

HAINES BOROUGH

FINANCIAL REPORT

JUNE 30, 2006

C O N T E N T S

	Page
INDEPENDENT AUDITORS' REPORT.....	1 and 2
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3 - 10
FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS.....	11
STATEMENT OF ACTIVITIES.....	12
BALANCE SHEET - GOVERNMENTAL FUNDS.....	13
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS.....	14
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES.....	15
BALANCE SHEET - PROPRIETARY FUNDS.....	16 and 17
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS.....	18
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS.....	19 and 20
COMPONENT UNIT COMBINING STATEMENT OF NET ASSETS.....	21
COMPONENT UNIT COMBINING STATEMENT OF ACTIVITIES.....	22
NOTES TO FINANCIAL STATEMENTS.....	23 – 44
REQUIRED SUPPLEMENTARY INFORMATION (FOR THE GENERAL FUND AND ALL MAJOR SPECIAL REVENUE FUNDS WITH LEGALLY ADOPTED BUDGETS)	
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND.....	46
BUDGETARY COMPARISON SCHEDULE - LAND DISPOSAL SPECIAL REVENUE FUND.....	47
BUDGETARY COMPARISON SCHEDULE - NATIONAL FOREST RECEIPTS SPECIAL REVENUE FUND.....	48
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION.....	49



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, 2006, 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 33% 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, 2006, 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 September 15, 2006, 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 49 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

September 15, 2006

HAINES BOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006

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, 2006.

FINANCIAL HIGHLIGHTS

- The assets of the Haines Borough exceeded its liabilities at the close of the most recent fiscal year by \$34.0 million (net assets). Of this amount, \$20.2 million represents the Borough's investment in capital assets (e.g. land, buildings, roads) net of related debt, and \$6.5 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- General fund revenues increased by \$521,373 (13%) from the previous year. The increase was due primarily to the combined effects of a \$133,744 (8%) increase in property tax revenue, a \$137,723 (68%) increase in investment income, and the addition of certain one-time state revenues.
- General fund expenditures increased by \$168,868 (4%) from the previous year resulting in a \$22,028 excess of expenditures over revenues before transfers.
- As of June 30, 2006, the fund balance for the general fund was \$4,087,591, down \$37,514 (1%) from the previous year.
- During the year, the Borough paid down \$188,574 on long-term debt including \$123,952 paid down on general obligation debt and \$64,622 paid down on proprietary fund debts.
- In October 2005, the Haines Borough issued \$17.5 million of general obligation debt in order to finance the construction of a new school facility. The project receives 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 - 49)

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 economic development fund, the permanent trust fund, and the 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 \$34.0 million as of June 30, 2006, compared to \$34.6 million for the year ended June 30, 2005.

The largest portion of the Borough's net assets (59%) 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 \$3.2 million as of June 30, 2006, which does not include debt of \$17.5 million related to financing the construction of a new school facility.

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	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$30,233,748	\$13,771,298	\$1,165,103	\$1,129,632	\$31,398,851	\$14,900,930
Capital assets	16,288,330	15,527,600	8,503,465	8,452,283	24,791,795	23,979,883
Total assets	46,522,078	29,298,898	9,668,568	9,581,915	56,190,646	38,880,813
Current and other liabilities	1,590,923	726,651	256,121	236,642	1,847,044	963,293
Long-term liabilities	18,458,056	1,409,749	1,873,378	1,940,509	20,331,434	3,350,258
Total liabilities	20,048,979	2,136,400	2,129,499	2,177,151	22,178,478	4,313,551
Net assets:						
Invested in capital assets, net of related debt	13,652,374	14,185,314	6,573,931	6,460,276	20,226,305	20,645,590
Restricted	7,184,784	7,416,508	140,410	140,410	7,325,194	7,556,918
Unrestricted	5,635,941	5,560,676	824,728	804,078	6,460,669	6,364,754
Total net assets	<u>\$26,473,099</u>	<u>\$27,162,498</u>	<u>\$7,539,069</u>	<u>\$7,404,764</u>	<u>\$34,012,168</u>	<u>\$34,567,262</u>

A portion of the Borough's net assets (\$7.3 million or 22%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$6.5 million or 19%) 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 \$555,094 during the current fiscal year compared to \$701,414 the prior fiscal year. This variance resulted from expenses increasing (\$759,126 or 10%) at a slower rate than revenues (\$905,446 or 13%). This variance was largely due to an increase in property tax revenue.

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	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues						
Fees, fines and charges for services	\$ 186,627	\$ 162,828	\$ 706,511	\$ 680,756	\$ 893,138	\$ 843,584
Operating grants & contributions	844,640	932,268			844,640	932,268
Capital grants & contributions	624,620	224,728			624,620	224,728
General revenues						
Property taxes	1,997,411	1,758,646			1,997,411	1,758,646
Sales taxes	2,011,708	1,979,946			2,011,708	1,979,946
Other	1,262,712	988,034	6,059	7,636	1,268,771	995,670
	6,927,718	6,046,450	712,570	688,392	7,640,288	6,734,842
Expenses						
General government	1,229,888	1,335,979			1,229,888	1,335,979
Public safety	1,032,203	1,110,997			1,032,203	1,110,997
Public works and streets	847,597	581,100			847,597	581,100
Education	1,783,753	1,810,365			1,783,753	1,810,365
Economic development	381,978	422,809			381,978	422,809
Culture, recreation and library	960,946	842,654			960,946	842,654
Interest on long-term debt	418,467	56,987			418,467	56,987
Water			292,561	295,525	292,561	295,525
Sewer			478,205	484,296	478,205	484,296
Port/Harbor	614,463	373,381	155,321	122,163	769,784	495,544
Total expenses	7,269,295	6,534,272	926,087	901,984	8,195,382	7,436,256
Increase (decrease) in net assets before transfers	(341,577)	(487,822)	(213,517)	(213,592)	(555,094)	(701,414)
Transfers	(347,822)	(55,929)	347,822	55,929		
Increase (decrease) in net assets	(689,399)	(543,751)	134,305	(157,663)	(555,094)	(701,414)
Net assets - beginning of year	27,162,498	27,706,249	7,404,764	7,562,427	34,567,262	35,268,676
Net assets - end of year	<u>\$26,473,099</u>	<u>\$27,162,498</u>	<u>\$7,539,069</u>	<u>\$7,404,764</u>	<u>\$34,012,168</u>	<u>\$34,567,262</u>

- **Governmental activities** – Governmental activities net assets decreased by \$689,399. Net assets decreased overall by \$555,094. The key element of the decrease for governmental activities is depreciation expense for governmental capital assets largely contributed by grant sources of \$953,128.

Business-type activities – Business-type activities increased the Borough's net assets by \$134,305. The key element of this increase is \$347,822 in contributions of capital assets and transfers from general government.

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 \$28,312,720, an increase of \$16,529,002 (140%) over the prior year primarily due to an increase in the new school construction fund resulting from the issuance of bonds. Of this total amount, \$4,087,591 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 \$24,225,129 has already been committed to the new school construction project (\$16,530,098), the permanent benefit of Borough residents (\$5,608,759) and for other restricted or designated purposes (\$2,086,272).

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 \$4,087,591, down \$37,514 (1%) from the previous year. This compares to a \$350,946 (8%) decrease in the year ending June 30, 2005. The reduction of the rate of decrease to the unreserved fund balance at the end of the current fiscal year is due primarily to increases in unrestricted property tax revenue and interest income.

Other governmental funds (with the exclusion of the general fund) have a combined fund balance of \$24,225,129, an increase of \$16,566,516 (216%) over the prior year. The significant change was that \$17,500,000 in general obligation bonds were issued creating a cash asset. Since long-term liabilities are not reported in the governmental funds the related debt does not appear on the governmental fund balance sheet resulting in a significant increase to the governmental 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 \$7,539,069, an increase of \$134,305 (2%) from the prior year. Of this amount, \$824,728 represented unrestricted net assets. This amount is equal to 160% of operating expenditures exclusive of depreciation.

Significant changes are as follows:

- The \$134,305 increase in net assets is largely due to \$305,822 received as contributions in aid of construction related to the small boat harbor's expansion project and ice house.
- With the exclusion of the small boat harbor fund, the remaining enterprise funds (water and sewer) net assets decreased by \$156,423. The decrease is due primarily to \$297,344 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 is the addition of \$150,000 operating transfers from the general fund to the new school construction fund.

Actual revenues exceeded budgeted revenues by \$295,697 primarily due to higher than projected investment income. Actual expenditures were under budgeted expenses by \$18,573.

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 as revenue.

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, 2006, amounted to \$24,791,795 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment, road networks, and water/sewer systems. The total increase in the Borough's investment in capital assets for the current fiscal year was \$811,912 (3%). Governmental capital assets increased \$760,730 (5%), while business-type capital assets increased \$51,182 (1%).

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

- Purchased land for \$350,000 for the purpose of building a new school facility;
- Invested \$1,295,833 in design and construction of a new school facility;
- Used \$155,822 of grants funds towards the construction of an ice house in the small boat harbor;
- Invested \$150,000 in the design and development of an expanded small boat harbor.

Debt administration – As of June 30, 2006, the Borough has a total of \$20.8 million in bond and loans payable, which consisted of four general obligation bond issues (\$18.9 million), two revenue bond issues (\$1.7 million), one special assessment bond issue (\$5,200), and one loan payable to the State of Alaska (\$0.2 million).

The total debt increased \$17,460,941 (524%) in the current year. This increase is due to the addition of general obligation school construction bonds (\$17,648,367) less the reduction of annual debt retirement (\$187,426).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the year ending June 30, 2006 the Borough experienced increased revenues in the general government funds. Property tax revenues are up 8% over the previous year, sales tax revenues are up 1%, and investment income is up 68%. Together these increases account for nearly \$300,000 increased revenue over the previous year. Increased revenues helped to narrow the gap between revenues and expenditures that has existed since the consolidated government was formed.

The Borough continues to manage rising payroll and fuel costs. For the fiscal year ended June 30, 2006, the Borough experienced a 50% increase in fuel costs. The FY07 budget includes a 29% increase in PERS expense as well as increased costs for employee health insurance.

The Borough is investing in its infrastructure with the aid of state and federal subsidies where possible. The new school construction, the harbor ice house, the harbor expansion project, and an extensive water line replacement project are all currently in progress with the help of state and federal assistance.

In October 2005, the Borough issued \$17.5 million of general obligation bonds in order to finance the construction of a new school facility. The project is anticipated to be complete by December of 2007 and has been approved for 70% debt reimbursement from the State of Alaska.

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 state 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, 2006

ASSETS	Primary Government		Total	Component Units
	Governmental Activities	Business-type Activities		
Current Assets				
Cash and cash equivalents	\$ 2,096,687	\$ 400	\$ 2,097,087	\$ 359,176
Investments	5,238,301		5,238,301	38,476
Receivables	877,371	78,286	955,657	265,979
Internal balances	(919,940)	919,940		
Due from component units	191,000		191,000	
Inventory and prepaid expenses	20,262	24,333	44,595	51,495
Performance deposit		1,734	1,734	
Total current assets	7,503,681	1,024,693	8,528,374	715,126
Restricted Assets				
Cash and cash equivalents	450,154		450,154	
Investments	21,630,539		21,630,539	
Revenue bond debt service reserve				
Cash and cash equivalents		45,248	45,248	
Investments		95,162	95,162	
Receivables	46,714		46,714	
Noncurrent Assets				
Receivables, net of current portion	602,660		602,660	
Capital assets, net	16,288,330	8,503,465	24,791,795	190,834
Total assets	<u>\$ 46,522,078</u>	<u>\$ 9,668,568</u>	<u>\$ 56,190,646</u>	<u>\$ 905,960</u>
LIABILITIES				
Current Liabilities				
Accounts payable and accrued expenses	\$ 490,324	\$ 36,477	\$ 526,801	\$ 42,982
Accrued payroll	99,785		99,785	
Internal balances	(115,843)	115,843		
Accrued interest payable		7,093	7,093	
Due to primary government				191,000
Deposits		31,653	31,653	
Deferred revenue	413,932		413,932	13,285
Current portion of long-term obligations	702,725	65,055	767,780	
Total current liabilities	1,590,923	256,121	1,847,044	247,267
Noncurrent Portion of Long-Term Obligations	18,458,056	1,873,378	20,331,434	46,120
Total liabilities	20,048,979	2,129,499	22,178,478	293,387
NET ASSETS				
Invested in Capital Assets, net of related debt	13,652,374	6,573,931	20,226,305	190,834
Restricted for				
Bond reserves		140,410	140,410	
Medical services	159,665		159,665	
Capital projects	1,174,495		1,174,495	
Economic development	241,865		241,865	
Museum projects and other				121,754
Permanent trust				
Nonexpendable	5,608,759		5,608,759	
Unrestricted	5,635,941	824,728	6,460,669	299,985
Total net assets	26,473,099	7,539,069	34,012,168	612,573
Total liabilities and net assets	<u>\$ 46,522,078</u>	<u>\$ 9,668,568</u>	<u>\$ 56,190,646</u>	<u>\$ 905,960</u>

See Notes to Financial Statements

HAINES BOROUGH

STATEMENT OF ACTIVITIES For the Year Ended June 30, 2006

	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets			
		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	\$ 1,229,888	\$ -	\$ 91,162	\$ 66,118	\$ (1,072,608)	\$ -	\$ (1,072,608)	\$ -
Public safety	1,032,203	3,895	275,146		(753,162)		(753,162)	
Public works and streets	847,597		12,396		(835,201)		(835,201)	
Economic development	381,978				(381,978)		(381,978)	
Education	1,783,753		465,936	255,340	(1,062,477)		(1,062,477)	
Port operations	614,463	129,832		300,055	(184,576)		(184,576)	
Culture, recreation and library	960,946	52,900		3,107	(904,939)		(904,939)	
Interest on long-term debt	418,467				(418,467)		(418,467)	
Total governmental activities	7,269,295	186,627	844,640	624,620	(5,613,408)		(5,613,408)	
Business-type Activities								
Water	292,561	242,951				(49,610)	(49,610)	
Sewer	478,205	326,598				(151,607)	(151,607)	
Small boat harbor	155,321	136,962				(18,359)	(18,359)	
Total business-type activities	926,087	706,511				(219,576)	(219,576)	
Total	<u>\$ 8,195,382</u>	<u>\$ 893,138</u>	<u>\$ 844,640</u>	<u>\$ 624,620</u>	(5,613,408)	(219,576)	(5,832,984)	
Component Units	<u>\$ 4,987,812</u>	<u>\$ 190,093</u>	<u>\$ 877,024</u>	<u>\$ -</u>				(3,920,695)
General Revenues								
Property taxes					1,997,411		1,997,411	
Sales taxes					2,011,708		2,011,708	
Provided by general government								1,842,521
Intergovernmental revenue not restricted to specific programs					229,629		229,629	1,860,761
Investment income					650,715	6,059	656,774	9,685
Licenses and permits					28,711		28,711	
Rentals					58,911		58,911	
Contributions and other					68,901		68,901	110,742
Payments in lieu of taxes					218,845		218,845	
Sales of land					7,000		7,000	
Transfers (contributions of capital assets and transfers from general government)					(347,822)	347,822		
Total general revenue and transfers					4,924,009	353,881	5,277,890	3,823,709
Change in net assets					(689,399)	134,305	(555,094)	(96,986)
Net assets, beginning of year					27,162,498	7,404,764	34,567,262	709,559
Net assets, end of year					<u>\$ 26,473,099</u>	<u>\$ 7,539,069</u>	<u>\$ 34,012,168</u>	<u>\$ 612,573</u>

See Notes to Financial Statements

HAINES BOROUGH

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2006

ASSETS	General	Land Disposal	National Forest Receipts	Permanent Trust	New School Construction	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 2,074,611	\$ -	\$ -	\$ 321,457	\$ 128,697	\$ 22,076	\$ 2,546,841
Investments	5,238,301			5,358,664	16,271,875		26,868,840
Receivables	362,173	696,285		46,714		421,573	1,526,745
Due from other funds	473,723	455,663	382,674	226,607	322,393	1,814,170	3,675,230
Due from component units	191,000						191,000
Inventory	20,262						20,262
Total assets	<u>\$ 8,360,070</u>	<u>\$ 1,151,948</u>	<u>\$ 382,674</u>	<u>\$ 5,953,442</u>	<u>\$ 16,722,965</u>	<u>\$ 2,257,819</u>	<u>\$ 34,828,918</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 249,746	\$ 5	\$ -	\$ 1,194	\$ 103,458	\$ 45,840	\$ 400,243
Accrued payroll	99,785						99,785
Accrued expenses					89,409	672	90,081
Due to other funds	3,601,437	226,607		343,489		307,794	4,479,327
Deferred revenue	321,511	696,285	382,674			46,292	1,446,762
Total liabilities	4,272,479	922,897	382,674	344,683	192,867	400,598	6,516,198
Fund Balances							
Reserved for							
Debt service						109,415	109,415
Capital projects					16,530,098	1,166,540	17,696,638
Encumbrance						179,735	179,735
Permanent trust				5,608,759			5,608,759
Unreserved, reported in							
General fund	4,087,591						4,087,591
Special revenue funds		229,051				401,531	630,582
Total fund balances	<u>4,087,591</u>	<u>229,051</u>		<u>5,608,759</u>	<u>16,530,098</u>	<u>1,857,221</u>	<u>28,312,720</u>
Total liabilities and fund balances	<u>\$ 8,360,070</u>	<u>\$ 1,151,948</u>	<u>\$ 382,674</u>	<u>\$ 5,953,442</u>	<u>\$ 16,722,965</u>	<u>\$ 2,257,819</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							16,288,330
Earned revenues that are not available to pay for current-period expenditures are deferred in the funds							1,032,830
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds							(19,160,781)
Net assets of governmental activities							<u>\$ 26,473,099</u>

See Notes to Financial Statements

HAINES BOROUGH
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

	General	Land Disposal	National Forest Receipts	Permanent Trust	New School Construction	Other Governmental Funds	Total Governmental Funds
Revenues							
Taxes							
Property	\$ 1,708,798	\$ -	\$ -	\$ -	\$ -	\$ 327,677	\$ 2,036,475
Sales	954,695					1,057,013	2,011,708
Intergovernmental	788,814					860,622	1,649,436
Service and admission fees	186,627						186,627
Licenses and permits	28,711						28,711
Rentals	58,911						58,911
Investment income	341,407			46,745	294,706	735	683,593
Contributions and other	117,838	1,792			939	12,805	133,374
LID payments						7,361	7,361
Payments in lieu of taxes	219,217						219,217
Total revenues	4,405,018	1,792		46,745	295,645	2,266,213	7,015,413
Expenditures							
Current							
General government	722,258	42,638		6,112		6,289	777,297
Public safety	735,580					165,975	901,555
Public works and streets	437,293						437,293
Economic development						372,098	372,098
Education	1,592,074					18,000	1,610,074
Port operations	196,475					142,673	339,148
Culture, recreation, and library	743,366						743,366
Debt service							
Principal						120,243	120,243
Interest						422,176	422,176
Capital outlay							
General government						138,259	138,259
Public safety						163,897	163,897
Public works and streets						282,514	282,514
Education					1,645,833		1,645,833
Port operations						305,822	305,822
Culture, recreation, and library						16,183	16,183
Total expenditures	4,427,046	42,638		6,112	1,645,833	2,154,129	8,275,758
Excess (deficiency) of revenues over expenditures	(22,028)	(40,846)		40,633	(1,350,188)	112,084	(1,260,345)
Other Financing Sources (Uses)							
Transfers in	141,500				350,000	229,525	721,025
Transfers out	(156,986)	(200,000)		(111,500)		(294,539)	(763,025)
School bond issuance					17,648,367		17,648,367
Sale of capital assets		182,980					182,980
Total other financing sources and uses	(15,486)	(17,020)		(111,500)	17,998,367	(65,014)	17,789,347
Net change in fund balances	(37,514)	(57,866)		(70,867)	16,648,179	47,070	16,529,002
Fund balances, beginning of year	4,125,105	286,917		5,679,626	(118,081)	1,810,151	11,783,718
Fund balances, end of year	\$ 4,087,591	\$ 229,051	\$ -	\$ 5,608,759	\$ 16,530,098	\$ 1,857,221	\$ 28,312,720

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, 2006

Net change in fund balances - total governmental funds	\$ 16,529,002
--	---------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$1,713,858) exceeded depreciation (\$953,128) in the current period	760,730
---	---------

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 (\$182,980) exceeded sales of assets (\$7,000) in the current year	(175,980)
---	-----------

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)	(172,241)
---	-----------

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 is the amount by which debt issued (\$17,500,000 plus premium received of \$148,367) exceed principal payments (\$120,243) and amortization of premium (\$3,709) in the current year	(17,524,415)
---	--------------

Change in compensated absences	(5,336)
--------------------------------	---------

Change in net pension obligations	(101,159)
-----------------------------------	-----------

Change in net assets of governmental activities	<u>\$ (689,399)</u>
---	---------------------

See Notes to Financial Statements

HAINES BOROUGH

BALANCE SHEET - PROPRIETARY FUNDS

June 30, 2006

ASSETS	Business-type Activities - Enterprise Funds			
	Water	Sewer	Small Boat Harbor	Total
Current Assets				
Cash and cash equivalents	\$ -	\$ -	\$ 400	\$ 400
Receivables	30,930	29,861	17,495	78,286
Due from other funds	184,221	579,252	156,467	919,940
Inventory	20,738	3,595		24,333
Performance deposit		1,734		1,734
Total current assets	235,889	614,442	174,362	1,024,693
Restricted Assets				
Revenue bond debt service reserve				
Cash and cash equivalents	36,747	8,501		45,248
Investments		95,162		95,162
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	960,424	14,365,602
Equipment			77,832	77,832
Total fixed assets	4,648,088	8,803,675	1,038,256	14,490,019
Less accumulated depreciation	2,699,795	3,211,238	553,115	6,464,148
Net fixed assets	1,948,293	5,592,437	485,141	8,025,871
Construction in progress			477,594	477,594
Total assets	\$ 2,220,929	\$ 6,310,542	\$ 1,137,097	\$ 9,668,568

See Notes to Financial Statements

LIABILITIES AND NET ASSETS	Business-type Activities - Enterprise Funds			
	Water	Sewer	Small Boat Harbor	Total
Current Liabilities				
Accounts payable	\$ 7,271	\$ 4,853	\$ 24,353	\$ 36,477
Loan payable - current	14,203			14,203
Bond payable - current	25,153	25,699		50,852
Bond interest payable	2,098	4,995		7,093
Deposits	6,774	9,490	15,389	31,653
Due to other funds			115,843	115,843
Total current liabilities	55,499	45,037	155,585	256,121
Noncurrent Liabilities				
Accrued vacation	3,954	3,954	992	8,900
Revenue bonds payable	197,248	1,454,181		1,651,429
Loan payable	213,049			213,049
Total liabilities	469,750	1,503,172	156,577	2,129,499
Net Assets				
Invested in capital assets, net of related debt	1,498,640	4,112,557	962,734	6,573,931
Restricted for bond reserves	36,747	103,663		140,410
Unrestricted	215,792	591,150	17,786	824,728
Total net assets	1,751,179	4,807,370	980,520	7,539,069
Total liabilities and net assets	<u>\$ 2,220,929</u>	<u>\$ 6,310,542</u>	<u>\$ 1,137,097</u>	<u>\$ 9,668,568</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, 2006

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Small Boat Harbor	Total
Operating Revenue				
Charges for services	\$ 242,951	\$ 326,598	\$ 136,962	\$ 706,511
Operating Expenses				
Salaries and benefits	96,590	93,735	64,652	254,977
Professional services	14,423	13,311	712	28,446
Materials and supplies	34,975	8,044	19,015	62,034
Utilities	24,941	68,726	13,785	107,452
Advertising, dues and subscriptions	492	2,233	350	3,075
Repairs and maintenance	2,958	2,563	33,225	38,746
Travel and training	1,708		502	2,210
Banking and insurance	4,733	3,823	1,243	9,799
Vehicle	2,142	2,808	2,257	7,207
Miscellaneous			405	405
Depreciation	91,230	206,114	19,175	316,519
Total operating expenses	274,192	401,357	155,321	830,870
Operating loss	(31,241)	(74,759)	(18,359)	(124,359)
Nonoperating Revenue (Expense)				
Investment income	2,758	36	3,265	6,059
Interest expense	(18,369)	(76,848)		(95,217)
Total nonoperating revenue (expense)	(15,611)	(76,812)	3,265	(89,158)
Loss before contributions and transfers	(46,852)	(151,571)	(15,094)	(213,517)
Contributions in aid of construction			305,822	305,822
Transfers in	22,000	20,000		42,000
Change in net assets	(24,852)	(131,571)	290,728	134,305
Net assets, beginning of year	1,776,031	4,938,941	689,792	7,404,764
Net assets, end of year	\$ 1,751,179	\$ 4,807,370	\$ 980,520	\$ 7,539,069

See Notes to Financial Statements

HAINES BOROUGH
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
For the Year Ended June 30, 2006

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Small Boat Harbor	Total
Cash Flows from Operating Activities				
Cash received from customers	\$ 243,093	\$ 332,680	\$ 130,568	\$ 706,341
Cash paid to suppliers	(90,508)	(106,722)	(54,248)	(251,478)
Cash paid to employees	(66,778)	(66,711)	(42,625)	(176,114)
Cash paid for employee benefits	(30,908)	(28,120)	(21,982)	(81,010)
Net cash transferred from (to) general fund	(23,183)	(49,909)	46,901	(26,191)
Net cash flows from operating activities	31,716	81,218	58,614	171,548
Cash Flows from Non-Capital Financing Activities				
Transfers from other funds	22,000	20,000		42,000
Cash Flows from Capital and Related Financing Activities				
Acquisition of fixed assets			(61,879)	(61,879)
Repayment of loan payable	(14,203)			(14,203)
Interest on bonds and loan payable	(18,369)	(76,848)		(95,217)
Repayment of bond payable	(23,902)	(24,370)		(48,272)
Net cash flows from capital and related financing activities	(56,474)	(101,218)	(61,879)	(219,571)
Cash Flows from Investing Activities				
Purchase of investments		(95,162)		(95,162)
Investment income	2,758	36	3,265	6,059
Net cash flows from investing activities	2,758	(95,126)	3,265	(89,103)
Net increase in cash		(95,126)		(95,126)
Cash and cash equivalents, beginning of year	36,747	105,361	400	142,508
Cash and cash equivalents, end of year	<u>\$ 36,747</u>	<u>\$ 10,235</u>	<u>\$ 400</u>	<u>\$ 47,382</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	8,501		45,248
Performance deposit		1,734		1,734
Total cash and cash equivalents	<u>\$ 36,747</u>	<u>\$ 10,235</u>	<u>\$ 400</u>	<u>\$ 47,382</u>

See Notes to Financial Statements

HAINES BOROUGH

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

(Continued)

For the Year Ended June 30, 2006

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Small Boat Harbor	Total
Reconciliation of operating loss to net cash flows from operating activities				
Operating loss	\$ (31,241)	\$ (74,759)	\$ (18,359)	\$ (124,359)
Adjustments to reconcile operating loss to net cash flows from operating activities				
Depreciation	91,230	206,114	19,175	316,519
Changes in operating assets and liabilities				
Receivables	968	7,205	(6,911)	1,262
Due from other funds	(23,183)	(49,909)	46,901	(26,191)
Inventory	(7,987)	(2,519)		(10,506)
Accounts payable	3,852	(2,694)	17,245	18,403
Accrued vacation	(1,097)	(1,097)	46	(2,148)
Deposits	(826)	(1,123)	517	(1,432)
Total adjustments	<u>62,957</u>	<u>155,977</u>	<u>76,973</u>	<u>295,907</u>
Net cash flows from operating activities	<u>\$ 31,716</u>	<u>\$ 81,218</u>	<u>\$ 58,614</u>	<u>\$ 171,548</u>

See Notes to Financial Statements

HAINES BOROUGH

COMPONENT UNIT COMBINING STATEMENT OF NET ASSETS

June 30, 2006

ASSETS	Haines Borough School District	Sheldon Museum	Haines Borough Public Library	Non-Major Component Units	Total
Current Assets					
Cash and cash equivalents	\$ 157,385	\$ 117,370	\$ 65,995	\$ 18,426	\$ 359,176
Investments		38,476			38,476
Receivables	229,982	1,737	34,260		265,979
Inventory and prepaid expenses	5,255	46,240			51,495
Total current assets	392,622	203,823	100,255	18,426	715,126
Noncurrent Assets					
Capital assets, net	125,767	65,067			190,834
Total assets	<u>\$ 518,389</u>	<u>\$ 268,890</u>	<u>\$ 100,255</u>	<u>\$ 18,426</u>	<u>\$ 905,960</u>
LIABILITIES					
Current Liabilities					
Accounts payable	\$ 41,914	\$ 1,068	\$ -		\$ 42,982
Due to governmental entity	75,000	6,739	34,261	75,000	191,000
Deferred revenue		-	13,285		13,285
Total current liabilities	116,914	7,807	47,546	75,000	247,267
Noncurrent Portion of Long-Term Obligations					
Accrued vacation		4,116	13,078		17,194
Net pension obligation	28,926				28,926
Total liabilities	145,840	11,923	60,624	75,000	293,387
NET ASSETS					
Invested in Capital Assets	125,767	65,067			190,834
Restricted for Museum Projects and Other		101,014	20,740		121,754
Unrestricted	246,782	90,886	18,891	(56,574)	299,985
Total net assets	372,549	256,967	39,631	(56,574)	612,573
Total liabilities and net assets	<u>\$ 518,389</u>	<u>\$ 268,890</u>	<u>\$ 100,255</u>	<u>\$ 18,426</u>	<u>\$ 905,960</u>

See Notes to Financial Statements

HAINES BOROUGH

COMPONENT UNIT COMBINING STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2006

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets				
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Haines Borough School District	Sheldon Museum	Haines Borough Public Library	Non-Major Component Units	Total
Haines Borough School District	\$ 4,162,765	\$ 125,664	\$ 701,738	\$ (3,335,363)	\$ -	\$ -	\$ -	\$ (3,335,363)
Sheldon Museum	268,505	64,429	18,047		(186,029)			(186,029)
Haines Borough Public Library	464,177		157,239			(306,938)		(306,938)
Non-major component units	92,365						(92,365)	(92,365)
	<u>\$ 4,987,812</u>	<u>\$ 190,093</u>	<u>\$ 877,024</u>	<u>(3,335,363)</u>	<u>(186,029)</u>	<u>(306,938)</u>	<u>(92,365)</u>	<u>(3,920,695)</u>
General revenues								
Provided by general government				1,384,044	162,484	275,601	20,392	1,842,521
State of Alaska				1,860,761				1,860,761
Investment income				5,296	2,693	1,696		9,685
Contributions and other				66,553	13,187	25,880	5,122	110,742
Total general revenue and transfers				<u>3,316,654</u>	<u>178,364</u>	<u>303,177</u>	<u>25,514</u>	<u>3,823,709</u>
Change in net assets				(18,709)	(7,665)	(3,761)	(66,851)	(96,986)
Net assets, beginning of year				<u>391,258</u>	<u>264,632</u>	<u>43,392</u>	<u>10,277</u>	<u>709,559</u>
Net assets, end of year				<u>\$ 372,549</u>	<u>\$ 256,967</u>	<u>\$ 39,631</u>	<u>\$ (56,574)</u>	<u>\$ 612,573</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.
- 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. 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.

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.

Forest Service Receipts – Accounts for grant funds restricted for: search and rescue or firefighting on Federal land; educating homeowners about wildfire issues; conducting after school forest related programs and other restricted uses.

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.

New School Construction – Accounts for the proceeds of a bond issuance to be used in construction of the new school.

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, 2006, expenditures exceeded appropriations in the following departments (the legal level of budgetary control):

General fund	
Borough Assembly	\$ 16,444
Finance	6,576
Property tax administration	5
Ports	23,809
Chilkat Center	5,191
Fire District #3	115
Riverview S/D Roads	250
Eagle Vista RMSA	1,800
School district	2,030
Swimming pool	14,495
Townsite service area – administration	6,074
Townsite service area – public works	2,352
Insurance pool	23,214
Land disposal	1,037
Special revenue funds	
GIS grants	27,161
AK F&G Creek	25,000
First responder fire department grant	26,672
First responder fire department grant	99,878
Capital project funds	
Capital projects general government	12,105
Capital projects administration	73,850
PC Dock lighting	12,535
Cart/People Mover	1,291
Skateboard Park	13,107
Covered viewing	2,020
Harbor improvements	155,888
Harbor ice house	147,807
Storm disaster repairs	17,398
Tlingit Park	3,076
Harbor electric grant	8,795

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, 2006:

Tlingit Park fund	\$ 41,664
Town Site Service Area	25,797

It is expected that these deficits will be covered by grant revenues, transfers or other general sources.

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 asset 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, 2006, are as follows:

	General Fund	Other Governmental Funds	Total
Designated for:			
Boat Harbor development	\$ 90,098	\$ -	\$ 90,098
Medical services		159,665	159,665
Economic development		241,865	241,865
Road maintenance	24,891		24,891
Equipment	83,677		83,677
	<u>\$ 198,666</u>	<u>\$ 401,530</u>	<u>\$ 600,196</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, 2006, the carrying amount of the Borough's cash balances was \$2,594,223 while the bank and other institution balances were \$2,704,342. 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	\$ 1,587,927	\$ 1,587,927
Uncollateralized	1,005,046	1,116,415
Petty cash	1,250	
	<u>\$ 2,594,223</u>	<u>\$ 2,704,342</u>
Reconciliation to statement of net assets:		
Cash and cash equivalents	\$ 2,097,087	
Restricted cash and cash equivalents	450,154	
Revenue bond future debt service accounts	45,248	
Performance deposit	1,734	
	<u>\$ 2,594,223</u>	
Cash and cash equivalents consist of:		
Cash	\$ 580,449	
Cash equivalents	2,013,774	
	<u>\$ 2,594,223</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	6 - 10	Over 10	
Investments held by agent in the					
Borough's name					
Certificates of Deposit	\$ 724,992	\$ 562,731	\$ -	\$ -	\$ 1,287,723
U.S. Government Instruments	14,827,572	7,985,344	1,481,888	5,937	24,300,741
Corporate Debt	85,422	548,486	185,635		819,543
Total debt securities	<u>\$ 15,637,986</u>	<u>\$ 9,096,561</u>	<u>\$ 1,667,523</u>	<u>\$ 5,937</u>	26,408,007
Common stocks (S&P 500					
Depository Receipts)					555,995
					<u>\$ 26,964,002</u>
Reconciliation to statement of net assets					
Investments					\$ 5,238,301
Restricted investments					21,630,539
Revenue bond future debt service					
accounts					95,162
					<u>\$ 26,964,002</u>

Note 3. Receivables and Deferred Revenue

Receivables at June 30, 2006, for the individual major funds and nonmajor funds in the aggregate, net of applicable allowances for uncollectible accounts (\$25,168 at June 30, 2006), 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	\$ 176,798	\$ -	\$ 106,375	\$ -	\$ -	\$ 79,000	\$ 362,173
Land disposal fund		645,640				50,645	696,285
Permanent trust						46,714	46,714
Water fund				30,930			30,930
Sewer fund				29,861			29,861
Small boat harbor fund				17,495			17,495
Other governmental funds	94,410	15,126			309,360	2,677	421,573
Total	<u>\$ 271,208</u>	<u>\$ 660,766</u>	<u>\$ 106,375</u>	<u>\$ 78,286</u>	<u>\$ 309,360</u>	<u>\$ 179,036</u>	<u>\$ 1,605,031</u>

Reconciliation to statement of net assets

Current receivables	\$ 955,657
Restricted receivables	46,714
Noncurrent receivables	602,660
	<u>\$ 1,605,031</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 \$200,000. 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)	\$ 92,686	\$ -	\$ 92,686
Payments in lieu of taxes		218,845	218,845
Land sale/LID receivables (including accrued interest)	711,319		711,319
Grants and contributions	<u></u>	<u>423,912</u>	<u>423,912</u>
Total deferred/unearned revenue for governmental funds	804,005	642,757	1,446,762
Amounts not deferred for government-wide financial statements			
Property taxes receivable	(92,686)		(92,686)
Payments in lieu of taxes		(218,845)	(218,845)
Land sales/LID receivables	(711,319)		(711,319)
Grants and contributions	<u></u>	<u>(9,980)</u>	<u>(9,980)</u>
Total deferred/unearned revenue for government- wide financial statements	<u>\$ -</u>	<u>\$ 413,932</u>	<u>\$ 413,932</u>

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

	Balance, June 30, 2005	Increases	Decreases	Balance, June 30, 2006
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land and improvements	\$ 301,063	\$ 350,000	\$ -	\$ 651,063
Construction in progress – school	118,080	1,295,833		1,413,913
Total capital assets not being depreciated	419,143	1,645,833		2,064,976
Other capital assets:				
Buildings	14,427,802			14,427,802
Other improvements	12,655,610			12,655,610
Furniture and equipment	3,390,410	68,025		3,458,435
Road network	4,575,965			4,575,965
Total other capital assets	35,049,787	68,025		35,117,812
Less accumulated depreciation for:				
Buildings	8,338,478	399,169		8,737,647
Other improvements	5,216,441	317,769		5,534,210
Furniture and equipment	2,840,042	121,791		2,961,833
Road network	3,546,369	114,399		3,660,768
Total accumulated depreciation	19,941,330	953,128		20,894,458
Other capital assets, net	15,108,457	(885,103)		14,223,354
Governmental activities capital assets, net	<u>\$15,527,600</u>	<u>\$ 760,730</u>	<u>\$ -</u>	<u>\$16,288,330</u>
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land and improvements	\$ 24,010	\$ -	\$ -	\$ 24,010
Construction in progress	171,772	305,822		477,594
Total capital assets not being depreciated	195,782	305,822		501,604
Other capital assets:				
Buildings	22,575			22,575
Other improvements (including distribution and collection systems)	14,345,242	20,360		14,365,602
Equipment	118,585	41,519	82,272	77,832
Total other capital assets	14,486,402	61,879	82,272	14,466,009
Less accumulated depreciation for:				
Buildings	22,575			22,575
Other improvements (including distribution and collection systems)	6,110,985	310,958		6,421,943
Equipment	96,341	5,561	82,272	19,630
Total accumulated depreciation	6,229,901	316,519	82,272	6,464,148
Other capital assets, net	8,256,501	(254,640)		8,001,861
Business-type activities capital assets, net	<u>\$ 8,452,283</u>	<u>\$ 51,182</u>	<u>\$ -</u>	<u>\$ 8,503,465</u>

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

Governmental activities:

General government	\$ 136,746
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>\$ 953,128</u>

Business-type activities:

Water	\$ 91,230
Sewer	206,114
Harbor	19,175
Total depreciation expense – business-type activities	<u>\$ 316,519</u>

The Borough owns the land and buildings used by the School District and records the land and buildings as part of governmental activity capital assets. At June 30, 2006, the cost and accumulated depreciation associated with these assets was \$7,172,018 and \$4,273,077, 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, 2006, 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	\$ 150,000	\$ -	\$ 35,000	\$ 115,000	\$ 35,000
PC Dock bonds	970,000		80,000	890,000	80,000
Highland Estate LID #4	6,500		1,300	5,200	1,300
USDA bonds	215,786		3,943	211,843	4,007
School construction bonds		17,500,000		17,500,000	575,000
School bond premium		148,367	3,709	144,658	7,418
Total bonds and notes payable	1,342,286	17,648,367	123,952	18,866,701	702,725
Other liabilities:					
Compensated absences	82,212	5,336		87,548	
Net pension obligation	105,373	101,159		206,532	
Governmental activities long-term liabilities	<u>\$ 1,529,871</u>	<u>\$ 17,754,862</u>	<u>\$ 123,952</u>	<u>\$19,160,781</u>	<u>\$ 702,725</u>
<u>Business-type Activities:</u>					
Bonds and notes payable:					
Revenue bonds					
Water	\$ 246,302	\$ -	\$ 23,901	\$ 222,401	\$ 25,153
Sewer	1,504,250		24,370	1,479,880	25,699
State of Alaska DEC	241,455		14,203	227,252	14,203
Total bonds and notes payable	1,992,007		63,474	1,929,533	65,055
Other liabilities:					
Compensated absences	11,048		2,148	8,900	
Business-type activities long-term liabilities	<u>\$ 2,003,055</u>	<u>\$ -</u>	<u>\$ 64,622</u>	<u>\$ 1,938,433</u>	<u>\$ 65,055</u>

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

Bonds and notes payable at June 30, 2006, is comprised of the following individual issues:

Governmental Activities:

General obligation bonds:

\$17,500,000 2005 school construction bonds, due in annual installments of \$575,000 to \$1,260,000, plus interest at 4.0% to 5.0%, through October 2025 (not including un-amortized premium of \$144,658 at June 30, 2006)	\$ 17,500,000
---	---------------

\$480,000 1989 water/sewer refunding bonds, due in annual installments of \$35,000 to \$40,000, plus interest at 3.25%, through 2009	115,000
--	---------

\$940,000 2000 general obligation refunding bonds, due in annual installments of \$80,000 to \$120,000, plus interest at 4.0% to 5.0%, through 2015	890,000
---	---------

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%	211,843
--	---------

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	5,200
---	-------

Total General Long-Term Debt	<u>\$ 18,722,043</u>
------------------------------	----------------------

Business-type Activities:

\$450,000 1994 water revenue bonds, due in semi-annual installments of \$18,117, including interest at 5.125%, through 2014	\$ 222,401
---	------------

\$1,700,000 1994 sewer revenue bonds, due in semi-annual installments of \$50,609, including interest at 5.125%, through 2033	1,479,880
---	-----------

Loan from the State of Alaska Department of Environmental Conservation, due in annual installments of \$18,016, including interest at 2.5%, through 2022	227,252
--	---------

Total Enterprise Funds Long-Term Debt	<u>\$ 1,929,533</u>
---------------------------------------	---------------------

In conjunction with the issuance of the above school construction bonds, the State of Alaska, Department of Education and Early Development has approved the project for a 70% reimbursement rate from the State of Alaska.

The debt service annual requirements to amortize bonds and notes payable debt outstanding as of June 30, 2006, are as follows:

Governmental Activities:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 695,307	\$ 782,489	\$ 1,477,796
2008	730,502	754,230	1,484,732
2009	760,706	724,668	1,485,374
2010	745,919	694,105	1,440,024
2011	779,844	663,355	1,443,199
2012 - 2016	4,287,982	2,764,062	7,052,044
2017 - 2021	4,780,467	1,763,552	6,544,019
2022 - 2026	5,859,954	663,547	6,523,501
2027 - 2031	56,979	13,761	70,740
2032 - 2036	24,383	1,862	26,245
	<u>\$ 18,722,043</u>	<u>\$ 8,825,631</u>	<u>\$ 27,547,674</u>

Business-type Activities:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	76,465	79,451	155,916
2012- 2016	337,481	344,904	682,385
2017 - 2021	307,455	276,750	584,205
2022 - 2026	318,724	201,928	520,652
2027 - 2031	392,188	113,902	506,090
2032 - 2036	220,607	16,449	237,056
	<u>\$ 1,929,533</u>	<u>\$ 1,383,985</u>	<u>\$ 3,313,518</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, 2006, 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 \$131,391 and the debt service requirement was \$101,218 resulting in a ratio of 1.30 for the Sewer Enterprise Fund, so the Borough was in compliance with this requirement. Net operating revenues were \$62,747 and the debt service requirement was \$56,118 resulting in a ratio of 1.12 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 17.17% of annual covered payroll.

Annual Pension Cost

For the year ended June 30, 2006, the Borough's annual pension cost of \$475,649 was more than the Borough's actual contribution of \$374,490 (including a contribution by the State of Alaska of \$105,665). Accordingly, the Borough has recorded an increase in its net pension obligation of \$101,159 to a total of \$206,532 at June 30, 2006.

The actuarial assumptions included (a) investment return, net of expenses, of 8.25% per year, compounded annually, (b) health cost inflation of 9.5% per year in 2006, reducing by 0.5% per year each year through 2015, 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, 2003	\$ 189,209	100%	\$ 0
June 30, 2004	196,910	100%	0
June 30, 2005	357,357	71%	105,373

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, 2003	\$ 4,340,000	\$ 6,698,000	\$ 2,358,000	65%	\$ 1,443,000	163%
June 30, 2004	*	*	*	*	*	*
June 30, 2005	4,554,000	6,709,000	2,155,000	68%	1,543,000	140%

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, 2003	\$ 2,901,000	\$ 4,477,000	\$ 1,576,000	65%	\$ 1,443,000	109%
June 30, 2004	*	*	*	*	*	*
June 30, 2005	5,892,000	6,860,000	2,788,000	68%	1,543,000	181%

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 was not provided by 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, 2006, is as follows:

Receivable Fund	Payable Fund	Amount
General	Permanent trust	\$ 197,280
General	Small boat harbor	115,843
Land disposal	General	455,663
New school construction	General	322,393
Permanent trust	Land disposal	226,607
National forest receipts	General	382,674
Nonmajor governmental funds	General	1,814,170
Water	General	184,221
Sewer	General	579,252
Small boat harbor	General	156,467
Total		<u>\$ 4,434,570</u>

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

	Transfer In					
	General Fund	New School Construction	Water	Sewer	Other Governmental Funds	Total
Transfer out:						
General	\$ -	\$150,000	\$ -	\$ -	\$ 6,986	\$156,986
Land disposal		200,000				200,000
Permanent trust	111,500					111,500
Other Governmental Funds	30,000		22,000	20,000	222,539	294,539
Total transfers out	\$141,500	\$350,000	\$ 22,000	\$ 20,000	\$229,525	\$ 763,025

Transfers between funds are in accordance with the Borough Code and budgetary authorizations, and are generally 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 claims 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 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. 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

Subsequent to year end, the infrastructure fixed assets of the small boat harbor, which had been owned by the State of Alaska, were transferred to the Borough. The Borough does not yet have an estimate of the value of these assets.

In addition, the State of Alaska provided the Borough \$3,400,000 to assist with deferred maintenance projects.

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, 2006

	Budget Amounts		Actual	Variance
	Original	Final		
Revenue				
Taxes				
Property	\$ 1,678,944	\$ 1,678,944	\$ 1,708,798	\$ 29,854
Sales	918,617	936,593	954,695	18,102
Intergovernmental	835,022	765,911	788,814	22,903
Service and admission fees	172,982	172,982	186,627	13,645
Licenses and permits	24,100	24,100	28,711	4,611
Rentals	55,400	55,400	58,911	3,511
Investment income	162,020	162,020	341,407	179,387
Contributions and other	30,500	96,125	117,838	21,713
Payments in lieu of taxes	217,246	217,246	219,217	1,971
Total revenue	4,094,831	4,109,321	4,405,018	295,697
Expenditures				
Current				
General government	707,921	744,089	722,258	21,831
Public safety	807,045	777,262	735,580	41,682
Public works and streets	458,587	442,813	437,293	5,520
Education	1,570,044	1,590,044	1,592,074	(2,030)
Port operations	94,563	158,475	196,475	(38,000)
Culture, recreation, and library	740,698	732,936	743,366	(10,430)
Total expenditures	4,378,858	4,445,619	4,427,046	18,573
Excess (deficiency) of revenue over expenditures	(284,027)	(336,298)	(22,028)	314,270
Other financing sources (uses)				
Transfers in	141,500	141,500	141,500	
Transfers out		(173,602)	(156,986)	16,616
Total other financing sources (uses)	141,500	(32,102)	(15,486)	16,616
Net change in fund balance	(142,527)	(368,400)	(37,514)	\$ 330,886
Fund balance, beginning of year	4,125,105	4,125,105	4,125,105	
Fund balance, end of year	\$ 3,982,578	\$ 3,756,705	\$ 4,087,591	

See Note to Required Supplementary Information

HAINES BOROUGH

BUDGETARY COMPARISON SCHEDULE - LAND DISPOSAL SPECIAL REVENUE FUND

For the Year Ended June 30, 2006

	Budget Amounts		Actual	Variance
	Original	Final		
Revenue				
Contributions and other	\$ -	\$ -	\$ 1,792	\$ 1,792
Expenditures				
General government	41,601	41,601	42,638	(1,037)
Excess (deficiency) of revenue over expenditures	(41,601)	(41,601)	(40,846)	755
Other financing sources (uses)				
Transfers out		(200,000)	(200,000)	
Sale of capital assets		87,000	182,980	95,980
Total other financing sources (uses)		(113,000)	(17,020)	95,980
Net change in fund balance	(41,601)	(154,601)	(57,866)	\$ 96,735
Fund balance, beginning of year	286,917	286,917	286,917	
Fund balance, end of year	\$ 245,316	\$ 132,316	\$ 229,051	

See Note to Required Supplementary Information

HAINES BOROUGH

BUDGETARY COMPARISON SCHEDULE - NATIONAL FOREST RECEIPTS SPECIAL REVENUE FUND

For the Year Ended June 30, 2006

	Budget Amounts		Actual	Variance
	Original	Final		
Revenue				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Expenditures				
Current				
General Government				-
Excess (deficiency) of revenue over expenditures	-	-	-	-
Other financing sources (uses)				
Transfers in	-			-
Transfers out				-
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	-	-	-	-
Fund balance, beginning of year				
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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.