

HAINES BOROUGH
FINANCIAL STATEMENTS
For the Year Ended June 30, 2016
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

HAINES BOROUGH
FINANCIAL STATEMENTS
TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements:	
Statement of Net Position (Deficit)	3
Statement of Activities	4
Balance Sheets - Governmental Funds	5
Statements of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	6
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	7
Balance Sheets - Proprietary Funds	8
Statements of Revenues, Expenses, and Changes in Fund Net Position- Proprietary Funds	9
Statements of Cash Flows - Proprietary Funds	10
Component Units Combining Statement of Net Position (Deficit)	11
Component Units Combining Statement of Activities	12
Notes to Financial Statements	13 - 43
Required Supplementary Information:	
Budgetary Comparison Schedule - General Fund	44
Budgetary Comparison Schedule - Passenger Vessel Tax Special Revenue Fund	45
Schedule of the Borough's Proportionate Share of the Net Pension Liability	46
Schedule of Borough Contributions	47
Schedule of the School District's Proportionate Share of the Net Pension Liability	48
Schedule of School District Contributions	49

ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

9309 Glacier Highway, Suite B-200 • Juneau, Alaska 99801
907.789.3178 • FAX 907.789.7128 • www.ermcpa.com

INDEPENDENT AUDITOR'S REPORT

To the Borough Assembly and Borough Manager
Haines Borough
Haines, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Haines Borough (the Borough), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Borough's 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 the Haines Borough School District, which represent 3% of total assets in the statement of net position and 34% of total revenues in the statement of activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Haines Borough School District, is based on the report of the 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 of 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 misstatements 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 Haines Borough as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof 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 budgetary comparison information and pension schedules as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2017 on our consideration of Haines Borough's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Haines Borough's internal control over financial reporting and compliance.



January 18, 2017

HAINES BOROUGH
STATEMENT OF NET POSITION (DEFICIT)
June 30, 2016

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Current Assets				
Cash and cash equivalents	\$ 2,057,641	\$ 300	\$ 2,057,941	\$ 1,350,208
Investments	9,195,141	-	9,195,141	5,344
Receivables	587,415	674,606	1,262,021	241,437
Internal balances, net	(2,438,801)	2,438,801	-	-
Due from component units	10,987	-	10,987	-
Due from governmental entity	-	-	-	3,607
Inventory and prepaid expenses	49,885	170,326	220,211	199,019
Total current assets	9,462,268	3,284,033	12,746,301	1,799,615
Restricted Assets				
Cash and cash equivalents	62,450	-	62,450	-
Investments	8,301,249	-	8,301,249	-
Revenue bond debt service reserve investments	-	87,344	87,344	-
Receivables	55,315	-	55,315	-
Noncurrent Assets				
Receivables, net of current portion	196,178	-	196,178	-
Capital assets, net	32,356,845	33,716,936	66,073,781	209,273
Total assets	50,434,305	37,088,313	87,522,618	2,008,888
Deferred Outflows of Resources	1,382,661	170,891	1,553,552	828,999
Total assets and deferred outflows of resources	51,816,966	37,259,204	89,076,170	2,837,887
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
Current Liabilities				
Accounts payable and accrued expenses	383,941	270,820	654,761	48,725
Accrued payroll	220,681	-	220,681	74,914
Due to primary government	-	-	-	14,595
Due to component units	197,971	-	197,971	-
Deposits	-	49,210	49,210	-
Unearned revenue	277,264	-	277,264	18,375
Current portion of long-term obligations	1,037,593	102,841	1,140,434	-
Total current liabilities	2,117,450	422,871	2,540,321	156,609
Noncurrent Liabilities				
Compensated absences	162,565	27,590	190,155	-
Accrued vacation	-	-	-	96,348
Bonds and loans payable	11,166,487	1,994,403	13,160,890	-
Net pension liability	4,719,491	583,307	5,302,798	3,410,507
Total liabilities	18,165,993	3,028,171	21,194,164	3,663,464
Deferred Inflows of Resources	83,553	10,327	93,880	87,834
Total liabilities and deferred inflows of resources	18,249,546	3,038,498	21,288,044	3,751,298
NET POSITION (DEFICIT)				
Net investment in capital assets	20,152,765	31,801,777	51,954,542	209,273
Restricted for				
Bond reserves	-	87,344	87,344	-
Medical services	155,438	-	155,438	-
Capital projects	1,534,522	-	1,534,522	-
Economic development	509,777	-	509,777	-
Museum projects and other	-	-	-	195,992
Permanent fund - nonexpendable	7,323,589	-	7,323,589	-
Unrestricted	3,891,329	2,331,585	6,222,914	(1,318,676)
Total net position (deficit)	\$ 33,567,420	\$ 34,220,706	\$ 67,788,126	\$ (913,411)

The accompanying notes to financial statements are an integral part of these statements

HAINES BOROUGH
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position			
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
Primary Government								
Governmental activities								
General government	\$ 1,027,197	\$ -	\$ -	\$ -	\$ (1,027,197)	\$ -	\$ (1,027,197)	\$ -
Public safety	2,075,519	2,694	219,734	-	(1,853,091)	-	(1,853,091)	-
Public works and streets	2,073,277	-	-	266,609	(1,806,668)	-	(1,806,668)	-
Economic development	523,621	-	-	-	(523,621)	-	(523,621)	-
Education	2,929,758	-	145,551	918,799	(1,865,408)	-	(1,865,408)	-
Port development	140,207	-	206,431	-	66,224	-	66,224	-
Culture, recreation and library	1,448,486	67,679	-	-	(1,380,807)	-	(1,380,807)	-
Interest on long-term debt	485,414	-	-	-	(485,414)	-	(485,414)	-
Total governmental activities	10,703,479	70,373	571,716	1,185,408	(8,875,982)	-	(8,875,982)	-
Business-type activities								
Water	444,530	385,978	-	-	-	(58,552)	(58,552)	-
Sewer	579,967	466,410	-	-	-	(113,557)	(113,557)	-
Small boat harbor	937,661	468,683	-	92,130	-	(376,848)	(376,848)	-
Lutak dock	249,987	421,655	-	-	-	171,668	171,668	-
Port Chilkoot dock	396,212	79,740	-	-	-	(316,472)	(316,472)	-
Total business-type activities	2,608,357	1,822,466	-	92,130	-	(693,761)	(693,761)	-
Total	<u>\$ 13,311,836</u>	<u>\$ 1,892,839</u>	<u>\$ 571,716</u>	<u>\$ 1,277,538</u>	<u>(8,875,982)</u>	<u>(693,761)</u>	<u>(9,569,743)</u>	<u>-</u>
Component Units	<u>\$ 7,643,253</u>	<u>\$ 110,538</u>	<u>\$ 1,012,615</u>	<u>\$ -</u>				<u>(6,520,100)</u>
General Revenue and Transfers								
Property taxes					2,784,165	-	2,784,165	-
Sales taxes					2,915,490	-	2,915,490	-
Provided by general government					-	-	-	1,786,654
Intergovernmental revenue not restricted to specific programs					1,154,373	1,021,720	2,176,093	3,384,602
Investment income					350,332	8,816	359,148	1,996
Contributions to Permanent Fund principal - inflation proofing					89,590	-	89,590	-
Licenses and permits					31,875	-	31,875	-
Rentals					97,452	-	97,452	-
Contributions and other					157,021	-	157,021	200,451
Payments in lieu of taxes					375,055	-	375,055	-
Land sales					8,913	-	8,913	-
Transfers					(70,407)	70,407	-	-
Total general revenue and transfers					<u>7,893,859</u>	<u>1,100,943</u>	<u>8,994,802</u>	<u>5,373,703</u>
Change in net position					(982,123)	407,182	(574,941)	(1,146,397)
Net Position, beginning of year					<u>34,549,543</u>	<u>33,813,524</u>	<u>68,363,067</u>	<u>232,986</u>
Net Position (Deficit), end of year					<u>\$ 33,567,420</u>	<u>\$ 34,220,706</u>	<u>\$ 67,788,126</u>	<u>\$ (913,411)</u>

The accompanying notes to financial statements are an integral part of these statements.

HAINES BOROUGH
BALANCE SHEETS - GOVERNMENTAL FUNDS

June 30, 2016

	General Fund	Permanent Fund	New School Debt Service	Capital Project Funds	Passenger Vessel Tax	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 2,057,541	\$ 62,450	\$ -	\$ -	\$ -	\$ 100	\$ 2,120,091
Investments	9,195,141	8,301,249	-	-	-	-	17,496,390
Receivables	384,974	55,315	9,188	201,165	-	188,266	838,908
Due from other funds	428,352	251,211	15,712	1,580,053	35,551	1,356,586	3,667,465
Due from component units	10,987	-	-	-	-	-	10,987
Prepaid expenses	4,163	-	-	-	-	-	4,163
Inventory	45,722	-	-	-	-	-	45,722
Total assets	<u>\$ 12,126,880</u>	<u>\$ 8,670,225</u>	<u>\$ 24,900</u>	<u>\$ 1,781,218</u>	<u>\$ 35,551</u>	<u>\$ 1,544,952</u>	<u>\$ 24,183,726</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 202,116	\$ 1,754	\$ -	\$ 120,738	\$ 9,269	\$ 50,064	\$ 383,941
Accrued payroll	220,681	-	-	-	-	-	220,681
Due to other funds	5,980,308	-	-	125,958	-	-	6,106,266
Due to component units	197,971	-	-	-	-	-	197,971
Unearned revenue	348,013	-	-	-	21,882	277,264	647,159
Total liabilities	<u>6,949,089</u>	<u>1,754</u>	<u>-</u>	<u>246,696</u>	<u>31,151</u>	<u>327,328</u>	<u>7,556,018</u>
Deferred Inflows of Resources:							
Unavailable revenue - property taxes	85,895	-	-	-	-	-	85,895
Unavailable revenue - land sales	-	-	-	-	-	114,803	114,803
Total deferred inflow of resources	<u>85,895</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>114,803</u>	<u>200,698</u>
Fund Balances:							
Nonspendable	49,885	7,323,589	-	-	-	-	7,373,474
Restricted	1,983,280	-	24,900	1,534,522	-	1,102,821	4,645,523
Assigned	683,930	1,344,882	-	-	-	-	2,028,812
Unassigned	2,374,801	-	-	-	4,400	-	2,379,201
Total fund balances	<u>5,091,896</u>	<u>8,668,471</u>	<u>24,900</u>	<u>1,534,522</u>	<u>4,400</u>	<u>1,102,821</u>	<u>16,427,010</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 12,126,880</u>	<u>\$ 8,670,225</u>	<u>\$ 24,900</u>	<u>\$ 1,781,218</u>	<u>\$ 35,551</u>	<u>\$ 1,544,952</u>	
Net position reported for governmental activities is different from fund balance due to:							
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds							32,356,845
Unearned revenues and deferred inflows not available to pay for current-period expenditures are reported as earned in the statement of net position							570,593
Contributions to the pension plan and other items in the current fiscal year are deferred outflows on the Statement of Net Position							1,382,661
Pension related deferred inflows for changes differences in projections, actual earnings are not reported in the funds							(83,553)
Long-term liabilities, including bonds and pensions payable, compensated absences and the net pension liability are not due and payable in the current period and, therefore, are not reported in the funds							(17,086,136)
Net position of governmental activities							<u>\$ 33,567,420</u>

The accompanying notes to financial statements are an integral part of these statements.

HAINES BOROUGH
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

	General Fund	Permanent Fund	New School Debt Service	Capital Project Funds	Passenger Vessel Tax	Other Governmental Funds	Total Governmental Funds
Revenues							
Taxes							
Property	\$ 2,379,157	\$ -	\$ 413,123	\$ -	\$ -	\$ 14,148	\$ 2,806,428
Sales	1,344,840	-	-	785,325	-	785,325	2,915,490
Intergovernmental							
Federal grants and contracts	200,808	-	-	-	-	-	200,808
Federal payments in lieu of taxes	344,344	-	-	-	-	-	344,344
State grants and contracts	1,162,606	-	918,799	266,609	187,625	59,293	2,594,932
Service and admission fees	70,373	-	-	-	-	-	70,373
Licenses and permits	31,875	-	-	-	-	-	31,875
Rentals	97,452	-	-	-	-	-	97,452
Investment earnings	152,621	287,301	-	-	-	-	439,922
Contributions and other	155,404	-	-	1,617	-	-	157,021
Total revenues	5,939,480	287,301	1,331,922	1,053,551	187,625	858,766	9,658,645
Expenditures							
Current							
General government	773,498	22,882	-	-	-	15,503	811,883
Public safety	1,419,618	-	-	-	-	222,520	1,642,138
Public works and streets	800,150	-	-	-	-	2,240	802,390
Economic development	-	-	-	-	-	431,296	431,296
Education	1,771,232	-	-	-	-	-	1,771,232
Port development	-	-	-	-	106,103	-	106,103
Culture, recreation, and library	1,085,327	-	-	-	-	-	1,085,327
Debt service							
Principal	-	-	835,000	-	-	6,305	841,305
Interest	-	-	477,571	-	-	7,843	485,414
Capital outlay	-	-	-	1,835,078	-	27,703	1,862,781
Total expenditures	5,849,825	22,882	1,312,571	1,835,078	106,103	713,410	9,839,869
Excess (deficiency) of revenues over (under) expenditures	89,655	264,419	19,351	(781,527)	81,522	145,356	(181,224)
Other financing sources (uses)							
Transfers in	969,778	5,981	-	221,620	-	-	1,197,379
Transfers out	(109,699)	(281,000)	-	(763,056)	(81,523)	(32,508)	(1,267,786)
Premium on bonds issued	-	-	-	150,029	-	-	150,029
Proceeds of bonds issued	-	-	-	1,155,000	-	-	1,155,000
Sale of capital assets	-	-	-	-	-	18,328	18,328
Total other financing sources (uses)	860,079	(275,019)	-	763,593	(81,523)	(14,180)	1,252,950
Net change in fund balances	949,734	(10,600)	19,351	(17,934)	(1)	131,176	1,071,726
Fund Balances, beginning of year	4,142,162	8,679,071	5,549	1,552,456	4,401	971,645	15,355,284
Fund Balances, end of year	\$ 5,091,896	\$ 8,668,471	\$ 24,900	\$ 1,534,522	\$ 4,400	\$ 1,102,821	\$ 16,427,010

The accompanying notes to financial statements are an integral part of these statements.

HAINES BOROUGH
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

Net change in fund balances - total governmental funds		\$ 1,071,726
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, costs of those assets are capitalized and are allocated over their estimated useful lives and reported as depreciation expense:</p>		
Capital outlays	1,317,545	
Depreciation expense	<u>(1,543,106)</u>	(225,561)
Contributions to the pension plan in the current fiscal year are not included in the Statement of Activities.		179,246
Other transactions involving capital assets consist of sales of assets net of cash collected. Cash collected is presented as current year income in the fund financial statements.		(9,415)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. This amount is the change in the net amount recognized from year to year.		27,254
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(463,724)
Additional State on-behalf payments to the pension plan included in the statement of activities		96,951
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:		
Pension expense		(1,649,386)
Change in compensated absences		<u>(9,214)</u>
Change in net position of governmental activities		<u><u>\$ (982,123)</u></u>

The accompanying notes to financial statements are an integral part of these statements.

HAINES BOROUGH
BALANCE SHEETS - PROPRIETARY FUNDS
June 30, 2016

	Business-type Activities - Enterprise Funds					
	Water	Sewer	Small Boat Harbor	Lutak Dock	Port Chilkoot Dock	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES						
Current Assets						
Cash and cash equivalents	\$ -	\$ -	\$ 300	\$ -	\$ -	\$ 300
Receivables	464,857	53,566	88,934	44,339	22,910	674,606
Due from other funds	-	904,380	618,669	1,193,103	25,043	2,741,195
Inventory	83,223	10,358	11,086	-	-	104,667
Prepaid expenses	-	65,659	-	-	-	65,659
Total current assets	548,080	1,033,963	718,989	1,237,442	47,953	3,586,427
Restricted Assets						
Revenue bond debt service reserve instruments	-	87,344	-	-	-	87,344
Capital Assets						
Land	85,584	9,000	-	-	-	94,584
Buildings, net of accumulated depreciation	31,615	-	-	-	389,787	421,402
Improvements other than buildings, net of accumulated depreciation	7,036,351	4,671,365	6,639,895	2,056,103	8,872,820	29,276,534
Equipment, net of accumulated depreciation	-	-	37,342	-	-	37,342
Construction in progress	644,744	-	3,242,330	-	-	3,887,074
Total capital assets	7,798,294	4,680,365	9,919,567	2,056,103	9,262,607	33,716,936
Deferred Outflows of Resources	46,607	31,071	93,213	-	-	170,891
Total assets and deferred outflows of resources	8,392,981	5,832,743	10,731,769	3,293,545	9,310,560	37,561,598
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES						
Current Liabilities						
Accounts payable	170,698	6,159	91,043	797	2,123	270,820
Loan payable - current	52,981	-	-	-	-	52,981
Bond payable - current	-	49,860	-	-	-	49,860
Deposits	10,427	11,609	27,174	-	-	49,210
Due to other funds	186,551	-	115,843	-	-	302,394
Total current liabilities	420,657	67,628	234,060	797	2,123	725,265
Noncurrent Liabilities						
Accrued vacation	11,510	11,510	4,570	-	-	27,590
Revenue bonds payable	-	1,127,753	-	-	-	1,127,753
Loans payable	771,909	94,741	-	-	-	866,650
Net pension liability	159,084	106,056	318,167	-	-	583,307
Total noncurrent liabilities	942,503	1,340,060	322,737	-	-	2,605,300
Deferred Inflows of Resources	2,816	1,878	5,633	-	-	10,327
Total liabilities and deferred inflows of resources	1,365,976	1,409,566	562,430	797	2,123	3,340,892
NET POSITION						
Net investment in capital assets	6,973,404	3,590,096	9,919,567	2,056,103	9,262,607	31,801,777
Restricted for bond reserves	-	87,344	-	-	-	87,344
Unrestricted	53,601	745,737	249,772	1,236,645	45,830	2,331,585
Total net position	\$ 7,027,005	\$ 4,423,177	\$ 10,169,339	\$ 3,292,748	\$ 9,308,437	\$ 34,220,706

The accompanying notes to financial statements are an integral part of these statements.

HAINES BOROUGH
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION- PROPRIETARY FUNDS
For the Year Ended June 30, 2016

	Business-type Activities - Enterprise Funds					
	Water	Sewer	Small Boat Harbor	Lutak Dock	Port Chilkoot Dock	Total
Operating Revenue						
Charges for services	\$ 385,978	\$ 466,410	\$ 468,683	\$ 421,655	\$ 79,740	\$ 1,822,466
General Revenue						
Intergovernmental - State of Alaska	699,833	2,179	319,708	-	-	1,021,720
Total operating and general revenue	1,085,811	468,589	788,391	421,655	79,740	2,844,186
Operating Expenses						
Depreciation	260,137	245,804	320,534	172,119	369,304	1,367,898
Salaries and benefits	191,384	163,905	332,771	49,269	3,205	740,534
Utilities	21,931	86,905	45,268	6,602	9,494	170,200
Materials and supplies	(95,335)	16,522	209,932	1,818	1,425	134,362
Banking and insurance	6,952	13,336	16,165	4,537	6,969	47,959
Professional services	30,909	4,155	2,090	4,512	1,644	43,310
Repairs and maintenance	11,563	6,134	7,439	7,918	1,619	34,673
Vehicle	1,820	1,977	1,819	1,570	915	8,101
Travel and training	2,860	336	1,507	1,497	1,497	7,697
Advertising, dues and subscriptions	151	2,044	136	145	140	2,616
Total operating expenses	432,372	541,118	937,661	249,987	396,212	2,557,350
Operating income (loss)	653,439	(72,529)	(149,270)	171,668	(316,472)	286,836
Nonoperating Revenue (Expense)						
Investment income	3,412	992	3,184	1,228	-	8,816
Interest expense	(12,158)	(38,849)	-	-	-	(51,007)
Total nonoperating revenue (expense)	(8,746)	(37,857)	3,184	1,228	-	(42,191)
Income (loss) before contributions and transfers	644,693	(110,386)	(146,086)	172,896	(316,472)	244,645
Capital contributions	-	-	92,130	-	-	92,130
Transfers in	6,000	-	64,407	-	-	70,407
Change in net position	650,693	(110,386)	10,451	172,896	(316,472)	407,182
Net Position, beginning of year	6,376,312	4,533,563	10,158,888	3,119,852	9,624,909	33,813,524
Net Position, end of year	\$ 7,027,005	\$ 4,423,177	\$ 10,169,339	\$ 3,292,748	\$ 9,308,437	\$ 34,220,706

The accompanying notes to financial statements are an integral part of these statements.

HAINES BOROUGH
STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS

For the Year Ended June 30, 2016

	Business-type Activities - Enterprise Funds					Total
	Water	Sewer	Small Boat Harbor	Lutak Dock	Port Chilkoot Dock	
Cash Flows from Operating Activities						
Cash received from customers	\$ 1,014,253	\$ 474,907	\$ 789,673	\$ 458,339	\$ 81,732	\$ 2,818,904
Cash paid to suppliers	(112,325)	(133,849)	(284,732)	(31,910)	(24,846)	(587,662)
Cash paid to employees	(167,737)	(155,380)	(148,419)	(95,884)	(26,513)	(593,933)
Net cash transferred from (to) general fund	302,133	(94,306)	(32,588)	(331,773)	(30,373)	(186,907)
Net cash flows from (for) operating activities	<u>1,036,324</u>	<u>91,372</u>	<u>323,934</u>	<u>(1,228)</u>	<u>-</u>	<u>1,450,402</u>
Cash Flows from Capital and Related Financing Activities						
Purchases of fixed assets	(954,360)	-	(483,655)	-	-	(1,438,015)
Disposal of assets	-	-	-	-	-	-
Capital contributions	-	-	92,130	-	-	92,130
Net cash transferred from other funds	6,000	-	64,407	-	-	70,407
Proceeds from loans	99,430	-	-	-	-	99,430
Repayment of loan payable	(178,648)	-	-	-	-	(178,648)
Interest on bonds and loan payable	(12,158)	(43,708)	-	-	-	(55,866)
Repayment of bonds payable	-	(49,556)	-	-	-	(49,556)
Net cash flows from (for) capital and related financing activities	<u>(1,039,736)</u>	<u>(93,264)</u>	<u>(327,118)</u>	<u>-</u>	<u>-</u>	<u>(1,460,118)</u>
Cash Flows from Investing Activities						
Change in performance deposit	-	900	-	-	-	900
Cash receipts from investments	3,412	992	3,184	1,228	-	8,816
Net cash flows from investing activities	<u>3,412</u>	<u>1,892</u>	<u>3,184</u>	<u>1,228</u>	<u>-</u>	<u>9,716</u>
Net increase in cash	-	-	-	-	-	-
Cash and Cash Equivalents, beginning of year	-	-	300	-	-	300
Cash and Cash Equivalents, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 300</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 300</u>
Reconciliation of Operating Income (Loss) to Net Cash Flows from (for) Operating Activities						
Operating income (loss)	<u>\$ 653,439</u>	<u>\$ (72,529)</u>	<u>\$ (149,270)</u>	<u>\$ 171,668</u>	<u>\$ (316,472)</u>	<u>\$ 286,836</u>
Adjustments to reconcile operating income (loss) to net cash flows from operating activities						
Depreciation	260,137	245,804	320,534	172,119	369,304	1,367,898
Pension Expense	51,125	34,084	102,251	-	-	187,460
Changes in operating assets and liabilities						
Receivables	(70,982)	7,193	(3,638)	36,684	1,992	(28,751)
Due from other funds	302,133	(94,306)	(32,588)	(331,773)	(30,373)	(186,907)
Inventory	(7,481)	1,105	25,025	-	-	18,649
Accounts payable	(123,993)	(3,545)	(25,401)	(3,311)	(1,143)	(157,393)
Accrued vacation	1,585	1,585	380	-	-	3,550
Deferred outflows of resources for pensions	2,392	2,298	(7,867)	4,217	2,108	3,148
Deferred inflows of resources for pensions	(7,936)	(6,186)	256	(5,377)	(2,688)	(21,931)
Net pension liability	(23,519)	(23,256)	89,332	(45,455)	(22,728)	(25,626)
Deposits	(576)	(875)	4,920	-	-	3,469
Total adjustments	<u>382,885</u>	<u>163,901</u>	<u>473,204</u>	<u>(172,896)</u>	<u>316,472</u>	<u>1,163,566</u>
Net cash flows from (for) operating activities	<u><u>\$ 1,036,324</u></u>	<u><u>\$ 91,372</u></u>	<u><u>\$ 323,934</u></u>	<u><u>\$ (1,228)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,450,402</u></u>

The accompanying notes to financial statements are an integral part of these statements.

HAINES BOROUGH
COMPONENT UNITS COMBINING STATEMENTS OF NET POSITION (DEFICIT)
June 30, 2016

	Haines Borough School District	Sheldon Museum	Non-major Component Unit	Total
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 1,271,595	\$ 53,386	\$ 25,227	\$ 1,350,208
Investments	5,344	-	-	5,344
Receivables	147,996	5,141	88,300	241,437
Due from governmental entity	-	-	3,607	3,607
Inventory and prepaid expenses	169,531	29,488	-	199,019
Total current assets	1,594,466	88,015	117,134	1,799,615
Noncurrent Assets				
Capital assets, net	177,636	31,637	-	209,273
Deferred Outflows of Resources				
Pension	828,999	-	-	828,999
Total assets	2,601,101	119,652	117,134	2,837,887
LIABILITIES				
Current Liabilities				
Accounts payable	48,611	114	-	48,725
Due to governmental entity	-	14,595	-	14,595
Accrued payroll and related liabilities	45,236	29,678	-	74,914
Deferred revenue	-	18,375	-	18,375
Total current liabilities	93,847	62,762	-	156,609
Noncurrent Portion of Long-Term obligations				
Accrued vacation	96,348	-	-	96,348
Net Pension Liability	3,410,507	-	-	3,410,507
Deferred Inflows of Resources				
Pension	87,834	-	-	87,834
Total Liabilities	3,688,536	62,762	-	3,751,298
NET POSITION (DEFICIT)				
Net investment in capital assets	177,636	31,637	-	209,273
Restricted for Museum projects and other	-	195,992	-	195,992
Unrestricted	(1,265,071)	(170,739)	117,134	(1,318,676)
Total net position (deficit)	\$ (1,087,435)	\$ 56,890	\$ 117,134	\$ (913,411)

The accompanying notes to financial statements are an integral part of these statements.

HAINES BOROUGH
COMPONENT UNITS COMBINING STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Fee, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Haines Borough School District	Sheldon Museum	Non-Major Component Unit	Total
Haines Borough School District	\$ 7,054,430	\$ 54,089	\$ 910,596	\$ -	\$ (6,089,745)	\$ -	\$ -	\$ (6,089,745)
Sheldon Museum	565,370	56,449	82,719	-	-	(426,202)	-	(426,202)
Non-Major Component Unit	23,453	-	19,300	-	-	-	(4,153)	(4,153)
	<u>\$ 7,643,253</u>	<u>\$ 110,538</u>	<u>\$ 1,012,615</u>	<u>\$ -</u>	<u>(6,089,745)</u>	<u>(426,202)</u>	<u>(4,153)</u>	<u>(6,520,100)</u>
General Revenues								
Provided by general government					1,560,008	198,536	28,110	1,786,654
State of Alaska					3,384,602	-	-	3,384,602
Investment income					1,953	41	2	1,996
Contributions and other					180,967	17,144	2,340	200,451
Total General Revenues					<u>5,127,530</u>	<u>215,721</u>	<u>30,452</u>	<u>5,373,703</u>
Change in Net Position					(962,215)	(210,481)	26,299	(1,146,397)
Net Position (deficit), beginning of year					<u>(125,220)</u>	<u>267,371</u>	<u>90,835</u>	<u>232,986</u>
Net Position (deficit), end of year					<u>\$ (1,087,435)</u>	<u>\$ 56,890</u>	<u>\$ 117,134</u>	<u>\$ (913,411)</u>

The accompanying notes to financial statements are an integral part of these statements.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Haines Borough ("the Borough") was created in October 2002, when the public voted to combine the Haines Borough with the City of Haines. The Borough is incorporated under the laws of the State of Alaska as a Home Rule borough. The Borough operates under a Manager-Assembly form of government and provides the following services: public safety (police, fire, and medical services), streets and sidewalks, water and sewer, health, culture-recreation and economic development, port authority, public improvements, planning and zoning, and general administrative services.

Discretely Presented Component Units

The accompanying financial statements present the Borough and its component units. The Borough Assembly approves the total annual budgets of these entities and annually provides significant operating subsidies to them. In addition, the Borough levies taxes on behalf of the Haines Borough School District ("the School District"). Accordingly, the Borough is considered to be financially accountable for these entities. However, each entity has a separate governing board (the District's board is elected by the public) and the component units are therefore discretely presented in the financial statements. The component units are:

- Haines Borough School District which provides elementary and secondary education within the Borough's jurisdiction.
- The Sheldon Museum and Cultural Center which operates and maintains the museum.
- Klehini Valley Volunteer Fire Department which provides fire protection in the Klehini Valley.

Information about major component units is included in the combining statement of net position (deficit) (page 11) and the combining statement of activities (page 12).

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

Haines Borough School District
P.O. Box 1289
Haines, AK 99827

The other component units do not have separately audited financial statements.

Government-Wide and Fund Financial Statements

The statement of net position (deficit) and the statement of activities display information about the primary government (the Borough) and its component units. These statements include the financial activities of the overall government. For the most part, the effect of interfund activity has been removed from these statements. These statements distinguish between the governmental and business-type activities of the Borough. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Borough, and for each function of the Borough's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The Borough reports the following major governmental funds:

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

Permanent Fund – Accounts for assets held in a trustee capacity. The fund represents the cumulative net proceeds from the sale of municipal lands less construction of public improvements within local improvement districts. The principal balance of the fund cannot be spent and must be held in trust for the benefit of future residents of the Borough. Only income of the fund may be spent. The Assembly shall provide for the protection of the fund principal from the effects of inflation and may appropriate any remaining income for Borough expenses.

New School Debt Service – Accounts for property tax revenue and State of Alaska grants used to make payments on the bonds that were issued to construct the new school and related projects.

Capital Project Funds – This is made up of all the capital project funds, as they fluctuate in materiality yearly. All accounts for various capital projects, primarily funded by government grants and sales taxes that benefit the entire Borough area.

Passenger Vessel Tax – Accounts for docks and harbors improvements, funded by passenger vessel taxes.

The Borough reports the following major proprietary funds:

Water Fund – Accounts for activities including operating the water storage and distribution systems.

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

Small Boat Harbor Fund – Accounts for activities including operating the small boat harbor.

Lutak Dock Fund – Accounts for activities including operating Lutak Dock.

Port Chilkoot Dock Fund – Accounts for activities including operating Port Chilkoot Dock.

Garbage service for the Borough is not operated by the Borough government, but is provided by a private business.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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

Proprietary (or enterprise) funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Borough's enterprise funds are charges to customers for sales and services. The water and sewer funds also recognize as operating revenue fees intended to recover the cost of connecting new customers to the systems.

Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Property Taxes

Property taxes are levied on July 1 and payable in two installments on September 1 and December 1. Property taxes attach as an enforceable lien on property approximately one year from the due date. The Borough bills and collects taxes for its own and school purposes. Borough property tax revenues are recognized when they become measurable and available which is generally when levied. Delinquent property taxes are not considered currently available, so they are reported as deferred inflow of resources in the fund financial statements.

Land Sales

The Borough also occasionally sells land using long-term receivable contracts. In the fund financial statements, the amounts due on the receivable contracts are not available to finance current period expenditures; therefore, they are reported as deferred inflow of resources in the fund financial statements. The amounts due on the receivable contracts are recognized as revenue when the funds are available to

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

meet current period expenditures. These contracts are revenue for the government-wide statement of activities when the sale occurs.

Use of Estimates

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

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

Deposits and Investments

All cash deposits are in a single financial institution and are carried at cost. The Borough considers all investments in money market funds and highly-liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

The Borough pools most of its cash resources of its various funds to facilitate the management of cash. The majority of the cash balances are recorded in the general fund with amounts allocated to the appropriate funds.

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

Receivables

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

Due to and Due from Other Funds

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

Inventory

Inventory consists of fuel, parts, supplies and museum merchandise, and is stated at the lower of cost (first-in, first-out basis) or market.

Prepaid Expenses

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

Restricted Assets

Certain cash, investments, and receivables are classified as restricted assets on the balance sheet because they are permanently held for the benefit of future residents of the Borough.

In addition, assets which are restricted for specific uses by bond covenants, grant provisions, or other requirements are classified as restricted assets.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

Capital Assets

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

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

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

	<u>Estimated Useful Life</u>
Building structures and other improvements	10 – 40 years
Machinery and equipment	5 – 15 years
Roads and bridges	15 – 50 years

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

Compensated Absences

It is the Borough's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation 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.

Unearned Revenue

Amounts received from grants and other sources, but not yet spent for their restricted purpose, are shown on the balance sheet as unearned revenue on both the government-wide and fund financial statements.

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 or proprietary fund balance sheets.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Alaska Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) and additions to/deductions from PERS's and TRS's fiduciary net position have been determined on the same basis as PERS and TRS, assuming the State's pension support under AS 39.35.280 is a "Special Funding Situation" as defined by GASB 68. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

Deferred Outflows and Inflows of Resources

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

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

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets consist of capital assets, net of accumulated depreciation, and related debt. Net positions are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Borough Assembly or through external restriction imposed by creditors, grantors or laws or regulations of other governments.

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

Fund Balance

Generally, fund balance represents the difference between the current assets, current liabilities and deferred inflows of resources. The Borough classifies its fund balances in accordance with GASB Statement No. 54 nonspendable, restricted, committed, assigned, or unassigned fund balance categories. See Note 7 for further information of the Borough's fund balance classifications.

In governmental funds, the Borough's policy regarding when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) amounts are available is to consider restricted amounts to be reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, then committed amounts would be reduced first, followed by assigned and then unassigned amounts.

The Borough has not formally adopted a policy with respect to the minimum fund balance amount.

Reclassifications

Certain prior year financial statement balances have been reclassified to conform to the current year presentation.

Date of Subsequent Review

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

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

The appropriated budget is prepared by fund, function, and department using the modified accrual basis of accounting. The Borough's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Borough Assembly.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. The Assembly made several supplemental budgetary appropriations throughout the year. The significant supplemental budgetary appropriations made were related to intergovernmental revenue, investment income, wage related expenses, and transfers.

The Borough follows these procedures in establishing the budgetary data reflected in the general purpose financial statements:

- a. During the month of March, the Borough Manager submits to the Borough Assembly a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. A minimum of two public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally enacted through passage of an ordinance.
- d. The Borough Assembly may pass ordinances during the year that amend the budget.
- e. The Borough administration may transfer amounts between cost centers within a department's budget classification.
- f. Appropriations for the general fund and special revenue funds lapse at year-end. Appropriations for capital projects and those needed to meet grant requirements lapse when the project is complete or abandoned.
- g. The Borough's legally prescribed budgetary basis of accounting is consistent with accounting principles generally accepted in the United States and, accordingly, where budgetary data are presented, the budget and actual information conform to the same basis of accounting.

The Borough Manager may establish line item expenditures within an authorized appropriation and/or transfer from within a department from one authorized appropriation to another any amount which does not exceed 10% of the total fund appropriation or \$10,000, whichever is less. The reported budget amounts are as originally adopted or as amended.

Excess of Expenditures over Appropriations

For the year ended June 30, 2016 there were no departments with significant excess of expenditures over appropriations.

NOTE 3 – CASH AND CASH EQUIVALENTS

The Borough follows the practice of pooling cash equivalents of its various funds. Interest income from pooled cash equivalents is allocated ratably over the various funds.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

At June 30, 2016, the carrying amount of the Borough's cash balances was \$2,207,735, while the bank and other institution balances were \$2,445,767. These balances are categorized as follows:

	<u>Bank Balance</u>
Amount insured by the FDIC (up to \$250,000) or collateralized with securities held by the bank or other institutions in the Borough's name	\$ 2,358,356
Uncollateralized/uninsured	<u>87,411</u>
	<u>\$ 2,445,767</u>

The cash and cash equivalents for component units other than the School District are fully insured by the FDIC. The School District had uninsured but collateralized deposits of \$1,021,595 at June 30, 2016.

The following is the reconciliation of various components of cash to amounts presented in the statement of net position:

	<u>Carrying Amount</u>
Reconciliation to statement of net position-	
Cash and cash equivalents	\$ 2,057,941
Restricted assets:	
Cash and cash equivalents	62,450
Revenue bond debt service reserve instruments	<u>87,344</u>
	<u>\$ 2,207,735</u>

NOTE 4 - INVESTMENTS

Credit risk – Statutes authorize the Borough to invest in obligations insured or guaranteed by the United States government or its agencies, as well as obligations of the State of Alaska or municipalities of the state, certificates of deposit, and corporate obligations of prime or equivalent quality as recognized by a nationally recognized rating organization. In addition, the Permanent Trust Fund may be partially invested in equities.

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

Interest rate risk – The Borough does not have a formal investment policy that limits maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Fair market value of securities is determined by established trading market prices.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

Investments made by the Borough are summarized below:

	Investment Maturities (in years)				Total
	Less than 1	1-5	6-10	Over 10	
Investments held by agent in the Borough's name					
Certificates of Deposit	\$ 2,467,271	\$ 5,722,132	\$ -	\$ -	\$ 8,189,403
U.S. Government Instruments	150,135	2,840,929	582,017	-	3,573,081
Corporate Debt	-	1,931,465	416,300	-	2,347,765
Municipal Securities	604,318	41,192	-	-	645,510
Total debt securities	<u>\$ 3,221,724</u>	<u>\$ 10,535,718</u>	<u>\$ 998,317</u>	<u>\$ -</u>	14,755,759
Common stocks (mutual fund that holds the stocks of the S&P 500)					1,901,292
Equity funds					839,339
					<u>\$ 17,496,390</u>
Reconciliation to statement of net position:					
Investments					9,195,141
Restricted investments					8,301,249
					<u>\$ 17,496,390</u>

The School District's investment balance of \$5,344 consisted of mutual funds and their cost approximates market value.

The credit quality ratings of the Borough's corporate debt, municipal securities, and U.S. Government instrument investments as of June 30, 2016, as described by nationally recognized statistical rating organizations, are shown below:

	S&P Rating	Investment Fair Value	Percentage of Total
Corporate debt	AAA	\$ 135,719	5.78%
Corporate debt	AA	733,794	31.26%
Corporate debt	A	1,064,322	45.33%
Corporate debt	BBB	413,929	17.63%
		<u>\$ 2,347,765</u>	<u>100.00%</u>
Municipal securities	AAA	\$ 436,315	67.59%
Municipal securities	AA	209,195	32.41%
		<u>\$ 645,510</u>	<u>100.00%</u>
U.S. Government instruments	AAA	\$ 3,183,781	89.10%
U.S. Government instruments	AA	360,229	10.08%
U.S. Government instruments	Unrated	29,071	0.82%
		<u>\$ 3,573,081</u>	<u>100.00%</u>

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - RECEIVABLES, DEFERRED INFLOW OF RESOURCES, AND UNEARNED REVENUE

Receivables at June 30, 2016, for the individual major funds and nonmajor funds in the aggregate were as follows:

	Taxes	Land Sale/LID Contracts	Revolving Loan Contracts	Customer Charges	State and Federal Governments	Accrued Interest and Other	Total
<i>Governmental funds:</i>							
General fund	\$ 216,400	\$ -	\$ 106,375	\$ -	\$ -	\$ 62,199	\$ 384,974
Permanent fund	-	-	-	-	-	55,315	55,315
New school debt service	-	-	-	-	9,188	-	9,188
Capital project funds	73,463	-	-	-	127,702	-	201,165
Other governmental funds	73,463	112,878	-	-	-	1,925	188,266
<i>Enterprise funds:</i>							
Water fund	-	-	-	44,330	420,527	-	464,857
Sewer fund	-	-	-	53,566	-	-	53,566
Small boat harbor fund	-	-	-	13,219	75,715	-	88,934
Lutak dock fund	-	-	-	44,339	-	-	44,339
Port Chilkoot dock fund	-	-	-	22,910	-	-	22,910
Total	\$ 363,326	\$ 112,878	\$ 106,375	\$ 178,364	\$ 633,132	\$ 119,439	\$ 1,513,514

Reconciliation to statement of net position:

Current receivables	\$ 1,262,021
Restricted receivables	55,315
Noncurrent receivables, net of current portion	196,178
	<u>\$ 1,513,514</u>

All receivables other than land sale/LID and revolving loan contracts are expected to be collected within one year. Land sale/LID contracts are to be collected over various lives and interest is charged at 10%. The current portion of these contracts is approximately \$50,000. Revolving loan contracts are loans contracted through the Juneau Economic Development Council with interest charged between 7.5% and 7.75%, of which 5% interest goes to the loan fund and any additional interest received goes to the Borough.

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

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes receivable (general fund)	\$ 85,895	\$ -	\$ 85,895
Payments in lieu of taxes	-	348,013	348,013
Land sale/LID receivables (including accrued interest)	114,803	-	114,803
Grants and contributions	<u>-</u>	<u>299,146</u>	<u>299,146</u>
Total deferred inflow of resources / unearned revenue for governmental funds	<u>200,698</u>	<u>647,159</u>	<u>847,857</u>
Amounts recognized in the government-wide financial statements			
Property taxes receivable	(85,895)	-	(85,895)
Payments in lieu of taxes	-	(348,013)	(348,013)
Land sales/LID receivables	(114,803)	-	(114,803)
Passenger vessel excise tax	<u>-</u>	<u>(21,882)</u>	<u>(21,882)</u>
Total unearned revenue for government-wide financial statements	<u>\$ -</u>	<u>\$ 277,264</u>	<u>\$ 277,264</u>

NOTE 6 - CAPITAL ASSETS

Capital assets for the year ended June 30, 2016 were as follows:

	<u>Balance, June 30, 2015</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Balance, June 30, 2016</u>
<i>Governmental activities</i>				
Capital assets not being depreciated:				
Land and improvements	\$ 1,151,005	\$ -	\$ -	\$ 1,151,005
Construction in progress	<u>279,336</u>	<u>-</u>	<u>(279,336)</u>	<u>-</u>
Total capital assets not being depreciated	<u>1,430,341</u>	<u>-</u>	<u>(279,336)</u>	<u>1,151,005</u>
Other capital assets:				
Buildings	33,427,240	1,061,806	-	34,489,046
Other improvements	10,633,396	368,806	-	11,002,202
Furniture and equipment	6,448,029	178,768	(12,500)	6,614,297
Road network	<u>6,440,093</u>	<u>-</u>	<u>-</u>	<u>6,440,093</u>
Total other capital assets	<u>56,948,758</u>	<u>1,609,380</u>	<u>(12,500)</u>	<u>58,545,638</u>
Less accumulated depreciation for:				
Buildings	14,274,228	864,311	-	15,138,539
Other improvements	2,375,665	339,583	-	2,715,248
Furniture and equipment	4,579,752	340,564	(1,354)	4,918,962
Road network	<u>4,567,049</u>	<u>-</u>	<u>-</u>	<u>4,567,049</u>
Total accumulated depreciation	<u>25,796,694</u>	<u>1,544,458</u>	<u>(1,354)</u>	<u>27,339,798</u>
Other capital assets, net	<u>31,152,064</u>	<u>64,922</u>	<u>(11,146)</u>	<u>31,205,840</u>
Governmental activities capital assets, net	<u>\$ 32,582,405</u>	<u>\$ 64,922</u>	<u>\$ (290,482)</u>	<u>\$ 32,356,845</u>

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

	Balance, June 30, 2015	Increases	Transfers/ Decreases	Balance, June 30, 2016
<i>Business-type activities</i>				
Capital assets not being depreciated:				
Land and improvements	\$ 54,570	\$ 40,014	\$ -	\$ 94,584
Construction in progress	3,213,765	957,916	(284,607)	3,887,074
Total capital assets not being depreciated	3,268,335	997,930	(284,607)	3,981,658
Other capital assets:				
Buildings	484,327	-	-	484,327
Other improvements (including distribution and collection systems)	49,184,640	724,694	-	49,909,334
Equipment	138,566	-	-	138,566
Total other capital assets	49,807,533	724,694	-	50,532,227
Less accumulated depreciation for:				
Buildings	50,372	12,553	-	62,925
Other improvements (including distribution and collection systems)	19,285,732	1,347,068	-	20,632,800
Equipment	92,947	8,277	-	101,224
Total accumulated depreciation	19,429,051	1,367,898	-	20,796,949
Other capital assets, net	30,378,482	(643,204)	-	29,735,278
Business-type activities capital assets, net	<u>\$ 33,646,817</u>	<u>\$ 354,726</u>	<u>\$ (284,607)</u>	<u>\$ 33,716,936</u>

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

<i>Governmental activities</i>	
General government	\$ 166,452
Public safety	94,337
Public works and streets, including depreciation of general infrastructure assets	378,022
Economic development	13,731
Education	670,667
Port development	10,711
Culture, recreation, and library	210,538
Total depreciation expense - governmental activities	<u>\$ 1,544,458</u>
<i>Business-type activities</i>	
Water	\$ 260,137
Sewer	245,804
Small Boat Harbor	320,534
Lutak Dock	172,119
Port Chilkoot dock fund	369,304
Total depreciation expense - business-type activities	<u>\$ 1,367,898</u>

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

Construction contract commitments at year-end include outstanding contracts for the following projects:

- Piedad Water Upgrades with a remaining commitment of approximately \$101,000.

The Borough owns the land and buildings used by the School District and records the land, buildings, and certain equipment as part of governmental activity capital assets. At June 30, 2016, the cost and accumulated depreciation associated with these assets was \$23,882,101 and \$8,546,327, respectively.

NOTE 7 - FUND BALANCES – GOVERNMENTAL FUNDS

As of June 30, 2016, fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance – Nonspendable fund balance is that portion of fund equity that cannot be spent either because it is in a nonspendable form or because it is legally or contractually required to be maintained intact.

Restricted Fund Balance – Restricted fund balance is that portion of fund equity that has constraints placed upon the use of the resources either by an external party or imposed by law.

Committed Fund Balance – Committed fund balance is that portion of fund equity that can only be used for specific purposes determined by a formal action by the Borough Assembly. Formal action by the Assembly is required to establish, modify or rescind a fund balance commitment.

Assigned Fund Balance – Assigned fund balance is that portion of fund equity that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent can be expressed by the governing body itself or by the Borough Manager or his designee to whom the governing body has delegated the authority to assign amounts to be used for specific purposes.

Unassigned Fund Balance – Unassigned fund balance is that portion of fund balances not included in other spendable classifications.

This section left intentionally blank.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

As of June 30, 2016, fund balances are composed of the following:

	General Fund	Permanent Fund	New School Debt Service	Borough Capital Improvements	Passenger Vessel Tax	Other Governmental Funds	Total Governmental Funds
Nonspendable							
Permanent fund	\$ -	\$ 7,323,589	\$ -	\$ -	\$ -	\$ -	\$ 7,323,589
Inventory	45,722	-	-	-	-	-	45,722
Prepaid expenses	4,163	-	-	-	-	-	4,163
Total nonspendable	49,885	7,323,589	-	-	-	-	7,373,474
Restricted							
Road maintenance	61,036	-	-	-	-	-	61,036
Fire service areas	34,832	-	-	-	-	-	34,832
Debt service	-	-	24,900	-	-	1,123	26,023
Capital projects	486,291	-	-	1,534,522	-	-	2,020,813
Medical services	-	-	-	-	-	155,438	155,438
Economic development	-	-	-	-	-	535,971	535,971
Land development	-	-	-	-	-	410,289	410,289
Townsite service area	1,401,121	-	-	-	-	-	1,401,121
Total restricted	1,983,280	-	24,900	1,534,522	-	1,102,821	4,645,523
Assigned							
Subsequent year expenditures	683,930	-	-	-	-	-	683,930
Permanent fund	-	1,344,882	-	-	-	-	1,344,882
Total assigned	683,930	1,344,882	-	-	-	-	2,028,812
Unassigned	2,374,801	-	-	-	4,400	-	2,379,201
Total fund balances	\$ 5,091,896	\$ 8,668,471	\$ 24,900	\$ 1,534,522	\$ 4,400	\$ 1,102,821	\$ 16,427,010

NOTE 8 - LONG-TERM DEBT

The Borough's long-term debt includes general obligation debt and revenue bonds. General obligation bonds and loans are direct obligations of the Borough and the Borough has pledged its full faith and credit to their repayment. Revenue bonds are payable from the sewer user fees. Compensated absences included in governmental activities are generally liquidated by the general fund.

Long-term liability activity for the year ended June 30, 2016, was as follows:

	Balance, June 30, 2015	Additions	Reductions	Balance, June 30, 2016	Amounts Due Within One Year
<i>Governmental Activities</i>					
Bonds and notes payable:					
USDA bonds	\$ 166,663	\$ -	\$ 6,305	\$ 160,358	\$ 6,437
School construction bonds	10,275,000	1,155,000	835,000	10,595,000	810,000
Bond premium	1,512,025	150,029	213,332	1,448,722	221,156
Total bonds and notes payable	11,953,688	1,305,029	1,054,637	12,204,080	1,037,593
Compensated absences	153,351	9,214	-	162,565	-
Governmental activities long-term liabilities	\$ 12,107,039	\$ 1,314,243	\$ 1,054,637	\$ 12,366,645	\$ 1,037,593

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

	Balance, June 30, 2015	Additions	Reductions	Balance, June 30, 2016	Amounts Due Within One Year
<i>Business-type Activities</i>					
Bonds and notes payable:					
AMBBA sewer revenue bonds	\$ 1,140,000	\$ -	\$ 45,000	\$ 1,095,000	\$ 45,000
State of Alaska DEC loans payable	1,003,405	99,430	183,204	919,631	52,981
Bond premium	87,472	-	4,859	82,613	4,860
Total bonds and notes payable	2,230,877	99,430	233,063	2,097,244	102,841
Compensated absences	24,040	3,550	-	27,590	-
Business-type activities long-term liabilities	<u>\$ 2,254,917</u>	<u>\$ 102,980</u>	<u>\$ 233,063</u>	<u>\$ 2,124,834</u>	<u>\$ 102,841</u>

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

Governmental Activities:

General obligation bonds:

\$1,155,000 2014 school construction bonds, due in annual installments of \$35,000 to \$90,000, plus interest at 2.0% to 5.25%, through June 2036 (not including unamortized premium of \$142,829 at June 30, 2016)	\$ 1,155,000
\$9,440,000 2014 school construction bonds, due in annual installments of \$775,000 to \$1,160,000, plus interest at 1.25% to 5.0%, through October 2025 (not including unamortized premium of \$1,512,025 at June 30, 2016)	9,440,000
Bonds payable to the United States Department of Agriculture used for construction of new library, due in semi-annual installments of \$7,074 through September 6, 2032, including interest at 4.75%	<u>160,358</u>
Total bond and note payable	10,755,358
Unamortized premium	<u>1,448,722</u>
Total general bond and note payable debt	12,204,080
Less current portion	<u>(1,037,593)</u>
Total general long-term bond and note payable debt	<u>\$ 11,166,487</u>

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

Business-type Activities :

\$1,210,000 2013 sewer revenue bonds, due in semi-annual installments of \$61,849 to \$81,856, including interest at 2%, through 2033	\$ 1,095,000
Loan from the State of Alaska Department of Environmental Conservation, due in annual principal installments of \$14,203, plus interest at 1.5%, through 2022	85,223
Loan from the State of Alaska Department of Environmental Conservation, due in annual installments of \$2,904, including interest at 1.5%, through 2033	43,300
Loan from the State of Alaska Department of Environmental Conservation, due in annual installments of \$3,432, including interest at 1.5%, through 2034	56,376
Loan from the State of Alaska Department of Environmental Conservation, due in annual installments of \$14,439 including interest @ 1.5%, through 2034	226,298
Loan from the State of Alaska Department of Environmental Conservation, due in annual installments of \$4,936 including interest @ 1.5%, through 2034	74,645
Loan from the State of Alaska Department of Environmental Conservation, due in annual installments of \$7,692, starting once loan is in repayment. Interest is to accrue at 1.5% and principal paid over 20 years.	131,918
Loan from the State of Alaska Department of Environmental Conservation, due in annual installments of \$6,045 including interest @ 1.5%, through 2034	94,741
Loan from the State of Alaska Department of Environmental Conservation, due in annual installments of \$12,079 starting once loan is in repayment. Interest is to accrue at 1.5% and principal paid over 20 years.	<u>207,130</u>
Total bond and note payable	2,014,631
Unamortized premium	<u>82,613</u>
Total enterprise funds bond and note payable debt	2,097,244
Less current portion	<u>(102,841)</u>
Total enterprise funds long-term bond and note payable debt	<u><u>\$ 1,994,403</u></u>

In conjunction with the issuance of the above school construction bonds, the State of Alaska Department of Education and Early Development have approved the project for a 70% reimbursement rate from the State of Alaska. As State of Alaska funding is on a reimbursement basis, the eventual payments to be received have not been recognized in these financial statements.

The State of Alaska did not fund school debt reimbursement for fiscal year 2017. As a result, the Borough will not receive \$225,207 in previously expected reimbursement from the State of Alaska for school debt reimbursement. The Borough has considered this in its fiscal year 2017 budget.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

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

Governmental Activities:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,037,593	\$ 484,605	\$ 1,522,198
2018	1,060,543	462,798	1,523,341
2019	1,082,734	428,770	1,511,504
2020	1,099,434	388,402	1,487,836
2021	1,115,801	341,792	1,457,593
2022-2026	5,970,476	922,411	6,892,887
2027-2031	403,478	157,777	561,255
2032-2036	434,021	55,408	489,429
	<u>\$ 12,204,080</u>	<u>\$ 3,241,963</u>	<u>\$ 15,446,043</u>

Business-type Activities:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 102,841	\$ 54,967	\$ 157,808
2018	103,627	52,936	156,563
2019	104,222	50,105	154,327
2020	109,826	46,916	156,742
2021	110,439	43,593	154,032
2022-2026	559,912	164,738	724,650
2027-2031	622,473	86,302	708,775
2032-2036	383,904	14,769	398,673
	<u>\$ 2,097,244</u>	<u>\$ 514,326</u>	<u>\$ 2,611,570</u>

NOTE 9 - BOND REQUIREMENTS

The various bonds of the enterprise funds require establishment of certain cash reserves and maintenance of certain revenue levels.

The sewer revenue bonds required the establishment of a reserve account. The required reserve account was set up and fully funded in prior years. The reserve account balance at June 30, 2016, was \$87,344.

These bonds also require that the Borough maintain sewer rates at a level which will produce an annual amount of net operating revenue before depreciation equal to at least 1.25 times the maximum amount required each year for debt service. In fiscal year 2016, sewer fund net operating revenues were \$182,231 and the debt service requirement was \$87,219 resulting in a ratio of 2.09.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 10 - RETIREMENT PLANS

Employees of the Borough and non-teaching-certified employees of the School District participate in Public Employees' Retirement System (PERS), teaching-certified employees of the School District participate in the State of Alaska Teachers Pension Plan (TPP) administered by the Teachers Retirement System (TRS), or the State of Alaska Defined Contribution Pension Plan (DC Plan), a defined contribution plan, based on date of initial hire by a participating employer. The plans are governed by the Alaska Retirement Management Board (the "Board" or the "System"), which consists of nine trustees, as follows: the commissioner of administration, the commissioner of revenue, two trustees who are members of the general public, one trustee who is employed as a finance officer for a political subdivision participating in either the PERS or Teachers' Retirement System (TRS), two trustees who are members of PERS, and two trustees who are members of TRS. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. PERS and TRS issue publicly available financial reports that can be obtained at <http://doa.alaska.gov/drb>.

State of Alaska PERS Defined Benefit Plan

Plan Description

PERS is a cost-sharing multiple-employer defined benefit (DB) pension plan administered by the State of Alaska which includes a defined benefit health plan, and occupational death and disability plan (Other Post Employment Benefits "OPEB"). All employees initially hired prior to July 1, 2006 must participate in this plan. With the passage of Senate Bill (SB) 141, the DB Plan is closed to all new members effective July 1, 2006. Employees hired on or after this date must participate in the DC Plan described later.

Benefits Provided

PERS provides retirement, health insurance premium supplement, long-term disability, occupational death and disability and survivor benefits. Retirement benefits are calculated on the basis of age, average monthly compensation and service credit as follows (a more complete description of benefits can be found at <http://doa.alaska.gov/drb/> or the financial report referred to above):

	<u>"Tier 1"</u>	<u>"Tier 2 and 3"</u>
Initial hire date	Before July 1, 1986 and all police and firefighters	July 1, 1986 to June 30, 1996 (2) After July 1, 1996 (3)
Minimum credited years of service	Five Years	Five Years
Retirement age with minimum years of service	55, or early retirement - 50, or any age with 30 or more service years	60, or early retirement - 55, or any age with 30 or more service years
Pension benefit:		
Basis	Years of Service based and average of three highest consecutive years' salaries	Years of Service based and average of three highest consecutive years' salaries
Amount per year of service	2% to 2.5% depending on hire date and length of service	2% to 2.5% depending on hire date and length of service

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

Form	Joint and survivor annuity	Joint and survivor annuity
Death benefit:		
Pre-retirement, work related, non-willful negligence death	Monthly survivor benefit	Monthly survivor benefit
Active DB Plan member, occupational death	40% of members' salary, higher amounts for police or firefighters	40% of members' salary, higher amounts for police or firefighters
Active DB Plan member, non-occupational death	Spouse receives 50% of members' benefit, or lump sum to other beneficiaries	Spouse receives 50% of members' benefit, or lump sum to other beneficiaries
Disability benefits	Paid to normal retirement age, if vested, when normal retirement benefits apply	Paid to normal retirement age, if vested, when normal retirement benefits apply
Medical benefits	Major medical benefits at no cost	Major medical at no cost after age 60, or premium amount if under age 60 (Tier 2), paid premium (Tier 3), at no cost if disabled
Postretirement pension adjustments (PRPA):		
Automatic	Benefits increased each July 1 based on cost of living increase the previous calendar year	Benefits increased each July 1 based on cost of living increase the previous calendar year
Discretionary	Granted if funding ratio of the DB Plan meets or exceeds 105%	Granted if funding ratio of the DB Plan meets or exceeds 105%

Contributions

Contribution requirements of the active plan members and the participating employers are actuarially determined and approved by the Board as an amount that, when combined, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The DB Plan's members' contribution rates are 7.5% for peace officers and firefighters, 9.6% for some school district employees, and 6.75% for general DB Plan members, as required by statute. The Borough and the School District's effective contribution rate is 22.00% of annual payroll. Alaska Statute 39.35.280 states that the State of Alaska, as a nonemployer contributing entity, shall contribute each July 1, or as soon after July 1 for the ensuing fiscal year, an amount that when combined with the total employer contributions is sufficient to pay the System's past service liability at the actuarially determined contribution rate adopted by the Board for that fiscal year. Additionally, there is a Defined Benefit Unfunded Liability (DBUL) amount levied against the DCR Plan payroll. The DBUL amount is computed as the difference between:

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

- (A) the amount calculated for the statutory employer contribution rate of 22.00% on eligible salary, less
(B) the total of the employer contributions for
- (1) the defined contribution employer matching amount,
 - (2) major medical,
 - (3) occupational death & disability, and
 - (4) health reimbursement arrangement.

The difference is deposited based on an actuarial allocation into the DB Plan's pension and healthcare funds.

Refunds

DB Plan member contributions may be voluntarily or, under certain circumstances, involuntarily refunded to the member or a garnishing agency 60 days after termination of employment. Voluntary refund rights are forfeited on July 1 following the member's 75th birthday or within 50 years of the member's last termination date. Members who have had contributions refunded forfeit all retirement benefits, including postemployment healthcare benefits. Members are allowed to reinstate refunded service due to involuntary refunds by repaying the total involuntary refunded balance and accrued interest. Members were allowed to reinstate voluntarily refunded service by repaying the voluntarily refunded balance and accrued interest, as long as they reestablished an employee relationship with a participating DB Plan employer before July 1, 2010. Members who had not reestablished an employee relationship with a participating DB Plan employer by June 30, 2010 was not eligible to reinstate voluntarily refunded service and forfeited any claim to DB Plan membership rights. Balances refunded to members accrue interest at the rate of 7.0% per annum, compounded semiannually.

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

At June 30, 2016, the Borough and the School District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the Borough and the School District. The amount recognized by the Borough and the School District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Borough and the School District were as follows:

Borough's proportionate share of the net pension liability	\$ 5,302,798
State's proportionate share of the net pension liability associated the Borough	<u>1,419,808</u>
Total Net Pension Liability	<u>\$ 6,722,606</u>
School District's proportionate share of the net pension liability for PERS	\$ 1,969,984
State's proportionate share of the net pension liability for PERS associated the School District	<u>529,626</u>
Total Net Pension Liability for PERS	<u>\$ 2,499,610</u>

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

The Borough and the School District will record the entire net pension liability, including the State's proportionate share, if the State of Alaska no longer contributes its proportionate share as measured by the annual State contributions and provided under Alaska Statute 39.35.280. By changing the existing statute to a higher rate above and up to the actuarially determined rate, the Borough and the School District may be required to record some or all of the State's proportion and its contribution amounts will increase accordingly.

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Borough and the School District's proportion of the net pension liability was based on a projection of the Borough and the School District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers and the State, actuarially determined. At June 30, 2015, the Borough's proportion was .10934%, which was an increase of .05946% from its proportion measured as of June 30, 2014. At June 30, 2015, the School District's proportion was .04062%, which was an increase of .02315% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Borough recognized pension expense of \$1,704,179 and related revenue of \$196,071 for support provided by the State. At June 30, 2016, the Borough reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 6,181	\$ -
Changes in assumptions	310,060	-
Net difference between projected and actual earnings on pension plan investments	-	93,880
Changes in proportion and differences between Borough contributions and proportionate share of contributions	1,035,911	-
Borough contributions subsequent to measurement date	<u>201,400</u>	<u>-</u>
Total	<u>\$ 1,553,552</u>	<u>\$ 93,880</u>

\$201,400 reported as deferred outflows of resources related to pensions resulting from the Borough contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the measurement year (fiscal year) as follows:

Year ended June 30:	
2016 (2017)	\$ 1,170,066
2017 (2018)	61,499
2018 (2019)	(60,294)
2019 (2020)	87,000

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 2016, the School District recognized pension expense of \$676,432 and revenue of \$73,140 for support provided by the State. At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 2,296	\$ -
Changes in assumptions	115,187	-
Net difference between projected and actual earnings on pension plan investments	-	34,877
Changes in proportion and differences between School District contributions and proportionate share of contributions	405,713	11,276
School District contributions subsequent to measurement date	<u>68,048</u>	<u>-</u>
Total	<u>\$ 591,244</u>	<u>\$ 46,153</u>

\$68,048 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the measurement year (fiscal year) as follows:

Year ended June 30:	
2016 (2017)	\$ 331,719
2017 (2018)	13,745
2018 (2019)	(23,478)
2019 (2020)	38,063

Actuarial Assumptions

The total pension liability at the June 30, 2015 measurement date was determined by an actuarial valuation as of June 30, 2014, which was rolled forward to June 30, 2015. This actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.12%
Salary increases	Graded by service, from 9.66% to 4.92% for Peace Officers/Firefighters Graded by age and service, from 8.55% to 4.34% for All Others
Investment rate of return	8.00%, 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%.

Pre-termination mortality rates were based on 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

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

Peace Officers/Firefighters, 50% of the time for others. Post-termination mortality rates were based on 95% of all rates of the RP-2000 table, 2000 Base Year projected to 2018 with Project scale BB.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study for the period July 1, 2009 to June 30, 2013, resulting in changes in actuarial assumptions adopted by the Board to better reflect expected future experience.

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

Asset Class	Long-term Expected Real Rate of Return
Domestic equity	5.35%
Global equity (non-US)	5.55
Private equity	6.25
Fixed income composite	0.80
Real estate	3.65
Alternative equity	4.70

Discount Rate

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that employer and nonemployer State contributions will continue to follow the current funding policy, which meets State statutes. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Borough and the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Borough and the School District's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent, as well as what the Borough and the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0 percent) or 1-percentage-point higher (9.0 percent) than the current rate:

	1% Decrease (7.0)	Current Discount rate (8.0%)	1% Increase (9.0%)
Borough's proportionate share of the Net pension liability	\$ 7,049,620	\$ 5,302,798	\$ 3,832,153
School District's proportionate share of the net pension liability	\$ 2,618,927	\$ 1,969,984	\$ 1,423,641

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

Pension Plan Fiduciary Net Position

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

PERS - Defined Benefit Other Postemployment Benefit Plans Funding Status

The Borough's annual OPEB costs for the years ending June 30, 2016, 2015 and 2014, and the amounts actually contributed are listed below.

<u>Period Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Required Contribution</u>
June 30, 2016	\$ 66,778	100%
June 30, 2015	86,933	100%
June 30, 2014	105,365	100%

The School District's annual OPEB costs for the years ending June 30, 2016, 2015 and 2014, and the amounts actually contributed are listed below.

<u>Period Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Required Contribution</u>
June 30, 2016	\$ 47,666	100%
June 30, 2015	51,375	100%
June 30, 2014	63,920	100%

State of Alaska TRS Defined Benefit Plan

Plan Description

TRS is a cost-sharing multiple-employer defined benefit (DB) pension plan administered by the State of Alaska which includes a defined benefit health plan, and occupational death and disability plan (Other Post Employment Benefits "OPEB"). All employees initially hired prior to July 1, 2006 must participate in this plan. With the passage of Senate Bill (SB) 141, the DB Plan is closed to all new members effective July 1, 2006. Employees hired on or after this date must participate in the DC Plan described later.

Benefits Provided

TRS provides retirement, health insurance premium supplement, long-term disability, occupational death and disability and survivor benefits. Retirement benefits are calculated on the basis of age, average monthly compensation and service credit as follows (a more complete description of benefits can be found at <http://doa.alaska.gov/dr/b/> or the financial report referred to earlier):

	<u>"Tier 1"</u>	<u>"Tier 2"</u>
Initial hire date	Before July 1, 1990	July 1, 1990 to June 30, 2006
Minimum credited years of service	Five Years	Five Years
Retirement age with minimum years of service	55, or early retirement - 50, or any age with 30 or more service years	60, or early retirement - 55, or any age with 30 or more service years

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

Pension benefit:

Basis	Years of Service based and average of three highest contract years salaries	Years of Service based and average of three highest contract years salaries
Amount per year of service	2% to 2.5% depending on hire date and length of service	2% to 2.5% depending on hire date and length of service
Form	Joint and survivor annuity	Joint and survivor annuity

Death benefit:

Pre-retirement, work related, non-willful negligence death	Monthly survivor benefit	Monthly survivor benefit
Active DB Plan member, occupational death	40% of members' salary,	40% of members' salary,
Active DB Plan member, non-occupational death	Spouse receives 50% of members' benefit, or lump sum to other beneficiaries	Spouse receives 50% of members' benefit, or lump sum to other beneficiaries

Disability benefits	Paid to normal retirement age, if vested, when normal retirement benefits apply	Paid to normal retirement age, if vested, when normal retirement benefits apply
---------------------	---	---

Medical benefits	Major medical benefits at no cost	Major medical at premium amount if under age 60, at no cost thereafter, if 25 years of service or if disabled
------------------	-----------------------------------	---

Postretirement pension adjustments (PRPA):

Automatic	Benefits increased each July 1 based on cost of living increase the previous calendar year	Benefits increased each July 1 based on cost of living increase the previous calendar year
Discretionary	Granted if funding ratio of the DB Plan meets or exceeds 105%	Granted if funding ratio of the DB Plan meets or exceeds 105%

Contributions

Contributions requirements of the active plan members and the participating employers are actuarially determined and approved by the Board as an amount that, when combined, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The DB Plan members contribute 8.65% of their base salary as required by statute. The School District's effective contribution rate is 12.56% of annual payroll. Alaska Statute 14.25.085 requires that additional state contributions made each July 1, or as soon after July 1, for the ensuing fiscal year that when combined with the total employer contributions is sufficient to pay the System's past service liability at the actuarially determined contribution rate adopted by the Board for that

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

fiscal year. Additionally, there is a Defined Benefit Unfunded Liability (DBUL) amount levied against the DCR Plan payroll. The DBUL amount is computed as the difference between:

- (A) The amount calculated for the statutory employer contribution rate of 12.56% on eligible salary less
- (B) The total of the employer contributions for
 - (1) The defined contribution employer matching amount;
 - (2) Major medical;
 - (3) Occupational death & disability; and
 - (4) Health reimbursement arrangement.

The difference is deposited based on an actuarial allocation into the DB Plan's pension and healthcare funds.

Refunds

DB Plan member contributions may be voluntarily or involuntarily refunded to the employee or a garnishing agency 60 days after termination of employment. Voluntary refund rights are forfeited on July 1 following the member's 75th birthday or within 50 years of the member's last termination date. Members who have had contributions refunded forfeit all retirement benefits, including postemployment healthcare benefits. Members were allowed to reinstate refunded service due to involuntary refunds by paying the total involuntary refunded balance and accrued interest, as long as they reestablished an employee relationship with a participating DB Plan employer before July 1, 2010. Members who had not reestablished an employee relationship with a participating DB Plan employer by June 30, 2010 was not eligible to reinstate voluntarily refunded service and forfeited any claim to DB Plan membership rights. Balances refunded to members accrue interest at the rate of 7.0% per annum, compounded semiannually.

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

At June 30, 2016, the School District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the School District. The amount recognized by the School District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the School District were as follows:

School District's proportionate share of the net pension liability for TRS	\$ 1,440,523
State's proportionate share of the net pension liability for TRS associated the School District	<u>2,301,323</u>
Total Net Pension Liability for TRS	<u>\$ 3,741,846</u>

The School District will record the entire net pension liability, including the State's proportionate share, if the State of Alaska no longer contributes its proportionate share as measured by the annual State contributions and provided under Alaska Statute 14.25.085. By changing the existing statute to a higher rate above and up to the actuarially determined rate, the School District may be required to record some or all of the State's proportion and its contribution amounts will increase accordingly.

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

District's proportion of the net pension liability was based on a projection of the School District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers and the State, actuarially determined. At June 30, 2015, the School District's proportion was .07743%, which was an increase of .04548% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the School District recognized pension expense of \$536,839 and revenue of \$297,956 for support provided by the State. At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 2,309
Changes in assumptions	63,617	-
Net difference between projected and actual earnings on pension plan investments	-	21,165
Changes in proportion and differences between School District contributions and proportionate share of contributions	124,374	18,207
School District contributions subsequent to measurement date	<u>49,764</u>	<u>-</u>
Total	<u>\$ 237,755</u>	<u>\$ 41,681</u>

\$49,764 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the measurement year (fiscal year) as follows:

Year ended June 30:	
2016 (2017)	\$ 242,586
2017 (2018)	10,051
2018 (2019)	(17,169)
2019 (2020)	27,836

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2015:

Inflation	3.12%
Salary increases	Graded for service, from 8.11% to 3.87%
Rate of return	8.00%, per year, compounded annually, net of expenses for pension; and 4.55% for healthcare

Pre-termination mortality rates were based on the 2010-2013 actual mortality experience, 68% of male and 65% of female post-termination rates. Deaths are assumed to be non-occupational 85% of the time.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

Post-termination mortality rates were based on 94% of the male rates and 97% of the female rates of the RP-2000 Mortality Table, 2000 Base Year projected to 2018 with Projection Scale BB, with a 3-year setback for males and 4-year setback for females.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study for the period July 1, 2009 to June 30, 2013, resulting in changes in actuarial assumptions adopted by the Board to better reflect expected future experience.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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 by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
Equities:	
Domestic equity	5.35%
Global equity (non-US)	5.55
Private equity	6.25
Fixed income composite	0.80
Real estate	3.65
Alternative equity	4.70

Discount Rate

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that employer and nonemployer State contributions will continue to follow the current funding policy, which meets State statutes. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0 percent) or 1-percentage-point higher (9.0 percent) than the current rate:

	1% Decrease (7.0)	Current Discount rate (8.0%)	1% Increase (9.0%)
School District's proportionate share of the net pension liability	\$ 2,079,091	\$ 1,440,523	\$ 905,411

Pension Plan Fiduciary Net Position

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

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

TRS - Defined Benefit Other Postemployment Benefit Plans Funding Status

The League's annual OPEB costs for the years ending June 30, 2016, 2015 and 2014, and the amounts actually contributed are listed below.

<u>Period Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Required Contribution</u>
June 30, 2016	\$ 37,680	100%
June 30, 2015	52,567	100%
June 30, 2014	71,759	100%

PERS and TRS - Defined Contribution Pension Plan

General

The Borough and the School District participates in the State of Alaska Defined Contribution Pension Plan (DC Plan) which provides pension benefits and Other Postemployment Benefits Occupational death and disability benefits similar to those of the defined contribution plan for eligible employees hired after July 1, 2006. The State of Alaska Healthcare Reimbursement Arrangement Plan is also provided allow medical expenses to be reimbursed from individual savings accounts established for eligible participants. Additionally, certain active members of the DB Plan were eligible to transfer to the DC Plan if that member had not vested in the DB Plan. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The DC Plan is administered by the System.

Pension Benefits

A participating member is immediately and fully vested in that member's contributions and related earnings (losses). A member shall be fully vested in the employer contributions made on that member's behalf, and related earnings (losses), after five years of service. A member is partially vested in the employer contributions made on that member's behalf, and the related earnings, in the ratio of (a) 25% with two years of service; (b) 50% with three years of service; (c) 75% with four years of service; and (d) 100% with five years of service.

Contributions

Alaska statutes require an 8.0% contribution rate for DC Plan members. Employers are required to contribute 5.0% of the member's compensation. For the Borough's PERS members for the year ended June 30, 2016 and 2015, employee contributions totaled \$110,952 and \$110,735, respectively, and the Borough recognized pension expense of \$68,802 and \$69,210, respectively. For the School District's PERS members for the year ended June 30, 2016 and 2015, employee contributions totaled \$37,506 and \$32,798, respectively, and the School District recognized pension expense of \$23,442 and \$20,499, respectively. For the School District's TRS members for the year ended June 30, 2016 and 2015, employee contributions totaled \$93,104 and \$66,414, respectively, and the School District recognized pension expense of \$81,466 and \$57,452, respectively.

Refunds

A member is eligible to elect distribution of their account 60 days after termination of employment.

Participant Accounts

Participant accounts under the DC Plan are self-directed with respect to investment options.

Each participant designates how contributions are to be allocated among the investment options. Each participant's account is credited with the participant's contributions and the appreciation or depreciation in unit value for the investment funds.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

Record-keeping/administrative fees consisting of a fixed amount, applied in a lump sum each calendar year, and a variable amount, applied monthly, are deducted from each participant's account, applied pro rata to all the funds in which the employee participates. This fee is for all costs incurred by the record keeper and by the State. The investment management fees are netted out of the funds' performance.

NOTE 11 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances represent cash collected or disbursed on behalf of another fund. The composition of interfund balances as of June 30, 2016, was as follows:

Receivable Fund	Payable Fund	Amount
General	Special capital projects	125,958
General	Water	186,551
General	Small boat harbor	115,843
Borough capital improvements	General	1,580,053
Nonmajor governmental funds	General	1,356,586
New school debt service	General	15,712
Passenger vessel tax	General	35,551
Permanent fund	General	251,211
Port Chilkoot Dock	General	25,043
Sewer	General	904,380
Small boat harbor	General	618,669
Lutak Dock	General	1,193,103

Interfund transfers result from the Borough budget and are as follows:

	Transfers In						Total
	General Fund	Permanent Fund	Capital Project Funds	Other Governmental Funds	Small Boat Harbor	Water Fund	
Transfers out:							
General fund	\$ -	\$ -	\$ 109,699	\$ -	\$ -	\$ -	\$ 109,699
Permanent fund	281,000	-	-	-	-	-	281,000
Capital Project Funds	642,762	-	55,887	-	64,407	-	763,056
Passenger vessel tax	41,016	-	34,507	-	-	6,000	81,523
Other governmental funds	5,000	5,981	21,527	-	-	-	32,508
Total	<u>\$ 969,778</u>	<u>\$ 5,981</u>	<u>\$ 221,620</u>	<u>\$ -</u>	<u>\$ 64,407</u>	<u>\$ 6,000</u>	<u>\$ 1,267,786</u>

Transfers between funds are in accordance with the Borough Code and budgetary authorizations, and are generally for capital outlay and operations.

NOTE 12 - RISK MANAGEMENT

Haines Borough is exposed to numerous risks of loss associated with the operations of a government. These potential losses include, but are not limited to, employee relations and injuries, contracts, theft, loss

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

or damage of property, natural disasters and general liability. The Borough manages its risks from these potential losses by participating in Alaska Public Entity Insurance (a governmental insurance pool), as well as purchasing commercial insurance coverage. This insurance has provided the Borough with adequate coverage in the past. The Borough's insurance is on a claims occurred basis, except for public officials' coverage which is on a claims made basis. There were no significant changes in insurance coverage obtained and there were no claims or settlements that exceeded insurance coverage in any of the past three fiscal years.

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

NOTE 13 - PERMANENT FUND

The Borough Assembly has established the Haines Borough Permanent Fund ("the Permanent Fund"). Any deposits into the Permanent Fund shall not be spent, but shall be held perpetually in trust for the benefit of the present and future generations of Borough residents.

Deposits into the Permanent Fund consist of net proceeds from the sale of municipal lands, less amounts allocated by the Assembly for construction of public improvements within local improvement districts. These land sales and public improvements are originally recorded in a special revenue fund (called the Municipal Land Disposal Special Revenue Fund). At the end of each fiscal year, the excess of revenue over expenditures in this fund is transferred as deposits to the Permanent Fund.

Income from permanent fund investments sufficient to offset the effect of inflation on principal is retained in the fund annually. The amount is calculated by computing a 3-year average of the rates of change of the Consumer Price Index and applying it to the principal balance. After inflation proofing, income derived from Permanent Fund investments may be used as designated by the Borough Assembly after consideration of public input. Income available for Borough expenses may not exceed 3.5% of the average total market value of the fund for 3 of the 4 fiscal years immediately preceding the budget year.

REQUIRED SUPPLEMENTARY INFORMATION

HAINES BOROUGH
BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND

For the Year Ended June 30, 2016

	Budget Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenue				
Taxes				
Property	\$ 2,325,908	\$ 2,358,344	\$ 2,379,157	\$ 20,813
Sales	1,298,000	1,298,000	1,344,840	46,840
Intergovernmental - Federal and State	1,249,505	1,256,048	1,363,414	107,366
Federal payments in lieu of taxes	340,000	344,344	344,344	-
Service and admission fees	75,500	75,500	70,373	(5,127)
Licenses and permits	32,500	32,500	31,875	(625)
Rentals	91,409	91,409	97,452	6,043
Investment earnings	96,500	96,500	152,621	56,121
Contributions and other	63,536	77,145	155,404	78,259
Total revenue	<u>5,572,858</u>	<u>5,629,790</u>	<u>5,939,480</u>	<u>309,690</u>
Expenditures				
Current				
General government	781,445	758,826	773,498	(14,672)
Public safety	1,332,329	1,397,310	1,419,618	(22,308)
Public works and streets	881,841	820,241	800,150	20,091
Education	1,779,500	1,779,500	1,771,232	8,268
Port operations	-	-	-	-
Culture, recreation, and library	1,113,756	1,113,756	1,085,327	28,429
Total expenditures	<u>5,888,871</u>	<u>5,869,633</u>	<u>5,849,825</u>	<u>19,808</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(316,013)</u>	<u>(239,843)</u>	<u>89,655</u>	<u>329,498</u>
Other financing sources (uses)				
Transfers in	410,116	225,116	969,778	744,662
Transfers out	-	(111,500)	(109,699)	1,801
Total other financing sources	<u>410,116</u>	<u>113,616</u>	<u>860,079</u>	<u>746,463</u>
Net change in fund balance	<u>\$ 94,103</u>	<u>\$ (126,227)</u>	<u>\$ 949,734</u>	<u>\$ 1,075,961</u>

HAINES BOROUGH
BUDGETARY COMPARISON SCHEDULE -
PASSENGER VESSEL TAX SPECIAL REVENUE FUND

For the Year Ended June 30, 2016

	Budget Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenue				
Intergovernmental - State of Alaska	\$ 190,000	\$ 190,000	\$ 187,625	\$ (2,375)
Expenditures				
Port development	100,725	100,725	106,103	(5,378)
Excess of revenues over expenditures	89,275	89,275	81,522	(7,753)
Other financing uses - transfers out	(65,016)	(65,016)	(81,523)	(146,539)
Net change in fund balance	\$ 24,259	\$ 24,259	\$ (1)	\$ (24,260)

HAINES BOROUGH
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE BOROUGH'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
Years Ended June 30, 2015 through 2013

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Haines Borough's proportion of the net pension liability	0.10934000%	0.04988465%	0.04806946%
Haines Borough's proportionate share of the net pension liability	\$ 5,302,798	\$ 2,326,689	\$ 2,524,319
State's proportionate share of the net pension liability associated with the Borough	<u>1,419,808</u>	<u>2,289,751</u>	<u>2,758,681</u>
Total	<u>\$ 6,722,606</u>	<u>\$ 4,616,440</u>	<u>\$ 5,283,000</u>
Haines Borough's covered payroll	\$ 2,303,150	\$ 2,281,338	\$ 2,450,903
Haines Borough's proportionate share of the net pension liability as a percentage of its covered employee payroll	230.24%	101.99%	103.00%
Plan fiduciary net position as a percentage of the total pension liability	63.96%	62.37%	56.04%

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in the fiscal year ended June 30, 2015, and, until a full 10-year trend is compiled, the Borough has only presented information for the years in which information is available.

HAINES BOROUGH
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF BOROUGH CONTRIBUTIONS
Years Ended June 30, 2016 through 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 201,400	\$ 210,862	\$ 191,334
Contributions in relation to the contractually required contribution	<u>(201,400)</u>	<u>(210,862)</u>	<u>(191,334)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Haines Borough's covered payroll	\$ 2,142,611	\$ 2,303,150	\$ 2,281,338
Contributions as a percentage of covered employee payroll	9.40%	9.16%	8.39%

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in the fiscal year ended June 30, 2015, and, until a full 10-year trend is compiled, the Borough has only presented information for the years in which information is available.

HAINES BOROUGH SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
Years Ended June 30, 2015 through 2013

PERS			
	2015	2014	2013
School District's proportion of the net pension liability	0.00462000%	0.01746932%	0.01911557%
School District's proportionate share of the net pension liability	\$ 1,969,984	\$ 814,793	\$ 1,003,835
State's proportionate share of the net pension liability associated with the School District	529,626	831,844	1,087,306
Total	<u>\$ 2,499,610</u>	<u>\$ 1,646,637</u>	<u>\$ 2,091,141</u>
School District's covered payroll	\$ 776,394	\$ 835,768	N/A
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	253.74%	97.49%	N/A
Plan fiduciary net position as a percentage of the total pension liability	63.96%	62.37%	N/A
TRS			
	2015	2014	2013
School District's proportion of the net pension liability	0.07743000%	0.03195102%	0.03616772%
School District's proportionate share of the net pension liability	\$ 1,440,523	\$ 958,231	\$ 1,197,304
State's proportionate share of the net pension liability associated with the School District	2,301,323	5,976,589	6,567,873
Total	<u>\$ 3,741,846</u>	<u>\$ 6,934,820</u>	<u>\$ 7,765,177</u>
School District's covered payroll	\$ 1,740,617	\$ 1,774,204	N/A
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	82.76%	54.01%	N/A
Plan fiduciary net position as a percentage of the total pension liability	55.70%	55.70%	N/A

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in the fiscal year ended June 30, 2015, and, until a full 10-year trend is compiled, the Borough has only presented information for the years in which information is available.

HAINES BOROUGH SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF SCHOOL DISTRICT CONTRIBUTIONS
Years Ended June 30, 2016 through 2015

PERS		
	2016	2015
Contractually required contribution	\$ 71,531	\$ 68,101
Contributions in relation to the contractually required contribution	(71,531)	(68,101)
Contribution deficiency (excess)	\$ -	\$ -
School District's covered payroll	\$ 795,833	\$ 776,394
Contributions as a percentage of covered employee payroll	8.99%	8.77%
TRS		
	2016	2015
Contractually required contribution	\$ 43,281	\$ 71,073
Contributions in relation to the contractually required contribution	(43,281)	(71,073)
Contribution deficiency (excess)	\$ -	\$ -
School District's covered payroll	\$ 1,755,706	\$ 1,740,617
Contributions as a percentage of covered employee payroll	2.47%	4.08%

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in the fiscal year ended June 30, 2015, and, until a full 10-year trend is compiled, the Borough has only presented information for the years in which information is available.