

Emily Deach

Subject: FY16 draft financials
Attachments: Skagway - Revised Draft 2016 Audit.pdf

From: Heather Rodig
Sent: Wednesday, December 28, 2016 9:46 AM
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Subject: FY16 draft financials

See attached for the draft financials. Another clean audit with no findings. Please have these reviewed and approved at next week's assembly meeting. One thing to note is the A-133 Single Audit required for Federal and State grants is now combined into the main statements and can be found at the end of this report.

Let me know if you have any questions.

Thank you!



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MUNICIPALITY OF SKAGWAY

FINANCIAL REPORT WITH SUPPLEMENTARY REPORTS
AND SCHEDULES IN ACCORDANCE WITH *GOVERNMENT*
AUDITING STANDARDS AND THE UNIFORM GUIDANCE

JUNE 30, 2016

C O N T E N T S

	Page
INDEPENDENT AUDITORS' REPORT	1 and 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 11
FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	12
STATEMENT OF ACTIVITIES	13
BALANCE SHEET – GOVERNMENTAL FUNDS	14
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS.....	15
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES.....	16
STATEMENT OF NET POSITION – PROPRIETARY FUNDS.....	17 and 18
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION – PROPRIETARY FUNDS.....	19
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS.....	20
NOTES TO FINANCIAL STATEMENTS.....	21 - 40
REQUIRED SUPPLEMENTARY INFORMATION	
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND.....	42
BUDGETARY COMPARISON SCHEDULE – SALES TAX SPECIAL REVENUE FUND.....	43
BUDGETARY COMPARISON SCHEDULE – EXCISE TAX SPECIAL REVENUE FUND	44
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	45
SCHEDULE OF CONTRIBUTIONS OF THE NET PENSION LIABILITY	46
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	47

SUPPLEMENTARY REPORTS AND SCHEDULES IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* AND THE UNIFORM GUIDANCE

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*..... 49 and 50

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE 51 and 52

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE AND REPORT ON THE SCHEDULE OF STATE FINANCIAL ASSISTANCE REQUIRED BY THE *STATE OF ALASKA AUDIT GUIDE AND COMPLIANCE SUPPLEMENT FOR STATE SINGLE AUDITS* 53 and 54

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	55
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	56
SCHEDULE OF STATE FINANCIAL ASSISTANCE	57
NOTES TO SCHEDULE OF STATE FINANCIAL ASSISTANCE	58
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	59
STATE OF ALASKA SCHEDULE OF FINDINGS AND QUESTIONED COSTS	60

INDEPENDENT AUDITORS' REPORT

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

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, 2016, 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, 2016, 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.

Other Matter

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 to 11, the budgetary comparison information on pages 42 to 44, and the schedules related to the net pension liability on pages 45 and 46 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 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.

Supplementary Information

Our audit was conducted for the purposes 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 U.S. *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and Title 2 U.S. *Code of Federal Regulations (CFR) 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 supplementary information is the responsibility of management 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 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 _____, 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.

MUNICIPALITY OF SKAGWAY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

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, 2016.

FINANCIAL HIGHLIGHTS

- Of the amount attributable to the primary government, the Borough's net position increased by \$2.7 million (2.9%). The governmental net position increased by \$3.4 million (7.3%). Business-type net position decreased by \$0.6 million (1.3%).
- Net capital assets increased by \$2.3 million (3.2%) due to additions exceeding depreciation, primarily due to the purchase of assets related to the gateway, Pullen Creek stream walk, and public safety building capital projects.
- Noncurrent liabilities increased by \$1.2 million (4.4%) due an increase in the net pension liability of \$1.9 million, primarily due to changes in actuarial assumptions, offset by debt repayments.
- Capital grants and contributions (on the statement of activities) decreased by \$1.5 million (47.5%) due to significant grant funding in the prior year for the gateway and harbor float extension capital projects. The current year capital grants and contributions were primarily related to the Pullen Creek stream walk and gateway capital projects.

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 3 – 11)

Basic Financial Statements:

Government-Wide Financial Statements (pages 12 and 13)

Fund Financial Statements (pages 14 – 20)

Notes to the Basic Financial Statements (pages 21 – 40)

Required Supplementary Information (pages 42 – 47)

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 12 and 13 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, and Public Safety Building capital project fund. Data from the remaining special revenue, debt service, and capital projects funds are presented in aggregate.

The basic governmental fund financial statements can be found on pages 14 – 16 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 port commission fund was created in 2011 in order to develop the port authority, and will collect future ore dock service fees.

The basic enterprise fund financial statements can be found on pages 17 – 20 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 \$96.6 million as of June 30, 2016, compared to \$93.8 million as of June 30, 2015.

The largest portion of the Borough's net position (67.8%) 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 \$22.8 million as of June 30, 2016.

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

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 51,856,945	\$ 51,298,740	\$ 2,355,862	\$ 2,185,824	\$ 54,212,807	\$ 53,484,564
Capital assets, net	27,082,339	24,441,617	46,992,891	47,370,225	74,075,230	71,811,842
Deferred outflows of resources	907,624	558,717	564,142	344,091	1,471,766	902,808
Total assets and deferred outflows	<u>\$ 79,846,908</u>	<u>\$ 76,299,074</u>	<u>\$ 49,912,895</u>	<u>\$ 49,900,140</u>	<u>\$129,759,803</u>	<u>\$126,199,214</u>
Current and other liabilities	\$ 4,492,219	\$ 4,523,243	\$ 278,582	\$ 257,505	\$ 4,770,801	\$ 4,780,748
Long-term liabilities	25,906,295	25,467,407	2,409,616	1,645,391	28,315,911	27,112,798
Deferred inflows of resources	64,923	286,841	40,353	176,654	105,276	463,495
Total liabilities and deferred inflows	30,463,437	30,277,491	2,728,551	2,079,550	33,191,988	32,357,041
Net position						
Net investment in capital assets	18,527,165	17,657,869	46,992,891	47,370,225	65,520,056	65,028,094
Restricted	33,102,474	29,948,223			33,102,474	29,948,223
Unrestricted	<u>(2,246,168)</u>	<u>(1,584,509)</u>	<u>191,453</u>	<u>450,365</u>	<u>(2,054,715)</u>	<u>(1,134,144)</u>
Total net position	<u>\$ 49,383,471</u>	<u>\$ 46,021,583</u>	<u>\$ 47,184,344</u>	<u>\$ 47,820,590</u>	<u>\$ 96,567,815</u>	<u>\$ 93,842,173</u>

A portion of the Borough's net position (\$33.1 million or 34.3%) 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 \$2.1 million. Unrestricted net position is used to meet the government's ongoing obligations to citizens and creditors. The deficit increased in 2016 primarily due to the increase of the net pension liability.

The government's net position increased by \$2.7 million during the current fiscal year compared to \$5.1 million in the prior fiscal year. This change is primarily due to less capital grants and contributions in 2016, less state pension contributions received, and an increase in the net pension liability.

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

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues						
Fees, fines, and charges for services	\$ 300,119	\$ 278,285	\$ 2,544,789	\$ 2,419,001	\$ 2,844,908	\$ 2,697,286
Operating grants and contributions	20,993	20,563	1,286,418	826,790	1,307,411	847,353
Capital grants and contributions	1,699,104	3,236,698			1,699,104	3,236,698
General revenues						
Property taxes	1,819,745	1,812,762			1,819,745	1,812,762
Sales taxes	7,319,493	7,289,294			7,319,493	7,289,294
Excise tax appropriations	4,028,544	4,008,335			4,028,544	4,008,335
Intergovernmental revenue - unrestricted	596,283	1,527,782	81,791	629,064	678,074	2,156,846
Earnings on investments	310,236	351,806			310,236	351,806
Other	1,011,564	405,294			1,011,564	405,294
Total revenues	17,106,081	18,930,819	3,912,998	3,874,855	21,019,079	22,805,674
Expenses						
General government	3,663,442	3,957,970			3,663,442	3,957,970
Public safety	2,359,379	2,538,145			2,359,379	2,538,145
Public works and streets	1,428,552	1,171,041			1,428,552	1,171,041
Education	201,710	203,358			201,710	203,358
Culture, recreation, and library	1,385,997	1,290,860			1,385,997	1,290,860
Interest on long-term debt	921,905	348,886			921,905	348,886
Water and sewer			1,403,437	1,434,163	1,403,437	1,434,163
Garbage			821,827	781,734	821,827	781,734
Small boat harbor			1,029,240	1,033,450	1,029,240	1,033,450
Health clinic			3,204,011	3,125,289	3,204,011	3,125,289
Port commission			43,861	71,150	43,861	71,150
Total expenses	9,960,985	9,510,260	6,502,376	6,445,786	16,463,361	15,956,046
Increase (decrease) in net position before transfers and payments to school	7,145,096	9,420,559	(2,589,378)	(2,570,931)	4,555,718	6,849,628
Transfers and payments to school	(3,783,208)	(6,594,720)	1,953,132	4,890,379	(1,830,076)	(1,704,341)
Change in net position	\$ 3,361,888	\$ 2,825,839	\$ (636,246)	\$ 2,319,448	\$ 2,725,642	\$ 5,145,287
Net position, beginning of year	\$ 46,021,583	\$ 43,195,744	\$ 47,820,590	\$ 45,501,142	\$ 93,842,173	\$ 88,696,886
Change in net position	3,361,888	2,825,839	(636,246)	2,319,448	2,725,642	5,145,287
Net position, end of year	\$ 49,383,471	\$ 46,021,583	\$ 47,184,344	\$ 47,820,590	\$ 96,567,815	\$ 93,842,173

Governmental Activities – Governmental activities net position increased by \$3.4 million in 2016. In 2015, governmental activities net position increased by \$2.8 million. The key element of the increase for governmental activities is less transfers of capital assets to the enterprise funds in 2016, offset by less capital grants and contributions and intergovernmental revenues.

Business-type Activities – Business-type activities decreased the Borough's net position by \$0.6 million in 2016. In 2015, business-type activities net position increased by \$2.3 million. The key elements of this decrease in 2016 are less state pension contributions and less transfers from the gateway and harbor float extension related capital project funds. Also, total enterprise fund losses from operations exceeded 2015 due mostly to depreciation of their capital assets.

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 combined ending fund balances of \$33.5 million, a decrease of \$1.3 million (3.8%) from the prior year, primarily due to an excess of expenditures over revenues of \$0.8 million and net transfers out of \$0.9 million, offset by sales of capital assets of \$0.3 million. Of this amount, \$4.1 million is non-spendable as it is for the purpose of the permanent trust fund. \$28.2 million is restricted for general purposes of the sales tax fund, tourism, and capital projects. \$0.2 million is assigned for the purpose of debt service and transfers to other funds. The remaining fund balance of \$1.0 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 \$0.5 million surplus.

Significant changes in governmental funds are as follows:

- Excise tax revenues decreased \$0.7 million (24.3%) due to less spending of excise tax funds in 2016.
- Intergovernmental revenues decreased \$1.6 million (41.9%) due to significantly less grant funding in the current year for the gateway capital project.
- Debt service payments of principal and interest increased \$1.1 million (142.0%) due to beginning repayment of bonds issued in 2015.
- Capital outlays for public safety increased \$2.0 million (257.6%) due to increased spending on the Public Safety Building capital project.
- Capital outlays for streets and public works decreased \$2.6 million (68.5%) due to less capital outlays for the gateway and harbor float extension capital projects.

Other governmental funds (with the exclusion of the general fund) have a combined fund balance of \$33.0 million, which is \$1.3 million lower than 2015.

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 \$47.2 million, a decrease of \$0.6 million (1.3%). Of this amount, \$0.2 million represented unrestricted net position. This amount is equal to 4.0% of operating expenditures exclusive of depreciation.

Significant changes in enterprise funds are as follows:

- Long-term liabilities increased \$0.8 million (46.4%) primarily due to an increase in the net pension liability.
- Operating grants and contributions increased \$0.5 million (55.6%) due to an increase in federal grant revenues at the Health Clinic.
- Contributions of capital assets decreased \$2.9 million (72.7%) due primarily to large contributions related to the gateway and harbor float extension projects in 2015, offset by smaller contributions to the gateway project in 2016.
- 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 less than budgeted by \$0.1 million (3.0%) while actual expenditures were less than budgeted expenditures by \$1.0 million (13.9%).

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 was one department within the general fund budget with expenses exceeding appropriations – the Council/Assembly. However, these overexpenditures were balanced by other departments and funds that came in below appropriations for a net result that was under budget. Adjustments will continue to be made to recognize and account for areas of weakness in the budgetary process where activities are historically underfunded.

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, 2016, amounts to \$74.1 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 increase in the Borough's investment in capital assets for the current fiscal year was \$2.3 million (3.2%). Governmental capital assets increased by \$2.6 million (10.8%), while business-type capital assets decreased by \$0.4 million (0.8%).

The major increases in capital assets for the current year came due to capital outlays for the gateway, Pullen Creek stream walk, and public safety building capital projects.

Debt administration – As of June 30, 2016, the Borough had a total of \$22.3 million in bonds and loans payable, which consisted of six general obligation bond issues, three 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 \$20.7 million and the loans accounted for \$1.6 million. As of June 30, 2016, the Borough also had \$0.5 million of unamortized bond premiums.

The total debt decreased by \$1.0 million (4.1%) in the current year. This decrease is primarily due to debt repayments.

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 less than 3% of the current assessed value of the taxable real property (excluding \$14.3 million of bond proceeds not yet used to acquire real property).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Economic Forecast for Skagway is positive for 2017. Current revenues are strong and there was an increase in cruise ship-related sales tax. Low crude oil prices weaken the State of Alaska ("the State") oil-dependent economy and, therefore, local revenue sharing in the form of grants will probably not occur. The financial markets were volatile; however, expectations of growth due to a new president are positive. 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.

At this point, Cruise Ship arrivals for 2017 are expected to increase over 2016. The industry reported an increase of 15% in the numbers of ships heading to Alaska in 2017. Local businesses catering to tourism are making repairs and completing new construction for next year. Fuel prices remain low and this should provide deflationary pressure on the cost of goods and services provided and create more disposable income for those wishing to plan a trip to or through Skagway, Alaska.

We are currently developing a winter economy by making improvements to the physical facilities and management of the Port of Skagway. A Gateway Project is underway to accomplish this in the next two years. Both the State and the Yukon Territorial government are showing interest and support for this project. Both entities are completing transportation improvements to and from Skagway, including the Moore Bridge that currently limits the capacity and expansion potential of the Port of Skagway.

Ferry service is a concern as the State deals with its financial crisis. However, the State will be completing ferry dock improvements and establishing a wastewater connection to the city system, which will make Skagway a necessary stop for the Northern Lynn Canal route.

The operating budgeted expenditures are reaching a level equal to annual revenue. This will require the Assembly to pay closer attention to the upcoming budget work. With a little belt tightening, pragmatism in any excess amount of line items and re-evaluation of revenues during the year should not cause any great concern.

Projects are being engineered to get cost estimates. So far, estimates far exceed the expected levels initially envisioned when selecting potential projects. It may take providing more time or removing projects to find a balanced affordable way forward. The Assembly has adopted a rational approach of moving forward only when the revenues for the project are identified first.

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.

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MUNICIPALITY OF SKAGWAY

STATEMENT OF NET POSITION

June 30, 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Primary Government			Component Unit (School)
	Governmental Activities	Business-type Activities	Total	
Current Assets				
Cash and cash equivalents	\$ 4,997,508	\$ 873,982	\$ 5,871,490	\$ 1,291,785
Investments	24,036,158		24,036,158	
Receivables, less allowance for uncollectibles	4,703,491	414,408	5,117,899	16,598
Internal balances	(918,377)	918,377		
Inventories		149,095	149,095	7,700
Total current assets	32,818,780	2,355,862	35,174,642	1,316,083
Restricted Assets				
Cash and cash equivalents	14,251,350		14,251,350	
Investments	4,133,186		4,133,186	
Receivables	653,629		653,629	
Noncurrent Assets				
Capital assets, net	27,082,339	46,992,891	74,075,230	117,047
Total assets	78,939,284	49,348,753	128,288,037	1,433,130
Deferred Outflows of Resources	907,624	564,142	1,471,766	187,437
Total assets and deferred outflows of resources	<u>\$ 79,846,908</u>	<u>\$ 49,912,895</u>	<u>\$ 129,759,803</u>	<u>\$ 1,620,567</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
Current Liabilities				
Accounts payable	\$ 1,067,016	\$ 278,582	\$ 1,345,598	\$ 41,168
Grant refundable to grantor	254,296		254,296	
Accrued interest payable	260,571		260,571	
Unearned revenue	2,055,396		2,055,396	
Current portion of long-term obligations	854,940		854,940	
Total current liabilities	4,492,219	278,582	4,770,801	41,168
Noncurrent Portion of Long-Term Obligations	22,239,217	130,312	22,369,529	
Net Pension Liability	3,667,078	2,279,304	5,946,382	1,025,485
Total liabilities	30,398,514	2,688,198	33,086,712	1,066,653
Deferred Inflows of Resources	64,923	40,353	105,276	81,104
Total liabilities and deferred inflows of resources	30,463,437	2,728,551	33,191,988	1,147,757
NET POSITION				
Net Investment in Capital Assets	18,527,165	46,992,891	65,520,056	117,047
Restricted for				
Various purposes including debt service, school funding, and capital and special projects	28,256,352		28,256,352	796,828
Permanent trust				
Nonexpendable	4,786,815		4,786,815	
Expendable	59,307		59,307	
Unrestricted	(2,246,168)	191,453	(2,054,715)	(441,065)
Total net position	49,383,471	47,184,344	96,567,815	472,810
Total liabilities, deferred inflows of resources and net position	<u>\$ 79,846,908</u>	<u>\$ 49,912,895</u>	<u>\$ 129,759,803</u>	<u>\$ 1,620,567</u>

See Notes to Financial Statements

MUNICIPALITY OF SKAGWAY

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position			
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Unit (School)
Primary Government								
Governmental activities								
General government	\$ 3,663,442	\$ -	\$ -	\$ -	\$ (3,663,442)	\$ -	\$ (3,663,442)	\$ -
Public safety	2,359,379	34,245	20,993		(2,304,141)		(2,304,141)	
Public works and streets	1,428,552			862,549	(566,003)		(566,003)	
Education	201,710				(201,710)		(201,710)	
Culture, recreation, and library	1,385,997	265,874		836,555	(283,568)		(283,568)	
Interest on long-term debt	921,905				(921,905)		(921,905)	
Total governmental activities	9,960,985	300,119	20,993	1,699,104	(7,940,769)		(7,940,769)	
Business-type activities								
Water and sewer	1,403,437	467,311				(936,126)	(936,126)	
Garbage	821,827	425,193				(396,634)	(396,634)	
Small boat harbor	1,029,240	324,106				(705,134)	(705,134)	
Health clinic	3,204,011	1,200,979	1,286,418			(716,614)	(716,614)	
Port commission	43,861	127,200				83,339	83,339	
Total business-type activities	6,502,376	2,544,789	1,286,418			(2,671,169)	(2,671,169)	
Total	16,463,361	2,844,908	1,307,411	1,699,104	(7,940,769)	(2,671,169)	(10,611,938)	
Component Unit - Skagway School District	\$ 2,910,391	\$ 41,750	\$ 818,595	\$ -				(2,050,046)
General Revenues								
Property taxes					1,819,745		1,819,745	
Sales taxes					7,319,493		7,319,493	
Excise tax appropriations					4,028,544		4,028,544	
Intergovernmental revenue not restricted to specific programs					596,283	81,791	678,074	390,813
Earnings on investments					310,236		310,236	
Licenses and permits					110,557		110,557	
Rentals					106,513		106,513	
Contributions and other					141,509		141,509	22,674
Payments in lieu of taxes					173,758		173,758	
Sale of capital assets					479,227		479,227	
Payments from primary government to school					(1,830,076)		(1,830,076)	1,830,076
Transfers (to fund operations)					(871,476)	871,476		
Transfers (contributions of capital assets)					(1,081,656)	1,081,656		
Total general revenue and transfers					11,302,657	2,034,923	13,337,580	2,243,563
Change in net position					3,361,888	(636,246)	2,725,642	193,517
Net Position, beginning of year					46,021,583	47,820,590	93,842,173	279,293
Net Position, end of year					\$ 49,383,471	\$ 47,184,344	\$ 96,567,815	\$ 472,810

See Notes to Financial Statements

MUNICIPALITY OF SKAGWAY

BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, **2016**

ASSETS	General	Sales Tax	Excise Tax	Permanent Trust	Public Safety Building	Other Governmental Funds	Total Governmental Funds
Cash and Cash Equivalents	\$ 1,982,238	\$ 1,258,222	\$ -	\$ 698,435	\$ 10,069,693	\$ 5,240,270	\$ 19,248,858
Investments	100,000	9,021,432	15,447,404	3,600,508			28,169,344
Receivables, less allowance for uncollectibles	1,864,590	2,480,465		671,195		340,870	5,357,120
Due from Other Funds		1,102,980					1,102,980
	<u>\$ 3,946,828</u>	<u>\$ 13,863,099</u>	<u>\$ 15,447,404</u>	<u>\$ 4,970,138</u>	<u>\$ 10,069,693</u>	<u>\$ 5,581,140</u>	<u>\$ 53,878,302</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 190,377	\$ -	\$ -	\$ -	\$ 801,628	\$ 75,011	\$ 1,067,016
Grant refundable to grantor	254,296						254,296
Due to other funds	994,684		537,656	124,016	18,799	346,202	2,021,357
Unearned revenue	215,100		14,355,124				14,570,224
Total liabilities	1,654,457		14,892,780	124,016	820,427	421,213	17,912,893
Deferred Inflows of Resources							
Unavailable revenue - property taxes	1,840,296						1,840,296
Unavailable revenue - land sales				653,629			653,629
Total deferred inflows of resources	1,840,296			653,629			2,493,925
Fund Balances							
Nonspendable:							
Permanent trust principal				4,133,186			4,133,186
Restricted for:							
General purposes of the sales tax fund		13,863,099					13,863,099
Tourism						38,129	38,129
Capital projects					9,249,266	5,002,084	14,251,350
Assigned to:							
Debt service						119,714	119,714
Transfer to other funds				59,307			59,307
Unassigned	452,075		554,624				1,006,699
Total fund balances	<u>452,075</u>	<u>13,863,099</u>	<u>554,624</u>	<u>4,192,493</u>	<u>9,249,266</u>	<u>5,159,927</u>	<u>33,471,484</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,946,828</u>	<u>\$ 13,863,099</u>	<u>\$ 15,447,404</u>	<u>\$ 4,970,138</u>	<u>\$ 10,069,693</u>	<u>\$ 5,581,140</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							27,082,339
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							653,629
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							14,355,124
Long-term liabilities, including bonds and loans payable, accrued interest, bond premiums and discounts, and the net pension liability are not due and payable in the current period and, therefore, are not treated as liabilities in the governmental funds							(27,021,806)
Certain change in net pension liabilities are deferred rather than recognized immediately and, therefore, are not reported in the governmental funds listed above							842,701
Net position of governmental activities							<u>\$ 49,383,471</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, **2016**

	General	Sales Tax	Excise Tax	Permanent Trust	Public Safety Building	Other Governmental Funds	Total Governmental Funds
Revenues							
Taxes							
Property	\$ 1,819,745	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,819,745
Sales		7,127,813				191,680	7,319,493
Excise			2,267,533				2,267,533
Intergovernmental	485,685					1,699,104	2,184,789
Service and admission fees	300,119						300,119
Licenses and permits	110,557						110,557
Rentals	106,513						106,513
Investment earnings	1,676	61,166	228,275	19,119			310,236
Contributions and other	139,909			1,600			141,509
Payments in lieu of taxes	173,758						173,758
Total revenues	3,137,962	7,188,979	2,495,808	20,719		1,890,784	14,734,252
Expenditures							
Current							
General government	2,303,721	179		9,556		446,829	2,760,285
Public safety	2,095,276						2,095,276
Streets and public works	994,238					2,076	996,314
Education		1,830,076					1,830,076
Culture, recreation, and library	914,725					130,561	1,045,286
Debt service							
Principal						999,022	999,022
Interest						804,249	804,249
Capital outlay							
General government	78,504					50,862	129,366
Public safety					2,754,835	9,980	2,764,815
Streets and public works						1,179,827	1,179,827
Culture, recreation, and library						950,117	950,117
Total expenditures	6,386,464	1,830,255		9,556	2,754,835	4,573,523	15,554,633
Excess (deficiency) of revenues over expenditures	(3,248,502)	5,358,724	2,495,808	11,163	(2,754,835)	(2,682,739)	(820,381)
Other Financing Sources (Uses)							
Transfers in	3,237,786					2,614,125	5,851,911
Transfers out		(4,354,732)	(2,267,533)	(101,122)			(6,723,387)
Sale of capital assets				314,885			314,885
Loan issuance proceeds						68,614	68,614
Total other financing sources and uses	3,237,786	(4,354,732)	(2,267,533)	213,763		2,682,739	(487,977)
Net change in fund balances	(10,716)	1,003,992	228,275	224,926	(2,754,835)		(1,308,358)
Fund Balances, beginning of year	462,791	12,859,107	326,349	3,967,567	12,004,101	5,159,927	34,779,842
Fund Balances, end of year	\$ 452,075	\$ 13,863,099	\$ 554,624	\$ 4,192,493	\$ 9,249,266	\$ 5,159,927	\$ 33,471,484

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, **2016**

Net change in fund balances - total governmental funds	\$ (1,308,358)
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 capital outlays (\$3,917,953) were greater than depreciation (\$1,277,231) in the current period.	2,640,722
Other transactions involving capital assets consist of the 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.	164,342
Excise tax appropriations received from the State of Alaska and expended for their restricted purpose are reported as revenues in the governmental funds. Appropriations received and not expended are recorded as revenue in the statement of activities.	1,761,011
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 \$68,614, and principal paid on long-term debt was \$999,022.	930,408
Change in:	
Compensated absences	(95,066)
Accrued interest (including amortization of bond premiums) on bonds and loans	(117,656)
Net pension liability and related deferred inflows and outflows	(613,515)
Change in net position of governmental activities	<u><u>\$ 3,361,888</u></u>

See Notes to Financial Statements

MUNICIPALITY OF SKAGWAY

STATEMENT OF NET POSITION – PROPRIETARY FUNDS

June 30, 2016

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	\$ -	\$ -	\$ 869,781	\$ 4,201	\$ -	\$ 873,982
Receivables	83,655	52,403	26,825	251,525		414,408
Inventories	109,108			39,987		149,095
Due from other funds	132,319		409,265	398,982	261,027	1,201,593
Total current assets	325,082	52,403	1,305,871	694,695	261,027	2,639,078
Property, Plant, and Equipment						
Land and improvements		271,314				271,314
Distribution and collection systems	7,680,154					7,680,154
Buildings	7,420,572	3,031,577		8,964,627		19,416,776
Harbor seawall			7,014,362			7,014,362
Harbor seawalk			5,905,264			5,905,264
Harbor infrastructure			13,570,983			13,570,983
Other improvements	580,474	368,266	2,960,433			3,909,173
Equipment	1,904,985	1,055,884	301,159	632,348		3,894,376
Construction in progress	251,885	64,603	1,013		3,750,899	4,068,400
	17,838,070	4,791,644	29,753,214	9,596,975	3,750,899	65,730,802
Less accumulated depreciation	(7,382,042)	(3,430,367)	(6,062,109)	(1,863,393)		(18,737,911)
	10,456,028	1,361,277	23,691,105	7,733,582	3,750,899	46,992,891
Deferred Outflows of Resources	91,294	91,081	30,099	351,668		564,142
Total assets and deferred outflows of resources	<u>\$ 10,872,404</u>	<u>\$ 1,504,761</u>	<u>\$ 25,027,075</u>	<u>\$ 8,779,945</u>	<u>\$ 4,011,926</u>	<u>\$ 50,196,111</u>

See Notes to Financial Statements

MUNICIPALITY OF SKAGWAY

STATEMENT OF NET POSITION – PROPRIETARY FUNDS

(Continued)

June 30, **2016**

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	\$ 47,976	\$ 26,685	\$ 7,990	\$ 182,683	\$ 13,248	\$ 278,582
Due to other funds		283,216				283,216
Total current liabilities	47,976	309,901	7,990	182,683	13,248	561,798
Accrued Vacation	15,809	33,418	8,796	72,289		130,312
Net Pension Liability	368,854	367,994	121,610	1,420,846		2,279,304
Total liabilities	432,639	711,313	138,396	1,675,818	13,248	2,971,414
Deferred Inflows of Resources	6,530	6,515	2,153	25,155		40,353
Total liabilities and deferred inflows of resources	439,169	717,828	140,549	1,700,973	13,248	3,011,767
Net Position						
Net investment in capital assets	10,456,028	1,361,277	23,691,105	7,733,582	3,750,899	46,992,891
Unrestricted	(22,793)	(574,344)	1,195,421	(654,610)	247,779	191,453
Total net position	10,433,235	786,933	24,886,526	7,078,972	3,998,678	47,184,344
Total liabilities, deferred inflows of resources, and net position	<u>\$ 10,872,404</u>	<u>\$ 1,504,761</u>	<u>\$ 25,027,075</u>	<u>\$ 8,779,945</u>	<u>\$ 4,011,926</u>	<u>\$ 50,196,111</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, **2016**

	Business-Type Activities - Enterprise Funds					
	Water and Sewer	Garbage	Small Boat Harbor	Health Clinic	Port Commission	Total
Operating Revenue						
Charges for services	\$ 467,311	\$ 425,193	\$ 324,106	\$ 1,200,979	\$ 127,200	\$ 2,544,789
Grant revenue				1,284,340		1,284,340
Contributions				2,078		2,078
Total operating revenue	467,311	425,193	324,106	2,487,397	127,200	3,831,207
Operating Expenses						
Salaries and benefits	443,579	349,064	190,447	1,738,740		2,721,830
Depreciation	596,771	174,565	725,549	267,642		1,764,527
Utilities	118,684	126,228	44,449	81,204	1,036	371,601
Repairs and maintenance	175,622	14,099	28,574	137,346		355,641
Contracted services	20,925	58,786	741	531,609	35,756	647,817
Administration	25,414	21,345	19,838	237,877	6,692	311,166
Supplies				147,253		147,253
Insurance	19,428	19,147	15,582			54,157
Travel and training	3,014			44,065	377	47,456
Recycling		26,255				26,255
Other		32,338	4,060	18,275		54,673
Total operating expenses	1,403,437	821,827	1,029,240	3,204,011	43,861	6,502,376
Operating income (loss)	(936,126)	(396,634)	(705,134)	(716,614)	83,339	(2,671,169)
Capital Contributions (contribution of capital assets)	104,176	64,603	52,441		860,436	1,081,656
State Pension Contribution	13,236	13,205	4,364	50,986		81,791
Transfers From Other Funds	507,285	88,331		275,860		871,476
Change in net position	(311,429)	(230,495)	(648,329)	(389,768)	943,775	(636,246)
Net Position, beginning of year	10,744,664	1,017,428	25,534,855	7,468,740	3,054,903	47,820,590
Net Position, end of year	<u>\$ 10,433,235</u>	<u>\$ 786,933</u>	<u>\$ 24,886,526</u>	<u>\$ 7,078,972</u>	<u>\$ 3,998,678</u>	<u>\$ 47,184,344</u>

See Notes to Financial Statements

MUNICIPALITY OF SKAGWAY

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

For the Year Ended June 30, 2016

	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	\$ 443,389	\$ 413,140	\$ 325,233	\$ 1,194,619	\$ 127,200	\$ 2,503,581
Receipts from grants and contributions				1,373,908		1,373,908
Payments to suppliers	(430,312)	(312,407)	(113,939)	(1,378,047)	(33,436)	(2,268,141)
Payments to employees	(216,768)	(137,274)	(121,532)	(946,379)		(1,421,953)
Payments of employee benefits	(161,459)	(66,149)	(39,189)	(290,330)		(557,127)
Net cash flows from operating activities	(365,150)	(102,690)	50,573	(46,229)	93,764	(369,732)
Cash Flows from Non-Capital Financing Activity						
Net cash transferred from (to) other funds	590,713	102,690	163,591	123,324	(93,764)	886,554
Cash Flows from Capital and Related Activity						
Purchases of property, plant, and equipment	(225,563)			(79,973)		(305,536)
Net change in cash and cash equivalents	-	-	214,164	(2,878)		211,286
Cash and cash equivalents, beginning of year			655,617	7,079		662,696
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 869,781</u>	<u>\$ 4,201</u>	<u>\$ -</u>	<u>\$ 873,982</u>
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities						
Operating income (loss)	\$ (936,126)	\$ (396,634)	\$ (705,134)	\$ (716,614)	\$ 83,339	\$ (2,671,169)
Adjustments						
Depreciation	596,771	174,565	725,549	267,642		1,764,527
Pension expense	135,230	195,642	46,175	455,031		832,078
Change in operating assets						
Receivables	(23,922)	(12,053)	1,127	81,130		46,282
Inventories	(14,341)			(5,771)		(20,112)
Deferred outflows of resources for pensions	(35,740)	(49,323)	(12,141)	(122,847)		(220,051)
Change in operating liabilities						
Accounts payable and accrued vacation	(65,031)	36	2,064	87,520	10,425	35,014
Deferred inflows of resources for pensions	(21,991)	(14,923)	(7,067)	(92,320)		(136,301)
Net cash flows from operating activities	<u>\$ (365,150)</u>	<u>\$ (102,690)</u>	<u>\$ 50,573</u>	<u>\$ (46,229)</u>	<u>\$ 93,764</u>	<u>\$ (369,732)</u>
Supplemental Information:						
Property, plant, and equipment contributed by capital project funds and governmental activities	\$ 104,176	\$ 64,603	\$ 52,441	\$ -	\$ 860,436	\$ 1,081,656

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 refers to 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, but under certain guidelines.

Public Safety Building Capital Project Fund – Accounts for the bond proceeds and related acquisition and construction of a new public safety building.

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:

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.

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

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") 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.

Excess of Expenditures over Appropriations

For the year ended June 30, **2016**, expenditures exceeded appropriations in the following departments (the legal level of budgetary control):

General Fund	
Council/Assembly	\$ 5,444

These overexpenditures were generally funded by revenues that were greater than anticipated in the General Fund and underexpending in other departments in the fund.

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 permanently held for the benefit of 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 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 revenue for 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, 2016; 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 its own 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, 2016, the carrying amount of the Borough's cash balances was \$20,122,840, while the bank and other institution balances were \$20,155,697. 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	\$ 19,843,032	\$ 19,843,032
Uncollateralized	278,888	312,665
Petty cash	920	
	<u>\$ 20,122,840</u>	<u>\$ 20,155,697</u>

Cash and cash equivalents consist of:

Cash	\$ 19,398,103
Cash equivalents (money market funds)	724,737
	<u>\$ 20,122,840</u>

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

Current	\$ 5,871,490
Restricted	14,251,350
	<u>\$ 20,122,840</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	\$ 1,440,171	\$ 1,440,171	\$ -	\$ -	\$ -
Certificates of deposit	1,304,830	100,000	1,204,830		
Corporate bonds	50,242		50,242		
Total debt securities	2,795,243	\$ 1,540,171	\$ 1,255,072	\$ -	\$ -
Bond mutual funds	8,580,172				
Bond exchange traded funds	7,807,686				
Total bond funds	16,387,858				
Equity mutual funds	4,875,221				
Equity exchange traded funds	3,832,131				
Domestic common stocks	278,891				
	<u>\$ 28,169,344</u>				
Reconciliation to statement of net assets					
Current	\$ 24,036,158				
Restricted	4,133,186				
	<u>\$ 28,169,344</u>				

Domestic common stocks held over 5% at June 30, 2016, are summarized below:

Annaly Capital Management Inc.	\$ 180,441
American Capital Agency Corp	69,370
MFA Financial Inc.	29,080
	<u>\$ 278,891</u>

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

Receivables at June 30, 2016, 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	Accrued Interest and Other	Total
General fund	\$ 1,841,954	\$ -	\$ -	\$ -	\$ 23,152	\$ 1,865,106
Sales tax special revenue fund	2,480,630					2,480,630
Permanent trust		653,629			17,566	671,195
Other governmental funds	58,370		282,500			340,870
Water/sewer fund				84,525		84,525
Garbage fund				53,969		53,969
Small boat harbor fund				27,739		27,739
Health clinic fund				429,146		429,146
Gross receivables	4,380,954	653,629	282,500	595,379	40,718	5,953,180
Less allowance for uncollectibles	(165)			(180,971)	(516)	(181,652)
Total	<u>\$ 4,380,789</u>	<u>\$ 653,629</u>	<u>\$ 282,500</u>	<u>\$ 414,408</u>	<u>\$ 40,202</u>	<u>\$ 5,771,528</u>

These are presented on the statement of net position as:

Current	\$ 5,117,899
Restricted	<u>653,629</u>
	<u>\$ 5,771,528</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 ten years.

Of the general fund property tax receivable balance, \$548,560 is due from one company. For the year ended June 30, 2016, \$547,890 of property tax revenues was from this same company.

Of the sales tax fund receivable balance, \$706,644 is due from one company. For the year ended June 30, 2016, \$1,797,547 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	\$ 1,840,296	\$ -	\$ 1,840,296
Land sale receivable	653,629		653,629
Cruise ship excise tax		14,355,124	14,355,124
Grants and contributions		215,100	215,100
Total deferred inflows of resources/unearned revenue for governmental funds	2,493,925	14,570,224	17,064,149
Amounts not deferred for government-wide financial statements			
Land sale receivable	(653,629)		(653,629)
Cruise ship excise taxes		(14,355,124)	(14,355,124)
Total unearned revenue for government-wide financial statements	<u>\$ 1,840,296</u>	<u>\$ 215,100</u>	<u>\$ 2,055,396</u>

Note 4. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2016, was as follows:

	Balance, June 30, 2015	Increases	Transfers	Balance, June 30, 2016
<u>Governmental Activities</u>				
Capital assets not being depreciated				
Land and improvements	\$ 4,938,958	\$ 19,804	\$ 13,913	\$ 4,972,675
Construction in progress	2,152,941	3,804,941	(812,168)	5,145,714
Total capital assets not being depreciated	7,091,899	3,824,745	(798,255)	10,118,389
Other capital assets				
Buildings	18,999,769	52,270	798,255	19,850,294
Other improvements	6,670,024	750		6,670,774
Furniture and equipment	7,181,716	40,188		7,221,904
Road network	11,322,638			11,322,638
Total other capital assets	44,174,147	93,208	798,255	45,065,610
Less accumulated depreciation for				
Buildings	8,776,060	507,659		9,283,719
Other improvements	3,398,518	168,396		3,566,914
Furniture and equipment	5,086,012	385,390		5,471,402
Road network	9,563,839	215,786		9,779,625
Total accumulated depreciation	26,824,429	1,277,231		28,101,660
Other capital assets, net	17,349,718	(1,184,023)	798,255	16,963,950
Governmental activities capital assets, net	<u>\$ 24,441,617</u>	<u>\$ 2,640,722</u>	<u>\$ -</u>	<u>\$ 27,082,339</u>

The cost of the school building is included in buildings and amounted to \$8,100,000 at both June 30, 2016 and 2015. Accumulated depreciation on the school building was \$5,022,000 and \$4,860,000 at June 30, 2016 and 2015, respectively.

Construction in progress at June 30, 2016, consists of \$3,575,753 related to the design and construction of a public safety building, \$943,556 related to the construction of a Pullen Creek stream walk, \$230,300 related to a new senior center, \$138,332 related to a recreation center remodel, and \$257,773 related to other small projects. At June 30, 2016, the Borough had construction commitments of approximately \$10.8 million related to the public safety building.

Capital asset activity for business-type activities for the year ended June 30, 2016, was as follows:

	Balance, June 30, 2015	Additions	Transfers	Balance, June 30, 2016
<u>Business-type Activities</u>				
Capital assets not being depreciated				
Land and improvements	\$ 271,314	\$ -	\$ -	\$ 271,314
Construction in progress	4,001,492	1,030,227	(963,319)	4,068,400
Total capital assets not being depreciated	4,272,806	1,030,227	(963,319)	4,339,714
Other capital assets				
Distribution and collection systems (water/sewer)	7,680,154			7,680,154
Buildings	19,416,776	51,428	963,319	20,431,523
Harbor seawall	7,014,362			7,014,362
Harbor seawalk	5,905,264			5,905,264
Harbor infrastructure	12,556,236			12,556,236
Other improvements	3,797,486	111,687		3,909,173
Equipment	3,700,525	193,851		3,894,376
Total other capital assets	60,070,803	356,966	963,319	61,391,088
Less accumulated depreciation for				
Distribution and collection systems (water/sewer)	4,961,839	153,203		5,115,042
Buildings	4,307,805	741,363		5,049,168
Harbor seawall	1,336,299	187,079		1,523,378
Harbor seawalk	1,343,322	196,842		1,540,164
Harbor infrastructure	457,353	271,437		728,790
Other improvements	2,618,232	61,211		2,679,443
Equipment	1,948,534	153,392		2,101,926
Total accumulated depreciation	16,973,384	1,764,527		18,737,911
Other capital assets, net	43,097,419	(1,407,561)	963,319	42,653,177
Business-type activities capital assets, net	\$ 47,370,225	\$ (377,334)	\$ -	\$ 46,992,891

Construction in progress at June 30, 2016, consists of \$3,750,899 related to the development of the port authority, \$227,904 related to water well exploration, and \$89,597 related to other small projects. At June 30, 2016, the Borough had construction commitments of approximately \$1.1 million related to the Gateway SOA project.

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

Governmental Activities

General government	\$	93,775
Public safety		235,771
Public works and streets, including depreciation of general infrastructure assets		419,466
Education		201,710
Culture, recreation, and library		326,509
Total depreciation expense - governmental activities	\$	<u>1,277,231</u>

Business-type Activities

Water and sewer	\$	596,771
Garbage		174,565
Small boat harbor		725,549
Health clinic		267,642
Total depreciation expense - business-type activities	\$	<u>1,764,527</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, 2016, 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	\$ 21,510,000	\$ -	\$ (810,000)	\$ 20,700,000	\$ 662,000
Private loan	1,082,469		(66,322)	1,016,147	68,531
State of Alaska loans	641,279	68,614	(122,700)	587,193	124,409
Unamortized bond premium	<u>556,184</u>		<u>(53,000)</u>	<u>503,184</u>	
Total bonds and loans payable	23,789,932	68,614	(1,052,022)	22,806,524	854,940
Other liabilities					
Compensated absences	<u>192,567</u>	<u>95,066</u>		<u>287,633</u>	
Governmental activities long-term liabilities	<u>\$ 23,982,499</u>	<u>\$ 163,680</u>	<u>\$ (1,052,022)</u>	<u>\$ 23,094,157</u>	<u>\$ 854,940</u>
<u>Business-type Activities</u>					
Compensated absences	<u>\$ 116,374</u>	<u>\$ -</u>	<u>\$ 13,938</u>	<u>\$ 130,312</u>	<u>\$ -</u>
Business-type activities long-term liabilities	<u>\$ 116,374</u>	<u>\$ -</u>	<u>\$ 13,938</u>	<u>\$ 130,312</u>	<u>\$ -</u>

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

Bonds and notes payable at June 30, 2016, is comprised of the following individual issues:

\$11,715,000 2015 general obligation bonds used for a public safety building due in annual principal installments of \$205,000 to \$655,000 through March 2045; interest at 2% to 5%.	\$ 11,395,000
\$4,735,000 2015 general obligation bonds used for port development due in annual principal installments of \$155,000 to \$270,000 through March 2035; interest at 2% to 5%.	4,530,000
\$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 2% to 5%.	800,000
\$460,000 2011 general obligation bonds used for library expansion due in annual principal installments of \$15,000 to \$35,000 through September 2031; interest at 4% to 5%.	400,000
\$4,990,000 2008 general obligation bonds used for health clinic construction due in annual principal installments of \$225,000 to \$375,000 through June 2028; interest at 4% to 6%.	3,520,000
\$500,000 1979 general obligation bonds used for water and sewer improvements due in annual principal installments of \$27,000 to \$28,000 through April 2018; interest at 5%.	<u>55,000</u>
Total general obligation bonds	20,700,000
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.	1,016,147
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 October 2033.	166,396
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 January 2019.	352,183
Loan from the State of Alaska Department of Environmental Conservation used for the construction of a water well, to be repaid over a 20-year amortization to begin upon completion of construction, including interest at 1.5%. Maximum borrowing of \$654,000.	<u>68,614</u>
Total State of Alaska loans	<u>587,193</u>
	<u><u>\$ 22,303,340</u></u>

The debt service annual requirements to amortize bonds and notes payable outstanding as of June 30, 2016, are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 854,940	\$ 955,018	\$ 1,809,958
2018	884,956	927,569	1,812,525
2019	881,075	890,966	1,772,041
2020	804,366	854,860	1,659,226
2021	836,885	817,980	1,654,865
2022 - 2026	4,780,238	3,489,291	8,269,529
2027 - 2031	4,482,240	2,327,091	6,809,331
2032 - 2036	3,635,026	1,429,752	5,064,778
2037 - 2041	2,668,614	815,000	3,483,614
2042 - 2046	2,475,000	252,200	2,727,200
	<u>\$ 22,303,340</u>	<u>\$ 12,759,727</u>	<u>\$ 35,063,067</u>

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, 2016. The amount of outstanding long-term debt was less than 3% of property assessments as of January 1, 2016 (the lien date).

Note 6. Defined Benefit Pension Plan

Plan Description

The Borough's defined benefit pension plan is part of the cost-sharing multiple-employer Alaska Public Employee Retirement System ("PERS") plan administered by the State of Alaska to provide pension and post-employment healthcare benefits for eligible employees. Death and disability benefits are also provided. Benefit and contribution provisions are established by state law and may be amended only by the State Legislature. PERS issues a publicly available financial report that includes financial statements and supplementary information for the Borough.

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

Employee and Employer Contribution Rates

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

In 2016, the Borough was credited with the following contributions into the pension plan.

	Measurement Period Borough FY15	Borough FY16
Employer contributions (including DBUL)	\$ 636,376	\$ 655,094
Nonemployer contributions (on-behalf)	1,650,505	213,383
	<u>\$ 2,286,881</u>	<u>\$ 868,477</u>

In addition, employee contributions to the Plan totaled \$118,628 during the Borough's fiscal year.

Pension 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 liability (NPL) and the related State proportion are as follows at June 30, 2016:

Borough's proportionate share of the net pension liability	\$ 5,946,382
State's proportionate share of the net pension liability associated with the State	<u>1,589,812</u>
Total	<u>\$ 7,536,194</u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Borough's proportion of the net pension liability was based on a projection of the Borough's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, including the State, actuarially determined. At June 30, 2015, the Borough's proportion was 0.12260546 percent, which was an increase of 0.08601278 from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Borough recognized pension expense of \$613,515 and recognized on-behalf revenues of \$213,383 for the State's contribution. At June 30, 2016, the Borough reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments		
Governmental	\$ -	\$ 64,923
Business-Type		40,353
Changes in proportion and differences between contributions and proportionate share of contributions		
Governmental	284,942	
Business-Type	177,108	
Difference between expected and actual experience		
Governmental	4,274	
Business-Type	2,657	
Change in assumptions		
Governmental	214,418	
Business-Type	133,273	
Borough contributions subsequent to the measurement date		
Governmental	403,990	
Business-Type	251,104	
Total deferral outflows and deferred inflows	<u>\$ 1,471,766</u>	<u>\$ 105,276</u>

The \$655,094 reported as deferred outflows of resources related to pensions 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2017	\$ (586,185)
2018	(177,849)
2019	26,319
2020	26,319

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurements, and rolled forward to the measurement date of June 30, 2015. The actuarial valuation for the year ended June 30, 2015 (latest available), was prepared by Buck Consultants. The actuarial assumptions used in the June 30, 2013, valuation were based on the results of an actuarial experience study for the period from July 1, 2009, to June 30, 2013, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect expected future experience.

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 plan investments expenses. This is based on average inflation rate of 3.12% and real rate of return over 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.

Long-term Expected Rate of Return – The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment 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	5.35%
Global equity (non-US)	5.55%
Private equity	6.25%
Fixed income composite	0.80%
Real estate	3.65%
Alternative equity	4.70%

Discount Rate

The discount rate used to measure the total pension liability was 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 plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Discount Rate Sensitivity

The following presents the Borough's proportionate share of the net pension liability calculated using the discount rate of 8.0%, as well as what the Borough's proportionate share of the net pension liability would be 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:

	Proportional Share	1% Decrease (7.00%)	Current Discount Rate	1% Increase (9.00%)
Borough's proportionate share of the net pension liability	0.12260546%	\$ 7,905,211	\$ 5,946,382	\$ 4,297,250

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 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	1.68%	1.68%
Death and disability benefit	1.05%	0.22%
Unfunded benefit liability	11.27%	12.10%
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 \$83.52 per full-time employee per pay period and \$1.26 per hour worked for each part-time employee.

For the year ended June 30, 2016, the Borough contributed \$194,056 to PERS Tier IV. Employee contributions to the plan totaled \$166,822.

Note 8. 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, 2016, is as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental funds	\$ 346,201
General	Permanent trust	124,016
General	Garbage	283,216
General	Excise tax	537,656
General	Public safety building	18,799
Sales tax	General	1,102,980
Health clinic	General	398,982
Water and sewer	General	132,319
Port commission	General	261,027
Small boat harbor	General	409,265
Total		<u>\$ 3,614,461</u>

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, 2016, were as follows:

	Transfers in					Total
	General Fund	Non-major Governmental Fund	Water and Sewer	Garbage	Health Clinic	
Transfers out						
Sales tax	\$ 1,575,847	\$ 2,503,025	\$ -	\$ -	\$ 275,860	\$ 4,354,732
Excise tax	1,661,939	9,978	507,285	88,331		2,267,533
Permanent Trust		101,122				101,122
Total transfers out	<u>\$ 3,237,786</u>	<u>\$ 2,614,125</u>	<u>\$ 507,285</u>	<u>\$ 88,331</u>	<u>\$ 275,860</u>	<u>\$ 6,723,387</u>

Note 9. Future Rental Revenue

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

2017	\$ 206,506
2018	203,378
2019	191,055
2020	178,547
2021	154,333
Thereafter	<u>272,525</u>
Total	<u>\$ 1,206,344</u>

Note 10. 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.

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REQUIRED SUPPLEMENTARY INFORMATION

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MUNICIPALITY OF SKAGWAY

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

For the Year Ended June 30, 2016

	Budget Amounts		Actual	Variance
	Original	Final		
Revenue				
Property taxes	\$ 1,812,889	\$ 1,812,889	\$ 1,819,745	\$ 6,856
Intergovernmental	639,433	639,433	485,685	(153,748)
Service and admission fees	352,342	352,342	300,119	(52,223)
Licenses and permits	56,000	56,000	110,557	54,557
Rentals	126,514	126,514	106,513	(20,001)
Investment earnings	5,000	5,000	1,676	(3,324)
Contributions and other	121,358	121,358	139,909	18,551
Payments in lieu of taxes	120,000	120,000	173,758	53,758
Total revenue	3,233,536	3,233,536	3,137,962	(95,574)
Expenditures				
Current				
General government	2,301,693	2,311,575	2,303,721	7,854
Public safety	2,231,383	2,231,383	2,095,276	136,107
Streets and public works	798,231	798,231	994,238	(196,007)
Education	2,781	2,781		2,781
Culture, recreation, and library	1,346,610	1,346,610	914,725	431,885
Capital outlay				
General government	48,000	48,000	78,504	(30,504)
Public safety	630,000	630,000		630,000
Streets and public works	10,000	10,000		10,000
Culture, recreation, and library	40,000	40,000		40,000
Total expenditures	7,408,698	7,418,580	6,386,464	1,032,116
Deficiency of expenditures over revenue	(4,175,162)	(4,185,044)	(3,248,502)	936,542
Other Financing Sources				
Transfers in	4,175,162	4,185,044	3,237,786	(947,258)
Net change in fund balance	\$ -	\$ -	\$ (10,716)	\$ (10,716)

See Note to Required Supplementary Information

MUNICIPALITY OF SKAGWAY

BUDGETARY COMPARISON SCHEDULE – SALES TAX SPECIAL REVENUE FUND For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenue				
Sales tax	\$ 6,557,000	\$ 6,557,000	\$ 7,127,813	\$ 570,813
Investment earnings	260,000	260,000	61,166	(198,834)
Total revenue	6,817,000	6,817,000	7,188,979	371,979
Expenditures				
General government			179	(179)
Education	1,830,076	1,830,076	1,830,076	
Total expenditures	1,830,076	1,830,076	1,830,255	(179)
Excess of revenue over expenditures	4,986,924	4,986,924	5,358,724	371,800
Other Financing Sources				
Transfers out	(7,677,468)	(7,759,124)	(4,354,732)	3,404,392
Net change in fund balance	<u><u>\$(2,690,544)</u></u>	<u><u>\$(2,772,200)</u></u>	<u><u>\$ 1,003,992</u></u>	<u><u>\$ 3,776,192</u></u>

See Note to Required Supplementary Information

MUNICIPALITY OF SKAGWAY

BUDGETARY COMPARISON SCHEDULE – EXCISE TAX SPECIAL REVENUE FUND

For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenue				
Excise tax	\$ 4,100,000	\$ 4,100,000	\$ 2,267,533	\$ (1,832,467)
Investment earnings	273,000	273,000	228,275	(44,725)
Total revenue and excess of revenue over expenditures	4,373,000	4,373,000	2,495,808	(1,877,192)
Other Financing Sources				
Transfers out	(3,975,284)	(4,284,584)	(2,267,533)	2,017,051
Net change in fund balance	\$ 397,716	\$ 88,416	\$ 228,275	\$ 139,859

See Note to Required Supplementary Information

MUNICIPALITY OF SKAGWAY

**SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY**

For the Year Ended June 30, 2016

Borough's proportion of the net pension liability	0.12260546%
Borough's proportionate share of the net pension liability	\$ 5,946,382
State of Alaska's proportionate share of the net pension liability	<u>1,589,812</u>
Total net pension liability	<u>7,536,194</u>
Borough's covered-employee payroll	<u>\$ 3,586,386</u>
Borough's proportionate share of the net pension liability as a percentage of covered-employee payroll	165.80%
Plan fiduciary net position as a percentage of the total pension liability	63.96%

See Note to Required Supplementary Information

MUNICIPALITY OF SKAGWAY

**SCHEDULE OF CONTRIBUTIONS
OF THE NET PENSION LIABILITY**
For the Year Ended June 30, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 655,094	\$ 636,376	\$ 642,643	\$ 600,195
Contributions in relation to the contractually required contribution	<u>655,094</u>	<u>636,376</u>	<u>642,643</u>	<u>600,195</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Borough's covered-employee payroll	\$ 3,644,188	\$ 3,586,386	\$ 3,437,622	\$ 3,151,923
Contributions as a percentage of covered employee payroll	17.98%	17.74%	18.69%	19.04%

See Note 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. Schedule of Proportionate Share of the Net Pension Liability

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

Note 3. Schedule of Contributions of the Net Pension Liability

This table is intended to present ten years of information. Additional years will be displayed when made available.

SUPPLEMENTARY REPORTS AND SCHEDULES
IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS AND
THE UNIFORM GUIDANCE

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**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 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 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, 2016, 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 _____.

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.

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

To the 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, 2016. 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 less than \$750,000 in federal awards, which is not included in the Municipality of Skagway's schedule for the year ended June 30, 2016. 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 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 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 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, 2016.

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.

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

To the 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, 2016. 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 \$1,152,557 in state awards, which is not included in the schedule of state financial assistance during the year ended June 30, 2016. 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 *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, 2016.

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.

MUNICIPALITY OF SKAGWAY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2016

<u>Federal Assistance Description</u>	<u>Federal CFDA Number</u>	<u>Award Number</u>	<u>Expenditures</u>
Department of the Interior			
Passed through the State of Alaska Department of Commerce, Community, and Economic Development Payments in Lieu of Taxes	15.226	n/a	\$ 173,758
National Park Service - Conservation, Protection, Outreach, and Education	15.954	H9825070031	<u>8,300</u>
Total Department of the Interior			182,058
Department of Transportation			
Passed through the Federal Highway Administration Western Federal Lands Highway Division Highway Planning and Construction	20.205	DTFH70-13-E-00031	801,191 *
Passed through the State of Alaska Department of Natural Resources Recreational Trails Program	20.219	RTP-2015-102	<u>35,363 *</u>
Total Department of Transportation and Highway Planning and Construction Cluster			836,554
Department of Health and Human Services			
Health Center Program - Cluster			
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	H80CS08232	578,243
Grants for New and Expanded Services under the Health Center Program	93.527	H80CS08232	<u>702,645</u>
Total Health Center Program Cluster			<u>1,280,888</u>
Total Federal Expenditures			<u><u>\$ 2,299,500</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 for the year ended June 30, 2016. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("the 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. Expenditures reported on the schedule of expenditures of federal awards are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance (depending on the award date), wherein certain types of expenditures are not allowable or are limited to reimbursement.

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

Pass-through entity identifying numbers are presented where available.

Note 3. 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, 2016, consists of:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Outstanding Balance at June 30, 2016</u>
66.458	Capitalization Grants for Clean Water	\$ 166,396

MUNICIPALITY OF SKAGWAY

SCHEDULE OF STATE FINANCIAL ASSISTANCE

For the Year Ended June 30, 2016

<u>State Agency and Program Name</u>	<u>Award Number</u>	<u>Expenditures</u>
Department of Revenue		
Shared Taxes, Commercial Passenger Vessel Excise Tax Allocation	n/a	\$ 2,267,533 *
Department of Commerce, Community, and Economic Development		
City Dock Improvements	12-DC-617	859,596 *
Community Revenue Sharing Program	n/a	433,894 *
Revenue Sharing - Liquor Tax	n/a	18,050
Shared Fisheries Business Tax Program	n/a	1,683
Float Extension to Serve Cruise Passenger Vessels	15-DC-147	1,013
Recycling and Solid Waste Plan	13-DC-136	1,100
Port of Skagway Gateway Project	14-DC-135	840
Total Department of Commerce, Community, and Economic Development		<u>1,316,176</u>
Department of Administration		
Pension Obligation Support	n/a	210,248 *
Department of Environmental Conservation		
Alaska Drinking Water Fund		
Revolving Funds - Loan	ADWF#785071	68,614
Department of Transportation and Public Facilities		
Harbor Deferred Maintenance Appropriation	n/a	19,767
Department of Military and Veterans Affairs		
2014 Local Emergency Planning Committee Grant	16LEPC-AR35602	14,343
Department of Education and Early Development		
Public Library Assistance Grant	PLA-16-772-70	6,650
Department of Health and Social Services		
Community Health Centers - Senior Access Program	601-16-228	<u>3,452</u>
		<u><u>\$ 3,906,783</u></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, 2016. 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, 2016

SECTION I. SUMMARY OF AUDITORS' 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:

None

Identification of major programs:

MUNICIPALITY OF SKAGWAY

STATE OF ALASKA SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

SECTION I. SUMMARY OF AUDITORS' 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:

\$ 75,000