

CITY OF NOME, ALASKA

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

Year Ended June 30, 2017

CITY OF NOME, ALASKA

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

Year Ended June 30, 2017

CITY OF NOME, ALASKA

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## **Independent Auditor's Report**

Members of the City Council  
City of Nome, Alaska  
Nome, Alaska

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nome, Alaska, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Nome's basic financial statements as listed in the table of contents. We did not audit the financial statements of Nome Public Schools and Nome Joint Utility System, which are discretely presented component units.

### **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 did not audit the financial statements of Nome Joint Utility System and Nome Public Schools, which are discretely presented component units of the reporting entity. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Nome, is based solely on the reports of other auditors. 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.

### **Opinions**

In our opinion, based on our audit and the report of 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Nome, Alaska, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General 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 and Schedules of City's Share of Net Pension Liabilities and Contributions for the Public Employees' Retirement System on pages 4-15 and 58-59, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States 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 Nome, Alaska's basic financial statements. The information listed in the table of contents as "Additional Supplementary Information", which includes Other Governmental Funds: Combining Balance Sheet, Combining Statement of Revenues, Expenditures and Changes in Fund Balances is presented for purposes of additional analysis, and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for the purpose 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*, and the accompanying Schedule of State Financial Assistance is presented for purposes of additional analysis as required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, are also not a required part of the financial statements.

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" is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2018 on our consideration of the City of Nome'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 the effectiveness of City of Nome's 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 City of Nome, Alaska's internal control over financial reporting and compliance.



Anchorage, Alaska  
January 18, 2018

# **MANAGEMENT DISCUSSION AND ANALYSIS**



**City of Nome, Alaska**  
**Management Discussion and Analysis**  
**For the Year Ended June 30, 2017**

This section of the City of Nome, Alaska's annual financial report provides a narrative overview and analysis by the City management of the financial activities of the City of Nome for the fiscal year ended June 30, 2017. It is designed to focus on significant financial issues, provide an overview of the City's financial activities, highlight changes in the City's financial position, identify material changes from the original budget, and explain any specific issues or concerns. This discussion and analysis should be read in conjunction with the City's financial statements, which follows this section.

**Financial Highlights**

- At June 30, 2017, the City's assets and deferred outflows exceeded its liabilities and deferred inflows by \$99,748,041. This amount represents a net increase of \$830,922 from the prior year amount. Of this amount, \$9,134,706 in unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors.
- As of June 30, 2017, the City's governmental funds, excluding business-type activities, reported combined ending fund balances of \$16,699,441, representing an increase of \$2,472,285 compared to the prior year.
- The fund balance is comprised of Non-spendable, Restricted, Assigned and Unassigned classifications. Unassigned fund balance for the General Fund was \$7,174,362 or 74% of total General Fund expenditures. The Non-spendable fund balance was \$217,976 which consists of the loan advanced to the school for repairs to the roof of the apartments building.
- The City's total outstanding long-term debt decreased by \$461,998 due to debt repayments during the year.
- The City agreed to borrow funds from Wells Fargo Bank, NA through the issuance of a Revenue Anticipation Note for \$4.6 million at 2.68% interest per annum to finance the purchase of diesel fuel for Nome Joint Utility System (NJUS). The Note is a direct and general obligation of the City; Concurrently, NJUS entered into an agreement with the City and pledged utility revenues, equivalent to the note's declining balance outstanding plus 10%, and repayment interest rate of 2.5%, at any time in the event the Utility defaulted and the City was required to make payment. Unlike the prior year's note, NJUS is obligated and makes direct payment to Wells Fargo as principal and interest become due. The note issued in 2016 comprised one interest-only payment and 12 equal installments with the intention of eliminating the interest-only payment with the next note.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which include the government-wide financial statements, fund financial statements, and 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 Nome, Alaska**  
**Management Discussion and Analysis, Continued**

- *Fund financial statements* focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements. The *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. Proprietary fund statements offer short-term and long-term financial information about the activities the government operates like a business, such as the Port and Harbor.

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.

<b>Illustration A-1</b>			
<b>Major Features of City of Nome's Government-wide and Fund Financial Statements</b>			
	<b>Government-wide Statements</b>	<b>Fund Statements</b>	
		<b>Governmental Funds</b>	<b>Proprietary Funds</b>
Scope	Entire City government	The activities of the City that are not proprietary, such as police, fire and public works	Activities the City operates similar to private businesses such as port & harbor
Required financial statements	Statement of net position Statement of activities	Balance sheet Statement of revenues, expenditures and changes in fund balance	Statement of net position Statement of revenue, expenditures and changes in net position Statement of cash flows
Accounting basis and measurement of focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Illustration A-1 summarizes the major features of the City's financial statements. The remainder of this overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

**City of Nome, Alaska**  
**Management Discussion and Analysis, Continued**

***Government-wide Financial Statements***

The Government-wide financial statements are intended to provide a comprehensive look at all financial activities of the City. These statements summarize the City's overall financial condition and contain both short-term and long-term information about the City's entity-wide finances, similar to a private-sector business. Both of the Government-wide financial 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 (business-type activities). These statements can be located as listed on the table of contents of this document.

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 may indicate the improvement or deterioration of the City's financial position.

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

The *governmental activities* of the City of Nome, which accounts for all of the City's basic services, include legislative, administrative, city clerk, police, animal control, fire, ambulance, public works, parks and recreation, swimming pool, museum, library, visitor center, education, and deferred compensation plans. The *business-type activities* of the City include the port facilities.

The Government-wide financial statements include two component units, known as Nome Public Schools and Nome Joint Utility System. Both are legally separate entities for which the City is financially accountable. Financial information for the component units are reported separately from the financial information presented for the primary government itself.

***Fund Financial Statements***

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

- ***Governmental Funds:*** Most 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.

**City of Nome, Alaska**  
**Management Discussion and Analysis, Continued**

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 Nome, Alaska maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. 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*.

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.

- *Proprietary Funds*: When the City charges customers for the services it provides - both to outside customers and to other units of the City - these services are generally reported in the proprietary funds. Proprietary funds are reported in the same manner in the Statement of Net Position and the Statement of Activities. The City maintains two different types of proprietary funds.
  - *Enterprise Funds*: are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an Enterprise Fund to account for its port facilities.
  - *Fiduciary Funds*: Are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City uses the fiduciary fund to account for its deferred compensation plan.

***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.

***Other Information***

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

**City of Nome, Alaska**  
**Management Discussion and Analysis, Continued**

**Government-Wide Financial Analysis**

**Statement of Net Position**

Over time, net position may serve as a useful indicator of a government's financial position. At June 30, 2017, the City's assets and deferred outflows (net position) exceeded its liabilities and deferred inflows by \$99,748,041. This amount represents a net increase of \$830,922 from the prior year amount. Of this amount, \$9,134,706 in unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors.

By far the largest portion of the City's net position (88%) 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.

	2017			
	Governmental Activities	Business-type Activities	Eliminations	Total
Current and other assets	\$ 18,719,637	3,848,146	(2,081,310)	20,483,473
Long-term and capital assets	56,345,627	41,368,690	-	97,714,317
Total assets	75,062,264	45,216,836	(2,081,310)	118,197,790
Deferred outflows of resources	1,314,977	205,637	-	1,520,614
Current liabilities	436,063	3,889,306	(2,081,310)	2,244,059
Long-term liabilities	12,637,941	5,009,314	-	17,647,255
Total liabilities	13,074,004	8,898,620	(2,081,310)	19,891,314
Deferred inflows of resources	65,308	13,741	-	79,049
Net position				
Net investment in capital assets	51,495,988	35,991,132	-	87,487,120
Restricted for debt service	1,532,511	-	-	1,532,511
Restricted for E-911 surcharge	344,577	-	-	344,577
Restricted for causeway operations	-	1,249,127	-	1,249,127
Unrestricted	9,864,853	(730,147)	-	9,134,706
Total net position	\$ 63,237,929	36,510,112	-	99,748,041

**City of Nome, Alaska**  
**Management Discussion and Analysis, Continued**

2016

	Governmental Activities	Business-type Activities	Eliminations	Total
Current and other assets	\$ 15,808,155	2,508,996	(1,936,048)	16,381,103
Long-term and capital assets	59,345,610	40,447,276	-	99,792,886
Total assets	<u>75,153,765</u>	<u>42,956,272</u>	<u>(1,936,048)</u>	<u>116,173,989</u>
Deferred outflows of resources	<u>902,855</u>	<u>155,175</u>	<u>-</u>	<u>1,085,030</u>
Current liabilities	1,039,845	2,949,931	(1,936,048)	2,053,728
Long-term liabilities	11,253,589	4,916,364	-	16,169,953
Total liabilities	<u>12,293,434</u>	<u>7,866,295</u>	<u>(1,936,048)</u>	<u>18,223,681</u>
Deferred inflows of resources	<u>76,150</u>	<u>15,069</u>	<u>-</u>	<u>91,219</u>
Net position				
Net investment in capital assets	51,495,988	35,211,162	-	86,707,150
Restricted for debt service	2,604,223	-	-	2,604,223
Restricted for E-911 surcharge	338,358	-	-	338,358
Restricted for causeway operations	-	989,076	-	989,076
Unrestricted	9,248,467	(970,155)	-	8,278,312
Total net position	<u>\$ 63,687,036</u>	<u>35,230,083</u>	<u>-</u>	<u>98,917,119</u>

A small portion of the City's net position (3% in 2017) represents resources that are subject to external restrictions on how they may be used. Such restrictions are for the restricted assets for causeway operations, debt service, and the E-911 surcharge program. The remaining balance of unrestricted net position of \$9,134,706 may be used to meet the government's ongoing obligation to citizens and creditors.

**City of Nome, 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>2017</b>			<b>2016</b>		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
Revenues:						
Program revenues:						
Charges for services	\$ 1,112,521	1,904,444	3,016,965	1,059,377	1,463,186	2,522,563
Operating grants and contributions	587,789	13,133	600,922	613,706	40,126	653,832
Capital grants and contributions	574,283	2,419,822	2,944,105	9,242,783	5,447,743	14,690,526
General revenues:						
Property taxes	3,126,108	-	3,126,108	3,157,862	-	3,157,863
Penalties and interest	67,146	-	67,146	60,989	-	60,989
Sales tax	5,061,239	-	5,061,239	5,099,899	-	5,099,899
Bed tax	149,401	-	149,401	151,997	-	151,997
Fines and forfeitures	10,823	-	10,823	8,509	-	8,509
Payment in lieu of taxes	334,239	-	334,239	347,673	-	347,673
Rentals and royalties	210,253	-	210,253	222,683	-	222,683
Investment earnings	103,354	21,152	124,506	76,029	17,126	93,155
Grants not restricted to specific programs	746,459	-	746,459	1,117,473	-	1,117,473
Gain on sale of equipment	872,503	19,325	891,828	82,250	-	82,250
Other	5,671	-	5,671	31,973	-	31,973
Total revenues	\$ 12,961,789	4,377,876	17,339,665	21,273,203	6,968,181	28,241,384

(continued)

**City of Nome, Alaska**  
**Management Discussion and Analysis, Continued**

	Change in Net Position					
	2017			2016		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
Expenses:						
Legislative	108,960	-	108,960	169,124	-	169,124
Administrative	1,058,319	-	1,058,319	799,236	-	799,236
Information technology	214,278	-	214,278	210,466	-	210,466
Planning and engineering	90,943	-	90,943	131,870	-	131,870
City clerk	399,374	-	399,374	380,438	-	380,438
Police	2,691,582	-	2,691,582	2,567,290	-	2,567,290
Animal control	13,924	-	13,924	2,816	-	2,816
Fire	308,075	-	308,075	377,112	-	377,112
Ambulance	419,180	-	419,180	500,039	-	500,039
Public works	2,663,708	-	2,663,708	2,667,183	-	2,667,183
Recreation center	823,016	-	823,016	740,192	-	740,192
Swimming pool	53,043	-	53,043	137,554	-	137,554
Museum	401,540	-	401,540	390,329	-	390,329
Library	345,765	-	345,765	358,361	-	358,361
Visitor center	162,620	-	162,620	161,111	-	161,111
Education	3,320,900	-	3,320,900	3,476,055	-	3,476,055
Non-departmental	231,986	-	231,986	338,364	-	338,364
Unallocated interest	103,683	-	103,683	154,449	-	154,449
Port	-	3,097,847	3,097,847	-	2,893,906	2,893,906
Total expenses	<u>13,410,896</u>	<u>3,097,847</u>	<u>16,508,743</u>	<u>13,561,989</u>	<u>2,893,906</u>	<u>16,455,895</u>
Increase (decrease) in net position	(449,107)	1,280,029	830,922	7,711,214	4,074,275	11,785,489
Net position, beginning of year	<u>63,687,036</u>	<u>35,230,083</u>	<u>98,917,119</u>	<u>55,975,822</u>	<u>31,155,808</u>	<u>87,131,630</u>
Net position, end of year	<u>\$ 63,237,929</u>	<u>36,510,112</u>	<u>99,748,041</u>	<u>63,687,036</u>	<u>35,230,083</u>	<u>98,917,119</u>

As reflected in the table above, the City's overall net position increased by \$830,922 in 2017. Governmental activities in 2017 decreased the City's net position by \$449,107. This is mainly due to a reduction in capital grants and contributions, property tax and sales tax collections. Expenses in the governmental activities also decreased in 2017 by \$151,093 from the prior year. The decrease in expenses was due to lower heating oil prices, lower than expected utilities costs, and open positions due to staff turnover and challenges in filling positions during the year.

Business-type activities in 2017 increased the City's net position by \$1,280,029 compared to an increase of \$4,074,275 in 2016, accounting for an increase of over 3% in business-type activities. This was largely due to the local, state and federal capital contributions to port upgrades and improvements.



**City of Nome, Alaska**  
**Management Discussion and Analysis, Continued**

**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 City of Nome's governmental funds focus on near-term inflows, outflows, and balances of spendable resources available at the end of the year. Such information is useful in assessing whether the City is generating sufficient revenues in the current year to pay current-year obligations. However, it does not indicate whether there are sufficient funds available to cover long-term operations. The level of unassigned fund balance is an important indicator of the amount of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2017 the City's governmental funds reported combined ending fund balances of \$16,699,441, an increase of \$2,472,285 over the prior year. Of this amount \$9,525,079 is non-spendable, restricted, committed, or assigned for specific purposes. \$7,174,362 is available for spending at the government's discretion.

The General Fund is the chief operating fund of the City. The fund balance of the City's General Fund increased by \$2,371,451 in 2017 compared to an increase of \$1,461,194 in 2016.

The General Fund's fund balance must be able to meet unforeseen needs and emergencies, as well as future spending needs. The City's fund balance policy is to maintain unassigned fund balance in a range equal to 10% to 50% of the General Fund operating expenditures. At June 30, 2017 and 2016 the unassigned fund balance of the General Fund was \$7,174,362 and \$4,214,779, respectively, which is 55% and 40% of the total General Fund balance, respectively.

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 74% of total General Fund expenditures at June 30, 2017 and 43% as of June 30, 2016.

***Proprietary Fund***

The City's proprietary fund provides the same type of information found in the government-wide financial statements.

The Port of Nome Fund's total net position was \$36,510,112 in 2017, an increase of \$1,280,029 from 2016 while the unrestricted net position shows a deficit of \$730,147 compared to a deficit of \$970,155 in 2016. This was due in part to changes in the newly recognized net pension liability as well as restatement of the net position restricted for causeway operations.

**City of Nome, Alaska**  
**Management Discussion and Analysis, Continued**

**General Fund Budgetary Highlights**

There were a number of modifications made to the budget during the year, as summarized below:

- Overall, projected revenues were adjusted upwards by \$465,594 related to increased sales tax revenue (\$300,000) from the introduction of a 4-month seasonal sales tax of 7% to fund the operation and maintenance activities in the General Fund, and education and capital improvements not associated with the enterprise funds, State health insurance premium holiday (\$50,167), various general government grants (\$48,962) and general government charges for services.
- Other financing sources was increased by \$1,347,422 related to the sale of capital assets, primarily the Gold Hill Tutit Ininat building to Kawerak, Inc., which was completed in February 2017.
- Expenditure budgets were increased by \$663,006 during the year, reflecting unanticipated modifications in the second half of the annual budget cycle. Budget amendments included the following: \$10,000 related to sales tax audit; \$24,243 related to the salary and benefits for an animal control officer; \$353,466 related to the purchase of a new pumper fire truck; \$32,600 related to the expansion design for the monofill; \$20,000 related to cemetery mapping software and equipment rental; and \$53,000 related to the purchase of a used water truck for road maintenance.
- Transfers out from the General Fund to other Funds increased by \$11,118 to cover the expenses for the grand opening of the Richard Foster Building in the Special Revenue Fund.

On a budgetary basis, the General Fund revenues came in \$405,222 or 3.6% less than budget primarily due to property tax collection, sales tax collection and charges for services coming in below budget. General Fund expenditures were under budget by \$1,366,463 or 12%. Most of this variance was due to \$389,529 savings from public works, \$321,926 savings from police, and \$134,962 savings from parks and recreation.

**General Fund Actual Highlights**

General Fund revenues exceeded expenditures by \$1,214,012, and after proceeds from sale of capital assets and transfers between funds were accounted for, there was a net increase in fund balance of \$2,371,451.

**Capital Assets and Debt Administration**

***Capital Assets***

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2017 amounts to \$94,714,703 (net of accumulated depreciation), a decrease of \$1,312,222 over last year. Major capital asset events during the current fiscal year included the following:

- Capital projects completed:
  - Acquisition of a new pumper fire truck and a used water truck
  - Upgrades to HVAC system at the Pool
  - Purchase of new T-shirt making station at the Recreation Center
  - Upgrades to Dispatch Console communication systems
  - School safety lights and signage

**City of Nome, Alaska**  
**Management Discussion and Analysis, Continued**

- Completion of the construction of the Richard Foster Building
- Seawall erosion repairs
- Causeway Middle Dock
- Sale of Gold Hill Tutit Ininat building
  
- Ongoing projects:
  - Deep water port design
  - Thornbush subdivision uplands development
  - Cape Nome Quarry repairs
  - Port waste facility
  - Port security cameras

	<b>2017</b>			<b>2016</b>		
	Governmental	Business-type	Total	Governmental	Business-type	Total
	Activities	Activities		Activities	Activities	
Land	\$ 7,079,628	5,153,383	12,233,011	7,172,128	5,153,383	12,325,511
Tideland patent	-	736,400	736,400	-	736,400	736,400
Buildings	27,028,699	102,096	27,130,795	29,434,067	86,894	29,520,961
Small Boat Harbor	-	3,452,517	3,452,517	-	3,613,475	3,613,475
Causeway	-	7,294,532	7,294,532	-	8,009,098	8,009,098
Quarry Jetty	-	2,201,258	2,201,258	-	2,397,393	2,397,393
C-cell dock	-	1,093,322	1,093,322	-	1,206,255	1,206,255
Vehicles, trucks and trailers	906,963	-	906,963	901,228	-	901,228
Assets other than buildings	309,399	-	309,399	558,244	-	558,244
Other	252,575	9,395,414	9,647,989	-	6,954,877	6,954,877
Machinery and equipment	284,414	14,189	298,603	308,350	61,720	370,070
Construction in progress	18,733,462	10,676,452	29,409,914	18,194,708	11,238,705	29,433,413
Total capital assets	\$ <u>54,595,140</u>	<u>40,119,563</u>	<u>94,714,703</u>	<u>56,568,725</u>	<u>39,458,200</u>	<u>96,026,925</u>

Additional information on the City's capital assets can be found in note 7 on pages 40 through 42 of this report.

**Debt Administration**

**Long-Term Debt** – At the end of the current fiscal year, the City of Nome, Alaska had total bonded debt outstanding of \$8,845,764. This entire amount is backed by the full faith and credit of the City. The remainder of the City's debt represents loans, compensated absences and landfill closure and post-closure costs.

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

	Governmental		Business-type		Total	
	Activities		Activities		Total	
	2017	2016	2017	2016	2017	2016
General obligation bonds, including premium	\$ 4,717,333	5,072,737	-	-	4,717,333	5,072,737
Revenue bonds	-	-	4,128,431	4,247,038	4,128,431	4,247,038
Compensated absences	409,490	360,194	-	-	409,490	360,194
Landfill post closure care costs	910,771	876,989	-	-	910,771	876,989
Landfill loan	389,520	460,585	-	-	389,520	460,585
	\$ <u>6,427,114</u>	<u>6,770,505</u>	<u>4,128,431</u>	<u>4,247,038</u>	<u>10,555,545</u>	<u>11,017,543</u>

**City of Nome, Alaska**  
**Management Discussion and Analysis, Continued**

During the current fiscal year, the City's total debt decreased by \$461,998 as a result of debt repayments and debt refunding during the year. Additional information on the City of Nome, Alaska's long-term debt can be found in note 8 on pages 42-46 of this report.

**Economic Factors and Next Year's (2018) Budgets and Rates**

- The State of Alaska's uncertain fiscal situation and budgetary pressures are passing costs onto local governments. We expect to see a continued reduction in revenue sharing and capital grants.
- Sales tax remains the primary source of revenue for the General Fund accounting for approximately 47% of total budgeted revenues. This amount was levied for the operation and maintenance activities in the General Fund, and to fund education and capital improvements not associated with the enterprise funds.
- The City continues with the expansion and construction and improvements to the port facilities.

These various factors were taken into consideration in the development of the FY 2018 budget. Major aspects of the adopted FY 2018 budget include:

- Overall revenue in the General Fund is projected to decrease by \$1,560,725 while overall expenditure is projected to increase by \$666,007.
- The property tax rate was reduced by 1 mill (or \$317,172) to 10 mills or \$10 per \$1,000 of assessed value on the back of an increase in overall property assessed values. This amount was levied to fund education.
- Sales tax rate remains at 5% from September to April and 7% from May to August. Bed tax remains at 6%. There are no major changes to the port tariff.
- School appropriation increased in FY 2018 from \$2,014,952 to \$2,500,000.

**Requests for Information**

This financial report is designed to provide a general overview of the City of Nome, Alaska's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the following:

Finance Department  
City of Nome  
P.O. Box 281  
Nome, Alaska 99762  
Email: [finance@nomealaska.org](mailto:finance@nomealaska.org)

# **BASIC FINANCIAL STATEMENTS**

## CITY OF NOME, ALASKA

## Statement of Net Position

## Government-Wide Financial Statements

June 30, 2017

	Primary Government				Component Units	
	Governmental Activities	Business-type Activities	Eliminations	Totals	Nome Public Schools	Nome Joint Utility System
<b>Assets and Deferred Inflows of Resources</b>						
<b>Current:</b>						
Cash and investments	\$ 12,093,493	1,953,290	-	14,046,783	4,082,520	1,153,513
Receivables:						
Property taxes, net	3,333,332	-	-	3,333,332	-	-
Sales and bed taxes, net	624,087	-	-	624,087	-	-
Accounts receivable, net	-	192,462	-	192,462	-	1,193,529
State of Alaska and federal government	283,377	1,702,394	-	1,985,771	356,732	409,189
Unbilled revenues	-	-	-	-	-	523,021
Other	219,197	-	-	219,197	212,592	419,552
Inventory	-	-	-	-	47,155	4,669,053
Prepaid items	-	-	-	-	353,693	248,508
Internal balances	2,081,310	-	(2,081,310)	-	-	-
Due from component units:						
Nome Joint Utility System	81,841	-	-	81,841	-	-
Other assets	-	-	-	-	-	967,064
Long-term:						
Restricted assets:						
Cash and investments	1,532,511	1,249,127	-	2,781,638	-	-
Long-term notes receivable, due within one year	31,127	-	-	31,127	-	-
Long-term notes receivable, due in more than one year	186,849	-	-	186,849	-	-
Capital assets:						
Not being depreciated	26,065,665	16,566,235	-	42,631,900	-	1,403,220
Depreciated, net	28,529,475	23,553,328	-	52,082,803	2,023,595	95,991,360
Investment in ARC	-	-	-	-	-	1,558,607
Total assets	<u>75,062,264</u>	<u>45,216,836</u>	<u>(2,081,310)</u>	<u>118,197,790</u>	<u>7,076,287</u>	<u>108,536,616</u>
Deferred outflows of resources						
Pension deferrals	1,314,977	205,637	-	1,520,614	2,381,947	268,644
Deferred charges	-	-	-	-	-	810,042
Loss on refunding bonds	-	-	-	-	-	40,666
Total assets and deferred outflows of resources	<u>76,377,241</u>	<u>45,422,473</u>	<u>(2,081,310)</u>	<u>119,718,404</u>	<u>9,458,234</u>	<u>109,655,968</u>
<b>Liabilities and Deferred Inflows of Resources</b>						
<b>Current:</b>						
Accounts payable	147,066	1,010,033	-	1,157,099	370,059	541,789
Line of credit	-	-	-	-	-	-
Unearned revenue	-	-	-	-	57,680	-
Accrued payroll	63,245	-	-	63,245	775,521	172,251
Accrued payroll liabilities	31,210	-	-	31,210	-	177,017
Accrued interest payable	-	45,867	-	45,867	-	94,403
Internal balances	-	2,081,310	(2,081,310)	-	-	-
Deposits payable	-	-	-	-	-	55,092
Prepaid services	194,542	752,096	-	946,638	-	-
Fuel loan payable	-	-	-	-	-	2,919,038
Noncurrent liabilities:						
Long-term debt due						
within one year	421,065	123,460	-	544,525	32,234	800,456
in more than one year	5,596,559	4,004,971	-	9,601,530	185,735	12,079,923
Net pension liability	6,210,827	880,883	-	7,091,710	10,293,077	1,824,226
Compensated absences	409,490	-	-	409,490	59,999	-
Total current and noncurrent liabilities	<u>13,074,004</u>	<u>8,898,620</u>	<u>(2,081,310)</u>	<u>19,891,314</u>	<u>11,774,305</u>	<u>18,664,195</u>
Deferred inflows of resources						
Pension deferrals	65,308	13,741	-	79,049	274,272	52,887
Total liabilities and deferred inflows of resources	<u>13,139,312</u>	<u>8,912,361</u>	<u>(2,081,310)</u>	<u>19,970,363</u>	<u>12,048,577</u>	<u>18,717,082</u>
<b>Net Position:</b>						
Net investment in capital assets	51,495,988	35,991,132	-	87,487,120	1,805,626	84,473,535
Restricted for general fund reserve	-	-	-	-	-	500,000
Restricted for insurance reserve	-	-	-	-	-	125,500
Restricted for debt service	1,532,511	-	-	1,532,511	-	341,564
Restricted for E-911 surcharge	344,577	-	-	344,577	-	-
Restricted for causeway operations	-	1,249,127	-	1,249,127	-	-
Restricted for scholarships	-	-	-	-	9,860	-
Unrestricted	9,864,853	(730,147)	-	9,134,706	(4,405,829)	5,498,287
Total net position	<u>\$ 63,237,929</u>	<u>36,510,112</u>	<u>-</u>	<u>99,748,041</u>	<u>(2,590,343)</u>	<u>90,938,886</u>

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

CITY OF NOME, ALASKA  
 Government-Wide Financial Statements  
 Statement of Activities  
 Year Ended June 30, 2017

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Nome Public Schools	Nome Joint Utility System
					Governmental Activities	Business-type Activities	Total		
<b>Primary government:</b>									
<b>Governmental activities:</b>									
Legislative	\$ 108,960	-	49	-	(108,911)	-	(108,911)	-	-
Administrative	1,058,319	23,551	19,221	-	(1,015,547)	-	(1,015,547)	-	-
Information technology	214,278	-	6,385	-	(207,893)	-	(207,893)	-	-
Planning and engineering	90,943	68,139	-	-	(22,804)	-	(22,804)	-	-
City clerk	399,374	-	4,742	-	(394,632)	-	(394,632)	-	-
Police	2,691,582	98,714	51,218	-	(2,541,650)	-	(2,541,650)	-	-
Animal control	13,924	6,595	300	-	(7,029)	-	(7,029)	-	-
Fire	308,075	-	6,921	-	(301,154)	-	(301,154)	-	-
Ambulance	419,180	217,862	16,916	-	(184,402)	-	(184,402)	-	-
Public works	2,663,708	352,321	25,884	33,908	(2,251,595)	-	(2,251,595)	-	-
Recreation center	823,016	284,097	23,638	-	(515,281)	-	(515,281)	-	-
Swimming pool	53,043	50,486	1,462	-	(1,095)	-	(1,095)	-	-
Museum	401,540	9,091	10,975	540,375	158,901	-	158,901	-	-
Library	345,765	1,665	28,442	-	(315,658)	-	(315,658)	-	-
Visitor center	162,620	-	-	-	(162,620)	-	(162,620)	-	-
Education	3,320,900	-	171,655	-	(3,149,245)	-	(3,149,245)	-	-
Non-departmental	231,986	-	219,981	-	(12,005)	-	(12,005)	-	-
Unallocated interest	103,683	-	-	-	(103,683)	-	(103,683)	-	-
Total governmental activities	<u>13,410,896</u>	<u>1,112,521</u>	<u>587,789</u>	<u>574,283</u>	<u>(11,136,303)</u>	<u>-</u>	<u>(11,136,303)</u>	<u>-</u>	<u>-</u>
<b>Business-type activities:</b>									
Port	3,097,847	1,904,444	13,133	2,419,822	-	1,239,552	1,239,552	-	-
Total primary government	<u>\$ 16,508,743</u>	<u>3,016,965</u>	<u>600,922</u>	<u>2,994,105</u>	<u>(11,136,303)</u>	<u>1,239,552</u>	<u>(9,896,751)</u>	<u>-</u>	<u>-</u>
<b>Component Unit:</b>									
Nome Public Schools	\$ 19,502,828	286,696	3,195,325	-	-	-	(16,020,807)	-	-
Nome Joint Utility System	16,214,031	12,630,936	-	403,094	-	-	-	(3,180,001)	-
Total component units	<u>\$ 35,716,859</u>	<u>12,917,632</u>	<u>3,195,325</u>	<u>403,094</u>	<u>-</u>	<u>-</u>	<u>(16,020,807)</u>	<u>(3,180,001)</u>	<u>-</u>
<b>General revenues:</b>									
<b>Taxes:</b>									
Property taxes	-	-	-	-	\$ 3,126,108	-	3,126,108	-	-
Sales taxes	-	-	-	-	5,061,239	-	5,061,239	-	-
Payments in lieu of taxes	-	-	-	-	334,239	-	334,239	-	-
Penalties and interest	-	-	-	-	67,146	-	67,146	-	-
Bed taxes	-	-	-	-	149,401	-	149,401	-	-
Fines and forfeitures	-	-	-	-	10,823	-	10,823	-	-
Grants not restricted to specific programs	-	-	-	-	746,459	-	746,459	9,036,195	-
E-rate revenue	-	-	-	-	-	-	-	2,628,531	-
Investment earnings	-	-	-	-	103,354	21,152	124,506	-	687
Appropriation from City of Nome	-	-	-	-	-	-	-	2,014,952	-
Rentals and royalties	-	-	-	-	210,253	-	210,253	-	-
Gain on sale of assets	-	-	-	-	872,503	19,325	891,828	-	7,350
Other	-	-	-	-	5,671	-	5,671	396,825	252,100
Total general revenues	-	-	-	-	<u>10,687,196</u>	<u>40,477</u>	<u>10,727,673</u>	<u>14,076,503</u>	<u>260,137</u>
Change in net position	-	-	-	-	(449,107)	1,280,029	830,922	(1,944,304)	(2,919,864)
Net position, beginning of year	-	-	-	-	63,687,036	35,230,083	98,917,119	(646,039)	93,858,750
Net position, end of year	-	-	-	-	<u>\$ 63,237,929</u>	<u>36,510,112</u>	<u>99,748,041</u>	<u>(2,590,343)</u>	<u>90,938,886</u>

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

## CITY OF NOME, ALASKA

## Governmental Funds

## Balance Sheet

June 30, 2017

<u>Assets</u>	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and investments	\$ 10,815,164	1,278,329	12,093,493
Restricted cash	-	1,532,511	1,532,511
Receivables:			
Property tax levies due in subsequent year	3,171,723	-	3,171,723
Delinquent taxes, net of \$65,038 allowance for doubtful accounts	161,609	-	161,609
Sales and bed taxes, net of \$13,499 allowance for doubtful accounts	624,087	-	624,087
State of Alaska and federal government	9,964	273,413	283,377
Other	174,649	44,548	219,197
Due from other funds:			
General Fund	-	1,098,893	1,098,893
Port Facility Enterprise Fund	2,081,310	-	2,081,310
Other Governmental Funds	418,505	-	418,505
Due from component units:			
Nome Joint Utility System	81,841	-	81,841
Nome Public Schools	217,976	-	217,976
Total assets	<u>\$ 17,756,828</u>	<u>4,227,694</u>	<u>21,984,522</u>
<u>Liabilities, deferred inflows of resources, and fund balances</u>			
Liabilities:			
Accounts payable	85,959	61,107	147,066
Accrued payroll	63,245	-	63,245
Accrued payroll liabilities	31,210	-	31,210
Due to other funds:			
General Fund	-	418,505	418,505
Other Governmental Funds	1,098,893	-	1,098,893
Prepaid services	194,542	-	194,542
Total liabilities	<u>1,473,849</u>	<u>479,612</u>	<u>1,953,461</u>
Deferred inflows of resources:			
Unavailable revenues	<u>3,331,620</u>	<u>-</u>	<u>3,331,620</u>
Total liabilities and deferred inflows	<u>4,805,469</u>	<u>479,612</u>	<u>5,285,081</u>
Fund balances:			
Non-spendable:			
School loan receivable	217,976	-	217,976
Restricted:			
Debt service	-	1,532,511	1,532,511
E-911 surcharge	-	344,577	344,577
Assigned:			
Debt service	-	1,114,776	1,114,776
Self insurance/ equipment replacement	987,332	-	987,332
Clara Mielke Richards estate	280,109	-	280,109
PERS	1,146,180	-	1,146,180
Reinvestment	471,211	-	471,211
Community projects	-	51,551	51,551
Landfill	2,674,189	704,667	3,378,856
Unassigned	<u>7,174,362</u>	<u>-</u>	<u>7,174,362</u>
Total fund balances	<u>12,951,359</u>	<u>3,748,082</u>	<u>16,699,441</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 17,756,828</u>	<u>4,227,694</u>	<u>21,984,522</u>

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



## CITY OF NOME, ALASKA

Reconciliation of the Net Position Between the  
Government-Wide Financial Statements and Fund Financial Statements

Year Ended June 30, 2017

Amounts reported as fund balances on the governmental funds		\$ 16,699,441
Amounts reported for governmental activities in the Statement of Net Position are 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.		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds net of accumulated depreciation of \$53,017,327		54,595,140
Proportionate share of the collective net position liability: PERS		(6,210,827)
Deferred inflow and outflow of resources are the result of timing differences in the actuarial report.		
Pension related assets in the current fiscal year are presented as deferred outflows of resources: PERS		1,314,977
Pension related liabilities in the current fiscal year are presented as deferred inflows of resources: PERS		(65,308)
Other long-term assets, are not available to pay current year expenditures and, therefore, are deferred inflows in the funds Property taxes		3,331,620
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds:		
Compensated absences	(409,490)	
General obligation bonds	(4,408,000)	
Premium on general obligation bonds	(309,333)	
Landfill loan	(389,520)	
Landfill closure and post closure care costs	(910,771)	(6,427,114)
		<u>(6,427,114)</u>
Net position of governmental activities		\$ <u>63,237,929</u>

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

## CITY OF NOME, ALASKA

## Governmental Funds

## Statement of Revenues, Expenditures and Changes in Fund Balance

Year Ended June 30, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Local sources:			
Taxes:			
Property taxes	\$ 3,112,527	-	3,112,527
Sales taxes	5,061,239	-	5,061,239
Payments in lieu of taxes	334,239	-	334,239
Penalties and interest	67,146	-	67,146
Bed tax	149,401	-	149,401
Charges for services:			
Licenses and permits	65,776	91,864	157,640
Usage fees	954,881	-	954,881
Fines and forfeitures	10,823	-	10,823
Investment income	59,846	43,508	103,354
Rental and royalties	210,253	-	210,253
Contributions	26,254	-	26,254
Other	5,671	292,358	298,029
Total local sources	<u>10,058,056</u>	<u>427,730</u>	<u>10,485,786</u>
Intergovernmental:			
State of Alaska	401,254	674,943	1,076,197
Federal sources	473,409	56,461	529,870
Total intergovernmental	<u>874,663</u>	<u>731,404</u>	<u>1,606,067</u>
Total revenues	<u>10,932,719</u>	<u>1,159,134</u>	<u>12,091,853</u>
<b>Expenditures:</b>			
Current:			
Legislative	97,641	-	97,641
Administrative	799,639	3,556	803,195
Information technology	193,315	-	193,315
Planning and engineering	90,068	875	90,943
City clerk	337,157	-	337,157
Police	1,919,532	98,434	2,017,966
Animal control	13,924	-	13,924
Fire	601,286	5,819	607,105
Ambulance	221,211	7,320	228,531
Public works	1,808,301	-	1,808,301
Recreation center	633,279	-	633,279
Swimming pool	88,586	-	88,586
Museum	325,263	4,600	329,863
Library	266,788	23,526	290,314
Visitor center	162,620	-	162,620
Education	2,018,567	-	2,018,567
Non-departmental	63,556	168,430	231,986
Debt service:			
Principal	71,065	340,000	411,065
Interest	6,909	109,087	115,996
Capital outlay	-	635,969	635,969
Total expenditures	<u>9,718,707</u>	<u>1,397,616</u>	<u>11,116,323</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,214,012</u>	<u>(238,482)</u>	<u>975,530</u>
Other financing sources (uses):			
Proceeds from sale of capital assets	1,499,846	-	1,499,846
Bond issuance	-	650,000	650,000
Premium on bonds issued	-	38,753	38,753
Payment to refunding escrow	-	(691,844)	(691,844)
Transfers in	-	342,407	342,407
Transfers out	(342,407)	-	(342,407)
Net other financing sources (uses)	<u>1,157,439</u>	<u>339,316</u>	<u>1,496,755</u>
Net change in fund balance	2,371,451	100,834	2,472,285
Fund balance, beginning of year	<u>10,579,908</u>	<u>3,647,248</u>	<u>14,227,156</u>
Fund balance, ending of year	<u>\$ 12,951,359</u>	<u>3,748,082</u>	<u>16,699,441</u>

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

## CITY OF NOME, ALASKA

Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities

Year Ended June 30, 2017

Net change in fund balance - total governmental funds		\$	2,472,285
Amounts reported for governmental activities in the statement of activities are 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.			
Change in the unfunded net pension liability:			
PERS			(1,727,743)
Changes in deferred inflows and outflows of resources are the result of timing differences in the actuarial report and adjustments to reflect employer and non-employer contributions based on the measurement date of the liability			
PERS			422,964
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	\$	1,318,773	
Depreciation expense		<u>(2,665,015)</u>	(1,346,242)
Governmental funds report only the revenue from the sale of capital assets to the extent of the proceeds 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 disposed		(1,774,225)	
Accumulated depreciation of assets disposed		<u>1,146,882</u>	(627,343)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds represents change in:			
Unavailable property tax revenues			13,581
The issuance of long-term debt and accrual of compensated absences 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:			
Principal repayments	\$	1,076,065	
Issuance of long term debt		(688,753)	
Amortization of bond premium		39,157	
Increase in landfill post closure costs		(33,782)	
Compensated absences		<u>(49,296)</u>	<u>343,391</u>
Change in net position of governmental activities		\$	<u>(449,107)</u>

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

## CITY OF NOME, ALASKA

## General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance - Original and Final  
Budgeted Amounts and Actual

Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Local sources:				
Taxes:				
Property taxes	\$ 3,171,662	3,149,679	3,112,527	(37,152)
Sales taxes	5,058,000	5,358,000	5,061,239	(296,761)
Payments in lieu of taxes	317,776	316,563	334,239	17,676
Penalties and interest	49,000	47,500	67,146	19,646
Bed tax	130,000	130,000	149,401	19,401
Charges for services				
Licenses and permits	74,500	70,145	65,776	(4,369)
Usage fees	835,410	972,345	954,881	(17,464)
Fines and forfeitures	8,000	8,000	10,823	2,823
Investment income	20,672	27,172	59,846	32,674
Rental and royalties	272,901	204,517	210,253	5,736
Contributions	1,500	16,322	26,254	9,932
Other	-	5,643	5,671	28
Total local sources	9,939,421	10,305,886	10,058,056	(247,830)
Intergovernmental:				
State of Alaska	250,096	310,816	401,254	90,438
Federal sources	435,000	473,409	473,409	-
Total revenues	10,624,517	11,090,111	10,932,719	(157,392)
Expenditures:				
Current:				
Legislative	109,140	108,205	97,641	10,564
Administrative	795,315	808,911	799,639	9,272
Information technology	254,279	254,634	193,315	61,319
Planning and engineering	108,843	106,945	90,068	16,877
City clerk	364,045	402,914	337,157	65,757
Police	2,241,188	2,241,458	1,919,532	321,926
Animal control	15,980	40,223	13,924	26,299
Fire	316,875	682,169	601,286	80,883
Ambulance	298,075	300,467	221,211	79,256
Public works	2,002,996	2,197,830	1,808,301	389,529
Recreation center	700,960	712,233	633,279	78,954
Swimming pool	139,805	144,594	88,586	56,008
Museum	411,514	396,404	325,263	71,141
Library	299,823	300,412	266,788	33,624
Visitor center	165,491	168,167	162,620	5,547
Education	2,019,215	2,019,215	2,018,567	648
Non-departmental	78,620	122,415	63,556	58,859
Debt service:				
Principal	-	71,065	71,065	-
Interest	100,000	6,909	6,909	-
Total expenditures	10,422,164	11,085,170	9,718,707	1,366,463
Excess of revenues over expenditures	202,353	4,941	1,214,012	1,209,071
Other financing sources (uses):				
Proceeds from sale of capital assets	-	1,347,422	1,499,846	152,424
Transfers out	(339,605)	(350,723)	(342,407)	8,316
Net other financing sources (uses)	(339,605)	996,699	1,157,439	160,740
Net change in fund balance	\$ (137,252)	1,001,640	2,371,451	1,369,811
Fund balance, beginning of year			10,579,908	
Fund balance, ending of year			\$ 12,951,359	

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

## CITY OF NOME, ALASKA

## Port Facility Enterprise Fund

## Balance Sheet

June 30, 2017

Assets and Deferred Outflows of Resources

## Current assets:

## Unrestricted:

Cash and cash equivalents	\$ 1,953,290
Accounts receivable, net of \$37,737 allowance for doubtful accounts	192,462
Due from the State of Alaska	1,702,394
Total unrestricted current assets	<u>3,848,146</u>

## Non-current assets:

## Restricted assets:

Cash and cash equivalents	1,249,127
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## Capital assets:

Not being depreciated	16,566,235
Depreciated, net	23,553,328

Total non-current assets	<u>41,368,690</u>
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## Deferred outflows of resources:

Pension deferrals	205,637
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Total assets and deferred outflows of resources	<u>\$ 45,422,473</u>
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Liabilities, Deferred Inflows of Resources and Net Position

## Current liabilities:

Bonds payable - current portion	123,460
Accounts payable	1,010,033
Accrued interest payable	45,867
Due to General Fund	2,081,310
Prepaid lease revenue	752,096
Total current liabilities	<u>4,012,766</u>

## Non-current liabilities:

Bonds payable	4,004,971
Net pension liability	880,883
Total current and non-current liabilities	<u>8,898,620</u>

## Deferred inflows of resources

Pension deferrals	13,741
Total liabilities and deferred inflows of resources	<u>8,912,361</u>

## Net position:

Net investment in capital assets	35,991,132
Restricted for Causeway debt	1,249,127
Unrestricted	(730,147)
Total net position	<u>36,510,112</u>

Total liabilities, deferred inflows of resources and net position	<u>\$ 45,422,473</u>
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The notes to the financial statements are an integral part of this statement.

## CITY OF NOME, ALASKA

## Port Facility Enterprise Fund

## Statement of Revenues, Expenses, and Changes in Net Position

Year Ended June 30, 2017

Operating revenues:		
Causeway facility	\$	1,023,980
Harbor facility		461,873
Industrial park facility		356,520
Bad debt recovery		28,013
Other		34,058
Total operating revenues		<u>1,904,444</u>
Operating expenses:		
Direct expenses:		
Causeway facility		226,597
Harbor facility		153,385
Industrial park facility		47,535
Quarry terminal facility		1,388
Total direct expenses		<u>428,905</u>
General and administrative expenses:		
Other		<u>730,308</u>
Total operating expenses, excluding depreciation		<u>1,159,213</u>
Depreciation:		
Causeway facility		924,438
Harbor facility		629,557
Quarry terminal facility		196,136
Industrial park facility		20,156
Vehicles		13,548
Total depreciation		<u>1,783,835</u>
Total operating expenses		<u>2,943,048</u>
Operating (loss)		<u>(1,038,604)</u>
Non-operating income (expenses):		
Interest income		21,152
Interest expense		(154,799)
Gain on asset disposal		19,325
State of Alaska on-behalf payments		13,133
Total non-operating income (expense)		<u>(101,189)</u>
(Loss) before capital contributions		(1,139,793)
Capital contributions		<u>2,419,822</u>
Change in net position		1,280,029
Net position, beginning of year		<u>35,230,083</u>
Net position, end of year	\$	<u><u>36,510,112</u></u>

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

## CITY OF NOME, ALASKA

## Port Facility Enterprise Fund

## Statement of Cash Flows

Year Ended June 30, 2017

Cash flows provided (used) by operating activities:	
Receipts from customers and users	\$ 1,818,003
Payments to employees	(358,800)
Payments to vendors	<u>205,577</u>
Net cash provided (used) by operating activities	<u>1,664,780</u>
Cash flows provided by noncapital financing activities:	
Internal activity- payments to/from other funds	145,262
State of Alaska on-behalf payments	<u>13,133</u>
Net cash flows provided by noncapital financing activities	<u>158,395</u>
Cash flows provided (used) by capital and related financing activities:	
Principal paid on debt	(118,607)
Interest paid on debt	(156,392)
Capital contributions	1,530,149
Acquisition of capital assets	(2,445,198)
Proceeds on disposal of capital assets	<u>19,325</u>
Net cash (used) by capital and related financing activities	<u>(1,170,723)</u>
Cash flows provided by investing activities:	
Interest income	<u>21,152</u>
Net increase in cash and cash equivalents	673,604
Cash and cash equivalents at beginning of year	<u>2,528,813</u>
Cash and cash equivalents at end of year	\$ <u><u>3,202,417</u></u>
Composed of:	
Unrestricted cash and cash equivalents	1,953,290
Restricted cash and cash equivalents	<u>1,249,127</u>
	\$ <u><u>3,202,417</u></u>
Reconciliation of change in net assets to cash provided by operating activities:	
Operating (loss)	(1,038,604)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	1,783,835
Pension expense	159,767
Changes in assets and liabilities that provided (used) cash:	
Accounts receivable	(35,924)
Accounts payable	846,223
Prepaid lease revenue	<u>(50,517)</u>
Net cash provided (used) by operating activities	\$ <u><u>1,664,780</u></u>

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

CITY OF NOME, ALASKA  
 Fiduciary Fund - Deferred Compensation Plan

Statement of Fiduciary Net Position

June 30, 2017

Assets

Investments:

ICMA Retirement Corporation	\$ 563,333
The Hartford	1,256,401
	<u>\$ 1,819,734</u>

Net Position

Held in trust for:

Deferred compensation plan	\$ <u>1,819,734</u>
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The notes to the financial statements are an integral part of this statement.



CITY OF NOME, ALASKA  
 Fiduciary Fund - Deferred Compensation Plan  
 Statement of Changes in Fiduciary Net Position  
 Year Ended June 30, 2017

Additions:	
Contributions	\$ 269,078
Investment gain (loss)	207,457
Total additions	<u>476,535</u>
Deductions:	
Regular benefit payments	<u>213,642</u>
Change in net position	262,893
Net position, beginning of year	<u>1,556,841</u>
Net position, end of year	<u>\$ 1,819,734</u>

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

CITY OF NOME, ALASKA

Notes to Financial Statements

Year Ended June 30, 2017

(1) **Summary of Significant Accounting Policies**

(a) ***General***

The City of Nome, Alaska, Alaska (City) was incorporated in 1901 as a first-class city under the laws of the Territory of Alaska. The City operates under council-manager form of government and performs municipal duties allowed by Alaska Statutes and as directed by its residents.

The financial results of the recurring activities performed directly by the City (which include public safety, roads and building maintenance and improvements, swimming pool, administration, planning and zoning, public library, museum and recreation) are accounted for in the funds of the City. As discussed in the following paragraphs, the City delegates certain functions to other organizations.

(b) ***Reporting Entity***

Water, sewer and electrical utility service provided to area residents is a function of the City delegated to the Nome Joint Utility System (Utility System), a legal subdivision of the City in accordance with Alaska Statute 29.43.340. The City has the authority for approval of all budgets, rates, acquisition and disposal of all real property. Ownership of the utility plant is with the Utility System. The accounts and financial transactions of the Utility System are maintained separate from those of the City and are included herein. Financial statements of the Utility System can be obtained by contacting the Utility Management at P.O. Box 70, Nome, Alaska 99762.

Public education provided to area residents is a function of the City delegated to the Nome Public Schools (School District), a legal subdivision of the City, in accordance with Alaska Statute 29.43.030. The City has the authority for approval of all budgets, rates, acquisition and disposal of all real property. Maintenance of the building improvements and equipment is with the School District. The accounts and financial transactions of the School District are maintained separate from those of the City and are included in the financial statements. Financial statements of the School District can be obtained by contacting the School District at P.O. Box 131, Nome, Alaska 99762.

In conformity with accounting principles generally accepted in the United States, the financial data of all potential component units included in the financial reporting entity meet the criteria for discrete presentation. These units included in a separate column to emphasize that they are legally separate from the City. Each potential component unit issues separate financial statements and has a June 30 year-end, except for the Utility System, which has a December 31 year-end.

## Notes to Financial Statements, Continued

**(c) 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 primary government and its component units. For the most part, the effect of interfund activity has been eliminated from the total columns in the statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, 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.

Deferred inflows of resources are the acquisition of fund balance/net position by the City that are applicable to a future reporting period. Deferred outflows of resources are the consumption of fund balance/net position by the City that are applicable to a future reporting period.

Separate financial statements are provided for governmental funds and proprietary funds. The major individual governmental funds and major individual enterprise fund are reported as separate columns in the fund financial statements. All other funds are presented in a single column as "other governmental funds".

**(d) 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, as are the proprietary fund financial statements. 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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements 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 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, are recorded only when payment is due.

Taxes, charges for services, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other receipts such as licenses, permits and fees become measurable and available when cash is received by the City and are recognized as revenue at that time.

## CITY OF NOME, ALASKA

### Notes to the Financial Statements, Continued

Entitlements and shared revenues are recorded at the time of a receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants, including capital grants, recognize revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and when revenues are considered to be available and measurable, which is considered to be within 12 months of the end of the current fiscal period.

The City reports the following major governmental funds:

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

The City reports the following major proprietary fund:

- *The Port Facility Enterprise Fund* accounts for the operations of the Nome Port Facility.

Additionally, the City reports the following fund types:

- *Special Revenue Funds* – accounts for revenue sources that are legally restricted or committed to expenditure for specific purposes.
- *Capital Project Funds* – accounts for the acquisition of the capital assets or construction of major capital projects not being financed by proprietary funds.
- *Debt Service Fund* – accounts for and reports financial resources that are restricted, committed, or assigned to expenditures for principal and interest
- *Fiduciary Fund* – accounts for the City's Internal Revenue Code Section 457 deferred compensation plan.

As a general rule the effect of interfund activity had been eliminated from the government-wide financial statements. 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, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds 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 the proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services for the causeway facility, harbor facility, and industrial park facility. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenue recognition of capital contributions are based on the requirements of the expenses. Revenue recognition of capital contributions are based on the requirements of the Governmental Accounting Standards Board Codification N50 Non-exchange Transactions.

#### **(e) Estimates**

In preparing the financial statements, management of the City is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and revenues and expenditures/expenses for the period. Actual results could differ from those estimates.

## Notes to the Financial Statements, Continued

**(f) Cash and Investments**

The City's investments have maturities between less than one year to five years, and are reported at fair value in the accompanying financial statements.

The City participates in the Alaska Municipal League Investment Pool (AMLIP) and invests in certificates of deposits insured by the Federal Depository Insurance Corporation (FDIC) or secured by eligible collateral held by a third party in the City's name. AMLIP is not SEC registered and is unrated. Alaska Statute 37.23 establishes regulatory oversight of the pool. The law sets forth numerous requirements regarding authorized investments and reporting. The pool is incorporated in the State of Alaska as a nonprofit corporation and reports to its Board of Directors. Alaska Statute 37.23.050 requires the retention of an investment manager.

The AMLIP manager is required to produce monthly disclosure statements to the pool. The pool has also retained an investment advisor to monitor the performance of the investment manager and to ensure compliance with investment policies. All participation in the pool is voluntary. The pool must maintain a dollar weighted average maturity of 90 days or less, and only purchase instruments having remaining maturities of 397 days or less. On a monthly basis, the investments in the pool are reviewed for fair value by an independent pricing service.

**(g) Restricted Assets**

Restricted assets consist of assets that must be used for the Port facilities causeway as required by bond indentures. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

**(h) Receivables and Payables**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "internal balances" on the statement of the net position and as "advances to/from other funds" in the fund statements.

All outstanding current balances between funds are reported as "due to/from other funds" in the fund statements. These balances represent the numerous transactions that occur during the course of operations between individual funds for goods provided or services rendered. On the statements of cash flows for proprietary funds, these are treated as cash and cash equivalent transactions.

All trade and property tax receivables are shown net of an allowance for doubtful receivables. The allowance for doubtful receivables is an estimate of the amount uncollectible based on past experience.

**(i) Capital Assets**

Capital assets, which include property, buildings, vehicles and equipment are reported in the applicable governmental or business-type activities columns in the governmental-wide financial statements and proprietary fund financial statements. Capital assets are defined by the City as assets with an 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 and depreciated on a straight-line basis.

## Notes to the Financial Statements, Continued

Donated capital assets or capital assets received in exchange are recorded at their estimated fair value at the date of donation or exchange. Interest incurred during construction is not capitalized.

All capital assets acquired or constructed for general government and school purposes are reported as expenditures in the fund that finances the asset acquisition.

Property, plant, and equipment of the City is depreciated using the straight-line method over the estimated life of the assets as follows:

	<u>Life in years</u>
Causeway	40
Infrastructure (C-Cell docks)	36-15
Improvements not buildings	40-5
Quarry jetty	40
Building	25-5
Machinery and equipment	7-5
Vehicles	7-5

**(j) Compensated Absences**

It is the City's policy to permit employees to accumulate earned but unused personal leave benefits. All personal leave 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.

**(k) Long-Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position. Bond premiums and discounts, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

In the governmental fund financial statements bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**(l) Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, 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 in fair value.

## Notes to the Financial Statements, Continued

**(m) *Unbilled Revenue***

The Utility System's billing for the sale of electrical energy and water consumption reflects metered energy and water sold through varying dates ending prior to the end of the monthly and annual accounting periods. The Utility System estimates and records the revenue earned for the sale of electrical energy and water consumption from the last billing through the end of the accounting period.

**(n) *Unearned Revenues***

Amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met are recorded as unearned revenue.

**(o) *Prepaid Lease Revenue***

The City received advanced payment on a 35-year lease of land it owns. Revenue is recognized in the Port Fund each year for the payment related to the lease, with deferral of revenue recognized as prepaid lease revenue.

**(p) *Fund Balances***

In the Fund Financial Statements, fund balance includes five classifications for fund balance as follows:

**Nonspendable Fund Balance** – Amounts that are legally or contractually required to be maintained intact (such as the corpus of an endowment fund) or amounts that are not in a spendable form (such as inventory, prepaid expenses, long-term receivables). Such constraint is binding until the legal or contractual requirement is repealed or the amounts become spendable.

**Restricted Fund Balance** – Amounts constrained to specific purposes by their providers (such as grantors and higher levels of government), through constitutional provisions, or by enabling legislation. Such constraint is binding unless modified or rescinded by external body, laws, or regulation.

**Committed Fund Balance** – Includes amounts that can be used only for the specific purposes determined by a formal action of the City's Council in the form of an ordinance or resolution. Commitments may be changed or lifted by the Council taking the same formal action that imposed the constraint originally.

**Assigned Fund Balance** – Fund Balance comprises amounts intended to be used by the City for specific purposes: intent can be expressed by the Council or by the management, having been designated such authority. Such constraint is binding unless modified or eliminated by the Council or Management. In governmental funds other than the General Fund, assigned fund balance represents the amount that is not restricted or committed.

**Unassigned Fund Balance** – Fund balance is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Positive unassigned amounts will be reported only in the Operating Fund. If another governmental fund, other than the General Fund, has a fund balance deficit, then it will be reported as a negative amount in the unassigned classification in that fund.

## CITY OF NOME, ALASKA

### Notes to the Financial Statements, Continued

The order of spending, regarding the restricted and unrestricted fund balance when an expenditure is incurred for which both restricted and unrestricted fund balance is available, should first reduce restricted fund balance and then unrestricted fund balance. The order of spending regarding unrestricted fund balance is that committed amounts should be reduced first, followed by the assigned amounts, and then the unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Compliance with the provisions of the Fund Balance Classification Policy are reviewed as part of the annual budget adoption process. The City Manager reports to the Council as close to the end of the year as possible the anticipated year-end fund balance or deficit. The Council takes appropriate action to commit or assign, or otherwise allocate prior year fund balances as a part of the budget planning process.

The City's Special Revenue Funds are used to account for administration, police, public works, library and museum programs that are restricted or committed.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to assign that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund, Special Revenue Funds and Port Facility Enterprise Fund. Encumbrances outstanding at year end, if any, are reported in assigned fund balances since they do not constitute expenditures or liabilities. The amount of encumbrances, if significant, are disclosed in the Notes to the Basic Financial Statements as commitments.

#### **(q) Net Position**

Government-wide net position is divided into three components:

- Net investment in capital assets – consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted net position – consists of assets that are restricted by the City's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors. The City has restricted net position that consists of amounts of restricted for debt services, causeway debt, and E-911 surcharges.
- Unrestricted – all other net position is reported in this category.

#### **(r) Statement of Cash Flows**

The City follows the Governmental Accounting Standards Board Codification P80. This statement established standards for reporting cash flows of Proprietary Funds. For purposes of the Statement of Cash Flows, the City has defined cash as the demand deposits and all investments maintained in the cash management pool, regardless of maturity period, since the various funds use the cash management pool essentially as a demand deposit account.



## Notes to the Financial Statements, Continued

**(s) Deferred Compensation**

The City offers their employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency.

The City has determined that a fiduciary relationship does exist between it and its IRC Section 457 deferred compensation plan. The deferred compensation plan is reported as a pension trust fund.

**(t) Retirement Plans**

All full-time employees and certain permanent part-time employees of the City participate in the State of Alaska Public Employees' Retirement System (PERS).

The City has adopted GASB Codification P20, *Accounting for Pensions by State and Local Governmental Employers* and GASB Codification P50, *Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pension*. GASB Codification P20 and P50 establish uniform standards for the measurement, recognition, and display of pension and postretirement health and expenditures/expense and related liabilities, assets, note disclosure and applicable required supplementary information in the financial reports of the state and local governmental employers.

**(u) Risk Management**

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. The City's insurance is on a claims basis.

Coverage is as follows:

<u>Type of coverage</u>	<u>Limits of coverage</u>	<u>Deductible</u>
Property	\$1,000,000,000 including sublimits as scheduled	500,000 to 100,000
Commercial blanket bond – employee dishonesty	100,000 up to 500,000	1,000
Workers' compensation	Statutory benefits	-
General, auto, public officials' and police liability:		
Excess limits	10,250,000	10,000
Employment related practices	10,250,000	-

Claims on insurance have not exceeded coverage's in any of the last three years.

CITY OF NOME, ALASKA

Notes to the Financial Statements, Continued

(v) **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 of Nome's investments. The carrying amount of the City of Nome's investments are determined based on quoted market prices.

The carrying amount of notes receivable and notes payable approximates fair value for those financial instruments with interest at variable rates, as those rates approximate current market rates for notes with similar maturities and credit quality.

(2) **Property Taxes**

Property taxes attach as an enforceable lien on property. Taxes are levied on the assessed value of taxable property as of January 1. Pursuant to Alaska Statute 29.53.170, the City establishes the mill rate on or before June 15. Tax bills mailed prior to July 1 are payable in two installments on July 15 and October 15. City property tax revenues are recognized in the fiscal year in which they become collectable. At June 30, 2017 the real and personal property tax levy of \$3,171,723 is reflected as deferred inflows of resources in the General Fund.

At June 30, 2017, property tax receivables included the following:

2017 real and personal property taxes due in fiscal year 2018	\$	3,171,723
Real and personal property taxes currently past due		<u>226,647</u>
		3,398,370
Less estimated allowance for doubtful collections		<u>65,038</u>
	\$	<u>3,333,332</u>

(3) **Cash and Short-Term Investments**

As of June 30, 2017, the City had the following investments:

<b>Investment type</b>	<b>Fair Value</b>	<b>Investment maturities (in years)</b>		
		<b>Less than 1</b>	<b>1 to 5</b>	<b>5-10</b>
Large Cap Equity	\$ 752,849	752,849	-	-
Mid Cap Equity	85,020	85,020	-	-
International Equity Fund	60,961	60,961	-	-
Balanced Funds	109,885	109,885	-	-
Bonds	<u>811,019</u>	<u>811,019</u>	<u>-</u>	<u>-</u>
Total investments in deferred compensation	\$ <u>1,819,734</u>	<u>1,819,734</u>	<u>-</u>	<u>-</u>
Money Market Funds	2,982,220	2,982,220	-	-
Fixed Income	<u>7,128,900</u>	<u>4,886,791</u>	<u>2,242,109</u>	<u>-</u>
Total	\$ <u>10,111,120</u>	<u>7,869,011</u>	<u>2,242,109</u>	<u>-</u>

CITY OF NOME, ALASKA

Notes to the Financial Statements, Continued

At June 30, 2017, the City had \$1,819,734 of investments in its pension trust fund that accounts for the City's Internal Revenue Code Section 457 deferred compensation plan.

**(a) Interest Rate Risk**

The fair value of the City's fixed income investments fluctuate in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those investments. Fair values of interest rate-sensitive instruments may be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, the liquidity of the instrument, and other general market conditions. The City manages interest rate risk by allocating certain percentages of the portfolio over specified time period, and generally holds investments for less than five years, which minimizes the sensitivity of fair value to changes in market interest rates. The City has no formal policy that limits investment maturities relating to a specific deposit or interest rate risk.

**(b) Credit Risk**

Statutes authorize the City to invest in obligations of the United States, the State of Alaska and its political subdivisions, savings accounts, certificates of deposit, bankers' acceptances, repurchase agreements, and such other legal security instruments. The City code requires all investments to be collateralized and/or insured.

**(c) Concentration of Credit Risk**

The City places no limit in the amount the City may invest in any one issuer.

The following investments exceed 5% of the total portfolio in the Fiduciary Fund:

<u>Investment</u>	<u>June 30th Balance</u>	<u>Percentage</u>
General	637,424	35.03%
VT Vantagepoint Brd Mkt Idx	245,686	13.50%
HTFD Cap App HLS	159,804	8.78%
VT PIMCO High Yield	153,349	8.43%
Janus Forty	140,860	7.74%
FA Growth Opps	91,802	5.04%

**(d) Custodial Credit Risk – Deposits**

The City maintains a cash pool that is available for use by all funds. Each fund's portion of this pool is reported on the balance sheet as "Cash and cash equivalents" or amounts "due to/from other funds."

The City's bank accounts are insured by the Federal Depository Insurance Corporation (FDIC) to a maximum of \$250,000. U.S. Treasury obligations collateralize the remaining bank balance, which is held by Bank of New York in a Tri-party collateral agreement with Wells Fargo, the pledging financial institution's agent, in the City's name.

CITY OF NOME, ALASKA

Notes to the Financial Statements, Continued

(e) **Custodial Credit Risk – Investments**

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. The City had no debt securities exposed to custodial credit risk at June 30, 2017.

Reconciliation to the City's June 30, 2017 financial statements follows:

Petty cash	\$	3,062
Demand deposits		6,714,239
Fixed Income/CD's		7,128,900
Money market funds		2,982,220
Investment in deferred compensation plans		<u>1,819,734</u>
	\$	<u>18,648,155</u>
Governmental activities	\$	13,626,004
Business type activities		3,202,417
Fiduciary activity		<u>1,819,734</u>
	\$	<u>18,648,155</u>

(4) **Receivables**

Receivables as of year-end for the government's individual major funds and non-major funds, and business type activities, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Other Governmental Funds	Total Governmental Funds	Business-type Activities	Total
Receivables:					
Property tax	\$ 3,398,370	-	3,398,370	-	3,398,370
Sales and bed tax	637,586	-	637,586	-	637,586
State of Alaska and Federal Government	9,964	273,413	283,377	1,702,394	1,985,771
Accounts - unrestricted	-	-	-	230,199	230,199
Other	174,649	44,548	219,197	-	219,197
Gross receivables	<u>4,220,569</u>	<u>317,961</u>	<u>4,538,530</u>	<u>1,932,593</u>	<u>6,471,123</u>
Less: allowance for uncollectibles	78,537	-	78,537	37,737	116,274
Net total receivables	\$ <u>4,142,032</u>	<u>317,961</u>	<u>4,459,993</u>	<u>1,894,856</u>	<u>6,354,849</u>

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

	<u>Unavailable</u>	<u>Unearned</u>
Deferred Inflows (General Fund)	\$ 3,331,620	-

CITY OF NOME, ALASKA

Notes to the Financial Statements, Continued

(5) **Investments**

The City of Nome categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City of Nome has the following recurring fair value measurements as of June 30, 2017:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Money market	\$ 2,982,220	2,982,220	-	-
Fixed income	7,128,900	7,128,900	-	-
Total	<u>\$ 10,111,120</u>	<u>10,111,120</u>	<u>-</u>	<u>-</u>
Deferred compensation:				
Bonds	811,019	811,019	-	-
Equity securities:				
Large Cap Equity	752,849	752,849	-	-
Mid Cap Equity	85,020	85,020	-	-
International Equity Fund	60,961	60,961	-	-
Balanced Funds	109,885	109,885	-	-
Total equity securities	<u>1,008,715</u>	<u>1,008,715</u>	<u>-</u>	<u>-</u>
Total investments in deferred compensation	<u>\$ 1,819,734</u>	<u>1,819,734</u>	<u>-</u>	<u>-</u>

(6) **Long-Term Note Receivable**

During 2003, the City entered into a long-term note receivable agreement with the School District for the purpose of renovating the Nome-Beltz Apartments. Under the terms of the note, the School can borrow, on an actual cost reimbursable basis, an amount not to exceed \$565,400. The note is due in monthly installments of \$3,279 per month including interest at 3.5% for the first five years. Repayment terms and interest rates will be adjusted every five years to reflect 75% of the prime rate.

A schedule of changes in long-term notes for the year ended June 30, 2017 follows:

	Balance July 1, <u>2016</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2017</u>
Renovation note	\$ <u>249,102</u>	<u>-</u>	<u>31,126</u>	<u>217,976</u>

CITY OF NOME, ALASKA

Notes to Financial Statements, Continued

Annual payment requirements to maturity follow:

Year Ending			
June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	32,234	7,115	39,349
2019	33,380	5,969	39,349
2020	34,568	4,781	39,349
2021	35,797	3,552	39,349
2022	37,070	2,279	39,349
2023-2025	<u>44,927</u>	<u>989</u>	<u>45,916</u>
	<u>\$ 217,976</u>	<u>24,685</u>	<u>242,661</u>

(7) **Capital Assets**

Capital asset activity for the year ended June 30, 2017, was as follows:

	<u>Balance at July 1, 2016</u>	<u>Increases and transfers</u>	<u>Decreases and transfers</u>	<u>Balance at June 30, 2017</u>
Governmental activities:				
Capital assets not being depreciated:				
Land general government	\$ 6,448,928	-	92,500	6,356,428
Land-schools	723,200	-	-	723,200
Artwork	247,975	4,600	-	252,575
Construction in progress	18,194,708	588,097	49,343	18,733,462
Total	<u>25,614,811</u>	<u>592,697</u>	<u>141,843</u>	<u>26,065,665</u>
Capital assets being depreciated:				
Buildings-general government	25,083,963	59,526	1,713,930	23,429,559
Buildings-schools	48,628,338	160,047	-	48,788,385
Vehicles, trucks and trailers	5,930,697	432,960	-	6,363,657
Assets other than buildings	1,237,102	82,316	-	1,319,418
Machinery and equipment	861,752	62,517	6,995	917,274
Office machinery and equipment	728,908	10,801	11,200	728,509
Total	<u>82,470,760</u>	<u>808,167</u>	<u>1,732,125</u>	<u>81,546,802</u>
Less accumulated depreciation:				
Buildings-general government	12,582,997	627,718	1,179,087	12,031,628
Buildings-schools	31,695,237	1,462,380	-	33,157,617
Vehicles, trucks and trailers	5,029,469	427,225	-	5,456,694
Assets other than buildings	926,833	83,186	-	1,010,019
Machinery and equipment	656,704	61,059	6,995	710,768
Office machinery and equipment	625,606	36,195	11,200	650,601
Total	<u>51,516,846</u>	<u>2,697,763</u>	<u>1,197,282</u>	<u>53,017,327</u>
Total capital assets, being depreciated, net	<u>30,953,914</u>	<u>(1,889,596)</u>	<u>(534,843)</u>	<u>28,529,475</u>
Governmental activities	<u>\$ 56,568,725</u>	<u>(1,296,899)</u>	<u>(676,686)</u>	<u>54,595,140</u>

CITY OF NOME, ALASKA

Notes to Financial Statements, Continued

	<u>Balance at July 1, 2016</u>	<u>Increases and transfers</u>	<u>Decreases and transfers</u>	<u>Balance at June 30, 2017</u>
Business-type activities:				
Capital assets not being:				
depreciated				
Land	\$ 5,153,383	-	-	5,153,383
Tideland patent	736,400	-	-	736,400
Construction in progress	<u>11,238,705</u>	<u>2,419,822</u>	<u>2,982,075</u>	<u>10,676,452</u>
Total	<u>17,128,488</u>	<u>2,419,822</u>	<u>2,982,075</u>	<u>16,566,235</u>
Capital assets being depreciated:				
Small boat harbor	5,380,529	-	-	5,380,529
Causeway	28,582,663	-	-	28,582,663
Buildings	532,036	63,884	206,900	389,020
Machinery and equipment	394,344	-	44,748	349,596
Quarry Jetty	3,831,791	-	-	3,831,791
C-Cell dock-North	1,713,000	-	-	1,713,000
C-Cell dock-South	1,704,749	-	-	1,704,749
Other	<u>9,019,827</u>	<u>2,982,767</u>	<u>-</u>	<u>12,002,594</u>
Total	<u>51,158,939</u>	<u>3,046,651</u>	<u>251,648</u>	<u>53,953,942</u>
Less accumulated depreciation:				
Small boat harbor	1,767,054	160,958	-	1,928,012
Causeway	20,573,565	714,566	-	21,288,131
Buildings	445,142	48,682	206,900	286,924
Machinery and equipment	332,624	47,531	44,748	335,407
Quarry Jetty	1,434,398	196,135	-	1,630,533
C-Cell dock-North	1,061,331	61,836	-	1,123,167
C-Cell dock-South	1,150,163	51,097	-	1,201,260
Other	<u>2,064,950</u>	<u>542,230</u>	<u>-</u>	<u>2,607,180</u>
Total	<u>28,829,227</u>	<u>1,823,035</u>	<u>251,648</u>	<u>30,400,614</u>
Total capital assets, being depreciated, net	<u>22,329,712</u>	<u>1,223,616</u>	<u>-</u>	<u>23,553,328</u>
Business-type activities	<u>\$ 39,458,200</u>	<u>3,643,438</u>	<u>2,982,075</u>	<u>40,119,563</u>

A fully depreciated office building was transferred from Governmental Activities to the Port Fund with a cost of \$39,200 and accumulated depreciation of \$39,200. Additionally, a fully depreciated vehicle was transferred from the Port Fund to Governmental Activities with a cost of \$32,748 and accumulated depreciation of \$32,748.

CITY OF NOME, ALASKA

Notes to the Financial Statements, Continued

Depreciation and amortization expense was charged to the departments and functions of the primary government as follows:

Governmental activities:

Depreciation:

Legislative	\$ 10,747
Administrative	22,697
Information technology	12,650
City clerk	5,251
Police	251,515
Fire	62,422
Ambulance	189,364
Public works	544,958
Recreation center	95,354
Swimming pool	6,418
Museum	1,259
Education	<u>1,462,380</u>
Total depreciation	<u>2,665,015</u>

Business-type activities

Port	\$ <u>1,783,835</u>
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**(8) Long-Term Debt**

(a) Changes in long-term debt follows:

	Balance at July 1, 2016	Additions	Reductions	Balance at June 30, 2017	Due within one year
Governmental activities:					
Compensated absences	\$ 360,194	418,869	369,573	409,490	-
General obligation bonds	4,763,000	650,000	1,005,000	4,408,000	350,000
Premium on general obligation bonds	309,737	38,753	39,157	309,333	-
Landfill loan	460,585	-	71,065	389,520	71,065
Landfill closure and postclosure costs	<u>876,989</u>	<u>33,782</u>	<u>-</u>	<u>910,771</u>	<u>-</u>
	<u>6,770,505</u>	<u>1,141,404</u>	<u>1,484,795</u>	<u>6,427,114</u>	<u>421,065</u>
Business-type activities:					
Revenue bonds	\$ <u>4,247,038</u>	<u>-</u>	<u>118,607</u>	<u>4,128,431</u>	<u>123,460</u>



CITY OF NOME, ALASKA

Notes to the Financial Statements, Continued

A summary of long-term bonded debt serviced directly by the City Port Facility Enterprise Fund at June 30, 2017 follows:

Year ending June 30	1986 Series A	
	Port Revenue Bonds	
	Principal	Interest
2018	\$ 123,460	165,964
2019	128,510	160,913
2020	133,768	155,656
2021	139,240	150,184
2022	144,937	144,487
2023-2027	818,626	628,490
2028-2032	1,000,349	446,769
2033-2037	1,222,412	224,706
2038-2039	417,129	17,007
	<u>\$ 4,128,431</u>	<u>2,094,176</u>

The 1986 Series A Port Revenue Bond covenants require the City to establish, maintain and collect rates and charges for port services that will provide revenues each calendar year equal to at least 1.5 times the amount required each such calendar year to pay the principal and interest on these bonds and all port revenue bonds which may have an equal lien on the revenues of the port facility or moneys in the Port Facilities Revenue Fund, after necessary port operating and maintenance expenses have been paid but before depreciation. The covenants also required the establishment of certain accounts and funds to facilitate the repayment of this bond.

In early 2009, the City accepted NOAA's last offer, which includes repayment of the loan principal beginning January 1, 2009 at 4.05% for 30 years, with interest being deferred for the first 5 years and partially deferred for the second 5 years.

The 1986 Series A Port Revenue Bond covenants require the City to establish and maintain a reserve account from funds collected in the Port Facility Revenue Fund.

## Notes to Financial Statements, Continued

A summary of long-term bonded debt serviced directly by the City general government fund at June 30, 2017 follows:

Year ending June 30	2003 QZAB School G.O. Bonds		2009 II School G.O. Bonds		2012 School G.O. Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	-	-	30,000	2,775	110,000	38,900
2019	1,798,000	-	30,000	1,425	115,000	33,825
2020	-	-	-	-	120,000	27,950
2021	-	-	-	-	125,000	21,825
2022	-	-	-	-	130,000	16,100
2023-2027	-	-	-	-	270,000	13,250
2028-2032	-	-	-	-	-	-
	\$ 1,798,000	-	60,000	4,200	870,000	151,850

Year ending June 30	2015 School G.O. Bonds		2016 Refunding School G.O. Bonds		Total		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2018	60,000	48,650	150,000	21,100	350,000	111,425	461,425
2019	65,000	46,150	160,000	16,400	2,168,000	97,800	2,265,800
2020	90,000	43,050	165,000	9,900	375,000	80,900	455,900
2021	100,000	38,750	165,000	3,300	390,000	63,875	453,875
2022	105,000	33,625	-	-	235,000	49,725	284,725
2023-2027	520,000	83,750	-	-	790,000	97,000	887,000
2028-2032	100,000	5,000	-	-	100,000	5,000	105,000
	\$ 1,040,000	298,975	640,000	50,700	4,408,000	505,725	4,913,725

In December 2003, the city issued \$1,798,000 of Qualified Zone Academy Bonds (QZAB) for the purpose of paying the cost of financing the acquisition, construction, installation and major renovation and renewal of school and capital related improvements in the City. The bonds provide for a single payment of principal at maturity date of approximately December 18, 2018. The bonds are supported by a sinking fund, whereby the City is obligated to make annual deposits of \$96,526 until maturity with deposits earning an annual interest rate of 3%. Total deposit payments required to the sinking fund are \$1,532,062, with interest earning of \$277,227.

In April 2009, the City issued \$644,195 of 2009 General Obligation School Bonds for the purpose of financing construction and renovation work at the school.

## Notes to the Financial Statements, Continued

In May 2012, the City issued \$1,180,000 of 2012 Series A General Obligation Refunding Bonds to advance refund \$1,245,000 of principal for the outstanding general obligation bonds, 2004 Series B. The bond was issued with a premium of \$201,256. For the year ended June 30, 2017, the City amortized \$16,772, leaving \$117,396 in unamortized premiums.

In February 2015, the City issued \$750,000 of 2015 Series one General Obligation Refunding Bonds to advance refund \$815,000 of principal for the outstanding general obligation bonds, 2006 Series A. The bond was issued with a premium of \$114,399. The City also issued 2015 Series One General Obligation Refunding Bonds to advance refund \$400,000 of principal for the outstanding general obligation bonds, 2009-2. The bond was issued with a premium of \$75,801. For the year ended June 30, 2017 the City amortized \$8,803 and \$5,831 leaving \$96,796 and \$64,139 respectively, of unamortized premiums.

In November 2016, the City issued \$650,000 of 2016 Series Three and Four general obligation bonds with an average interest rate of 3.806% to advance refund \$655,000 of outstanding 2007 Series 1 bonds with an average interest rate of 4.235%. The bond was issued with a premium of \$38,753. For the year ended June 30, 2017 the City amortized \$7,751, leaving \$31,002 in unamortized premiums. The net proceeds of \$679,578 (after payment of \$9,175 in issuance costs) was used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with and escrow agent to provide for all future debt service payments on the 2007 Series 1 bond. As a result, the \$655,000 of 2007 Series 1 bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

The City advance refunded the 2007 Series 1 bonds to reduce its total debt service payments over the next 4 years by \$37,355, and to obtain an economic gain (difference of the present value of the debt service payments on the old and new debt) of \$38,528.

In 2009, the City issued a note payable to the State of Alaska, Department of Environmental Conservation (ADEC) in the amount of \$750,000 for the purpose of financing a landfill project. The loan requires annual principal and interest payments of \$42,980 and bears interest at 1.5%. In addition to the annual payment, the City is making extra payments towards principal.

A summary of long-term debt payable to the ADEC serviced directly by the City general government fund at June 30, 2017 follows:

Year ending June 30	ADEC Loan		Total
	Principal	Interest	
2018	36,612	5,843	42,455
2019	37,162	5,293	42,455
2020	37,719	4,736	42,455
2021	38,285	4,170	42,455
2022	38,859	3,596	42,455
2023-2026	200,883	9,060	209,943
	\$ 389,520	32,698	422,218

## Notes to the Financial Statements, Continued

**Utility System Bond Ordinance Requirements**

The Utility System is required to comply with various requirements established by the bond ordinance relating to each of the issues, including periodic payments to the trustees to cover principal and interest payments due the next year (bond redemption reserves).

**(9) Interfund Receivables, Payables and Transfers****(a) Interfund Receivables and Payables**

A summary of interfund receivables and payables at June 30, 2017 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Port Facility Enterprise Fund	\$ 2,081,310
	Other Governmental Funds	418,505
Other Governmental Funds	General Fund	1,098,893
Total primary government		<u>\$ 3,598,708</u>

**(b) Interfund Transfers**

A summary of interfund transfers in and out of June 30, 2017 is as follows:

<u>Transfer in:</u>	<u>Transfer out:</u>		
	<u>General</u>	<u>Other</u>	<u>Total</u>
	Fund	Governmental	
Other governmental	\$ 342,407	-	342,407

There was a transfer from the General Fund to the Debt Service fund to cover scheduled bond payments and transfers to the Nome Eskimo Roads and School Renovation and Repairs Capital Project Funds to cover the excess of expenditures over revenues.

**(10) Employee Retirement Systems and Plans**

The City follows *Governmental Accounting Standards Board (GASB) Codification P20*, Accounting for Pensions by State and Local Governmental Employees and *GASB Codification P50*, Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions. *GASB Codification P20* and *GASB Codification P50* establish uniform standards for the measurement, recognition and display of pension and other post-employment benefits other than pensions (healthcare) expenditures/expense and related liabilities, assets, note disclosure and applicable required supplementary information in the financial reports of state and local governmental employers.

All full-time employees and certain permanent part-time employees of the City participate in the State of Alaska Public Employees' Retirement System (PERS). In addition to the pension plan, PERS also administers other post-employment benefit plans.

The system is governed by the Alaska Retirement Management Board. The benefit and contribution provisions are established by State law and may be amended only by the State legislature. The Administrator of the Plan is the Commissioner of Administration or the Commissioner's designee.

## Notes to the Financial Statements, Continued

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

PERS acts as the common investment and administrative agencies for the following multiple-employer plans:

<u>Plan Name</u>	<u>Type of Plan</u>
Defined Benefit Pension Plan (DB)	Cost-sharing, Defined Benefit Pension
Defined Contribution Pension Plan (DC)	Defined Contribution Pension
Defined Benefit Other Postemployment Benefits (DB)	
Occupational Death and Disability Plan	Cost-sharing, Defined Benefits OPEB
Alaska Retiree Healthcare Trust Plan	Cost-sharing, Defined Benefits OPEB
Retiree Medical Plan	Cost-sharing, Defined Benefits OPEB
Defined Contribution Other Postemployment Benefits (DC)	
Healthcare Reimbursement Arrangement Plan	Defined Contribution OPEB

#### **Other Postemployment Benefit Plans (OPBP)**

##### *Occupational Death and Disability Plan (DB)*

The Occupational Death and Disability Plan provides death benefits for beneficiaries of plan participants and long-term disability benefits to all active members within the System.

##### *Alaska Retiree Healthcare Trust Plan (DB)*

Beginning July 1, 2007, the Alaska Retiree Healthcare Trust Plan (ARHCT), a Healthcare Trust Fund of the State, was established. The ARHCT is self-funded and provides major medical coverage to retirees of the System. The System retains the risk of loss of allowable claims for eligible members. The ARHCT began paying member healthcare claims on March 1, 2008. Prior to that, healthcare claims were paid for by the Retiree Health Fund (RHF).

##### *Healthcare Reimbursement Arrangement Plan (DC)*

The Healthcare Reimbursement Arrangement Plan was established to allow medical expenses to be reimbursed from individual savings accounts established for eligible participants.

#### **Alaska Public Employee Retirement System (PERS) – Defined Benefit Plan (DB)**

*Plan Description.* The City participates in the Alaska Public Employees' Retirement System (PERS), a cost sharing multiple employer defined benefit pension plan. PERS provides retirement benefits, disability and death benefits, and post-employment healthcare to plan members and beneficiaries. The Plan was established and is administered by the State of Alaska, Department of Administration. The Public Employee's Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PERS. This report may be obtained from the system at Pouch C, Juneau, Alaska 99811 or online at <http://doa.alaska.gov/drb/pers>.

## Notes to the Financial Statements, Continued

*Pension Benefits.* All tier employee benefits vest with five years of credited service. There are three tiers of employees based on entry date. Tier I employees enrolled prior to July 1, 1986 with five or more years of credited service are entitled to annual pension benefits beginning at normal retirement age 55 or early retirement age 50. For tier II and III employees enrolled after June 30, 1986, but before July 1, 2006, the normal and early retirement ages are 60 and 55, respectively. All tier employees with 30 or more years of credited service may retire at any age and receive a normal benefit.

The PERS defined benefit is closed to new hires enrolled on or after July 1, 2006. New hires after this date participate in the PERS defined contribution plan (DC) described later in these notes.

Currently there are 155 employers participating in PERS, including the State of Alaska and 154 political subdivisions and public organizations.

Retirement benefits are calculated by multiplying the average monthly compensation (AMC) times credited PERS service times the percentage multiplier. The AMC is determined by averaging the salaries earned during the five highest (three highest for Police/Fire members or members hired prior to July 1, 1996) consecutive payroll years. Members must earn at least 115 days of credit in the last year worked to include it in the AMC calculation. The PERS pays a minimum benefit of \$25 per month for each year of service when the calculated benefit is less.

The percentage multipliers for police/fire personnel are 2% for the first ten years of service and 2.5% for all service over 10 years. The percentage multipliers for all other participants are 2% for the first ten years, 2.25% for the next ten years, and 2.5% for all remaining service earned on or after July 1, 1986. All service before that date is calculated at 2%.

Post-employment healthcare benefits are provided without cost to all members first enrolled before July 1, 1986. Members first enrolled after June 30, 1986, but before July 1, 2006 and who have not reached age 60 may elect to pay for major medical benefits.

*Post Retirement Pension Adjustments.* Post retirement pension adjustments (PRPAs) are granted annually to eligible benefit recipients when the consumer price index (CPI) increases during the preceding calendar year. PRPAs are calculated by multiplying the recipient's base benefit, including past PRPAs, times:

- (a) 75% of the CPI increase in the preceding calendar year or 9%, whichever is less, if the recipient is at least 65 or on PERS disability; or
- (b) 50% of the CPI increase in the preceding calendar year or 6%, whichever is less, if the recipient is at least 60, or has been receiving benefits for at least five years.

Ad hoc PRPAs, up to a maximum of 4%, may be granted to eligible recipients who first entered the PERS before July 1, 1986, if the CPI increases and the financial condition of the fund will permit an increase. In a year where an ad hoc PRPA is granted, eligible recipients will receive the higher of the two calculations.

## Notes to the Financial Statements, Continued

*Funding Policy.* In April 2008 the Alaska Legislature passed legislation which statutorily capped the employer contribution, established a state funded "on-behalf" contribution, and required that employer contributions be calculated against all PERS eligible wages, including wages paid to participants of the PERS Tier IV defined contribution plan (DC) described later in these footnotes. The state legislature capped the rate at 22%, with the State contributing an on-behalf payment for the difference between the actuarial contribution and the cap.

*Salary Floor.* During the 25<sup>th</sup> legislation session, Senate Bill 125 passed, which established a June 30, 2008 salary floor under AS 39.35.255(a)(2). The salary floor is the total base salaries paid by an employer to active employees of the system as of the fiscal year ending June 30, 2008. The statute requires the Division of Retirement and Benefits (Division) to collect employer contributions at a minimum based on FY 2008 base salaries.

*Termination Costs.* If the City decides to terminate coverage for a department, group, or other classification of members, even if that termination results from the decision to divest of a particular City function, all affected employees in that department, group or other classification of members become immediately vested in the plan. The City must pay to have a termination study completed. The purpose of the study is to calculate the City's one-time termination costs. The costs represent the amount necessary to fully fund the costs of plan members who become vested through this process and for other changes in actuarial assumptions, such as, earlier than expected retirement, that arise from the act of termination of coverage. The City must pay a lump sum within 60 days of termination or arrange a payment plan that is acceptable to the PERS Administrator. For fiscal year 2017 the past service rate is 16.02%.

*Employee Contribution Rate.* The City PERS active members are required to contribute 6.75% (4.59% pension costs and 2.16% OPEB) and non-teacher City employees are required to contribute 9.60% (6.53% pension and 3.07% OPEB) of their annual covered salary.

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

*Employer Effective Rate:* This is the actual employer pay-in rate. Under current legislation, this rate is statutorily capped at 22% (14.96% pension costs and 7.04% OPEB) of eligible wages, subject to the salary floor, and other termination costs as described above. This 22% rate is calculated on all PERS participating wages, including those wages attributable to employees in the defined benefit plan.

*ARM Board Adopted Rate:* This is the rate formally adopted by the Alaska Retirement Management Board. This rate is actuarially determined and used to calculate annual Plan funding requirements, without regard to the statutory rate cap or the GASB accounting rate. This rate is 26.14% (17.78% pension and 8.36% OPEB). Prior to July 1, 2015, there were no constraints or restrictions on the actuarial cost method or other assumptions used in the ARM Board valuation. Effective July 1, 2015, the Legislature requires the ARM Board to adopt employer contribution rates for past service liabilities using a level percent of pay method over a closed 25-year term which ends in 2039. This will result in lower ARM Board Rates in future years.

## Notes to the Financial Statements, Continued

*On-behalf Contribution Rate:* This is the rate paid in by the State as an on-behalf payment as mandated under current statute. Under state law, subject to annual appropriation, the state will contribute an on-behalf payment into the plan in an amount equal to the difference between the ARM Board Rate and the Employer Effective Rate. As a result, the On-behalf Contribution Rate for 2017 is 4.14% (2.82% pension and 1.32% OPEB). On-behalf contribution amounts have been recognized in these financial statements as both revenue and expenditures.

*GASB Rate:* This is the rate used to determine the long-term pension and healthcare liability for plan accounting purposes. Certain actuarial methods and assumptions for this rate calculation are mandated by the *Governmental Accounting Standards Board* (GASB). Medicare Part D subsidies are not reflected in this rate. The rate uses an 8% pension discount rate and a 4.30% healthcare discount rate. The current rate is 83.90% (27.26% pension and 56.64% OPEB).

Employer contributions for the years ended June 30, 2017, 2016 and 2015 are as follows:

	Pensions (DB)	Other Post-Employment Benefits (DB)	Total
2017	\$ 143,311	67,442	210,573
2016	135,583	89,538	225,121
2015	167,307	126,214	293,521

The defined benefit unfunded liability (DBUL) presented under the defined contribution plan includes employer contributions of \$176,858 (pension) and \$83,227 (OPEB).

For the year ended June 30, 2017 the State of Alaska contributed \$138,521 (100% pension cost) on-behalf of the City, which has been recorded in the fund financial statement under the modified-accrual basis of accounting. In the government-wide financial statements the on-behalf contribution has been adjusted as of the measurement date June 30, 2016 to a total of \$120,396, to represent the pension expense attributable to the State under the full accrual basis of accounting.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:* At June 30, 2017, the City reported a liability that reflected a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of net pension liability, the related State support, and the total portion of the net pension liability that was associated with the City were as follows:

City's proportionate share of the net pension liability	\$ 7,091,710
State's proportionate share of the net pension liability	<u>893,136</u>
Total	<u>\$ 7,984,846</u>

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the present value of contributions for FY2018 through FY2039, as determined by projections based on the June 30, 2016 valuation. At June 30, 2017, the City's proportion was 0.1269%, which is an increase of 0.0207% from June 30, 2016.



CITY OF NOME, ALASKA

Notes to the Financial Statements, Continued

Based on the measurement date of June 30, 2016, the City recognized pension expense of \$1,905,110 for the year ended June 30, 2017. At June 30, 2017, the City 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
Differences between expected and actual experience	\$ 652	79,049
Changes of assumptions	32,709	-
Net difference between projected and actual earnings on pension plan investments	697,081	-
Changes in proportion and differences between City contributions and proportionate share of contributions	470,003	-
City contributions subsequent to the measurement date	320,169	-
Total	<u>\$ 1,520,614</u>	<u>79,049</u>

\$320,169 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2018	\$ 506,286
2019	146,127
2020	284,969
2021	184,014
Total	<u>\$ 1,121,396</u>

For the year ended June 30, 2017, the City recognized \$828,744 of amortization of the net deferred outflows and inflows of resources.

## Notes to the Financial Statements, Continued

*Actuarial Assumptions:* The total pension liability in the June 30, 2016 (latest available) actuarial valuation was determined by an actuarial valuation as of June 30, 2015, which was rolled forward to June 30, 2016.

Investment return / discount rate	8% per year (geometric), compounded annually, net of expenses
Salary scale	Inflation – 3.12% per year Productivity – 0.50% per year
Payroll growth	3.62% per year (inflation + productivity)
Total inflation	Total inflation as measured by the Consumer Price Index for urban and clerical workers from Anchorage is assumed to increase 3.12% annually.
Mortality (Pre-termination)	Based upon 2010-2013 actual mortality experience. 60% of male rates and 65% of female rates of post termination mortality rates. Deaths are assumed to be occupational 70% of the time for peace officers, and firefighters, 50% of the time for others.
Mortality (Post-termination)	96% of all rates of the RP-2000 combined mortality table, 2000 base year projected to 2018.
Total turnover	Based upon the 2010-2013 actual withdrawal experience.
Disability	Incidence rates based on 2010-2013 actual experience. Post-disability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table. Disabilities are assumed to be occupational 70% of the time for peace officers / firefighters, 50% of the time for others.
Retirement	Retirement rates based upon the 2010-2013 actual experience. Deferred vested members are assumed to retire at their earliest unreduced retirement date for others. For peace officers/firefighters, Tier 1 deferred vested members are assumed to retire at age 55 and Tiers 2 and 3 deferred vested members are assumed to retire at age 60.
Marriage and age difference	Wives are assumed to be three years younger than husbands. For others, 75% of male members and 70% of female members are assumed to be married. For peace officers/firefighters, 85% of male members and 60% female members are assumed to be married.

## Notes to the Financial Statements, Continued

The long-term expected rate of return on pension plan investments was determined using the building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan 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 weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. The best estimates of arithmetic real rates of return for each major asset class are summarized below:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	5.35%
Global Equity (non-U.S.)	5.55%
Private Equity	6.25%
Fixed Income	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 the 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 pension 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.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate:* The following presents the net pension liability of the plan calculated using the discount rate of 8%, as well as what the Plans' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	<u>1% Decrease (7%)</u>	<u>Current Rate (8%)</u>	<u>1% Increase (9%)</u>
Net pension liability	\$ 9,133,763	7,091,710	5,369,332

#### **Alaska Public Employee Retirement System (PERS) – Defined Contribution Plan (DC)**

*Plan Description and Funding Requirements.* Public Employers in the State of Alaska have a defined contribution retirement plan (PERS Tier IV) for new hires first enrolled on or after July 1, 2006. This Plan is administered by the State of Alaska, Department of Administration in conjunction with the defined benefit plan noted above. The Administrator of the Plan is the Commissioner of Administration or the Commissioner's designee. Plan members make mandatory contributions of 8% of gross eligible compensation. This amount goes directly to the individual's account. State statutes require the employer to contribute 5% of employees' eligible compensation. Additionally, employers are required to contribute to OPEB (DB): 1.18% for the retiree medical plan (DB), 0.17% for occupational and death and disability benefits (DB) and 3% of employers' average annual employee compensation to the health reimbursement arrangement (HRA DC). The effective employer contribution is 22%. Plan members are 100% vested with their contributions.

## Notes to the Financial Statements, Continued

Members become vested in employers' contributions as follows:

2 years of service – 25%
3 years of service – 50%
4 years of service – 75%
5 years of service – 100%

Plan provisions and contribution requirements and amendments are established by the Alaska Retirement Management Board (ARMB). Total contributions for the year ended June 30, 2017 are as follows:

	Employer	Employee
Defined contribution (DC)	\$ 104,995	167,992
Other post-employment benefits (DB):		
Retiree medical plan	24,779	-
Occupational death and disability benefits	5,144	-
Other post-employment benefits (DC) –		
Health reimbursement agreement (HRA)	67,004	-
Defined benefit unfunded liability (DBUL)	260,085	-
	<u>\$ 462,007</u>	<u>167,992</u>

Actual contributions were equal to the annual required contributions. The Defined Benefit Unfunded Liability (DBUL) is computed as the difference between the statutory employer contribution rate less employer contributions for the defined contribution, major medical, occupational death and disability and the health reimbursement arrangement. The DBUL calculation is allocated 68% pension and 32% OPEB.

Employer contributions for the years ended June 30, 2017, 2016 and 2015 are as follows:

	Contributions / Pensions	Other Post-Employment Benefits	Total
2017	\$ 281,853	180,154	462,007
2016	240,650	197,917	438,564
2015	204,918	181,654	386,572

**(11) Landfill Closure and Post Closure Costs**

State and Federal laws and regulations require the City to place a final cover on its landfill sites when they stop accepting waste to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and post closure costs will be paid only near or after the date that the landfills stop accepting waste, the City reports a portion of these closure and post closure costs as a long-term liability at June 30, 2017, based on the landfill capacities used as of that date. The \$910,771 amount reported to date based on the use of 59.17%, 64.5%, 56.6% and 31.8% of the estimated capacities of the old and new landfills, monofill and post closure costs of \$1,526,271 as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and post closure costs in 2007. The City closed the old landfill and opened the new landfill in September 1996. Actual costs may change due to inflation, deflation, changes in technology, or changes in laws and regulations.

## Notes to the Financial Statements, Continued

As of June 30, 2017, there are no state laws or regulations that require the City to provide financial assurances for the closure and post closure costs of the landfill. Federal regulations, which went into effect in April 1997, do require the City to provide financial assurances for future closure and post closure costs. There are a number of allowable mechanisms available. The City has decided to use the local government's financial test financial assurance mechanism to be in compliance with the April 1997 regulations. Future inflation costs and additional costs that might arise from changes in closure and post closure requirements are covered by charges to future landfill users, taxpayers, or both.

**(12) Litigation**

The City, in normal course of its activities, is involved in various claims and litigation. In the opinion of management, the disposition of these matters is not expected to have a material adverse effect on the financial statements of the City. The City may have insurance coverage for these matters.

**(13) Contingent Liabilities**

The City receives numerous grants, which are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement for expenditures disallowed under the terms of the grant. Management believes that such disallowances, if any, would not be material.

**(14) Budget and Budgetary Accounting**

The Nome Common Council (Council) is required to review or enact through the passage of a resolution or ordinance the budgets for the City, School District and Utility System prior to each entity's fiscal year-end, June 30 for the City and School District and December 31 for the Utility System. The City's operating budget is prepared by the City Manager in the spring proceeding the fiscal year to which it relates and is submitted to the Council for enactment. The operating budget includes proposed expenditures and the proposed means of financing them. The School District's budget is prepared by the Superintendent of Schools in the spring proceeding the fiscal year to which it relates. It is submitted to the Nome City School Board for review and approval and then to the Council for purposes of passing the resolution setting the contribution for the fiscal year. The Utility System's operating budget is prepared by the Utility System manager in the fall preceding the fiscal year to which it relates. It is submitted to the Nome Joint Utility System Board for review and approval and then to the Council for passage.

The City Manager, the Nome City School Board and the Nome Joint Utility System Board are authorized to transfer budgeted amounts within any fund or department; however, any revisions that alter the total expenditures of any fund or department must be approved by the Council. Formal budgetary integration is employed as a management control device during the year for the City's and School District's General Fund, Special Revenue Funds and the City's Capital Projects Funds and Port Facility Enterprise Fund. All budgets are adopted on a basis of accounting consistent with accounting principles generally accepted in the United States of America, and all lapse at year-end except for budgets related to the Capital Projects Funds and Special Revenue Funds. Budgeted amounts are presented as originally adopted or as amended by the Council.

## Notes to the Financial Statements, Continued

**(15) Subsequent Accounting Pronouncements**

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates covering several topics as follows:

- GASB 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Effective for fiscal years beginning after June 15, 2017.
- GASB 81 *Irrevocable Split –Interest Agreements*. Effective for fiscal years beginning after December 15, 2016.
- GASB 83 *Certain Retirement Obligations*. Effective for fiscal years beginning after June 15, 2018.
- GASB 84 *Fiduciary Activities*. Effective for fiscal years beginning after December 15, 2018.
- GASB 85 *Omnibus 2017*. Effective for fiscal years beginning after June 15, 2017.
- GASB 86 *Certain Debt Extinguishment Issues*. Effective for fiscal years beginning after June 15, 2017.
- GASB 87 *Leases*. Effective for fiscal years beginning after December 15, 2019.

Statements 81, 83, and 84 are not expected to have any significant impact on the financial statements of the City.

GASB Statement No. 75, the primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. In addition, this statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

GASB Statement No. 85, the objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

GASB Statement No. 86, the primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

## Notes to the Financial Statements, Continued

GASB Statement No. 87, the objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

**(16) Related Party**

The City made a required contribution of \$2,014,952 to and received \$31,126 principal payments from the City of Nome School District. In early July 2017, the City of Nome provided for the issuance of a Utility Revenue Anticipation Note (U-RAN) for the procurement of the Utility's annual generator diesel fuel requirement. The U-RAN will also make the final payment on the prior year's fuel note with Wells Fargo which was issued as a General Obligation Revenue Anticipation Note of the City of Nome for the benefit of the Utility. A late delivery occurred in 2013 with an early delivery in 2014. This required structuring 2014 and 2015 fuel notes to include two interest-only payments to avoid overlap of principal payments. In 2016, this was reduced to one interest only payment. By refinancing the final payment of the 2016 note, the Utility will no longer require any "interest only" payments, and will result in a further reduction in interest expense. The Note in the principal amount of \$4.4 million was sold to Northrim Bank. The Note carried an interest rate of 2.85% on a tax exempt basis and will be repaid solely from the revenues of the Utility over 12 months. The City received payments for pilot and various fees in the amount of \$250,000.

**(17) Subsequent Events**

Management has evaluated subsequent events through January 18, 2018, the date which the financial statements became available for issue, and the following events were identified that would require disclosure according to generally accepted accounting principles.

**REQUIRED SUPPLEMENTARY  
INFORMATION**



CITY OF NOME, ALASKA

Schedule of the City's Proportionate Share of the Net Pension Liability

Public Employees' Retirement System (PERS)

June 30, 2017

Year	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	State of Alaska Proportionate Share of the Net Pension Liability	Total Net Pension Liability	City's Covered Employee Payroll	City's Proportionate Share of the Net Pension Liability as a Percentage of Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0713%	\$ 3,324,880	\$ 3,063,690	\$ 6,388,570	\$ 4,256,768	78%	62.37%
2016	0.1062%	\$ 5,152,410	\$ 1,381,511	\$ 6,533,921	\$ 3,091,332	167%	63.96%
2017	0.1269%	\$ 7,091,710	\$ 893,136	\$ 7,984,846	\$ 3,016,750	235%	59.55%

**Notes to Schedule:**

1. Information presented for 2017 is based upon Plan measurement date June 30, 2016.
2. Measurement is one year prior to fiscal year end for all years presented.
3. In fiscal year 2017 the City implemented GASB 82, which required a retroactive change in covered payroll.
4. This schedule is intended to present 10 years of information. Additional years' information will be included as it becomes available.

CITY OF NOME, ALASKA  
 Schedule of the City's Contributions  
 Public Employees' Retirement System (PERS)

June 30, 2017

Year	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	City's Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2015	\$ 284,388	\$ (284,388)	\$ -	\$ 3,091,332	9.20%
2016	\$ 276,563	\$ (276,563)	\$ -	\$ 3,016,750	9.17%
2017	\$ 320,169	\$ (320,169)	\$ -	\$ 3,057,182	10.47%

Notes to schedule

1. Valuation date: June 30, 2015, which was rolled forward to June 30, 2016.
2. Actuarially determined contribution rates are calculated as of June 30th, two years prior to the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

3. Actuarial cost method: Entry Age Normal - level percentage of payroll.
4. Amortization method: Level dollar, closed.
5. Amortization period: 25 years, as a level of percentage of payroll.
6. Equivalent single amortization period: 17 years.
7. Asset valuation method: The actuarial asset value was reinitialized to equal fair value of assets as of June 30, 2014. Beginning in FY2015, the assets value method recognizes 20% of the gain or loss each year, for a period of 5 years, all assets are valued at fair value.
8. Inflation: 3.12% per annum.
9. Salary increases: Ranges from 6.36% to 4.92% based on service for Peace Officer/Firefighter. Ranges from 8.35% to 4.34% based on age and service for All Others.
10. Investment rate of return: 8%, net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%.
11. Retirement age: An age-related assumption is used for participants not yet receiving payments.
12. Mortality: Pre-termination mortality rates were based upon the 2010-2013. Actual mortality experience, 60% of male and 65% of female post-termination rates. Deaths are assumed to be occupational 70% of the time for Peace Officers / Firefighters, 95% of all rates of the RP - 2000 Table Base Year provided to 2018 with projected scale BB.
13. In fiscal year 2017 the City implemented GASB 82, which required a retroactive change in covered payroll.
14. This schedule is intended to present 10 years of information. Additional years' information will be included as it becomes available.

**ADDITIONAL SUPPLEMENTARY  
INFORMATION**

CITY OF NOME, ALASKA

Exhibit I-1

Other Governmental Funds

Combining Balance Sheet

June 30, 2017

	Special Revenue Funds						Total	Debt Service Fund
	E-911 Surcharge	Local Emergency Planning Committee	NPD SART Grant	NSEDC Community Benefits Share	NSEDC Community Employment Program	FEMA NVFD/NVAD Training		
<u>Assets</u>								
Cash and short-term investments	-	-	-	-	-	-	-	1,278,329
Restricted cash	\$ -	-	-	-	-	-	-	1,532,511
Receivables:								
Federal	-	-	6,504	-	-	858	7,362	-
State of Alaska	-	4,988	-	-	-	-	4,988	10,518
Other	4,526	-	-	-	4,798	-	9,324	1,388
Due from other funds	342,675	-	-	51,551	-	-	394,226	-
Total assets	\$ 347,201	4,988	6,504	51,551	4,798	858	415,900	2,822,746
<u>Liabilities and Fund Balances</u>								
Liabilities:								
Accounts payable	2,624	-	-	-	-	-	2,624	-
Unearned revenue	-	-	-	-	-	-	-	-
Due to other funds	-	4,988	6,504	-	4,798	858	17,148	175,459
Total liabilities	2,624	4,988	6,504	-	4,798	858	19,772	175,459
Fund balances:								
Restricted:								
Debt service	-	-	-	-	-	-	-	1,532,511
E-911 Surcharge	344,577	-	-	-	-	-	344,577	-
Assigned:								
Debt service	-	-	-	-	-	-	-	1,114,776
Community projects	-	-	-	51,551	-	-	51,551	-
Landfill	-	-	-	-	-	-	-	-
Total fund balances	344,577	-	-	51,551	-	-	396,128	2,647,287
	\$ 347,201	4,988	6,504	51,551	4,798	858	415,900	2,822,746

CITY OF NOME, ALASKA  
 Other Governmental Funds  
 Combining Balance Sheet, Continued

	Capital Project Funds				Total Other Governmental Funds
	Landfill	NSEDC RFB Project	Richard Foster Building	Total	
<u>Assets</u>					
Cash and short-term investments	\$ -	-	-	-	1,278,329
Restricted cash	-	-	-	-	1,532,511
Receivables:					
Federal	-	-	-	-	7,362
State of Alaska	-	-	250,545	250,545	266,051
Other	-	33,836	-	33,836	44,548
Due from other funds	704,667	-	-	704,667	1,098,893
Total assets	\$ 704,667	33,836	250,545	989,048	4,227,694
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	-	-	58,483	58,483	61,107
Unearned revenue	-	-	-	-	-
Due to other funds	-	33,836	192,062	225,898	418,505
Total liabilities	-	33,836	250,545	284,381	479,612
Fund balances:					
Restricted:					
Debt service	-	-	-	-	1,532,511
E-911 Surcharge	-	-	-	-	344,577
Assigned:					
Debt service	-	-	-	-	1,114,776
Community projects	-	-	-	-	51,551
Landfill	704,667	-	-	704,667	704,667
Total fund balances	704,667	-	-	704,667	3,748,082
	\$ 704,667	33,836	250,545	989,048	4,227,694

CITY OF NOME, ALASKA

Exhibit I-2

Other Governmental Funds

Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances

Year Ended June 30, 2017

	Special Revenue Funds					
	E-911 Surcharge	Local Emergency Planning Committee	NPD SART Grant	NSEDC Community Benefits Share	NSEDC Community Employment Program	Public Library Assistance
<b>Revenues:</b>						
Local sources:						
Investment income	\$ -	-	-	-	-	-
Charges for services	91,864	-	-	-	-	-
Other	-	-	-	219,981	11,932	-
Intergovernmental:						
State of Alaska	-	11,639	-	-	-	6,900
Federal sources	-	-	12,789	-	-	1,250
<b>Total revenues</b>	<u>91,864</u>	<u>11,639</u>	<u>12,789</u>	<u>219,981</u>	<u>11,932</u>	<u>8,150</u>
<b>Expenditures:</b>						
Current:						
Administrative	-	-	-	-	3,556	-
Police	85,645	-	12,789	-	-	-
Fire	-	5,819	-	-	-	-
Ambulance	-	5,820	-	-	-	-
Planning and engineering	-	-	-	-	-	-
Museum	-	-	-	-	-	-
Library	-	-	-	-	8,376	8,150
Non-departmental	-	-	-	168,430	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
<b>Total expenditures</b>	<u>85,645</u>	<u>11,639</u>	<u>12,789</u>	<u>168,430</u>	<u>11,932</u>	<u>8,150</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>6,219</u>	<u>-</u>	<u>-</u>	<u>51,551</u>	<u>-</u>	<u>-</u>
<b>Other financing sources (uses):</b>						
Bond issuance	-	-	-	-	-	-
Premium on bonds issued	-	-	-	-	-	-
Payment to refunding escrow	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net change in fund balances</b>	6,219	-	-	51,551	-	-
<b>Fund balances, beginning of year</b>	<u>338,358</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u>\$ 344,577</u>	<u>-</u>	<u>-</u>	<u>51,551</u>	<u>-</u>	<u>-</u>

(Continued)

CITY OF NOME, ALASKA

Other Governmental Funds

Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances, Continued

	Special Revenue Funds					Debt Service Fund
	Art Acquisition	FEMA Hazard Mitigation	FEMA NVFD/NVAD Training	Institute of Museum and Library Services Grant	Total	
Revenues:						
Local sources:						
Investment income	\$ -	-	-	-	-	43,508
Charges for services	-	-	-	-	91,864	-
Other	4,600	-	-	-	236,513	-
Intergovernmental:						
State of Alaska	-	219	-	-	18,758	171,655
Federal sources	-	656	858	7,000	22,553	-
Total revenues	<u>4,600</u>	<u>875</u>	<u>858</u>	<u>7,000</u>	<u>369,688</u>	<u>215,163</u>
Expenditures:						
Current:						
Administrative	-	-	-	-	3,556	-
Police	-	-	-	-	98,434	-
Fire	-	-	-	-	5,819	-
Ambulance	-	-	1,500	-	7,320	-
Planning and engineering	-	875	-	-	875	-
Museum	4,600	-	-	-	4,600	-
Library	-	-	-	7,000	23,526	-
Non-departmental	-	-	-	-	168,430	-
Debt service:						
Principal	-	-	-	-	-	340,000
Interest	-	-	-	-	-	109,087
Capital outlay	-	-	-	-	-	-
Total expenditures	<u>4,600</u>	<u>875</u>	<u>1,500</u>	<u>7,000</u>	<u>312,560</u>	<u>449,087</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(642)</u>	<u>-</u>	<u>57,128</u>	<u>(233,924)</u>
Other financing sources (uses):						
Bond issuance	-	-	-	-	-	650,000
Premium on bonds issued	-	-	-	-	-	38,753
Payment to refunding escrow	-	-	-	-	-	(691,844)
Transfers in	-	-	642	-	642	280,079
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>642</u>	<u>-</u>	<u>642</u>	<u>276,988</u>
Net change in fund balances	-	-	-	-	57,770	43,064
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>338,358</u>	<u>2,604,223</u>
Fund balances, end of year	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>396,128</u>	<u>2,647,287</u>

(Continued)

CITY OF NOME, ALASKA

Exhibit I-2. Continued

Other Governmental Funds

Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances, Continued

	Capital Project Funds						Total Other Governmental Funds
	Landfill	Nome Eskimo Roads	Rasmuson RFB Project	NSEDC RFB Project	Richard Foster Building	School Renovation and Repairs	
Revenues:							
Local sources:							
Investment income	\$ -	-	-	-	-	-	43,508
Charges for services	-	-	-	-	-	-	91,864
Other	-	-	18,725	37,120	-	-	292,358
Intergovernmental:							
State of Alaska	-	-	-	-	484,530	-	674,943
Federal sources	-	33,908	-	-	-	-	56,461
Total revenues	-	33,908	18,725	37,120	484,530	-	1,159,134
Expenditures:							
Current:							
Administrative	-	-	-	-	-	-	3,556
Police	-	-	-	-	-	-	98,434
Fire	-	-	-	-	-	-	5,819
Ambulance	-	-	-	-	-	-	7,320
Planning and engineering	-	-	-	-	-	-	875
Museum	-	-	-	-	-	-	4,600
Library	-	-	-	-	-	-	23,526
Non-departmental	-	-	-	-	-	-	168,430
Debt service:							
Principal	-	-	-	-	-	-	340,000
Interest	-	-	-	-	-	-	109,087
Capital outlay	-	36,068	18,725	37,120	484,530	59,526	635,969
Total expenditures	-	36,068	18,725	37,120	484,530	59,526	1,397,616
Excess (deficiency) of revenues over (under) expenditures	-	(2,160)	-	-	-	(59,526)	(238,482)
Other financing sources (uses):							
Bond issuance	-	-	-	-	-	-	650,000
Premium on bonds issued	-	-	-	-	-	-	38,753
Payment to refunding escrow	-	-	-	-	-	-	(691,844)
Transfers in	-	2,160	-	-	-	59,526	342,407
Total other financing sources (uses)	-	2,160	-	-	-	59,526	339,316
Net change in fund balances	-	-	-	-	-	-	100,834
Fund balances, beginning of year	704,667	-	-	-	-	-	3,647,248
Fund balances, end of year	\$ 704,667	-	-	-	-	-	3,748,082



CITY OF NOME, ALASKA  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2017

Federal Grant Title	Grant Number	Catalog of Federal Domestic Assistance Number	Total Grant Award	Expenditures
U.S. Department of Interior:				
Passed through the State of Alaska, Department of Commerce, Community, and Economic Development:				
Payment in lieu of taxes	None	15.226	\$ 473,409	473,409
U.S. Department of Justice:				
Passed through State of Alaska, Department of Public Safety:				
SART	None	16.588	12,789	12,789
U.S. Department of Transportation				
Pass through Nome Eskimo Community:				
Tribal Transportation Program	MOA	20.205	33,908	33,908
U.S. Department of Homeland Security (Public Assistance Grant):				
Direct				
FEMA Assistance to Firefighters Grant				
Port Security Grant Program	EMW-2016-FO-05905	97.044	12,858	858
	EMW-2015-PU-00509	97.056	201,869	15,758
Passed through the State of Alaska, Department of Military and Veterans Affairs:				
Hazard Mitigation	4161.0002	97.039	2,625	656
Cape Nome Quarry Dock	DR-4050-AK	97.036	3,412,725	979,892
Total U.S. Department of Homeland Security			<u>3,630,077</u>	<u>997,164</u>
U.S. Department of Commerce:				
Direct:				
Port Development Facilities	07-01-07058	11.300	1,000,000	200,201
National Endowment for the Humanities:				
Passed through the State of Alaska, Department of Education and Early Development:				
Interlibrary Cooperation	CED1774601	45.310	1,250	1,250
Passed through Nome Eskimo Community-				
Native American and Native Hawaiian Library Services	NG-05-16-0277-16	45.311	7,000	7,000
Total U.S. Department of Museum and Library Services			<u>8,250</u>	<u>8,250</u>
Total expenditures of federal awards			\$ <u>5,158,433</u>	<u>1,725,721</u>
Reconciliation from Federal Financial Assistance to Federal sources revenues, Exhibit D-1:				
Above expenditures, per schedule			\$ 1,725,721	
Less: Capital Contributions, Port Facility Enterprise Fund			<u>(1,195,851)</u>	
Total Federal sources revenue Exhibit D-1			\$ <u>529,870</u>	
See notes to the schedule				

CITY OF NOME, ALASKA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

**Note 1. General**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the City under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the 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)*. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the basic financial statements of the City.

**Note 2. Basis of Accounting**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The City has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**Note 3. Reporting Entity**

The City, for purpose of the Schedule of Expenditures of Federal Awards, includes all the funds of the primary government as defined by GASB Codification, Section 2100, *The Financial Reporting Entity*. It does not include the component units of the City: The Nome Public Schools and the Nome Joint Utility System. These component units also receive Federal assistance, but separately satisfy the audit requirements of the Uniform Guidance, if applicable.

**Note 4. Subrecipients**

No federal funds were passed through to subrecipients.

## CITY OF NOME, ALASKA

## Schedule of State Financial Assistance

Year Ended June 30, 2017

Grant Title	Grant Number	Total Grant Award	State Assistance
Department of Commerce, Community and Economic Development:			
* Debt Reimbursement	DR-03-147	\$ 171,655	171,655
* Community Revenue Sharing	None	175,855	175,855
* Richard Foster Building	12-DC-406	14,000,000	484,530
* Port Design and Construction	13-GO-012	10,000,000	874,741
Arctic Deep Draft Design	17-DC-005	1,600,000	22,600
Total Department of Commerce, Community and Economic Development		25,947,510	1,729,381
Department of Military and Veterans Affairs:			
Division of Homeland Security and Emergency Management:			
Hazard Mitigation	4161.0002	875	219
* Cape Nome Quarry Dock	DR-4050-AK	1,137,575	326,630
Local Emergency Planning Committee	20LEPC-GY17	11,639	11,639
Total Department of Military and Veterans Affairs		1,150,089	338,488
Department of Education and Early Development:			
2017 OWL Internet Award	OWL1774601	4,794	4,794
Public Library Assistance	PLA-17-74601	6,900	6,900
Total Department of Education and Early Development		11,694	11,694
Department of Public Safety:			
Motor Vehicle License Tax	None	37,228	37,228
Department of Revenue:			
Liquor Licenses	None	9,800	9,800
Department of Administration:			
* PERS Employer On-Behalf	None	138,521	138,521
Department of Retirement and Benefits:			
State insurance contribution	None	50,167	50,167
Total State Financial Assistance		\$ 27,345,009	2,315,279
Reconciliation from State Financial Assistance to State of Alaska revenues, Exhibit D-1:			
Above expenditures, per schedule		\$ 2,315,279	
Less: Intergovernmental, Port Facility Enterprise Fund		(13,133)	
Less: PERS On-Behalf adjustment to full accrual, Port Facilities Enterprise Fund		(1,978)	
Less: Capital Contributions, Port Facility Enterprise Fund		(1,223,971)	
Total State of Alaska revenue Exhibit D-1		\$ 1,076,197	

See notes to the schedule

CITY OF NOME, ALASKA

Notes to Schedule of State Financial Assistance

Year ended June 30, 2017

**Note 1. General**

The accompanying schedule of state financial assistance (the "Schedule") includes the state award activity of the City under programs of the State of Alaska for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirement of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the basic financial statements of the City.

**Note 2. Basis of Accounting**

The accompanying Schedule of State Financial Assistance is presented using the modified-accrual basis of accounting, which is described in note 1 to the City's basic financial statements.

**Note 3. Reporting Entity**

The City, for purposes of the Schedule of State Financial Assistance, includes all the funds of the primary government as defined by GASB Codification, Section 2100, *The Financial Reporting Entity*. It does not include the component units of the City, the Nome Public Schools and the Nome Joint Utility System. These component units also receive state financial assistance, but separately satisfy the audit requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, if applicable.

**Note 4. Subrecipients**

No State funds were passed through to subrecipients.

**Note 5. Major Programs**

\* Denotes a major program for compliance audit purposes.

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# **COMPLIANCE REPORTS**

**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**

**Independent Auditor's Report**

Members of the City Council  
City of Nome, Alaska  
Nome, Alaska

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nome, Alaska, as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise the City of Nome, Alaska's basic financial statements, and have issued our report thereon dated January 18, 2018. Our report includes a reference to other auditors who audited the financial statements of Nome Joint Utility System and Nome Public Schools, as described in our report on the City of Nome, Alaska's financial statements. This report does not include the result of the other auditors' testing of internal controls 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 City of Nome, Alaska's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Nome, Alaska's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Nome, Alaska's internal control.

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

Members of the City Council  
City of Nome, Alaska

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 City of Nome, Alaska'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.



Anchorage, Alaska  
January 18, 2018



**Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance as Required by the Uniform Guidance**

**Independent Auditor's Report**

Members of the City Council  
City of Nome, Alaska  
Nome, Alaska

**Report on Compliance for Each Major Federal Program**

We have audited the City of Nome, Alaska'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 City of Nome, Alaska's major federal programs for the year ended June 30, 2017. City of Nome, Alaska's major federal programs are identified in the summary of auditor's results section of the accompanying Federal Schedule of Findings and Questioned Costs.

City of Nome, Alaska's basic financial statements include the operations of Nome Public Schools and Nome Joint Utility System, component units, which received \$1,700,783 and \$0, respectively, in federal awards which is not included in City of Nome, Alaska's Schedule of Expenditures of Federal Awards during the year ended June 30, 2017. Our audit, described below, did not include the operations of Nome Public Schools and Nome Joint Utility System because the organizational units engaged other auditors to perform an audit.

**Management's Responsibility**

Management is responsible for compliance with the requirements of 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 City of Nome, Alaska'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 of America; 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 City of Nome, Alaska's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

Members of the City Council  
City of Nome, Alaska

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 City of Nome, Alaska's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, City of Nome, Alaska complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

### **Report on Internal Control Over Compliance**

Management of the City of Nome, Alaska is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Nome, Alaska's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 City of Nome, Alaska's internal control over compliance.

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

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.



Anchorage, Alaska  
January 18, 2018

CITY OF NOME, ALASKA  
 Federal Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2017

**Section I – Summary of Auditor's Results**

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Is a going concern emphasis-of-matter paragraph included in the audit report  Yes  No

Internal control over financial reporting:  
 Material weakness(es) identified?  Yes  No  
 Significant deficiency(ies) identified?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

Federal Awards

Internal control over major programs (2 CFR 200.516 (a)(1)):  
 Material weakness(es) identified  Yes  No  
 Significant deficiency(ies) identified?  Yes  None reported

Any material noncompliance with provisions of laws, regulations, contracts, or grant agreements related to a major program (2 CFR 200.516 (a)(2))?  Yes  No

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

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, 2 CFR 200.516(a)(3) or (4)?  Yes  No

Identification of major programs:

<u>CFDA Number(s)/Cluster</u>	<u>Name of Federal Program or Cluster</u>
97.036	Cape Nome Quarry Dock

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

Auditee qualified as low-risk auditee?  Yes  No

CITY OF NOME, ALASKA

Federal Schedule of Findings and Questioned Costs, Continued

***Section II – Financial Statement Findings***

The City of Nome did not have any findings that related to the financial statements.

***Section III – Federal Award Findings and Questioned Costs***

The City of Nome did not have any findings that related to federal awards.

***Section IV – Summary of Prior Year Audit Findings***

The City of Nome did not have any prior year audit findings.

**Report on Compliance for Each Major State Program and on Internal Control over Compliance  
Required by the State of Alaska Audit Guide and Compliance Supplement for State Single Audits**

**Independent Auditor's Report**

Members of the City Council  
City of Nome, Alaska  
Nome, Alaska

**Report on Compliance for Each Major State Program**

We have audited the City of Nome, Alaska's compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of the City of Nome, Alaska's major state programs for the year ended June 30, 2017. The City of Nome, Alaska's major state programs are identified in the accompanying Schedule of State Financial Assistance.

City of Nome, Alaska's basic financial statements include the operations of Nome Public Schools and Nome Joint Utility System, component units, which received \$10,343,808 and \$403,094 in state awards which is not included in City of Nome's Schedule of state Financial Assistance during the year ended June 30, 2017. Our audit, described below, did not include the operations of Nome Public Schools and the Nome Joint Utility System because the organizational units engaged other auditors to perform an audit.

**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 City of Nome, Alaska'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 of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about City of Nome, Alaska's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

Members of the City Council  
City of Nome, Alaska

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 City of Nome, Alaska's compliance.

### **Opinion on Each Major State Program**

In our opinion, City of Nome, Alaska, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2017.

### **Report on Internal Control Over Compliance**

Management of City of Nome, Alaska, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Nome, Alaska's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Nome, Alaska's internal control over compliance.

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

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.

Members of the City Council  
City of Nome, Alaska

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.

*Altman, Rogers & Co.*

Anchorage, Alaska  
January 18, 2018

CITY OF NOME, ALASKA  
State Schedule of Findings and Questioned Costs  
Year Ended June 30, 2017

**Section I – Summary of Auditor’s Results**

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:  
Material weakness(es) identified?        Yes   X   No  
Significant deficiency(ies) identified?        Yes   X   None reported

Noncompliance material to financial statements noted?        Yes   X   No

State Financial Assistance

Internal control over major programs:  
Material weakness(es) identified?        Yes   X   No  
Significant deficiency(ies) identified?        Yes   X   None reported

Type of auditor’s report issued on compliance  
for major programs: Unmodified

Dollar threshold used to distinguish a state major program: \$ 75,000

**Section II – Financial Statement Findings**

The City of Nome did not have any findings that related to the financial statements.

**Section III – State Award Findings and Questioned Costs**

The City of Nome did not have any findings that related to state awards.

**Section IV – Summary of Prior Year Audit Findings**

The City of Nome did not have any prior year audit findings.