

HAINES BOROUGH
FINANCIAL STATEMENTS
For the Year Ended June 30, 2010
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

HAINES BOROUGH
FINANCIAL STATEMENTS
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INDEPENDENT AUDITORS' REPORT

To the Borough Assembly and Borough Manager
Haines Borough
Haines, Alaska

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Haines Borough (the Borough), as of and for the year ended June 30, 2010, 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 opinions on these financial statements based on our audit. We did not audit the financial statements of the Haines Borough School District, which represents 3% 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 opinions.

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 as of June 30, 2010, 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 of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2011 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 42 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

ERM

March 28, 2011

HAINES BOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2010

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, 2010 (FY10).

FINANCIAL HIGHLIGHTS

- The assets of the Haines Borough exceeded its liabilities at the close of FY10 by \$47.4 million (net assets). Of this amount, \$30.4 million represents the Borough's investment in capital assets (e.g. land, buildings, roads) net of related debt, and \$8.1 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- Total net assets increased by \$2.9 million, or approximately 6%. The total increase reflects an increase in business-type activities of \$2.3 million and governmental activities of \$0.6 million.
- The increase in net assets for business-type activities is due primarily to a \$2.0 million grant from the state of Alaska for the replacement of floats and utilities in the downtown harbor.
- In FY10 general fund revenues were comprised primarily of property tax (32%), intergovernmental sources (28%), sales tax (20%), service fees (10%), payment in lieu of taxes (6%), and investment income (3%).
- During the year, the Borough paid down \$1,336,348 on long-term debt including \$1,292,176 paid down on general obligation debt and \$44,040 paid down on proprietary fund debts. This reduction was due in part to a grant from the State of Alaska which defeased one of the Haines Borough's General Obligation bonds, reducing debt by \$635,000 for the year.

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 - 20)

Notes to the Basic Financial Statements (pages 21 - 41)

Required Supplementary Information (pages 42 - 44)

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.

HAINES BOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS

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, Sheldon Museum and the Haines Borough Public Library, which are component units of the Borough.

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*.

HAINES BOROUGH MANAGEMENT'S DISCUSSION AND ANALYSIS

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, the special capital projects 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 - 18 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 \$47.4 million (net assets) as of June 30, 2010, compared to \$44.5 million as of June 30, 2009.

The largest portion of the Borough's net assets (64%) reflects its investment in capital assets (e.g., land, buildings, improvements, road network, and equipment), less any related debt that is still outstanding. The Borough uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Borough's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this outstanding debt must be provided from other sources, as the capital assets themselves cannot be used as a source of funds to liquidate these liabilities. The amount of debt related to the investment in capital assets is \$16.9 million as of June 30, 2010.

HAINES BOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS

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	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$17,490,086	\$16,821,802	\$ 2,134,785	\$ 4,257,380	\$19,624,871	\$21,079,182
Capital assets	31,461,375	31,667,519	15,923,493	11,642,888	47,384,868	43,310,407
Total assets	48,951,461	48,489,321	18,058,278	15,900,268	67,009,739	64,389,589
Current and other liabilities	3,241,371	2,129,315	118,067	257,572	3,359,438	2,386,887
Long-term liabilities	14,758,022	15,979,142	1,529,974	1,547,822	16,287,996	17,526,964
Total liabilities	17,999,393	18,108,457	1,648,041	1,805,394	19,647,434	19,913,851
Net assets:						
Invested in capital assets, net of related debt	16,097,307	15,011,275	14,356,097	10,059,329	30,453,404	25,070,604
Restricted	8,680,047	7,845,576	112,277	112,666	8,792,324	7,958,242
Unrestricted	6,174,714	7,524,013	1,941,863	3,922,879	8,116,577	11,446,892
Total net assets	<u>\$30,952,068</u>	<u>\$30,380,864</u>	<u>\$16,410,237</u>	<u>\$14,094,874</u>	<u>\$47,362,305</u>	<u>\$44,475,738</u>

A portion of the Borough's net assets (\$8.8 million or 19%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$8.1 million or 17%) 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 \$2,886,567 in FY10 compared to a \$3,773,638 increase in FY09. The increase in FY10 was largely due to the use of grant funds from the State of Alaska for the construction of new floats in the downtown boat harbor and for paying down General Obligation bond debt.

HAINES BOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS

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	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues						
Fees, fines and charges for services	\$ 508,562	\$ 218,899	\$ 766,947	\$ 795,274	\$ 1,275,509	\$ 1,014,173
Operating grants & contributions	872,131	970,035	-	-	872,131	970,035
Capital grants & Contributions	5,499,410	4,977,454	-	-	5,499,410	4,977,454
General revenues						
Property taxes	2,296,696	2,359,686	-	-	2,296,696	2,359,686
Sales taxes	2,543,070	2,708,063	-	-	2,543,070	2,708,063
Other	2,458,063	1,979,376	267,121	53,507	2,725,184	2,032,883
Total revenues	14,177,932	13,213,513	1,034,068	848,781	15,212,000	14,062,294
Expenses						
General government	1,662,573	1,904,141	-	-	1,662,573	1,904,141
Public safety	1,036,018	1,082,766	-	-	1,036,018	1,082,766
Public works and streets	2,823,495	1,002,075	-	-	2,823,495	1,002,075
Education	2,639,266	2,356,781	-	-	2,639,266	2,356,781
Economic Development	432,703	471,438	-	-	432,703	471,438
Culture, recreation and Library	1,130,348	1,232,999	-	-	1,130,348	1,232,999
Interest on long-term debt	734,785	717,574	-	-	734,785	717,574
Water	-	-	342,019	317,747	342,019	317,747
Sewer	-	-	538,980	497,507	538,980	497,507
Port/Harbor	501,560	426,546	483,686	279,082	985,246	705,628
Total expenses	10,960,748	9,194,320	1,364,685	1,094,336	12,325,433	10,288,656
Increase (decrease) in net assets before transfers	3,217,184	4,019,193	(330,617)	(245,555)	2,886,567	3,773,638
Transfers	(2,645,980)	(2,194,134)	2,645,980	2,194,134	-	-
Increase (decrease) in net assets	571,204	1,825,059	2,315,363	1,948,579	2,886,567	3,773,638
Net assets - beg of year	30,380,864	28,555,805	14,094,874	12,146,295	44,475,738	40,702,100
Net assets - end of year	<u>\$30,952,068</u>	<u>\$30,380,864</u>	<u>\$16,410,237</u>	<u>\$14,094,874</u>	<u>\$47,362,305</u>	<u>\$44,475,738</u>

Governmental activities – Governmental activities net assets increased by \$571,204. This figure is down from a \$1.8 million increase in FY09. The most significant factor in the decrease from the previous year's increase is a \$1,821,420 increase in public works & streets expense. This increase was largely due to a \$1.2 million payment to Chilkoot Indian Association for the installation of water and sewer mains.

HAINES BOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-type activities – Business-type activities increased the Borough's net assets by \$2,315,363. A significant factor in the increase in net assets is the \$2,043,589 received from the State of Alaska for replacement of floats in the downtown small boat harbor.

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 FY10, the Borough's governmental funds reported combined ending fund balances of \$13.8 million, a decrease of \$553,808 (4%) 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 resulting decrease to the governmental fund balance. Of the total governmental fund balance, \$3.7 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 \$10.1 million has already been committed to the permanent benefit of Borough residents (\$7.0 million), for capital projects (\$1.5 million), and for other restricted or designated purposes (\$1.6 million).

The general fund is the primary operating fund of the Borough. At the end of FY10, the fund balance of the general fund was \$4.2 million, down \$1.2 million (22%) from the previous year. This compares to a \$551,356 (11%) increase in FY09. The decrease in FY10 was primarily due to a \$1.2 million payment to Chilkoot Indian Association pursuant to a Memorandum of Agreement between the organizations which resulted in deferred revenue for the Haines Borough as of June 30, 2010 and is reflected on the government funds balance sheet.

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

As of the end of FY10, the enterprise fund's combined net assets were \$16.4 million, an increase of \$2.3 million (16%) from the prior year. The increase breaks down between the funds as follows: \$550,812 (19%) increase in the water fund, \$178,166 (4%) decrease in the sewer fund, and a \$1,942,717 (31%) increase in the small boat harbor fund. The primary factors in the increase in the water fund are \$250,900 received from the federal government for replacement of asbestos cement pipe and \$341,602 received as contributions in aid of construction from various sources including the Borough's Capital Improvement Project Fund and the State of Alaska. The primary reason for the decrease in the net assets of the sewer fund is revenues from charges for service that were insufficient to cover depreciation expense. The primary factor in the increase in the boat harbor fund is \$2.0 million received as contributions in aid of construction from the State of Alaska Department of Transportation for replacement of the downtown boat harbor float.

Unrestricted net assets for the enterprise funds total \$1.9 million, down \$2.0 million from the previous year. The reduction was primarily due to the use of unrestricted harbor reserves as a required 50% local match for the downtown harbor float replacement project. Unrestricted assets for the water, sewer, and

HAINES BOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS

harbor enterprise funds are \$221,748, \$717,709, and \$1,002,406 respectively. These funds are held as operating and repair reserves for the funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

- \$1,200,000 increase in public works and streets expense resulting from a Memorandum of Agreement between the Haines Borough and the Chilkoot Indian Association;
- \$300,000 increase in service fees revenue received resulting from a road maintenance contract with the Chilkoot Indian Association;
- \$186,014 increase in projected intergovernmental revenue due to Raw Fish Tax receipts \$103,744 higher than originally anticipated and to an unanticipated community economic stimulus grant of \$69,420; and
- Approximately \$150,000 increase in projected general government expenditures for legal fees.

Actual revenues exceeded budgeted revenues by \$179,575 primarily due to the receipt of \$108,201 in PERS relief funding from the State of Alaska which was not accounted for in the budget. Another factor was investment income which was \$72,521 higher than budget. Actual expenditures were under budget by \$238,619 due in large part to Public Works and Streets expenditures being \$141,448 below budget. Operating transfers out exceeded the budget by \$173,347. This is because the transfer was budgeted to fund a construction project in FY09 and the project and transfer did not take place until FY10.

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, 2010, amounted to \$47.4 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment, road networks, harbors and water/sewer systems. The total increase in the Borough's investment in capital assets for the current fiscal year was \$4.1 million (9%). Governmental capital assets decreased \$206,144 (1%), while business-type capital assets increased \$4.3 million (37%).

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

- Invested \$3,722,970 of boat harbor fund balance and State of Alaska grant funds to replace floats and electric utilities in the small boat harbor;
- Completed \$687,098 of road resurfacing and drainage improvements in the Haines downtown corridor with a grant from the State of Alaska;
- Invested \$478,846 of boat harbor fund balance and State of Alaska grant funds to construct a boarding float at the Letnikof Cove harbor boat ramp;
- Completed construction of a new Young Road water line and water tank with \$311,085 of local funds and grant funds from the State of Alaska;
- Invested \$278,777 in replacement of asbestos cement water mains in the downtown corridor;
- Invested \$183,228 of marine passenger vessel regional impact funds on improvements to the Port Chilkoot cruise ship dock;
- Completed reconstruction of the Museum's fire suppression system with \$136,618 of Capital Improvement Project (CIP) sales tax funds;
- Completed \$123,694 of improvements to the new public works shop with CIP sales tax funds; and

HAINES BOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS

- Purchased two hybrid vehicles for the police department with \$76,144 of CIP sales tax funds.

Debt administration – As of June 30, 2010, the Borough has a total of \$17.0 million in bonds and loans payable, which consisted of two general obligation bond issues (\$15.3 million), one revenue bond issue (\$1.4 million), and two loans payable to the state of Alaska (\$198,317).

The total debt decreased \$1.3 million (7%) in the current year. The decrease is due to the combined effects of: (1) the defeasance of a 2005 general obligation bond with funds provided by the State of Alaska (\$635,000) and (2) normal annual debt retirement (\$701,216).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the year ending June 30, 2010 total revenues were up 8% from the previous year, but many of the increased revenues represent one-time distributions or intergovernmental revenues from programs which are not currently funded beyond the next several years.

The Borough continues to depend on intergovernmental revenues for a significant portion of its operating expenses. In FY10 combined revenues from the state of Alaska and the federal government made up \$1.6 million (28%) of general fund revenues. In FY11 state and federal sources are anticipated to make up 32% of the general fund budget.

In FY 10 sales tax revenues were off \$165,000 (6%) from the previous year due to the combined effects of lower fuel prices and the general economic downturn. Sales tax revenues will likely experience some recovery in FY11 due to a slight increase in activity during the summer 2010 tourism season as compared to the 2009 season. Property tax revenues were down \$63,000 from the previous year primarily due to the elimination of the tax on personal property in FY10. Elimination of the personal property tax will have a negative impact on future property tax revenue streams, especially with the mandated 1 mill tax cap in the Haines Borough.

The Borough continues to invest in its infrastructure with the aid of state and federal subsidies where possible. In FY11 the Borough will complete a \$1.2 million replacement of the Lily Lake water transmission line with the aid of grants from the state and federal government. Also in FY11 work continues on the Port Chilkoot Dock renovation project with the use of regional passenger vessel impact funds from the state of Alaska.

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, 2010

	Primary Government			
	Governmental	Business-type	Total	Component Units
	Activities	Activities		
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 4,191,113	\$ 37,122	\$ 4,228,235	\$ 1,377,004
Investments	6,199,590	-	6,199,590	48,746
Receivables	929,301	81,002	1,010,303	229,419
Internal balances, net	(1,845,073)	1,845,073	-	-
Due from component units	70,323	-	70,323	-
Inventory and prepaid expenses	43,434	49,092	92,526	51,744
Performance deposit	-	10,219	10,219	-
Total current assets	9,588,688	2,022,508	11,611,196	1,706,913
Restricted Assets				
Cash and cash equivalents	521,278	-	521,278	-
Investments	6,887,049	-	6,887,049	-
Revenue bond debt service reserve investments	-	112,277	112,277	-
Receivables	69,377	-	69,377	-
Noncurrent Assets				
Receivables, net of current portion	423,694	-	423,694	-
Capital assets, net	31,461,375	15,923,493	47,384,868	136,076
Total assets	<u>\$ 48,951,461</u>	<u>\$ 18,058,278</u>	<u>\$ 67,009,739</u>	<u>\$ 1,842,989</u>
LIABILITIES				
Current Liabilities				
Accounts payable and accrued expenses	\$ 757,333	\$ 36,762	\$ 794,095	\$ 32,631
Accrued payroll	147,136	-	147,136	51,661
Accrued interest payable	-	4,390	4,390	-
Due to primary government	-	-	-	70,323
Due to component units	22,438	-	22,438	-
Deposits	-	31,247	31,247	-
Deferred revenue	1,627,202	-	1,627,202	26,590
Current portion of long-term obligations	687,262	45,668	732,930	-
Total current liabilities	3,241,371	118,067	3,359,438	181,205
Noncurrent Portion of Long-Term Obligations	14,758,022	1,529,974	16,287,996	-
Total liabilities	<u>17,999,393</u>	<u>1,648,041</u>	<u>19,647,434</u>	<u>181,205</u>
NET ASSETS				
Invested in Capital Assets, net of related debt	16,097,307	14,356,097	30,453,404	136,076
Restricted for				
Bond reserves	-	112,277	112,277	-
Medical services	173,295	-	173,295	-
Capital projects	1,137,752	-	1,137,752	-
Economic development	418,251	-	418,251	-
Museum projects and other	-	-	-	156,680
Permanent trust - nonexpendable	6,950,749	-	6,950,749	-
Unrestricted	6,174,714	1,941,863	8,116,577	1,369,028
Total net assets	<u>30,952,068</u>	<u>16,410,237</u>	<u>47,362,305</u>	<u>1,661,784</u>
Total liabilities and net assets	<u>\$ 48,951,461</u>	<u>\$ 18,058,278</u>	<u>\$ 67,009,739</u>	<u>\$ 1,842,989</u>

The accompanying notes to financial statements are an integral part of these statements.

HAINES BOROUGH
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

	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	\$ 1,662,573	\$ -	\$ 30,255	\$ 54,427	\$ (1,577,891)	\$ -	\$ (1,577,891)	\$ -
Public safety	1,036,018	235,519	122,406	-	(678,093)	-	(678,093)	-
Public works and streets	2,823,495	-	-	1,166,851	(1,656,644)	-	(1,656,644)	-
Economic development	432,703	-	-	-	(432,703)	-	(432,703)	-
Education	2,639,266	-	514,235	909,499	(1,215,532)	-	(1,215,532)	-
Port operations	501,560	213,830	205,235	3,144,368	3,061,873	-	3,061,873	-
Culture, recreation and library	1,130,348	59,213	-	224,265	(846,870)	-	(846,870)	-
Interest on long-term debt	734,785	-	-	-	(734,785)	-	(734,785)	-
Total governmental activities	10,960,748	508,562	872,131	5,499,410	(4,080,645)	-	(4,080,645)	-
Business-type activities								
Water	342,019	294,459	-	-	-	(47,560)	(47,560)	-
Sewer	538,980	356,711	-	-	-	(182,269)	(182,269)	-
Small boat harbor	483,686	115,777	-	-	-	(367,909)	(367,909)	-
Total business-type activities	1,364,685	766,947	-	-	-	(597,738)	(597,738)	-
Total	<u>\$ 12,325,433</u>	<u>\$ 1,275,509</u>	<u>\$ 872,131</u>	<u>\$ 5,499,410</u>	<u>(4,080,645)</u>	<u>(597,738)</u>	<u>(4,678,383)</u>	<u>-</u>
Component Units	<u>\$ 6,789,109</u>	<u>\$ 136,670</u>	<u>\$ 1,222,073</u>	<u>\$ 2,100</u>				(5,428,266)
General Revenue and Transfers								
Property taxes					2,296,696	-	2,296,696	-
Sales taxes					2,543,070	-	2,543,070	-
Provided by general government					-	-	-	2,212,167
Intergovernmental revenue not restricted to specific programs					1,154,021	1,249	1,155,270	3,406,439
Investment income					749,343	14,972	764,315	4,589
Licenses and permits					38,163	-	38,163	-
Rentals					66,653	-	66,653	-
Contributions and other					96,650	-	96,650	69,025
Payments in lieu of taxes					364,214	-	364,214	-
Loss on disposal of fixed assets					(10,981)	-	(10,981)	-
Special item - loan principal forgiveness					-	250,900	250,900	-
Transfers (contributions of capital assets and transfers from general government)					(2,645,980)	2,645,980	-	-
Total general revenue and transfers					4,651,849	2,913,101	7,564,950	5,692,220
Change in net assets					571,204	2,315,363	2,886,567	263,954
Net Assets, beginning of year					30,380,864	14,094,874	44,475,738	1,397,830
Net Assets, end of year					<u>\$ 30,952,068</u>	<u>\$ 16,410,237</u>	<u>\$ 47,362,305</u>	<u>\$ 1,661,784</u>

The accompanying notes to financial statements are an integral part of these statements.

HAINES BOROUGH
BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2010

	General Fund	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
ASSETS										
Cash and cash equivalents	\$ 4,191,113	\$ -	\$ -	\$ 16,374	\$ 504,904	\$ -	\$ -	\$ -	\$ -	\$ 4,712,391
Investments	6,199,590	-	-	6,887,049	-	-	-	-	-	13,086,639
Receivables	334,167	367,319	-	69,377	-	9,096	431,287	72,022	139,104	1,422,372
Due from other funds	115,843	487,986	469,352	-	-	18,538	-	1,042,886	941,369	3,075,974
Due from component units	70,323	-	-	-	-	-	-	-	-	70,323
Prepaid expenses	1,309	-	-	-	-	-	-	-	-	1,309
Inventory	42,125	-	-	-	-	-	-	-	-	42,125
Total assets	\$ 10,954,470	\$ 855,305	\$ 469,352	\$ 6,972,800	\$ 504,904	\$ 27,634	\$ 431,287	\$ 1,114,908	\$ 1,080,473	\$ 22,411,133
LIABILITIES AND FUND BALANCES										
Liabilities										
Accounts payable	\$ 241,318	\$ 28,344	\$ 1,744	\$ 1,453	\$ 49,212	\$ -	\$ 371,546	\$ 27,204	\$ 36,512	\$ 757,333
Accrued payroll	147,136	-	-	-	-	-	-	-	-	147,136
Due to other funds	4,780,662	-	-	20,598	60,048	-	59,741	-	-	4,921,049
Due to component units	22,438	-	-	-	-	-	-	-	-	22,438
Deferred revenue	1,598,049	367,319	467,608	-	-	-	-	4,540	369,654	2,807,170
Total liabilities	6,789,603	395,663	469,352	22,051	109,260	-	431,287	31,744	406,166	8,655,126
Fund Balances										
Reserved for										
Debt service	-	-	-	-	-	27,634	-	-	28,173	55,807
Capital projects	-	-	-	-	395,644	-	-	1,083,164	54,588	1,533,396
Permanent trust	-	-	-	6,950,749	-	-	-	-	-	6,950,749
Unreserved, designated for										
Subsequent year expenditures	347,729	235,419	-	-	-	-	-	-	-	583,148
Medical services	-	-	-	-	-	-	-	-	173,295	173,295
Economic development	-	-	-	-	-	-	-	-	418,251	418,251
Land development	-	224,223	-	-	-	-	-	-	-	224,223
Road maintenance	21,211	-	-	-	-	-	-	-	-	21,211
Equipment reserve	143,477	-	-	-	-	-	-	-	-	143,477
Unreserved, undesignated	3,652,450	-	-	-	-	-	-	-	-	3,652,450
Total fund balances	4,164,867	459,642	-	6,950,749	395,644	27,634	-	1,083,164	674,307	13,756,007
Total liabilities and fund balances	\$ 10,954,470	\$ 855,305	\$ 469,352	\$ 6,972,800	\$ 504,904	\$ 27,634	\$ 431,287	\$ 1,114,908	\$ 1,080,473	

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	31,461,375
Earned revenues that are not available to pay for current-period expenditures are deferred in the funds	1,179,970
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds	(15,445,284)
Net assets of governmental activities	\$ 30,952,068

The accompanying notes to financial statements are an integral part of these statements.

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

For the Year Ended June 30, 2010

	General Fund	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	\$ 1,897,247	\$ -	\$ -	\$ -	\$ -	\$ 385,665	\$ -	\$ -	\$ 14,195	\$ 2,297,107
Sales	1,161,696	-	-	-	-	-	-	690,688	690,686	2,543,070
Intergovernmental:										
Federal	451,480	-	43,927	-	-	-	31,723	-	62,389	589,519
State	1,205,218	-	-	-	-	909,499	4,279,496	-	423,933	6,818,146
Service and admission fees	508,562	-	-	-	-	-	-	-	-	508,562
Licenses and permits	38,163	-	-	-	-	-	-	-	-	38,163
Rentals	66,653	-	-	-	-	-	-	-	-	66,653
Investment earnings	184,521	-	-	564,263	292	-	-	-	267	749,343
Contributions and other	77,934	14,655	-	-	-	-	-	-	4,061	96,650
LID payments	-	-	-	-	-	-	-	-	601	601
Payments in lieu of taxes	359,766	-	-	-	-	-	-	-	-	359,766
Total revenues	5,951,240	14,655	43,927	564,263	292	1,295,164	4,311,219	690,688	1,196,132	14,067,580
Expenditures										
Current										
General government	1,230,792	172,064	-	20,224	-	-	-	-	69,886	1,492,966
Public safety	813,927	-	-	-	-	-	-	-	230,473	1,044,400
Public works and streets	1,864,997	-	-	-	-	-	-	-	-	1,864,997
Economic development	-	-	-	-	-	-	-	-	426,941	426,941
Education	1,903,298	-	43,927	-	-	-	-	-	20,181	1,967,406
Port operations	115,851	-	-	-	-	-	-	-	-	115,851
Culture, recreation, and library	844,733	-	-	-	-	-	-	-	-	844,733
Debt service										
Principal	-	-	-	-	-	645,000	-	-	639,758	1,284,758
Interest	-	-	-	-	-	654,283	-	-	87,920	742,203
Capital outlay										
General government	-	-	-	-	-	-	-	-	56,427	56,427
Public safety	-	-	-	-	-	-	-	-	-	-
Public works and streets	-	-	-	-	-	-	1,307,523	574,728	50,301	1,932,552
Education	-	-	-	-	83,914	-	-	-	-	83,914
Port operations	-	-	-	-	-	-	2,468,648	-	87,338	2,558,986
Culture, recreation, and library	-	-	-	-	-	-	54,412	-	215,503	269,915
Total expenditures	6,773,598	172,064	43,927	20,224	83,914	1,299,283	3,830,583	574,728	1,884,728	14,683,049
Excess (deficiency) of revenues over (under) expenditures	(822,358)	(157,409)	-	544,039	(83,622)	(4,119)	480,636	115,960	(688,596)	(615,469)
Other Financing Sources (Uses)										
Transfers in	20,000	-	-	-	-	-	232,894	275,185	730,693	1,258,772
Transfers out	(403,347)	-	-	-	-	-	(713,530)	(136,895)	(5,000)	(1,258,772)
Sale of capital assets	-	61,661	-	-	-	-	-	-	-	61,661
Total other financing sources and uses	(383,347)	61,661	-	-	-	-	(480,636)	138,290	725,693	61,661
Net change in fund balances	(1,205,705)	(95,748)	-	544,039	(83,622)	(4,119)	-	254,250	37,097	(553,808)
Fund Balances, beginning of year	5,370,572	555,390	-	6,406,710	479,266	31,753	-	828,914	637,210	14,309,815
Fund Balances, end of year	\$ 4,164,867	\$ 459,642	\$ -	\$ 6,950,749	\$ 395,644	\$ 27,634	\$ -	\$ 1,083,164	\$ 674,307	\$ 13,756,007

The accompanying notes to financial statements are an integral part of these 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, 2010

Net change in fund balances - total governmental funds	\$	(553,808)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlays	1,271,329	
Depreciation expense	<u>(1,477,473)</u>	(206,144)

Other transactions involving capital assets consist of sales of assets net of cash collected. Cash collected is current income in the fund financial statements and the gain on sales is revenue for the statement of activities.

Cash collected in the current year	<u>(72,642)</u>	(72,642)
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Revenue 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).

117,897

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.

1,292,176

Change in compensated absences		<u>(6,275)</u>
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Change in net assets of governmental activities	\$	<u><u>571,204</u></u>
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The accompanying notes to financial statements are an integral part of these statements.

HAINES BOROUGH
BALANCE SHEET -
PROPRIETARY FUNDS

June 30, 2010

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Small Boat Harbor	Total
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 36,747	\$ -	\$ 375	\$ 37,122
Receivables	34,524	41,907	4,571	81,002
Due from other funds	129,145	689,694	1,142,077	1,960,916
Inventory	45,376	3,716	-	49,092
Performance deposit	-	10,219	-	10,219
Total current assets	<u>245,792</u>	<u>745,536</u>	<u>1,147,023</u>	<u>2,138,351</u>
Restricted Assets				
Revenue bond debt service reserve instruments	-	112,277	-	112,277
Fixed Assets				
Land	15,010	9,000	-	24,010
Buildings	15,764	6,811	-	22,575
Improvements other than buildings	6,358,862	9,470,956	7,556,231	23,386,049
Equipment	-	-	77,832	77,832
Total fixed assets	<u>6,389,636</u>	<u>9,486,767</u>	<u>7,634,063</u>	<u>23,510,466</u>
Less Accumulated Depreciation	<u>3,053,844</u>	<u>4,256,688</u>	<u>695,230</u>	<u>8,005,762</u>
Net fixed assets	<u>3,335,792</u>	<u>5,230,079</u>	<u>6,938,833</u>	<u>15,504,704</u>
Construction in Progress	<u>48,290</u>	<u>11,398</u>	<u>359,101</u>	<u>418,789</u>
Total assets	<u>\$ 3,629,874</u>	<u>\$ 6,099,290</u>	<u>\$ 8,444,957</u>	<u>\$ 18,174,121</u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	\$ 13,792	\$ 11,702	\$ 11,268	\$ 36,762
Bond interest payable	-	4,390	-	4,390
Loan payable - current	14,203	-	-	14,203
Bond payable - current	-	31,465	-	31,465
Deposits	6,129	7,612	17,506	31,247
Due to other funds	-	-	115,843	115,843
Total current liabilities	<u>34,124</u>	<u>55,169</u>	<u>144,617</u>	<u>233,910</u>
Noncurrent Liabilities				
Accrued vacation	4,123	4,123	-	8,246
Revenue bonds payable	-	1,337,614	-	1,337,614
Loan payable	184,114	-	-	184,114
Total noncurrent liabilities	<u>188,237</u>	<u>1,341,737</u>	<u>-</u>	<u>1,529,974</u>
Total liabilities	<u>222,361</u>	<u>1,396,906</u>	<u>144,617</u>	<u>1,763,884</u>
Net Assets				
Invested in capital assets, net of related debt	3,185,765	3,872,398	7,297,934	14,356,097
Restricted for bond reserves	-	112,277	-	112,277
Unrestricted	<u>221,748</u>	<u>717,709</u>	<u>1,002,406</u>	<u>1,941,863</u>
Total net assets	<u>3,407,513</u>	<u>4,702,384</u>	<u>8,300,340</u>	<u>16,410,237</u>
Total liabilities and net assets	<u>\$ 3,629,874</u>	<u>\$ 6,099,290</u>	<u>\$ 8,444,957</u>	<u>\$ 18,174,121</u>

The accompanying notes to financial statements are an integral part of these statements.

HAINES BOROUGH
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS

For the Year Ended June 30, 2010

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Harbor	Total
Operating Revenue				
Charges for services	\$ 294,459	\$ 356,711	\$ 115,777	\$ 766,947
General Revenue				
Intergovernmental	1,249	-	-	1,249
Operating Expenses				
Depreciation	115,181	211,699	277,548	604,428
Salaries and benefits	131,095	121,659	106,466	359,220
Utilities	22,018	70,163	38,723	130,904
Professional services	29,462	24,717	20,022	74,201
Materials and supplies	32,555	19,917	20,930	73,402
Banking and insurance	4,672	5,193	4,946	14,811
Repairs and maintenance	108	8,701	-	8,809
Vehicle	2,148	2,754	3,413	8,315
Advertising, dues and subscriptions	599	2,776	903	4,278
Travel and training	1,411	20	1,701	3,132
Total operating expenses	339,249	467,599	474,652	1,281,500
Operating loss	(43,541)	(110,888)	(358,875)	(513,304)
Nonoperating Revenue (Expense)				
Investment income	4,621	4,103	6,248	14,972
Interest expense	(2,770)	(71,381)	-	(74,151)
Other - loss on disposal	-	-	(9,034)	(9,034)
Total nonoperating revenue (expense)	1,851	(67,278)	(2,786)	(68,213)
Loss before contributions and transfers	(41,690)	(178,166)	(361,661)	(581,517)
Contributions in aid of construction	341,602	-	4,239,145	4,580,747
Transfers in (out)	-	-	(1,934,767)	(1,934,767)
Special item - loan principal forgiveness	250,900	-	-	250,900
Change in net assets	550,812	(178,166)	1,942,717	2,315,363
Net Assets, beginning of year	2,856,701	4,880,550	6,357,623	14,094,874
Net Assets, end of year	\$ 3,407,513	\$ 4,702,384	\$ 8,300,340	\$ 16,410,237

The accompanying notes to financial statements are an integral part of these statements.

HAINES BOROUGH
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
For the Year Ended June 30, 2010

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Small Boat Harbor	Total
Cash Flows from Operating Activities				
Cash received from customers	\$ 310,653	\$ 358,198	\$ 119,597	\$ 788,448
Cash paid to suppliers	(105,154)	(126,800)	(89,419)	(321,373)
Cash paid to employees	(131,161)	(121,725)	(106,466)	(359,352)
Net cash transferred from (to) general fund	(38,044)	1,413	(1,172,429)	(1,209,060)
Net cash flows from operating activities	36,294	111,086	(1,248,717)	(1,101,337)
Cash Flows from Capital and Related Financing Activities				
Purchases of fixed assets	(23,942)	(11,399)	-	(35,341)
Transfers to other funds	-	-	(1,934,767)	(1,934,767)
Repayment of loan payable	(14,203)	-	-	(14,203)
Interest on bonds and loan payable	(2,770)	(70,593)	-	(73,363)
Repayment of bonds payable	-	(29,837)	-	(29,837)
Net cash flows from capital and related financing activities	(40,915)	(111,829)	(1,934,767)	(2,087,511)
Cash Flows from Investing Activities				
Purchase of investments	-	(9,830)	-	(9,830)
Change in performance deposit	-	6,470	-	6,470
Investment income	4,621	4,103	6,248	14,972
Net cash flows from investing activities	4,621	743	6,248	11,612
Net decrease in cash	-	-	(3,177,236)	(3,177,236)
Cash and Cash Equivalents, beginning of year	36,747	-	3,177,611	3,214,358
Cash and Cash Equivalents, end of year	\$ 36,747	\$ -	\$ 375	\$ 37,122
Reconciliation of Operating Loss to Net Cash Flows from Operating Activities				
Operating loss	\$ (43,541)	\$ (110,888)	\$ (358,875)	\$ (513,304)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities				
Depreciation	115,181	211,699	277,548	604,428
Changes in operating assets and liabilities				
Receivables	16,396	3,999	2,589	22,984
Due from other funds	(38,044)	1,413	(1,172,429)	(1,209,060)
Inventory	(15,225)	3,825	-	(11,400)
Accounts payable	3,044	3,616	1,219	7,879
Accrued vacation	(66)	(66)	-	(132)
Deposits	(1,451)	(2,512)	1,231	(2,732)
Total adjustments	79,835	221,974	(889,842)	(588,033)
Net cash flows from operating activities	\$ 36,294	\$ 111,086	\$ (1,248,717)	\$ (1,101,337)
Noncash Capital and Related Financing Activities				
Special item - loan principal forgiveness	\$ 250,900	\$ -	\$ -	\$ 250,900

The accompanying notes to financial statements are an integral part of these statements.

HAINES BOROUGH
 COMPONENT UNIT COMBINING STATEMENT OF NET ASSETS
 June 30, 2010

	Haines Borough School District	Sheldon Museum	Haines Borough Public Library	Non-major Component Unit	Total
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 1,156,725	\$ 114,751	\$ 57,102	\$ 48,426	\$ 1,377,004
Investments	5,150	43,596	-	-	48,746
Receivables	186,586	2,215	40,618	-	229,419
Inventory and prepaid expenses	-	51,744	-	-	51,744
Total current assets	1,348,461	212,306	97,720	48,426	1,706,913
Noncurrent Assets					
Capital assets, net	83,063	53,013	-	-	136,076
Total assets	<u>\$ 1,431,524</u>	<u>\$ 265,319</u>	<u>\$ 97,720</u>	<u>\$ 48,426</u>	<u>\$ 1,842,989</u>
LIABILITIES					
Current Liabilities					
Accounts payable	\$ 30,750	\$ 1,737	\$ 144	\$ -	\$ 32,631
Due to governmental entity	-	19,610	9,803	40,910	70,323
Accrued payroll and related liabilities	31,676	6,992	12,993	-	51,661
Deferred revenue	4,507	19,710	2,373	-	26,590
Total current liabilities	66,933	48,049	25,313	40,910	181,205
NET ASSETS					
Invested in Capital Assets	83,063	53,013	-	-	136,076
Restricted for Museum					
Projects and Other	-	155,117	1,563	-	156,680
Unrestricted	1,281,528	9,140	70,844	7,516	1,369,028
Total net assets	1,364,591	217,270	72,407	7,516	1,661,784
Total liabilities and net assets	<u>\$ 1,431,524</u>	<u>\$ 265,319</u>	<u>\$ 97,720</u>	<u>\$ 48,426</u>	<u>\$ 1,842,989</u>

The accompanying notes to financial statements are an integral part of these statements.

HAINES BOROUGH
 COMPONENT UNIT COMBINING STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2010

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
		Fee, 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 Unit	Total
Haines Borough School District	\$ 6,014,397	\$ 52,947	\$ 1,055,723	\$ -	\$ (4,905,727)	\$ -	\$ -	\$ -	\$ (4,905,727)
Sheldon Museum	294,318	68,662	34,043	-	-	(191,613)	-	-	(191,613)
Haines Borough Public Library	451,740	15,061	112,107	-	-	-	(324,572)	-	(324,572)
Non-Major Component Units	28,654	-	20,200	2,100	-	-	-	(6,354)	(6,354)
	<u>\$ 6,789,109</u>	<u>\$ 136,670</u>	<u>\$ 1,222,073</u>	<u>\$ 2,100</u>	<u>(4,905,727)</u>	<u>(191,613)</u>	<u>(324,572)</u>	<u>(6,354)</u>	<u>(5,428,266)</u>
General Revenues									
Provided by general government					1,695,818	182,800	307,000	26,549	2,212,167
State of Alaska					3,406,439	-	-	-	3,406,439
Investment income					1,794	2,671	119	5	4,589
Contributions and other					33,619	11,979	22,545	882	69,025
Total General Revenue and Transfers					<u>5,137,670</u>	<u>197,450</u>	<u>329,664</u>	<u>27,436</u>	<u>5,692,220</u>
Change in Net Assets					231,943	5,837	5,092	21,082	263,954
Net Assets, beginning of year					<u>1,132,648</u>	<u>211,433</u>	<u>67,315</u>	<u>(13,566)</u>	<u>1,397,830</u>
Net Assets, end of year					<u>\$ 1,364,591</u>	<u>\$ 217,270</u>	<u>\$ 72,407</u>	<u>\$ 7,516</u>	<u>\$ 1,661,784</u>

The accompanying notes to financial statements are an integral part of these statements.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2010

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 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 District's 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 19) and the combining statement of activities (page 20).

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 separately audited financial statements.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, unless designated by the Assembly for future land development.

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.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 are depreciated using the straight-line method over the following estimated useful lives:

	<u>Estimated Useful Life</u>
Building 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.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Reclassifications

Certain prior year financial statement balances have been reclassified to conform to the current year presentation.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

The appropriated budget is prepared by fund, function, and department using the modified accrual basis of accounting. 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, 2010 expenditures exceeded appropriations in the following departments (the legal level of budgetary control):

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

Excess of Expenditures over Appropriations (continued)

General fund	
Administration	\$ 74,564
Elections	28,090
Parks and recreation	7,104
Special revenue funds	
Daycare	2,181
National forests	9,590
Seatrails Ripinky Trail	11,186
Small grants	9,277
Land disposal	5,091
Capital project funds	
Letnikof Boarding Float	480,798
Water Utility Improvement Grants	614,023
Permanent fund	1,573

These over-expenditures were funded by revenues that were greater than anticipated and various grants.

NOTE 3 - CASH

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, 2010, the carrying amount of the Borough's cash balances was \$4,759,732, while the bank and other institution balances were \$4,778,223. These balances are categorized as follows:

	<u>Bank Balance</u>
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	\$ 3,488,746
Uncollateralized	<u>1,298,477</u>
	<u>\$ 4,787,223</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 \$1,033,344 at June 30, 2010.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - CASH (CONTINUED)

	Carrying Amount
Reconciliation to statement of net assets:	
Cash and cash equivalents	\$ 4,228,235
Restricted cash and cash equivalents	521,278
Performance deposit	10,219
	<u>\$ 4,759,732</u>
Cash and cash equivalents consist of:	
Cash	\$ 2,109,785
Cash equivalents	2,649,947
	<u>\$ 4,759,732</u>

NOTE 4 - 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.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - INVESTMENTS (CONTINUED)

Investments made by the Borough are summarized below:

	Investment Maturities (in years)				Total
	Less than 1	1-5	6-10	Over 10	
Investments held by agent in the Borough's name					
Certificates of Deposit	\$ 1,490,373	\$ 4,321,974	\$ -	\$ -	\$ 5,812,347
U.S. Government Instruments	703,230	1,814,227	927,343	1,198	3,445,998
Corporate Debt	510,116	1,014,940	936,848	-	2,461,904
Total debt securities	<u>\$ 2,703,719</u>	<u>\$ 7,151,141</u>	<u>\$ 1,864,191</u>	<u>\$ 1,198</u>	<u>11,720,249</u>
Common stocks (mutual fund that holds the stocks of the S&P 500)					1,140,477
Equity funds					338,190
					<u>\$ 13,198,916</u>
Reconciliation to statement of net assets					
Investments					\$ 6,199,590
Restricted investments					6,887,049
Revenue bond future debt service accounts					112,277
					<u>\$ 13,198,916</u>

Sheldon Museum component unit investment balance of \$43,596 consisted entirely of long term certificates of deposits. The School District's investment balance of \$5,150 consisted of mutual funds and their cost approximates market value.

The credit quality ratings of the Borough's corporate debt investments as of June 30, 2010, as described by the nationally recognized statistical rating organizations, are shown below:

	S&P Rating	Investment Fair Value	% of Total
Corporate	AAA	\$ 141,846	5.76%
Corporate	AA	843,273	34.25%
Corporate	A	1,212,445	49.25%
Corporate	A1	100,008	4.06%
Corporate	Unrated	164,332	6.67%
		<u>\$ 2,461,904</u>	<u>100.00%</u>

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - RECEIVABLES AND DEFERRED REVENUE

Receivables at June 30, 2010, for the individual major funds and nonmajor funds in the aggregate, net of applicable allowances for uncollectible accounts (\$25,168 at June 30, 2010), are as follows:

	Taxes	Land Sale/LID Contracts	Revolving Loan Contracts	Water, Sewer and Harbor Fees	State and Federal Governments	Accrued Interest and Other	Total
General fund	\$ 218,041	\$ -	\$ 106,375	\$ -	\$ -	\$ 9,751	\$ 334,167
Land disposal fund	-	357,280	-	-	-	10,039	367,319
Permanent trust	-	-	-	-	-	69,377	69,377
New school debt service	-	-	-	-	9,096	-	9,096
Special capital projects	-	-	-	-	431,287	-	431,287
Borough capital improvements	72,022	-	-	-	-	-	72,022
Other governments funds	72,022	-	-	-	67,082	-	139,104
Water fund	-	-	-	34,524	-	-	34,524
Sewer fund	-	-	-	41,907	-	-	41,907
Small boat harbor fund	-	-	-	3,565	-	1,006	4,571
Total	\$ 362,085	\$ 357,280	\$ 106,375	\$ 79,996	\$ 507,465	\$ 90,173	\$ 1,503,374

Reconciliation to statement of net assets:

Current receivables	\$ 1,010,303
Restricted receivables	69,377
Noncurrent receivables	423,694
	<u>\$ 1,503,374</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 loans contracted through the Juneau Economic Development Council with interest is charged between 7.5% and 7.75%, of which 5% interest goes to the loan fund and any additional interest received goes to the Borough.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - RECEIVABLES AND DEFERRED REVENUE (CONTINUED)

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

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes receivable (general fund)	\$ 95,598	\$ -	\$ 95,598
Payments in lieu of taxes	-	364,214	364,214
Land sale/LID receivables (including accrued interest)	367,319	3,509	370,828
Grants and contributions	<u>-</u>	<u>1,976,530</u>	<u>1,976,530</u>
Total deferred/unearned revenue for governmental funds	<u>462,917</u>	<u>2,344,253</u>	<u>2,807,170</u>
Amounts not deferred for government-wide financial statements			
Property taxes receivable	(95,598)	-	(95,598)
Payments in lieu of taxes	-	(364,214)	(364,214)
Land sales/LID receivables	(367,319)	-	(367,319)
Passenger vessel excise tax	-	(351,307)	(351,307)
Grants and contributions	<u>-</u>	<u>(1,530)</u>	<u>(1,530)</u>
Total deferred/unearned revenue for government-wide financial statements	<u>\$ -</u>	<u>\$ 1,627,202</u>	<u>\$ 1,627,202</u>

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - CAPITAL ASSETS

Capital assets for the year ended June 30, 2010 were as follows:

	Balance, June 30, 2009	Increases	Transfers/ Decreases	Balance, June 30, 2010
<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 - PC docks	-	183,228	-	183,228
Construction in progress - roads	608,552	-	(608,552)	-
Total capital assets not being depreciated	1,336,374	183,228	(608,552)	911,050
Other capital assets:				
Buildings	32,139,451	324,859	-	32,464,310
Other improvements	13,338,492	-	-	13,338,492
Furniture and equipment	4,137,150	76,144	-	4,213,294
Road network	5,035,455	1,295,650	-	6,331,105
Total other capital assets	54,650,548	1,696,653	-	56,347,201
Less accumulated depreciation for:				
Buildings	10,397,520	790,660	-	11,188,180
Other improvements	6,564,073	375,377	-	6,939,450
Furniture and equipment	3,339,836	169,354	-	3,509,190
Road network	4,017,974	142,082	-	4,160,056
Total accumulated depreciation	24,319,403	1,477,473	-	25,796,876
Other capital assets, net	30,331,145	219,180	-	30,550,325
Governmental activities capital assets, net	<u>\$ 31,667,519</u>	<u>\$ 402,408</u>	<u>\$ (608,552)</u>	<u>\$ 31,461,375</u>
<u>Business-type activities</u>				
Capital assets not being depreciated:				
Land and improvements	\$ 24,010	\$ -	\$ -	\$ 24,010
Construction in progress	2,760,695	4,894,067	(7,235,973)	418,789
Total capital assets not being depreciated	2,784,705	4,894,067	(7,235,973)	442,799
Other capital assets:				
Buildings	22,575	-	-	22,575
Other improvements (including distribution and collection systems)	16,573,105	7,235,973	(423,029)	23,386,049
Equipment	77,832	-	-	77,832
Total other capital assets	16,673,512	7,235,973	(423,029)	23,486,456
Less accumulated depreciation for:				
Buildings	22,575	-	-	22,575
Other improvements (including distribution and collection systems)	7,731,529	596,124	(413,995)	7,913,658
Equipment	61,225	8,304	-	69,529
Total accumulated depreciation	7,815,329	604,428	(413,995)	8,005,762
Other capital assets, net	8,858,183	6,631,545	(9,034)	15,480,694
Business-type activities capital assets, net	<u>\$ 11,642,888</u>	<u>\$ 11,525,612</u>	<u>\$ (7,245,007)</u>	<u>\$ 15,923,493</u>

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - CAPITAL ASSETS (CONTINUED)

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

<u>Governmental activities</u>	
General government	\$ 103,469
Public safety	67,762
Public works and streets, including depreciation of general infrastructure assets	178,340
Economic development	5,762
Education	587,946
Port operations	317,329
Culture, recreation, and library	<u>216,865</u>
Total depreciation expense - governmental activities	<u>\$ 1,477,473</u>
<u>Business-type activities</u>	
Water	\$ 115,181
Sewer	211,699
Harbor	<u>277,548</u>
Total depreciation expense - business-type activities	<u>\$ 604,428</u>

Construction contract commitments at year-end include:

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, 2010, the cost and accumulated depreciation associated with these assets was \$23,505,536 and \$5,914,451, respectively.

At June 30, 2010, the Borough had an outstanding contract for First Avenue, Willard Street and Ocean View Drive water system upgrade for approximately \$421,000 with a remaining commitment of approximately \$140,000.

The Borough had an outstanding contract to provide a steel structure covered play area for approximately \$274,000 with a remaining commitment of approximately \$274,000.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - LONG TERM DEBT

The Borough's long-term debt includes general obligation debt and revenue bonds. General obligation bonds and loans are direct obligations of the Borough and the Borough has pledged its full faith and credit to their repayment. Revenue bonds are payable from the sewer user fees. Compensated absences included in governmental activities are generally liquidated by the general fund.

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
<u>Governmental Activities</u>					
Bonds and notes payable:					
PC Dock bonds	\$ 635,000	\$ -	\$ 635,000	\$ -	\$ -
USDA bonds	198,840	-	4,758	194,082	4,844
School construction bonds	15,700,000	-	645,000	15,055,000	675,000
School bonds premium	122,404	-	7,418	114,986	7,418
Total bonds and notes payable	16,656,244	-	1,292,176	15,364,068	687,262
Other liabilities:					
Compensated absences	74,936	6,280	-	81,216	-
Governmental activities long-term liabilities	<u>\$ 16,731,180</u>	<u>\$ 6,280</u>	<u>\$ 1,292,176</u>	<u>\$ 15,445,284</u>	<u>\$ 687,262</u>
<u>Business-type Activities</u>					
Bonds and notes payable:					
Sewer revenue bonds	\$ 1,398,916	\$ -	\$ 29,837	\$ 1,369,079	\$ 31,465
State of Alaska DEC loans payable	184,643	27,877	14,203	198,317	14,203
Total bonds and notes payable	1,583,559	27,877	44,040	1,567,396	45,668
Other Liabilities					
Compensated absences	8,378	-	132	8,246	-
Business-type activities long-term liabilities	<u>\$ 1,591,937</u>	<u>\$ 27,877</u>	<u>\$ 44,172</u>	<u>\$ 1,575,642</u>	<u>\$ 45,668</u>

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - LONG TERM DEBT (CONTINUED)

Bonds and notes payable at June 30, 2010, is compromised 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 \$114,986 at June 30, 2010) \$ 15,055,000

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% 194,082

Total 15,249,082

Unamortized premiums 114,986

Total General Debt 15,364,068

Less Current portion (687,262)

Total General Long-Term Debt \$ 14,676,806

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 \$ 1,369,079

Loan from the State of Alaska Department of Environmental Conservation, due in annual principal installments of \$14,203, plus interest at 1.5%, through 2022 170,440

Loan from the State of Alaska Department of Environmental Conservation, due in annual principal installments starting one year after the first disbursement. Interest is to accrue at 1.5% and principal paid over 20 years. 27,877

Total Enterprise Funds Debt 1,567,396

Less Current portion (45,668)

Total Enterprise Funds Long-Term Debt \$ 1,521,728

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - LONG TERM DEBT (CONTINUED)

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, 2010, are as follows:

Governmental Activities:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 687,262	\$ 637,687	\$ 1,324,949
2012	712,495	609,452	1,321,947
2013	742,743	580,606	1,323,349
2014	773,001	546,747	1,319,748
2015	808,277	507,601	1,315,878
2016 - 2020	4,625,915	1,956,008	6,581,923
2021 - 2025	5,659,962	906,598	6,566,560
2026 - 2030	1,318,056	43,174	1,361,230
2031 - 2035	36,357	2,971	39,328
	<u>\$ 15,364,068</u>	<u>\$ 5,790,844</u>	<u>\$ 21,154,912</u>

Business-type Activities:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 45,668	\$ 86,513	\$ 132,181
2012	48,506	85,085	133,591
2013	50,245	83,136	133,381
2014	52,068	81,097	133,165
2015	53,988	78,964	132,952
2016 - 2020	302,381	349,185	651,566
2021 - 2025	325,000	246,663	571,663
2026 - 2030	380,486	133,722	514,208
2031 - 2035	309,054	31,120	340,174
	<u>\$ 1,567,396</u>	<u>\$ 1,175,485</u>	<u>\$ 2,742,881</u>

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - 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, 2010, was \$120,707.

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 \$104,914 and the debt service requirement was \$101,218 resulting in a ratio of 1.04 for the Sewer Enterprise Fund, so the Borough was not in compliance with this requirement.

NOTE 9 - BOND DEFEASANCE

On May 4, 2005, the Borough issued its General Obligation Refunding Bond, 2005, in the original principal amount of \$1,040,000 with interest rates ranging from 4-5%. On October 13, 2009 the Borough received a grant from the State of Alaska to pay the debt service on the Bond in the amount of \$698,130. This grant was used to purchase a series of U.S. Securities scheduled to mature on the date of future debt service payments. As a result that portion of the bond is considered defeased, and as such, the Borough removed the liability from the face of its financial statements. The outstanding principal of the defeased bond is \$540,000 at June 30, 2010.

The advance refunding reduced total debt service payments over the next six years by \$99,150. This resulted in an economic loss (difference between the present value of the debt service payments on the cash deposited into the Escrow account) of \$63,374.

NOTE 10 - RETIREMENT PLAN

Defined Benefit Pension Plan

Plan Description

The Alaska Public Employees' Retirement System (PERS) was originally established as an agent multiple-employer defined benefit plan which covers eligible State and local government employees. On July 1, 2008, State Legislation (Senate Bill 125) converted the plan to a cost-sharing multiple-employer plan. Under the cost-sharing plan arrangement, the State of Alaska Division of Retirement and Benefits will no longer track individual employer assets and liabilities. Rather, all plan costs and past service liabilities will be shared among all participating employers.

The plan was established and is administered by the State of Alaska to provide pension, post-employment healthcare, death and disability benefits. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The plan issues a stand-alone financial report, which includes financial statements and required supplementary information. That report may be obtained by writing the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska 99811-0203.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 10 - RETIREMENT PLAN (CONTINUED)

Funding Policy

Police and fire department employees are required by statutes 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.

AS 39.35.255 established a statutory PERS employer contribution rate of 22% of annual covered payroll. Out of the 22%, 7.96% funded pension and 14.04% funded other post-employment benefits (OPEB).

AS 39.35.280 requires additional State contribution to make up the difference between the statutory PERS employer contribution rate of 22% and the actuarially determined fiscal year 2010 contribution rate of 27.65%. In accordance with the provisions of GASB Statement Number 24, the Borough has recorded the State contribution in the amount of \$108,200 as a PERS on-behalf payment. However because the Borough is legally responsible only for the payments of up to 22% of covered payroll, this amount has been excluded from pension and OPEB costs as shown below.

Period Ending	Annual Pension Cost	Annual OPEB Cost	Total Benefit Cost	Percentage of Required Contribution Contributed
June 30, 2010	\$ 87,552	\$ 154,305	\$ 241,857	100%
June 30, 2009*	75,976	178,976	254,952	100

*Due to PERS conversion to a cost-sharing plan in fiscal year 2009, information for prior 2008 fiscal year is not available.

Defined Contribution Pension Plan

Plan Description

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. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. 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%	0.30%
Unfunded benefit liability	11.68%	12.71%
Total employer contribution	22.00%	22.00%

The Borough made PERS Tier IV pension and other post-employment benefits contributions of \$42,585 and \$144,790, respectively, for the year ended June 30, 2010. The Borough employees contributed \$68,136 toward pension during fiscal year 2010.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 11 - 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, 2010, was as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Special capital projects	\$ 59,741
General	New school construction	60,048
General	Permanent trust	20,598
General	Small boat harbor	115,843
Land disposal	General	487,986
National forest receipts	General	469,352
New school debt service	General	18,538
Borough capital improvements	General	1,042,886
Nonmajor governmental funds	General	941,369
Water	General	129,145
Sewer	General	689,694
Small Boats Harbor	General	1,142,077

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

	<u>Transfers In</u>				<u>Total</u>
	<u>General Fund</u>	<u>Special Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Borough Capital Improvements</u>	
Transfers out:					
General Fund	\$ -	\$ 110,999	\$ 17,163	\$ 275,185	\$ 403,347
Special Capital Projects	-	-	713,530	-	713,530
Borough Capital Improvements	15,000	121,895	-	-	136,895
Other Governmental Funds	5,000	-	-	-	5,000
Total	<u>\$ 20,000</u>	<u>\$ 232,894</u>	<u>\$ 730,693</u>	<u>\$ 275,185</u>	<u>\$ 1,258,772</u>

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

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 12 - 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 the Borough's coverage 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 13 - 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.

NOTE 14 - SUBSEQUENT EVENT

Subsequent to fiscal year end the Borough acquired a water and sewer utility system. The purchase was financed through a long term loan from the Borough's general fund to the water and sewer enterprise funds.

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, 2010

	Budget Amounts			Variance Favorable (Unfavorable)
	Original	Final	Actual	
Revenue				
Taxes				
Property	\$ 1,898,685	\$ 1,898,685	\$ 1,897,247	\$ (1,438)
Sales	1,181,000	1,139,000	1,161,696	22,696
Intergovernmental	1,355,500	1,541,514	1,656,698	115,184
Service and admission fees	209,700	539,700	508,562	(31,138)
Licenses and permits	30,000	30,000	38,163	8,163
Rentals	67,000	67,000	66,653	(347)
Investment income	112,000	112,000	184,521	72,521
Contributions and other	35,000	84,000	77,934	(6,066)
Payments in lieu of taxes	340,000	359,766	359,766	-
Total Revenue	<u>5,228,885</u>	<u>5,771,665</u>	<u>5,951,240</u>	<u>179,575</u>
Expenditures				
Current				
General government	1,009,957	1,223,771	1,230,792	(7,021)
Public safety	901,516	886,366	813,927	72,439
Public works and streets	806,170	2,006,445	1,864,997	141,448
Education	1,901,044	1,903,144	1,903,298	(154)
Port operations	129,190	129,190	115,851	13,339
Culture, recreation, and library	891,737	863,301	844,733	18,568
Total Expenditures	<u>5,639,614</u>	<u>7,012,217</u>	<u>6,773,598</u>	<u>238,619</u>
Excess (deficiency) of revenue over expenditures	(410,729)	(1,240,552)	(822,358)	418,194
Other financing sources (uses)				
Transfers in	20,000	20,000	20,000	-
Transfers out	(230,000)	(230,000)	(403,347)	(173,347)
Total other financing sources (uses)	<u>(210,000)</u>	<u>(210,000)</u>	<u>(383,347)</u>	<u>(173,347)</u>
Net change in fund balance	<u>\$ (620,729)</u>	<u>\$ (1,450,552)</u>	<u>\$ (1,205,705)</u>	<u>\$ 244,847</u>

HAINES BOROUGH
BUDGETARY COMPARISON SCHEDULE -
MUNICIPAL LAND DISPOSAL FUND

For the Year Ended June 30, 2010

	Budget Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenue				
Contributions and other	\$ -	\$ -	\$ 14,655	\$ 14,655
Expenditures				
General government	66,972	166,972	172,064	(5,092)
Excess (deficiency) of revenue over expenditures	(66,972)	(166,972)	(157,409)	9,563
Other financing sources (uses)				
Sale of capital assets	80,000	80,000	61,661	(18,339)
Net change in fund balance	\$ 13,028	\$ (86,972)	\$ (95,748)	\$ (8,776)

HAINES BOROUGH
BUDGETARY COMPARISON SCHEDULE -
NATIONAL FOREST RECEIPTS SPECIAL REVENUE FUND

For the Year Ended June 30, 2010

	Budget Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenue				
Intergovernmental	\$ -	\$ 34,337	\$ 43,927	\$ 9,590
Expenditures				
Education	-	34,337	43,927	(9,590)
Excess (deficiency) of revenue over expenditures	-	-	-	-
Net change in fund balance	\$ -	\$ -	\$ -	\$ -