

**HAINES BOROUGH**

**FINANCIAL REPORT**

**JUNE 30, 2008**

## **C O N T E N T S**

	<b>Page</b>
<b>INDEPENDENT AUDITORS' REPORT.....</b>	<b>1 and 2</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS.....</b>	<b>3 - 10</b>
<b>FINANCIAL STATEMENTS</b>	
STATEMENT OF NET ASSETS.....	11
STATEMENT OF ACTIVITIES.....	12
BALANCE SHEET - GOVERNMENTAL FUNDS.....	13
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS.....	14
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES.....	15
BALANCE SHEET - PROPRIETARY FUNDS.....	16 and 17
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS.....	18
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS.....	19 and 20
COMPONENT UNIT COMBINING STATEMENT OF NET ASSETS.....	21
COMPONENT UNIT COMBINING STATEMENT OF ACTIVITIES.....	22
NOTES TO FINANCIAL STATEMENTS.....	23 - 43
<b>REQUIRED SUPPLEMENTARY INFORMATION (FOR THE GENERAL FUND AND ALL MAJOR SPECIAL REVENUE FUNDS WITH LEGALLY ADOPTED BUDGETS)</b>	
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND.....	45
BUDGETARY COMPARISON SCHEDULE - LAND DISPOSAL FUND.....	46
BUDGETARY COMPARISON SCHEDULE - NATIONAL FOREST RECEIPTS SPECIAL REVENUE FUND.....	47
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	48



## **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, 2008, 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, 2008, 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 January 17, 2009, 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 LLP

January 17, 2009

## **HAINES BOROUGH**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2008

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, 2008 (FY08).

#### **FINANCIAL HIGHLIGHTS**

- The assets of the Haines Borough exceeded its liabilities at the close of FY08 by \$40.7 million (net assets). Of this amount, \$21.3 million represents the Borough's investment in capital assets (e.g. land, buildings, roads) net of related debt, and \$11.8 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- Total net assets increased by \$925,137, or approximately 2%. The total increase reflects an increase in business-type activities of \$116,608 and governmental activities of \$808,529.
- General fund revenues increased by \$379,952 (8%) from the previous year. The increase was due primarily to a \$448,445 (49%) increase in intergovernmental revenue.
- In FY08 general fund revenues were comprised primarily of property tax (34%), sales tax (22%), intergovernmental sources (26%), investment income (8%), payment in lieu of taxes (4%), and service fees (3%).
- During the year, the Borough paid down \$809,839 on long-term debt including \$740,649 paid down on general obligation debt and \$69,190 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 - 43)

Required Supplementary Information (pages 44 - 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 are comprised of 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 (or proprietary) 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, the new school debt service fund and the Borough Capital Improvements 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 \$40.7 million (net assets) as of June 30, 2008, compared to \$39.8 million as of June 30, 2007.

The largest portion of the Borough's net assets (52%) 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 \$18.6 million as of June 30, 2008.

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	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$16,726,746	\$22,274,758	\$4,723,082	\$4,740,212	\$21,449,828	\$27,014,970
Capital assets	30,422,387	27,587,968	9,529,321	9,332,640	39,951,708	36,920,608
Total assets	47,149,133	49,862,726	14,252,403	14,072,852	61,401,536	63,935,578
Current and other liabilities	1,862,287	4,335,327	372,037	238,177	2,234,424	4,573,504
Long-term liabilities	16,730,941	17,780,123	1,734,071	1,804,988	18,465,012	19,585,111
Total liabilities	18,593,328	22,115,450	2,106,108	2,043,165	20,699,436	24,158,615
Net assets:						
Invested in capital assets, net of related debt	13,591,120	13,486,302	7,733,957	7,468,087	21,325,077	20,954,389
Restricted	7,406,741	8,821,818	152,623	145,905	7,559,364	8,967,723
Unrestricted	7,557,944	5,439,156	4,259,715	4,415,695	11,817,659	9,854,851
Total net assets	\$28,555,805	\$27,747,276	\$12,146,295	\$12,029,687	\$40,702,100	\$39,776,963

A portion of the Borough's net assets (\$7.6 million or 19%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$11.8 million or 29%) 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 \$925,137 in FY08 compared to a \$5.8 million increase in FY07. The substantial increase in FY07 was due largely to the transfer of the harbor dock and other assets from the state, which resulted in a \$4.0 million increase to the total net assets.



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

### HAINES BOROUGH'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Revenues						
Program revenues						
Fees, fines and charges for services	\$ 176,396	\$ 190,001	\$ 710,751	\$ 693,440	\$ 887,147	\$ 883,441
Operating grants & contributions	780,598	789,077			780,598	789,077
Capital grants & contributions	1,189,390	1,488,662	28,453	4,019,707	1,217,843	5,508,369
General revenues						
Property taxes	2,339,874	2,400,182			2,339,874	2,400,182
Sales taxes	2,605,891	2,536,457			2,605,891	2,536,457
Other	2,156,298	2,244,077	175,467	181,771	2,331,765	2,425,848
	9,248,447	9,648,456	914,671	4,894,918	10,163,118	14,543,374
Expenses						
General government	1,181,664	1,191,381			1,181,664	1,191,381
Public safety	1,145,363	1,066,857			1,145,363	1,066,857
Public works and streets	929,973	725,000			929,973	725,000
Education	2,185,945	2,273,906			2,185,945	2,273,906
Economic development	462,702	416,455			462,702	416,455
Culture, recreation and library	1,049,068	932,937			1,049,068	932,937
Interest on long-term debt	747,159	774,719			747,159	774,719
Water			290,160	278,968	290,160	278,968
Sewer			512,797	482,187	512,797	482,187
Port/Harbor	451,911	456,355	281,239	179,814	733,150	636,169
Total expenses	8,153,785	7,837,610	1,084,196	940,969	9,237,981	8,778,579
Increase (decrease) in net assets before transfers	1,094,662	1,810,846	(169,525)	3,953,949	925,137	5,764,795
Transfers	(286,133)	(536,669)	286,133	536,669		
Increase (decrease) in net assets	808,529	1,274,177	116,608	4,490,618	925,137	5,764,795
Net assets - beginning of year	27,747,276	26,473,099	12,029,687	7,539,069	39,776,963	34,012,168
Net assets - end of year	<u>\$28,555,805</u>	<u>\$27,747,276</u>	<u>\$12,146,295</u>	<u>\$12,029,687</u>	<u>\$40,702,100</u>	<u>\$39,776,963</u>

**Governmental activities** – Governmental activities net assets increased by \$808,529. The most significant factor was an increase in capital grants and contributions to \$1,189,390, including \$912,929 from the state of Alaska for school debt reimbursement.

**Business-type activities** – Business-type activities increased the Borough's net assets by \$116,608. A significant factor in the increase in net assets is the \$286,133 of contributions of capital assets and transfers from the general government funds.

## 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 FY08, the Borough's governmental funds reported combined ending fund balances of \$14.8 million, a decrease of \$3.1 million (17%) 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, \$4.8 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 \$10.0 million has already been committed to the permanent benefit of Borough residents (\$6.2 million), the new school construction project (\$2.0 million), and for other restricted or designated purposes (\$1.8 million).

The general fund is the primary operating fund of the Borough. At the end of FY08, the unreserved fund balance of the general fund was \$4.8 million, up \$315,796 (7%) from the previous year. This compares to a \$415,829 (10%) increase in FY07.

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

As of the end of FY08, the enterprise fund's combined net assets were \$12.1 million, an increase of \$116,608 (1%) from the prior year. The increase breaks down between the funds as follows: \$122,078 increase in the water funds, \$17,798 decrease in the sewer funds, and a \$12,328 increase in the small boat harbor fund. The primary factor in the increase in the water fund was \$120,496 received as contributions in aid of construction from the Borough's Capital Improvement Project Fund for replacement of the Union Street water main. The decrease in the sewer fund is largely due to depreciation of capital assets largely contributed by state and federal governments.

Unrestricted net assets for the enterprise funds total \$4.3 million. Unrestricted assets for the water and sewer enterprise funds are \$245,887 and \$623,511, respectively. These funds are held as operating and repair reserves for the utilities. The small boat harbor's unrestricted net assets of \$3,390,317 is primarily comprised of funds received from the state of Alaska for deferred maintenance when ownership of the harbors was transferred to the Haines Borough.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

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

- \$40,641 increase in raw fish tax income;
- \$87,750 increase in projected investment income; and
- \$90,097 operating transfer out to the CIP fund for construction of an ice house.

Actual revenues exceeded budgeted revenues by \$298,653 primarily due to \$231,000 in PERS assistance that was not included in the budget. Another factor was sales tax revenue which came in \$75,491 over budget. Actual expenditures were over budgeted expenses by \$90,869. However, the excess expenditures were more than offset by the excess revenues.

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, 2008, amounted to \$40.0 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 \$3.0 million (8%). Governmental capital assets increased \$2.8 million (10%), while business-type capital assets increased \$0.2 million (2%).

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

- Invested \$2,907,051 in construction of a new K-12 school facility;
- Invested \$330,646 of CIP funds in resurfacing Third Avenue;
- Invested \$196,620 in engineering for replacement of the floats and electric utilities in the small boat harbor;
- Invested \$359,534 in the construction of a new public works shop;
- Invested \$211,396 of CIP funds in replacement of Union Street water and sewer mains.

*Debt administration* – As of June 30, 2008, the Borough has a total of \$19.2 million in bond and loans payable, which consisted of four general obligation bond issues (\$17.4 million), two revenue bond issues (\$1.6 million), and one loan payable to the State of Alaska (\$197,272).

The total debt decreased \$809,839 (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, 2008 the Borough experienced revenues increasing at a greater rate than expenses, enabling total net assets for governmental activities to increase \$808,529 (3%) over the previous year. Additionally, the Borough benefited from capital contributions to the enterprise funds which helped to increase the total net assets for business-type activities by \$116,608 (1%).

In FY08 property tax revenues were down 2% from the previous fiscal year due to a small reduction in the areawide mill rate. Sales tax revenues were up 3% primarily due to increased fuel costs. Investment income was down 40% due to the combined effect of lower interest rates and the decrease in investment income related to the school construction project.

The Borough continues to depend on intergovernmental revenues for a large portion of its operating expenses. In FY08 combined revenues from the state of Alaska and the federal government made up \$1.4 million (26%) of general fund revenues.

Beginning in FY09 the state of Alaska will change the PERS retirement program to a cost sharing multiple employer plan which will stabilize the Borough's contribution rate to the system and alleviate the Borough's unfunded pension obligation related to the plan.

The Borough continues to invest in its infrastructure with the aid of state and federal subsidies where possible. During the year the school construction project has approached completion and the new public works building has been completed. Also during the year significant progress has been made on the following projects which will continue into FY09: replacement of floats and electric systems in the harbor, re-surfacing of Third Avenue, installation of a new sewer forcemain on Beach Road, replacement of the Young Road wood stave water pipe, and replacement of water and sewer utilities on Union Street.

## **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, 2008

ASSETS	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Current Assets				
Cash and cash equivalents	\$ 2,155,790	\$ 3,626,649	\$ 5,782,439	\$ 847,100
Investments	5,881,351		5,881,351	46,213
Receivables	566,291	97,111	663,402	379,612
Internal balances	(809,121)	809,121		
Due from component units	164,257		164,257	
Inventory and prepaid expenses	29,144	35,802	64,946	51,757
Performance deposit		1,776	1,776	
Total current assets	7,987,712	4,570,459	12,558,171	1,324,682
Restricted Assets				
Cash and cash equivalents	2,105,563		2,105,563	
Investments	6,104,733		6,104,733	
Revenue bond debt service reserve				
Cash and cash equivalents		55,682	55,682	
Investments		96,941	96,941	
Receivables	71,938		71,938	
Noncurrent Assets				
Receivables, net of current portion	456,800		456,800	
Capital assets, net	30,422,387	9,529,321	39,951,708	173,163
Total assets	<u>\$ 47,149,133</u>	<u>\$ 14,252,403</u>	<u>\$ 61,401,536</u>	<u>\$ 1,497,845</u>
LIABILITIES				
Current Liabilities				
Accounts payable and accrued expenses	\$ 594,284	\$ 84,480	\$ 678,764	\$ 110,656
Accrued payroll	110,523		110,523	
Internal balances	(176,213)	176,213		
Accrued interest payable		7,093	7,093	
Due to primary government				152,502
Deposits		33,780	33,780	
Deferred revenue	566,969		566,969	5,034
Current portion of long-term obligations	766,824	70,471	837,295	
Total current liabilities	1,862,387	372,037	2,234,424	268,192
Noncurrent Portion of Long-Term Obligations	16,730,941	1,734,071	18,465,012	33,694
Total liabilities	18,593,328	2,106,108	20,699,436	301,886
NET ASSETS				
Invested in Capital Assets, net of related debt	13,591,120	7,733,957	21,325,077	173,163
Restricted for				
Bond reserves		152,623	152,623	
Medical services	173,267		173,267	
Capital projects	667,289		667,289	
Economic development	349,253		349,253	
Museum projects and other				101,593
Permanent trust				
Nonexpendable	6,216,932		6,216,932	
Unrestricted	7,557,944	4,259,715	11,817,659	921,203
Total net assets	28,555,805	12,146,295	40,702,100	1,195,959
Total liabilities and net assets	<u>\$ 47,149,133</u>	<u>\$ 14,252,403</u>	<u>\$ 61,401,536</u>	<u>\$ 1,497,845</u>

See Notes to Financial Statements

# HAINES BOROUGH

## STATEMENT OF ACTIVITIES For the Year Ended June 30, 2008

	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	\$ 1,181,664	\$ -	\$ 29,754	\$ 143,391	\$ (1,008,519)	\$ -	\$ (1,008,519)	\$ -
Public safety	1,145,363	2,792	122,505		(1,020,066)		(1,020,066)	
Public works and streets	929,973			121,261	(808,712)		(808,712)	
Economic development	462,702				(462,702)		(462,702)	
Education	2,185,945		482,335	912,929	(790,681)		(790,681)	
Port operations	451,911	135,154	114,220		(202,537)		(202,537)	
Culture, recreation and library	1,049,068	38,450	31,784	11,809	(967,025)		(967,025)	
Interest on long-term debt	747,159				(747,159)		(747,159)	
Total governmental activities	8,153,785	176,396	780,598	1,189,390	(6,007,401)		(6,007,401)	
Business-type Activities								
Water	290,160	269,624				(20,536)	(20,536)	
Sewer	512,797	335,101		28,453		(149,243)	(149,243)	
Small boat harbor	281,239	106,026				(175,213)	(175,213)	
Total business-type activities	1,084,196	710,751		28,453		(344,992)	(344,992)	
Total	<u>\$ 9,237,981</u>	<u>\$ 887,147</u>	<u>\$ 780,598</u>	<u>\$ 1,217,843</u>	(6,007,401)	(344,992)	(6,352,393)	
Component Units	<u>\$ 6,587,344</u>	<u>\$ 112,375</u>	<u>\$ 1,168,411</u>	<u>\$ 13,570</u>				(5,292,988)
General Revenue and Transfers								
Property taxes					2,339,874		2,339,874	
Sales taxes					2,605,891		2,605,891	
Provided by general government								1,956,778
Intergovernmental revenue not restricted to specific programs					791,128		791,128	
Investment income					928,876	175,467	1,104,343	3,378,976
Licenses and permits					30,275		30,275	17,705
Rentals					58,611		58,611	
Contributions and other					72,248		72,248	140,762
Payments in lieu of taxes					215,614		215,614	
Loss on disposal of fixed assets					59,546		59,546	
Transfers (contributions of capital assets and transfers from general government)					(286,133)	286,133		
Total general revenue and transfers					6,815,930	461,600	7,277,530	5,494,221
<b>Change in net assets</b>					<b>808,529</b>	<b>116,608</b>	<b>925,137</b>	<b>201,233</b>
Net assets, beginning of year					27,747,276	12,029,687	39,776,963	994,726
Net assets, end of year					<u>\$ 28,555,805</u>	<u>\$ 12,146,295</u>	<u>\$ 40,702,100</u>	<u>\$ 1,195,959</u>

See Notes to Financial Statements

**HAINES BOROUGH**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

June 30, 2008

ASSETS	General	Municipal Land Disposal	National Forest Receipts	Permanent Trust	New School Construction	New School Debt Service	Borough Capital Improvements	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 2,134,389	\$ -	\$ -	\$ 23,335	\$ 2,082,228	\$ -	\$ -	\$ 21,401	\$ 4,261,353
Investments	5,881,351			6,104,733					11,986,084
Receivables	339,094	400,425		71,938		9,129	71,896	202,547	1,095,029
Due from other funds	176,213	483,557	535,995	19,521	15,451	28,224	606,000	847,329	2,712,290
Due from component units	164,257								164,257
Prepaid expenses	475								475
Inventory	28,669								28,669
Total assets	<u>\$ 8,724,448</u>	<u>\$ 883,982</u>	<u>\$ 535,995</u>	<u>\$ 6,219,527</u>	<u>\$ 2,097,679</u>	<u>\$ 37,353</u>	<u>\$ 677,896</u>	<u>\$ 1,071,277</u>	<u>\$ 20,248,157</u>
LIABILITIES AND FUND BALANCES									
Liabilities									
Accounts payable	\$ 177,400	\$ 132	\$ -	\$ 2,595	\$ 70,174	\$ -	\$ 206,179	\$ 137,804	\$ 594,284
Accrued payroll	110,524								110,524
Due to other funds	3,303,803							41,394	3,345,197
Deferred revenue	313,505	400,425	535,995				4,539	143,104	1,397,568
Total liabilities	3,905,232	400,557	535,995	2,595	70,174		210,718	322,302	5,447,573
Fund Balances									
Reserved for									
Debt service						37,353		3,365	40,718
Capital projects					2,027,505		467,178	223,091	2,717,774
Permanent trust				6,216,932					6,216,932
Unreserved, reported in									
General fund	4,819,216								4,819,216
Special revenue funds		483,425						522,519	1,005,944
Total fund balances	<u>4,819,216</u>	<u>483,425</u>		<u>6,216,932</u>	<u>2,027,505</u>	<u>37,353</u>	<u>467,178</u>	<u>748,975</u>	<u>14,800,584</u>
Total liabilities and fund balances	<u>\$ 8,724,448</u>	<u>\$ 883,982</u>	<u>\$ 535,995</u>	<u>\$ 6,219,527</u>	<u>\$ 2,097,679</u>	<u>\$ 37,353</u>	<u>\$ 677,896</u>	<u>\$ 1,071,277</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									30,422,387
Earned revenues that are not available to pay for current-period expenditures are deferred in the funds									830,599
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds									<u>(17,497,765)</u>
Net assets of governmental activities									<u>\$ 28,555,805</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, 2008

	General	Municipal Land Disposal	National Forest Receipts	Permanent Trust	New School Construction	New School Debt Service	Borough Capital Improvements	Other Governmental Funds	Total Governmental Funds
Revenues									
Taxes									
Property	\$ 1,788,479	\$ -	\$ -	\$ -	\$ -	\$ 387,327	\$ -	\$ 162,260	\$ 2,338,066
Sales	1,180,491						712,903	712,497	2,605,891
Intergovernmental	1,361,873		6,179			912,929		367,865	2,648,846
Service and admission fees	176,396								176,396
Licenses and permits	30,275								30,275
Rentals	58,611								58,611
Investment income	399,274			289,359	211,043			24,436	924,112
Contributions and other	64,291	66					284	8,007	72,648
Payments in lieu of taxes	219,942								219,942
Total revenues	5,279,632	66	6,179	289,359	211,043	1,300,256	713,187	1,275,065	9,074,787
Expenditures									
Current									
General government	1,058,935	24,129		21,553				29,856	1,134,473
Public safety	833,172		3,179					239,850	1,076,201
Public works and streets	599,105								599,105
Economic development								455,951	455,951
Education	1,650,163		3,000					18,490	1,671,653
Port operations	123,985								123,985
Culture, recreation, and library	710,703								710,703
Debt service									
Principal						600,000		133,231	733,231
Interest						704,184		50,393	754,577
Capital outlay									
General government							16,284	196,329	212,613
Public works and streets							592,483	535,966	1,128,449
Education					3,470,249		20,000	10,699	3,500,948
Port operations								50,291	50,291
Culture, recreation, and library								137,669	137,669
Total expenditures	4,976,063	24,129	6,179	21,553	3,470,249	1,304,184	628,767	1,858,725	12,289,849
Excess (deficiency) of revenues over expenditures	303,569	(24,063)		267,806	(3,259,206)	(3,928)	84,420	(583,660)	(3,215,062)
Other Financing Sources (Uses)									
Transfers in	20,000			16,453				154,352	190,805
Transfers out	(7,773)						(146,579)	(36,453)	(190,805)
Sale of capital assets		98,927							98,927
Total other financing sources and uses	12,227	98,927		16,453			(146,579)	117,899	98,927
<b>Net change in fund balances</b>	<b>315,796</b>	<b>74,864</b>		<b>284,259</b>	<b>(3,259,206)</b>	<b>(3,928)</b>	<b>(62,159)</b>	<b>(465,761)</b>	<b>(3,116,135)</b>
Fund balances, beginning of year	4,503,420	408,561		5,932,673	5,286,711	41,281	529,337	1,214,736	17,916,719
Fund balances, end of year	\$ 4,819,216	\$ 483,425	\$ -	\$ 6,216,932	\$ 2,027,505	\$ 37,353	\$ 467,178	\$ 748,975	\$ 14,800,584

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, 2008

Net change in fund balances - total governmental funds	\$ (3,116,135)
--	----------------

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 (\$4,007,906) exceeded depreciation (\$1,173,487) in the current period.	2,834,419
--	-----------

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 (\$98,927) exceeded gains on sales of assets (\$59,546) in the current year.	(39,381)
---	----------

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).	109,348
--	---------

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.	740,649
--	---------

Change in compensated absences	10,915
--------------------------------	--------

Change in net pension obligations	<u>268,714</u>
-----------------------------------	----------------

Change in net assets of governmental activities	<u><u>\$ 808,529</u></u>
---	--------------------------

See Notes to Financial Statements

# HAINES BOROUGH

## BALANCE SHEET - PROPRIETARY FUNDS

June 30, 2008

ASSETS	Business-type Activities - Enterprise Funds			
	Water	Sewer	Small Boat Harbor	Total
Current Assets				
Cash and cash equivalents	\$ -	\$ -	\$ 3,626,649	\$ 3,626,649
Receivables	36,169	40,268	20,674	97,111
Due from other funds	196,790	612,331		809,121
Inventory	30,017	5,785		35,802
Performance deposit		1,776		1,776
Total current assets	262,976	660,160	3,647,323	4,570,459
Restricted Assets				
Revenue bond debt service reserve				
Cash and cash equivalents	36,747	18,935		55,682
Investments		96,941		96,941
Total restricted assets	36,747	115,876		152,623
Fixed Assets				
Land	15,010	9,000		24,010
Buildings	15,764	6,811		22,575
Improvements other than buildings	4,640,189	9,051,802	2,294,979	15,986,970
Equipment			77,832	77,832
Total fixed assets	4,670,963	9,067,613	2,372,811	16,111,387
Less accumulated depreciation	2,861,260	3,831,944	726,569	7,419,773
Net fixed assets	1,809,703	5,235,669	1,646,242	8,691,614
Construction in progress	189,462	129,852	518,393	837,707
Total assets	\$ 2,298,888	\$ 6,141,557	\$ 5,811,958	\$ 14,252,403

See Notes to Financial Statements

LIABILITIES AND NET ASSETS	Business-type Activities - Enterprise Funds			
	Water	Sewer	Small Boat Harbor	Total
Current Liabilities				
Accounts payable	\$ 2,708	\$ 16,416	\$ 65,356	\$ 84,480
Loan payable - current	14,203			14,203
Bond payable - current	27,832	28,436		56,268
Bond interest payable	2,098	4,995		7,093
Deposits	7,694	10,649	15,437	33,780
Due to other funds			176,213	176,213
Total current liabilities	54,535	60,496	257,006	372,037
Noncurrent Liabilities				
Accrued vacation	4,589	4,589		9,178
Revenue bonds payable	142,980	1,398,844		1,541,824
Loan payable	183,069			183,069
Total liabilities	385,173	1,463,929	257,006	2,106,108
Net Assets				
Invested in capital assets, net of related debt	1,631,081	3,938,241	2,164,635	7,733,957
Restricted for bond reserves	36,747	115,876		152,623
Unrestricted	245,887	623,511	3,390,317	4,259,715
Total net assets	1,913,715	4,677,628	5,554,952	12,146,295
 Total liabilities and net assets	 \$ 2,298,888	 \$ 6,141,557	 \$ 5,811,958	 \$ 14,252,403

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, 2008

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Small Boat Harbor	Total
Operating Revenue				
Charges for services	\$ 269,624	\$ 335,101	\$ 106,026	\$ 710,751
Operating Expenses				
Salaries and benefits	105,244	105,012	88,024	298,280
Professional services	13,179	8,725	9,644	31,548
Materials and supplies	40,589	6,765	35,053	82,407
Utilities	25,908	89,632	35,766	151,306
Advertising, dues and subscriptions	325	2,146	271	2,742
Repairs and maintenance	1,403	5,183		6,586
Travel and training	1,749	874	1,025	3,648
Banking and insurance	5,230	4,266	5,542	15,038
Vehicle	2,966	9,206	4,280	16,452
Depreciation	78,454	206,735	101,634	386,823
Total operating expenses	275,047	438,544	281,239	994,830
Operating loss	(5,423)	(103,443)	(175,213)	(284,079)
Nonoperating Revenue (Expense)				
Investment income	4,152	23,468	147,847	175,467
Interest expense	(15,113)	(74,253)		(89,366)
Total nonoperating revenue (expense)	(10,961)	(50,785)	147,847	86,101
Income (loss) before contributions and transfers	(16,384)	(154,228)	(27,366)	(197,978)
Contributions in aid of construction	138,462	136,430	39,694	314,586
<b>Change in net assets</b>	<b>122,078</b>	<b>(17,798)</b>	<b>12,328</b>	<b>116,608</b>
Net assets, beginning of year	1,791,637	4,695,426	5,542,624	12,029,687
Net assets, end of year	\$ 1,913,715	\$ 4,677,628	\$ 5,554,952	\$ 12,146,295

See Notes to Financial Statements

**HAINES BOROUGH**  
**STATEMENT OF CASH FLOWS -**  
**PROPRIETARY FUNDS**  
For the Year Ended June 30, 2008

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Small Boat Harbor	Total
Cash Flows from Operating Activities				
Cash received from customers	\$ 267,139	\$ 329,526	\$ 113,933	\$ 710,598
Cash paid to suppliers	(93,009)	(111,997)	(29,609)	(234,615)
Cash paid to employees	(75,252)	(80,335)	(63,377)	(218,964)
Cash paid for employee benefits	(29,468)	(24,153)	(24,647)	(78,268)
Net cash transferred from general fund	6,650	20,870	201,346	228,866
Net cash flows from operating activities	76,060	133,911	197,646	407,617
Cash Flows from Capital and Related Financing Activities				
Purchases of fixed assets	(22,875)	(49,423)	(196,621)	(268,919)
Repayment of loan payable	(15,777)			(15,777)
Interest on bonds and loan payable	(15,113)	(74,253)		(89,366)
Repayment of bonds payable	(26,447)	(26,965)		(53,412)
Net cash flows from capital and related financing activities	(80,212)	(150,641)	(196,621)	(427,474)
Cash Flows from Investing Activities				
Purchase of investments		(601)		(601)
Increase in restricted cash		(6,137)		(6,137)
Investment income	4,152	23,468	147,847	175,467
Net cash flows from investing activities	4,152	16,730	147,847	168,729
<b>Net increase in cash</b>			<b>148,872</b>	<b>148,872</b>
Cash and cash equivalents, beginning of year			3,477,777	3,477,777
Cash and cash equivalents, end of year	\$ -	\$ -	\$3,626,649	\$3,626,649

See Notes to Financial Statements

# HAINES BOROUGH

## STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

(Continued)

For the Year Ended June 30, 2008

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Small Boat Harbor	Total
Reconciliation of operating loss to net cash flows from operating activities				
Operating loss	\$ (5,423)	\$ (103,443)	\$ (175,213)	\$ (284,079)
Adjustments to reconcile operating loss to net cash flows from operating activities				
Depreciation	78,454	206,735	101,634	386,823
Changes in operating assets and liabilities				
Receivables	(2,472)	(5,525)	8,527	530
Due from other funds	6,650	20,870	201,346	228,866
Inventory	(2,217)	5,932		3,715
Accounts payable	556	8,868	61,972	71,396
Accrued vacation	524	524		1,048
Deposits	(12)	(50)	(620)	(682)
Total adjustments	81,483	237,354	372,859	691,696
Net cash flows from operating activities	<u>\$ 76,060</u>	<u>\$ 133,911</u>	<u>\$ 197,646</u>	<u>\$ 407,617</u>

See Notes to Financial Statements

# HAINES BOROUGH

## COMPONENT UNIT COMBINING STATEMENT OF NET ASSETS

June 30, 2008

ASSETS	Haines Borough School District	Sheldon Museum	Haines Borough Public Library	Non-Major Component Units	Total
Current Assets					
Cash and cash equivalents	\$ 629,721	\$ 116,405	\$ 86,317	\$ 14,657	\$ 847,100
Investments	5,217	40,996			46,213
Receivables	319,772	200	59,640		379,612
Inventory and prepaid expenses		51,757			51,757
Total current assets	954,710	209,358	145,957	14,657	1,324,682
Noncurrent Assets					
Capital assets, net	117,958	55,205			173,163
Total assets	<u>\$ 1,072,668</u>	<u>\$ 264,563</u>	<u>\$ 145,957</u>	<u>\$ 14,657</u>	<u>\$ 1,497,845</u>
LIABILITIES					
Current Liabilities					
Accounts payable	\$ 107,386	\$ 1,311	\$ 1,959	\$ -	\$ 110,656
Due to governmental entity		16,375	81,581	54,546	152,502
Deferred revenue			5,034		5,034
Total current liabilities	107,386	17,686	88,574	54,546	268,192
Noncurrent Portion of Long-Term Obligations					
Accrued vacation		6,366	10,924		17,290
Net pension obligation	16,404				16,404
Total liabilities	123,790	24,052	99,498	54,546	301,886
NET ASSETS					
Invested in Capital Assets	117,958	55,205			173,163
Restricted for Museum Projects and Other		99,483	2,110		101,593
Unrestricted	830,920	85,823	44,349	(39,889)	921,203
Total net assets	948,878	240,511	46,459	(39,889)	1,195,959
Total liabilities and net assets	<u>\$ 1,072,668</u>	<u>\$ 264,563</u>	<u>\$ 145,957</u>	<u>\$ 14,657</u>	<u>\$ 1,497,845</u>

See Notes to Financial Statements

# HAINES BOROUGH

## COMPONENT UNIT COMBINING STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2008

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Haines Borough School District	Sheldon Museum	Haines Borough Public Library	Non-Major Component Units	Total
Haines Borough School District	\$ 5,791,126	\$ 49,911	\$ 992,219	\$ 13,570	\$ (4,735,426)	\$ -	\$ -	\$ -	\$ (4,735,426)
Sheldon Museum	303,548	61,764	23,836			(217,948)			(217,948)
Haines Borough Public Library	468,656		147,106				(321,550)		(321,550)
Non-major component units	24,014	700	5,250					(18,064)	(18,064)
	<u>\$ 6,587,344</u>	<u>\$ 112,375</u>	<u>\$ 1,168,411</u>	<u>\$ 13,570</u>	<u>(4,735,426)</u>	<u>(217,948)</u>	<u>(321,550)</u>	<u>(18,064)</u>	<u>(5,292,988)</u>
General revenues									
Provided by general government					1,485,277	165,000	279,148	27,353	1,956,778
State of Alaska					3,378,976				3,378,976
Investment income					12,936	3,353	1,254	162	17,705
Contributions and other					68,422	37,987	34,157	196	140,762
Total general revenue and transfers					<u>4,945,611</u>	<u>206,340</u>	<u>314,559</u>	<u>27,711</u>	<u>5,494,221</u>
<b>Change in net assets</b>					<b>210,185</b>	<b>(11,608)</b>	<b>(6,991)</b>	<b>9,647</b>	<b>201,233</b>
Net assets, beginning of year					<u>738,693</u>	<u>252,119</u>	<u>53,450</u>	<u>(49,536)</u>	<u>994,726</u>
Net assets, end of year					<u>\$ 948,878</u>	<u>\$ 240,511</u>	<u>\$ 46,459</u>	<u>\$ (39,889)</u>	<u>\$ 1,195,959</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.

**Borough Capital Improvements** – Accounts for various capital projects, primarily funded by sales tax, that benefit the entire Borough area.

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 investment income, wage related expenses and transfers.

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

- a. During the month of March, the Borough Manager submits to the Borough Assembly a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. A minimum of two public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally enacted through passage of an ordinance.
- d. The Borough Assembly may pass ordinances during the year that amend the budget.
- e. The Borough administration may transfer amounts between 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, 2008, expenditures exceeded appropriations in the following departments (the legal level of budgetary control):

General fund	
Borough Assembly	\$ 10,405
Information Technology	1,125
Dispatch	7,610
Property Maintenance	437
Solid Waste	1,254
Letnikof S/D Roads	2,930
Eagle Vista RMSA	1,963
School District	3,119
Parks and Recreation	8,261
Police	31,042
Fire District #3	35
Special revenue funds	
Daycare	490
Emergency Local Planning	5,023
National Forest Receipts Projects	3,179
Tourism	9,971
ACMP Program	49
Community Pass Through Grants	3,320
Pool Maintenance Grants	31,784
Community Passthrough Grants	35,699
Tsirku Bridge	33
Highway Management Plan	5,470
Passenger Vessel Tax	1,950

Capital project funds	
Capital projects townsite	\$ 55,203
Covered viewing pavilion	11,809
Storm disaster repairs	48,392
Road improvements & repairs	86,186
Water tank/line – Young Road	17,966
Harbor navigation improvement	10,596
Public works building	359,534
Skateboard Park	284
School construction	97,750
Debt Service Funds	
Highland Estates	2,025
LID Mount Riley Road Electrical	29,856

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

### **Deficit Fund Equity**

The following funds had a deficit fund balance as of June 30, 2008:

LID Mount Riley Road Electrical	\$ 19,987
CIP Special Projects	1,842

It is expected that this deficit will be covered by payments from residents benefited by the LID or other general sources.

### **Use of Estimates**

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

### **Assets, Liabilities and Net Assets or Equity**

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

The Borough pools most of its cash resources of its various funds to facilitate the management of cash. The 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 the funds are 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 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, 2008, are as follows:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Designated for:			
Medical services	\$ -	\$ 173,267	\$ 173,267
Economic development		349,253	349,253
Road maintenance	25,657		25,657
Equipment	93,477		93,477
	<u>\$ 119,134</u>	<u>\$ 522,520</u>	<u>\$ 641,654</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, 2008, the carrying amount of the Borough's cash balances was \$7,945,460, while the bank and other institution balances were \$7,972,069. These balances are categorized as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Amount insured by the FDIC (up to \$100,000; increased to \$250,000 subsequent to year end) or collateralized with securities held by the bank or other institutions in the Borough's name	\$ 5,167,378	\$ 5,167,378
Uncollateralized	2,776,857	2,804,691
Petty cash	1,225	
	<u>\$ 7,945,460</u>	<u>\$ 7,972,069</u>

#### Reconciliation to statement of net assets:

Cash and cash equivalents	\$ 5,782,439
Restricted cash and cash equivalents	2,105,563
Revenue bond future debt service accounts	55,682
Performance deposit	1,776
	<u>\$ 7,945,460</u>

#### Cash and cash equivalents consist of:

Cash	\$ 853,735
Cash equivalents	7,091,725
	<u>\$ 7,945,460</u>

The cash and cash equivalents for component units other than the School District are fully insured by the FDIC. The School District had uncollateralized, uninsured deposits of \$529,617 at June 30, 2008.

## **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	\$ 3,972,973	\$ 2,005,319	\$ -	\$ -	\$ 5,978,292
U.S. Government Instruments	1,132,363	1,188,903	1,442,429	2,654	3,766,349
Corporate Debt	101,172	1,220,214	275,695	126,360	1,723,441
Total debt securities	<u>\$ 5,206,508</u>	<u>\$ 4,414,436</u>	<u>\$ 1,718,124</u>	<u>\$ 129,014</u>	11,468,082
Common stocks (S&P 500					
Depository Receipts)					614,943
					<u>\$ 12,083,025</u>
Reconciliation to statement of net assets					
Investments					\$ 5,881,351
Restricted investments					6,104,733
Revenue bond future debt service					
accounts					96,941
					<u>\$ 12,083,025</u>

### Note 3. Receivables and Deferred Revenue

Receivables at June 30, 2008, for the individual major funds and nonmajor funds in the aggregate, net of applicable allowances for uncollectible accounts (\$25,168 at June 30, 2008), 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	\$ 216,119	\$ -	\$ 106,375	\$ -	\$ -	\$ 16,600	\$ 339,094
Land disposal fund		379,394				21,031	400,425
Permanent trust						71,938	71,938
New School Debt Service					9,129		9,129
Borough Capital Improvements	71,896						71,896
Water fund				36,169			36,169
Sewer fund				40,268			40,268
Small boat harbor fund				13,738		6,936	20,674
Other governmental funds	71,895	4,399			126,253		202,547
Total	<u>\$ 359,910</u>	<u>\$ 383,793</u>	<u>\$ 106,375</u>	<u>\$ 90,125</u>	<u>\$ 135,382</u>	<u>\$ 116,505</u>	<u>\$ 1,192,140</u>

Reconciliation to statement of net assets:

Current receivables	\$ 663,402
Restricted receivables	71,938
Noncurrent receivables	456,800
	<u>\$ 1,192,140</u>

All receivables other than land sale/LID and revolving loan contracts are expected to be collected within one year. Land sale/LID contracts are to be collected over various lives and interest is charged at 10%. The current portion of these contracts is approximately \$50,000. Revolving loan contracts are five year contracts collected at maturity (expected to be during the year ended June 30, 2009), 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:

	Unavailable	Unearned	Total
Property taxes receivable (general fund)	\$ 91,053	\$ -	\$ 91,053
Payments in lieu of taxes		215,614	215,614
Land sale/LID receivables (including accrued interest)	404,824		404,824
Grants and contributions		686,077	686,077
Total deferred/unearned revenue for governmental funds	495,877	901,691	1,397,568
Amounts not deferred for government-wide financial statements			
Property taxes receivable	(91,053)		(91,053)
Payments in lieu of taxes		(215,614)	(215,614)
Land sales/LID receivables	(404,824)		(404,824)
Passenger vessel excise tax		(112,270)	(112,270)
Grants and contributions		(6,838)	(6,838)
Total deferred/unearned revenue for government- wide financial statements	\$ -	\$ 566,969	\$ 566,969

## Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balance, June 30, 2007	Increases	Transfers	Balance, June 30, 2008
<b><u>Governmental activities:</u></b>				
Capital assets not being depreciated:				
Land and improvements	\$ 651,063	\$ -	\$ -	\$ 651,063
Construction in progress – public works building	109,753	359,534	(469,287)	
Construction in progress – school	12,859,082	2,907,051	(15,766,133)	
Total capital assets not being depreciated	13,619,898	3,266,585	(16,235,420)	651,063
Other capital assets:				
Buildings	14,427,802		16,235,420	30,663,222
Other improvements	13,097,650			13,097,650
Furniture and equipment	3,685,551	410,675		4,096,226
Road network	4,575,965	330,646		4,906,611
Total other capital assets	35,786,968	741,321	16,235,420	52,763,709
Less accumulated depreciation for:				
Buildings	9,136,816	541,893		9,678,709
Other improvements	5,850,444	360,330		6,210,774
Furniture and equipment	3,056,471	152,733		3,209,204
Road network	3,775,167	118,531		3,893,698
Total accumulated depreciation	21,818,898	1,173,487		22,992,385
Other capital assets, net	13,968,070	(432,166)	16,235,420	29,771,324
Governmental activities capital assets, net	<u>\$27,587,968</u>	<u>\$ 2,834,419</u>	<u>\$ -</u>	<u>\$30,422,387</u>
<b><u>Business-type activities:</u></b>				
Capital assets not being depreciated:				
Land and improvements	\$ 24,010	\$ -	\$ -	\$ 24,010
Construction in progress	372,772	464,935		837,707
Total capital assets not being depreciated	396,782	464,935		861,717
Other capital assets:				
Buildings	22,575			22,575
Other improvements (including distribution and collection systems)	15,868,401	118,569		15,986,970
Equipment	77,832			77,832
Total other capital assets	15,968,808	118,569		16,087,377
Less accumulated depreciation for:				
Buildings	22,575			22,575
Other improvements (including distribution and collection systems)	6,976,880	372,958		7,349,838
Equipment	33,495	13,865		47,360
Total accumulated depreciation	7,032,950	386,823		7,419,773
Other capital assets, net	8,935,858	(268,254)		8,667,604
Business-type activities capital assets, net	<u>\$ 9,332,640</u>	<u>\$ 196,681</u>	<u>\$ -</u>	<u>\$ 9,529,321</u>

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

**Governmental activities:**

General government	\$ 110,008
Public safety	69,584
Public works and streets, including depreciation of general infrastructure assets	139,039
Economic development	5,762
Education	331,070
Port operations	317,329
Culture, recreation, and library	200,695
Total depreciation expense – governmental activities	<u>\$ 1,173,487</u>

**Business-type activities:**

Water	\$ 78,454
Sewer	206,735
Harbor	101,634
Total depreciation expense – business-type activities	<u>\$ 386,823</u>

The Borough owns the land and buildings used by the School District and records the land, buildings, and certain equipment as part of governmental activity capital assets. At June 30, 2008, the cost and accumulated depreciation associated with these assets was \$21,934,913 and \$4,777,825, respectively.

At June 30, 2008, the Borough had an outstanding contract for the construction of the school for approximately \$15,826,000 with a remaining commitment of approximately \$1,727,000.

The Borough also had an outstanding contract for installation of the Young Road Water Tank of approximately \$1,120,000.

## 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, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
<b><u>Governmental Activities:</u></b>					
Bonds and notes payable:					
1989 Water/Sewer bonds	\$ 80,000	\$ -	\$ 40,000	\$ 40,000	\$ 40,000
PC Dock bonds	810,000		85,000	725,000	90,000
Highland Estate LID #4	3,900		3,900		
USDA bonds	207,710		4,331	203,379	4,406
School construction bonds	16,925,000		600,000	16,325,000	625,000
School bond premium	137,240		7,418	129,822	7,418
Total bonds and notes payable	18,163,850		740,649	17,423,201	766,824
Other liabilities:					
Compensated absences	85,479		10,915	74,564	
Net pension obligation	268,714		268,714		
Governmental activities long-term liabilities	<u>\$18,518,043</u>	<u>\$ -</u>	<u>\$ 1,020,278</u>	<u>\$17,497,765</u>	<u>\$ 766,824</u>
<b><u>Business-type Activities:</u></b>					
Bonds and notes payable:					
Revenue bonds					
Water	\$ 197,259	\$ -	\$ 26,447	\$ 170,812	\$ 27,832
Sewer	1,454,245		26,965	1,427,280	28,436
State of Alaska DEC	213,049		15,778	197,272	14,203
Total bonds and notes payable	1,864,553		69,190	1,795,364	70,471
Other liabilities:					
Compensated absences	8,130	1,048		9,178	
Business-type activities long-term liabilities	<u>\$ 1,872,683</u>	<u>\$ 1,048</u>	<u>\$ 69,190</u>	<u>\$ 1,804,542</u>	<u>\$ 70,471</u>

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

Bonds and notes payable at June 30, 2008, 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 \$129,822 at June 30, 2008)	\$ 16,325,000
---	---------------

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

\$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	725,000
---	---------

Bonds payable to the United States Department of Agriculture used for construction of new library, due in semi-annual installments of \$7,074 through September 6, 2032, including interest at 4.75%	203,379
--	---------

Total General Long-Term Debt	<u><u>\$ 17,293,379</u></u>
------------------------------	-----------------------------

**Business-type Activities:**

\$450,000 1994 water revenue bonds, due in semi-annual installments of \$18,117, including interest at 5.125%, through 2014	\$ 170,812
---	------------

\$1,700,000 1994 sewer revenue bonds, due in semi-annual installments of \$50,609, including interest at 5.125%, through 2033	1,427,280
---	-----------

Loan from the State of Alaska Department of Environmental Conservation, due in annual principal installments of \$14,203, plus interest at 2.5%, through 2022	197,272
---	---------

Total Enterprise Funds Long-Term Debt	<u><u>\$ 1,795,364</u></u>
---------------------------------------	----------------------------

In conjunction with the issuance of the above school construction bonds, the State of Alaska, Department of Education and Early Development has approved the project for a 70% reimbursement rate from the State of Alaska. 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, 2008, are as follows:

**Governmental Activities:**

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 759,406	\$ 724,418	\$ 1,483,824
2010	744,619	693,980	1,438,599
2011	779,844	663,355	1,443,199
2012	805,079	630,620	1,435,699
2013	840,325	596,732	1,437,057
2014 – 2018	4,440,765	2,356,487	6,797,252
2019 – 2023	5,183,994	1,357,458	6,541,452
2024 – 2028	3,679,426	256,978	3,936,404
2029 – 2033	59,921	10,819	70,740
	<u>\$ 17,293,379</u>	<u>\$ 7,290,847</u>	<u>\$ 24,584,226</u>

**Business-type Activities:**

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	83,096	72,110	155,206
2014 – 2018	290,585	315,802	606,387
2019 – 2023	316,864	248,017	564,881
2024 – 2028	336,950	169,140	506,090
2029 – 2033	433,958	72,132	506,090
2034 – 2038	33,887	866	34,753
	<u>\$ 1,795,364</u>	<u>\$ 1,202,417</u>	<u>\$ 2,997,781</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, 2008, were \$36,747 for the water revenue bonds and \$115,876 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 \$126,760 and the debt service requirement was \$101,218 resulting in a ratio of 1.25 for the Sewer Enterprise Fund, so the Borough was in compliance with this requirement. Net operating revenues were \$77,183 and the debt service requirement was \$55,408 resulting in a ratio of 1.39 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 35.52% of annual covered payroll.

### **Annual Pension Cost**

For the year ended June 30, 2008, the Borough's annual pension cost of approximately \$444,000 was more than the Borough's actual contribution of \$359,652 (including a contribution by the State of Alaska of \$230,682). Accordingly, the Borough has recorded an increase in its net pension obligation of \$84,348 to a total of \$353,062 at June 30, 2008. However, as the State of Alaska changed the plan to a cost sharing multiple employer plan during the year ended June 30, 2008, with an effective date of July 1, 2008, all prior pension obligations have been eliminated.

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**

Information not presented due to change to multiple employer cost sharing plan.

### **Schedule of Funding Progress for the Haines Borough**

Information not presented due to change to multiple employer cost sharing plan.

### **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:

	<u>Police/Fire</u>	<u>Others</u>
Employee Contribution	<u>8.00%</u>	<u>8.00%</u>
Employer Contribution		
Retirement	5.00%	5.00%
Health Reimbursement Arrangement*	3.00%	3.00%
Retiree Medical Plan	0.99%	0.99%
Death and Disability Benefit	1.33%	0.58%
Unfunded benefit liability	<u>11.68%</u>	<u>12.43%</u>
Total employer contribution	<u>22.00%</u>	<u>22.00%</u>

\*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 \$58.89 per full time employee per pay period and \$0.98 per hour worked for each part time employee.

For the year ended June 30, 2008, the Haines Borough contributed \$45,897 to PERS Tier IV. Employee contributions to the plan totaled \$32,072.

## 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, 2008, was as follows:

Receivable Fund	Payable Fund	Amount
General	Small boat harbor	\$ 176,213
General Fund	Nonmajor governmental funds	41,394
Land disposal	General	483,557
New school construction	General	15,451
Permanent trust	General	19,521
National forest receipts	General	535,995
New school debt service	General	28,224
Borough capital improvements	General	606,000
Nonmajor governmental funds	General	847,329
Water	General	196,790
Sewer	General	612,331

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

	Transfer In			Total
	General Fund	Permanent Trust	Other Governmental Funds	
Transfer out:				
General	\$ -	\$ -	\$ 7,773	\$ 7,773
Borough Capital Improvements			146,579	146,579
Other Governmental Funds	20,000	16,453		36,453
	<u>\$ 20,000</u>	<u>\$ 16,453</u>	<u>\$ 154,352</u>	<u>\$ 190,805</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, 2008

	Budget Amounts		Actual	Variance
	Original	Final		
Revenue				
Taxes				
Property	\$ 1,791,650	\$ 1,791,650	\$ 1,788,479	\$ (3,171)
Sales	1,105,000	1,105,000	1,180,491	75,491
Intergovernmental	1,087,779	1,128,420	1,361,873	233,453
Service and admission fees	185,850	185,850	176,396	(9,454)
Licenses and permits	27,000	27,000	30,275	3,275
Rentals	55,400	55,400	58,611	3,211
Investment income	337,270	425,020	399,274	(25,746)
Contributions and other	35,000	42,639	64,291	21,652
Payments in lieu of taxes	220,000	220,000	219,942	(58)
Total revenue	4,844,949	4,980,979	5,279,632	298,653
Expenditures				
Current				
General government	806,560	879,500	1,058,935	(179,435)
Public safety	789,151	824,214	833,172	(8,958)
Public works and streets	551,295	604,081	599,105	4,976
Education	1,647,044	1,647,044	1,650,163	(3,119)
Port operations	126,995	146,853	123,985	22,868
Culture, recreation, and library	779,002	783,502	710,703	72,799
Total expenditures	4,700,047	4,885,194	4,976,063	(90,869)
Excess (deficiency) of revenue over expenditures	144,902	95,785	303,569	207,784
Other financing sources (uses)				
Transfers in	20,000	20,000	20,000	
Transfers out		(90,097)	(7,773)	82,324
Total other financing sources (uses)	20,000	(70,097)	12,227	82,324
<b>Net change in fund balance</b>	<b>164,902</b>	<b>25,688</b>	<b>315,796</b>	<b>\$ 290,108</b>
Fund balance, beginning of year	4,503,420	4,503,420	4,503,420	
Fund balance, end of year	\$ 4,668,322	\$ 4,529,108	\$ 4,819,216	

See Notes to Required Supplementary Information

# HAINES BOROUGH

## BUDGETARY COMPARISON SCHEDULE - MUNICIPAL LAND DISPOSAL FUND

For the Year Ended June 30, 2008

	Budget Amounts		Actual	Variance
	Original	Final		
Revenue				
Contributions and other	\$ -	\$ -	\$ 66	\$ 66
Expenditures				
General government	54,214	54,214	24,129	30,085
Excess (deficiency) of revenue over expenditures	(54,214)	(54,214)	(24,063)	(30,151)
Other financing sources (uses)				
Sale of capital assets	90,000	90,000	98,927	(8,927)
<b>Net change in fund balance</b>	<b>35,786</b>	<b>35,786</b>	<b>74,864</b>	<b>\$ (39,078)</b>
Fund balance, beginning of year	408,561	408,561	408,561	
Fund balance, end of year	\$ 444,347	\$ 444,347	\$ 483,425	

See Notes to Required Supplementary Information



## HAINES BOROUGH

### BUDGETARY COMPARISON SCHEDULE - NATIONAL FOREST RECEIPTS SPECIAL REVENUE FUND

For the Year Ended June 30, 2008

	Budget Amounts		Actual	Variance
	Original	Final		
Revenue				
Intergovernmental	\$ 3,000	\$ 3,000	\$ 6,179	\$ 3,179
Expenditures				
Public safety			3,179	(3,179)
Education	3,000	3,000	3,000	
Excess (deficiency) of revenue over expenditures				
<b>Net change in fund balance</b>				<u><u>\$ -</u></u>
Fund balance, beginning of year				
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	

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.