

HAINES BOROUGH

FINANCIAL REPORT

JUNE 30, 2007

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INDEPENDENT AUDITORS' REPORT

To the Borough Assembly and Borough 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, 2007, 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 23% 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, 2007, 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 December 10, 2007, 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 48 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

December 10, 2007

HAINES BOROUGH

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

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, 2007 (FY07).

FINANCIAL HIGHLIGHTS

- The assets of the Haines Borough exceeded its liabilities at the close of FY07 by \$39.8 million (net assets). Of this amount, \$21.0 million represents the Borough's investment in capital assets (e.g. land, buildings, roads) net of related debt, and \$9.9 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- Total net assets increased by \$5.8 million, or approximately 17%. The total increase reflects an increase in business-type activities of \$4.5 million and governmental activities of \$1.3 million.
- General fund revenues increased by \$494,662 (11%) from the previous year. The increase was due primarily to a \$200,738 (21%) increase in sales tax revenue and a \$134,016 (8%) increase in property tax revenue.
- In FY07 general fund revenues were comprised primarily of property tax (38%), sales tax (24%), intergovernmental sources (19%), investment income (9%), payment in lieu of taxes (4%) and service fees (4%).
- In July of 2006, the State of Alaska transferred ownership of its three Haines harbors to the Haines Borough. Additionally, the State paid the Borough \$3.4 million for deferred maintenance on the harbors.
- During the year, the Borough paid down \$767,831 on long-term debt including \$702,851 paid down on general obligation debt and \$64,980 paid down on proprietary fund debts.

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 - 48)

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, education, fire services, ambulance, recreation, economic development, museum 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 23 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 municipal land disposal fund, the national forest receipts fund, the permanent trust fund, the new school construction fund, and the new school debt service 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. The Borough's total assets exceeded liabilities by \$39.8 million (net assets) as of June 30, 2007, compared to \$34.0 million for the year ended June 30, 2006.

The largest portion of the Borough's net assets (53%) 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 \$16.0 million as of June 30, 2007, which does not include debt of \$4.0 million of unspent funds 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	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$22,274,758	\$30,233,748	\$ 4,740,212	\$ 1,165,103	\$27,014,970	\$31,398,851
Capital assets	27,587,968	16,288,330	9,332,640	8,503,465	36,920,608	24,791,795
Total assets	49,862,726	46,522,078	14,072,852	9,668,568	63,935,578	56,190,646
Current and other liabilities	4,335,327	1,590,923	238,177	256,121	4,573,504	1,847,044
Long-term liabilities	17,780,123	18,458,056	1,804,988	1,873,378	19,585,111	20,331,434
Total liabilities	22,115,450	20,048,979	2,043,165	2,129,499	24,158,615	22,178,478
Net assets						
Invested in capital assets, net of related debt	13,486,302	13,652,374	7,468,087	6,573,931	20,954,389	20,226,305
Restricted	8,821,818	7,184,784	145,905	140,410	8,967,723	7,325,194
Unrestricted	5,439,156	5,635,941	4,415,695	824,728	9,854,851	6,460,669
Total net assets	<u>\$27,747,276</u>	<u>\$26,473,099</u>	<u>\$12,029,687</u>	<u>\$ 7,539,069</u>	<u>\$39,776,963</u>	<u>\$34,012,168</u>

A portion of the Borough's net assets (\$9.0 million or 23%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$9.9 million or 25%) 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 increased by \$5.8 million during the current fiscal year compared to a \$555,094 decrease in the prior fiscal year. The transfer of the harbors from the state, which resulted in a \$4.0 million increase to the total net assets, was a key factor in the increase. Another factor in the variance was expenses from governmental activities increasing (\$568,315 or 8%) at a slower rate than revenues (\$2,720,738 or 39%).

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	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues						
Fees, fines and charges for services	\$ 190,001	\$ 186,627	693,440	\$ 706,511	\$ 883,441	\$ 893,138
Operating grants & contributions	789,077	844,640			789,077	844,640
Capital grants & contributions	1,488,662	624,620	4,019,707		5,508,369	624,620
General revenues						
Property taxes	2,400,182	1,997,411			2,400,182	1,997,411
Sales taxes	2,536,457	2,011,708			2,536,457	2,011,708
Other	2,244,077	1,262,712	181,771	6,059	2,425,848	1,268,771
Total revenues	9,648,456	6,927,718	4,894,918	712,570	14,543,374	7,640,288
Expenses						
General government	1,191,381	1,229,888			1,191,381	1,229,888
Public safety	1,066,857	1,032,203			1,066,857	1,032,203
Public works and streets	725,000	847,597			725,000	847,597
Education	2,273,906	1,783,753			2,273,906	1,783,753
Economic development	416,455	381,978			416,455	381,978
Culture, recreation and library	932,937	960,946			932,937	960,946
Interest on long-term debt	774,719	418,467			774,719	418,467
Water			278,968	292,561	278,968	292,561
Sewer			482,187	478,205	482,187	478,205
Port/Harbor	456,355	614,463	179,814	155,321	636,169	769,784
Total expenses	7,837,610	7,269,295	940,969	926,087	8,778,579	8,195,382
Increase (decrease) in net assets before transfers	1,810,846	(341,577)	3,953,949	(213,517)	5,764,795	(555,094)
Transfers	(536,669)	(347,822)	536,669	347,822		
Increase (decrease) in net assets	1,274,177	(689,399)	4,490,618	134,305	5,764,795	(555,094)
Net assets - beginning of year	26,473,099	27,162,498	7,539,069	7,404,764	34,012,168	34,567,262
Net assets - end of year	<u>\$27,747,276</u>	<u>\$26,473,099</u>	<u>\$12,029,687</u>	<u>\$7,539,069</u>	<u>\$39,776,963</u>	<u>\$34,012,168</u>

Governmental activities – Governmental activities net assets increased by \$1,274,177. Net assets increased overall by \$5,764,795. Governmental activities net assets increased largely due to an \$864,042 increase in capital grant revenues and an \$884,696 increase in investment income.

Business-type activities – Business-type activities increased the Borough's net assets by \$4,490,618. The key element of this increase is \$4,019,707 in cash and capital assets received from the State of Alaska with the transfer of the harbors to the Haines Borough.

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 FY07, the Borough's governmental funds reported combined ending fund balances of \$17.9 million, a decrease of \$10.4 million (37%) from the prior year primarily due to the spending down of cash used in the construction of the new school. Since the corresponding capital asset is not reported in the governmental funds, there is a significant decrease to the governmental fund balance. Of the total governmental fund balance, \$4.5 million 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 \$13.4 million has already been committed to the new school construction project (\$5.3 million), the permanent benefit of Borough residents (\$5.9 million) and for other restricted or designated purposes (\$2.2 million).

The general fund is the primary operating fund of the Borough. At the end of FY07, the unreserved fund balance of the general fund was \$4.5 million, up \$415,829 (10%) from the previous year. This compares to a \$37,514 (1%) decrease in FY06. The increase to the unreserved fund balance at the end of the current fiscal year is due primarily to increases in unrestricted property tax revenue, intergovernmental revenue, and investment income.

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

As of the end of FY07, the enterprise fund's combined net assets were \$12.0 million, an increase of \$4.5 million (60%) from the prior year. The increase is primarily due to the \$4.0 million in cash and capital assets received from the State of Alaska with the transfer of harbors to the Haines Borough. A lesser factor in the increase is \$485,669 received as contributions in aid of construction for the small boat harbor's new ice house and for the replacement of harbor fuel lines.

With the exclusion of the small boat harbor fund, the remaining enterprise funds' (water and sewer) net assets decreased by \$71,486. The decrease is largely due to \$289,044 in depreciation of capital assets largely contributed by state and federal governments.

Unrestricted net assets for the combined water and sewer funds total \$903,025. Unrestricted net assets for the small boat harbor fund are \$3,512,670.

GENERAL FUND BUDGETARY HIGHLIGHTS

Significant differences between the original budget and the final amended budget include:

- recognition of \$102,551 in municipal energy assistance from the State of Alaska;
- \$160,000 increase in projected investment income;
- \$113,000 increase in projected sales tax revenue; and
- \$69,100 increase in public works expense due to unusually high snowfall.

Actual revenues exceeded budgeted revenues by \$260,239 primarily due to higher than projected intergovernmental income and investment income. Actual expenditures were under budgeted expenses by \$47,911.

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, 2007, amounted to \$36.9 million (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 \$12.1 million (49%). Governmental capital assets increased \$11.3 million (69%), while business-type capital assets increased \$829,175 (10%).

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

- Invested \$11,445,169 in construction of a new K-12 school facility;
- Invested \$420,137 in upgrades to the Port Chilkoot dock;
- Purchased a new fire truck with \$147,250 in federal funds and \$35,000 in general funds; and
- Invested \$109,753 in the construction of a new public works shop.

Debt administration – As of June 30, 2007, the Borough has a total of \$19.9 million in bond and loans payable, which consisted of four general obligation bond issues (\$18.0 million), two revenue bond issues (\$1.7 million), one special assessment bond issue (\$3,900), and one loan payable to the State of Alaska (\$213,049).

The total debt decreased \$766,831 (4%) in the current year. The decrease is due entirely to annual debt retirement.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the year ending June 30, 2007, the Borough experienced revenues increasing at a greater rate than expenses, enabling total net assets for governmental activities to increase \$1.3 million (5%) over the previous year. Additionally, the Borough benefited from the harbor transfer and other capital contributions to the municipal harbor which increased the total net assets for business-type activities by \$4.5 million (60%).

In FY07 total property tax revenues were up 20% over the previous year, sales tax revenues were up 26%, and investment income was up 136%. The new school construction is a factor in all of these increases. Property tax mills increased in order to pay the first full year of debt service on the general obligation bonds issued for the school construction; sales tax revenues got a boost from the influx of construction workers on the school project; and investment income includes interest earned on capital project funds for the school construction.

The Borough has continued to experience rising fuel and payroll costs. In FY07 the Borough experienced a 40% increase in fuel expense, in part due to an unusually cold winter accompanied by extremely high snowfall. Union negotiated wage increases along with increased health insurance costs resulted in a 3% increase in payroll expense.

The Borough has continued to receive PERS assistance from the state. In FY07 the Borough received \$85,814 in assistance which brought the effective defined benefits PERS rate down 5% from 27.17% of eligible gross wages to 22.17%. In FY08 the state continues to assist by keeping rates capped at 22%. Despite the short term relief provided by the state, the Borough and the school district budgets face significant impacts resulting from the liabilities facing the PERS and TRS retirement systems. If the state does not adopt a permanent form of assistance, a long-term solution will have to be funded at the local level.

The Borough continues to invest in its infrastructure with the aid of state and federal subsidies where possible. The new ice house was completed and began operations in FY07. The K-12 school construction will be completed in the coming fiscal year. Multiple road, utility, and harbor projects are commencing with the help of state and federal assistance.

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, 2007

ASSETS	Primary Government		Total	Component Units
	Governmental Activities	Business-type Activities		
Current Assets				
Cash and cash equivalents	\$ 3,204,659	\$ 3,477,777	\$ 6,682,436	\$ 734,489
Investments	5,564,324		5,564,324	44,970
Receivables	786,933	97,641	884,574	360,060
Internal balances	(977,617)	977,617		
Due from component units	179,978		179,978	
Inventory and prepaid expenses	43,106	39,516	82,622	45,685
Performance deposit		1,756	1,756	
Total current assets	8,801,383	4,594,307	13,395,690	1,185,204
Restricted Assets				
Cash and cash equivalents	676,060		676,060	
Investments	12,188,126		12,188,126	
Revenue bond debt service reserve				
Cash and cash equivalents		49,565	49,565	
Investments		96,340	96,340	
Receivables	67,646		67,646	
Noncurrent Assets				
Receivables, net of current portion	541,543		541,543	
Capital assets, net	27,587,968	9,332,640	36,920,608	210,429
Total assets	<u>\$ 49,862,726</u>	<u>\$ 14,072,852</u>	<u>\$ 63,935,578</u>	<u>\$ 1,395,633</u>
LIABILITIES				
Current Liabilities				
Accounts payable and accrued expenses	\$ 3,125,867	\$ 13,084	\$ 3,138,951	\$ 148,132
Accrued payroll	93,613		93,613	
Internal balances	(115,843)	115,843		
Accrued interest payable		7,093	7,093	
Due to primary government				178,708
Deposits		34,462	34,462	
Deferred revenue	493,770		493,770	23,920
Current portion of long-term obligations	737,920	67,695	805,615	
Total current liabilities	4,335,327	238,177	4,573,504	350,760
Noncurrent Portion of Long-Term Obligations	17,780,123	1,804,988	19,585,111	50,147
Total liabilities	22,115,450	2,043,165	24,158,615	400,907
NET ASSETS				
Invested in Capital Assets, net of related debt	13,486,302	7,468,087	20,954,389	210,429
Restricted for				
Bond reserves		145,905	145,905	
Medical services	180,887		180,887	
Capital projects	2,383,038		2,383,038	
Economic development	325,220		325,220	
Museum projects and other				105,288
Permanent trust				
Nonexpendable	5,932,673		5,932,673	
Unrestricted	5,439,156	4,415,695	9,854,851	679,009
Total net assets	27,747,276	12,029,687	39,776,963	994,726
Total liabilities and net assets	<u>\$ 49,862,726</u>	<u>\$ 14,072,852</u>	<u>\$ 63,935,578</u>	<u>\$ 1,395,633</u>

See Notes to Financial Statements

HAINES BOROUGH

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2007

	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	\$ 1,191,381	\$ -	\$ 49,225	\$ 912	\$ (1,141,244)	\$ -	\$ (1,141,244)	\$ -
Public safety	1,066,857	3,091	141,543	147,250	(774,973)		(774,973)	
Public works and streets	725,000		19,310	92,606	(613,084)		(613,084)	
Economic development	416,455				(416,455)		(416,455)	
Education	2,273,906		470,417	911,879	(891,610)		(891,610)	
Port operations	456,355	146,709		318,236	8,590		8,590	
Culture, recreation and library	932,937	40,201	108,582	17,779	(766,375)		(766,375)	
Interest on long-term debt	774,719				(774,719)		(774,719)	
Total governmental activities	7,837,610	190,001	789,077	1,488,662	(5,369,870)		(5,369,870)	
Business-type Activities								
Water	278,968	253,112				(25,856)	(25,856)	
Sewer	482,187	338,098				(144,089)	(144,089)	
Small boat harbor	179,814	102,230		4,019,707		3,942,123	3,942,123	
Total business-type activities	940,969	693,440		4,019,707		3,772,178	3,772,178	
Total	<u>\$ 8,778,579</u>	<u>\$ 883,441</u>	<u>\$ 789,077</u>	<u>\$ 5,508,369</u>	(5,369,870)	3,772,178	(1,597,692)	
Component Units	<u>\$ 5,032,100</u>	<u>\$ 104,146</u>	<u>\$ 990,580</u>	<u>\$ -</u>				(3,937,374)
General Revenue and Transfers								
Property taxes					2,400,182		2,400,182	
Sales taxes					2,536,457		2,536,457	
Provided by general government								1,907,055
Intergovernmental revenue not restricted to specific programs					340,908		340,908	2,310,962
Investment income					1,535,411	181,771	1,717,182	14,049
Licenses and permits					16,681		16,681	
Rentals					65,791		65,791	
Contributions and other					70,275		70,275	87,461
Payments in lieu of taxes					219,942		219,942	
Loss on disposal of fixed assets					(4,931)		(4,931)	
Transfers (contributions of capital assets and transfers from general government)					(536,669)	536,669		
Total general revenue and transfers					6,644,047	718,440	7,362,487	4,319,527
Change in net assets					1,274,177	4,490,618	5,764,795	382,153
Net assets, beginning of year					26,473,099	7,539,069	34,012,168	612,573
Net assets, end of year					<u>\$ 27,747,276</u>	<u>\$ 12,029,687</u>	<u>\$ 39,776,963</u>	<u>\$ 994,726</u>

See Notes to Financial Statements

HAINES BOROUGH

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2007

ASSETS	General	Municipal Land Disposal	National Forest Receipts	Permanent Trust	New School Construction	New School Debt Service	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 3,183,258	\$ -	\$ -	\$ 57,150	\$ 618,910	\$ -	\$ 21,401	\$ 3,880,719
Investments	5,564,324			6,035,852	6,152,274			17,752,450
Receivables	354,925	435,042		67,646		9,119	529,390	1,396,122
Due from other funds	2,949,723	635,168	462,512	226,607	1,473,682	32,162	1,603,449	7,383,303
Due from component units	179,978							179,978
Prepaid expenses	1,000						16,512	17,512
Inventory	25,594							25,594
Total assets	<u>\$ 12,258,802</u>	<u>\$ 1,070,210</u>	<u>\$ 462,512</u>	<u>\$ 6,387,255</u>	<u>\$ 8,244,866</u>	<u>\$ 41,281</u>	<u>\$ 2,170,752</u>	<u>\$ 30,635,678</u>
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts payable	\$ 126,166	\$ -	\$ -	\$ 3,084	\$ 2,958,155	\$ -	\$ 34,706	\$ 3,122,111
Accrued payroll	93,613							93,613
Accrued expenses	3,756							3,756
Due to other funds	7,215,822	226,607		451,498			351,150	8,245,077
Deferred revenue	316,025	435,042	462,512				40,823	1,254,402
Total liabilities	7,755,382	661,649	462,512	454,582	2,958,155		426,679	12,718,959
Fund Balances								
Reserved for								
Debt service						41,281	69,764	111,045
Capital projects					5,286,711		1,168,202	6,454,913
Permanent trust				5,932,673				5,932,673
Unreserved, reported in								
General fund	4,503,420							4,503,420
Special revenue funds		408,561					506,107	914,668
Total fund balances	<u>4,503,420</u>	<u>408,561</u>		<u>5,932,673</u>	<u>5,286,711</u>	<u>41,281</u>	<u>1,744,073</u>	17,916,719
Total liabilities and fund balances	<u>\$ 12,258,802</u>	<u>\$ 1,070,210</u>	<u>\$ 462,512</u>	<u>\$ 6,387,255</u>	<u>\$ 8,244,866</u>	<u>\$ 41,281</u>	<u>\$ 2,170,752</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								27,587,968
Earned revenues that are not available to pay for current-period expenditures are deferred in the funds								760,632
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds								(18,518,043)
Net assets of governmental activities								<u>\$ 27,747,276</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, 2007

	General	Municipal Land Disposal	National Forest Receipts	Permanent Trust	New School Construction	New School Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues								
Taxes								
Property	\$ 1,842,814	\$ -	\$ -	\$ -	\$ -	\$ 390,800	\$ 170,009	\$ 2,403,623
Sales	1,155,433						1,381,024	2,536,457
Intergovernmental	913,428					911,879	793,340	2,618,647
Service and admission fees	190,001							190,001
Licenses and permits	16,681							16,681
Rentals	65,791							65,791
Investment income	431,779			433,812	696,963		7,234	1,569,788
Contributions and other	64,908	536					7,973	73,417
LID payments							6,515	6,515
Payments in lieu of taxes	218,845							218,845
Total revenues	4,899,680	536		433,812	696,963	1,302,679	2,366,095	9,699,765
Expenditures								
Current								
General government	744,925	17,225		23,591			1,583	787,324
Public safety	773,192						203,887	977,079
Public works and streets	523,842							523,842
Economic development							410,743	410,743
Education	1,587,044						18,002	1,605,046
Port operations	102,636						24,081	126,717
Culture, recreation, and library	731,541							731,541
Debt service								
Principal						575,000	120,578	695,578
Interest						727,684	54,308	781,992
Capital outlay								
General government							250,214	250,214
Public safety							238,922	238,922
Public works and streets							283,496	283,496
Education					11,940,350			11,940,350
Port operations							939,121	939,121
Total expenditures	4,463,180	17,225		23,591	11,940,350	1,302,684	2,544,935	20,291,965
Excess (deficiency) of revenues over expenditures	436,500	(16,689)		410,221	(11,243,387)	(5)	(178,840)	(10,592,200)
Other Financing Sources (Uses)								
Transfers in	2,668,797						189,328	2,858,125
Transfers out	(2,689,468)			(86,307)			(82,350)	(2,858,125)
Sale of capital assets		196,199						196,199
Total other financing sources and uses	(20,671)	196,199		(86,307)			106,978	196,199
Net change in fund balances	415,829	179,510		323,914	(11,243,387)	(5)	(71,862)	(10,396,001)
Fund balances, beginning of year	4,087,591	229,051		5,608,759	16,530,098	41,286	1,815,935	28,312,720
Fund balances, end of year	\$ 4,503,420	\$ 408,561	\$ -	\$ 5,932,673	\$ 5,286,711	\$ 41,281	\$ 1,744,073	\$ 17,916,719

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, 2007

Net change in fund balances - total governmental funds	\$ (10,396,001)
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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 (\$12,252,175) exceeded depreciation (\$947,606) in the current period.	11,304,569
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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 (\$196,199) exceeded gains on sales of assets (\$0) in the current year plus loss on disposal of assets of (\$4,931).	(201,130)
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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).	(75,999)
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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.	702,851
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Change in compensated absences	2,069
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Change in net pension obligations	(62,182)
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Change in net assets of governmental activities	<u>\$ 1,274,177</u>
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See Notes to Financial Statements

HAINES BOROUGH

BALANCE SHEET - PROPRIETARY FUNDS

June 30, 2007

ASSETS	Business-type Activities - Enterprise Funds			
	Water	Sewer	Small Boat Harbor	Total
Current Assets				
Cash and cash equivalents	\$ -	\$ -	\$ 3,477,777	\$ 3,477,777
Receivables	33,697	34,743	29,201	97,641
Due from other funds	203,440	633,201	140,976	977,617
Inventory	27,800	11,716		39,516
Performance deposit		1,756		1,756
Total current assets	264,937	681,416	3,647,954	4,594,307
Restricted Assets				
Revenue bond debt service reserve				
Cash and cash equivalents	36,747	12,818		49,565
Investments		96,340		96,340
Total restricted assets	36,747	109,158		145,905
Fixed Assets				
Land	15,010	9,000		24,010
Buildings	15,764	6,811		22,575
Improvements other than buildings	4,617,314	8,995,802	2,255,285	15,868,401
Equipment			77,832	77,832
Total fixed assets	4,648,088	9,011,613	2,333,117	15,992,818
Less accumulated depreciation	2,782,806	3,625,209	624,935	7,032,950
Net fixed assets	1,865,282	5,386,404	1,708,182	8,959,868
Construction in progress	51,000		321,772	372,772
Total assets	\$ 2,217,966	\$ 6,176,978	\$ 5,677,908	\$ 14,072,852

See Notes to Financial Statements

LIABILITIES AND NET ASSETS	Business-type Activities - Enterprise Funds			
	Water	Sewer	Small Boat Harbor	Total
Current Liabilities				
Accounts payable	\$ 2,152	\$ 7,548	\$ 3,384	\$ 13,084
Loan payable - current	14,203			14,203
Bond payable - current	26,459	27,033		53,492
Bond interest payable	2,098	4,995		7,093
Deposits	7,706	10,699	16,057	34,462
Due to other funds			115,843	115,843
Total current liabilities	52,618	50,275	135,284	238,177
Noncurrent Liabilities				
Accrued vacation	4,065	4,065		8,130
Revenue bonds payable	170,800	1,427,212		1,598,012
Loan payable	198,846			198,846
Total liabilities	426,329	1,481,552	135,284	2,043,165
Net Assets				
Invested in capital assets, net of related debt	1,505,974	3,932,159	2,029,954	7,468,087
Restricted for bond reserves	36,747	109,158		145,905
Unrestricted	248,916	654,109	3,512,670	4,415,695
Total net assets	1,791,637	4,695,426	5,542,624	12,029,687
Total liabilities and net assets	<u>\$ 2,217,966</u>	<u>\$ 6,176,978</u>	<u>\$ 5,677,908</u>	<u>\$ 14,072,852</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, 2007

	Business-type Activities - Enterprise Funds			
	Small Boat			
	Water	Sewer	Harbor	Total
Operating Revenue				
Charges for services	\$ 253,112	\$ 338,098	\$ 102,230	\$ 693,440
Operating Expenses				
Salaries and benefits	95,561	98,717	56,859	251,137
Professional services	10,949	1,596	5,185	17,730
Materials and supplies	35,111	9,329	22,730	67,170
Utilities	25,362	77,877	17,308	120,547
Advertising, dues and subscriptions	275	1,979	585	2,839
Repairs and maintenance	965	2,398		3,363
Travel and training	1,704	1,429	1,997	5,130
Banking and insurance	5,198	4,035	1,480	10,713
Vehicle	4,058	3,210	1,849	9,117
Depreciation	83,011	206,033	71,821	360,865
Total operating expenses	262,194	406,603	179,814	848,611
Operating loss	(9,082)	(68,505)	(77,584)	(155,171)
Nonoperating Revenue (Expense)				
Investment income	15,314	32,145	134,312	181,771
Interest expense	(16,774)	(75,584)		(92,358)
State grants and harbor contribution			4,019,707	4,019,707
Total nonoperating revenue (expense)	(1,460)	(43,439)	4,154,019	4,109,120
Income (loss) before contributions and transfers	(10,542)	(111,944)	4,076,435	3,953,949
Contributions in aid of construction	51,000		485,669	536,669
Change in net assets	40,458	(111,944)	4,562,104	4,490,618
Net assets, beginning of year	1,751,179	4,807,370	980,520	7,539,069
Net assets, end of year	\$ 1,791,637	\$ 4,695,426	\$ 5,542,624	\$12,029,687

See Notes to Financial Statements

HAINES BOROUGH
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
For the Year Ended June 30, 2007

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Small Boat Harbor	Total
Cash Flows from Operating Activities				
Cash received from customers	\$ 251,277	\$ 334,425	\$ 91,193	\$ 676,895
Cash paid to suppliers	(95,803)	(107,279)	(72,104)	(275,186)
Cash paid to employees	(64,870)	(68,991)	(38,519)	(172,380)
Cash paid for employee benefits	(30,580)	(29,615)	(19,332)	(79,527)
Net cash transferred from (to) general fund	(19,219)	(53,949)	15,491	(57,677)
Net cash flows from operating activities	40,805	74,591	(23,271)	92,125
Cash Flows from Capital and Related Financing Activities				
State grants			3,366,336	3,366,336
Repayment of loan payable	(14,203)			(14,203)
Interest on bonds and loan payable	(16,774)	(75,584)		(92,358)
Repayment of bond payable	(25,142)	(25,635)		(50,777)
Net cash flows from capital and related financing activities	(56,119)	(101,219)	3,366,336	3,208,998
Cash Flows from Investing Activities				
Purchase of investments		(1,178)		(1,178)
Increase in restricted cash		(4,339)		(4,339)
Investment income	15,314	32,145	134,312	181,771
Net cash flows from investing activities	15,314	26,628	134,312	176,254
Net increase in cash			3,477,377	3,477,377
Cash and cash equivalents, beginning of year			400	400
Cash and cash equivalents, end of year	\$ -	\$ -	\$3,477,777	\$3,477,777

See Notes to Financial Statements

HAINES BOROUGH

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

(Continued)

For the Year Ended June 30, 2007

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Small Boat Harbor	Total
Reconciliation of operating loss to net cash flows from operating activities				
Operating loss	\$ (9,082)	\$ (68,505)	\$ (77,584)	\$ (155,171)
Adjustments to reconcile operating loss to net cash flows from operating activities				
Depreciation	83,011	206,033	71,821	360,865
Changes in operating assets and liabilities				
Receivables	(2,767)	(4,882)	(11,706)	(19,355)
Due from other funds	(19,219)	(53,949)	15,491	(57,677)
Inventory	(7,062)	(8,121)		(15,183)
Accounts payable	(5,119)	2,695	(20,969)	(23,393)
Accrued vacation	111	111	(992)	(770)
Deposits	932	1,209	668	2,809
Total adjustments	49,887	143,096	54,313	247,296
Net cash flows from operating activities	\$ 40,805	\$ 74,591	\$ (23,271)	\$ 92,125

See Notes to Financial Statements

HAINES BOROUGH

COMPONENT UNIT COMBINING STATEMENT OF NET ASSETS

June 30, 2007

ASSETS	Haines Borough School District	Sheldon Museum	Haines Borough Public Library	Non-Major Component Units	Total
Current Assets					
Cash and cash equivalents	\$ 516,368	\$ 118,372	\$ 81,103	\$ 18,646	\$ 734,489
Investments	5,493	39,477			44,970
Receivables	256,595	453	103,012		360,060
Inventory and prepaid expenses		45,685			45,685
Total current assets	778,456	203,987	184,115	18,646	1,185,204
Noncurrent Assets					
Capital assets, net	150,630	59,799			210,429
Total assets	<u>\$ 929,086</u>	<u>\$ 263,786</u>	<u>\$ 184,115</u>	<u>\$ 18,646</u>	<u>\$ 1,395,633</u>
LIABILITIES					
Current Liabilities					
Accounts payable	\$ 146,945	\$ 1,187	\$ -	\$ -	\$ 148,132
Due to governmental entity		5,708	104,818	68,182	178,708
Deferred revenue	13,992		9,928		23,920
Total current liabilities	160,937	6,895	114,746	68,182	350,760
Noncurrent Portion of Long-Term Obligations					
Accrued vacation		4,772	15,919		20,691
Net pension obligation	29,456				29,456
Total liabilities	190,393	11,667	130,665	68,182	400,907
NET ASSETS					
Invested in Capital Assets	150,630	59,799			210,429
Restricted for Museum Projects and Other		100,023	5,265		105,288
Unrestricted	588,063	92,297	48,185	(49,536)	679,009
Total net assets	738,693	252,119	53,450	(49,536)	994,726
Total liabilities and net assets	<u>\$ 929,086</u>	<u>\$ 263,786</u>	<u>\$ 184,115</u>	<u>\$ 18,646</u>	<u>\$ 1,395,633</u>

See Notes to Financial Statements

HAINES BOROUGH

COMPONENT UNIT COMBINING STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2007

	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	\$ 4,223,447	\$ 42,211	\$ 747,078	\$ (3,434,158)	\$ -	\$ -	\$ -	\$ (3,434,158)
Sheldon Museum	272,244	61,935	28,121		(182,188)			(182,188)
Haines Borough Public Library	515,810		215,381			(300,429)		(300,429)
Non-major component units	20,599						(20,599)	(20,599)
	<u>\$ 5,032,100</u>	<u>\$ 104,146</u>	<u>\$ 990,580</u>	(3,434,158)	(182,188)	(300,429)	(20,599)	(3,937,374)
General revenues								
Provided by general government				1,435,381	165,836	278,700	27,138	1,907,055
State of Alaska				2,310,962				2,310,962
Investment income				8,520	3,800	1,472	257	14,049
Contributions and other				45,439	7,704	34,076	242	87,461
Total general revenue and transfers				<u>3,800,302</u>	<u>177,340</u>	<u>314,248</u>	<u>27,637</u>	<u>4,319,527</u>
Change in net assets				366,144	(4,848)	13,819	7,038	382,153
Net assets, beginning of year				<u>372,549</u>	<u>256,967</u>	<u>39,631</u>	<u>(56,574)</u>	<u>612,573</u>
Net assets, end of year				<u>\$ 738,693</u>	<u>\$ 252,119</u>	<u>\$ 53,450</u>	<u>\$ (49,536)</u>	<u>\$ 994,726</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 economic development, port authority, public improvements, planning and zoning, and general administrative services.

Discretely Presented Component Units. The accompanying financial statements present the Borough and its component units. The Borough Assembly approves the total annual budgets of these entities and annually provides significant operating subsidies to them. In addition, the Borough levies taxes on behalf of the Haines Borough School District ("the School District"). Accordingly, the Borough is considered to be financially accountable for these entities. However, each entity has a separate governing board (the 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 21) and the combining statement of activities (page 22).

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

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

The other component units do not have 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.

National Forest 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 and related projects.

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

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.

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

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 of 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.

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 Borough 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 sales tax revenue and investment income.

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 for the general fund and special revenue funds lapse at year-end. Appropriations for capital projects and those needed to meet grant requirement lapse when the project is complete or abandoned.
- g. The Borough's legally prescribed budgetary basis of accounting is consistent with accounting principles generally accepted in the United States and, accordingly, where budgetary data are presented, the budget and actual information conform to the same basis of accounting.

The Borough Manager may establish line item expenditures within an authorized appropriation and/or transfer from within a 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, 2007, expenditures exceeded appropriations in the following departments (the legal level of budgetary control):

General fund	
Dispatch	\$ 8,368
Solid Waste	2,936
Ports	1,691
Chilkat Center	10,162
Letnikof S/D Roads	3,811
Chilkat St. Park	2,567
Riverview S/D Roads	1,650
Eagle Vista RMSA	1,865
Parks and Recreation	628
Police	21,830
Special revenue other sources	3,142
Special revenue funds	
Daycare	2
GIS grants	5,320
Highway Management Plan	19,310
Capital project funds	
Capital projects general government	420,137
Capital projects townsite	29,859
Capital projects administration	8,192
Fire Truck	182,450
PC Dock lighting	30,389
Cart/People Mover	559
Storm disaster repairs	354
Young Road Water Tank	51,000
Harbor improvements	2,926
Harbor ice house	376,972
Public Works building	109,753
Harbor electric grant	24,082
School construction	2,355,862

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

Deficit Fund Equity

The following fund had a deficit fund balance as of June 30, 2007:

Tlingit Park fund	\$ 23,885
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It is expected that this deficit 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. Majority of the cash balances are recorded in the general fund with amounts allocated to the appropriate funds.

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

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

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

Inventory – Inventory consists of fuel, parts, 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 do not 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.

In the fund financial statements, as the amounts due on the receivable contracts are not available to finance current period expenditures they are recorded as deferred revenue. 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 government wide 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 on both the government wide and fund financial statements.

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

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 in the fund financial statements at June 30, 2007, are as follows:

	General Fund	Other Governmental Funds	Total
Designated for:			
Boat Harbor development	\$ 90,098	\$ -	\$ 90,098
Medical services		180,887	180,887
Economic development		325,220	325,220
Road maintenance	24,640		24,640
Equipment	73,477		73,477
	<u>\$ 188,215</u>	<u>\$ 506,107</u>	<u>\$ 694,322</u>

Certain designations are considered restrictions in the entity wide financial statements.

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, 2007, the carrying amount of the Borough's cash balances was \$7,409,817, while the bank and other institution balances were \$7,431,279. These balances are categorized as follows:

	Carrying Amount	Bank Balance
Amount insured by the FDIC (up to \$100,000) or collateralized with securities held by the bank or other institutions in the Borough's name	\$ 6,083,326	\$ 6,083,326
Uncollateralized	1,325,241	1,347,953
Petty cash	1,250	
	<u>\$ 7,409,817</u>	<u>\$ 7,431,279</u>

Reconciliation to statement of net assets:

Cash and cash equivalents	\$ 6,682,436
Restricted cash and cash equivalents	676,060
Revenue bond future debt service accounts	49,565
Performance deposit	1,756
	<u>\$ 7,409,817</u>

Cash and cash equivalents consist of:

Cash	\$ 867,409
Cash equivalents	6,542,408
	<u>\$ 7,409,817</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	\$ 1,274,325	\$ 466,622	\$ -	\$ -	\$ 1,740,947
U.S. Government Instruments	8,721,091	4,522,818	1,300,054	253,442	14,797,405
Corporate Debt	196,282	358,362	98,415		653,059
Total debt securities	<u>\$ 10,191,698</u>	<u>\$ 5,347,802</u>	<u>\$ 1,398,469</u>	<u>\$ 253,442</u>	17,191,411
Common stocks (S&P 500					
Depository Receipts)					657,379
					<u>\$ 17,848,790</u>
Reconciliation to statement of net assets					
Investments					\$ 5,564,324
Restricted investments					12,188,126
Revenue bond future debt service					
accounts					96,340
					<u>\$ 17,848,790</u>

Note 3. Receivables and Deferred Revenue

Receivables at June 30, 2007, for the individual major funds and nonmajor funds in the aggregate, net of applicable allowances for uncollectible accounts (\$25,168 at June 30, 2007), 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	\$ 215,460	\$ -	\$ 106,375	\$ -	\$ -	\$ 33,090	\$ 354,925
Land disposal fund		418,775				16,267	435,042
Permanent trust						67,646	67,646
New School Debt Service					9,119		9,119
Water fund				33,697			33,697
Sewer fund				34,743			34,743
Small boat harbor fund				14,689		14,512	29,201
Other governmental funds	143,826	9,657			375,769	138	529,390
Total	<u>\$ 359,286</u>	<u>\$ 428,432</u>	<u>\$ 106,375</u>	<u>\$ 83,129</u>	<u>\$ 384,888</u>	<u>\$ 131,653</u>	<u>\$ 1,493,763</u>

Reconciliation to statement of net assets:

Current receivables	\$ 884,573
Restricted receivables	67,647
Noncurrent receivables	541,543
	<u>\$ 1,493,763</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)	\$ 89,245	\$	\$ 89,245
Payments in lieu of taxes		219,942	219,942
Land sale/LID receivables (including accrued interest)	444,607		444,607
Grants and contributions		500,608	500,608
Total deferred/unearned revenue for governmental funds	533,852	720,550	1,254,402
Amounts not deferred for government-wide financial statements			
Property taxes receivable	(89,245)		(89,245)
Payments in lieu of taxes		(219,942)	(219,942)
Land sales/LID receivables	(444,607)		(444,607)
Grants and contributions		(6,838)	(6,838)
Total deferred/unearned revenue for government- wide financial statements	<u>\$ -</u>	<u>\$ 493,770</u>	<u>\$ 493,770</u>

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance, June 30, 2006	Increases	Decreases	Balance, June 30, 2007
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land and improvements	\$ 651,063	\$	\$	\$ 651,063
Construction in progress – public works building		109,753		109,753
Construction in progress – school	1,413,913	11,445,169		12,859,082
Total capital assets not being depreciated	2,064,976	11,554,922		13,619,898
Other capital assets:				
Buildings	14,427,802			14,427,802
Other improvements	12,655,610	470,137	28,097	13,097,650
Furniture and equipment	3,458,435	227,116		3,685,551
Road network	4,575,965			4,575,965
Total other capital assets	35,117,812	697,253	28,097	35,786,968
Less accumulated depreciation for:				
Buildings	8,737,647	399,169		9,136,816
Other improvements	5,534,210	339,400	23,166	5,850,444
Furniture and equipment	2,961,833	94,638		3,056,471
Road network	3,660,768	114,399		3,775,167
Total accumulated depreciation	20,894,458	947,606	23,166	21,818,898
Other capital assets, net	14,223,354	(250,353)	4,931	13,968,070
Governmental activities capital assets, net	<u>\$16,288,330</u>	<u>\$ 11,304,569</u>	<u>\$ 4,931</u>	<u>\$27,587,968</u>
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land and improvements	\$ 24,010	\$ -	\$ -	\$ 24,010
Construction in progress	477,594	51,000	155,822	372,772
Total capital assets not being depreciated	501,604	51,000	155,822	396,782
Other capital assets:				
Buildings	22,575			22,575
Other improvements (including distribution and collection systems)	14,573,539	1,294,862		15,868,401
Equipment	77,832			77,832
Total other capital assets	14,673,946	1,294,862		15,968,808
Less accumulated depreciation for:				
Buildings	22,575			22,575
Other improvements (including distribution and collection systems)	6,629,880	341,439		6,971,319
Equipment	19,630	19,426		39,056
Total accumulated depreciation	6,672,085	360,865		7,032,950
Other capital assets, net	8,001,861	933,997		8,935,858
Business-type activities capital assets, net	<u>\$ 8,503,465</u>	<u>\$ 984,997</u>	<u>\$ 155,822</u>	<u>\$ 9,332,640</u>

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

Governmental activities:

General government	\$ 84,217
Public safety	57,814
Public works and streets, including depreciation of general infrastructure assets	128,415
Economic development	5,762
Education	173,679
Port operations	296,322
Culture, recreation, and library	201,397
Total depreciation expense – governmental activities	<u>\$ 947,606</u>

Business-type activities:

Water	\$ 83,011
Sewer	206,033
Harbor	71,821
Total depreciation expense – business-type activities	<u>\$ 360,865</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, 2007, the cost and accumulated depreciation associated with these assets was \$18,617,187 (including construction in progress of \$12,859,082) and \$4,446,755, 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, 2007, 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	\$ 115,000	\$ -	\$ 35,000	\$ 80,000	\$ 40,000
PC Dock bonds	890,000		80,000	810,000	85,000
Highland Estate LID #4	5,200		1,300	3,900	1,300
USDA bonds	211,843		4,133	207,710	4,202
School construction bonds	17,500,000		575,000	16,925,000	600,000
School bond premium	144,658		7,418	137,240	7,418
Total bonds and notes payable	18,866,701		702,851	18,163,850	737,920
Other liabilities:					
Compensated absences	87,548		2,069	85,479	
Net pension obligation	206,532	62,182		268,714	
Governmental activities long-term liabilities	<u>\$19,160,781</u>	<u>\$ 62,182</u>	<u>\$ 704,920</u>	<u>\$18,518,043</u>	<u>\$ 737,920</u>
<u>Business-type Activities:</u>					
Bonds and notes payable:					
Revenue bonds					
Water	\$ 222,401	\$ -	\$ 25,142	\$ 197,259	\$ 26,459
Sewer	1,479,880		25,635	1,454,245	27,033
State of Alaska DEC	227,252		14,203	213,049	14,203
Total bonds and notes payable	1,929,533		64,980	1,864,553	67,695
Other liabilities:					
Compensated absences	8,900		770	8,130	
Business-type activities long-term liabilities	<u>\$ 1,938,433</u>	<u>\$ -</u>	<u>\$ 65,750</u>	<u>\$ 1,872,683</u>	<u>\$ 67,695</u>

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

Bonds and notes payable at June 30, 2007, 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 \$137,240 at June 30, 2007)	\$ 16,925,000
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\$480,000 1989 water/sewer refunding bonds, due in annual installments of \$40,000, plus interest at 3.25%, through 2009	80,000
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\$940,000 2005 general obligation refunding bonds, due in annual installments of \$85,000 to \$120,000, plus interest at 4.0% to 5.0%, through 2015	810,000
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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, including interest at 4.75%	207,710
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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	3,900
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Total General Long-Term Debt	<u><u>\$ 18,026,610</u></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	\$ 197,259
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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	1,454,245
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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	213,049
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Total Enterprise Funds Long-Term Debt	<u><u>\$ 1,864,553</u></u>
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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. As State of Alaska funding is on a reimbursement basis, the eventual payments to be received have not been recognized in these financial statements.

The debt service annual requirements to amortize bonds and notes payable debt outstanding as of June 30, 2007, are as follows:

Governmental Activities:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	805,079	630,620	1,435,699
2013 – 2017	4,364,340	2,561,337	6,925,677
2018 – 2022	4,977,189	1,565,778	6,542,967
2023 – 2027	4,792,137	437,232	5,229,369
2028 – 2032	59,745	10,995	70,740
2033 – 2037	11,149	948	12,097
	<u>\$ 18,026,610</u>	<u>\$ 8,043,268</u>	<u>\$ 26,069,878</u>

Business-type Activities:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	79,696	75,865	155,561
2013 – 2017	314,626	329,759	644,385
2018 – 2022	319,732	262,702	582,434
2023 – 2027	320,324	185,766	506,090
2028 – 2032	412,544	93,546	506,090
2033 – 2037	129,608	6,294	135,902
	<u>\$ 1,864,553</u>	<u>\$ 1,291,703</u>	<u>\$ 3,156,256</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, 2007, were \$36,747 for the water revenue bonds and \$109,158 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 \$169,673 and the debt service requirement was \$101,218 resulting in a ratio of 1.68 for the Sewer Enterprise Fund, so the Borough was in compliance with this requirement. Net operating revenues were \$89,243 and the debt service requirement was \$55,763 resulting in a ratio of 1.60 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, P.O. 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 27.17% of annual covered payroll.

Annual Pension Cost

For the year ended June 30, 2007, the Borough's annual pension cost of \$490,982 was more than the Borough's actual contribution of \$428,800 (including a contribution by the State of Alaska of \$85,814). Accordingly, the Borough has recorded an increase in its net pension obligation of \$62,182 to a total of \$268,714 at June 30, 2007.

The actuarial assumptions included (a) investment return, net of expenses, of 8.25% per year, compounded annually, (b) health cost inflation of 9.0% per year in 2006, reducing by 0.5% per year each year through 2015, and 5.0% thereafter, (c) projected salary increases ranging from 4.0% to 9.5% per year which includes inflation, and (d) cost-of-living adjustments of 1.75% to 2.65% per year. 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, 2004	\$ 196,910	100%	\$ 0
June 30, 2005	357,357	71%	105,373
June 30, 2006	475,649	79%	206,532

Schedule of Funding Progress for the Haines Borough

Pension

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability Entry Age Normal</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, 2004	*	*	*	*	*	*
June 30, 2005	4,554,000	6,709,000	2,155,000	68%	1,543,000	140%
June 30, 2006	8,136,000	7,465,000	(671,000)	109%	1,852,000	(36%)

Postemployment Health

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability Entry Age Normal</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, 2004	*	*	*	*	*	*
June 30, 2005	5,892,000	6,860,000	2,788,000	68%	1,543,000	181%
June 30, 2006	3,482,000	8,816,000	5,334,000	40%	1,852,000	288%

* Information was not provided by pension administrator.

Funding Policy and Annual Pension Cost – PERS Tier IV defined Contribution Plan

Employees first enrolling into PERS after July 1, 2006, participate in PERS Tier IV. PERS Tier IV is a defined contribution retirement plan that includes a component of defined benefit post-employment health care. The plan requires both employer and employee contributions. Employees may make additional contributions into the plan, subject to limitations. Contribution rates are as follows:

	Police/Fire	Others
Employee Contribution	8.00%	8.00%
Employer Contribution		
Retirement	5.00%	5.00%
Health Reimbursement Arrangement*	3.00%	3.00%
Retiree Medical Plan	1.75%	1.75%
Death and Disability Benefit	0.40%	0.30%
Total employer contribution	10.15%	10.05%

*Health Reimbursement Arrangement – AS 39.30.370 requires that the employer contribute "an amount equal to three percent of the employer's average annual employee compensation." For actual remittance, this amount is calculated as a flat rate of \$43.47 per full time employee per pay period and \$0.67 per hour worked for each part time employee.

For the year ended June 30, 2007, the Haines Borough contributed \$5,424 to PERS Tier IV for retirement and retiree medical, and it contributed \$2,640 to PERS Tier IV for Health Reimbursement Arrangement on behalf of its employees. Employee contributions to the plan totaled \$6,428.

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, 2007, was as follows:

Receivable Fund	Payable Fund	Amount
General	Permanent trust	\$ 197,280
General	Small boat harbor	115,843
Land disposal	General	635,168
New school construction	General	1,473,682
Permanent trust	Land disposal	226,607
National forest receipts	General	462,512
New school debt service	General	32,162
Nonmajor governmental funds	General	1,603,449
Water	General	203,440
Sewer	General	633,201
Small boat harbor	General	140,976
Total		\$ 5,724,320

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

	Transfer In		
	General	Other	
	Fund	Governmental	Total
		Funds	
Transfer out:			
General	\$ -	\$ 131,979	\$ 131,979
Permanent trust	86,307		86,307
Other Governmental Funds	25,000		25,000
Total transfers out	<u>\$ 111,307</u>	<u>\$ 131,979</u>	<u>\$ 243,286</u>

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 Permanent Fund shall not be spent, but shall be held perpetually in trust for the benefit of the present and future generations of Borough residents.

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

Income derived from Permanent Fund investments may be used as designated by the Borough 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.

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, 2007

	Budget Amounts		Actual	Variance
	Original	Final		
Revenue				
Taxes				
Property	\$ 1,883,602	\$ 1,883,602	\$ 1,842,814	\$ (40,788)
Sales	961,000	1,074,000	1,155,433	81,433
Intergovernmental	712,336	814,887	913,428	98,541
Service and admission fees	191,032	191,032	190,001	(1,031)
Licenses and permits	12,500	12,500	16,681	4,181
Rentals	55,400	55,400	65,791	10,391
Investment income	198,020	358,020	431,779	73,759
Contributions and other	30,000	30,000	64,908	34,908
Payments in lieu of taxes	220,000	220,000	218,845	(1,155)
Total revenue	4,263,890	4,639,441	4,899,680	260,239
Expenditures				
Current				
General government	718,248	742,524	744,925	(2,401)
Public safety	756,053	756,053	773,192	(17,139)
Public works and streets	462,907	532,007	523,842	8,165
Education	1,613,044	1,615,044	1,587,044	28,000
Port operations	96,203	96,203	102,636	(6,433)
Culture, recreation, and library	762,260	769,260	731,541	37,719
Total expenditures	4,408,715	4,511,091	4,463,180	47,911
Excess (deficiency) of revenue over expenditures	(144,825)	128,350	436,500	308,150
Other financing sources (uses)				
Transfers in	111,307	111,307	111,307	
Transfers out			(131,978)	(131,978)
Total other financing sources (uses)	111,307	111,307	(20,671)	(131,978)
Net change in fund balance	(33,518)	239,657	415,829	\$ 176,172
Fund balance, beginning of year	4,087,591	4,087,591	4,087,591	
Fund balance, end of year	<u>\$ 4,054,073</u>	<u>\$ 4,327,248</u>	<u>\$ 4,503,420</u>	

See Notes to Required Supplementary Information

HAINES BOROUGH

BUDGETARY COMPARISON SCHEDULE - MUNICIPAL LAND DISPOSAL SPECIAL REVENUE FUND

For the Year Ended June 30, 2007

	Budget Amounts		Actual	Variance
	Original	Final		
Revenue				
Contributions and other	\$ 1,000	\$ 1,000	\$ 536	\$ (464)
Expenditures				
General government	32,950	32,950	17,225	15,725
Excess (deficiency) of revenue over expenditures	(31,950)	(31,950)	(16,689)	15,261
Other financing sources (uses)				
Sale of capital assets	90,000	90,000	196,199	106,199
Net change in fund balance	58,050	58,050	179,510	\$ 121,460
Fund balance, beginning of year	229,051	229,051	229,051	
Fund balance, end of year	\$ 287,101	\$ 287,101	\$ 408,561	

See Notes to Required Supplementary Information

NOTES 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.

Note 2. National Forest Receipts Special Revenue Fund

A budgetary comparison schedule for the National Forest Receipts Special Revenue Fund has not been presented as there are no budgeted or actual revenues or expenses.