



Alice Ruby, **Mayor**

**Council Members**

- Tracy Hightower (Seat A) • Chris Maines (Seat B) • Misty Savo (Seat C)
- Curt Armstrong (Seat D) • Andy Anderson (Seat E) • Paul Liedberg (Seat F)

**DILLINGHAM CITY COUNCIL**

**David B. Carlson Council Chambers**

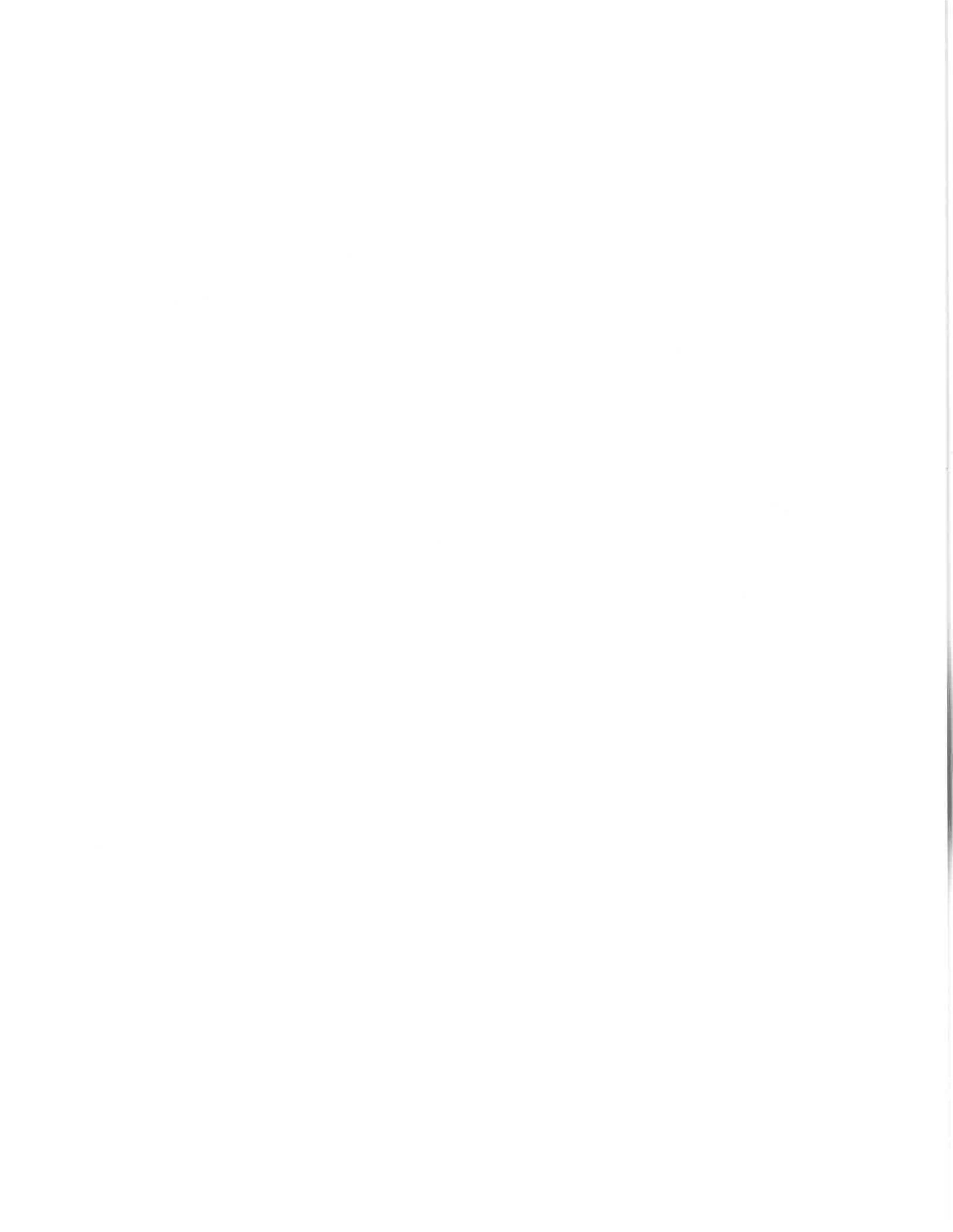
Dillingham City Hall, 141 Main Street, Dillingham, AK 99576 (907) 842-5212

**SPECIAL MEETING**

**5:30 P.M.**

**MARCH 7, 2017**

1. **CALL TO ORDER**
2. **ROLL CALL**
3. **APPROVAL OF AGENDA**
4. **CITIZEN'S DISCUSSION (Prior Notice or Agenda Items)**
5. **SPECIAL BUSINESS**
  - a. Committee of the Whole
    - 1) Presentation on the FY16 Audit Report
  - b. Adopt Resolution No. 2017-08, A Resolution of the Dillingham City Council Accepting the Year End Audit for the Fiscal Year Ending June 30, 2016
  - c. Reschedule Code Review Committee Meeting from Thursday, March 9, to Thursday, March 23
  - d. Executive Session – Personnel Matter
    - 1) City Manager Recruitment
6. **CITIZEN'S DISCUSSION (Open to the Public)**
7. **COUNCIL COMMENTS**
8. **MAYOR'S COMMENTS**
9. **ADJOURNMENT**



**CITY OF DILLINGHAM, ALASKA**

**Letter to the Governing Board**

**Year Ended June 30, 2016**

**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

**CITY OF DILLINGHAM, ALASKA**

**Letter to the Governing Board**

**Year Ended June 30, 2016**

**PRELIMINARY DRAFT**  
**FOR DISCUSSION PURPOSES ONLY**

Month XX, 2017

Honorable Mayor and Members of the City Council  
City of Dillingham  
Dillingham, Alaska

We have audited the financial statements of the governmental activities, the discretely presented component units each major fund, and the aggregate remaining fund information of the City of Dillingham, Alaska for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards, Uniform Guidance*, and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 15, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Accounting Policies and Transactions

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Dillingham are described in Note I to the financial statements. As noted in Note III. E, the City adopted GASB 72, *Fair Value Measurement and Application* in FY2016. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

All opinion units:

Management's estimate of the collectability of accounts receivable is based on historical collections. We evaluated the key factors and assumptions used to develop the estimate of collectability of accounts receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

Governmental activities opinion unit:

Management's uses estimates to calculate the liability for the closure of the landfill and post closure costs. These estimates are based on engineering surveys. We evaluated the key factors and assumptions used to develop the estimation of the liability for the closure of the landfill and any post closure costs to determine its reasonableness in relation to the financial statements taken as a whole.

**PRELIMINARY DRAFT**  
FOR DISCUSSION PURPOSES ONLY

Governmental activities opinion unit:

Management's estimate of the useful lives and depreciation is based on the expected life of an asset. We evaluated the key factors and assumptions used to develop the useful lives and depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimates of the City's proportionate share of the collective net pension liability and related deferred outflows and inflows of resources are based on information furnished by the State of Alaska and actuarial reports generated during the audit of the Public Employees' Retirement System. The amortization of these deferrals is based on guidance provided by the Governmental Accounting Standards Board. We evaluated the key factors and assumptions used to develop the estimates of the City's proportionate share of the collective net pension liability and deferred outflows and inflows of resources and related amortization in determining that it is reasonable in relation to the financial statements as a whole.

Financial Statement Disclosures

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Summarized below are misstatements that management has determined to be immaterial, both individually and in the aggregate, to the financial statements as a whole.

The following misstatements were not corrected by management:

- \$4,632 understatement of cash due to stale dated checks not voided.
- \$37,381 understatement of cash due to error in reconciliation.
- \$6,386 overstatement of workman's compensation prepaid and related expenses.
- \$6,215 understatement of capital lease prepaid and related expenses.

The following misstatements were corrected by management:

- \$44,977 to correct prepaid insurance and related expenses in the general fund
- \$49,061 to correct grant receivable and related revenue in other governmental funds

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**PRELIMINARY DRAFT**  
FOR DISCUSSION PURPOSES ONLY

Management Representations

We have requested certain representations from management that are included in the management representation letter dated Month, XX, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Internal Control Matters

See Compliance Reports for definition and descriptions of deficiencies, significant deficiencies, material weaknesses and any reported findings.

Other Matters

Supplementary Information Accompanying the Financial Statements

We applied certain limited procedures to the Management Discussion and Analysis and the Public Employees' Retirement System schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on Schedule of Expenditures of Federal Awards, Schedule of State Financial Assistance, and combining statements and other information described as additional supplementary information in the table of contents, including the combining and individual fund statement which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

**PRELIMINARY DRAFT**  
FOR DISCUSSION PURPOSES ONLY

Accounting Assistance

As part of our engagement, we drafted the basic financial statements of the City from the City's accounting records; however, management of the City was involved in the drafting process and retains responsibility for the basic financial statements.

Major Issues Discussed with Management Prior to Retention

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Restriction on Use

This information is intended solely for the use of City Council and management of the City of Dillingham and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Anchorage, Alaska

**PRELIMINARY DRAFT**  
**FOR DISCUSSION PURPOSES ONLY**

**CITY OF DILLINGHAM, ALASKA**

**Basic Financial Statements, Management Discussion and  
Analysis, Required Supplementary Information, Additional  
Supplementary Information, and Compliance Reports**

**Year Ended June 30, 2016**

**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

**CITY OF DILLINGHAM, ALASKA**

**Basic Financial Statements, Management Discussion and  
Analysis, Required Supplementary Information, Additional  
Supplementary Information, and Compliance Reports**

**Year Ended June 30, 2016**

**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

CITY OF DILLINGHAM, ALASKA

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CITY OF DILLINGHAM, ALASKA

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**PRELIMINARY DRAFT**  
FOR DISCUSSION PURPOSES ONLY

## **Independent Auditor's Report**

Honorable Mayor and City Council  
City of Dillingham, Alaska  
Dillingham, Alaska

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Dillingham, Alaska as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Dillingham, Alaska's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that 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.

**PRELIMINARY DRAFT**  
**FOR DISCUSSION PURPOSES ONLY**

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dillingham, Alaska, as of June 30, 2016, and the respective changes in financial position and the respective budgetary comparisons for the General Fund and Dock Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4–11 and the Public Employees' Retirement system Schedules on pages 43–44 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 of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Dillingham, Alaska's basic financial statements. The information listed in the table of contents as "Additional Supplementary Information," which includes the combining statements and schedules, individual major and non-major funds budget to actual schedules, schedule of expenditures of federal awards, and the state schedule of 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 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Audits*. The accompanying state schedule of financial assistance is presented as required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.

The Additional Supplementary Information listed above is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Additional Supplementary Information listed above is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the City of Dillingham, Alaska for the year ended June 30, 2015 (not presented herein) and have issued our reported dated March 29, 2016, which contained unmodified opinions on the respective financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information. The combining statements and schedules, individual major and non-major funds budget to actual schedules for the year ended June 30, 2015 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the June 30, 2015 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of those basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the June 30, 2015 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the June 30, 2015 combining statements and schedules, individual major and non-major funds budget to actuals are fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2015.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated MONTH XX, 20X1, on our consideration of the City of Dillingham, Alaska's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Dillingham, Alaska's internal control over financial reporting and compliance.

Anchorage, Alaska  
Month XX, 2016

# **MANAGEMENT DISCUSSION AND ANALYSIS**

**PRELIMINARY DRAFT**  
FOR DISCUSSION PURPOSES ONLY

**CITY OF DILLINGHAM, ALASKA**  
**Management Discussion and Analysis**  
**Year Ended June 30, 2016**

This section of the City of Dillingham, Alaska's annual financial report presents the City management's discussion and analysis of the City's financial activities for the fiscal year ended June 30, 2016 with comparable information presented for the year ended June 30, 2015. This discussion and analysis should be read in conjunction with the City's financial statements.

**Financial Highlights for 2016**

- In total, net position exceeded its liabilities and deferred inflows of resources at June 30, 2016 by \$40,767,411. Of this amount, \$2,543,971 in unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors.
- Total net position decreased by \$524,594 in 2016.
- At the close of the current fiscal year, governmental funds reported combined ending fund balances of \$6,839,755, which is a decrease of \$79,725 from the prior year. \$4,012,360 in unassigned fund balance is available for spending at the City's discretion.
- As of June 30, 2016, unassigned fund balance for the General Fund was \$4,125,240 or 59% of total General Fund expenditures.

**Financial Highlights for 2015**

- In total, net position exceeded its liabilities and deferred inflows of resources at June 30, 2015 by \$41,292,005. Of this amount, \$3,890,599 in unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors.
- Total net position increased by \$1,910,164 in 2015. The cumulative effect of change in accounting principle (GASB 68) decreased beginning net position by \$3,061,242.
- At the close of the current fiscal year, governmental funds reported combined ending fund balances of \$6,919,480, which is an increase of \$375,415 from the prior year. \$4,481,774 in unassigned fund balance is available for spending at the City's discretion.
- As of June 30, 2015, unassigned fund balance for the General Fund was \$4,637,243 or 61% of total General Fund expenditures.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. City of Dillingham, Alaska's basic financial statements are comprised of three components: 1) Government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves. The basic financial statements include two kinds of statements that present different views of the City's activities.

- *Government-wide financial statements* provide both short-term and long-term information about the City's overall financial status.

**CITY OF DILLINGHAM, ALASKA**  
**Management Discussion and Analysis, Continued**

- *Fund financial statements* include the governmental fund statements which tell how basic services, such as, City Administration, Public Safety, Public Works, etc. were financed in the short-term as well as what remains for future spending and focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements.
- *The statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position will serve as an indicator of whether the financial position of the City is improving or deteriorating.
- *The statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The financial statements include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by three sections (1) required supplementary information (2) additional supplementary information on individual fund activity, and (3) compliance reports.

***Government-wide Statements***

The Government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. Both of the Government-wide statements distinguish functions of the City 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. The City of Dillingham, Alaska does not have any business-type funds.

The Government-wide financial statements include all the City's *governmental activities*, which accounts for all of the City's basic services such as public safety, public works, community services, water and sewer, landfill, dock, boat harbor, senior citizen center, and education.

The Government-wide financial statements include one component unit, known as Dillingham City School District. The School District is a legally separate entity for which the City is financially accountable. Financial information for the component unit is reported separately from the financial information presented for the primary government itself.

***Fund Financial Statements***

The fund financial statements provide more detailed information about the City's funds, focusing on its most significant or "major" funds - not the City as a whole. Funds are accounting devices the City uses to keep track of specific sources of revenue and spending on particular programs.

**CITY OF DILLINGHAM, ALASKA**  
**Management Discussion and Analysis, Continued**

*Governmental Funds:* All of the City's basic services are included in governmental funds. Unlike the Government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as balances of spendable resources left at fiscal year-end. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City'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 long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Dillingham, Alaska maintains several individual governmental funds including Water and Sewer, Landfill and Dock Special Revenue Funds. These funds are considered governmental funds, not enterprise funds, as the City of Dillingham, Alaska does not expect to cover operational costs with user fees for any of these operations. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Dock Special Revenue Fund, and the Wastewater Treatment Plant Capital Project Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* and individual budget to actual schedules elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with its budget.

***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements.

***Required Supplementary Information***

Required supplementary includes the schedules of City's Proportionate Share of Net Pension Liability and City's Contributions as required by GASB 68.

***Other Supplementary Information***

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information presenting the combining statements displaying the other governmental funds.

***Statement of Net Position***

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Dillingham, Alaska, assets exceeded liabilities by \$40,767,411 at the close of FY2016, the most recent fiscal year.

**CITY OF DILLINGHAM, ALASKA**  
**Management Discussion and Analysis, Continued**

By far the largest portion of the City's net position (92%) reflects its net investments in capital assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	<u>2016</u>	<u>2015</u>
	<u>Governmental</u> <u>Activities</u>	<u>Governmental</u> <u>Activities</u>
Current and other assets	\$ 8,273,881	7,779,768
Long-term and capital assets	49,559,579	48,608,599
Deferred outflows of resources	1,119,267	368,598
Total assets and deferred outflows of resources	<u>58,952,727</u>	<u>56,756,965</u>
Current liabilities	913,386	410,487
Long-term liabilities	17,186,797	14,793,585
Deferred inflows of resources	85,133	260,888
Total liabilities and deferred inflows of resources	<u>18,185,316</u>	<u>15,464,960</u>
Net position		
Net investment in capital assets	37,477,338	36,866,129
Restricted	746,102	535,277
Unrestricted	2,543,971	3,890,599
Total net position	<u>\$ 40,767,411</u>	<u>41,292,005</u>

The majority of net position is restricted for capital assets, net of debt (92% in 2016 and 89% in 2015). A small portion of the City's net position (2% in 2016 and 1% in 2015), represent resources that are subject to external restrictions on how they may be used. Such restrictions are for the restricted assets for Mary Carlson Estate Permanent Fund, Enhanced 911, Asset Forfeitures, Landfill, Dillingham Police Department Reward, and Local Support. The remaining balance of unrestricted net position of \$2,543,971 in 2016 and \$3,890,599 in 2015 may be used to meet the government's ongoing obligation to citizens and creditors. At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for government as a whole, and for its separate governmental activities.

The governmental activities total net position decreased by \$524,594 in 2016. In 2015, total net position decreased by \$1,151,078.

**CITY OF DILLINGHAM, ALASKA**  
**Management Discussion and Analysis, Continued**

**Statement of Activities**

The following condensed table of changes in net position displays the revenues and expenses for the current and prior year.

	<b>Change in Net Position</b>	
	<b>Governmental Activities</b>	
	<b>2016</b>	<b>2015</b>
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 2,995,939	2,630,932
Operating grants and contributions	568,035	855,392
Capital grants and contributions	2,057,176	3,299,842
General revenues:		
Taxes:		
Sales taxes	3,081,594	3,099,509
Real and personal property taxes	2,496,326	2,213,644
Gaming taxes	118,382	68,584
Payment in lieu of taxes	446,955	448,329
Grants and entitlements not restricted to a Specific purpose	947,459	461,242
Investment income	76,304	38,995
Other	354,628	266,692
<b>Total revenues</b>	<b>\$ 13,142,798</b>	<b>13,323,161</b>
<b>Expenses:</b>		
General government	2,128,092	1,621,359
Public safety	2,956,338	2,483,209
Public works	1,659,913	1,061,659
Community services	350,769	192,611
Water and sewer	1,181,663	974,068
Landfill	1,298,720	716,352
Dock	1,104,993	1,119,466
Boat Harbor	216,511	445,526
Senior citizen center	408,399	489,966
Education	1,847,404	1,822,691
Interest on long-term debt	514,590	546,090
<b>Total expenses</b>	<b>13,667,392</b>	<b>11,472,997</b>
<b>Increase (decrease) in net position</b>	<b>(524,594)</b>	<b>1,910,164</b>
<b>Net position at beginning of year</b>	<b>41,292,005</b>	<b>42,443,083</b>
<b>Cumulative effect change in accounting principle</b>	<b>-</b>	<b>(3,061,242)</b>
<b>Net position at beginning of year, as restated</b>	<b>41,292,005</b>	<b>39,381,841</b>
<b>Net position at end of year</b>	<b>\$ 40,767,411</b>	<b>41,292,005</b>

**CITY OF DILLINGHAM, ALASKA**  
**Management Discussion and Analysis, Continued**

**Governmental Activities**

General revenues accounted for most of the City's revenues at 57%, charges for services contributing 23%, operating grants and contributions contributing 4% and capital grant and contributions contributing 16%.

A detail of expenses for governmental activities is as follows:

Function:	2016		2015	
	<u>Expense</u>	<u>Percentage</u>	<u>Expense</u>	<u>Percentage</u>
General government	\$ 2,128,092	16%	1,621,359	14%
Public safety	2,956,338	22%	2,483,209	22%
Public works	1,659,913	12%	1,061,659	9%
Community services	350,769	2%	192,611	2%
Water and sewer	1,181,663	9%	974,068	8%
Landfill	1,298,720	9%	716,352	6%
Dock	1,104,993	8%	1,119,466	10%
Boat Harbor	216,511	2%	445,526	4%
Senior citizen center	408,399	3%	489,966	4%
Education	1,847,404	13%	1,822,691	16%
Interest on long-term debt	514,590	4%	546,090	5%
<b>Total</b>	<b>\$ 13,667,392</b>	<b>100%</b>	<b>11,472,997</b>	<b>100%</b>

**Financial Analysis of the Government's Funds**

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

**Governmental Funds**

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

At June 30, 2016 the City's governmental funds reported combined ending fund balances of \$6,839,755, a decrease of \$79,725 from the prior year. Of this amount \$2,827,395 is non-spendable, restricted, committed, or assigned for specific purposes. \$4,012,360 is available for spending at the government's discretion.

The General Fund is the chief operating fund of the City. At June 30, 2016 and 2015 the unassigned fund balance of the General Fund was \$4,125,240 and \$4,637,243, respectively, which is 90% and 98% of the total General Fund balance. As a measure of the General Fund's liquidity, both unassigned fund balance and total fund balance may be compared to total fund expenditures. Unassigned fund balance represents 59% of total General Fund expenditures at June 30, 2016 and 61% as of 2015.

**CITY OF DILLINGHAM, ALASKA**  
**Management Discussion and Analysis, Continued**

The fund balance of the City's General Fund decreased by \$153,682 in 2016 compared to an increase of \$220,119 in 2015.

**General Fund Budgetary Highlights**

Differences between the original budget and the final budget can be briefly summarized as follows:

- Increase in federal sources of \$23,838;
- Increase in State of Alaska funding of \$92,064;
- Overall appropriations increased by \$84,646.

**Capital Assets and Debt Administration**

**Capital Assets**

The City's investment in capital assets for its governmental-type activities as of June 30, 2016 amounts to \$49,559,579 (net of accumulated depreciation), an increase of \$950,980 over last year. This investment in capital assets includes land, buildings, machinery, and equipment, and Improvements other than buildings.

Major capital asset events during the current fiscal year included the following:

- Construction of \$1,221,405.
- Machinery and Equipment additions of \$1,884,066.

		2016	2015
		Governmental Activities (Net of Accumulated Depreciation)	
Land	\$	4,862,446	4,862,446
Construction in progress		5,425,800	4,204,395
Buildings		16,591,527	17,270,607
Machinery and equipment		5,253,539	3,926,912
Improvement other than buildings		17,426,267	18,344,239
Total capital assets	\$	49,559,579	48,608,599

Additional information on the City's capital assets can be found in note 4 on pages 27 through 28 of this report.

**Long-Term Debt** – At the end of the current fiscal year, the City of Dillingham, Alaska had total bonded debt outstanding of \$10,817,413. This entire amount is backed by the full faith and credit of the City. The remainder of the City's debt represents revenue bonds, loans, compensated absences and landfill closure and post-closure costs.

**CITY OF DILLINGHAM, ALASKA**  
**Management Discussion and Analysis, Continued**

The following table displays the long-term debt for the current year.

	<b>Governmental Activities</b>	
	<b>2016</b>	<b>2015</b>
General obligation bonds, including premium	\$ 10,817,413	11,499,697
Public works – grader	6,195	78,982
Public works – vehicle	16,408	23,874
Animal control vehicle lease	-	5,059
Public safety vehicle lease (2012)	-	7,049
Public safety vehicle leases (2013)	26,085	38,040
Public safety vehicle lease (2015)	19,140	24,763
Dock crane lease	1,197,000	-
Net pension liability	4,808,667	2,822,639
Accrued leave (net)	171,779	172,482
Estimated landfill closure costs	124,110	121,000
Total long-term debt	<u>\$ 17,186,797</u>	<u>14,793,585</u>

The City of Dillingham, Alaska's total debt increased by \$2,393,212 during the current fiscal year.

Additional information on the City of Dillingham, Alaska's long-term debt can be found in note 6 on page 29 of this report.

**Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate hovers around 7.8% for the State of Alaska.
- Due to budget constraints, it is anticipated that State and Federal funding will decrease.
- These factors were considered in preparing the FY17 budget.

**Requests for Information**

This financial report is designed to provide a general overview of the City of Dillingham, Alaska's finances for all of those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Manager of the City of Dillingham, Alaska, P.O. Box 889, Dillingham, Alaska 99576.

# **BASIC FINANCIAL STATEMENTS**

**PRELIMINARY DRAFT**  
FOR DISCUSSION PURPOSES ONLY

## CITY OF DILLINGHAM, ALASKA

## Statement of Net Position

June 30, 2016

	Primary Government	Component Unit
	Governmental Activities	Dillingham City School District
<b><u>Assets and Deferred Outflows of Resources</u></b>		
<b>Assets:</b>		
<b>Current:</b>		
Cash and investments	\$ 4,881,196	1,231,612
Receivables, net	2,448,343	246,805
Restricted cash and investments	470,928	-
Inventory	-	25,067
Prepaid items	473,414	98,509
Total current	<u>8,273,881</u>	<u>1,601,993</u>
<b>Noncurrent:</b>		
Land and construction in progress	10,288,246	1,078,590
Other capital assets, net of accumulated depreciation	39,271,333	(744,177)
Total noncurrent	<u>49,559,579</u>	<u>334,413</u>
<b>Deferred outflows of resources -</b>		
Pension deferrals	<u>1,119,267</u>	<u>1,624,186</u>
Total assets and deferred outflows of resources	<u>58,952,727</u>	<u>3,560,592</u>
<b><u>Liabilities, Deferred Inflows of Resources, and Net Position</u></b>		
<b>Liabilities:</b>		
<b>Current:</b>		
Accounts payable	732,056	-
Accrued payroll and related liabilities	155,971	34,145
Due to student groups	-	87,258
Unearned revenue	25,359	127,219
Total current	<u>913,386</u>	<u>248,622</u>
<b>Non-current:</b>		
Due within one year:		
Accrued leave	171,779	-
Bonds	712,284	-
Capital leases	163,587	-
Due in more than one year:		
Net pension liability	4,808,667	6,967,819
Bonds	10,105,129	-
Capital leases	1,101,241	-
Landfill closure costs	124,110	-
Total non-current	<u>17,186,797</u>	<u>6,967,819</u>
Deferred inflows of resources - pension deferrals	<u>85,133</u>	<u>152,463</u>
Total liabilities and deferred inflows of resources	<u>18,185,316</u>	<u>7,368,904</u>
<b>Net position:</b>		
Net investment in capital assets	37,477,338	(744,177)
<b>Restricted:</b>		
Mary Carlson Estate	393,280	-
Enhanced 911	175,091	-
Asset forfeitures	2,994	-
Landfill	172,044	-
Dillingham Police Department	400	-
Local support	2,293	-
Unrestricted	2,543,971	(3,064,135)
Total net position	<u>\$ 40,767,411</u>	<u>(3,808,312)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 58,952,727</u>	<u>3,560,592</u>

The notes to the financial statements are an integral part of this statement.

**PRELIMINARY DRAFT**  
FOR DISCUSSION PURPOSES ONLY

CITY OF DILLINGHAM, ALASKA

Statement of Activities

Year Ended June 30, 2016

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	
Primary government:				
Governmental:				
General government	\$ 2,128,092	592,088	44,965	(1,482,696)
Public safety	2,956,338	679,065	119,279	(2,147,691)
Public works	1,659,913	-	37,389	(581,505)
Community services	350,769	-	186,445	(137,040)
Water and sewer	1,181,663	456,554	9,473	(715,636)
Landfill	1,298,720	132,191	9,586	(1,012,224)
Dock	1,104,993	975,757	16,440	(112,796)
Boat harbor	216,511	129,324	3,933	(83,254)
Senior citizen center	408,389	30,960	140,525	(236,914)
Education	1,847,404	-	-	(1,021,896)
Unallocated interest	514,590	-	-	(514,590)
Total governmental activities	\$ 13,667,392	2,995,939	588,035	(8,046,242)
Component Unit - school district - Education	\$ 14,378,819	60,706	3,308,203	(11,009,910)

General revenues:	
Taxes:	
Sales and other taxes	\$ 3,081,594
Real and personal property taxes	2,496,326
Gaming taxes	118,382
Payment in lieu of taxes	446,955
Contributions from primary government	1,300,000
Grants and entitlements not restricted to a specific purpose	6,702,765
Investment income	247
E-Rate	956,564
Other	259,591
Total general revenues	7,521,648
Change in net position	(524,594)
Net position at beginning of year	41,292,005
Net position at end of year	\$ 40,767,411

The notes to the financial statements are an integral part of this statement.

PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY

CITY OF DILLINGHAM, ALASKA

Balance Sheet - Governmental Funds

June 30, 2016

Assets	General Fund	Dock Special Revenue Fund	Wastewater Treatment Plant Capital Project Fund	Other Governmental Funds	Total Governmental Funds
Cash and Investments	\$ 4,880,486	-	-	710	4,881,196
Receivables, net of allowance of uncollectible accounts	532,687	-	-	-	532,687
Sales taxes	286,897	-	-	-	286,897
Real and personal property taxes	123,121	282,846	-	173,141	579,108
Accounts	-	-	966,946	82,705	1,049,651
Grants and shared revenues	446,464	26,950	-	-	473,414
Prepaid items	893,980	563,209	-	1,270,606	2,727,795
Due from other funds	-	-	-	470,928	470,928
Restricted cash and investments	-	-	-	-	-
<b>Total assets</b>	<b>\$ 7,163,635</b>	<b>873,005</b>	<b>966,946</b>	<b>1,998,090</b>	<b>11,001,676</b>

Liabilities, Deferred Inflows of Resources, and Fund Balances

<b>Liabilities:</b>					
Accounts payable	\$ 287,112	68,407	218,294	158,243	732,056
Accrued payroll and payroll liabilities	110,769	14,592	-	30,610	155,971
Due to other funds	1,833,815	-	748,652	145,328	2,727,795
Unearned revenue	-	-	-	25,359	25,359
<b>Total liabilities</b>	<b>2,231,696</b>	<b>82,999</b>	<b>966,946</b>	<b>359,540</b>	<b>3,641,181</b>
Deferred inflows of resources - delinquent property taxes and dock fees	360,235	59,601	-	100,904	520,740
<b>Total liabilities and deferred inflows of resources</b>	<b>2,591,931</b>	<b>142,600</b>	<b>966,946</b>	<b>460,444</b>	<b>4,161,921</b>
<b>Fund Balances:</b>					
Nonspendable	446,464	26,950	-	-	473,414
Restricted	-	-	-	746,102	746,102
Committed	-	-	-	857,814	857,814
Assigned	-	703,455	-	46,610	750,065
Unassigned	4,125,240	-	-	(112,880)	4,012,360
<b>Total fund balances</b>	<b>4,571,704</b>	<b>730,405</b>	<b>-</b>	<b>1,537,646</b>	<b>6,839,755</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 7,163,635</b>	<b>873,005</b>	<b>966,946</b>	<b>1,998,090</b>	<b>11,001,676</b>

The notes to the financial statements are an integral part of this statement.

**PRELIMINARY DRAFT**  
FOR DISCUSSION PURPOSES ONLY

## CITY OF DILLINGHAM, ALASKA

Reconciliation of Governmental Funds Balance Sheet  
to Statement of Net Position

June 30, 2016

Total fund balances for governmental funds		\$	6,839,755
Total net position reported for governmental activities in the Statement of Net Position is different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets, net of accumulated depreciation, consist of:			
Land and land improvements	4,862,446		
Construction in progress	5,425,800		
Buildings	24,606,898		
Improvements other than buildings	30,188,093		
Machinery and equipment	9,347,541		
Total capital assets	74,430,778		
Less accumulated depreciation	(24,871,199)		
Total capital assets, net of accumulated depreciation			<u>49,559,579</u>
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. This is the amount of delinquent real property taxes and dock receivable			
			<u>520,740</u>
Long-term liabilities are not due and payable in the current period and therefore are not reported as fund liabilities. These liabilities consist of:			
General obligation bonds	(10,610,000)		
Unamortized bond premium	(207,413)		
Capital leases	(1,264,828)		
Accrued leave	(171,779)		
Landfill closure costs	(124,110)		
Total long-term liabilities			<u>(12,378,130)</u>
Proportionate share of the collective net pension liability:			
PERS			<u>(4,808,667)</u>
Deferred inflows and outflows of resources are the results of timing differences in the actuarial report.			
Pension related assets in the current fiscal year are presented as deferred outflows of resources:			
PERS			<u>1,119,267</u>
Pension related liabilities in the current fiscal year are presented as deferred inflows of resources:			
PERS			<u>(85,133)</u>
Total net position of governmental activities		\$	<u>40,767,411</u>

The notes to the financial statements are an integral part of this statement.

## CITY OF DILLINGHAM, ALASKA

Statement of Revenues, Expenditures and Changes  
in Fund Balances - Governmental Funds

Year Ended June 30, 2016

	General Fund	Dock Special Revenue Fund	Wastewater Treatment Plant Capital Project Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Intergovernmental:					
Federal sources	\$ 630,919	-	10,413	128,097	767,429
State of Alaska	868,031	10,933	1,030,606	984,520	2,924,090
Local sources:					
Taxes	5,699,419	-	-	-	5,699,419
Local assistance	-	-	-	263,800	263,800
Charges for services	1,109,416	975,757	-	767,784	2,852,957
Licenses and permits	17,982	-	-	-	17,982
Fines and forfeitures	10,424	-	-	-	10,424
Lease and rental income	64,714	-	-	49,862	114,576
Investment income	58,005	10,048	-	10,251	78,304
Other	125,604	105,278	-	52,807	283,689
<b>Total revenues</b>	<b>8,602,514</b>	<b>1,102,016</b>	<b>1,041,019</b>	<b>2,265,121</b>	<b>13,010,670</b>
<b>Expenditures:</b>					
Current:					
General government	1,763,950	-	-	-	1,763,950
Public safety	2,366,258	-	-	25,086	2,391,344
Public works	1,325,883	-	-	-	1,325,883
Community services	105,012	-	-	181,513	286,525
Water and sewer	-	-	-	722,114	722,114
Landfill	-	-	-	937,109	937,109
Dock	-	606,472	-	-	606,472
Boat harbor	-	-	-	203,762	203,762
Senior citizen center	-	-	-	292,657	292,657
Education - contribution to School District	1,300,000	-	-	-	1,300,000
Debt service:					
Principal	-	-	-	665,000	665,000
Interest	-	-	-	514,590	514,590
Capital outlay	187,081	1,527,425	1,041,019	543,681	3,299,206
<b>Total expenditures</b>	<b>7,048,184</b>	<b>2,133,897</b>	<b>1,041,019</b>	<b>4,085,512</b>	<b>14,308,612</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>1,554,330</b>	<b>(1,031,881)</b>	<b>-</b>	<b>(1,820,391)</b>	<b>(1,297,942)</b>
<b>Other financing sources (uses):</b>					
Proceeds from sale of asset	21,217	-	-	-	21,217
Proceeds from lease financing	-	1,197,000	-	-	1,197,000
Transfers in	44,571	-	-	1,905,747	1,950,318
Transfers out	(1,773,800)	(131,947)	-	(44,571)	(1,950,318)
<b>Net other financing sources (uses)</b>	<b>(1,708,012)</b>	<b>1,065,053</b>	<b>-</b>	<b>1,861,176</b>	<b>1,218,217</b>
<b>Net change in fund balances</b>	<b>(153,682)</b>	<b>33,172</b>	<b>-</b>	<b>40,785</b>	<b>(79,725)</b>
<b>Fund balances at beginning of year</b>	<b>4,725,386</b>	<b>697,233</b>	<b>-</b>	<b>1,496,861</b>	<b>6,919,480</b>
<b>Fund balances at end of year</b>	<b>\$ 4,571,704</b>	<b>730,405</b>	<b>-</b>	<b>1,537,646</b>	<b>6,839,755</b>

The notes to the financial statements are an integral part of this statement.

## CITY OF DILLINGHAM, ALASKA

Reconciliation of Governmental Funds Balance Sheet  
to Statement of Activities

Year Ended June 30, 2016

Net change in fund balances - total governmental funds \$ (79,725)

The change in net position reported for governmental activities in the  
Statement of Activities is different because:

Some expenses reported in the Statement of Activities do not require  
the use of current financial resources and, therefore, are not reported  
as expenditures in governmental funds.

Net change in the unfunded pension liability:  
PERS (1,986,028)

Changes in deferred inflows and outflows of resources are the results of  
timing differences in the actuarial report and adjustments to reflect  
employer and non-employer contributions based on the measurement  
date of the liability. 926,424

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.

Capital outlay 3,105,471  
Depreciation expense (2,087,814) 1,017,657

Governmental funds only report revenue from the sale of  
assets to the extent proceeds are received from the sale. In  
the Statement of Activities, a gain or loss is reported for each  
sale. The net effect of transactions involving capital assets  
is to decrease net position.

Cost of assets sold (502,133)  
Accumulated depreciation of assets sold. 435,456 (66,677)

Revenues in the Statement of Activities that do not provide current financial  
resources are not reported as revenues in the funds. This is the amount  
of the increase in delinquent real property taxes and dock receivable. 70,939

The change in the estimated future landfill closure costs does not require  
the use of current financial resources and therefore is not reported as  
expenditures in governmental funds. (3,110)

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. Also,  
governmental funds report the effect of premiums, discounts, and  
similar items when debt is first issued, whereas these amounts are  
deferred and amortized in the statement of activities.

Principal paid on bonds \$ 665,000  
Acquisition of capital leases (1,197,000)  
Payments on capital leases 109,939  
Amortized bond premium 17,284 (404,777)

Some expenses reported in the Statement of Activities do not require  
the use of current financial resources and, therefore, are not reported  
as expenditures in governmental funds. This is the amount of the  
decrease in accrued leave. 703

Change in net position of governmental activities \$ (524,594)

The notes to the financial statements are an integral part of this statement.

## CITY OF DILLINGHAM, ALASKA

## General Fund

## Statement of Original and Final Budget to Actual Amounts

Year Ended June 30, 2016

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance with Final <u>Budget</u>
<b>Revenues:</b>				
Intergovernmental:				
Federal sources	\$ 420,000	443,838	630,919	187,081
State of Alaska	1,150,081	1,242,145	888,031	(354,114)
Local sources:				
Taxes	5,386,000	5,388,000	5,699,419	311,419
Charges for services	940,214	1,000,314	1,109,416	109,102
Licenses and permits	21,600	17,900	17,982	82
Fines and forfeitures	-	12,000	10,424	(1,576)
Lease and rental income	30,000	30,000	64,714	34,714
Investment income	30,000	30,000	56,005	26,005
Other	92,600	98,700	125,604	26,904
<b>Total revenues</b>	<u>8,070,495</u>	<u>8,262,897</u>	<u>8,602,514</u>	<u>339,617</u>
<b>Expenditures:</b>				
Current:				
General government	1,728,239	1,782,685	1,763,950	18,735
Public safety	2,639,013	2,660,813	2,366,258	294,555
Public works	1,452,922	1,484,422	1,325,883	158,539
Community services	147,265	124,165	105,012	19,153
Education	1,300,000	1,300,000	1,300,000	-
Capital outlay	-	-	187,081	(187,081)
<b>Total expenditures</b>	<u>7,267,439</u>	<u>7,352,085</u>	<u>7,048,184</u>	<u>303,901</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>803,056</u>	<u>910,812</u>	<u>1,554,330</u>	<u>643,518</u>
<b>Other financing sources (uses):</b>				
Proceeds from the sale of assets	-	-	21,217	21,217
Transfers in	44,571	48,571	44,571	(4,000)
Transfers out	(1,043,201)	(1,685,957)	(1,773,800)	(87,843)
<b>Total net other financing   sources (uses)</b>	<u>(998,630)</u>	<u>(1,637,386)</u>	<u>(1,708,012)</u>	<u>(70,626)</u>
<b>Net change in fund balance</b>	<u>\$ (195,574)</u>	<u>(726,574)</u>	<u>(153,682)</u>	<u>572,892</u>
<b>Fund balance at beginning of year</b>			<u>4,725,386</u>	
<b>Fund balance at end of year</b>			<u>\$ 4,571,704</u>	

The notes to the financial statements are an integral part of this statement.

## CITY OF DILLINGHAM, ALASKA

## Dock Special Revenue Fund

## Statement of Budget to Actual Amounts

Year Ended June 30, 2016

	Original and Final Budget	Actual	Variance with Final Budget
<b>Revenues:</b>			
Intergovernmental:			
State of Alaska	\$ 29,059	10,933	(18,126)
Local sources:			
Charges for services	835,500	975,757	140,257
Investment income	500	10,048	9,548
Other	1,500	105,278	103,778
Total revenues	<u>866,559</u>	<u>1,102,016</u>	<u>235,457</u>
<b>Expenditures:</b>			
Current:			
Dock	518,449	606,472	(88,023)
Capital outlay	1,197,000	1,527,425	(330,425)
Total expenditures	<u>1,715,449</u>	<u>2,133,897</u>	<u>(418,448)</u>
Excess (deficiency) of revenues over expenditures	<u>(848,890)</u>	<u>(1,031,881)</u>	<u>(182,991)</u>
<b>Other financing sources (uses):</b>			
Proceeds from lease financing	1,197,000	1,197,000	-
Transfers out	(152,204)	(131,947)	20,257
Total net other financing sources (uses)	<u>1,044,796</u>	<u>1,065,053</u>	<u>20,257</u>
Net change in fund balance	<u>\$ 195,906</u>	33,172	<u>(162,734)</u>
Fund balance at beginning of year		<u>697,233</u>	
Fund balance at end of year		<u>\$ 730,405</u>	

The notes to the financial statements are an integral part of this statement.

June 30, 2016

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****A. Reporting Entity**

The City of Dillingham, Alaska (the City) was incorporated in 1972 as a first class city and operates under a Council-Manager form of government. The City provides a variety of services including water, sewer, dock and port facilities, landfill, police and fire protection, street maintenance, services for senior citizens and general administrative services.

As required by generally accepted accounting principles, these financial statements present City of Dillingham, Alaska (the primary government) and its component unit, Dillingham City School District. The School District is included in the City's reporting entity because of the significance of its operational or financial relationships with the City.

The component unit column in the basic financial statements includes the financial data of the School District. It is discretely presented in a separate column to emphasize that it is legally separate from the City. Dillingham City School District is responsible for elementary and secondary education within the City. The members of the School Board are elected by the voters; however, the School District is fiscally dependent upon the City because the City Council approves the total annual budget of the School District, levies the necessary taxes, and approves the issuance of bonds for school projects.

Complete financial statements of the component unit can be obtained from the administrative office of the Dillingham City School District at P.O. Box 170, Dillingham, Alaska, 99576-0170.

**B. Government-Wide and Fund Financial Statements**

The Government-Wide Financial Statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the City and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The City does not presently have any business-type activities. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers who purchase, use or directly benefit from goods or services provided by a given function or department and 2) grants and contributions that are restricted to meeting the operations or capital requirements of a particular function or department. Other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the Fund Financial Statements.

## Notes to Basic Financial Statements, continued

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide 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 the 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 City considers all revenues, except reimbursement grants, to be available if they are collected within 60 days after year end. Reimbursement grants are considered available if they are collected within one year 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, are recorded only to the extent they have matured.

Property taxes, sales taxes, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when received by the government.

The City reports the following major governmental funds:

The *General Fund* is the primary operating fund of the City. It accounts for all financial resources of the City, except those reported to be accounted for in another fund.

The *Dock Capital Project Fund* accounts for the operations of the City's docks.

The *Wastewater Treatment Plant Capital Project Fund* accounts for capital grants associated with water system improvements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. In addition, general revenues include all taxes, investment income, and State of Alaska entitlement revenues.

**D. Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation.

## Notes to Basic Financial Statements, continued

Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the useful life of the asset are not capitalized.

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

Buildings and improvements	15-75 years
Infrastructure	10-50 years
Machinery and equipment	5-40 years

#### **E. Long-Term Debt**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. In the fund financial statements, governmental fund types recognize principal and interest payments made during the current period. The face amount of the debt issued plus any bond premium, are reported as other financing sources.

#### **F. Property Taxes**

Property taxes are levied as of July 1 on property values assessed as of January 1. The tax levy is payable in two installments due on October 30, and first business day of December. The taxes are considered past due after the respective tax billing due date at which time the applicable property is subject to lien and penalties and interest are assessed on the total tax liability.

#### **G. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

#### **H. Grants and Other Intergovernmental Revenues**

In applying the measurable and available concepts to grants and intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts are considered "earned"; therefore, revenues are recognized based upon expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the measurable and available criteria are met.

#### **I. Interfund Transactions**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet of the Fund Financial Statements and are eliminated in the preparation of the Government-Wide Financial Statements.

## Notes to Basic Financial Statements, continued

**J. Compensated Absences**

The City allows employees to accumulate earned but unused vacation benefits. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only if they have matured (e.g. the employee as terminated employment).

**K. Fund Balances**

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of fund balances comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

*Restricted fund balance* – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed fund balance* – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the City Council – the government's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the City removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned fund balance* – This classification reflects the amounts constrained by the City's "Intent" to be used for specific purposes, but are neither restricted nor committed. The City Council and City Manager have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

*Unassigned fund balance* – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to use externally restricted resources first then unrestricted resources – committed, assigned, and unassigned – in order as needed.

The City's Special Revenue Funds are used to account for public safety, community services, water and sewer, landfill, dock, boat harbor and the senior citizen center.

Notes to Basic Financial Statements, continued

**L. Net Position**

Net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding borrowings, if any, used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through external restrictions imposed by creditors, grantor or laws or regulations of other governments.

**M. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and Special Revenue Funds. However, it is the City's policy to cancel any outstanding purchase orders at June 30, and issue new ones in the new fiscal year.

**N. Unearned Grant Revenue**

Amounts received from grantor agencies, which are restricted as to use and have not been expended for the intended use are shown as unearned revenue.

**O. Pension Plan**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and additions to/from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, investments are reported at fair value.

**P. Comparative Data**

Comparative data for the prior year have been presented in some of the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. In addition, certain amounts from the prior year have been reclassified to conform with the current year's presentation.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds except the Permanent Fund, and capital project funds, which adopt project-length budgets. All annual appropriations lapse at the fiscal year-end.

CITY OF DILLINGHAM, ALASKA

Notes to Basic Financial Statements, continued

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance.
4. The City Manager is authorized to transfer budgeted amounts within a fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
5. Budgeted amounts are as originally adopted or as amended by the City Council through ordinances.

**III. CASH AND INVESTMENTS**

The City of Dillingham, Alaska utilizes a central bank account that is available for use by all funds. Each fund's portion of the account is displayed on the balance sheet as "cash and investments" or included in "due from/due to other funds."

**A. Reconciliation of Deposit and Investment Balances**

The following is a reconciliation of the City's deposit and investment balances to the financial statements as of June 30, 2016.

Cash and cash equivalents	\$ 5,060,527	Cash and investments	\$ 4,881,196
Investments	<u>291,597</u>	Restricted cash and investments	<u>470,928</u>
	\$ <u>5,352,124</u>		\$ <u>5,352,124</u>

**B. Investment Policy**

The City's investment policy authorizes investments in:

1. Obligations of, or obligations insured or guaranteed by the United States of an agency or instrumentality of the United States.
2. Certificates of deposit, repurchase agreements, bankers acceptances and other similar obligations or a bank domiciled in the United States that has an outstanding debt rated at least "A" or its equivalent, by a nationally recognized rating service.
3. General obligations of a municipality within the United States, if the obligations are rated at least "A" by at least two nationally recognized rating services.
4. Mutual funds that consist of similar investments as listed above.
5. Money market and other cash equivalent investments (such as the Alaska Municipal League Investment Pool), with a maturity date of one year or less after date of investment, and that are of similar quality to the investments listed above.

Notes to Basic Financial Statements, continued

**C. Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

The City's investment maturities in general investments are as follows:

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1-5
Federal National Mortgage Association – U.S. Agency Security	\$ <u>291,597</u>	<u>-</u>	<u>291,597</u>

**D. Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. All of the investments in the U.S. government agencies are rated AAA by Moody's Investors Service and Municipal Bonds are rated A.

Pooled investments are invested with the Alaska Municipal League Investment Pool, Inc. (AMLIP). The AMLIP is an external investment pool and is rated AAA for credit risk purposes. Alaska Statute 37.23 establishes regulatory oversight of the pool. The law sets forth numerous requirements regarding authorized investments and reporting. The share value of investments in the AMLIP is approximately equal to fair value.

**Custodial Credit Risk**

The City maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. In addition, the City maintains a collateralization agreement with a financial institution. At June 30, 2016 the City's cash deposits were fully insured.

For an investment, this is a risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments held by the City are protected by the Securities Investor Protection Corporation (SIPC) up to \$500,000 per customer per financial institution. At June 30, 2016 the City's investment balances over the insurance limit were uninsured and uncollateralized.

**E. Fair Value of Financial Instruments**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following financial instruments are recorded at fair value or at amounts that approximate fair value: (1) cash and cash equivalents, (2) receivables, net, (3) certain other current assets, (4) accounts payable, and (5) other current liabilities. The carrying amounts reported in the balance sheet and Statement of Net Position for the above financial instruments closely approximates their fair value due to the short-term nature of these assets and liabilities, except for the City's investments. The carrying amount of the City's investments are determined based on quoted market prices.