

HAINES BOROUGH

FINANCIAL REPORT

JUNE 30, 2009

C O N T E N T S

	Page
INDEPENDENT AUDITORS' REPORT.....	1 and 2
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3 - 10
FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS.....	11
STATEMENT OF ACTIVITIES.....	12
BALANCE SHEET - GOVERNMENTAL FUNDS.....	13
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS.....	14
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES.....	15
BALANCE SHEET - PROPRIETARY FUNDS.....	16 and 17
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS.....	18
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS.....	19 and 20
COMPONENT UNIT COMBINING STATEMENT OF NET ASSETS.....	21
COMPONENT UNIT COMBINING STATEMENT OF ACTIVITIES.....	22
NOTES TO FINANCIAL STATEMENTS.....	23 - 42
REQUIRED SUPPLEMENTARY INFORMATION (FOR THE GENERAL FUND AND ALL MAJOR SPECIAL REVENUE FUNDS WITH LEGALLY ADOPTED BUDGETS)	
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND.....	44
BUDGETARY COMPARISON SCHEDULE - LAND DISPOSAL FUND.....	45
BUDGETARY COMPARISON SCHEDULE - NATIONAL FOREST RECEIPTS SPECIAL REVENUE FUND.....	46
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	47



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, 2009, 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, 2009, 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 March 8, 2010, 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 44 to 47 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.

March 8, 2010

HAINES BOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

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, 2009 (FY09).

FINANCIAL HIGHLIGHTS

- The assets of the Haines Borough exceeded its liabilities at the close of FY09 by \$44.5 million (net assets). Of this amount, \$25.1 million represents the Borough's investment in capital assets (e.g. land, buildings, roads) net of related debt, and \$11.4 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- Total net assets increased by \$3.8 million, or approximately 9%. The total increase reflects an increase in business-type activities of \$1.9 million and governmental activities of \$1.8 million.
- General fund revenues increased by \$310,943 (6%) from the previous year.
- In FY09 general fund revenues were comprised primarily of property tax (34%), sales tax (22%), intergovernmental sources (25%), investment income (5%), payment in lieu of taxes (6%), and service fees (4%).
- During the year, the Borough paid down \$979,190 on long-term debt including \$766,585 paid down on general obligation debt and \$212,605 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 - 47)

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, special capital projects, 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 \$44.5 million (net assets) as of June 30, 2009, compared to \$40.7 million as of June 30, 2008.

The largest portion of the Borough's net assets (56%) 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 \$18.2 million as of June 30, 2009.

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	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 16,821,802	\$ 16,726,746	\$ 4,257,380	\$ 4,723,082	\$ 21,079,182	\$ 21,449,828
Capital assets	31,667,519	30,422,387	11,642,888	9,529,321	43,310,407	39,951,708
Total assets	48,489,321	47,149,133	15,900,268	14,252,403	64,389,589	61,401,536
Current and other liabilities	2,129,315	1,862,287	257,572	372,037	2,386,887	2,234,324
Long-term liabilities	15,979,142	16,730,941	1,547,822	1,734,071	17,526,964	18,465,012
Total liabilities	18,108,457	18,593,228	1,805,394	2,106,108	19,913,851	20,699,336
Net assets:						
Invested in capital assets, net of related debt	15,011,275	13,591,120	10,059,329	7,733,957	25,070,604	21,325,077
Restricted	7,845,576	7,406,741	112,666	152,623	7,958,242	7,559,364
Unrestricted	7,524,013	7,557,944	3,922,879	4,259,715	11,446,892	11,817,659
Total net assets	<u>\$ 30,380,864</u>	<u>\$ 28,555,805</u>	<u>\$ 14,094,874</u>	<u>\$ 12,146,295</u>	<u>\$ 44,475,738</u>	<u>\$ 40,702,100</u>

A portion of the Borough's net assets (\$8.0 million or 18%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$11.4 million or 26%) 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 \$3,773,638 in FY09 compared to a \$925,137 increase in FY08.

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	
	2009	2008	2009	2008	2009	2008
Revenues						
Program revenues						
Fees, fines, and charges for services	\$ 218,899	\$ 176,396	\$ 795,274	\$ 710,751	\$ 1,014,173	\$ 887,147
Operating grants and contributions	970,035	780,598			970,035	780,598
Capital grants and contributions	4,977,454	1,189,390		28,453	4,977,454	1,217,843
General revenues						
Property taxes	2,359,686	2,339,874			2,359,686	2,339,874
Sales taxes	2,708,063	2,605,891			2,708,063	2,605,891
Other	1,979,376	2,156,298	53,507	175,467	2,032,883	2,331,765
Total revenues	13,213,513	9,248,447	848,781	914,671	14,062,294	10,163,118
Expenses						
General government	1,904,141	1,181,664			1,904,141	1,181,664
Public safety	1,082,766	1,145,363			1,082,766	1,145,363
Public works and streets	1,002,075	929,973			1,002,075	929,973
Education	2,356,781	2,185,945			2,356,781	2,185,945
Economic development	471,438	462,702			471,438	462,702
Culture, recreation, and library	1,232,999	1,049,068			1,232,999	1,049,068
Interest on long-term debt	717,574	747,159			717,574	747,159
Water			317,747	290,160	317,747	290,160
Sewer			497,507	512,797	497,507	512,797
Small boat harbor	426,546	451,911	279,082	281,239	705,628	733,150
Total expenses	9,194,320	8,153,785	1,094,336	1,084,196	10,288,656	9,237,981
Increase (decrease) in net assets before transfers	4,019,193	1,094,662	(245,555)	(169,525)	3,773,638	925,137
Transfers	(2,194,134)	(286,133)	2,194,134	286,133		
Increase in net assets	1,825,059	808,529	1,948,579	116,608	3,773,638	925,137
Net assets - beginning of year	28,555,805	27,747,276	12,146,295	12,029,687	40,702,100	39,776,963
Net assets - end of year	\$ 30,380,864	\$ 28,555,805	\$ 14,094,874	\$ 12,146,295	\$ 44,475,738	\$ 40,702,100

Governmental activities – Governmental activities net assets increased by \$1,825,059. The most significant factor was an increase in capital grants and contributions to \$4,977,454, including \$913,279 from the State of Alaska for school debt reimbursement.

Business-type activities – Business-type activities increased the Borough's net assets by \$1,948,579. A significant factor in the increase in net assets is the \$2,194,134 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 FY09, the Borough's governmental funds reported combined ending fund balances of \$14.3 million, a decrease of \$490,769 (3%) 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, \$5.4 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 \$8.9 million has already been committed to the permanent benefit of Borough residents (\$6.4 million) and for other restricted or designated purposes (\$2.5 million).

The general fund is the primary operating fund of the Borough. At the end of FY09, the unreserved fund balance of the general fund was \$5.4 million, up \$551,356 (11%) from the previous year. This compares to a \$315,796 (7%) increase in FY08.

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

As of the end of FY09, the enterprise fund's combined net assets were \$14.1 million, an increase of \$1,948,579 (16%) from the prior year. The increase breaks down between the funds as follows: \$942,986 increase in the water funds, \$202,922 increase in the sewer funds, and an \$802,671 increase in the small boat harbor fund. The primary factor in the increase in the water fund was \$937,595 received as contributions in aid of construction from the Borough's Capital Improvement Project Fund for replacement of the Young Road water main. The primary factor in the increase in the harbor fund was \$922,238 received as contributions in aid of construction from the Borough's Capital Improvement Project Fund for replacement of the downtown boat harbor float.

Unrestricted net assets for the enterprise funds total \$3.9 million. Unrestricted net assets for the water and sewer enterprise funds are \$186,401 and \$724,226, respectively. These funds are held as operating and repair reserves for the utilities. The small boat harbor's unrestricted net assets of \$3,012,252 are 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:

- \$481,763 increase in intergovernmental revenue;
- \$127,197 increase in payments in lieu of taxes; and
- \$150,000 increase to education expenses.

Actual revenues exceeded budgeted revenues by \$168,081 primarily due to receipt of more sales tax revenue than budgeted. Actual expenditures were under budgeted expenses by \$146,937.

Actual revenues in the general operating budget, as reflected in the financial statements, do not include transfers from other funds.

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, 2009, amounted to \$43.3 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 \$3.4 million (8%). Governmental capital assets increased \$1.2 million (4%), while business-type capital assets increased \$2.1 million (22%).

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

- Invested \$608,552 in repaving of downtown roads;
- Invested \$1,227,694 in engineering for replacement of the floats and electric utilities in the small boat harbor;
- Invested \$849,812 in replacing Young Road water line and water tank;
- Invested \$586,135 in replacement of Beach Road and Union Street water and sewer mains.

Debt administration – As of June 30, 2009, the Borough has a total of \$18.1 million in bonds and loans payable, which consisted of three general obligation bond issues (\$16.5 million), one revenue bond issue (\$1.4 million), and one loan payable to the State of Alaska (\$184,643).

The total debt decreased \$979,190 (5%) 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, 2009, the Borough experienced revenues increasing at a greater rate than expenses, enabling total net assets for governmental activities to increase \$1,825,059 (6%) 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 \$1,948,579 (16%).

In FY09, general fund sales tax revenues were up \$102,172, or 4%, from the previous fiscal year. This upward trend is expected to reverse in the near future as sales tax revenues drop off following the national economic downturn. Some indications of this downward trend have been evident in the 2009 summer tourism season. In FY09, investment income was down 52% due to the effect of lower interest rates.

The Borough continues to depend on intergovernmental revenues for a large portion of its operating expenses. In FY09, combined revenues from the State of Alaska and the federal government made up \$1.9 million (26%) of the Borough's general revenue.

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 was completed. Also during the year, significant progress has been made on the following projects which will continue into FY10: replacement of floats and electric systems in the harbor, re-surfacing of several downtown roads, and replacing a water line and tank on Young Road.

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, 2009

ASSETS	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Current Assets				
Cash and cash equivalents	\$ 1,716,127	\$ 3,214,358	\$ 4,930,485	\$ 1,047,861
Investments	5,704,674		5,704,674	45,632
Receivables	2,280,130	103,986	2,384,116	257,935
Internal balances	(782,208)	782,208		
Due from component units	59,399		59,399	
Inventory and prepaid expenses	34,209	37,692	71,901	53,298
Performance deposit		6,470	6,470	
Total current assets	9,012,331	4,144,714	13,157,045	1,404,726
Restricted Assets				
Cash and cash equivalents	930,279		930,279	
Investments	6,309,387		6,309,387	
Revenue bond debt service reserve				
Investments		112,666	112,666	
Receivables	73,484		73,484	
Noncurrent Assets				
Receivables, net of current portion	496,321		496,321	
Capital assets, net	31,667,519	11,642,888	43,310,407	158,645
Total assets	<u>\$ 48,489,321</u>	<u>\$ 15,900,268</u>	<u>\$ 64,389,589</u>	<u>\$ 1,563,371</u>
LIABILITIES				
Current Liabilities				
Accounts payable and accrued expenses	\$ 858,424	\$ 28,893	\$ 887,317	\$ 81,975
Accrued payroll	124,518		124,518	
Internal balances	(146,195)	146,195		
Accrued interest payable		4,390	4,390	
Due to primary government				59,399
Deposits		33,979	33,979	
Deferred revenue	540,530		540,530	6,773
Current portion of long-term obligations	752,038	44,115	796,153	
Total current liabilities	2,129,315	257,572	2,386,887	148,147
Noncurrent Portion of Long-Term Obligations	15,979,142	1,547,822	17,526,964	17,394
Total liabilities	18,108,457	1,805,394	19,913,851	165,541
NET ASSETS				
Invested in Capital Assets, net of related debt	15,011,275	10,059,329	25,070,604	158,645
Restricted for				
Bond reserves		112,666	112,666	
Medical services	174,690		174,690	
Capital projects	883,502		883,502	
Economic development	380,674		380,674	
Museum projects and other				100,593
Permanent trust				
Nonexpendable	6,406,710		6,406,710	
Unrestricted	7,524,013	3,922,879	11,446,892	1,138,592
Total net assets	<u>30,380,864</u>	<u>14,094,874</u>	<u>44,475,738</u>	<u>1,397,830</u>
Total liabilities and net assets	<u>\$ 48,489,321</u>	<u>\$ 15,900,268</u>	<u>\$ 64,389,589</u>	<u>\$ 1,563,371</u>

See Notes to Financial Statements

HAINES BOROUGH

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2009

		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
	Expenses							
Primary Government								
Governmental Activities								
General government	\$ 1,904,141	\$ -	\$ 81,206	\$ 861,987	\$ (960,948)	\$ -	\$ (960,948)	\$ -
Public safety	1,082,766	2,767	119,936		(960,063)		(960,063)	
Public works and streets	1,002,075			1,809,496	807,421		807,421	
Economic development	471,438				(471,438)		(471,438)	
Education	2,356,781		553,482	913,279	(890,020)		(890,020)	
Port operations	426,546	178,178	215,411	1,046,938	1,013,981		1,013,981	
Culture, recreation and library	1,232,999	37,954		345,754	(849,291)		(849,291)	
Interest on long-term debt	717,574				(717,574)		(717,574)	
Total governmental activities	9,194,320	218,899	970,035	4,977,454	(3,027,932)		(3,027,932)	
Business-type Activities								
Water	317,747	318,270				523	523	
Sewer	497,507	361,932				(135,575)	(135,575)	
Small boat harbor	279,082	115,072				(164,010)	(164,010)	
Total business-type activities	1,094,336	795,274				(299,062)	(299,062)	
Total	<u>\$ 10,288,656</u>	<u>\$ 1,014,173</u>	<u>\$ 970,035</u>	<u>\$ 4,977,454</u>	(3,027,932)	(299,062)	(3,326,994)	
Component Units	<u>\$ 6,583,207</u>	<u>\$ 132,039</u>	<u>\$ 1,153,629</u>	<u>\$ 35,633</u>				(5,261,906)
General Revenue and Transfers								
Property taxes					2,359,686		2,359,686	
Sales taxes					2,708,063		2,708,063	
Provided by general government								2,054,443
Intergovernmental revenue not restricted to specific programs					814,942	1,008	815,950	3,302,678
Investment income					523,744	52,499	576,243	4,107
Licenses and permits					23,144		23,144	
Rentals					73,707		73,707	
Contributions and other					74,580		74,580	102,549
Payments in lieu of taxes					491,349		491,349	
Loss on disposal of fixed assets					(22,090)		(22,090)	
Transfers (contributions of capital assets and transfers from general government)					(2,194,134)	2,194,134		
Total general revenue and transfers					4,852,991	2,247,641	7,100,632	5,463,777
Change in net assets					1,825,059	1,948,579	3,773,638	201,871
Net assets, beginning of year					28,555,805	12,146,295	40,702,100	1,195,959
Net assets, end of year					<u>\$ 30,380,864</u>	<u>\$ 14,094,874</u>	<u>\$ 44,475,738</u>	<u>\$ 1,397,830</u>

See Notes to Financial Statements

HAINES BOROUGH

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2009

ASSETS	General	Municipal Land Disposal	National Forest Receipts	Permanent Trust	New School Construction	New School Debt Service	Special Capital Projects	Borough Capital Improvements	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 1,694,826	\$ -	\$ -	\$ 25,667	\$ 904,612	\$ -	\$ -	\$ -	\$ 21,301	\$ 2,646,406
Investments	5,704,674			6,309,387						12,014,061
Receivables	342,685	439,946		73,484			1,831,453	67,332	95,035	2,849,935
Due from other funds	146,195	555,405	511,535			31,753		842,598	834,357	2,921,843
Due from component units	59,399									59,399
Prepaid expenses	1,393									1,393
Inventory	32,816									32,816
Total assets	<u>\$ 7,981,988</u>	<u>\$ 995,351</u>	<u>\$ 511,535</u>	<u>\$ 6,408,538</u>	<u>\$ 904,612</u>	<u>\$ 31,753</u>	<u>\$ 1,831,453</u>	<u>\$ 909,930</u>	<u>\$ 950,693</u>	<u>\$ 20,525,853</u>
LIABILITIES AND FUND BALANCES										
Liabilities										
Accounts payable	\$ 171,522	\$ -	\$ -	\$ 1,335	\$ 49,789	\$ -	\$ 517,815	\$ 76,476	\$ 41,493	\$ 858,430
Accrued payroll	124,518									124,518
Due to other funds	1,858,147			493	375,557		1,313,638		10,015	3,557,850
Deferred revenue	<u>457,229</u>	<u>439,961</u>	<u>511,535</u>					<u>4,540</u>	<u>261,975</u>	<u>1,675,240</u>
Total liabilities	2,611,416	439,961	511,535	1,828	425,346		1,831,453	81,016	313,483	6,216,038
Fund Balances										
Reserved for										
Debt service						31,753			27,258	59,011
Capital projects					479,266			828,914	54,588	1,362,768
Permanent trust				6,406,710						6,406,710
Unreserved, reported in										
General fund	5,370,572									5,370,572
Special revenue funds	<u></u>	<u>555,390</u>							<u>555,364</u>	<u>1,110,754</u>
Total fund balances	<u>5,370,572</u>	<u>555,390</u>		<u>6,406,710</u>	<u>479,266</u>	<u>31,753</u>		<u>828,914</u>	<u>637,210</u>	14,309,815
Total liabilities and fund balances	<u>\$ 7,981,988</u>	<u>\$ 995,351</u>	<u>\$ 511,535</u>	<u>\$ 6,408,538</u>	<u>\$ 904,612</u>	<u>\$ 31,753</u>	<u>\$ 1,831,453</u>	<u>\$ 909,930</u>	<u>\$ 950,693</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										31,667,519
Earned revenues that are not available to pay for current-period expenditures are deferred in the funds										1,134,710
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds										<u>(16,731,180)</u>
Net assets of governmental activities										<u>\$ 30,380,864</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, 2009

	General	Municipal Land Disposal	National Forest Receipts	Permanent Trust	New School Construction	New School Debt Service	Special Capital Projects	Borough Capital Improvements	Other Governmental Funds	Total Governmental Funds
Revenues										
Taxes										
Property	\$ 1,922,749	\$ -	\$ -	\$ -	\$ -	\$ 385,804	\$ -	\$ -	\$ 46,178	\$ 2,354,731
Sales	1,234,987							736,635	736,441	2,708,063
Intergovernmental	1,415,146	35,000	24,460			913,279	3,683,228		569,579	6,640,692
Service and admission fees	218,899									218,899
Licenses and permits	23,144									23,144
Rentals	73,707									73,707
Investment income	292,019			208,532	22,384				808	523,743
Contributions and other	62,727	350							16,886	79,963
LID payments									38,589	38,589
Payments in lieu of taxes	347,197									347,197
Total revenues	5,590,575	35,350	24,460	208,532	22,384	1,299,083	3,683,228	736,635	1,408,481	13,008,728
Expenditures										
Current										
General government	889,470	46,542		18,754					100,787	1,055,553
Public safety	776,592								241,707	1,018,299
Public works and streets	683,492									683,492
Economic development									463,467	463,467
Education	1,745,014		24,460						18,994	1,788,468
Port operations	123,571									123,571
Culture, recreation, and library	813,011									813,011
Debt service										
Principal						625,000			134,539	759,539
Interest						679,683			45,309	724,992
Capital outlay										
General government							850,000		28,830	878,830
Public safety										
Public works and streets							1,753,073	291,111	251,660	2,295,844
Education					1,570,623					1,570,623
Port operations							922,541		93,670	1,016,211
Culture, recreation, and library							76,759		268,995	345,754
Total expenditures	5,031,150	46,542	24,460	18,754	1,570,623	1,304,683	3,602,373	291,111	1,647,958	13,537,654
Excess (deficiency) of revenues over expenditures	559,425	(11,192)		189,778	(1,548,239)	(5,600)	80,855	445,524	(239,477)	(528,926)
Other Financing Sources (Uses)										
Transfers in	43,701						45,387		155,692	244,780
Transfers out	(51,770)						(124,400)	(83,788)	(29,822)	(289,780)
Sale of capital assets		83,157								83,157
Total other financing sources and uses	(8,069)	83,157					(79,013)	(83,788)	125,870	38,157
Net change in fund balances	551,356	71,965		189,778	(1,548,239)	(5,600)	1,842	361,736	(113,607)	(490,769)
Fund balances, beginning of year	4,819,216	483,425		6,216,932	2,027,505	37,353	(1,842)	467,178	750,817	14,800,584
Fund balances, end of year	\$ 5,370,572	\$ 555,390	\$ -	\$ 6,406,710	\$ 479,266	\$ 31,753	\$ -	\$ 828,914	\$ 637,210	\$ 14,309,815

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, 2009

Net change in fund balances - total governmental funds	\$ (490,769)
--	--------------

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 (\$2,802,403) exceeded depreciation (\$1,412,488) in the current period.	1,389,915
--	-----------

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 losses on sales of assets (\$144,783) exceeded cash collected (\$39,536) in the current year.	(105,247)
---	-----------

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).	264,575
--	---------

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.	766,957
--	---------

Change in compensated absences	<u>(372)</u>
--------------------------------	--------------

Change in net assets of governmental activities	<u><u>\$ 1,825,059</u></u>
---	----------------------------

See Notes to Financial Statements

HAINES BOROUGH

BALANCE SHEET - PROPRIETARY FUNDS

June 30, 2009

ASSETS	Business-type Activities - Enterprise Funds			
	Water	Sewer	Small Boat Harbor	Total
Current Assets				
Cash and cash equivalents	\$ 36,747	\$ -	\$ 3,177,611	\$ 3,214,358
Receivables	50,920	45,906	7,160	103,986
Due from other funds	91,101	691,107		782,208
Inventory	30,151	7,541		37,692
Performance deposit		6,470		6,470
Total current assets	208,919	751,024	3,184,771	4,144,714
Restricted Assets				
Revenue bond debt service reserve				
Investments		112,666		112,666
Total restricted assets		112,666		112,666
Fixed Assets				
Land	15,010	9,000		24,010
Buildings	15,764	6,811		22,575
Improvements other than buildings	4,807,171	9,470,955	2,294,979	16,573,105
Equipment			77,832	77,832
Total fixed assets	4,837,945	9,486,766	2,372,811	16,697,522
Less accumulated depreciation	2,943,077	4,044,192	828,060	7,815,329
Net fixed assets	1,894,868	5,442,574	1,544,751	8,882,193
Construction in progress	960,075		1,800,620	2,760,695
Total assets	\$ 3,063,862	\$ 6,306,264	\$ 6,530,142	\$ 15,900,268

LIABILITIES AND NET ASSETS	Business-type Activities - Enterprise Funds			
	Water	Sewer	Small Boat Harbor	Total
Current Liabilities				
Accounts payable	\$ 10,749	\$ 8,095	\$ 10,049	\$ 28,893
Loan payable - current	14,203			14,203
Bond payable - current		29,912		29,912
Bond interest payable		4,390		4,390
Deposits	7,580	10,124	16,275	33,979
Due to other funds			146,195	146,195
Total current liabilities	32,532	52,521	172,519	257,572
Noncurrent Liabilities				
Accrued vacation	4,189	4,189		8,378
Revenue bonds payable		1,369,004		1,369,004
Loan payable	170,440			170,440
Total liabilities	207,161	1,425,714	172,519	1,805,394
Net Assets				
Invested in capital assets, net of related debt	2,670,300	4,043,658	3,345,371	10,059,329
Restricted for bond reserves		112,666		112,666
Unrestricted	186,401	724,226	3,012,252	3,922,879
Total net assets	2,856,701	4,880,550	6,357,623	14,094,874
 Total liabilities and net assets	 \$ 3,063,862	 \$ 6,306,264	 \$ 6,530,142	 \$ 15,900,268

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, 2009

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Small Boat Harbor	Total
Operating Revenue				
Charges for services	\$ 318,270	\$ 361,932	\$ 115,072	\$ 795,274
General Revenue				
Intergovernmental		1,008		1,008
Operating Expenses				
Salaries and benefits	111,575	111,755	97,269	320,599
Professional services	31,867	12,073	5,075	49,015
Materials and supplies	44,954	6,949	30,440	82,343
Utilities	27,106	69,605	36,743	133,454
Advertising, dues and subscriptions	325	1,839	951	3,115
Repairs and maintenance	992	3,100		4,092
Travel and training	397	1,198	269	1,864
Banking and insurance	5,142	3,764	4,263	13,169
Vehicle	4,307	2,726	2,582	9,615
Depreciation	81,817	212,249	101,490	395,556
Total operating expenses	308,482	425,258	279,082	1,012,822
Operating income (loss)	9,788	(62,318)	(164,010)	(216,540)
Nonoperating Revenue (Expense)				
Investment income	4,868	3,188	44,443	52,499
Interest expense	(9,265)	(72,249)		(81,514)
Total nonoperating revenue (expense)	(4,397)	(69,061)	44,443	(29,015)
Income (loss) before contributions and transfers	5,391	(131,379)	(119,567)	(245,555)
Contributions in aid of construction	937,595	289,301	922,238	2,149,134
Transfers in		45,000		45,000
Change in net assets	942,986	202,922	802,671	1,948,579
Net assets, beginning of year	1,913,715	4,677,628	5,554,952	12,146,295
Net assets, end of year	\$ 2,856,701	\$ 4,880,550	\$ 6,357,623	\$ 14,094,874

See Notes to Financial Statements

HAINES BOROUGH
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
For the Year Ended June 30, 2009

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Small Boat Harbor	Total
Cash Flows from Operating Activities				
Cash received from customers	\$ 303,406	\$ 356,777	\$ 129,424	\$ 789,607
Cash paid to suppliers	(107,183)	(111,331)	(135,629)	(354,143)
Cash paid to employees	(82,966)	(85,334)	(70,034)	(238,334)
Cash paid for employee benefits	(29,010)	(26,821)	(27,235)	(83,066)
Net cash transferred from (to) general fund	105,689	(33,777)	(30,019)	41,893
Net cash flows from operating activities	189,936	99,514	(133,493)	155,957
Cash Flows from Capital and Related Financing Activities				
Purchases of fixed assets			(359,988)	(359,988)
Repayment of loan payable	(12,629)			(12,629)
Interest on bonds and loan payable	(11,363)	(72,854)		(84,217)
Repayment of bonds payable	(170,812)	(28,364)		(199,176)
Net cash flows from capital and related financing activities	(194,804)	(101,218)	(359,988)	(656,010)
Cash Flows from Investing Activities				
Purchase of investments		(15,725)		(15,725)
Change in performance deposit	36,747	14,241		50,988
Investment income	4,868	3,188	44,443	52,499
Net cash flows from investing activities	41,615	1,704	44,443	87,762
Net increase (decrease) in cash	36,747		(449,038)	(412,291)
Cash and cash equivalents, beginning of year			3,626,649	3,626,649
Cash and cash equivalents, end of year	\$ 36,747	\$ -	\$3,177,611	\$3,214,358

See Notes to Financial Statements

HAINES BOROUGH

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

(Continued)

For the Year Ended June 30, 2009

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Small Boat Harbor	Total
Reconciliation of operating income (loss) to net cash flows from operating activities				
Operating income (loss)	\$ 9,788	\$ (62,318)	\$ (164,010)	\$ (216,540)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities				
Depreciation	81,817	212,249	101,490	395,556
Changes in operating assets and liabilities				
Receivables	(14,751)	(5,638)	13,515	(6,874)
Due from other funds	105,689	(33,777)	(30,019)	41,893
Inventory	(134)	(1,756)		(1,890)
Accounts payable	8,041	(8,321)	(55,307)	(55,587)
Accrued vacation	(400)	(400)		(800)
Deposits	(114)	(525)	838	199
Total adjustments	180,148	161,832	30,517	372,497
Net cash flows from operating activities	<u>\$ 189,936</u>	<u>\$ 99,514</u>	<u>\$ (133,493)</u>	<u>\$ 155,957</u>

See Notes to Financial Statements

HAINES BOROUGH

COMPONENT UNIT COMBINING STATEMENT OF NET ASSETS

June 30, 2009

ASSETS	Haines Borough School District	Sheldon Museum	Haines Borough Public Library	Non-Major Component Units	Total
Current Assets					
Cash and cash equivalents	\$ 866,207	\$ 94,791	\$ 52,701	\$ 34,162	\$ 1,047,861
Investments	4,636	40,996			45,632
Receivables	231,454		26,481		257,935
Inventory and prepaid expenses		53,298			53,298
Total current assets	1,102,297	189,085	79,182	34,162	1,404,726
Noncurrent Assets					
Capital assets, net	109,497	49,148			158,645
Total assets	<u>\$ 1,211,794</u>	<u>\$ 238,233</u>	<u>\$ 79,182</u>	<u>\$ 34,162</u>	<u>\$ 1,563,371</u>
LIABILITIES					
Current Liabilities					
Accounts payable	\$ 79,146	\$ 2,829	\$ -	\$ -	\$ 81,975
Due to governmental entity		14,702	(3,031)	47,728	59,399
Deferred revenue		2,328	4,445		6,773
Total current liabilities	79,146	19,859	1,414	47,728	148,147
Noncurrent Portion of Long-Term Obligations					
Accrued vacation		6,941	10,453		17,394
Total liabilities	79,146	26,800	11,867	47,728	165,541
NET ASSETS					
Invested in Capital Assets	109,497	49,148			158,645
Restricted for Museum Projects and Other		99,483	1,110		100,593
Unrestricted	1,023,151	62,802	66,205	(13,566)	1,138,592
Total net assets	1,132,648	211,433	67,315	(13,566)	1,397,830
Total liabilities and net assets	<u>\$ 1,211,794</u>	<u>\$ 238,233</u>	<u>\$ 79,182</u>	<u>\$ 34,162</u>	<u>\$ 1,563,371</u>

See Notes to Financial Statements

HAINES BOROUGH

COMPONENT UNIT COMBINING STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2009

	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	\$ 5,831,585	\$ 51,544	\$ 1,003,826	\$ 35,633	\$ (4,740,582)	\$ -	\$ -	\$ -	\$ (4,740,582)
Sheldon Museum	295,925	64,323	20,081			(211,521)			(211,521)
Haines Borough Public Library	432,824	15,122	109,522				(308,180)		(308,180)
Non-major component units	22,873	1,050	20,200					(1,623)	(1,623)
	<u>\$ 6,583,207</u>	<u>\$ 132,039</u>	<u>\$ 1,153,629</u>	<u>\$ 35,633</u>	<u>(4,740,582)</u>	<u>(211,521)</u>	<u>(308,180)</u>	<u>(1,623)</u>	<u>(5,261,906)</u>
General revenues									
Provided by general government					1,560,404	177,000	290,771	26,268	2,054,443
State of Alaska					3,302,678				3,302,678
Investment income					2,731	513	835	28	4,107
Contributions and other					58,539	4,930	37,430	1,650	102,549
Total general revenue and transfers					<u>4,924,352</u>	<u>182,443</u>	<u>329,036</u>	<u>27,946</u>	<u>5,463,777</u>
Change in net assets					183,770	(29,078)	20,856	26,323	201,871
Net assets, beginning of year					<u>948,878</u>	<u>240,511</u>	<u>46,459</u>	<u>(39,889)</u>	<u>1,195,959</u>
Net assets, end of year					<u>\$ 1,132,648</u>	<u>\$ 211,433</u>	<u>\$ 67,315</u>	<u>\$ (13,566)</u>	<u>\$ 1,397,830</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.

Special Capital Projects – Accounts for various capital projects, primarily funded by government grants, that benefit the entire Borough area.

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 intergovernmental revenue, investment income, wage related expenses, and transfers.

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

- a. During the month of March, the Borough Manager submits to the Borough Assembly a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. A minimum of two public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally enacted through passage of an ordinance.
- d. The Borough Assembly may pass ordinances during the year that amend the budget.

- e. The Borough administration may transfer amounts between cost centers within a department's budget classification.
- f. Appropriations for the general fund and special revenue funds lapse at year-end. Appropriations for capital projects and those needed to meet grant 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 department from one authorized appropriation to another any amount which does not exceed 10% of the total fund appropriation or \$10,000, whichever is less. The reported budget amounts are as originally adopted or as amended.

Excess of Expenditures over Appropriations

For the year ended June 30, 2009, expenditures exceeded appropriations in the following departments (the legal level of budgetary control):

General fund		
Information Technology	\$	525
Dispatch		11,638
Chilkat Center		11,609
Letnikof RMSA		2,018
Riverview RMSA		3,068
Eagle Vista RMSA		1,918
4 Winds RMSA		18
School District		3,970
Parks and Recreation		1,578
Special revenue funds		
Daycare		995
Donations		5,383
Capital project funds		
Barnett Drive pump station		27,869
Beach Road forcemain		253,412

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

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, 2009, are as follows:

	General Fund	Other Governmental Funds	Total
Designated for:			
Medical services	\$ -	\$ 174,690	\$ 174,690
Economic development		380,674	380,674
Road maintenance	6,712		6,712
Equipment	123,477		123,477
	<u>\$ 130,189</u>	<u>\$ 555,364</u>	<u>\$ 685,553</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, 2009, the carrying amount of the Borough's cash balances was \$5,867,234, while the bank and other institution balances were \$5,884,494. These balances are categorized as follows:

	Carrying Amount	Bank Balance
Amount insured by the FDIC (up to \$250,000) or collateralized with securities held by the bank or other institutions in the Borough's name	\$ 4,757,870	\$ 4,757,870
Uncollateralized	1,108,239	1,126,624
Petty cash	1,125	
	<u>\$ 5,867,234</u>	<u>\$ 5,884,494</u>

Reconciliation to statement of net assets:

Cash and cash equivalents	\$ 4,930,485
Restricted cash and cash equivalents	930,279
Performance deposit	6,470
	<hr/>
	\$ 5,867,234
	<hr/>

Cash and cash equivalents consist of:

Cash	\$ 648,868
Cash equivalents	5,218,366
	<hr/>
	\$ 5,867,234
	<hr/>

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 \$758,094 at June 30, 2009.

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	\$ 3,043,395	\$ 1,346,554	\$ -	\$ -	\$ 4,389,949
U.S. Government Instruments	115	2,577,456	832,778	2,102	3,412,451
Corporate Debt	201,395	1,692,656	1,022,389		2,916,440
Total debt securities	<u>\$ 3,244,905</u>	<u>\$ 5,616,666</u>	<u>\$ 1,855,167</u>	<u>\$ 2,102</u>	<u>10,718,840</u>
Common stocks (mutual fund that holds the stocks of the S&P 500)					1,077,562
Equity funds					330,325
					<u>\$ 12,126,727</u>
Reconciliation to statement of net assets					
Investments					\$ 5,704,674
Restricted investments					6,309,387
Revenue bond future debt service accounts					112,666
					<u>\$ 12,126,727</u>

Note 3. Receivables and Deferred Revenue

Receivables at June 30, 2009, for the individual major funds and nonmajor funds in the aggregate, net of applicable allowances for uncollectible accounts (\$25,168 at June 30, 2009), 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	\$ 213,218	\$ -	\$ 106,375	\$ -	\$ -	\$ 23,092	\$ 342,685
Land disposal fund		418,942				21,004	439,946
Permanent trust						73,484	73,484
Special capital projects					1,831,453		1,831,453
Borough capital improvements	67,332						67,332
Water fund				50,920			50,920
Sewer fund				45,906			45,906
Small boat harbor fund				6,154		1,006	7,160
Other governmental funds	67,332	3,509			24,194		95,035
Total	<u>\$ 347,882</u>	<u>\$ 422,451</u>	<u>\$ 106,375</u>	<u>\$ 102,980</u>	<u>\$ 1,855,647</u>	<u>\$ 118,586</u>	<u>\$ 2,953,921</u>

Reconciliation to statement of net assets:

Current receivables	\$ 2,384,116
Restricted receivables	73,484
Noncurrent receivables	496,321
	<u>\$ 2,953,921</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, 2010), 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)	\$ 96,008	\$ -	\$ 96,008
Payments in lieu of taxes		359,766	359,766
Land sale/LID receivables (including accrued interest)	443,470		443,470
Grants and contributions		775,996	775,996
	<u>539,478</u>	<u>1,135,762</u>	<u>1,675,240</u>
Total deferred/unearned revenue for governmental funds			
	539,478	1,135,762	1,675,240
Amounts not deferred for government-wide financial statements			
Property taxes receivable	(96,008)		(96,008)
Payments in lieu of taxes		(359,766)	(359,766)
Land sales/LID receivables	(443,470)		(443,470)
Passenger vessel excise tax		(234,011)	(234,011)
Grants and contributions		(1,455)	(1,455)
	<u>(96,008)</u>	<u>(595,232)</u>	<u>(691,240)</u>
Total deferred/unearned revenue for government-wide financial statements	<u>\$ -</u>	<u>\$ 540,530</u>	<u>\$ 540,530</u>

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2009, was as follows:

	Balance, June 30, 2008	Increases	Transfers/ Decreases	Balance, June 30, 2009
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land and improvements	\$ 651,063	\$ -	\$ -	\$ 651,063
Construction in progress – waterfront improvements		76,759		76,759
Construction in progress – roads		608,552		608,552
Total capital assets not being depreciated	651,063	685,311		1,336,374
Other capital assets:				
Buildings	30,663,222	1,602,188	(125,959)	32,139,451
Other improvements	13,097,650	255,102	(14,260)	13,338,492
Furniture and equipment	4,096,226	130,958	(90,034)	4,137,150
Road network	4,906,611	128,844		5,035,455
Total other capital assets	52,763,709	2,117,092	(230,253)	54,650,548
Less accumulated depreciation for:				
Buildings	9,678,709	762,897	(44,086)	10,397,520
Other improvements	6,210,774	367,675	(14,376)	6,564,073
Furniture and equipment	3,209,204	157,641	(27,009)	3,339,836
Road network	3,893,698	124,276		4,017,974
Total accumulated depreciation	22,992,385	1,412,489	(85,471)	24,319,403
Other capital assets, net	29,771,324	704,603	(144,782)	30,331,145
Governmental activities capital assets, net	<u>\$ 30,422,387</u>	<u>\$ 1,389,914</u>	<u>\$ (144,782)</u>	<u>\$ 31,667,519</u>
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land and improvements	\$ 24,010	\$ -	\$ -	\$ 24,010
Construction in progress	837,707	2,173,336	(250,348)	2,760,695
Total capital assets not being depreciated	861,717	2,173,336	(250,348)	2,784,705
Other capital assets:				
Buildings	22,575			22,575
Other improvements (including distribution and collection systems)	15,986,970	335,787	250,348	16,573,105
Equipment	77,832			77,832
Total other capital assets	16,087,377	335,787	250,348	16,673,512
Less accumulated depreciation for:				
Buildings	22,575			22,575
Other improvements (including distribution and collection systems)	7,349,838	381,691		7,731,529
Equipment	47,360	13,865		61,225
Total accumulated depreciation	7,419,773	395,556		7,815,329
Other capital assets, net	8,667,604	(59,769)	250,348	8,858,183
Business-type activities capital assets, net	<u>\$ 9,529,321</u>	<u>\$ 2,113,567</u>	<u>\$ -</u>	<u>\$ 11,642,888</u>

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

Governmental activities:

General government	\$ 100,020
Public safety	60,148
Public works and streets, including depreciation of general infrastructure assets	154,561
Economic development	5,762
Education	568,313
Port operations	317,329
Culture, recreation, and library	206,356
	<hr/>
Total depreciation expense – governmental activities	<u>\$ 1,412,489</u>

Business-type activities:

Water	\$ 81,817
Sewer	212,249
Harbor	101,490
	<hr/>
Total depreciation expense – business-type activities	<u>\$ 395,556</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, 2009, the cost and accumulated depreciation associated with these assets was \$23,505,536 and \$5,436,138, respectively.

At June 30, 2009, the Borough had an outstanding contract for the replacement of the small boat harbor for approximately \$4,395,000 with a remaining commitment of approximately \$3,473,000.

The Borough had an outstanding contract for installation of the Young Road Water Tank with a remaining commitment of approximately \$305,000.

The Borough also had an outstanding contract for improvements to be made to various city streets with a remaining commitment of approximately \$702,000.

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, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
<u>Governmental Activities:</u>					
Bonds and notes payable:					
1989 Water/Sewer bonds	\$ 40,000	\$ -	\$ 40,000	\$ -	\$ -
PC Dock bonds	725,000		90,000	635,000	95,000
USDA bonds	203,379		4,539	198,840	4,620
School construction bonds	16,325,000		625,000	15,700,000	645,000
School bond premium	129,822		7,418	122,404	7,418
Total bonds and notes payable	17,423,201		766,957	16,656,244	752,038
Other liabilities:					
Compensated absences	74,564	372		74,936	
Governmental activities long-term liabilities	<u>\$17,497,765</u>	<u>\$ 372</u>	<u>\$ 766,957</u>	<u>\$16,731,180</u>	<u>\$ 752,038</u>
<u>Business-type Activities:</u>					
Bonds and notes payable:					
Revenue bonds					
Water	\$ 170,812	\$ -	\$ 170,812	\$ -	\$ -
Sewer	1,427,280		28,364	1,398,916	29,912
State of Alaska DEC	197,272		12,629	184,643	14,203
Total bonds and notes payable	1,795,364		211,805	1,583,559	44,115
Other liabilities:					
Compensated absences	9,178		800	8,378	
Business-type activities long-term liabilities	<u>\$ 1,804,542</u>	<u>\$ -</u>	<u>\$ 212,605</u>	<u>\$ 1,591,937</u>	<u>\$ 44,115</u>

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

Bonds and notes payable at June 30, 2009, 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 \$122,404 at June 30, 2009)	\$ 15,700,000
---	---------------

\$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	635,000
---	---------

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%	198,840
--	---------

Total General Long-Term Debt	<u>\$ 16,533,840</u>
------------------------------	----------------------

Business-type Activities:

\$1,700,000 1994 sewer revenue bonds, due in semi-annual installments of \$50,609, including interest at 5.125%, through 2033	\$ 1,398,916
---	--------------

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	184,643
---	---------

Total Enterprise Funds Long-Term Debt	<u>\$ 1,583,559</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, 2009, are as follows:

Governmental Activities:

Year Ending June 30	Principal	Interest	Total
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	880,584	557,540	1,438,124
2015 – 2019	4,517,259	2,153,301	6,670,560
2020 – 2024	5,395,887	1,137,907	6,533,794
2025 – 2029	2,521,825	124,953	2,646,778
2030 – 2034	48,418	8,174	56,592
	<u>\$ 16,533,840</u>	<u>\$ 6,566,562</u>	<u>\$ 23,100,402</u>

Business-type Activities:

Year Ending June 30	Principal	Interest	Total
2010	\$ 44,115	\$ 75,922	\$ 120,037
2011	45,668	74,014	119,682
2012	47,300	72,027	119,327
2013	49,019	69,953	118,972
2014	50,826	67,791	118,617
2015 – 2019	284,696	303,061	587,757
2020 – 2024	317,817	233,016	550,833
2025 – 2029	354,439	151,651	506,090
2030 – 2034	389,679	50,017	439,696
	<u>\$ 1,583,559</u>	<u>\$ 1,097,452</u>	<u>\$ 2,681,011</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 sewer revenue bonds required the establishment of a reserve account. The required reserve account was set up and fully funded in prior years. The reserve account balance at June 30, 2009, was \$112,666.

A further requirement of these bonds is that the 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 \$153,119 and the debt service requirement was \$101,218 resulting in a ratio of 1.51 for the Sewer Enterprise Fund, so the Borough was in compliance with this requirement.

Note 7. Retirement Plan

Plan Description

The Borough's defined benefit pension plan for employees first enrolling prior to July 1, 2006, 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 7.50% 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 22.00% of annual covered payroll.

Annual Pension Cost

For the year ended June 30, 2009, the Borough's annual pension cost was equal to the Borough's actual contribution of \$254,952. Employee contributions to the plan were \$81,808.

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

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

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

*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, 2009, the Haines Borough contributed \$146,877 to PERS Tier IV. Employee contributions to the plan totaled \$53,410.

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, 2009, was as follows:

Receivable Fund	Payable Fund	Amount
General	Small boat harbor	\$ 146,195
General	Special projects	1,313,638
General	Nonmajor governmental funds	10,015
Land disposal	General	555,405
General	New school construction	375,557
General	Permanent trust	493
National forest receipts	General	511,535
New school debt service	General	31,753
Borough capital improvements	General	842,598
Nonmajor governmental funds	General	834,357
Water	General	91,101
Sewer	General	691,107

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

	Transfer In				Total
	General Fund	Special Capital Projects	Other Governmental Funds	Sewer	
Transfer out:					
General Fund	\$ -	\$ 31,599	\$ 20,171	\$ -	\$ 51,770
Special Capital Projects			124,400		124,400
Borough Capital Improvements	25,000	13,788		45,000	83,788
Other Governmental Funds	18,701		11,121		29,822
	<u>\$ 43,701</u>	<u>\$ 45,387</u>	<u>\$ 155,692</u>	<u>\$ 45,000</u>	<u>\$ 289,780</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 from permanent fund investments sufficient to offset the effect of inflation on principal is retained in the fund annually. The amount is calculated by computing a 3-year average of the rates of change of the Consumer Price Index and applying it to the principal balance. After inflation proofing, income derived from Permanent Fund investments may be used as designated by the Borough Assembly after consideration of public input. Income available for Borough expenses may not exceed 3.5% of the average total market value of the fund for 3 of the 4 fiscal years immediately preceding the budget year.

REQUIRED SUPPLEMENTARY INFORMATION
(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, 2009

	Budget Amounts		Actual	Variance
	Original	Final		
Revenue				
Taxes				
Property	\$ 1,940,784	\$ 1,940,784	\$ 1,922,749	\$ (18,035)
Sales	1,105,000	1,105,000	1,234,987	129,987
Intergovernmental	933,900	1,415,663	1,415,146	(517)
Service and admission fees	230,850	230,850	218,899	(11,951)
Licenses and permits	17,100	17,100	23,144	6,044
Rentals	66,400	66,400	73,707	7,307
Investment income	210,000	264,500	292,019	27,519
Contributions and other	35,000	35,000	62,727	27,727
Payments in lieu of taxes	220,000	347,197	347,197	
Total revenue	4,759,034	5,422,494	5,590,575	168,081
Expenditures				
Current				
General government	971,851	941,477	889,470	52,007
Public safety	869,638	818,638	776,592	42,046
Public works and streets	659,667	719,067	683,492	35,575
Education	1,591,044	1,741,044	1,745,014	(3,970)
Port operations	139,571	134,971	123,571	11,400
Culture, recreation, and library	820,340	822,890	813,011	9,879
Total expenditures	5,052,111	5,178,087	5,031,150	146,937
Excess (deficiency) of revenue over expenditures	(293,077)	244,407	559,425	315,018
Other financing sources (uses)				
Transfers in	142,000	30,000	43,701	13,701
Transfers out		(281,100)	(51,770)	229,330
Total other financing sources (uses)	142,000	(251,100)	(8,069)	243,031
Net change in fund balance	\$ (151,077)	\$ (6,693)	\$ 551,356	\$ 558,049

See Notes to Required Supplementary Information

HAINES BOROUGH

BUDGETARY COMPARISON SCHEDULE - MUNICIPAL LAND DISPOSAL FUND

For the Year Ended June 30, 2009

	Budget Amounts		Actual	Variance
	Original	Final		
Revenue				
Contributions and other	\$ -	\$ -	\$ 350	\$ 350
Intergovernmental			35,000	35,000
Expenditures				
General government	65,898	65,898	46,542	(19,356)
Excess (deficiency) of revenue over expenditures	(65,898)	(65,898)	(11,192)	(54,706)
Other financing sources (uses)				
Sale of capital assets	70,000	70,000	83,157	13,157
Net change in fund balance	\$ 4,102	\$ 4,102	\$ 71,965	\$ 67,863

See Notes to Required Supplementary Information

HAINES BOROUGH

BUDGETARY COMPARISON SCHEDULE - NATIONAL FOREST RECEIPTS SPECIAL REVENUE FUND

For the Year Ended June 30, 2009

	Budget Amounts		Actual	Variance
	Original	Final		
Revenue				
Intergovernmental	\$ -	\$ 34,050	\$ 24,460	\$ (9,590)
Expenditures				
Education	-	34,050	24,460	9,590
Excess (deficiency) of revenue over expenditures				
Net change in fund balance	\$ -	\$ -	\$ -	\$ -

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.