

HAINES BOROUGH

FINANCIAL REPORT

JUNE 30, 2005

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor, Members of
the Borough Council and City Manager
Haines Borough
Haines, Alaska

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, Alaska, as of and for the year ended June 30, 2005, which collectively comprise the Borough's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Haines Borough's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Haines Borough School District, which represents 1% of total assets in the statement of net assets and 35% 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 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

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, Alaska, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2005, on our consideration of the 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* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 10 and the budgetary comparison schedules on pages 45 to 50 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

/s/ Peterson Sullivan PLLC

October 1, 2005

HAINES BOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

The Haines Borough ("the Borough") Management's Discussion and Analysis ("MD&A") provides the narrative overview and analysis of the financial activities of the Borough for the fiscal year ended June 30, 2005.

FINANCIAL HIGHLIGHTS

- The assets of the Haines Borough exceeded its liabilities at the close of the most recent fiscal year by \$34.6 million (net assets). Of this amount, \$20.6 million represents the Borough's investment in capital assets (e.g. land, buildings, roads) net of related debt and \$6.4 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- General fund revenues decreased by \$432,124 (10%) from the previous year. The decrease was due primarily to the combined effects of the loss of certain state revenue and a \$207,481 (12%) decrease in property tax revenue resulting from a voter initiated tax cap.
- General fund expenditures decreased by \$376,816 (8%) from the previous year resulting in a \$374,533 excess of expenditures over revenues before transfers.
- As of June 30, 2005, the fund balance for the general fund was \$4,125,105, down \$350,946 (8%) from the previous year.
- Sales tax revenues were up \$66,634 (3%) over the previous year.
- During the year the Borough paid down \$178,256 on long-term debt including \$115,162 paid down on general obligation debt and \$63,094 paid down on proprietary fund debts.
- In December 2004, voters within the Borough approved the issuance of general obligation bonds not to exceed \$17.5 million to finance the construction of a new school facility. The project has been approved for 70% debt reimbursement from the State of Alaska.

REPORT FORMAT

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

The report layout is presented in the following order:

MD&A (pages 3 - 10)

Basic Financial Statements:

Government-Wide Financial Statements (pages 11 and 12)

Fund Financial Statements (pages 13 - 22)

Notes to the Basic Financial Statements (pages 23 - 44)

Required Supplementary Information (pages 45 - 50)

The first statements are highly condensed and present a government-wide view of the Borough's finances. Within this view, all operations are reported as either governmental or business-type activities. Governmental activities include basic services such as general government, public safety, public works and streets, education, health services, and culture, recreation and library. Business-type activities are water, sewer, and boat harbor services. The government-wide statements include the Statement of Net Assets and Statement of Activities.

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

OVERVIEW OF FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

The statement of activities demonstrates how the net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused personal leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

These financial statements discretely present the financial position and activities of the school district, which is a component unit.

The government-wide financial statements can be found on pages 11 and 12 of this report.

FUND FINANCIAL STATEMENTS

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

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

Because the focus of *governmental funds* is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. A reconciliation is presented to facilitate this comparison between *governmental funds* and *governmental activities*.

The Borough maintains 22 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the major governmental funds. The major governmental funds are the general fund, the land disposal fund, the tourism promotion fund, the permanent trust fund, and the townsite capital projects fund. Data from the remaining special revenue, debt service, and capital projects funds is presented in aggregate.

The basic governmental fund financial statements can be found on pages 13 - 15 of this report.

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

The enterprise fund financial statements provide separate information for the small boat harbor and for the water and sewer utilities. All are considered major funds.

The basic enterprise fund financial statements can be found on pages 16-20 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as an indicator of a government's financial position. In the case of the Borough, assets exceeded liabilities by \$34.6 million as of June 30, 2005, compared to \$35.3 million for the year ended June 30, 2004.

The largest portion of the Borough's net assets (61%) reflects its investment in capital assets (e.g., land, buildings, improvements, road network, and equipment), less any related debt that is still outstanding. The Borough uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Borough's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this outstanding debt must be provided from other sources, as the capital assets themselves cannot be used as a source of funds to liquidate these liabilities. The amount of debt related to the investment in capital assets is \$3.3 million as of June 30, 2005.

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

HAINES BOROUGH'S NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$13,771,298	\$13,570,257	\$ 1,129,632	\$ 965,718	\$14,900,930	\$14,535,975
Capital assets	15,527,600	16,169,727	8,452,283	8,717,142	23,979,883	24,886,869
Total assets	29,298,898	29,739,984	9,581,915	9,682,860	38,880,813	39,422,844
Current and other liabilities	726,651	603,144	236,642	114,481	963,293	717,625
Long-term liabilities	1,409,749	1,430,591	1,940,509	2,005,952	3,350,258	3,436,543
Total liabilities	2,136,400	2,033,735	2,177,151	2,120,433	4,313,551	4,154,168
Net assets:						
Invested in capital assets, net of related debt	14,185,314	14,712,279	6,460,276	6,662,041	20,645,590	21,374,320
Restricted	7,416,508	6,877,268	140,410	140,410	7,556,918	7,017,678
Unrestricted	5,560,676	6,116,702	804,078	759,976	6,364,754	6,876,678
Total net assets	<u>\$27,162,498</u>	<u>\$27,706,249</u>	<u>\$7,404,764</u>	<u>\$7,562,427</u>	<u>\$34,567,262</u>	<u>\$35,268,676</u>

A portion of the Borough's net assets (\$7.6 million or 22%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$6.4 million or 18%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Borough was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The government's net assets decreased by \$701,414 during the current fiscal year compared to \$881,137 the prior fiscal year. This variance resulted from expenses increasing (\$54,916 or 1%) at a slower rate than revenues (\$234,639 or 4%). This variance was largely due to an increase in investment income.

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

HAINES BOROUGH'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenues						
Fees, fines and charges for services	\$ 162,828	\$ 129,942	\$680,756	\$660,090	\$ 843,584	\$ 790,032
Operating grants & contributions	932,268	744,925			932,268	744,925
Capital grants & contributions	224,728	475,020			224,728	475,020
General revenues						
Property taxes	1,758,646	1,808,764			1,758,646	1,808,764
Sales taxes	1,979,946	1,913,312			1,979,946	1,913,312
Other	988,034	762,004	7,636	6,146	995,670	768,150
Total revenues	6,046,450	5,833,967	688,392	666,236	6,734,842	6,500,203
Expenses						
General government	1,335,979	1,183,542			1,335,979	1,183,542
Public safety	1,110,997	1,091,299			1,110,997	1,091,299
Public works and streets	581,100	597,887			581,100	597,887
Education	1,810,365	1,960,554			1,810,365	1,960,554
Economic development	422,809	363,220			422,809	363,220
Culture, recreation and library	842,654	773,247			842,654	773,247
Interest on long-term debt	56,987	89,750			56,987	89,750
Water			295,525	352,934	295,525	352,934
Sewer			484,296	466,347	484,296	466,347
Port/Harbor	373,381	396,200	122,163	106,360	495,544	502,560
Total expenses	6,534,272	6,455,699	901,984	925,641	7,436,256	7,381,340
Increase (decrease) in net assets before transfers	(487,822)	(621,732)	(213,592)	(259,405)	(701,414)	(881,137)
Transfers	(55,929)	(27,805)	55,929	27,805		
Increase (decrease) in net assets	(543,751)	(649,537)	(157,663)	(231,600)	(701,414)	(881,137)
Net assets - beginning of year	27,706,249	28,355,786	7,562,427	7,794,027	35,268,676	36,149,813
Net assets - end of year	<u>\$27,162,498</u>	<u>\$27,706,249</u>	<u>\$7,404,764</u>	<u>\$7,562,427</u>	<u>\$34,567,262</u>	<u>\$35,268,676</u>

Governmental activities – Governmental activities net assets decreased by \$543,751 or 78% of the total change in net assets. Net assets decreased overall by \$701,414. Key elements of the decrease for governmental activities are as follows:

- Depreciation expense for governmental capital assets largely contributed by grant sources of \$944,124; and
- Decreased property tax revenue of \$207,481 in the General Fund.

Business-type activities – Business-type activities decreased the Borough's net assets by \$157,663 or 22% of the total change in net assets. The key element of this decrease is \$320,788 in depreciation of capital assets largely contributed by state and federal governments.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of the end of the current fiscal year, the Borough's governmental funds reported combined ending fund balances of \$11,783,718, an increase of \$181,688 (2%) over the prior year primarily due to increases in the land disposal, permanent trust, and townsite capital project funds. Of this total amount, \$4,125,105 represents an unreserved undesignated fund balance, which is available for spending. The remainder is reserved, or designated, to indicate that it is not available for new spending. The remaining fund balance of \$7,658,613 has already been committed to the permanent benefit of Borough residents (\$5,679,626) and for other restricted or designated purposes (\$1,978,987).

The general fund is the primary operating fund of the Borough. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$4,125,105. Significant changes are as follows:

- The fund balance at the end of the current fiscal year for the general fund was down \$350,946 (8%) from the previous year. This decrease is due to the effect of decreased property tax and state revenue combined with rising costs for payroll, utilities, and insurance.

Other governmental funds (with the exclusion of the general fund) have a combined fund balance of \$7,658,613 and increased \$532,634 (7%) over the prior year. Significant changes are as follows:

- The permanent trust fund grew by \$219,787 in interest income net of expenses;
- The townsite capital projects fund collected \$506,776 in sales tax revenues but only expensed \$118,839 on projects, which, when combined with \$2,864 of transfers from other funds, resulted in a \$390,801 addition to the designated fund balance.

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

As of the end of the current fiscal year, the enterprise fund's combined net assets were \$7,404,764, a decrease of \$157,663 (2%) from the prior year. Of this amount, \$804,078 represented unrestricted net assets. This amount is equal to 166% of operating expenditures exclusive of depreciation.

Significant changes are as follows:

- Operating revenues for all three enterprise funds increased modestly in the current fiscal year, increasing \$20,666 (3%) overall. Operating expenses, for the same period, decreased \$21,103. A \$77,722 reduction in depreciation expense was offset in part by the completion of several deferred maintenance projects as well as by new testing requirements for water and wastewater management.
- Despite the increased operating revenue and decreased expenses, net assets decreased \$157,663. The decrease is due primarily to \$320,788 in depreciation of capital assets largely contributed by state and federal governments.

GENERAL FUND BUDGETARY HIGHLIGHTS

The only significant difference between the original budget and final amended budget was the elimination of \$184,500 of transfers in from the permanent trust fund.

Actual revenues exceeded budgeted revenues by \$278,136 primarily due to higher than projected sales tax revenues and interest earnings. Actual expenditures were under budgeted expenses by \$89,099.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets – The Borough's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounted to \$23,979,883 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment, road networks, and water/sewer systems. The total decrease in the Borough's investment in capital assets for the current fiscal year was \$906,986 (4%). Governmental capital assets decreased \$642,127 (4%), while business-type capital assets decreased \$264,859 (3%).

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

- Invested \$118,080 in planning and design of a new school facility;
- Used \$55,070 of grants funds to construct a skateboard recreational facility;
- Purchased a \$128,847 ambulance with assistance from the Southeast Region Medical Services Council.

Debt administration – As of June 30, 2005, the Borough has a total of \$3.3 million in bond and loans payable, which consisted of three general obligation bond issues (\$1.3 million), two revenue bond issues (\$1.8 million), one special assessment bond issue, and one loan payable to the State of Alaska (\$0.2 million).

The total debt decreased \$178,256 (5%) in the current year. This decrease is entirely due to debt retirement.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Borough continues to work to reconcile rising costs and decreased revenues in the general government fund. For the fiscal year ended June 30, 2005, the Haines Borough experienced a 40% increase in fuel costs and a 41% increase in PERS cost, as well as rising costs for insurance and electricity. In the same year, a voter initiated 10 mill tax cap reduced property tax revenue in the general government fund by \$207,481 (12%) despite increases in the assessed valuation of taxable properties. In order to balance the general fund budget in future years, the Borough will likely have to decrease services, overturn the property tax cap, or identify a new source of revenue.

In keeping with a recent trend of slow growth, sales tax revenues for the current fiscal year were up 3% over the previous year. This increase was due largely to increasing fuel costs and increased sales of building/construction materials.

In December 2004, voters within the Borough approved the issuance of general obligation bonds not to exceed \$17.5 million to finance the construction of a new school facility. The project has been approved for 70% debt reimbursement from the State of Alaska. After the state reimbursement, the additional property tax revenue required to pay debt service for this project will be equivalent to approximately 2.15 mills.

PERS and TRS are two funding issues that may have significant impacts to both the municipal budget and to the school budget, both of which will have to be funded locally. The governor has provided some short-term relief to the liability facing these two public employee retirement systems, but long-term solutions will require additional funding at the local level.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Borough's finances and to demonstrate the Borough's accountability for the money it receives. If you have any questions about this report or need additional financial information, a request should be addressed to the Haines Borough, PO Box 1209, Haines, AK 99827 or please call (907) 766-2231.

The Haines Borough School District component unit issues its own separate audited financial statements. These statements may be obtained by directly contacting the Haines Borough School District, PO Box 1289, Haines, AK 99827.

HAINES BOROUGH

STATEMENT OF NET ASSETS

June 30, 2005

ASSETS	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Current Assets				
Cash and cash equivalents	\$ 3,005,672	\$ 400	\$ 3,006,072	\$ 383,349
Investments	3,890,190		3,890,190	43,164
Receivables	1,077,266	79,548	1,156,814	351,383
Internal balances	(893,749)	893,749		
Due from component units	23,284		23,284	
Inventory	34,146	13,827	47,973	44,633
Performance deposit		1,698	1,698	
Total current assets	7,136,809	989,222	8,126,031	822,529
Restricted Assets				
Cash and cash equivalents	66,038		66,038	
Investments	5,566,760		5,566,760	
Revenue bond debt service reserve		140,410	140,410	
Receivables	45,026		45,026	
Noncurrent Assets				
Receivables, net of current portion	956,665		956,665	
Capital assets, net	15,527,600	8,452,283	23,979,883	163,586
Total assets	<u>\$ 29,298,898</u>	<u>\$ 9,581,915</u>	<u>\$ 38,880,813</u>	<u>\$ 986,115</u>
LIABILITIES				
Current Liabilities				
Accounts payable	\$ 280,526	\$ 18,075	\$ 298,601	\$ 186,732
Accrued payroll	91,961		91,961	23,378
Internal balances	(115,843)	115,843		
Accrued interest payable		7,093	7,093	
Receivable from component units	2,874		2,874	
Deposits		33,085	33,085	
Deferred revenue	347,011		347,011	26,678
Current portion of long-term obligations	120,122	62,546	182,668	
Total current liabilities	726,651	236,642	963,293	236,788
Noncurrent Portion of Long-Term Obligations	1,409,749	1,940,509	3,350,258	39,768
Total liabilities	2,136,400	2,177,151	4,313,551	276,556
NET ASSETS				
Invested in Capital Assets, net of related debt	14,185,314	6,460,276	20,645,590	163,586
Restricted for				
Bond reserves		140,410	140,410	
Medical services	135,779		135,779	
Capital projects	1,389,960		1,389,960	
Economic development	211,143		211,143	
Museum projects				102,150
Permanent trust				
Nonexpendable	5,679,626		5,679,626	
Unrestricted	5,560,676	804,078	6,364,754	443,823
Total net assets	27,162,498	7,404,764	34,567,262	709,559
Total liabilities and net assets	<u>\$ 29,298,898</u>	<u>\$ 9,581,915</u>	<u>\$ 38,880,813</u>	<u>\$ 986,115</u>

See Notes to Financial Statements

HAINES BOROUGH

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

	Program Revenues				Net (Expense) Revenue and Change in Net Assets		
	Expenses	Fees, Fines, and Charges for Services	Operating		Governmental Activities	Business-type Activities	Total
			Grants and Contributions	Capital Grants and Contributions			
Primary Government							
Governmental Activities							
General government	\$ 1,335,979	\$ -	\$ 107,157	\$ 65,079	\$ (1,163,743)	\$ -	\$ (1,163,743)
Public safety	1,110,997		335,085	100,847	(675,065)		(675,065)
Public works and streets	581,100		10,500		(570,600)		(570,600)
Economic development	422,809				(422,809)		(422,809)
Education	1,810,365		479,526		(1,330,839)		(1,330,839)
Port operations	373,381				(210,553)		(210,553)
Culture, recreation and library	842,654	162,828		58,802	(783,852)		(783,852)
Interest on long-term debt	56,987				(56,987)		(56,987)
Total governmental activities	6,534,272	162,828	932,268	224,728	(5,214,448)		(5,214,448)
Business-type Activities							
Water	295,525	248,364			(47,161)		(47,161)
Sewer	484,296	331,329			(152,967)		(152,967)
Small boat harbor	122,163	101,063			(21,100)		(21,100)
Total business-type activities	901,984	680,756			(221,228)		(221,228)
Total	\$ 7,436,256	\$ 843,584	\$ 932,268	\$ 224,728	(5,214,448)		(5,435,676)
Component Units	\$ 4,933,545	\$ 130,927	\$ 1,073,168	\$ -			(3,729,450)
General Revenues							
Property taxes		1,758,646			1,758,646		1,758,646
Sales taxes		1,979,946			1,979,946		1,979,946
Provided by general government							1,864,682
Intergovernmental revenue not restricted to specific programs							1,726,634
Investment income		104,971			104,971		104,971
Licenses and permits		460,127			467,763	7,636	475,399
Rentals		14,090			14,090		14,090
Contributions and other		54,135			54,135		54,135
Payments in lieu of taxes		98,119			98,119		98,119
Sales of land		219,217			219,217		219,217
Transfers (contributions of capital assets from general government)		37,375			37,375		37,375
Total general revenue and transfers		(55,929)			55,929		
Change in net assets		4,670,697			63,565		4,734,262
Net assets, beginning of year		(543,751)			(157,663)		(701,414)
Net assets, end of year		27,706,249			7,562,427		35,268,676
	\$	27,162,498	\$	7,404,764	\$		\$ 34,567,262
							\$ 709,559

See Notes to Financial Statements

HAINES BOROUGH

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2005

ASSETS	General	Land Disposal	Tourism Promotion	Permanent Trust	Townsite Capital Projects	Special Revenue State and Federal Grants	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 2,966,126	\$ -	\$ 100	\$ 66,038	\$ -	\$ -	\$ 39,446	\$ 3,071,710
Investments	3,890,190			5,566,760				9,456,950
Receivables	599,555	985,197	36,090	47,293	54,135	92,241	264,446	2,078,957
Due from other funds	393,373	514,459	186,370	226,607	1,146,721		656,090	3,123,620
Due from component units	23,284							23,284
Inventory	34,146							34,146
Total assets	<u>\$ 7,906,674</u>	<u>\$ 1,499,656</u>	<u>\$ 222,560</u>	<u>\$ 5,906,698</u>	<u>\$ 1,200,856</u>	<u>\$ 92,241</u>	<u>\$ 959,982</u>	<u>\$ 17,788,667</u>

LIABILITIES AND FUND BALANCES

Liabilities								
Accounts payable	\$ 180,868	\$ 935	\$ 11,417	\$ 1,184	\$ 4,022	\$ 4,515	\$ 77,585	\$ 280,526
Accrued payroll	91,961							91,961
Due to other funds	3,129,899	226,607		225,888		63,271	255,861	3,901,526
Due to component units	2,874							2,874
Deferred revenue	375,967	985,197				24,455	342,443	1,728,062
Total liabilities	3,781,569	1,212,739	11,417	227,072	4,022	92,241	675,889	6,004,949

Fund Balances								
Reserved for								
Debt service							61,659	61,659
Capital projects					1,196,834		86,654	1,283,488
Permanent trust				5,679,626				5,679,626
Unreserved, reported in								
General fund	4,125,105	286,917	211,143				135,780	4,125,105
Special revenue funds								633,840
Total fund balances	4,125,105	286,917	211,143	5,679,626	1,196,834		284,093	11,783,718
Total liabilities and fund balances	<u>\$ 7,906,674</u>	<u>\$ 1,499,656</u>	<u>\$ 222,560</u>	<u>\$ 5,906,698</u>	<u>\$ 1,200,856</u>	<u>\$ 92,241</u>	<u>\$ 959,982</u>	

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

- Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds
- Earned revenues that are not available to pay for current-period expenditures are deferred in the funds
- Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds

Net assets of governmental activities	\$ 27,162,498
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HAINES BOROUGH

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the Year Ended June 30, 2005

	General	Land Disposal	Tourism Promotion	Permanent Trust	Townsite Capital Projects	Special Revenue State and Federal Grants	Other Governmental Funds	Total Governmental Funds
Revenues								
Taxes								
Property	\$ 1,575,054	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 177,369	\$ 1,752,423
Sales	947,212		337,851		506,776		188,107	1,979,946
Intergovernmental	642,085					366,654	93,579	1,102,318
Service and admission fees	162,828							162,828
Licenses and permits	14,090							14,090
Rentals	54,135							54,135
Investment income	203,684			238,514			728	442,926
Contributions and other	67,311		8,147				66,339	141,797
LID payments							801	801
Payments in lieu of taxes	217,246							217,246
Total revenues	3,883,645		345,998	238,514	506,776	366,654	526,923	5,868,510
Expenditures								
Current								
General government	646,920	20,510		18,727		119,416	182,680	988,253
Public safety	827,872					247,323		1,075,195
Public works and streets	429,110					24,200		453,310
Economic development			424,062					424,062
Education	1,618,685						18,000	1,636,685
Port operations	98,066							98,066
Culture, recreation, and library	637,525							637,525
Debt service								
Principal							100,062	100,062
Interest							56,987	56,987
Capital outlay								
General government					86,475		12,371	98,846
Public safety					32,364			32,364
Education							118,081	118,081
Port operations							55,929	55,929
Culture, recreation, and library							58,802	58,802
Total expenditures	4,258,178	20,510	424,062	18,727	118,839	390,939	602,912	5,834,167
Excess (deficiency) of revenues over expenditures	(374,533)	(20,510)	(78,064)	219,787	387,937	(24,285)	(75,989)	34,343
Other Financing Sources (Uses)								
Transfers in	67,576							
Transfers out	(43,989)	(11,358)	22,288		32,364	28,081	4,500	154,809
Sale of capital assets		147,345	(31,000)		(29,500)		(38,962)	(154,809)
Total other financing sources and uses	23,587	135,987	(8,712)		2,864	28,081	(34,462)	147,345
Net change in fund balances	(350,946)	115,477	(86,776)	219,787	390,801	3,796	(110,451)	181,688
Fund balances, beginning of year	4,476,051	171,440	297,919	5,459,839	806,033	(3,796)	394,544	11,602,030
Fund balances, end of year	\$ 4,125,105	\$ 286,917	\$ 211,143	\$ 5,679,626	\$ 1,196,834	\$ -	\$ 284,093	\$ 11,783,718

See Notes to Financial 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, 2005

Net change in fund balances - total governmental funds	\$ 181,688
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$944,124) exceeded capital outlays (\$301,997) in the current period	(642,127)
Other transactions involving capital assets consist of sales of assets net of cash collected. Cash collected is current income in the fund statements and the gain on sales is revenue for the statement of activities. This is the amount by which cash collected (\$147,345) exceeded sales of assets (\$37,375) in the current year	(109,970)
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 (the change in deferred revenue)	25,993
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 assets. This amount is the net effect of these differences in the treatment of long-term debt and related items. As there was no long-term debt issued in the current year, this amount is the principal paid on long-term debt	115,162
Change in compensated absences	(9,124)
Change in net pension obligations	<u>(105,373)</u>
Change in net assets of governmental activities	<u>\$ (543,751)</u>

See Notes to Financial Statements

HAINES BOROUGH

BALANCE SHEET - PROPRIETARY FUNDS

June 30, 2005

ASSETS	Business-type Activities - Enterprise Funds			
	Water	Sewer	Small Boat Harbor	Total
Current Assets				
Cash and cash equivalents	\$ -	\$ -	\$ 400	\$ 400
Receivables	31,898	37,066	10,584	79,548
Due from other funds	161,038	529,343	203,368	893,749
Inventory	12,751	1,076		13,827
Performance deposit		1,698		1,698
Total current assets	205,687	569,183	214,352	989,222
Restricted Assets				
Revenue bond debt service reserve	36,747	103,663		140,410
Total restricted assets	36,747	103,663		140,410
Fixed Assets				
Land	15,010	9,000		24,010
Buildings	15,764	6,811		22,575
Improvements other than buildings	4,617,314	8,787,864	940,064	14,345,242
Equipment	71,776	2,091	44,718	118,585
Total fixed assets	4,719,864	8,805,766	984,782	14,510,412
Less accumulated depreciation	2,680,341	3,007,215	542,345	6,229,901
Net fixed assets	2,039,523	5,798,551	442,437	8,280,511
Construction in progress			171,772	171,772
Total assets	\$ 2,281,957	\$ 6,471,397	\$ 828,561	\$ 9,581,915

See Notes to Financial Statements

LIABILITIES AND NET ASSETS	Business-type Activities - Enterprise Funds			
	Water	Sewer	Small Boat Harbor	Total
Current Liabilities				
Accounts payable	\$ 3,420	\$ 7,547	\$ 7,108	\$ 18,075
Loan payable - current	14,203			14,203
Bond payable - current	23,912	24,431		48,343
Bond interest payable	2,098	4,995		7,093
Deposits	7,600	10,613	14,872	33,085
Due to other funds			115,843	115,843
Total current liabilities	51,233	47,586	137,823	236,642
Noncurrent Liabilities				
Accrued vacation	5,051	5,051	946	11,048
Revenue bonds payable	222,390	1,479,819		1,702,209
Loan payable	227,252			227,252
Total liabilities	505,926	1,532,456	138,769	2,177,151
Net Assets				
Invested in capital assets, net of related debt	1,551,766	4,294,301	614,209	6,460,276
Restricted for bond reserves	36,747	103,663		140,410
Unrestricted	187,518	540,977	75,583	804,078
Total net assets	1,776,031	4,938,941	689,792	7,404,764
Total liabilities and net assets	<u>\$ 2,281,957</u>	<u>\$ 6,471,397</u>	<u>\$ 828,561</u>	<u>\$ 9,581,915</u>

See Notes to Financial Statements

HAINES BOROUGH

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS

For the Year Ended June 30, 2005

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Small Boat Harbor	Total
Operating Revenue				
Charges for services	\$ 248,364	\$ 331,329	\$ 101,063	\$ 680,756
Operating Expenses				
Salaries and benefits	97,373	102,958	48,685	249,016
Professional services	12,360	457	3,743	16,560
Materials and supplies	38,440	14,517	19,627	72,584
Utilities	18,211	68,174	18,075	104,460
Advertising, dues and subscriptions	298	1,122	234	1,654
Repairs and maintenance	8,318	3,440	2,816	14,574
Travel and training	127	147		274
Banking and insurance	8,867	7,646	1,946	18,459
Vehicle	1,420	1,348	2,892	5,660
Depreciation	90,207	206,436	24,145	320,788
Total operating expenses	275,621	406,245	122,163	804,029
Operating loss	(27,257)	(74,916)	(21,100)	(123,273)
Nonoperating Revenue (Expense)				
Investment income	4,816	1,374	1,446	7,636
Interest expense	(19,904)	(78,051)		(97,955)
Total nonoperating revenue (expense)	(15,088)	(76,677)	1,446	(90,319)
Loss before contributions	(42,345)	(151,593)	(19,654)	(213,592)
Contributions in aid of construction			55,929	55,929
Change in net assets	(42,345)	(151,593)	36,275	(157,663)
Net assets, beginning of year	1,818,376	5,090,534	653,517	7,562,427
Net assets, end of year	<u>\$ 1,776,031</u>	<u>\$ 4,938,941</u>	<u>\$ 689,792</u>	<u>\$ 7,404,764</u>

See Notes to Financial Statements

HAINES BOROUGH
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
For the Year Ended June 30, 2005

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Small Boat Harbor	Total
Cash Flows from Operating Activities				
Cash received from customers	\$ 244,614	\$ 329,573	\$ 104,369	\$ 678,556
Cash paid to suppliers	(93,321)	(127,750)	(57,645)	(278,716)
Cash paid to employees	(65,177)	(67,945)	(32,004)	(165,126)
Cash paid for employee benefits	(31,159)	(33,976)	(16,066)	(81,201)
Net cash flows from operating activities	54,957	99,902	(1,346)	153,513
Cash Flows from Capital and Related Financing Activities				
Repayment of loan payable	(17,137)			(17,137)
Interest on bonds and loan payable	(19,904)	(78,051)		(97,955)
Repayment of bond payable	(22,732)	(23,225)		(45,957)
Net cash flows from capital and related financing activities	(59,773)	(101,276)		(161,049)
Cash Flows from Investing Activities				
Investment income	4,816	1,374	1,446	7,636
Net increase in cash	-	-	100	100
Cash and cash equivalents, beginning of year	36,747	105,361	300	142,408
Cash and cash equivalents, end of year	<u>\$ 36,747</u>	<u>\$ 105,361</u>	<u>\$ 400</u>	<u>\$ 142,508</u>
Reconciliation of cash and cash equivalents to balance sheet				
Cash and cash equivalents	\$ -	\$ -	\$ 400	\$ 400
Restricted cash				
Revenue bond debt service reserve	36,747	103,663		140,410
Performance deposit		1,698		1,698
Total cash and cash equivalents	<u>\$ 36,747</u>	<u>\$ 105,361</u>	<u>\$ 400</u>	<u>\$ 142,508</u>

See Notes to Financial Statements

HAINES BOROUGH

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

(Continued)

For the Year Ended June 30, 2005

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Small Boat Harbor	Total
Reconciliation of operating loss to net cash flows from operating activities				
Operating loss	\$ (27,257)	\$ (74,916)	\$ (21,100)	\$ (123,273)
Adjustments to reconcile operating loss to net cash flows from operating activities				
Depreciation	90,207	206,436	24,145	320,788
Changes in operating assets and liabilities				
Receivables	(4,649)	(2,813)	1,273	(6,189)
Due from other funds	(8,987)	(28,637)	(7,324)	(44,948)
Inventory	2,878	288		3,166
Accounts payable	829	(2,550)	(988)	(2,709)
Accrued vacation	1,037	1,037	615	2,689
Deposits	899	1,057	2,033	3,989
Total adjustments	82,214	174,818	19,754	276,786
Net cash flows from operating activities	<u>\$ 54,957</u>	<u>\$ 99,902</u>	<u>\$ (1,346)</u>	<u>\$ 153,513</u>

See Notes to Financial Statements

HAINES BOROUGH

COMPONENT UNIT COMBINING STATEMENT OF NET ASSETS

June 30, 2005

ASSETS	Haines Borough School District	Sheldon Museum	Haines Borough Public Library	Non-Major Component Units	Total
Current Assets					
Cash and cash equivalents	\$ 170,503	\$ 110,333	\$ 84,736	\$ 17,777	\$ 383,349
Investments	5,200	37,964			43,164
Receivables	322,748	8,019	20,616		351,383
Inventory		44,633			44,633
Total current assets	498,451	200,949	105,352	17,777	822,529
Noncurrent Assets					
Capital assets, net	97,040	66,546			163,586
Total assets	<u>\$ 595,491</u>	<u>\$ 267,495</u>	<u>\$ 105,352</u>	<u>\$ 17,777</u>	<u>\$ 986,115</u>
LIABILITIES					
Current Liabilities					
Accounts payable	\$ 166,303	\$ 814	\$ 19,615	\$ -	\$ 186,732
Due to governmental entity	19,709	(957)	(2,874)	7,500	23,378
Deferred revenue			26,678		26,678
Total current liabilities	186,012	(143)	43,419	7,500	236,788
Noncurrent Portion of Long-Term Obligations, accrued vacation	18,221	3,006	18,541		39,768
Total liabilities	204,233	2,863	61,960	7,500	276,556
NET ASSETS					
Invested in Capital Assets Restricted for Museum	97,040	66,546			163,586
Collections and Other Unrestricted	294,218	102,150 95,936	43,392	10,277	443,823
Total net assets	391,258	264,632	43,392	10,277	709,559
Total liabilities and net assets	<u>\$ 595,491</u>	<u>\$ 267,495</u>	<u>\$ 105,352</u>	<u>\$ 17,777</u>	<u>\$ 986,115</u>

See Notes to Financial Statements

HAINES BOROUGH

COMPONENT UNIT COMBINING STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Haines Borough School District	Sheldon Museum	Haines Borough Public Library	Non-Major Component Units	Total
Haines Borough School District	\$ 4,174,522	\$ 57,886	\$ 935,964	\$ (3,180,672)	\$ -	\$ -	\$ -	\$ (3,180,672)
Sheldon Museum	299,678	73,041	35,233		(191,404)			(191,404)
Haines Borough Public Library	393,268		101,971			(291,297)		(291,297)
Non-major component units	66,077						(66,077)	(66,077)
	<u>\$ 4,933,545</u>	<u>\$ 130,927</u>	<u>\$ 1,073,168</u>	<u>\$ (3,180,672)</u>	<u>(191,404)</u>	<u>(291,297)</u>	<u>(66,077)</u>	<u>(3,729,450)</u>
General revenues								
Provided by general government				1,363,044	175,000	270,402	56,236	1,864,682
State of Alaska Foundation				1,726,634				1,726,634
Investment income				2,445	1,690	845	60	5,040
Contributions and other				52,997	35,080	20,597	25,822	134,496
Total general revenue and transfers				<u>3,145,120</u>	<u>211,770</u>	<u>291,844</u>	<u>82,118</u>	<u>3,730,852</u>
Change in net assets				(35,552)	20,366	547	16,041	1,402
Net assets, beginning of year				426,810	244,266	42,845	(5,764)	708,157
Net assets, end of year				<u>\$ 391,258</u>	<u>\$ 264,632</u>	<u>\$ 43,392</u>	<u>\$ 10,277</u>	<u>\$ 709,559</u>

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

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 Old 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 tourism promotion, 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 Districts' 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 Haines Borough Public Library which operates and maintains the local library.
- The Sheldon Museum and Cultural Center which operates and maintains the museum.
- Community Youth Development which organizes and supports local youth activities.
- 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 assets (page 12) and the combining statement of activities (page 13).

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

**Haines Borough School District
PO Box 1289
Haines AK 99827**

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

Government-Wide and Fund Financial Statements

The statement of net assets 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. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the Borough. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

Property taxes, sales taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and 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.

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.

Municipal Land Disposal Fund – Accounts for the proceeds of sales, collections of outstanding contracts receivable, and costs of administering the land disposals conducted by the Borough. These amounts are transferred to the Permanent Trust Fund.

Tourism Promotion Fund – Accounts for the proceeds of certain sales taxes and the costs to promote tourism and economic development in the Borough.

Permanent Trust 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.

Townsite Capital Projects Fund – Accounts for the proceeds of certain sales taxes and the costs to repair, replace, or upgrade capital assets within the townsite service area.

State and Federal Grants Special Revenue Fund – Accounts for grants restricted to specific, non-capital activities.

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance to the Governmental Accounting Standards Board. The Borough also follows subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation.

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

Amounts reported as program revenues included 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary (or enterprise) funds (water/sewer/harbor) 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.

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

Budgets and Budgetary Accounting

The appropriated budget is prepared by fund, function, and department. The Borough's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Borough Assembly. 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 interfund 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 departments within a fund or between cost centers within a department's budget classification.
- f. Appropriations lapse at year-end.

- 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 fund 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, 2005, expenditures exceeded appropriations in the following departments (the legal level of budgetary control):

General fund	
Borough Assembly	\$ 12,287
Police Dispatch	4,386
Property Maintenance	2,763
Property tax administration	1,812
Ports	6,579
Fire District #3	585
Four Winds S/D Roads	250
Chilkat St. Park S/D Roads	480
Eagle Vista RMSA	1,190
School district	20,288
Parks and Recreation	1,090
Community youth development	4,126
Townsite service area – police	28,612
Townsite service area – fire department	13,561
Townsite service area – animal control	79
Special revenue funds	
ACMP Required Tasks	2,360
ACMP Special Projects	25,000
FEMA Firefighter grant	63,872
First responder fire department grant	77,552
Capital project funds	
Capital projects general government	6,000
Capital projects administration	52,609
Mud Bay small tract expansion	15,000
Cart/People Mover	9,150
Skateboard Park	45,070
Chilkat Center	3,732
School construction	118,081
Enterprise funds	
Small Boat Harbor fund	22,184

These overexpenditures were funded by revenues that were greater than anticipated and various grants.

Deficit Fund Equity

The following funds had deficit fund balances as of June 30, 2005:

Tlingit Park fund	\$ 38,588
School Construction fund	118,081

It is expected that these deficits will be covered by grant revenues or loan proceeds.

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 and Net Assets or Equity

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 balance in the pooled cash accounts is available to meet current operating requirements. Accordingly, the cash balances are recorded in the general fund and all other amounts are shown as part of the due to/from other funds.

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

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

Due to and Due from Other Funds – Interfund receivables and payables 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 and supplies, 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.

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

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

	<u>Estimated Useful Life</u>
Buildings, structures and other improvements	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.

Deferred Revenue – The Borough occasionally sells land using long-term receivable contracts. Most amounts due on the receivable contracts are not available to finance current period expenditures and are, therefore, considered deferred revenue for the fund financial statements. The amounts due on the receivable contracts are recognized as revenue when it is available to meet current period expenditures. These contracts are revenue for the statement of activities when the sale occurs.

In addition, amounts received from grants and other sources, but not yet spent for their restricted purpose, are shown on the balance sheet as deferred revenue.

Long-Term Obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

Designations at June 30, 2005, are as follows:

	General Fund	Tourism Promotion Fund	Townsite Capital Projects Fund	Other Govern- mental Funds	Total
Designated for:					
Boat Harbor development	\$ 90,098	\$ -	\$ -	\$ -	\$ 90,098
Townsite service area	54,596				54,596
Public works					
Building construction				86,654	86,654
Other capital improvements			1,196,834		1,196,834
Medical services				135,779	135,779
Economic development		211,143			211,143
Road maintenance	25,556			50,000	75,556
Equipment	53,677				53,677
	<u>\$223,927</u>	<u>\$211,143</u>	<u>\$1,196,834</u>	<u>\$ 272,433</u>	<u>\$1,904,337</u>

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 reflected as deferred revenues in the fund financial statements.

Note 2. Cash and Investments

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.

At June 30, 2005, the carrying amount of the Borough's cash balances was \$3,214,218 while the bank and other institution balances were \$3,318,953. These balances are categorized as follows:

	Carrying Amount	Bank Balance
Amount insured by the FDIC or collateralized with securities held by the bank or other institutions in the Borough's name	\$ 2,551,320	\$ 2,551,320
Uncollateralized	661,648	767,633
Petty cash	1,250	
	<u>\$ 3,214,218</u>	<u>\$ 3,318,953</u>
Reconciliation to statement of net assets:		
Cash and cash equivalents		\$ 3,006,072
Restricted cash and cash equivalents		66,038
Revenue bond future debt service accounts		140,410
Performance deposit		1,698
		<u>\$ 3,214,218</u>
Cash and cash equivalents consist of:		
Cash		\$ 548,047
Cash equivalents		2,666,171
		<u>\$ 3,214,218</u>

Investments

Credit risk: Statutes authorize the Borough to invest in obligations insured or guaranteed by the United States Government or its agencies, as well as obligations of the State of Alaska or municipalities of the State, 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.

Investments made by the Borough are summarized below.

Investments consist of:

	Investment Maturities (in years)			Total
	Less than 1	1-5	5-10	
Investments held by agent in the				
Borough's name				
Certificates of Deposit	\$ 1,133,305	\$ -	\$ -	\$ 1,133,305
U.S. Government Instruments	3,675,476	2,195,813	1,368,510	7,239,799
Corporate Debt	88,862	305,169	367,350	761,381
Total debt securities	<u>\$ 4,897,643</u>	<u>\$ 2,500,982</u>	<u>\$ 1,735,860</u>	9,134,485
Common stocks (S&P 500				
Depository Receipts)				317,615
Other				4,850
				<u>\$ 9,456,950</u>
Reconciliation to statement of				
net assets				
Investments				\$ 3,890,190
Restricted investments				<u>5,566,760</u>
				<u>\$ 9,456,950</u>

Note 3. Receivables and Deferred Revenue

Receivables at June 30, 2005, for the individual major funds and nonmajor funds in the aggregate, net of applicable allowances for uncollectible accounts (\$25,168 at June 30, 2005), are as follows:

Fund	Taxes	Land Sale/LID Contracts	Revolving Loan Contracts	Water, Sewer and Harbor Fees	State and Federal Governments	Accrued Interest and Other	Total
General fund	\$ 240,164	\$ -	\$ 106,375	\$ -	\$ 219,217	\$ 33,799	\$ 599,555
Land disposal fund		901,674				83,523	985,197
Tourism promotion	36,090						36,090
Permanent trust						47,293	47,293
Townsite capital projects	54,135						54,135
Special revenue state and federal grants					92,241		92,241
Water fund				31,898			31,898
Sewer fund				37,066			37,066
Small boat harbor fund				10,584			10,584
Other governmental funds	20,541	19,979			223,926		264,446
Total	<u>\$ 350,930</u>	<u>\$ 921,653</u>	<u>\$ 106,375</u>	<u>\$ 79,548</u>	<u>\$ 535,384</u>	<u>\$ 164,615</u>	<u>\$ 2,158,505</u>

Reconciliation to statement of net assets

Current receivables	\$ 1,156,814
Restricted receivables	45,026
Noncurrent receivables	956,665
	<u>\$ 2,158,505</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 \$150,000. Revolving loan contracts are five year contracts collected at maturity (expected to be during the year ended June 30, 2008), and interest is charged between 2.5% and 2.75%.

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

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes receivable (general fund)	\$ 131,750	\$ -	\$ 131,750
Payments in lieu of taxes		219,217	219,217
Land sale/LID receivables (including accrued interest)	1,005,084		1,005,084
Grants and contributions		372,011	372,011
Total deferred/unearned revenue for governmental funds	1,136,834	591,228	1,728,062
Amounts not deferred for government-wide financial statements			
Property taxes receivable	(131,750)		(131,750)
Payments in lieu of taxes		(219,217)	(219,217)
Land sales/LID receivables	(1,005,084)		(1,005,084)
Grants and contributions		(25,000)	(25,000)
Total deferred/unearned revenue for government- wide financial statements	<u>\$ -</u>	<u>\$ 347,011</u>	<u>\$ 347,011</u>

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2005, was as follows:

	Balance, June 30, 2004	Increases	Decreases	Balance, June 30, 2005
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land and improvements	\$ 301,063	\$ -	\$ -	\$ 301,063
Construction in progress – school		118,080		118,080
	301,063	118,080		419,143
Other capital assets:				
Buildings	14,427,802			14,427,802
Other improvements	12,600,540	55,070		12,655,610
Furniture and equipment	3,261,563	128,847		3,390,410
Road network	4,575,965			4,575,965
Total other capital assets	34,865,870	183,917		35,049,787
Less accumulated depreciation for:				
Buildings	7,939,309	399,169		8,338,478
Other improvements	4,898,673	317,768		5,216,441
Furniture and equipment	2,727,254	112,788		2,840,042
Road network	3,431,970	114,399		3,546,369
Total accumulated depreciation	18,997,206	944,124		19,941,330
Other capital assets, net	15,868,664	(760,207)		15,108,457
Governmental activities capital assets, net	<u>\$ 16,169,727</u>	<u>\$ (642,127)</u>	<u>\$ -</u>	<u>\$15,527,600</u>
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land and improvements	\$ 24,010	\$ -	\$ -	\$ 24,010
Construction in progress	115,843	55,929		171,772
Total capital assets not being depreciated	139,853	55,929		195,782
Other capital assets:				
Buildings	22,575			22,575
Other improvements (including distribution and collection systems)	14,345,242			14,345,242
Equipment	118,585			118,585
Total other capital assets	14,486,402			14,486,402
Less accumulated depreciation for:				
Buildings	22,575			22,575
Other improvements (including distribution and collection systems)	5,795,758	315,227		6,110,985
Equipment	90,780	5,561		96,341
Total accumulated depreciation	5,909,113	320,788		6,229,901
Other capital assets, net	8,577,289	(320,788)		8,256,501
Business-type activities capital assets, net	<u>\$ 8,717,142</u>	<u>\$ (264,859)</u>	<u>\$ -</u>	<u>\$ 8,452,283</u>

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

Governmental activities:

General government	\$ 127,742
Public safety	32,439
Public works and streets, including depreciation of general infrastructure assets	127,790
Economic development	5,762
Education	173,679
Port operations	275,315
Culture, recreation, and library	201,397
Total depreciation expense – governmental activities	<u>\$ 944,124</u>

Business-type activities:

Water	\$ 90,207
Sewer	206,436
Harbor	24,145
Total depreciation expense – business-type activities	<u>\$ 320,788</u>

The Borough owns the buildings used by the School District and records the buildings as part of governmental activity capital assets. At June 30, 2005, the cost and accumulated depreciation associated with these assets was \$5,526,185 and \$4,099,397, respectively.

Note 5. Long-Term Obligations

All long-term debt is general obligation debt. These bonds and loans are direct obligations of the Borough and the Borough has pledged its full faith and credit to their repayment. Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
<u>Governmental Activities:</u>					
Bond and notes payable:					
1989 Water/Sewer bonds	\$ 175,000	\$ -	\$ 25,000	\$ 150,000	\$ 35,000
PC Dock bonds	1,055,000		85,000	970,000	80,000
Highland Estate LID #4	7,900		1,400	6,500	1,300
USDA bonds	219,548		3,762	215,786	3,822
Total bonds and notes payable	1,457,448		115,162	1,342,286	120,122
Other liabilities:					
Compensated absences	73,088	9,124		82,212	
Net pension obligation		105,373		105,373	
Governmental activities long-term liabilities	<u>\$ 1,530,536</u>	<u>\$ 114,497</u>	<u>\$ 115,162</u>	<u>\$ 1,529,871</u>	<u>\$ 120,122</u>
<u>Business-type Activities:</u>					
Bonds and notes payable:					
Revenue bonds					
Water	\$ 269,035	\$ -	\$ 22,733	\$ 246,302	\$ 23,912
Sewer	1,527,474		23,224	1,504,250	24,431
State of Alaska DEC	258,592		17,137	241,455	14,203
Total bonds and notes payable	2,055,101		63,094	1,992,007	62,546
Other liabilities:					
Compensated absences	8,359	2,689		11,048	
Business-type activities long-term liabilities	<u>\$ 2,063,460</u>	<u>\$ 2,689</u>	<u>\$ 63,094</u>	<u>\$ 2,003,055</u>	<u>\$ 62,546</u>

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

Bonds and notes payable at June 30, 2005, is comprised of the following individual issues:

Governmental Activities:

General obligation bonds:

\$480,000 1989 water/sewer refunding bonds, due in annual installments of \$35,000 to \$40,000, plus interest at 3.25%, through 2009	\$ 150,000
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\$1,500,000 1995 general obligation bonds, due in annual installments of \$80,000 to \$120,000, plus interest at 4.0% to 5.0%, through 2015	970,000
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Bonds payable to the United States Department of Agriculture to be used for construction of new library; due in semi-annual installments of \$7,074 through September 6, 2032; interest at 4.75%	215,786
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Other:

Highland Estates LID #4 bonds - \$200,000 1986 special assessment bonds, due in annual installments of \$1,300, plus interest at 9.625%, through 2010	6,500
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Total General Long-Term Debt	<u>\$ 1,342,286</u>
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Business-type Activities:

\$450,000 1994 water revenue bonds, due in semi-annual installments of \$18,117, including interest at 5.125%, through 2014	\$ 246,302
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\$1,700,000 1994 sewer revenue bonds, due in semi-annual installments of \$50,609, including interest at 5.125%, through 2033	1,504,250
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Loan from the State of Alaska Department of Environmental Conservation, due in annual installments of \$18,016, including interest at 2.5%, through 2022	241,455
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Total Enterprise Funds Long-Term Debt	<u>\$ 1,992,007</u>
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The debt service annual requirements to amortize bonds and notes payable debt outstanding as of June 30, 2005, are as follows:

Governmental Activities:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 120,122	\$ 58,600	\$ 178,722
2007	120,307	54,805	175,112
2008	130,502	50,046	180,548
2009	135,706	44,984	180,690
2010	100,919	39,821	140,740
2011 - 2015	566,687	123,304	689,991
2016 - 2020	33,825	36,915	70,740
2021 - 2025	42,872	27,868	70,740
2026 - 2030	54,341	16,399	70,740
2031 - 2035	37,005	3,388	40,393
	<u>\$ 1,342,286</u>	<u>\$ 456,130</u>	<u>\$ 1,798,416</u>

Business-type Activities:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 62,546	\$ 95,145	\$ 157,691
2007	65,055	92,281	157,336
2008	67,695	89,286	156,981
2009	70,471	86,155	156,626
2010	73,392	82,879	156,271
2011 - 2015	359,209	359,891	719,100
2016 - 2020	295,787	290,194	585,981
2021 - 2025	317,900	217,665	535,565
2026 - 2030	372,836	133,254	506,090
2031 - 2035	307,116	16,189	323,305
	<u>\$ 1,992,007</u>	<u>\$ 1,462,939</u>	<u>\$ 3,454,946</u>

Note 6. Bond Requirements

The various bonds of the Enterprise Funds require establishment of certain cash reserves and maintenance of certain revenue levels.

The water and sewer revenue bonds required the establishment of reserve accounts. The required reserve accounts were set up and fully funded in prior years. The reserve account balances at June 30, 2005, were \$36,747 for the water revenue bonds and \$103,663 for the sewer revenue bonds.

A further requirement of these bonds is that water and sewer rates will be maintained at a level which will produce an annual amount of net operating revenue before depreciation equal to at least 1.10 times the maximum amount required each year for debt service. Net operating revenues were \$132,893 and the debt service requirement was \$101,218 resulting in a ratio of 1.31 for the Sewer Enterprise Fund, so the Borough was in compliance with this requirement. Net operating revenues were \$67,765 and the debt service requirement was \$56,473 resulting in a ratio of 1.20 for the Water Enterprise Fund, so the Borough was also in compliance with this requirement.

Note 7. Retirement Plan

Plan Description

The Borough's defined benefit pension plan is part of the agent multiple-employer Alaska Public Employee Retirement System "PERS" plan administered by the State of Alaska to provide pension and post-employment healthcare benefits for eligible employees. Death and disability benefits are also provided. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. PERS issues a publicly available financial report that includes financial statements and supplementary information for the Borough. The report may be obtained by writing to the Department of Administration, Division of Retirement and Benefits, PO Box 110203, Juneau, AK 99811-0203.

Funding Policy

Police and fire department employees are required to contribute 7.5% of their annual salary to the plan. All other covered employees are required to contribute 6.75% of their annual salary. The Borough is required to contribute at an actuarially determined rate that, expressed as a percentage of annual covered payroll, is sufficient to accumulate sufficient assets to pay benefits when due. The current rate is 12.17% of annual covered payroll.

Annual Pension Cost

For the year ended June 30, 2005, the Borough's annual pension cost of \$357,357 was more than the Borough's actual contribution of \$251,984. Accordingly, the Borough has recorded a net pension obligation of \$105,373 at June 30, 2005.

The actuarial assumptions included (a) investment return, net of expenses, of 8.25% per year, compounded annually, (b) health cost inflation of 12.0% per year in 2005, reducing by 0.5% per year each year through 2015, 6.0% in 2016, and 5.0% thereafter, (c) projected salary increases ranging from 5.5% to 6.0% per year which includes inflation, and (d) 3.5% per year cost-of-living adjustments. The actuarial value of the Borough's assets was determined using the level dollar method with an open 25 year rolling amortization period.

Three-Year Trend Information for the Haines Borough

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2002	\$ 227,360	100%	\$ 0
June 30, 2003	189,209	100%	0
June 30, 2004	196,910	100%	0

Schedule of Funding Progress for the Haines Borough

Pension

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability Projected Unit Credit</u>	<u>Actuarial Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Actuarial Liability as a Percentage of Covered Payroll</u>
June 30, 2002	\$ 4,065,000	\$ 6,152,000	\$ 2,087,000	66%	\$ 1,869,000	112%
June 30, 2003	4,340,000	6,698,000	2,358,000	65%	1,443,000	163%
June 30, 2004	*	*	*	*	*	*

Postemployment Health

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability Projected Unit Credit</u>	<u>Actuarial Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Actuarial Liability as a Percentage of Covered Payroll</u>
June 30, 2002	\$ 2,470,000	\$ 3,738,000	\$ 1,268,000	66%	\$ 1,869,000	68%
June 30, 2003	2,901,000	4,477,000	1,576,000	65%	1,443,000	109%
June 30, 2004	*	*	*	*	*	*

The above trend information and schedule of funding progress has been combined from the Old Haines Borough and the City of Haines for years prior to the combination of these two entities.

* Information not yet available from pension administrator.

Note 8. Interfund Receivables, Payables and Transfers

Interfund balances represent cash collected or disbursed on behalf of another fund. The composition of interfund balances as of June 30, 2005, is as follows:

Receivable Fund	Payable Fund	Amount
General	Permanent trust	\$ 197,280
General	Small boat harbor	115,843
General	Nonmajor governmental funds	80,250
Land disposal	General	514,459
Tourism promotion	General	186,370
Permanent trust	Land disposal	226,607
Townsite capital projects	General	1,146,721
Nonmajor governmental funds	General	656,090
Water	General	161,038
Sewer	General	529,343
Small boat harbor	General	203,368
Total		<u>\$ 4,017,639</u>

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

	Transfer In					Total
	General Fund	Tourism Promotion	Capital Projects Fund	Special Revenue State and Federal Grants	Other Governmental Funds	
Transfer out:						
General	\$ -	\$ -	\$ 32,364	\$ 11,625	\$ -	\$ 43,989
Land disposal				11,358		11,358
Tourism promotion	31,000					31,000
Capital projects fund	25,000				4,500	29,500
Other Governmental Funds	11,576	22,288		5,098		38,962
Total transfers out	<u>\$ 67,576</u>	<u>\$ 22,288</u>	<u>\$ 32,364</u>	<u>\$ 28,081</u>	<u>\$ 4,500</u>	<u>\$ 154,809</u>

Transfers between funds are in accordance with the Borough Code, budgetary authorizations and are for debt service.

Note 9. Risk Management

The Borough is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Borough purchases commercial insurance coverage to mitigate such risks. The Borough's insurance is on a claims occurred basis, except for public officials' coverage which is on a claim made basis. Claims on insurance have not exceeded coverages in any of the last three years.

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 or damage of property and general liability. The Borough manages its risks from these potential losses by participating in the Alaska Municipal League Joint Insurance Association (a governmental insurance pool), as well as purchasing commercial insurance coverage. This insurance has provided the Borough with adequate coverage in the past. 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 10. Permanent Nonexpendable Trust Fund

The Borough Assembly has established the Haines Borough Permanent Fund ("the Permanent Fund"). Any deposits into the 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 derived from Permanent Fund investments may be used as designated by the Assembly after consideration of public input. Any unappropriated or unencumbered balance of income remaining at the close of each fiscal year is retained by the Permanent Fund. In addition, at least 10% of income earned must be reinvested into the Permanent Fund.

Note 11. Subsequent Event

In October 2005, the Borough issued \$17,500,000 of bonds which will be used to design and construct a new school. The bonds are due in annual installments starting on October 1, 2006, in amounts from \$575,000 to \$1,260,000. The bonds bear interest at rates ranging from 4.0% to 5.0% and are due in full in October 2025. The bonds may be redeemed after October 1, 2015, at par. The Borough expects a significant portion of the debt service to be paid by the State of Alaska.

The debt service requirements to amortize these bonds are as follows:

Year Ending June 30	Principal	Interest	Total
2006	\$ -	\$ 369,592	\$ 369,592
2007	575,000	727,684	1,302,684
2008	600,000	704,184	1,304,184
2009	625,000	679,684	1,304,684
2010	645,000	654,284	1,299,284
2011-2015	3,660,000	2,837,544	6,497,544
2016-2020	4,555,000	1,919,094	6,474,094
2021-2025	5,580,000	878,732	6,458,732
2026	1,260,000	26,775	1,286,775
	<u>\$ 17,500,000</u>	<u>\$ 8,797,573</u>	<u>\$ 26,297,573</u>

REQUIRED SUPPLEMENTARY INFORMATION
(FOR THE GENERAL FUND AND ALL MAJOR
SPECIAL REVENUE FUNDS WITH LEGALLY
ADOPTED BUDGETS)

HAINES BOROUGH

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

For the Year Ended June 30, 2005

	Budget Amounts		Actual	Variance
	Original	Final		
Revenue				
Taxes				
Property	\$ 1,560,634	\$ 1,560,634	\$ 1,575,054	\$ 14,420
Sales	908,636	908,636	947,212	38,576
Intergovernmental	632,539	632,539	642,085	9,546
Service and admission fees	108,500	126,500	162,828	36,328
Licenses and permits	10,700	10,700	14,090	3,390
Rentals	45,000	45,000	54,135	9,135
Investment income	102,000	102,000	203,684	101,684
Contributions and other	9,500	9,500	67,311	57,811
Payments in lieu of taxes	210,000	210,000	217,246	7,246
Total revenue	3,587,509	3,605,509	3,883,645	278,136
Expenditures				
Current				
General government	728,920	748,337	646,920	101,417
Public safety	848,466	810,102	827,872	(17,770)
Public works and streets	436,415	450,215	429,110	21,105
Education	1,649,044	1,598,397	1,618,685	(20,288)
Port operations	97,011	97,011	98,066	(1,055)
Culture, recreation, and library	560,877	643,215	637,525	5,690
Total expenditures	4,320,733	4,347,277	4,258,178	89,099
Excess (deficiency) of revenue over expenditures	(733,224)	(741,768)	(374,533)	367,235
Other financing sources (uses)				
Transfers in	245,500	61,000	67,576	6,576
Transfers out			(43,989)	(43,989)
Sale of capital assets	3,000	3,000		(3,000)
Total other financing sources (uses)	248,500	64,000	23,587	(40,413)
Net change in fund balance	(484,724)	(677,768)	(350,946)	326,822
Fund balance, beginning of year	4,476,051	4,476,051	4,476,051	
Fund balance, end of year	\$ 3,991,327	\$ 3,798,283	\$ 4,125,105	\$ 326,822

See Note to Required Supplementary Information

HAINES BOROUGH

BUDGETARY COMPARISON SCHEDULE - LAND DISPOSAL SPECIAL REVENUE FUND

For the Year Ended June 30, 2005

	Budget Amounts		Actual	Variance
	Original	Final		
Revenue				
Investment income	\$ 75,000	\$ 75,000	\$ 147,345	\$ 72,345
Expenditures				
General government	124,263	63,768	20,510	43,258
Excess (deficiency) of revenue over expenditures	(49,263)	11,232	126,835	115,603
Other financing sources (uses)				
Transfers in	87,000	87,000		(87,000)
Transfers out		(98,232)	(11,358)	86,874
Total other financing sources (uses)	87,000	(11,232)	(11,358)	(126)
Net change in fund balance	37,737		115,477	115,477
Fund balance, beginning of year	171,440	171,440	171,440	
Fund balance, end of year	<u>\$ 209,177</u>	<u>\$ 171,440</u>	<u>\$ 286,917</u>	<u>\$ 115,477</u>

See Note to Required Supplementary Information

HAINES BOROUGH

BUDGETARY COMPARISON SCHEDULE - TOURISM PROMOTION SPECIAL REVENUE FUND

For the Year Ended June 30, 2005

	Budget Amounts		Actual	Variance
	Original	Final		
Revenue				
Sales taxes	\$ 335,455	\$ 335,455	\$ 337,851	\$ 2,396
Contributions and other			8,147	8,147
Total revenue	335,455	335,455	345,998	10,543
Expenditures				
Current				
Economic development	417,529	456,904	424,062	32,842
Excess (deficiency) of revenue over expenditures	(82,074)	(121,449)	(78,064)	43,385
Other financing sources (uses)				
Transfers in			22,288	22,288
Transfers out	(31,000)	(31,000)	(31,000)	
Total other financing sources (uses)	(31,000)	(31,000)	(8,712)	22,288
Net change in fund balance	(113,074)	(152,449)	(86,776)	65,673
Fund balance, beginning of year	297,919	297,919	297,919	
Fund balance, end of year	\$ 184,845	\$ 145,470	\$ 211,143	\$ 65,673

See Note to Required Supplementary Information

HAINES BOROUGH

BUDGETARY COMPARISON SCHEDULE - STATE AND FEDERAL GRANTS SPECIAL REVENUE FUND

For the Year Ended June 30, 2005

	Budget Amounts		Actual	Variance
	Original	Final		
Revenue				
Intergovernmental	\$ 132,962	\$ 381,462	\$ 366,654	\$ (14,808)
Expenditures				
Current				
General government	5,000	28,800	119,416	(90,616)
Public safety	45,962	245,362	247,323	(1,961)
Public works and streets		25,300	24,200	1,100
Total expenditures	50,962	299,462	390,939	(91,477)
Excess (deficiency) of revenue over expenditures	82,000	82,000	(24,285)	(106,285)
Other financing sources (uses)				
Transfers in			28,081	28,081
Transfers out	(87,000)	(87,000)		87,000
Total other financing sources (uses)	(87,000)	(87,000)	28,081	115,081
Net change in fund balance	(5,000)	(5,000)	3,796	8,796
Fund balance, beginning of year	(3,796)	(3,796)	(3,796)	
Fund balance, end of year	\$ (8,796)	\$ (8,796)	\$ -	\$ 8,796

See Note to Required Supplementary Information

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1. Budgetary Method of Accounting

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