisdiction. The members of the District's governing board are elected by the voters. However, the Borough is financially accountable for the District because the Borough Assembly approves the District's budget, levies taxes (if necessary), and must approve any debt issuances.

Complete financial statements for the District may be obtained at the District's administrative offices:

**Skagway School District
P.O. Box 497
Skagway, AK 99840**

Government-Wide and Fund Financial Statements

The statement of net position and the statement of activities display information about the primary government (the Borough) and its component unit. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the Borough. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Borough and for each function of the Borough's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. 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 and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting describes when financial activities are recognized in the accounts and reported in the financial statements.

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments (if any), are recorded only when payment is due.

Property taxes, sales taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Other revenue items are considered to be measurable and available only when cash is received by the government. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

The Borough reports the following major governmental funds:

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

Sales Tax Special Revenue Fund – Records the revenue received from the Borough's sales tax. Sales tax is collected at a rate of 3% from October through March and 5% from April through September. The sales tax ordinance requires that at the beginning of each fiscal year, a sum sufficient to pay installments on general obligation bonds for that year be set aside. Any sales tax proceeds in excess of the amount set aside are available for funding school operations, capital improvements, and services, including emergency care, clinic, and museum.

Excise Tax Special Revenue Fund – Accounts for excise tax appropriations from the State of Alaska and other sources. The purpose of these funds is to improve port and harbor facilities and other services to properly provide for vessel or watercraft visits and to enhance the safety and efficiency of interstate and foreign commerce.

Permanent Trust Fund – Accounts for assets held in a trustee capacity. The fund represents the proceeds from the sale of land conveyed by the State of Alaska under the Municipal Entitlement Act. The principal balance of the fund (non-expendable portion) cannot be spent and must be held in trust for the benefit of future residents of the Borough. Earnings (expendable portion) can be spent under certain guidelines.

Debt Service Fund – Accounts for assets set aside to make debt service payments.

Port Development Capital Project Fund – Accounts for the bond proceeds and related development of the Skagway port (or "the Gateway Project").

The Borough reports the following major proprietary funds:

Water and Sewer Fund – Accounts for activities including operating the sewage treatment plant, sewage pumping stations and collection systems, and the water storage and water distribution systems.

Garbage Fund – Accounts for activities including collection of solid waste, operating the incinerator plant, and the shipment of non-burnable waste and recyclable materials.

Small Boat Harbor Fund – Accounts for activities including operating the small boat harbor and the Borough's freight ramp.

Health Clinic Fund – Accounts for the activities of operating the health clinic.

Port Commission Fund – Accounts for the activities of developing the port commission, with the anticipation of future service fees.

The Borough's non-major governmental funds consist of the following:

Tourism Special Revenue Fund – Records the revenue from the Borough's 8% hotel tax. All tax collected is to be used for tourism promotion.

Capital Projects Fund – Accounts for financial resources received primarily through state and federal agencies and allocations from the Sales Tax Fund, Excise Tax Fund, and General Fund to be used for the acquisition and construction of major capital facilities.

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

Proprietary (all of which are enterprise) funds (water and sewer/garbage/small boat harbor/health clinic/port commission) distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Borough's enterprise funds are charged to customers for sales and services. The water and sewer fund also recognizes as operating revenue fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources as budgeted by the Borough Assembly ("the Assembly") first and then unrestricted resources as they are needed.

Budgets and Budgetary Accounting

The appropriated budget is prepared by fund, function, and department. The Borough's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Assembly. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Fair Value Measurements

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels that prioritize the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Net Position or Fund Balance

Deposits and Investments – All cash deposits are in a single financial institution and are carried at cost. Certificates of deposit are stated at cost plus accrued interest and are held in various financial institutions covered by federal depository insurance. The Borough considers all investments in money market funds and highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Securities are stated at fair value determined by established trading market prices, and any gains and losses are included in the Borough's financial activities. Security transactions are recorded on the trade date.

Receivables – All receivables are reported at gross value and, if appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Due to and Due from Other Funds – Interfund receivables and payables arise from interfund transactions, are recorded by all funds affected in the period in which the transactions are executed, and are current obligations. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Inventories – Inventories in proprietary funds consist of water and sewer parts and medical supplies and are stated at the lower of cost (first-in, first-out basis) or market.

Restricted Assets – Certain cash, investments, and receivables are classified as restricted assets on the statement of net position because they are either permanently held for the benefit of current and future residents of the Borough or restricted in use by creditors or legislation (including the municipal code).

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

	<u>Estimated Useful Life</u>
Buildings, structures, and other improvements	50 years
Machinery and equipment	5 - 15 years
Roads and bridges	20 - 30 years

All significant capital assets, including infrastructure assets, are capitalized and reported by the Borough.

Compensated Absences – It is the Borough's policy to permit employees to accumulate earned but unused vacation and sick pay benefits (if the Borough expects to pay unused sick leave when employees separate from service with the Borough). All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured (for example, as a result of employee resignations and retirements).

Deferred Inflows and Outflows of Resources – 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 an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues from property taxes and land sales financed with long-term receivable contracts. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. A deferred outflow represents the consumption of the government's net position or fund balance that is applicable to a future reporting period. In the government-wide financial statements, deferred inflows and outflows include certain pension and OPEB-related transactions only.

Unearned Revenue – Amounts received from grants, excise tax appropriations from the State of Alaska, and other sources but not yet spent for their restricted purpose are shown on the balance sheet as unearned revenue for the fund financial statements. Excise tax appropriations are shown as revenue on the statement of activities when amounts are appropriated by the State of Alaska.

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 financial statements.

Debt Premiums and Discounts – On the government-wide statement of net position and the proprietary fund type statement of net position, debt premiums and discounts are netted against the debt payable. On the government-wide and proprietary fund type statement of activities, debt premiums and discounts are deferred and amortized over the life of the bond using the effective interest method. 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.

Governmental Fund Balances – In the governmental fund financial statements, fund balance components include five classifications as follows:

- Non-spendable fund balance – amounts that cannot be spent because they are in a non-spendable form or legally or contractually required to be maintained intact (such as the corpus of the Permanent Trust Fund).
- Restricted fund balance – amounts constrained by external parties or legislation (including the municipal code, grantors, or higher levels of government).
- Committed fund balance – amounts constrained to a specific purpose by the Borough itself using the highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the Borough takes the same highest-level action to remove or change the constraint. There were no committed funds at June 30, 2018; therefore, this classification has not been presented.
- Assigned fund balance – amounts that are intended for a particular purpose. Intent can be expressed by the Borough Assembly, Mayor, or the Borough Manager.
- Unassigned fund balance – amounts available for any purpose.

The five categories of fund balance place varying strength of spending constraints on available resources in a descending order as listed. Non-spendable fund balance is the most restrictive classification, and unassigned fund balance is the least restrictive.

When an expenditure has been duly authorized and funding to pay for the expenditure is available within multiple fund balance classifications, the Borough's policy is to utilize the funding available in the most restrictive classification first.

Property Taxes – Property taxes have a lien date of January 1, a levy date of July 1, and are due by August 31. The Borough bills and collects taxes for both its own purposes and school purposes. The Borough's property tax revenues are recognized when they become measurable and available, which is generally when levied.

Note 2. Cash and Investments

Cash and Cash Equivalents

The Borough follows the practice of pooling the cash equivalents of its various funds. Interest income from pooled cash equivalents is allocated ratably over the various funds. Cash equivalents are held by an outside custodian. Certain cash equivalents are held with investments for long-term purposes and, therefore, are classified as investments.

At June 30, 2018, the carrying amount of the Borough's cash balances was \$10,390,893, while the bank and other institution balances were \$10,533,938. These balances are categorized as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Amount insured by the FDIC (up to \$250,000) or collateralized with securities held by the bank's agent in the Borough's name	\$ 10,389,173	\$ 10,533,938
Uncollateralized		
Petty cash	1,720	
	<u>\$ 10,390,893</u>	<u>\$ 10,533,938</u>

Cash and cash equivalents consist of:

Cash	\$ 8,936,743
Cash equivalents (money market funds)	1,454,150
	<u>\$ 10,390,893</u>

Cash and cash equivalents is presented on the statement of net position as follows:

Current	\$ 4,965,292
Restricted	5,425,601
	<u>\$ 10,390,893</u>

Investments

Credit risk – Statutes authorize the Borough to invest in obligations insured or guaranteed by the United States Government or its agencies, as well as obligations of the State of Alaska or municipalities of the State, obligations of other states, certificates of deposit, and domestic corporate and asset-backed obligations with a credit rating of A2/A3 or better as recognized by two nationally recognized rating organizations. Up to 40% of non-permanent trust fund investments may be invested in bond mutual funds investing primarily in investment grade corporate and government bonds with a minimum of a five-year track record and at least \$1 billion in asset value.

In addition, the Borough may invest up to 80% of permanent trust fund investments in certain equities. The permanent trust fund investments may also include the following securities listed on a national exchange: master limited partnerships, real estate investment trusts with a market capitalization in excess of \$500 million, closed-end stock mutual funds with a minimum total net asset value in excess of \$200 million, open-end stock mutual funds with a minimum four-year track record and at least \$500 million in asset value, and bond mutual funds investing primarily in investment grade corporate and government bonds with a minimum of a five-year track record and at least \$500 million in asset value.

Custodial credit risk – The Borough does not have a formal investment policy related to custodial credit risk, but management does not believe there is significant risk with respect to uncollateralized funds based on the nature and size of the custodian.

Interest rate risk – Portfolio maturities must be staggered to avoid undue concentration of assets in a specific maturity sector. The average portfolio maturity must not exceed eight years.

The Borough's certificates of deposit are recorded at cost plus accrued interest. The Borough's marketable securities are recorded at fair value using Level 1 inputs.

Investments made by the Borough are summarized below:

	Total	Investment Maturities (in Years)			
		Less than 1	1 - 5	5 - 10	10 - 15
Investments Held by Agent in the Borough's Name					
Money market funds	\$ 892,691	\$ 892,691	\$ -	\$ -	\$ -
Certificates of deposit	8,620,679	100,000	8,520,679		
Total debt securities	9,513,370	\$ 992,691	\$ 8,520,679	\$ -	\$ -
Bond mutual funds	4,526,639				
Bond exchange-traded funds	9,127,950				
Total bond funds	13,654,589				
Equity mutual funds	4,936,001				
Equity exchange-traded funds	3,911,250				
Domestic common stocks	93,119				
	<u>\$ 32,108,329</u>				
Reconciliation to Statement of Net Assets					
Current	\$ 28,970,211				
Restricted	3,138,118				
	<u>\$ 32,108,329</u>				

Domestic common stocks held over 5% at June 30, 2018, are summarized below:

Annaly Capital Management Inc.	\$ 55,869
MFA Financial Inc.	<u>37,250</u>
	<u><u>\$ 93,119</u></u>

Note 3. Receivables, Deferred Inflows of Resources, and Unearned Revenue

Receivables at June 30, 2018, for the individual major funds and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Fund	Taxes	Land Sale Contract	Grants and Contributions	Service Fees	Total
General fund	\$ 1,950,859	\$ -	\$ -	\$ 85,662	\$ 2,036,521
Sales tax special revenue fund	2,947,240				2,947,240
Permanent trust		496,698			496,698
Other governmental funds	62,626		383,335		445,961
Water/sewer fund				81,577	81,577
Garbage fund				48,695	48,695
Small boat harbor fund				39,725	39,725
Health clinic fund				402,429	402,429
Port commission fund				10,600	10,600
Gross receivables	<u>4,960,725</u>	<u>496,698</u>	<u>383,335</u>	<u>668,688</u>	<u>6,509,446</u>
Less: allowance for uncollectibles				<u>(124,631)</u>	<u>(124,631)</u>
Total	<u><u>\$ 4,960,725</u></u>	<u><u>\$ 496,698</u></u>	<u><u>\$ 383,335</u></u>	<u><u>\$ 544,057</u></u>	<u><u>\$ 6,384,815</u></u>

These are presented on the statement of net position as:

Current	\$ 5,908,999
Restricted	<u>475,816</u>
	<u><u>\$ 6,384,815</u></u>

All receivables other than land sale contracts are expected to be collected within one year. Land sale contracts are expected to be collected within 10 years.

Of the general fund property tax receivable balance, \$551,031 is due from one company. For the year ended June 30, 2018, \$551,308 of property tax revenues was from this same company.

Of the sales tax fund receivable balance, \$690,228 is due from one company. For the year ended June 30, 2018, \$1,785,624 of sales tax revenue was from this same company.

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also recognize unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred inflows of resources and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned	Total
Property taxes receivable	\$ 1,947,300	\$ -	\$ 1,947,300
Land sale receivable	475,816		475,816
Cruise ship excise tax		14,708,895	14,708,895
Grants and contributions		253,737	253,737
Total deferred inflows of resources/unearned revenue for governmental funds	2,423,116	14,962,632	17,385,748
Amounts not deferred for government-wide financial statements			
Land sale receivable	(475,816)		(475,816)
Cruise ship excise taxes		(14,708,895)	(14,708,895)
Total unearned revenue for government-wide financial statements	\$ 1,947,300	\$ 253,737	\$ 2,201,037

Note 4. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2018, was as follows:

	Balance, June 30, 2017	Increases	Disposals	Transfers	Balance, June 30, 2018
Governmental Activities					
Capital assets not being depreciated					
Land and improvements	\$ 5,776,433	\$ -	\$ -	\$ (33,717)	\$ 5,742,716
Construction in progress	17,248,849	326,275		(16,451,686)	1,123,438
Total capital assets not being depreciated	23,025,282	326,275		(16,485,403)	6,866,154
Other capital assets					
Buildings	19,850,294	61,965		15,419,030	35,331,289
Other improvements	6,729,120	140,783		1,041,738	7,911,641
Furniture and equipment	7,554,218	285,021		24,635	7,863,874
Road network	11,322,638				11,322,638
Total other capital assets	45,456,270	487,769		16,485,403	62,429,442
Less: accumulated depreciation for:					
Buildings	9,799,119	715,118			10,514,237
Other improvements	3,737,745	224,573			3,962,318
Furniture and equipment	5,758,974	292,715			6,051,689
Road network	9,979,496	199,871			10,179,367
Total accumulated depreciation	29,275,334	1,432,277			30,707,611
Other capital assets, net	16,180,936	(944,508)		16,485,403	31,721,831
Governmental activities capital assets, net	\$ 39,206,218	\$ (618,233)	\$ -	\$ -	\$ 38,587,985

The cost of the school building is included in buildings and amounted to \$8,100,000 at both June 30, 2018 and 2017. Accumulated depreciation on the school building was \$5,346,000 and \$5,184,000 at June 30, 2018 and 2017, respectively.

Construction in progress at June 30, 2018, consists of \$328,356 related to the design of a new senior center, \$198,073 related to a recreation center remodel, \$192,261 related to the 7th Pastures Levee, \$147,069 related to a new 9-1-1 communications system, and \$257,679 related to other small projects.

Capital asset activity for business-type activities for the year ended June 30, 2018, was as follows:

	Balance, June 30, 2017	Additions	Disposals	Transfers	Balance, June 30, 2018
Business-Type Activities					
Capital assets not being depreciated					
Land and improvements	\$ 271,314	\$ -	\$ -	\$ -	\$ 271,314
Construction in progress	4,264,475	661,715		(234,239)	4,691,951
Total capital assets not being depreciated	4,535,789	661,715		(234,239)	4,963,265
Other capital assets					
Distribution and collection systems (water/sewer)	7,680,154				7,680,154
Buildings	20,431,523	34,993		18,503	20,485,019
Harbor seawall	7,014,362				7,014,362
Harbor seawalk	5,905,264				5,905,264
Harbor infrastructure	12,556,236	56,897			12,613,133
Other improvements	3,909,103	52,485			3,961,588
Equipment	3,867,764	860,955		215,736	4,944,455
Total other capital assets	61,364,406	1,005,330		234,239	62,603,975
Less: accumulated depreciation for:					
Distribution and collection systems (water/sewer)	5,268,245	153,203			5,421,448
Buildings	5,812,320	751,121			6,563,441
Harbor seawall	1,710,457	187,078			1,897,535
Harbor seawalk	1,737,006	196,842			1,933,848
Harbor infrastructure	979,932	261,290			1,241,222
Other improvements	2,742,764	62,040			2,804,804
Equipment	2,238,234	160,497			2,398,731
Total accumulated depreciation	20,488,958	1,772,071			22,261,029
Other capital assets, net	40,875,448	(766,741)		234,239	40,342,946
Business-type activities capital assets, net	<u>\$ 45,411,237</u>	<u>\$ (105,026)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,306,211</u>

Construction in progress at June 30, 2018, consists of \$3,813,293 related to the development of the port authority, \$520,581 related to a new water tank, \$120,225 related to a new recycling facility, and \$37,852 related to other small projects. At June 30, 2018, the Borough had construction commitments of approximately \$1.1 million related to the development of the port authority.

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

<u>Governmental Activities</u>	
General government	\$ 99,663
Public safety	341,332
Public works and streets, including depreciation of general infrastructure assets	406,196
Education	201,710
Culture, recreation, and library	383,376
Total depreciation expense - governmental activities	<u>\$ 1,432,277</u>
<u>Business-Type Activities</u>	
Water and sewer	\$ 600,513
Garbage	172,154
Small boat harbor	735,011
Health clinic	264,393
Total depreciation expense - business-type activities	<u>\$ 1,772,071</u>

During 1985 and 1986, the Borough received provisional title from the State of Alaska to certain parcels of land. As the Borough sells this land, the proceeds are recorded in the permanent trust fund. The value of the land will be determined when the Borough receives final title. Accordingly, no value has been recorded in the accompanying financial statements.

Note 5. Long-Term Obligations

All long-term debt is general obligation debt. These bonds and loans are direct obligations of the Borough, and the Borough has pledged its full faith and credit to their repayment. Long-term liability activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<u>Governmental Activities</u>					
Bonds and loans payable					
General obligation bonds	\$ 19,808,000	\$ -	\$ (688,000)	\$ 19,120,000	\$ 665,000
Private loan	947,616		(70,813)	876,803	73,172
State of Alaska loans	517,095	1,061,742	(126,143)	1,452,694	165,405
Unamortized bond premium	919,128		(119,363)	799,765	
Total bonds and loans payable	<u>22,191,839</u>	<u>1,061,742</u>	<u>(1,004,319)</u>	<u>22,249,262</u>	<u>903,577</u>
Other liabilities					
Compensated absences	<u>292,209</u>	<u>38,637</u>		<u>330,846</u>	
Governmental activities long-term liabilities	<u>\$ 22,484,048</u>	<u>\$ 1,100,379</u>	<u>\$ (1,004,319)</u>	<u>\$ 22,580,108</u>	<u>\$ 903,577</u>
<u>Business-Type Activities</u>					
Compensated absences	<u>\$ 153,202</u>		<u>\$ (21,828)</u>	<u>\$ 131,374</u>	
Business-type activities long-term liabilities	<u>\$ 153,202</u>	<u>\$ -</u>	<u>\$ (21,828)</u>	<u>\$ 131,374</u>	<u>\$ -</u>

Compensated absences included in governmental activities are generally liquidated by the general fund.

Bonds and notes payable at June 30, 2018, comprise the following individual issues:

\$11,715,000 2015 general obligation bonds used for a public safety building; due in annual principal installments of \$215,000 to \$655,000 through March 2045; interest at 3% to 5%.	\$ 10,980,000
\$4,735,000 2015 general obligation bonds used for port development; due in annual principal installments of \$165,000 to \$270,000 through March 2035; interest at 3% to 5%.	4,215,000
\$890,000 2014 general obligation bonds used for small boat harbor upgrades; due in annual principal installments of \$35,000 to \$65,000 through June 2033; interest at 3% to 5%.	730,000
\$460,000 2011 general obligation bonds used for library expansion; due in annual principal installments of \$20,000 to \$35,000 through September 2031; interest at 4% to 5%.	365,000
\$2,875,000 2016 general obligation refunding bonds used for health clinic construction; due in annual principal installments of \$230,000 to \$350,000 through December 2027; interest at 2% to 5%.	<u>2,830,000</u>
Total general obligation bonds	19,120,000
Loan from the Corporation of the Catholic Bishop of Juneau used for the purchase of land for a new public safety building; due in quarterly installments of \$25,281, including interest at 3.29%; due in full in September 2028.	<u>876,803</u>
Loan from the State of Alaska Department of Environmental Conservation used for the wastewater treatment plant upgrades; due in annual installments of \$10,212, including interest at 1.5%; due in full in October 2033.	148,881
Loan from the State of Alaska Department of Environmental Conservation used for the construction of a garbage incinerator; due in annual installments of \$120,934, including interest at 1.5%; due in full in January 2019.	119,147
Loan from the State of Alaska Department of Environmental Conservation used for the construction of a water well; due in annual principal installments of \$37,500, plus interest at 1.5%; due in full in October 2037.	750,000
Loan from the State of Alaska Department of Environmental Conservation used for the construction of a water tank, to be repaid over a 20-year amortization to begin upon completion of construction, including interest at 1.5%; maximum borrowing of \$1,297,340.	400,060
Loan from the State of Alaska Department of Environmental Conservation used for the construction of a water tank, to be repaid over a 20-year amortization to begin upon completion of construction, including interest at 1.5%; maximum borrowing of \$1,800,000.	<u>34,606</u>
Total State of Alaska loans	<u>1,452,694</u>
	<u><u>\$ 21,449,497</u></u>

The debt service annual requirements to amortize bonds and notes payable outstanding as of June 30, 2018, are as follows:

Year Ending June 30	Principal	Interest	Total
2019	\$ 903,577	\$ 882,233	\$ 1,785,810
2020	821,866	847,937	1,669,803
2021	854,385	812,375	1,666,760
2022	886,987	775,281	1,662,268
2023	929,677	735,224	1,664,901
2024 - 2028	5,281,960	3,022,637	8,304,597
2029 - 2033	4,051,368	1,948,863	6,000,231
2034 - 2038	3,590,071	1,155,781	4,745,852
2039 - 2043	2,844,606	602,800	3,447,406
2044 - 2045	1,285,000	77,600	1,362,600
	\$ 21,449,497	\$ 10,860,731	\$ 32,310,228

The amount of long-term debt the Borough can incur is limited to 25% of the assessed value of the taxable real property in the Borough at June 30, 2018. The amount of outstanding long-term debt was approximately 6% of property assessments as of January 1, 2018 (the lien date).

Note 6. Defined Benefit Plans – Municipality of Skagway

PERS Defined Benefit Pension Plan

The Borough's defined benefit pension plan ("the Pension Plan") is part of cost-sharing multiple-employer Alaska Public Employee Retirement System ("PERS") plan administered by the State of Alaska ("the State"). This plan provides pension, disability and death, and post-employment healthcare benefits for eligible employees. Benefit and contribution provisions are established by state law and may be amended only by the State Legislature.

Other Post-Employment Benefit Plans (OPEB)

In addition to the pension plan, PERS also administers other post-employment benefit ("OPEB") plans (collectively, "the OPEB Plans").

Alaska Retiree Healthcare Trust Plan (ARHCT)

The Alaska Retiree Healthcare Trust Plan ("ARHCT") is a cost-sharing, multiple-employer defined benefit other post-employment benefit plan that provides health benefits to PERS members. ARHCT provides major medical coverage to retirees of the PERS defined benefit pension plan. The plan is closed to new members effective July 1, 2006.

Occupational Death and Disability Plan (ODD)

The Occupational Death and Disability Plan ("ODD") is a cost-sharing, multiple-employer defined benefit other post-employment benefit plan that provides death and long-term disability benefits to PERS members.

Retiree Medical Plan (RMP)

The Retiree Medical Plan ("RMP") is a cost-sharing, multiple-employer defined benefit other post-employment benefit plan that provides health benefits to PERS members. RMP provides major medical coverage to eligible employees who participate in the PERS defined contribution retirement plan. Members are not eligible to utilize RMP until they have at least 10 years of service and are Medicare age eligible.

Significant Accounting Policies and Other Information

The financial statements for PERS are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The Borough's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair value.

Alaska Statute 39.35.255 requires the State to contribute to the PERS pension and ARHCT plans at amounts such that the amount, when combined with the employer contribution, is sufficient to pay the pension and ARHCT past service liability contribution rates as adopted by the Alaska Retirement Management Board. As such, the pension and ARHCT plans are considered to be in a special funding situation as defined by GASB, and management has recorded all pension- and ARHCT-related liabilities, deferred inflows/outflows, and disclosures on this basis.

PERS issues publicly available financial reports for the pension and OPEB plans that include financial statements and supplementary information for the Borough. These reports may be obtained from PERS online at <http://doa.alaska.gov/drb/pers>.

Employee and Employer Contribution Rates

Police and fire department employees are required to contribute 7.50% of their annual salary to the Pension and OPEB Plans. All other covered employees are required to contribute 6.75% of their annual salary. The employer contribution rate is statutorily capped at 22% (17.12% to pension and 4.88% to OPEB) of annual covered salary. State legislation currently provides that the State will contribute any amount over 22% such that the total contribution equals the Alaska Retirement Management Board's ("the Board") adopted rate. In the government-wide financial statements, state contribution amounts have been recognized as revenues and expenses.

In 2018, the Borough was credited with the following contributions into the pension and OPEB Plans.

	<u>2017</u>	<u>2018</u>
Employer pension contributions (including DBUL)	\$ 435,700	\$ 516,205
Non-employer pension contributions (on-behalf)	170,788	128,406
Employer ARHCT contributions	101,924	143,842
Employer ODD contributions		4,139
Employer RMP contributions	33,521	25,903
	<u>\$ 741,933</u>	<u>\$ 818,495</u>

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

The Borough's liability for its proportionate share of the net pension and OPEB liabilities and the related State proportion are as follows at June 30, 2018:

Borough's proportionate share of the net pension liability	\$	6,642,154
State's proportionate share of the net pension liability		2,474,078
Borough's proportionate share of the ARHCT OPEB liability		1,085,377
State's proportionate share of the ARHCT OPEB liability		404,582
Borough's proportionate share of the ODD OPEB (asset)		(32,112)
Borough's proportionate share of the RMP OPEB liability		11,802
Total	\$	<u>10,585,881</u>

The net pension and OPEB liabilities were measured as of June 30, 2017, determined by an actuarial valuation as of that date. The Borough's proportion of the net pension and OPEB liabilities were based on a projection of the Borough's long-term share of contributions to the pension and OPEB plans relative to the projected contributions of all participating entities, including the State, which was actuarially determined.

At June 30, 2018, the Borough's proportion of the pension and OPEB plans, including changes from the prior year, are as follows:

	<u>June 30, 2016</u>	<u>Change</u>	<u>June 30, 2017</u>
Net pension liability	0.15346%	(0.02497)%	0.12849%
ARHCT OPEB liability	0.15365%	(0.02517)%	0.12848%
ODD OPEB asset	0.20712%	0.01919%	0.22631%
RMP OPEB liability	0.20712%	0.01919%	0.22631%

For the year ended June 30, 2018, the Borough recognized net pension expense of \$283,415 and recognized on-behalf revenues of \$128,406 for the State's contribution. For the year ended June 30, 2018, the Borough recognized net OPEB expense of \$161,116.

At June 30, 2018, the Borough reported deferred outflows of resources and deferred inflows of resources related to the pension plan from the following sources:

	Pension Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments		
Governmental	\$ 115,820	\$ -
Business-type	62,346	
Changes in proportion and differences between contributions and proportionate share of contributions		
Governmental	40,750	399,716
Business-type	21,935	215,166
Difference between expected and actual experience		
Governmental		77,630
Business-type		41,789
Borough contributions subsequent to measurement date		
Governmental	335,568	
Business-type	180,637	
Total deferral outflows and deferred inflows	<u>\$ 757,056</u>	<u>\$ 734,301</u>

At June 30, 2018, the Borough reported deferred outflows of resources and deferred inflows of resources related to ARHCT from the following sources:

	ARHCT OPEB	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on ARHCT OPEB		
Governmental	\$ -	\$ 339,893
Changes in proportion and differences between contributions and proportionate share of contributions		
Governmental		158,017
Difference between expected and actual experience		
Governmental		58,531
Business-type		
Borough contributions subsequent to measurement date		
Governmental	143,842	
Total deferral outflows and deferred inflows	<u>\$ 143,842</u>	<u>\$ 556,441</u>

At June 30, 2018, the Borough reported deferred outflows of resources and deferred inflows of resources related to ODD from the following sources:

	ODD OPEB	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on ODD OPEB Governmental	\$ -	\$ 2,006
Changes in proportion and differences between contributions and proportionate share of contributions Governmental		2,656
Difference between expected and actual experience Governmental		947
Borough contributions subsequent to measurement date Governmental	4,139	
Total deferral outflows and deferred inflows	<u>\$ 4,139</u>	<u>\$ 5,609</u>

At June 30, 2018, the Borough reported deferred outflows of resources and deferred inflows of resources related to RMP from the following sources:

	RMP OPEB	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on RMP OPEB Governmental	\$ -	\$ 5,736
Changes in proportion and differences between contributions and proportionate share of contributions Governmental	1,575	
Difference between expected and actual experience Governmental		93
Borough contributions subsequent to measurement date Governmental	25,903	
Total deferral outflows and deferred inflows	<u>\$ 27,478</u>	<u>\$ 5,829</u>

The \$690,089 reported as deferred outflows of resources related to the pension and OPEB plans resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension and OPEB expense as follows for the years ending June 30:

	<u>Pension</u>	<u>AHCRT OPEB</u>	<u>ODD OPEB</u>	<u>RMP OPEB</u>
2019	\$ (399,461)	\$ (218,119)	\$ (2,731)	\$ (276)
2020	(123,363)	(139,110)	(1,402)	(1,064)
2021	14,687	(99,606)	(738)	(1,457)
2022	14,687	(99,606)	(738)	(1,457)

Actuarial Assumptions

The total pension and OPEB liabilities were determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurements and rolled forward to the latest available measurement date of June 30, 2017. These assumptions are the result of an experience study performed as of June 30, 2013.

Inflation Rate – 3.12%

Salary Increases – Graded by service, from 9.66% to 4.92% for police officers/fire fighters. Graded by age and service from 8.55% to 4.34% for all others.

Investments Return/Discount Rate – 8.00% net of pension and OPEB plan investment expenses. This is based on average inflation rate of 3.12% and real rate of return of 4.88%.

Mortality – Pre-termination mortality rates were based upon the 2010-2013 actual mortality experience, 60% of the male table and 65% of the female post-termination rates. Deaths are assumed to be occupational 70% of the time for police officers/fire fighters, 50% of the time for others. Post-termination mortality rates were based on 95% of all rates of the RP-2000 table, 2000 base year projected to 2018 with Projection Scale BB.

Healthcare Cost Trend Rates – Pre-65 medical: 8.8% grading down to 4.4%. Post-65 medical: 5.8% grading down to 4.0%. Prescription drugs: 5.4% grading down to 4.0%.

Healthcare Participation – 100% of PERS paid members and their spouses are assumed to elect the healthcare benefits as soon as they are eligible. 10% of non-PERS paid members and their spouses are assumed to elect the healthcare benefits as soon as they are eligible.

Long-Term Expected Rate of Return – The long-term expected rate of return on pension and OPEB 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 expense and inflation) are developed for each major asset class. 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 rates of return for each major asset class are summarized in the following table (note that the rates shown below exclude the inflation component):

Asset Class	Long-Term Expected Real Rate of Return
Domestic equity	8.83%
Global ex-U.S. equity	7.79%
Intermediate treasuries	1.29%
Opportunistic	4.76%
Real assets	4.94%
Absolute return	4.76%
Private equity	12.02%
Cash equivalents	0.63%

Discount Rate

The discount rate used to measure the total pension and OPEB liabilities is 8.00%. The projection of cash flows used to determine the discount rate assumed that employer and State contributions will continue to follow the current funding policy, which meets State statutes. Based on those assumptions, the pension and OPEB plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Borough's Proportionate Share of the Net Pension and OPEB Liabilities to Changes in the Discount Rate

The following presents the Borough's proportionate share of the net pension and OPEB liabilities calculated using the discount rate of 8.0% as well as the Borough's proportionate share of the net pension and OPEB liabilities if it were calculated using a discount rate that is one percentage point lower (7.0%) or one percentage point higher (9.0%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net pension liability	\$ 8,725,082	\$ 6,642,154	\$ 4,883,201
Net ARHCT OPEB liability	2,322,821	1,085,377	44,517
Net ODD OPEB asset	(28,989)	(32,112)	(34,665)
Net RMP OPEB liability	55,289	11,802	(22,156)

Sensitivity of the Borough's Proportionate Share of the Net OPEB Liability to Changes in Healthcare Cost Trend Rates

The following presents the Borough's proportionate share of the net OPEB liability as well as the Borough's proportionate share of the net OPEB liability if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	1% Decrease (7.00%)	Current Healthcare Cost Trend Rate	1% Increase (9.00%)
Net ARHCT OPEB liability	\$ (120,398)	\$ 1,085,377	\$ 2,535,009
Net ODD OPEB asset	N/A	(32,112)	N/A
Net RMP OPEB liability	(29,214)	11,802	66,757

Pension Plan Fiduciary Net Position

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

Note 7. Defined Benefit Plans – Skagway School District

The District, a discretely presented component unit of the Borough, also participates in the PERS defined benefit pension and OPEB plans, as described in the previous footnote. The following pension and OPEB disclosures have been included in the Borough's financial statements due to the significance of the related pension and OPEB liabilities (assets) and deferred inflows/outflows to the District.

District contributions for the year ended June 30, 2018, are as follows:

	Pensions	Other Post-Employment Benefits	Total
2018	\$ 41,376	\$ 11,867	\$ 53,243

Public Employees Retirement Plans (PERS)

For the year ended June 30, 2018, the State contributed \$7,630 (75.54% pension cost) and \$2,470 (24.46% OPEB cost) on behalf of the District, which has been recorded in the fund financial statement under the modified accrual basis of accounting. In the government-wide financial statements, the on-behalf contribution has been adjusted as of the measurement date of June 30, 2017, to a total of \$20,197 to represent the pension/OPEB expense attributable to the State under the full accrual basis of accounting.

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

At June 30, 2018, the District reported liabilities that reflected a reduction for State pension and OPEB support provided to the District. The amount recognized by the District as its proportionate share of net pension and OPEB liabilities, the related State support, and the total portion of the net pension and OPEB liabilities that was associated with the District were as follows:

District's proportionate share of the net pension liability	\$	513,362
State's proportionate share of the net pension liability		193,108
District's proportionate share of the ARHCT OPEB liability		84,208
State's proportionate share of the ARHCT OPEB liability		30,995
District's proportionate share of the ODD OPEB (asset)		(1,179)
District's proportionate share of the RMP OPEB liability		434
Total	\$	<u>820,928</u>

The net pension and OPEB liabilities were measured as of June 30, 2017, and the total pension and OPEB liabilities used to calculate the net pension and OPEB liabilities were determined by an actuarial valuation as of that date. The District's proportion of the net pension and OPEB liabilities were based on the present value of contributions for FY2019 through FY2039, as determined by projections based on the June 30, 2017, valuation.

At June 30, 2018, the District's proportion of the pension and OPEB plans, including changes from the prior year, are as follows:

	<u>June 30, 2017</u>	<u>Change</u>	<u>June 30, 2018</u>
Net pension liability	0.0076%	(0.0023)%	0.0099%
ARHCT OPEB liability	0.0077%	(0.0023)%	0.0100%
ODD OPEB asset	0.0079%	(0.0004)%	0.0083%
RMP OPEB liability	0.0079%	(0.0004)%	0.0083%

Based on the measurement date of June 30, 2017, the District recognized pension and OPEB expense of \$91,207 and \$12,457, respectively, for the year ended June 30, 2018. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	<u>Pension Plan</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 9,230
Changes in proportion and differences between contributions and proportionate share of contributions	9,863	52,658
Difference between expected and actual experience	13,770	
District contributions subsequent to measurement date	41,376	
Total deferral outflows and deferred inflows	<u>\$ 65,009</u>	<u>\$ 61,888</u>

	ARHCT OPEB	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on ARHCT OPEB	\$ -	\$ 4,541
Changes in proportion and differences between contributions and proportionate share of contributions		12,126
Difference between expected and actual experience		26,371
District contributions subsequent to measurement date	11,867	
Total deferral outflows and deferred inflows	<u>\$ 11,867</u>	<u>\$ 43,038</u>

	ODD OPEB	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on ODD OPEB	\$ -	\$ 35
Changes in proportion and differences between contributions and proportionate share of contributions	16	
Difference between expected and actual experience		74
District contributions subsequent to measurement date	253	
Total deferral outflows and deferred inflows	<u>\$ 269</u>	<u>\$ 109</u>

	RMP OPEB	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on RMP OPEB	\$ -	\$ 3
Changes in proportion and differences between contributions and proportionate share of contributions		34
Difference between expected and actual experience		211
District contributions subsequent to measurement date	1,630	
Total deferral outflows and deferred inflows	<u>\$ 1,630</u>	<u>\$ 248</u>

The \$41,376 and \$13,750 reported as deferred outflows of resources related to the pension and OPEB plans resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension and OPEB liabilities, respectively, in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension and OPEB will be recognized in pension and OPEB expense as follows:

	Pension	AHCRT OPEB	ODD OPEB	RMP OPEB
2018	\$ (51,064)	\$ (15,852)	\$ (21)	\$ (57)
2019	14,339	(14,000)	(21)	(57)
2020	6,437	(6,593)	(21)	(57)
2021	(7,966)	(6,593)	(21)	(57)
2022			(2)	(5)

For the year ended June 30, 2018, the District recognized \$35,134 and (\$6,739) of pension and OPEB amortization of the net deferred outflows and inflows of resources, respectively.

Sensitivity of the District's Proportionate Share of the Net Pension and OPEB Liabilities to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension and OPEB liabilities calculated using the discount rate of 8% as well as the District's proportionate share of the net pension and OPEB liabilities if it were calculated using a discount rate that is one percentage point lower (7%) or one percentage point higher (9%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net pension liability	\$ 674,348	\$ 513,362	\$ 377,415
Net ARHCT OPEB liability	180,214	84,208	3,454
Net ODD OPEB asset	(1,064)	(1,179)	(1,273)
Net RMP OPEB liability	2,031	434	(814)

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in Healthcare Cost Trend Rates

The following presents the District's proportionate share of the net OPEB liability as well as the District's proportionate share of the net OPEB liability if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	1% Decrease (7.00%)	Current Healthcare Cost Trend Rate	1% Increase (9.00%)
Net ARHCT OPEB liability	\$ (9,341)	\$ 84,208	\$ 196,676
Net ODD OPEB asset	N/A	(1,179)	N/A
Net RMP OPEB liability	(1,073)	434	2,452

Teachers' Retirement System (TRS) Defined Benefit Pension Plan

Plan Description

The District participates in the Teachers' Retirement System ("TRS"), a cost sharing multiple-employer defined benefit plan. Currently, there are 57 employers participating in TRS, including 53 school districts. TRS provides retirement benefits, disability and death benefits, and post-employment healthcare to plan members and beneficiaries. The system is governed by the Alaska Retirement Board. The Administrator of the plan is the Commissioner of Administration or the Commissioner's designee. The benefit and contribution provisions are established by State law and may be amended only by the State legislature.

Significant Accounting Policies and Other Information

The financial statements for TRS are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The District's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair value.

Alaska Statute 39.35.255 requires the State to contribute to the TRS pension and ARHCT plans at amounts such that the amount, when combined with the employer contribution, is sufficient to pay the pension and ARHCT past service liability contribution rates as adopted by the Alaska Retirement Management Board. As such, the pension and ARHCT plans are considered to be in a special funding situation as defined by GASB, and management has recorded all pension- and ARHCT-related liabilities, deferred inflows/outflows, and disclosures on this basis.

TRS issues publicly available financial reports for the pension and OPEB plans that include financial statements and supplementary information for the District. These reports may be obtained from TRS online at <http://doa.alaska.gov/drb/trs>.

Pension Benefits

Employees hired prior to July 1, 1990, are entitled to annual pension benefits beginning at normal retirement age of 55 or at early retirement age of 50. For employees hired after June 30, 1990, but before July 1, 2006, the normal and early retirement ages are 60 and 55, respectively. Employees may also retire at any age and receive a normal benefit when they accumulate the required credited service. The benefit related to all years of credited service prior to July 1, 1990, and for years of service through a total of 20 years is equal to 2% of their highest three-year average annual compensation for each year of service. The benefit for each year over 20 years of service subsequent to June 30, 1990, is equal to 2.5% of their highest three-year average annual compensation for each year of service. Employees may elect to receive their pension benefits in the form of a joint or survivor annuity. Effective January 1, 1987, a married member who retires must receive his or her benefit in the form of a joint and survivor annuity unless the member's spouse consents to another form of benefit.

Minimum benefits for employees eligible for retirement are \$25 per month for each year of credited service.

Post-Retirement Pension Adjustments

Effective in fiscal year 1991, automatic post-retirement pension adjustment ("PRPA") was granted to all current and future retirees. The PRPA amount may not exceed the lesser of (a) the actual cost of living increase (percentage) from the date of retirement until the effective date of the PRPA or (b) 4.00% of the base benefits for each full year that the member has been retired and a prorated percentage for each partial year. However, the PRPA percentage is offset by the percentage of all prior PRPAs that have been granted. TRS members receiving a retirement, disability, or survivor benefit who remain in Alaska are eligible for an additional allowance equal to 10.00% of the base benefit.

Termination Costs

If the District decides to terminate coverage for a department, group, or other classification of members, even if that termination results from the decision to divest of a particular District function, all affected employees in that department, group, or other classification of members become immediately vested in the plan. The District must pay to have a termination study completed. The purpose of the study is to calculate the District's one-time termination costs. The costs represent the amount necessary to fully fund the costs of plan members who become vested through this process and for other changes in actuarial assumptions such as earlier than expected retirement that arise from the act of termination of coverage. The District must pay a lump sum within 60 days of termination or arrange a payment plan that is acceptable to the TRS administrator.

Employee Contribution Rate

The District's active TRS members are required to contribute 8.65% (5.79% pension and 2.86% OPEB), and non-teacher school district employees (if elected) are required to contribute 9.60% (6.42% pension and 3.18% OPEB) of their annual covered salary.

Employer and Other Contribution Rates

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

Employer Effective Rate

This is the actual employer pay-in rate. Under current legislation, this rate is statutorily capped at 12.56% (8.40% pension and 4.16% OPEB) of eligible wages, subject to the salary floor and other termination costs as described above. The 12.56% rate is calculated on all TRS participating wages, including those wages attributable to employees in 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, without regard to the statutory rate cap or the GASB accounting rate. This rate is 26.78% (17.91% pension and 8.87% OPEB). Prior to July 1, 2015, there were no constraints or restrictions 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 percent 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 paid in by the State as an on-behalf payment as mandated under current statute. Under state law, subject to annual appropriation, the State will contribute on on-behalf payment into the plan in an amount equal to the difference between the ARM Board Rate and the Employer Effective Rate. The On-behalf contribution rate for 2018 is 14.22% (8.43% pension and 11.57% OPEB). On-behalf contribution amounts have been recognized in these financial statements as both revenue and expenditures.

GASB Rate

This is the rate used to determine the long-term pension and healthcare liability for plan accounting purposes. Certain actuarial methods and assumptions for this rate calculation are mandated by the Governmental Accounting Standards Board ("GASB"). Medicare Part D subsidies are not reflected in this rate. The rate uses an 8% pension and OPEB discount rate. Employer contributions for the year ended June 30, 2018, are as follows:

	<u>Pensions</u>	<u>Other Post-Employment Benefits</u>	<u>Total</u>
2018	\$ 41,819	\$ 20,711	\$ 62,530

Teachers' Retirement Plans

For the year ended June 30, 2018, the State contributed \$136,235 (88.43% pension cost) and \$17,825 (11.57% OPEB cost) on behalf of the District, which has been recorded in the fund financial statement under the modified accrual basis of accounting. In the government-wide financial statements, the on-behalf contribution has been adjusted as of the measurement date to a total of \$145,841 to represent the pension/OPEB expense attributable to the State under the full accrual basis of accounting.

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

At June 30, 2018, the District reported liabilities that reflected a reduction for State pension and OPEB support provided to the District. The amount recognized by the District as its proportionate share of net pension and OPEB liabilities, the related State support, and the total portion of the net pension and OPEB liabilities that was associated with the District were as follows:

District's proportionate share of the net pension liability	\$	911,086
State's proportionate share of the net pension liability		1,586,350
District's proportionate share of the ARHCT OPEB liability		82,266
State's proportionate share of the ARHCT OPEB liability		144,898
District's proportionate share of the ODD OPEB (asset)		(5,115)
District's proportionate share of the RMP OPEB (asset)		(7,419)
Total	\$	<u>2,712,066</u>

The net pension and OPEB liabilities were measured as of June 30, 2017, and the total pension and OPEB liabilities used to calculate the net pension and OPEB liabilities were determined by an actuarial valuation as of that date. The District's proportion of the net pension and OPEB liabilities were based on the present value of contributions for FY2019 through FY2039, as determined by projections based on the June 30, 2017, valuation.

At June 30, 2018, the District's proportion of the pension and OPEB plans, including changes from the prior year, are as follows:

	<u>June 30, 2017</u>	<u>Change</u>	<u>June 30, 2018</u>
Net pension liability	0.1087%	0.0637%	0.0450%
ARHCT OPEB liability	(0.0033)%	(0.0480)%	0.0447%
ODD OPEB asset	0.2020%	0.0455%	0.1565%
RMP OPEB asset	0.2020%	0.0455%	0.1565%

Based on the measurement date of June 30, 2017, the District recognized pension OPEB expense of \$74,034 and \$11,309, respectively, for the year ended June 30, 2018.

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 15,195
Changes in proportion and differences between contributions and proportionate share of contributions	11,127	51,843
Difference between expected and actual experience	41,655	
District contributions subsequent to measurement date	41,819	
Total deferral outflows and deferred inflows	<u>\$ 94,601</u>	<u>\$ 67,038</u>
	ARHCT OPEB	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on ARHCT OPEB	\$ -	\$ 10,664
Changes in proportion and differences between contributions and proportionate share of contributions	2,371	
Difference between expected and actual experience		44,211
District contributions subsequent to measurement date	20,711	
Total deferral outflows and deferred inflows	<u>\$ 23,082</u>	<u>\$ 54,875</u>
	ODD OPEB	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on ODD OPEB	\$ -	\$ 21
Changes in proportion and differences between contributions and proportionate share of contributions		1,287
Difference between expected and actual experience		194
District contributions subsequent to measurement date		
Total deferral outflows and deferred inflows	<u>\$ -</u>	<u>\$ 1,502</u>
	RMP OPEB	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on RMP OPEB	\$ -	\$ 3
Changes in proportion and differences between contributions and proportionate share of contributions		1,073
Difference between expected and actual experience		1,497
District contributions subsequent to measurement date	5,847	
Total deferral outflows and deferred inflows	<u>\$ 5,847</u>	<u>\$ 2,573</u>

The \$41,819 and \$26,558 reported as deferred outflows of resources related to the pension and OPEB plans resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension and OPEB liabilities, respectively, in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized in pension expense as follows:

	Pension	AHCRT OPEB	ODD OPEB	RMP OPEB
2018	\$ (48,408)	\$ (16,976)	\$ (185)	\$ (486)
2019	37,594	(13,422)	(185)	(486)
2020	18,098	(11,053)	(185)	(486)
2021	(21,539)	(11,053)	(185)	(486)
2022			(136)	(112)

For the year ended June 30, 2018, the District recognized \$60,000 and \$1,448 of pension and OPEB amortization of the deferred outflows and inflows of resources, respectively.

Actuarial Assumptions

The total pension and OPEB liabilities were determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurements and rolled forward to the latest available measurement date of June 30, 2017. These assumptions are the result of an experience study performed as of June 30, 2013.

Inflation Rate – 3.12%

Investments Return/Discount Rate – 8.00% net of pension and OPEB plan investment expenses. This is based on average inflation rate of 3.12% and a real rate of return of 4.88%.

Mortality – Pre-termination mortality rates were based upon the 2010-2013 actual mortality experience, 68% of the male table and 60% of the female post-termination rates. Deaths are assumed to be occupational 15% of the time. Post-termination mortality rates were based on 94% of male and 97% of female rates of the RP-2000 combined mortality table, 2000 base year projected to 2018.

Healthcare Cost Trend Rates – Pre-65 medical: 8.8% grading down to 4.4%. Post-65 medical: 5.8% grading down to 4.0%. Prescription drugs: 5.4% grading down to 4.0%.

The long-term expected rate of return on pension and OPEB plan investments and the discount rates used for TRS are consistent with those discounted for PERS in Note 6.

Sensitivity of the District's Proportionate Share of the Net Pension and OPEB Liabilities to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension and OPEB liabilities calculated using the discount rate of 8% as well as the District's proportionate share of the net pension and OPEB liabilities if it were calculated using a discount rate that is one percentage point lower (7%) or one percentage point higher (9%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net pension liability	\$ (1,284,287)	\$ 911,086	\$ 597,556
Net ARHCT OPEB liability	250,687	82,266	(57,476)
Net ODD OPEB asset	(5,140)	(5,115)	(5,102)
Net RMP OPEB asset	3,180	(7,419)	(15,471)

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in Healthcare Cost Trend Rates

The following presents the District's proportionate share of the net OPEB liability as well as the District's proportionate share of the net OPEB liability if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	1% Decrease (7.00%)	Current Healthcare Cost Trend Rate	1% Increase (9.00%)
Net ARHCT OPEB liability	\$ (76,688)	\$ 82,266	\$ 275,577
Net ODD OPEB asset	N/A	(5,115)	N/A
Net RMP OPEB asset	(17,077)	(7,419)	5,941

Note 8. Defined Contribution Plan

Employees first enrolling into PERS after July 1, 2006, participate in PERS Tier IV. PERS Tier IV is a defined contribution retirement plan that includes a component of defined benefit post-employment health care. The plan requires both employer and employee contributions. Employees may make additional contributions into the plan, subject to limitations. Contribution rates are as follows:

	Police/Fire	Others
Employee Contribution	8.00%	8.00%
Employer Contribution		
Retirement	5.00%	5.00%
Health Reimbursement Arrangement*	3.00%	3.00%
Retiree medical plan	1.03%	1.03%
Death and disability benefit	0.43%	0.16%
Unfunded benefit liability	12.54%	12.81%
Total employer contribution	22.00%	22.00%

* Health Reimbursement Arrangement – AS 39.30.370 requires that the employer contribute "an amount equal to three percent of the employer's average annual employee compensation." For actual remittance, this amount is calculated as a flat rate of \$86.84 per full-time employee per pay period and \$1.31 per hour worked for each part-time employee.

For the year ended June 30, 2018, the Borough contributed \$183,420 to PERS Tier IV. Employee contributions to the plan totaled \$201,192.

Note 9. Interfund Receivables, Payables, and Transfers

Interfund balances represent cash collected or disbursed on behalf of another fund. The composition of interfund balances as of June 30, 2018, is as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental funds	\$ 26,446
General	Permanent trust	170,264
General	Garbage	309,730
General	Excise tax	522,260
Sales tax	General	379,076
Nonmajor governmental funds	General	88,360
Health clinic	General	304,293
Water and sewer	General	47,559
Port commission	General	245,241
Small boat harbor	General	632,927
Total		\$ 2,726,156

Transfers between funds provide support for various Borough programs in accordance with budgetary authorizations and resources for payment of debt services. Interfund transfers during the year ended June 30, 2018, were as follows:

	Transfers In						Total
	General Fund	Debt Service Fund	Non-Major Governmental Fund	Water and Sewer	Garbage	Health Clinic	
Transfers out							
General	\$ -	\$ -	\$ 135,362	\$ -	\$ -	\$ -	\$ 135,362
Sales tax	1,175,025	1,697,004	747,714	181,380	100,413	709,894	4,329,637
Excise tax	2,310,525		266,760				2,859,078
Permanent trust		101,122					101,122
Total transfers out	\$ 3,485,550	\$ 1,798,126	\$ 1,149,836	\$ 181,380	\$ 100,413	\$ 709,894	\$ 7,425,199

Note 10. Future Rental Revenue

The Borough leases land to commercial tenants under standard leases. Terms of the leases are up to 15 years. Most commercial leases are adjusted periodically based on the appraised value of the land. Future minimum rental are approximately as follows for the years ending June 30:

2019	\$ 205,565
2020	195,409
2021	169,348
2022	157,301
2023	125,501
Thereafter	134,312
	\$ 987,436

Note 11. Risk Management

The Borough is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Borough purchases commercial insurance coverage to mitigate such risks.

The Borough, in the normal course of its activities, is involved in various claims and pending litigation. In the opinion of management and legal counsel, the disposition of these matters is not expected to have a material adverse effect on the Borough's general-purpose financial statements.

Note 12. Implementation of New Standards and Change in Accounting Principle

In the fiscal year ended June 30, 2018, the Borough Implemented GASB Statement No. 75, Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions, which, among other accounting and reporting criteria, requires the Borough to recognize its proportional share of the net other post-employment benefit plans liability or asset and related deferred inflows and outflows. As a result, the beginning net position for the current year of governmental activities was restated. This restatement resulted in a decrease in net position of \$1,618,603 in the governmental activities. In addition, the District component unit restated its beginning net position, resulting in a decrease of \$232,413. The restatement amount was based on valuations performed for the financial statement period ended June 30, 2017. Valuations were not performed prior to this date, and, therefore, the effects of this change prior to this date are not able to be estimated.

REQUIRED SUPPLEMENTARY INFORMATION

MUNICIPALITY OF SKAGWAY

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenue				
Property taxes	\$ 1,911,000	\$ 1,911,000	\$ 1,885,954	\$ (25,046)
Intergovernmental	296,345	326,345	488,729	162,384
Service and admission fees	270,874	270,874	289,356	18,482
Licenses and permits	120,403	120,403	140,216	19,813
Rentals	85,000	301,000	226,828	(74,172)
Penalties and interest	3,000	3,000	8,298	5,298
Contributions and other	127,565	93,976	112,708	18,732
Payments in lieu of taxes			195,873	195,873
Total revenue	2,814,187	3,026,598	3,347,962	321,364
Expenditures				
Current				
General government	2,131,253	2,132,807	2,048,139	84,668
Public safety	2,421,434	2,469,506	2,322,117	147,389
Streets and public works	824,214	826,873	547,907	278,966
Culture, recreation, and library	1,446,022	1,534,665	1,437,064	97,601
Debt service				
Interest			136,780	(136,780)
Capital outlay				
General government	9,500	9,500	7,296	2,204
Public safety	209,417	209,417	214,137	(4,720)
Total expenditures	7,041,840	7,182,768	6,713,440	469,328
Deficiency of expenditures over revenue	(4,227,653)	(4,156,170)	(3,365,478)	790,692
Other Financing Sources				
Transfers in	4,227,653	4,292,170	3,485,550	(806,620)
Transfers out		(136,000)	(135,362)	638
Net change in fund balance	\$ -	\$ -	\$ (15,290)	\$ (15,290)

See Notes to Required Supplementary Information

MUNICIPALITY OF SKAGWAY

BUDGETARY COMPARISON SCHEDULE –
SALES TAX SPECIAL REVENUE FUND

For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenue				
Sales tax	\$ 7,204,880	\$ 7,204,880	\$ 8,109,415	\$ 904,535
Investment earnings	150,000	150,000	242,696	92,696
Total revenue	7,354,880	7,354,880	8,352,111	997,231
Expenditures				
Education	1,946,791	2,005,698	2,005,769	(71)
Total expenditures	1,946,791	2,005,698	2,005,769	(71)
Excess of revenue over expenditures	5,408,089	5,349,182	6,346,342	997,160
Other Financing Sources				
Transfers out	(5,368,358)	(5,788,293)	(4,329,637)	1,458,656
Net change in fund balance	\$ 39,731	\$ (439,111)	\$ 2,016,705	\$ 2,455,816

See Notes to Required Supplementary Information

MUNICIPALITY OF SKAGWAY

BUDGETARY COMPARISON SCHEDULE –
EXCISE TAX SPECIAL REVENUE FUND

For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenue				
Excise tax	\$ 4,100,000	\$ 4,100,000	\$ 2,859,078	\$ (1,240,922)
Investment earnings	142,000	142,000	447,114	305,114
Total revenue and excess of revenue over expenditures	4,242,000	4,242,000	3,306,192	(935,808)
Other Financing Sources				
Transfers out	(3,868,084)	(3,984,357)	(2,859,078)	1,125,279
Net change in fund balance	\$ 373,916	\$ 257,643	\$ 447,114	\$ 189,471

See Notes to Required Supplementary Information

MUNICIPALITY OF SKAGWAY

SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY

For the Years Ended June 30, 2018, 2017, 2016, and 2015

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Borough's proportion of the net pension liability	0.12849%	0.15346%	0.12261%	0.08601%
Borough's proportionate share of the net pension liability	\$ 6,642,154	\$ 8,577,897	\$ 5,946,382	\$ 4,011,755
State of Alaska's proportionate share of the net pension liability	<u>2,474,078</u>	<u>1,082,912</u>	<u>1,589,812</u>	<u>3,437,565</u>
Total net pension liability	<u>\$ 9,116,232</u>	<u>\$ 9,660,809</u>	<u>\$ 7,536,194</u>	<u>\$ 7,449,320</u>
Borough's covered-employee payroll	<u>\$ 3,904,388</u>	<u>\$ 3,644,188</u>	<u>\$ 3,586,386</u>	<u>\$ 3,437,622</u>
Borough's proportionate share of the net pension liability as a percentage of covered-employee payroll	170.12%	235.39%	165.80%	116.70%
Plan fiduciary net position as a percentage of the total pension liability	63.37%	59.55%	63.96%	62.37%

See Notes to Required Supplementary Information

MUNICIPALITY OF SKAGWAY

SCHEDULE OF CONTRIBUTIONS
OF THE NET PENSION LIABILITY

For the Years Ended June 30, 2018, 2017, 2016, and 2015

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 516,205	\$ 435,700	\$ 385,954	\$ 353,922
Contributions in relation to the contractually required contribution	<u>516,205</u>	<u>435,700</u>	<u>385,954</u>	<u>353,922</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Borough's covered-employee payroll	\$3,904,388	\$3,770,565	\$3,644,188	\$3,586,386
Contributions as a percentage of covered employee payroll	13.22%	11.56%	10.59%	9.87%

See Notes to Required Supplementary Information

MUNICIPALITY OF SKAGWAY

SCHEDULE OF PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY

For the Year Ended June 30, 2018

<u>Year</u>	<u>Borough's Proportion of the Net OPEB Liability (Asset)</u>	<u>Borough's Proportionate Share of the Net OPEB Liability (Asset)</u>	<u>State of Alaska's Proportionate Share of the Net OPEB Liability (Asset)</u>	<u>Total Net OPEB Liability (Asset)</u>	<u>Borough's Covered Employee Payroll</u>	<u>Borough's Proportionate Share of the Net OPEB Liability as a Percentage of Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)</u>
Alaska Retiree Healthcare Trust Plan (ARHCT)							
2018	0.12848%	\$ 1,085,377	\$ 404,582	\$ 1,489,959	\$ 674,956	160.81%	89.68%
Occupational Death and Disability (ODD)							
2018	0.22631%	(32,112)	N/A *	(32,112)	674,956	(4.76)%	212.97%
Retiree Medical Plan (RMP)							
2018	0.22631%	11,802	N/A *	11,802	674,956	1.75%	93.98%

* The State of Alaska does not maintain a special funding situation for the ODD and RMP OPEB plans.

See Notes to Required Supplementary Information

MUNICIPALITY OF SKAGWAY

SCHEDULE OF CONTRIBUTIONS
OF THE NET OPEB LIABILITY

For the Year Ended June 30, 2018

<u>Year</u>	<u>Contractually Required Contribution</u>	<u>Contributions Relative to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Borough's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Employee Payroll</u>
Alaska Retiree Healthcare Trust Plan (ARHCT)					
2018	\$ 143,842	\$ 143,842	\$ -	\$ 674,956	21.31%
Occupational Death and Disability (ODD)					
2018	4,139	4,139		674,956	0.61%
Retiree Medical Plan (RMP)					
2018	25,903	25,903		674,956	3.84%

See Notes to Required Supplementary Information

SKAGWAY SCHOOL DISTRICT

SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY – PERS

For the Years Ended June 30, 2018, 2017, 2016, and 2015

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.00990%	0.02760%	0.00770%	0.00870%
District's proportionate share of the net pension liability	\$ 513,362	\$ 684,381	\$ 374,568	\$ 405,553
State of Alaska's proportionate share of the net pension liability	<u>193,108</u>	<u>81,841</u>	<u>99,947</u>	<u>247,553</u>
Total net pension liability	<u>\$ 706,470</u>	<u>\$ 766,222</u>	<u>\$ 474,515</u>	<u>\$ 653,106</u>
District's covered-employee payroll	<u>\$ 308,821</u>	<u>\$ 298,223</u>	<u>\$ 292,836</u>	<u>\$ 302,273</u>
District's proportionate share of the net pension liability as a percentage of covered-employee payroll	166.23%	229.49%	127.91%	134.17%
Plan fiduciary net position as a percentage of the total pension liability	63.37%	59.55%	63.96%	62.37%

See Notes to Required Supplementary Information

SKAGWAY SCHOOL DISTRICT

SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY – TRS

For the Years Ended June 30, 2018, 2017, 2016, and 2015

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.0450%	0.1087%	0.0350%	0.0138%
District's proportionate share of the net pension liability	\$ 911,086	\$ 1,126,204	\$ 650,917	\$ 415,271
State of Alaska's proportionate share of the net pension liability	<u>1,586,350</u>	<u>1,337,209</u>	<u>1,040,172</u>	<u>2,431,675</u>
Total net pension liability	<u>\$ 2,497,436</u>	<u>\$ 2,463,413</u>	<u>\$ 1,691,089</u>	<u>\$ 2,846,946</u>
District's covered-employee payroll	<u>\$ 1,036,624</u>	<u>\$ 809,768</u>	<u>\$ 807,428</u>	<u>\$ 807,435</u>
District's proportionate share of the net pension liability as a percentage of covered-employee payroll	87.89%	139.08%	80.62%	51.43%
Plan fiduciary net position as a percentage of the total pension liability	72.39%	68.40%	73.82%	55.70%

See Notes to Required Supplementary Information

SKAGWAY SCHOOL DISTRICT

SCHEDULE OF PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY – PERS
For the Year Ended June 30, 2018

<u>Year</u>	<u>District's Proportion of the Net OPEB Liability (Asset)</u>	<u>District's Proportionate Share of the Net OPEB Liability (Asset)</u>	<u>State of Alaska's Proportionate Share of the Net OPEB Liability (Asset)</u>	<u>Total Net OPEB Liability (Asset)</u>	<u>District's Covered Employee Payroll</u>	<u>District's Proportionate Share of the Net OPEB Liability as a Percentage of Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)</u>
Alaska Retiree Healthcare Trust Plan (ARHCT)							
2018	0.01000%	\$ 84,208	\$ 30,995	\$ 115,203	\$ 308,821	27.27%	89.68%
Occupational Death and Disability (ODD)							
2018	0.00830%	(1,179)	N/A*	(1,179)	218,020	(0.54)%	212.97%
Retiree Medical Plan (RMP)							
2018	0.00830%	434	N/A*	434	218,020	0.20%	93.98%

* The State of Alaska does not maintain a special funding situation for the ODD and RMP OPEB plans.

See Notes to Required Supplementary Information

SKAGWAY SCHOOL DISTRICT

SCHEDULE OF PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY – TRS
For the Year Ended June 30, 2018

<u>Year</u>	<u>District's Proportion of the Net OPEB Liability (Asset)</u>	<u>District's Proportionate Share of the Net OPEB Liability (Asset)</u>	<u>State of Alaska's Proportionate Share of the Net OPEB Liability (Asset)</u>	<u>Total Net OPEB Liability (Asset)</u>	<u>District's Covered Employee Payroll</u>	<u>District's Proportionate Share of the Net OPEB Liability as a Percentage of Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)</u>
Alaska Retiree Healthcare Trust Plan (ARHCT)							
2018	0.04470%	\$ 82,266	\$ 144,898	\$ 227,164	\$ 1,036,624	7.94%	93.75%
Occupational Death and Disability (ODD)							
2018	0.15650%	(5,115)	N/A*	(5,115)	523,522	(0.98)%	1342.59%
Retiree Medical Plan (RMP)							
2018	0.15650%	(7,419)	N/A*	(7,419)	523,522	(1.42)%	118.16%

* The State of Alaska does not maintain a special funding situation for the ODD and RMP OPEB plans.

See Notes to Required Supplementary Information

SKAGWAY SCHOOL DISTRICT

SCHEDULE OF CONTRIBUTIONS
OF THE NET PENSION LIABILITY – PERS

For the Years Ended June 30, 2018, 2017, 2016, and 2015

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 40,924	\$ 42,278	\$ 28,375	\$ 29,740
Contributions in relation to the contractually required contribution	<u>40,472</u>	<u>42,278</u>	<u>28,375</u>	<u>29,740</u>
Contribution deficiency (excess)	<u>\$ 452</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 314,486	\$ 308,821	\$ 298,223	\$ 292,836
Contributions as a percentage of covered employee payroll	13.01%	13.69%	9.51%	10.16%

See Notes to Required Supplementary Information

SKAGWAY SCHOOL DISTRICT

SCHEDULE OF CONTRIBUTIONS
OF THE NET PENSION LIABILITY – TRS

For the Years Ended June 30, 2018, 2017, 2016, and 2015

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 41,819	\$ 44,914	\$ 32,313	\$ 34,387
Contributions in relation to the contractually required contribution	<u>41,819</u>	<u>44,914</u>	<u>32,313</u>	<u>34,387</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$1,036,620	\$1,036,624	\$ 809,768	\$ 807,428
Contributions as a percentage of covered employee payroll	4.03%	4.33%	3.99%	4.26%

See Notes to Required Supplementary Information

SKAGWAY SCHOOL DISTRICT

SCHEDULE OF CONTRIBUTIONS
OF THE NET OPEB LIABILITY – PERS
For the Year Ended June 30, 2018

<u>Year</u>	<u>Contractually Required Contribution</u>	<u>Contributions Relative to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Employee Payroll</u>
Alaska Retiree Healthcare Trust Plan (ARHCT)					
2018	\$ 11,867	\$ 11,867	\$ -	\$ 314,486	3.77%
Occupational Death and Disability (ODD)					
2018	253	253		158,259	0.16%
Retiree Medical Plan (RMP)					
2018	1,630	1,630		158,259	1.03%

See Notes to Required Supplementary Information

SKAGWAY SCHOOL DISTRICT

SCHEDULE OF CONTRIBUTIONS
OF THE NET OPEB LIABILITY – TRS
For the Year Ended June 30, 2018

<u>Year</u>	<u>Contractually Required Contribution</u>	<u>Contributions Relative to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Employee Payroll</u>
Alaska Retiree Healthcare Trust Plan (ARHCT)					
2018	\$ 20,711	\$ 20,711	\$ -	\$ 1,036,620	2.00%
Occupational Death and Disability (ODD)					
2018				647,722	
Retiree Medical Plan (RMP)					
2018	5,847	5,847		647,722	0.90%

See Notes to Required Supplementary Information

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1. Budgetary Method of Accounting

Annual budgets are prepared using the modified accrual basis of accounting. Accordingly, there are no reconciling items between the budgetary basis of accounting and the method used in the fund financial statements.

Note 2. Schedules of Proportionate Share of the Net Pension and OPEB Liabilities

The data provided in the schedule is based as of the measurement date of the PERS' and TERS' net pension and OPEB liabilities as of the beginning of the Borough's fiscal year. This table is intended to present 10 years of information. Additional years will be displayed when made available.

Note 3. Schedules of Contributions of the Net Pension and OPEB Liabilities

These tables are intended to present 10 years of information. Additional years will be displayed when made available.

SUPPLEMENTARY REPORTS AND SCHEDULES
IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS, THE UNIFORM
GUIDANCE, AND THE STATE OF ALASKA
AUDIT GUIDE AND COMPLIANCE SUPPLEMENT
FOR STATE SINGLE AUDITS

**INDEPENDENT AUDITORS' 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**

To the Honorable Mayor, Members of
the Borough Assembly, and Borough Manager
Municipality of Skagway
Skagway, Alaska

We have audited, in accordance with the auditing standards generally accepted in the United States 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, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Municipality of Skagway as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Municipality of Skagway's basic financial statements, and have issued our report thereon dated January 22, 2019.

Our report includes a reference to other auditors who audited the financial statements of the Skagway School District, as described in our report on the Municipality of Skagway's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Municipality of Skagway's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality of Skagway's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality of Skagway'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 a 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 a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we 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 Municipality of Skagway's financial statements are free from material misstatement, we 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our 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.

Peterson Sullivan LLP

January 22, 2019

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Honorable Mayor, Members of
the Borough Assembly, and Borough Manager
Municipality of Skagway
Skagway, Alaska

Report on Compliance for Each Major Federal Program

We have audited the Municipality of Skagway's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Municipality of Skagway's major federal programs for the year ended June 30, 2018. The Municipality of Skagway's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The Municipality of Skagway's basic financial statements include the operations of the Skagway School District, which received \$53,742 in federal awards, which is not included in the Municipality of Skagway's schedule of expenditures of federal awards during the year ended June 30, 2018. Our audit described below did not include the operations of the Skagway School District because the Skagway School District engaged other auditors to perform an audit of the basic financial statements and the Skagway School District was not subject to a Uniform Guidance audit.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Municipality of Skagway's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we 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 Municipality of Skagway's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Municipality of Skagway's compliance.

Opinion on Each Major Federal Program

In our opinion, the Municipality of Skagway 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, 2018.

Report on Internal Control over Compliance

Management of the Municipality of Skagway is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Municipality of Skagway's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality of Skagway'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.

Our 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. We did not identify any deficiencies in internal control over compliance that we 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 our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Peterson Sullivan LLP

January 22, 2019

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

To the Honorable Mayor, Members of
the Borough Assembly, and Borough Manager
Municipality of Skagway
Skagway, Alaska

Report on Compliance for Each Major State Program

We have audited the Municipality of Skagway'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 Municipality of Skagway's major state programs for the year ended June 30, 2018. The Municipality of Skagway's major state programs are identified in the accompanying schedule of state financial assistance.

The Municipality of Skagway's basic financial statements include the operations of the Skagway School District, which received \$1,121,318 in state awards, which is not included in the Municipality of Skagway's schedule of state financial assistance during the year ended June 30, 2018. Our audit described below did not include the operations of the Skagway School District because the Skagway School District engaged other auditors to perform an audit in accordance with the Guide.

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

Our responsibility is to express an opinion on compliance for each of the Municipality of Skagway's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of 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 we 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 state program occurred. An audit includes examining, on a test basis, evidence about the Municipality of Skagway's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Municipality of Skagway's compliance.

Opinion on Each Major State Program

In our opinion, the Municipality of Skagway 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, 2018.

Report on Internal Control over Compliance

Management of the Municipality of Skagway is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Municipality of Skagway'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, we do not express an opinion on the effectiveness of the Municipality of Skagway'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.

Our 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. We did not identify any deficiencies in internal control over compliance that we 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 our 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.

Peterson Sullivan LLP

January 22, 2019

MUNICIPALITY OF SKAGWAY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2018

<u>Award Description</u>	<u>Federal CFDA Number</u>	<u>Award Number</u>	<u>Total Expenditures</u>
DEPARTMENT OF THE INTERIOR			
Passed through from:			
The State of Alaska Department of Commerce, Community, and Economic Development Payments in Lieu of Taxes	15.226	n/a	\$ 195,873
National Park Service Conservation, Protection, Outreach, and Education	15.954	P16PX01434	<u>4,150</u>
Total Department of the Interior			200,023
DEPARTMENT OF TRANSPORTATION			
<i>Highway Planning and Construction Cluster</i>			
Passed through from:			
The Federal Highway Administration Western Federal Lands Highway Division Highway Planning and Construction	20.205	DTFH70-13-E-00031	938
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Health Center Program Cluster</i>			
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	H80CS08232-12-02	228,433 *
Grants for New and Expanded Services under the Health Center Program	93.527	H80CS08232-12-02	<u>1,139,260</u> *
Total Department of Health and Human Services and Health Center Program Cluster			1,367,693
DEPARTMENT OF HOMELAND SECURITY			
Passed through from:			
The State of Alaska Department of Homeland Security and Emergency Management Homeland Security Grant Program	97.067	EMW-2017-SS-00048-S01	20,000
Homeland Security Grant Program	97.067	EMW-2015-SS-00026-S01	<u>7,330</u>
Total Department of Homeland Security			<u>27,330</u>
Total			<u><u>\$1,595,984</u></u>

* Denotes major program

See Notes to Schedule of Expenditures of Federal Awards

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards ("the Schedule") includes the federal grant activity of the Municipality of Skagway under programs of the federal government for the year ended June 30, 2018. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Municipality of Skagway, it is not intended to and does not present the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Municipality of Skagway.

Note 2. Summary of Significant Accounting Policies

Expenditures are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance or OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* ("A-87") (based on grant terms), wherein certain types of expenditures are not allowable or are limited to reimbursement. The cost principles contained in A-87 do not differ significantly from the cost principles contained in the Uniform Guidance.

Pass-through entity identifying numbers are presented where available.

Note 3. Indirect Cost Rate

The Municipality of Skagway has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 4. Loans Outstanding

In prior years, the Municipality of Skagway received loan proceeds from the Environmental Protection Agency. As required by the Uniform Guidance, the loan balance outstanding at the end of the year is not included in the federal expenditures presented in the Schedule, as there are no continuing compliance requirements. The Municipality of Skagway received no additional loans during the year. The balance of the loan outstanding at June 30, 2018, consists of:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Outstanding Balance at June 30, 2018</u>
66.458	Capitalization Grants for Clean Water	\$ 148,881

MUNICIPALITY OF SKAGWAY

SCHEDULE OF STATE FINANCIAL ASSISTANCE

For the Year Ended June 30, 2018

State Agency and Program Name	Award Number	Expenditures
Department of Revenue		
Shared Taxes, Commercial Passenger Vessel Excise Tax Allocation	n/a	\$ 2,811,596 *
Department of Commerce, Community, and Economic Development		
Community Assistance Program	n/a	342,174 *
Revenue Sharing - Liquor Tax	n/a	16,750
City Dock Improvements	12-DC-617	6,135
Shared Fisheries Business Tax Program	n/a	2,034
Float Extension to Serve Cruise Passenger Vessels	15-DC-147	885
Port of Skagway Gateway Project	14-DC-135	743
		<hr/>
Total Department of Commerce, Community, and Economic Development		368,721
Department of Administration		
Pension Obligation Support	n/a	128,315
Department of Health and Social Services, Division of Public Health		
Code Blue Program	C05-544-1603	70,000
Department of Transportation and Public Facilities		
Harbor Deferred Maintenance Appropriation	n/a	20,221
Department of Military and Veterans Affairs		
2018 Local Emergency Planning Committee Grant	20LEPC-GY18	11,254
Department of Education and Early Development		
Public Library Assistance Grant	PLA-18-772-71	7,000
		<hr/>
		<u>\$ 3,417,107</u>

* Denotes major program

See Notes to Schedule of State Financial Assistance

NOTES TO SCHEDULE OF STATE FINANCIAL ASSISTANCE

Note 1. Basis of Presentation

The accompanying schedule of state financial assistance includes the state grant activity of the Municipality of Skagway under programs of the state government for the year ended June 30, 2018. The information in the schedule of state financial assistance is presented in accordance with the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Because the schedule of state financial assistance presents only a selected portion of the operations of the Municipality of Skagway, it is not intended to and does not present the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Municipality of Skagway.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting.

MUNICIPALITY OF SKAGWAY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

A. Summary of Audit Results

Financial Statements:

Type of auditors' report issued: Unmodified

Internal Control Over Financial Reporting:

Material weaknesses identified: No

Significant deficiencies identified not considered to be material weaknesses: None reported

Noncompliance material to financial statements noted: No

Federal Awards:

Material weaknesses identified: No

Significant deficiencies identified not considered to be material weaknesses: None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported: No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.224 / 93.527	Health Center Program Cluster

Dollar threshold used to distinguish between Type A and B programs: \$ 750,000

Auditee qualified as low-risk auditee: Yes

B. Findings - Financial Statement Audit None

C. Findings and Questioned Costs - Major Federal Award Programs Audit None

MUNICIPALITY OF SKAGWAY

STATE OF ALASKA SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2018

A. Summary of Audit Results

Financial Statements:

Type of auditors' report issued: Unmodified

Internal Control Over Financial Reporting:

Material weaknesses identified: No

Significant deficiencies identified not considered to be material weaknesses: None reported

Noncompliance material to financial statements noted: No

State Financial Assistance:

Type of auditors' report issued on compliance for major programs: Unmodified

Internal control over major programs:

Material weaknesses identified: No

Significant deficiencies identified that are not considered material weaknesses: None reported

Dollar threshold used to distinguish a state major program: \$ 150,000

B. Findings - Financial Statement Audit None

C. Findings and Questioned Costs - State Awards None