

HAINES BOROUGH  
FINANCIAL STATEMENTS  
For the Year Ended June 30, 2015  
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

HAINES BOROUGH  
FINANCIAL STATEMENTS  
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CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

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, 2015, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

The Borough's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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 represent 2% of total assets in the statement of net position and 35% 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## ***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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of a Matter***

As discussed in Notes 1 and 11 to the financial statements, the Borough adopted the provision of Government Accounting Standards Board Statement No. 68 *Accounting and Financial Reporting for Pensions* during the year ended June 30, 2015. The implementation resulted in a reduction of the Borough's previously presented Unrestricted Net Position of its Governmental and Business-Type Activities of \$2,053,027 and \$279,958, respectively, representing a six percent and one percent reduction, respectively. The Borough has determined that the funding component of the Net Pension Liability attributable to contributions by the State of Alaska under AS 39.35.280 to be a Special Funding Situation. Accordingly, it has not recorded a liability for the State of Alaska's proportionate share of the total net pension liability totaling \$2,289,751 as of June 30, 2015.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that budgetary comparison information and pension schedules as listed in the table of contents 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 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 evidence sufficient to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by 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. Our opinion on the basic financial statements is not affected by this missing information.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2016 on our consideration of 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* in considering Haines Borough's internal control over financial reporting and compliance.

A handwritten signature in black ink, consisting of the letters 'E', 'R', and 'M' in a cursive, stylized font.

February 5, 2016

HAINES BOROUGH  
STATEMENT OF NET POSITION  
June 30, 2015

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 1,581,120	\$ 300	\$ 1,581,420	\$ 1,850,136
Investments	7,379,496	-	7,379,496	5,388
Receivables	1,364,312	645,855	2,010,167	219,910
Internal balances, net	(2,251,893)	2,251,893	-	-
Due from component units	27,926	-	27,926	-
Inventory and prepaid expenses	291,297	189,875	481,172	185,494
Total current assets	8,392,258	3,087,923	11,480,181	2,260,928
<b>Restricted Assets</b>				
Cash and cash equivalents	60,447	-	60,447	-
Investments	8,510,688	-	8,510,688	-
Revenue bond debt service reserve investments	-	87,344	87,344	-
Receivables	60,577	-	60,577	-
<b>Noncurrent Assets</b>				
Receivables, net of current portion	205,593	-	205,593	-
Capital assets, net	32,582,405	33,646,817	66,229,222	211,017
<b>Deferred Outflows of Resources</b>				
	232,971	31,768	264,739	139,174
Total assets and deferred outflows of resources	50,044,939	36,853,852	86,898,791	2,611,119
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued expenses	437,088	428,210	865,298	132,496
Accrued payroll	225,520	-	225,520	37,406
Due to primary government	-	-	-	27,926
Due to component units	159,295	-	159,295	-
Deposits	-	45,741	45,741	-
Unearned revenue	282,414	-	282,414	9,178
Current portion of long-term obligations	1,047,271	104,637	1,151,908	-
Total current liabilities	2,151,588	578,588	2,730,176	207,006
<b>Noncurrent Liabilities</b>				
Compensated absences	153,351	24,040	177,391	-
Accrued vacation	-	-	-	90,658
Bonds and loans payable	10,906,417	2,126,240	13,032,657	-
Net pension liability	2,047,487	279,202	2,326,689	1,773,024
Total liabilities	15,258,843	3,008,070	18,266,913	2,070,688
<b>Deferred Inflows of Resources</b>				
	236,553	32,258	268,811	307,445
Total liabilities and deferred inflows of resources	15,495,396	3,040,328	18,535,724	2,378,133
<b>NET POSITION</b>				
Net investment in capital assets	20,628,717	31,602,581	52,231,298	211,017
<b>Restricted for</b>				
Bond reserves	218,842	87,344	306,186	-
Medical services	121,183	-	121,183	-
Capital projects	1,552,456	-	1,552,456	-
Economic development	439,050	-	439,050	-
Museum projects and other	-	-	-	195,992
Permanent fund - nonexpendable	7,228,020	-	7,228,020	-
<b>Unrestricted</b>				
	4,361,275	2,123,599	6,484,874	(174,023)
Total net position	\$ 34,549,543	\$ 33,813,524	\$ 68,363,067	\$ 232,986

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

HAINES BOROUGH  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2015

	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position			
		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	\$ 2,056,490	\$ -	\$ -	\$ -	\$ (2,056,490)	\$ -	\$ (2,056,490)	\$ -
Public safety	1,758,058	5,959	396,423	-	(1,355,676)	-	(1,355,676)	-
Public works and streets	1,963,960	-	-	1,038,956	(925,004)	-	(925,004)	-
Economic development	471,561	-	-	-	(471,561)	-	(471,561)	-
Education	2,445,403	-	141,381	886,530	(1,417,492)	-	(1,417,492)	-
Port development	130,059	-	144,020	-	13,961	-	13,961	-
Culture, recreation and library	1,025,654	66,471	-	-	(959,183)	-	(959,183)	-
Interest on long-term debt	559,641	-	-	-	(559,641)	-	(559,641)	-
Total governmental activities	10,410,826	72,430	681,824	1,925,486	(7,731,086)	-	(7,731,086)	-
Business-type activities								
Water	586,070	379,222	-	-	-	(206,848)	(206,848)	-
Sewer	575,741	439,771	-	-	-	(135,970)	(135,970)	-
Small boat harbor	847,951	480,036	-	-	-	(367,915)	(367,915)	-
Lutak dock	348,173	415,671	-	-	-	67,498	67,498	-
Port Chilkoot dock	429,403	76,222	-	-	-	(353,181)	(353,181)	-
Total business-type activities	2,787,338	1,790,922	-	-	-	(996,416)	(996,416)	-
Total	<u>\$ 13,198,164</u>	<u>\$ 1,863,352</u>	<u>\$ 681,824</u>	<u>\$ 1,925,486</u>	<u>(7,731,086)</u>	<u>(996,416)</u>	<u>(8,727,502)</u>	<u>-</u>
Component Units	<u>\$ 7,105,870</u>	<u>\$ 117,501</u>	<u>\$ 2,363,129</u>	<u>\$ -</u>				<u>(4,625,240)</u>
General Revenue and Transfers								
Property taxes					2,670,493	-	2,670,493	-
Sales taxes					2,904,913	-	2,904,913	-
Provided by general government					-	-	-	1,782,141
Intergovernmental revenue not restricted to specific programs					2,299,109	1,697,204	3,996,313	2,989,307
Investment income					167,795	6,778	174,573	2,243
Contributions to Permanent Fund principal - inflation proofing					121,561	-	121,561	-
Licenses and permits					25,337	-	25,337	-
Rentals					60,213	-	60,213	-
Contributions and other					122,519	-	122,519	66,483
Payments in lieu of taxes					316,102	-	316,102	-
Land sales					85,740	-	85,740	-
Transfers					(130,701)	130,701	-	-
Total general revenue and transfers					8,643,081	1,834,683	10,477,764	4,840,174
Change in net position					911,995	838,267	1,750,262	214,934
Net Position, beginning of year, as previously reported					35,690,575	33,255,215	68,945,790	2,066,108
Restatement					(2,053,027)	(279,958)	(2,332,985)	(2,048,056)
Net Position, end of year					<u>\$ 34,549,543</u>	<u>\$ 33,813,524</u>	<u>\$ 68,363,067</u>	<u>\$ 232,986</u>

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

HAINES BOROUGH  
BALANCE SHEETS - GOVERNMENTAL FUNDS

June 30, 2015

	General Fund	Permanent Fund	New School Debt Service	Special Capital Projects	Borough Capital Improvements	Passenger Vessel Tax	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>								
Cash and cash equivalents	\$ 1,581,020	\$ 60,447	\$ -	\$ -	\$ -	\$ -	\$ 100	\$ 1,641,567
Investments	7,379,496	8,510,688	-	-	-	-	-	15,890,184
Receivables	512,796	60,577	8,782	727,192	77,691	-	243,444	1,630,482
Due from other funds	115,843	50,980	-	-	1,527,105	20,169	1,369,267	3,083,364
Due from component units	27,926	-	-	-	-	-	-	27,926
Prepaid expenses	39,365	-	-	-	-	-	-	39,365
Inventory	33,090	-	-	-	-	-	-	33,090
Total assets	<u>\$ 9,689,536</u>	<u>\$ 8,682,692</u>	<u>\$ 8,782</u>	<u>\$ 727,192</u>	<u>\$ 1,604,796</u>	<u>\$ 20,169</u>	<u>\$ 1,612,811</u>	<u>\$ 22,345,978</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>								
<b>Liabilities</b>								
Accounts payable	\$ 134,064	\$ 3,621	\$ -	\$ 24,570	\$ 50,723	\$ 12,692	\$ 206,353	\$ 432,023
Accrued payroll	225,520	-	-	-	-	-	-	225,520
Due to other funds	4,599,604	-	3,233	702,622	-	-	29,798	5,335,257
Due to component units	159,295	-	-	-	-	-	-	159,295
Unearned revenue	320,733	-	-	-	1,617	3,076	280,797	606,223
Total liabilities	<u>5,439,216</u>	<u>3,621</u>	<u>3,233</u>	<u>727,192</u>	<u>52,340</u>	<u>15,768</u>	<u>516,948</u>	<u>6,758,318</u>
<b>Deferred Inflows of Resources</b>								
Unavailable revenue - property taxes	108,158	-	-	-	-	-	-	108,158
Unavailable revenue - land sales	-	-	-	-	-	-	124,218	124,218
Total deferred inflow of resources	<u>108,158</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>124,218</u>	<u>232,376</u>
<b>Fund Balances</b>								
Nonspendable	72,455	7,228,020	-	-	-	-	-	7,300,475
Restricted	1,907,296	-	5,549	-	1,552,456	-	971,645	4,436,946
Assigned	219,128	1,451,051	-	-	-	-	-	1,670,179
Unassigned	1,943,283	-	-	-	-	4,401	-	1,947,684
Total fund balances	<u>4,142,162</u>	<u>8,679,071</u>	<u>5,549</u>	<u>-</u>	<u>1,552,456</u>	<u>4,401</u>	<u>971,645</u>	<u>15,355,284</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 9,689,536</u>	<u>\$ 8,682,692</u>	<u>\$ 8,782</u>	<u>\$ 727,192</u>	<u>\$ 1,604,796</u>	<u>\$ 20,169</u>	<u>\$ 1,612,811</u>	
Net position reported for governmental activities is different from fund balance due to:								
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds								32,582,405
Unearned revenues and deferred inflows not available to pay for current-period expenditures are reported as earned in the statement of net position								556,185
Contributions to the pension plan in the current fiscal year are deferred outflows on the Statement of Net Position								232,971
Pension related deferred outflows for changes differences in project and actual earnings are not reported in the funds								(236,553)
Long-term liabilities, including bonds and pensions payable, compensated absences and the net pension liability are not due and payable in the current period and, therefore, are not reported in the funds								(13,940,749)
Net position of governmental activities								<u>\$ 34,549,543</u>

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

HAINES BOROUGH  
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2015

	General Fund	Permanent Fund	New School Debt Service	Special Capital Projects	Borough Capital Improvements	Passenger Vessel Tax	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>								
Taxes								
Property	\$ 2,296,774	\$ -	\$ 379,615	\$ -	\$ -	\$ -	\$ 14,100	\$ 2,690,489
Sales	1,327,531	-	-	-	788,691	-	788,691	2,904,913
Intergovernmental								
Federal grants and contracts	180,908	-	-	-	-	-	16,995	197,903
Federal payments in lieu of taxes	344,205	-	-	-	-	-	-	344,205
State grants and contracts	2,524,031	-	878,107	688,956	-	140,944	123,402	4,355,440
Service and admission fees	72,430	-	-	-	-	-	-	72,430
Licenses and permits	25,337	-	-	-	-	-	-	25,337
Rentals	60,213	-	-	-	-	-	-	60,213
Investment earnings	91,930	197,426	-	-	-	-	-	289,356
Contributions and other	122,469	-	-	350,000	-	-	50	472,519
Total revenues	<u>7,045,828</u>	<u>197,426</u>	<u>1,257,722</u>	<u>1,038,956</u>	<u>788,691</u>	<u>140,944</u>	<u>943,238</u>	<u>11,412,805</u>
<b>Expenditures</b>								
Current								
General government	1,785,916	23,221	-	-	-	-	23,600	1,832,737
Public safety	1,414,707	-	-	-	-	-	253,163	1,667,870
Public works and streets	824,215	-	-	-	-	-	-	824,215
Economic development	-	-	-	-	-	-	458,495	458,495
Education	1,770,439	-	-	-	-	-	16,995	1,787,434
Port development	-	-	-	-	-	119,800	-	119,800
Culture, recreation, and library	1,053,478	-	-	-	-	-	-	1,053,478
Debt service								
Principal	-	-	795,000	-	-	-	6,016	801,016
Interest	-	-	459,439	-	-	-	8,132	467,571
Capital outlay	-	-	-	1,076,421	627,168	-	662,867	2,366,456
Total expenditures	<u>6,848,755</u>	<u>23,221</u>	<u>1,254,439</u>	<u>1,076,421</u>	<u>627,168</u>	<u>119,800</u>	<u>1,429,268</u>	<u>11,379,072</u>
Excess (deficiency) of revenues over (under) expenditures	<u>197,073</u>	<u>174,205</u>	<u>3,283</u>	<u>(37,465)</u>	<u>161,523</u>	<u>21,144</u>	<u>(486,030)</u>	<u>33,733</u>
<b>Other financing sources (uses)</b>								
Transfers in	342,000	93,344	-	37,465	272,390	-	543,217	1,288,416
Transfers out	(856,827)	(267,000)	-	-	(153,269)	(16,743)	(125,278)	(1,419,117)
Premium on bonds issued	-	-	1,520,467	-	-	-	-	1,520,467
Proceeds of refunding bonds	-	-	9,440,000	-	-	-	-	9,440,000
Payments to refunded bond escrow agent	-	-	(10,959,351)	-	-	-	-	(10,959,351)
Sale of capital assets	-	-	-	-	-	-	113,462	113,462
Total other financing sources (uses)	<u>(514,827)</u>	<u>(173,656)</u>	<u>1,116</u>	<u>37,465</u>	<u>119,121</u>	<u>(16,743)</u>	<u>531,401</u>	<u>(16,123)</u>
Net change in fund balances	<u>(317,754)</u>	<u>549</u>	<u>4,399</u>	<u>-</u>	<u>280,644</u>	<u>4,401</u>	<u>45,371</u>	<u>17,610</u>
Fund Balances, beginning of year	<u>4,459,916</u>	<u>8,678,522</u>	<u>1,150</u>	<u>-</u>	<u>1,271,812</u>	<u>-</u>	<u>926,274</u>	<u>15,337,674</u>
Fund Balances, end of year	<u>\$ 4,142,162</u>	<u>\$ 8,679,071</u>	<u>\$ 5,549</u>	<u>\$ -</u>	<u>\$ 1,552,456</u>	<u>\$ 4,401</u>	<u>\$ 971,645</u>	<u>\$ 15,355,284</u>

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, 2015

Net change in fund balances - total governmental funds		\$ 17,610
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, costs of those assets are capitalized and are allocated over their estimated useful lives and reported as depreciation expense:</p>		
Capital outlays	1,697,269	
Depreciation expense	<u>(1,413,411)</u>	283,858
Contributions to the pension plan in the current fiscal year are not included in the Statement of Activities.		185,559
Other transactions involving capital assets consist of sales of assets net of cash collected. Cash collected is presented as current year income in the fund financial statements.		(27,722)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. This amount is the change in the net amount recognized from year to year.		(45,023)
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 position. This amount is the net effect of these differences in the treatment of long-term debt and related items.		707,830
Some expenses reported in the Statement of Activities so not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Pension expense		(183,358)
Change in compensated absences		<u>(26,759)</u>
Change in net position of governmental activities		<u>\$ 911,995</u>

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

HAINES BOROUGH  
BALANCE SHEETS - PROPRIETARY FUNDS

June 30, 2015

	Business-type Activities - Enterprise Funds					
	Water	Sewer	Small Boat Harbor	Lutak Dock	Port Chilkoot Dock	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES						
Current Assets						
Cash and cash equivalents	\$ -	\$ -	\$ 300	\$ -	\$ -	\$ 300
Receivables	393,875	60,759	85,296	81,023	24,902	645,855
Due from other funds	115,582	810,074	586,081	861,330	-	2,373,067
Inventory	75,742	11,463	36,111	-	-	123,316
Prepaid expenses	-	66,559	-	-	-	66,559
Total current assets	585,199	948,855	707,788	942,353	24,902	3,209,097
Restricted Assets						
Revenue bond debt service reserve instruments	-	87,344	-	-	-	87,344
Capital Assets						
Land	45,570	9,000	-	-	-	54,570
Buildings, net of accumulated depreciation	33,633	-	-	-	400,322	433,955
Improvements other than buildings, net of accumulated depreciation	6,740,261	4,917,166	6,781,669	2,228,222	9,231,590	29,898,908
Equipment, net of accumulated depreciation	-	-	45,619	-	-	45,619
Construction in progress	284,607	-	2,929,158	-	-	3,213,765
Total capital assets	7,104,071	4,926,166	9,756,446	2,228,222	9,631,912	33,646,817
Deferred Outflows of Resources	10,589	7,942	5,295	5,295	2,647	31,768
Total assets and deferred outflows of resources	7,699,859	5,970,307	10,469,529	3,175,870	9,659,461	36,975,026
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES						
Current Liabilities						
Accounts payable	294,691	9,701	116,444	4,108	3,266	428,210
Loan payable - current	54,777	-	-	-	-	54,777
Bond payable - current	-	49,860	-	-	-	49,860
Deposits	11,003	12,484	22,254	-	-	45,741
Due to other funds	-	-	115,843	-	5,331	121,174
Total current liabilities	360,471	72,045	254,541	4,108	8,597	699,762
Noncurrent Liabilities						
Accrued vacation	9,925	9,925	4,190	-	-	24,040
Revenue bonds payable	-	1,177,612	-	-	-	1,177,612
Loans payable	849,331	99,297	-	-	-	948,628
Net pension liability	93,068	69,801	46,533	46,533	23,267	279,202
Total noncurrent liabilities	952,324	1,356,635	50,723	46,533	23,267	2,429,482
Deferred Inflows of Resources	10,752	8,064	5,377	5,377	2,688	32,258
Total liabilities and deferred inflows of resources	1,323,547	1,436,744	310,641	56,018	34,552	3,161,502
NET POSITION						
Net investment in capital assets	6,199,963	3,786,038	9,756,446	2,228,222	9,631,912	31,602,581
Restricted for bond reserves	-	87,344	-	-	-	87,344
Unrestricted	176,349	660,181	402,442	891,630	(7,003)	2,123,599
Total net position	\$ 6,376,312	\$ 4,533,563	\$ 10,158,888	\$ 3,119,852	\$ 9,624,909	\$ 33,813,524

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

HAINES BOROUGH  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES  
IN FUND NET POSITION- PROPRIETARY FUNDS

For the Year Ended June 30, 2015

	Business-type Activities - Enterprise Funds					
	Water	Sewer	Small Boat Harbor	Lutak Dock	Port Chilkoot Dock	Total
Operating Revenue						
Charges for services	\$ 379,222	\$ 439,771	\$ 480,036	\$ 415,671	\$ 76,222	\$ 1,790,922
General Revenue						
Intergovernmental - State of Alaska	239,634	-	1,457,570	-	-	1,697,204
Operating Expenses						
Depreciation	247,379	236,076	311,870	172,116	369,305	1,336,746
Salaries and benefits	180,484	164,319	123,466	102,924	31,948	603,141
Utilities	22,385	78,258	43,710	5,657	8,030	158,040
Professional services	35,519	11,357	4,576	50,317	2,043	103,812
Materials and supplies	73,580	16,602	340,940	8,671	6,750	446,543
Banking and insurance	7,595	13,687	17,125	3,563	7,434	49,404
Repairs and maintenance	8,395	6,839	1,104	1,500	1,218	19,056
Vehicle	2,538	2,701	1,689	1,434	892	9,254
Advertising, dues and subscriptions	150	2,044	1,485	810	602	5,091
Travel and training	1,549	3,092	1,410	1,181	1,181	8,413
Total operating expenses	579,574	534,975	847,375	348,173	429,403	2,739,500
Operating income (loss)	39,282	(95,204)	1,090,231	67,498	(353,181)	748,626
Nonoperating Revenue (Expense)						
Investment income	2,362	891	2,756	769	-	6,778
Interest expense	(6,496)	(40,766)	-	-	-	(47,262)
Other - loss on disposal	-	-	(576)	-	-	(576)
Total nonoperating revenue (expense)	(4,134)	(39,875)	2,180	769	-	(41,060)
Income (loss) before contributions and transfers	35,148	(135,079)	1,092,411	68,267	(353,181)	707,566
Transfers in	-	-	47,500	-	-	47,500
Transfers out	-	83,201	-	-	-	83,201
Change in net position	35,148	(51,878)	1,139,911	68,267	(353,181)	838,267
Net Position, beginning of year, as previously reported	6,434,484	4,655,431	9,065,636	3,098,244	10,001,420	33,255,215
Restatement	(93,320)	(69,990)	(46,659)	(46,659)	(23,330)	(279,958)
Net Position, end of year	\$ 6,376,312	\$ 4,533,563	\$ 10,158,888	\$ 3,119,852	\$ 9,624,909	\$ 33,813,524

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

HAINES BOROUGH  
STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS  
For the Year Ended June 30, 2015

	Business-type Activities - Enterprise Funds					
	Water	Sewer	Small Boat Harbor	Lutak Dock	Port Chilkoot Dock	Total
Cash Flows from Operating Activities						
Cash received from customers	\$ 258,689	\$ 428,888	\$ 1,869,917	\$ 392,685	\$ 61,473	\$ 3,011,652
Cash paid from (to) suppliers	142,944	(132,575)	(361,118)	(120,566)	(27,047)	(498,362)
Cash paid to employees	(178,418)	(162,231)	(121,345)	(102,968)	(31,970)	(596,932)
Net cash transferred from (to) general fund	49,556	(46,093)	(25,452)	(169,920)	(2,456)	(194,365)
Net cash flows from (for) operating activities	<u>272,771</u>	<u>87,989</u>	<u>1,362,002</u>	<u>(769)</u>	<u>-</u>	<u>1,721,993</u>
Cash Flows from Capital and Related Financing Activities						
Purchases of fixed assets	(360,405)	(83,202)	(1,406,723)	-	-	(1,850,330)
Disposal of assets	3,978	5,434	(6,010)	-	-	3,402
Net cash transferred from other funds	-	83,201	47,500	-	-	130,701
Proceeds from loans	121,011	-	-	-	-	121,011
Repayment of loan payable	(33,221)	-	-	-	-	(33,221)
Interest on bonds and loan payable	(6,496)	(45,625)	-	-	-	(52,121)
Repayment of bonds payable	-	(44,488)	-	-	-	(44,488)
Net cash flows from capital and related financing activities	<u>(275,133)</u>	<u>(84,680)</u>	<u>(1,365,233)</u>	<u>-</u>	<u>-</u>	<u>(1,725,046)</u>
Cash Flows from Investing Activities						
Change in performance deposit	-	(4,200)	-	-	-	(4,200)
Cash receipts from investments	2,362	891	2,756	769	-	6,778
Net cash flows from investing activities	<u>2,362</u>	<u>(3,309)</u>	<u>2,756</u>	<u>769</u>	<u>-</u>	<u>2,578</u>
Net decrease in cash	<u>-</u>	<u>-</u>	<u>(475)</u>	<u>-</u>	<u>-</u>	<u>(475)</u>
Cash and Cash Equivalents, beginning of year	-	-	775	-	-	775
Cash and Cash Equivalents, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 300</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 300</u>
Reconciliation of Operating Income (Loss) to Net Cash Flows from (for) Operating Activities						
Operating income (loss)	\$ 39,282	\$ (95,204)	\$ 1,090,231	\$ 67,498	\$ (353,181)	\$ 748,626
Adjustments to reconcile operating income (loss) to net cash flows from operating activities						
Depreciation	247,379	236,076	311,870	172,116	369,305	1,336,746
Pension Expense	8,334	6,251	4,167	4,167	2,084	25,003
Changes in operating assets and liabilities						
Receivables	(360,679)	(11,653)	(68,423)	(22,986)	(14,749)	(478,490)
Due from other funds	49,556	(46,093)	(25,452)	(169,920)	(2,456)	(194,365)
Inventory	7,529	(3,872)	(9,804)	-	-	(6,147)
Accounts payable	287,126	5,877	60,725	(47,433)	1,103	307,398
Accrued vacation	2,155	2,155	2,165	-	-	6,475
Deferred outflows of resources for pensions	(2,936)	(2,202)	(1,468)	(1,468)	(734)	(8,808)
Deferred inflows of resources for pensions	10,752	8,064	5,377	5,377	2,688	32,258
Net pension liability	(16,239)	(12,180)	(8,120)	(8,120)	(4,060)	(48,719)
Deposits	512	770	734	-	-	2,016
Total adjustments	<u>233,489</u>	<u>183,193</u>	<u>271,771</u>	<u>(68,267)</u>	<u>353,181</u>	<u>973,367</u>
Net cash flows from (for) operating activities	<u>\$ 272,771</u>	<u>\$ 87,989</u>	<u>\$ 1,362,002</u>	<u>\$ (769)</u>	<u>\$ -</u>	<u>\$ 1,721,993</u>

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

HAINES BOROUGH  
COMPONENT UNITS COMBINING STATEMENTS OF NET POSITION  
June 30, 2015

	Haines Borough School District	Sheldon Museum	Non-major Component Unit	Total
<b>ASSETS</b>				
Current Assets				
Cash and cash equivalents	\$ 1,592,957	\$ 219,226	\$ 37,953	\$ 1,850,136
Investments	5,388	-	-	5,388
Receivables	147,206	3,704	69,000	219,910
Inventory and prepaid expenses	146,066	39,428	-	185,494
Total current assets	1,891,617	262,358	106,953	2,260,928
Noncurrent Assets				
Capital assets, net	175,862	35,155	-	211,017
Deferred Outflows of Resources				
Pension	139,174	-	-	139,174
Total assets	2,206,653	297,513	106,953	2,611,119
<b>LIABILITIES</b>				
Current Liabilities				
Accounts payable	128,510	3,986	-	132,496
Due to governmental entity	-	14,148	13,778	27,926
Accrued payroll and related liabilities	32,236	5,170	-	37,406
Deferred revenue	-	6,838	2,340	9,178
Total current liabilities	160,746	30,142	16,118	207,006
Noncurrent Portion of Long-Term obligations				
Accrued vacation	90,658	-	-	90,658
Net Pension Liability	1,773,024	-	-	1,773,024
Deferred Inflows of Resources				
Pension	307,445	-	-	307,445
Total Liabilities	2,331,873	30,142	16,118	2,378,133
<b>NET POSITION</b>				
Net investment in capital assets	175,862	35,155	-	211,017
Restricted for Museum projects and other	-	195,992	-	195,992
Unrestricted	(301,082)	36,224	90,835	(174,023)
Total net position (deficit)	\$ (125,220)	\$ 267,371	\$ 90,835	\$ 232,986

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

HAINES BOROUGH  
COMPONENT UNITS COMBINING STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2015

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Fee, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Haines Borough School District	Sheldon Museum	Non-Major Component Unit	Total
	Expenses							
Haines Borough School District	\$ 6,740,457	\$ 41,783	\$ 2,288,197	\$ -	\$ (4,410,477)	\$ -	\$ -	\$ (4,410,477)
Sheldon Museum	344,639	75,718	54,732	-	-	(214,189)	-	(214,189)
Non-Major Component Unit	20,774	-	20,200	-	-	-	(574)	(574)
	<u>\$ 7,105,870</u>	<u>\$ 117,501</u>	<u>\$ 2,363,129</u>	<u>\$ -</u>	<u>(4,410,477)</u>	<u>(214,189)</u>	<u>(574)</u>	<u>(4,625,240)</u>
General Revenues								
Provided by general government					1,557,921	196,294	27,926	1,782,141
State of Alaska					2,989,307	-	-	2,989,307
Investment income					2,163	78	2	2,243
Contributions and other					59,452	6,831	200	66,483
Total General Revenues					<u>4,608,843</u>	<u>203,203</u>	<u>28,128</u>	<u>4,840,174</u>
Change in Net Position					198,366	(10,986)	27,554	214,934
Net Position, beginning of year, as previously reported					1,724,470	278,357	63,281	2,066,108
Restatement					<u>(2,048,056)</u>	<u>-</u>	<u>-</u>	<u>(2,048,056)</u>
Net Position, end of year					<u>\$ (125,220)</u>	<u>\$ 267,371</u>	<u>\$ 90,835</u>	<u>\$ 232,986</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, 2015

**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 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 position (page 12) and the combining statement of activities (page 13).

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

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

The other component units do not have separately audited financial statements.

**Government-Wide and Fund Financial Statements**

The statement of net position 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.

HAINES BOROUGH  
NOTES TO FINANCIAL STATEMENTS

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.

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.

*Permanent 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. Only income of the fund may be spent. The Assembly shall provide for the protection of the fund principal from the effects of inflation and may appropriate any remaining income for Borough expenses.

*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 taxes that benefit the entire Borough area.

*Passenger Vessel Tax* – Accounts for docks and harbors improvements, funded by passenger vessel taxes.

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.

*Lutak Dock Fund* – Accounts for activities including operating Lutak Dock.

*Port Chilkoot Dock Fund* – Accounts for activities including operating Port Chilkoot Dock.

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

HAINES BOROUGH  
NOTES TO FINANCIAL STATEMENTS

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Basis of accounting refers to when financial activities are recognized in the accounts and reported in the financial statements.

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments (if any), are recorded only when payment is due.

Property taxes, sales taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Other revenue items are considered to be measurable and available only when cash is received by the government. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Proprietary (or enterprise) funds 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.

The Borough implemented Government Accounting Standards Board Statement No. 68 *Accounting and Financial Reporting for Pensions*, during fiscal year 2015. The implementation resulted in the Borough restating and reducing net position for governmental and business-type activities as of June 30, 2014 by \$2,332,985 from the amounts previously reported in order to recognize its proportionate share of net pension liability of \$2,524,319 and deferred outflows for its defined benefit pension contributions of \$191,334. As required by GASB 68, the standard was applied in the period of adoption. The Borough's participation in other defined benefit retirement plans offered to its employees through the State of Alaska has not been impacted by GASB 68.

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

HAINES BOROUGH  
NOTES TO FINANCIAL STATEMENTS

property taxes are not considered currently available, so they are reported as deferred inflow of resources in the fund financial statements.

Land Sales

The Borough also occasionally sells land using long-term receivable contracts. In the fund financial statements, the amounts due on the receivable contracts are not available to finance current period expenditures; therefore, they are reported as deferred inflow of resources in the fund financial statements. 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.

**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, Deferred Inflows and Outflows of Resources, Net Position and Fund Balance**

Deposits and Investments

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

The Borough pools most of its cash resources of its various funds to facilitate the management of cash. The majority of the cash balances are recorded in the general fund with amounts allocated to the appropriate funds.

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

Receivables

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

Due to and Due from Other Funds

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

Inventory

Inventory consists of fuel, parts, supplies and museum merchandise, 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.

HAINES BOROUGH  
NOTES TO FINANCIAL STATEMENTS

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 cost 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.

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.

Unearned Revenue

Amounts received from grants and other sources, but not yet spent for their restricted purpose, are shown on the balance sheet as unearned 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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Alaska Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) and additions to/deductions from PERS's and TRS's fiduciary net position have been determined on the same basis as PERS and TRS, assuming the State's pension support under AS 39.35.280 is a "Special Funding

HAINES BOROUGH  
NOTES TO FINANCIAL STATEMENTS

Situation” as defined by GASB 68. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets consist of capital assets, net of accumulated depreciation, and related debt. Net positions are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Borough Assembly or through external restriction imposed by creditors, grantors or laws or regulations of other governments.

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.

Fund Balance

Generally, fund balance represents the difference between the current assets, current liabilities and deferred inflows of resources. The Borough classifies its fund balances in accordance with GASB Statement No. 54 nonspendable, restricted, committed, assigned, or unassigned fund balance categories. See Note 7 for further information of the Borough's fund balance classifications.

In governmental funds, the Borough's policy regarding when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) amounts are available is to consider restricted amounts to be reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, then committed amounts would be reduced first, followed by assigned and then unassigned amounts.

The Borough has not formally adopted a policy with respect to the minimum fund balance amount.

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 requirements 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, 2015 there were no departments with significant excess of expenditures over appropriations.

**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.

HAINES BOROUGH  
NOTES TO FINANCIAL STATEMENTS

At June 30, 2015, the carrying amount of the Borough's cash balances was \$1,729,211, while the bank and other institution balances were \$1,742,703. 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	\$ 1,912,474
Uncollateralized/uninsured	<u>(170,206)</u>
	<u><u>\$ 1,742,268</u></u>

The cash and cash equivalents for component units other than the School District are fully insured by the FDIC. The School District had uninsured but collateralized deposits of \$1,572,729 at June 30, 2015.

The following is the reconciliation of various components of cash to amounts presented in the statement of net position:

	<u>Carrying Amount</u>
Reconciliation to statement of net position:	
Cash and cash equivalents	\$ 1,581,420
Restricted assets:	
Cash and cash equivalents	60,447
Revenue bond debt service reserve instruments	<u>87,344</u>
	<u><u>\$ 1,729,211</u></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.

Investments made by the Borough are summarized below:

HAINES BOROUGH  
NOTES TO FINANCIAL STATEMENTS

	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	\$ 2,341,343	\$ 3,471,389	\$ -	\$ -	\$ 5,812,732
U.S. Government Instruments	135,569	2,578,346	1,449,071	38,675	4,201,661
Corporate Debt	280,408	1,436,551	369,703	-	2,086,662
Municipal Securities	114,427	974,268	-	-	1,088,695
Total debt securities	<u>\$ 2,871,747</u>	<u>\$ 8,460,554</u>	<u>\$ 1,818,774</u>	<u>\$ 38,675</u>	13,189,750
Common stocks (mutual fund that holds the stocks of the S&P 500)					1,946,528
Equity funds					753,906
					<u>\$ 15,890,184</u>
Reconciliation to statement of net position:					
Investments					\$ 7,379,496
Restricted investments					8,510,688
					<u>\$ 15,890,184</u>

The School District's investment balance of \$5,388 consisted of mutual funds and their cost approximates market value.

The credit quality ratings of the Borough's corporate debt, municipal securities, and U.S. Government instrument investments as of June 30, 2015, as described by nationally recognized statistical rating organizations, are shown below:

	S&P Rating	Investment Fair Value	Percentage of Total
Corporate debt	AAA	\$ 265,660	12.73%
Corporate debt	AA	434,668	20.83%
Corporate debt	A	1,111,337	53.26%
Corporate debt	BBB	109,333	5.24%
Corporate debt	Unrated	165,664	7.94%
		<u>\$ 2,086,662</u>	<u>100.00%</u>
Municipal securities	AAA	\$ 758,120	69.64%
Municipal securities	AA	330,575	30.36%
		<u>\$ 1,088,695</u>	<u>100.00%</u>
U.S. Government instruments	AAA	\$ 3,684,698	87.70%
U.S. Government instruments	AA	342,499	8.15%
U.S. Government instruments	A	135,570	3.22%
U.S. Government instruments	Unrated	38,894	0.93%
		<u>\$ 4,201,661</u>	<u>100.00%</u>

HAINES BOROUGH  
NOTES TO FINANCIAL STATEMENTS

**NOTE 5 - RECEIVABLES, DEFERRED INFLOW OF RESOURCES, AND UNEARNED REVENUE**

Receivables at June 30, 2015, for the individual major funds and nonmajor funds in the aggregate were as follows:

	Taxes	Land Sale/LID Contracts	Revolving Loan Contracts	Customer Charges	State and Federal Governments	Accrued Interest and Other	Total
<i>Governmental funds:</i>							
General fund	\$ 245,422	\$ -	\$ 106,375	\$ -	\$ -	\$ 160,999	\$ 512,796
Permanent fund	-	-	-	-	-	60,577	60,577
New school debt service	-	-	-	-	8,782	-	8,782
Special capital projects	-	-	-	-	727,192	-	727,192
Borough capital improvements	77,691	-	-	-	-	-	77,691
Other governmental funds	77,691	121,705	-	-	41,535	2,513	243,444
<i>Enterprise funds:</i>							
Water fund	-	-	-	35,560	358,315	-	393,875
Sewer fund	-	-	-	60,759	-	-	60,759
Small boat harbor fund	-	-	-	10,007	75,289	-	85,296
Lutak dock fund	-	-	-	81,023	-	-	81,023
Port Chilkoot dock fund	-	-	-	24,902	-	-	24,902
Total	<u>\$ 400,804</u>	<u>\$ 121,705</u>	<u>\$ 106,375</u>	<u>\$ 212,251</u>	<u>\$ 1,211,113</u>	<u>\$ 224,089</u>	<u>\$ 2,276,337</u>

Reconciliation to statement of net position:

Current receivables	\$ 2,010,167
Restricted receivables	60,577
Noncurrent receivables, net of current portion	<u>205,593</u>
	<u>\$ 2,276,337</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 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

Governmental funds report deferred inflow of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also recognize unearned revenue, a liability, 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 inflow of resources and unearned revenue reported in the governmental funds balance sheets and the statements of net position were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes receivable (general fund)	\$ 108,158	-	\$ 108,158
Payments in lieu of taxes	-	320,733	320,733
Land sale/LID receivables (including accrued interest)	124,218	-	124,218
Grants and contributions	<u>-</u>	<u>285,490</u>	<u>285,490</u>
Total deferred inflow of resources / unearned revenue for governmental funds	<u>232,376</u>	<u>606,223</u>	<u>838,599</u>
Amounts recognized in the government-wide financial statements			
Property taxes receivable	(108,158)	-	(108,158)
Payments in lieu of taxes	-	(320,733)	(320,733)
Land sales/LID receivables	(124,218)	-	(124,218)
Passenger vessel excise tax	<u>-</u>	<u>(3,076)</u>	<u>(3,076)</u>
Total unearned revenue for government-wide financial statements	<u>\$ -</u>	<u>\$ 282,414</u>	<u>\$ 282,414</u>

HAINES BOROUGH  
NOTES TO FINANCIAL STATEMENTS

**NOTE 6 - CAPITAL ASSETS**

Capital assets for the year ended June 30, 2015 were as follows:

	Balance, June 30, 2014	Increases	Transfers/ Decreases	Balance, June 30, 2015
<i>Governmental activities</i>				
Capital assets not being depreciated:				
Land and improvements	\$ 1,151,005	\$ -	\$ -	\$ 1,151,005
Construction in progress	120,747	279,336	(120,747)	279,336
Total capital assets not being depreciated	1,271,752	279,336	(120,747)	1,430,341
Other capital assets:				
Buildings	32,864,140	563,100	-	33,427,240
Other improvements	9,663,174	970,222	-	10,633,396
Furniture and equipment	6,442,671	76,248	(70,890)	6,448,029
Road network	6,440,093	-	-	6,440,093
Total other capital assets	55,410,078	1,609,570	(70,890)	56,948,758
Less accumulated depreciation for:				
Buildings	13,457,237	816,991	-	14,274,228
Other improvements	2,050,116	325,549	-	2,375,665
Furniture and equipment	4,308,872	341,770	(70,890)	4,579,752
Road network	4,567,049	-	-	4,567,049
Total accumulated depreciation	24,383,274	1,484,310	(70,890)	25,796,694
Other capital assets, net	31,026,804	125,260	-	31,152,064
Governmental activities capital assets, net	<u>\$ 32,298,556</u>	<u>\$ 404,596</u>	<u>\$ (120,747)</u>	<u>\$ 32,582,405</u>
<i>Business-type activities</i>				
Capital assets not being depreciated:				
Land and improvements	\$ 54,570	\$ -	\$ -	\$ 54,570
Construction in progress	1,472,398	1,741,367	-	3,213,765
Total capital assets not being depreciated	1,526,968	1,741,367	-	3,268,335
Other capital assets:				
Buildings	484,327	-	-	484,327
Other improvements (including distribution and collection systems)	49,033,596	155,023	(3,979)	49,184,640
Equipment	138,566	-	-	138,566
Total other capital assets	49,656,489	155,023	(3,979)	49,807,533
Less accumulated depreciation for:				
Buildings	37,819	12,553	-	50,372
Other improvements (including distribution and collection systems)	17,973,745	1,315,966	(3,979)	19,285,732
Equipment	84,720	8,227	-	92,947
Total accumulated depreciation	18,096,284	1,336,746	(3,979)	19,429,051
Other capital assets, net	31,560,205	(1,181,723)	-	30,378,482
Business-type activities capital assets, net	<u>\$ 33,087,173</u>	<u>\$ 559,644</u>	<u>\$ -</u>	<u>\$ 33,646,817</u>

HAINES BOROUGH  
NOTES TO FINANCIAL STATEMENTS

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

*Governmental activities*

General government	\$ 159,969
Public safety	90,662
Public works and streets, including depreciation of general infrastructure assets	363,298
Economic development	13,196
Education	644,544
Port development	10,293
Culture, recreation, and library	<u>202,348</u>
Total depreciation expense - governmental activities	<u><u>\$ 1,484,310</u></u>

*Business-type activities*

Water	\$ 247,379
Sewer	236,076
Small Boat Harbor	311,870
Lutak Dock	172,116
Port Chilkoot dock fund	<u>369,305</u>
Total depreciation expense - business-type activities	<u><u>\$ 1,336,746</u></u>

Construction contract commitments at year-end include outstanding contracts for the following projects:

- Allen Road Water Upgrades with a remaining commitment of approximately \$223,000.
- Voc Ed Bldg Improvements with a remaining commitment of approximately \$653,000.
- Letnikof Harbor Float Repair with a remaining commitment of approximately \$140,500.

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, 2015, the cost and accumulated depreciation associated with these assets was \$23,882,101 and \$7,376,272, respectively.

**NOTE 7 - FUND BALANCES – GOVERNMENTAL FUNDS**

As of June 30, 2015, fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance – Nonspendable fund balance is that portion of fund equity that cannot be spent either because it is in a nonspendable form or because it is legally or contractually required to be maintained intact.

Restricted Fund Balance – Restricted fund balance is that portion of fund equity that has constraints placed upon the use of the resources either by an external party or imposed by law.

HAINES BOROUGH  
NOTES TO FINANCIAL STATEMENTS

**Committed Fund Balance** – Committed fund balance is that portion of fund equity that can only be used for specific purposes determined by a formal action by the Borough Assembly. Formal action by the Assembly is required to establish, modify or rescind a fund balance commitment.

**Assigned Fund Balance** – Assigned fund balance is that portion of fund equity that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent can be expressed by the governing body itself or by the Borough Manager or his designee to whom the governing body has delegated the authority to assign amounts to be used for specific purposes.

**Unassigned Fund Balance** – Unassigned fund balance is that portion of fund balances not included in other spendable classifications.

As of June 30, 2015, fund balances are composed of the following:

	General Fund	Permanent Fund	New School Debt Service	Borough Capital Improvements	Passenger Vessel Tax	Other Governmental Funds	Total Governmental Funds
<b>Nonspendable</b>							
Permanent fund	\$ -	\$ 7,228,020	\$ -	\$ -	\$ -	\$ -	\$ 7,228,020
Inventory	33,090	-	-	-	-	-	33,090
Prepaid expenses	39,365	-	-	-	-	-	39,365
Total nonspendable	72,455	7,228,020	-	-	-	-	7,300,475
<b>Restricted</b>							
Road maintenance	49,766	-	-	-	-	-	49,766
Fire service areas	47,280	-	-	-	-	-	47,280
Debt service	-	-	5,549	-	-	1,122	6,671
Capital projects	323,791	-	-	1,552,456	-	-	1,876,247
Medical services	-	-	-	-	-	121,184	121,184
Economic development	-	-	-	-	-	439,050	439,050
Land development	-	-	-	-	-	410,289	410,289
Townsite service area	1,486,459	-	-	-	-	-	1,486,459
Total restricted	1,907,296	-	5,549	1,552,456	-	971,645	4,436,946
<b>Assigned</b>							
Subsequent year expenditures	219,128	-	-	-	-	-	219,128
Permanent fund	-	1,451,051	-	-	-	-	1,451,051
Total assigned	219,128	1,451,051	-	-	-	-	1,670,179
<b>Unassigned</b>	1,943,283	-	-	-	4,401	-	1,947,684
Total fund balances	\$ 4,142,162	\$ 8,679,071	\$ 5,549	\$ 1,552,456	\$ 4,401	\$ 971,645	\$ 15,355,284

## NOTE 8 - 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.

HAINES BOROUGH  
NOTES TO FINANCIAL STATEMENTS

Long-term liability activity for the year ended June 30, 2015, was as follows:

	Balance, June 30, 2014	Additions	Reductions	Balance, June 30, 2015	Amounts Due Within One Year
<i>Governmental Activities</i>					
Bonds and notes payable:					
USDA bonds	\$ 172,679	\$ -	\$ 6,016	\$ 166,663	\$ 6,139
School construction bonds	12,190,000	9,440,000	11,355,000	10,275,000	835,000
Bond premium	85,314	1,520,467	93,756	1,512,025	206,132
Total bonds and notes payable	12,447,993	10,960,467	11,454,772	11,953,688	1,047,271
Compensated absences	126,592	26,759	-	153,351	-
Governmental activities long-term liabilities	<u>\$ 12,574,585</u>	<u>\$ 10,987,226</u>	<u>\$ 11,454,772</u>	<u>\$ 12,107,039</u>	<u>\$ 1,047,271</u>
<i>Business-type Activities</i>					
Bonds and notes payable:					
AMBBA sewer revenue bonds	\$ 1,180,000	\$ -	\$ 40,000	\$ 1,140,000	\$ 45,000
State of Alaska DEC loans payable	920,103	121,011	37,709	1,003,405	54,777
Bond premium	92,331	-	4,859	87,472	4,860
Total bonds and notes payable	2,192,434	121,011	82,568	2,230,877	104,637
Compensated absences	17,565	6,475	-	24,040	-
Business-type activities long-term liabilities	<u>\$ 2,209,999</u>	<u>\$ 127,486</u>	<u>\$ 82,568</u>	<u>\$ 2,254,917</u>	<u>\$ 104,637</u>

Bonds and notes payable at June 30, 2015, are 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 2015 (bonds were refunded is October 2014, new school construction bonds issued)	\$ 835,000
\$9,440,000 2014 school construction bonds, due in annual installments of \$775,000 to \$1,160,000, plus interest at 1.25% to 5.0%, through October 2025 (not including unamortized premium of \$1,512,025 at June 30, 2015)	9,440,000
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%	<u>166,663</u>
Total bond and note payable	10,441,663
Unamortized premium	<u>1,512,025</u>

HAINES BOROUGH  
NOTES TO FINANCIAL STATEMENTS

*Governmental Activities:*

Total general bond and note payable debt	11,953,688
Less current portion	<u>(1,047,271)</u>
Total general long-term bond and note payable debt	<u>\$ 10,906,417</u>

*Business-type Activities :*

\$1,210,000 2013 sewer revenue bonds, due in semi-annual installments of \$61,849 to \$81,856, including interest at 2%, through 2033	\$ 1,140,000
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	99,426
Loan from the State of Alaska Department of Environmental Conservation, due in annual installments of \$2,904, including interest at 1.5%, through 2033	44,994
Loan from the State of Alaska Department of Environmental Conservation, due in annual installments of \$8,580, starting one year after the first disbursement. Interest is to accrue at 1.5% and principal paid over 20 years.	147,310
Loan from the State of Alaska Department of Environmental Conservation, due in annual installments of \$14,439 including interest @ 1.5%, through 2034	237,179
Loan from the State of Alaska Department of Environmental Conservation, due in annual installments of \$8,226 including interest @ 1.5%, through 2034	135,581
Loan from the State of Alaska Department of Environmental Conservation, due in annual installments of \$6,692, starting one year after the first disbursement. Interest is to accrue at 1.5% and principal paid over 20 years.	131,918
Loan from the State of Alaska Department of Environmental Conservation, due in annual installments of \$6,045 including interest @ 1.5%, through 2034	99,297
Loan from the State of Alaska Department of Environmental Conservation, due in annual installments of \$6,279 starting one year after the first disbursement. Interest is to accrue at 1.5% and principal paid over 20 years.	<u>107,700</u>
Total bond and note payable	2,143,405
Unamortized premium	<u>87,472</u>
Total enterprise funds bond and note payable debt	2,230,877
Less current portion	<u>(104,637)</u>
Total enterprise funds long-term bond and note payable debt	<u>\$ 2,126,240</u>

In conjunction with the issuance of the above school construction bonds, the State of Alaska Department of Education and Early Development have 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 bond and note payable debt outstanding as of June 30, 2015, are as follows:

HAINES BOROUGH  
NOTES TO FINANCIAL STATEMENTS

*Governmental Activities:*

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,047,271	\$ 455,572	\$ 1,502,843
2017	991,778	429,555	1,421,333
2018	1,009,688	408,498	1,418,186
2019	1,031,499	375,670	1,407,169
2020	1,048,419	337,102	1,385,521
2021-2025	5,559,496	998,492	6,557,988
2026-2030	1,242,413	16,400	1,258,813
2031-2035	23,124	2,971	26,095
	<u>\$ 11,953,688</u>	<u>\$ 3,024,260</u>	<u>\$ 14,977,948</u>

*Business-type Activities:*

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 104,637	\$ 55,474	\$ 160,111
2017	105,246	53,493	158,739
2018	105,865	51,504	157,369
2019	106,493	48,718	155,211
2020	112,131	45,575	157,706
2021-2025	567,954	176,268	744,222
2026-2030	621,984	96,374	718,358
2031-2035	506,567	23,333	529,900
	<u>\$ 2,230,877</u>	<u>\$ 550,739</u>	<u>\$ 2,781,616</u>

**NOTE 9 - 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, 2015, was \$87,344.

These bonds also require that the Borough maintain sewer rates at a level which will produce an annual amount of net operating revenue before depreciation equal to at least 1.25 times the maximum amount required each year for debt service. In fiscal year 2015, net operating revenues were \$140,872 and the debt service requirement was \$83,919 resulting in a ratio of 1.68 for the Sewer Enterprise Fund, so the Borough was in compliance with this requirement.

HAINES BOROUGH  
NOTES TO FINANCIAL STATEMENTS

**NOTE 10 - BOND REFUNDING**

On October 15, 2014, the Borough issued \$9,440,000 in school construction bonds with interest rates ranging from 1.25-5%. The Borough issued the bonds to refund \$10,560,000 of the outstanding 2005 school construction bonds with interest rates ranging from 4-5%. As a result, the originally issued 2005 school construction bonds have an outstanding principal liability of \$835,000.

The above refunding reduced total debt service payments over the next 11 years by nearly \$1,045,000. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$858,704.

**NOTE 11 - RETIREMENT PLANS**

Employees of the Borough and non-teaching-certified employees of the School District participate in Public Employees' Retirement System (PERS), teaching-certified employees of the School District participate in the State of Alaska Teachers Pension Plan (TPP) administered by the Teachers Retirement System (TRS), or the State of Alaska Defined Contribution Pension Plan (DC Plan), a defined contribution plan, based on date of initial hire by a participating employer. The plans are governed by the Alaska Retirement Management Board (the "Board" or the "System"), which consists of nine trustees, as follows: the commissioner of administration, the commissioner of revenue, two trustees who are members of the general public, one trustee who is employed as a finance officer for a political subdivision participating in either the PERS or Teachers' Retirement System (TRS), two trustees who are members of PERS, and two trustees who are members of TRS. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. PERS and TRS issue publicly available financial reports that can be obtained at <http://doa.alaska.gov/drb>.

**State of Alaska PERS Defined Benefit Plan**

**Plan Description**

PERS is a cost-sharing multiple-employer defined benefit (DB) pension plan administered by the State of Alaska which includes a defined benefit health plan, and occupational death and disability plan (Other Post Employment Benefits "OPEB"). All employees initially hired prior to July 1, 2006 must participate in this plan. With the passage of Senate Bill (SB) 141, the DB Plan is closed to all new members effective July 1, 2006. Employees hired on or after this date must participate in the DC Plan described later.

**Benefits Provided**

PERS provides retirement, health insurance premium supplement, long-term disability, occupational death and disability and survivor benefits. Retirement benefits are calculated on the basis of age, average monthly compensation and service credit as follows (a more complete description of benefits can be found at <http://doa.alaska.gov/drb/> or the financial report referred to above):

	<u>"Tier 1"</u>	<u>"Tier 2 and 3"</u>
Initial hire date	Before July 1, 1986 and all police and firefighters	July 1, 1986 to June 30, 1996 (2) After July 1, 1996 (3)
Minimum credited years of service	Five Years	Five Years

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Retirement age with minimum years of service	55, or early retirement - 50, or any age with 30 or more service years	60, or early retirement - 55, or any age with 30 or more service years
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Pension benefit:

Basis	Years of Service based and average of three highest consecutive years' salaries	Years of Service based and average of three highest consecutive years' salaries
Amount per year of service	2% to 2.5% depending on hire date and length of service	2% to 2.5% depending on hire date and length of service
Form	Joint and survivor annuity	Joint and survivor annuity

Death benefit:

Pre-retirement, work related, non-willful negligence death	Monthly survivor benefit	Monthly survivor benefit
Active DB Plan member, occupational death	40% of members' salary, higher amounts for police or firefighters	40% of members' salary, higher amounts for police or firefighters
Active DB Plan member, non-occupational death	Spouse receives 50% of members' benefit, or lump sum to other beneficiaries	Spouse receives 50% of members' benefit, or lump sum to other beneficiaries
Disability benefits	Paid to normal retirement age, if vested, when normal retirement benefits apply	Paid to normal retirement age, if vested, when normal retirement benefits apply
Medical benefits	Major medical benefits at no cost	Major medical at no cost after age 60, or premium amount if under age 60 (Tier 2), paid premium (Tier 3), at no cost if disabled

Postretirement pension adjustments (PRPA):

Automatic	Benefits increased each July 1 based on cost of living increase the previous calendar year	Benefits increased each July 1 based on cost of living increase the previous calendar year
Discretionary	Granted if funding ratio of the DB Plan meets or exceeds 105%	Granted if funding ratio of the DB Plan meets or exceeds 105%

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Contributions

Contribution requirements of the active plan members and the participating employers are actuarially determined and approved by the Board as an amount that, when combined, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The DB Plan's members' contribution rates are 7.5% for peace officers and firefighters, 9.6% for some school district employees, and 6.75% for general DB Plan members, as required by statute. The Borough and the School District's effective contribution rate is 22.00% of annual payroll. Alaska Statute 39.35.280 states that the State of Alaska, as a nonemployer contributing entity, shall contribute each July 1, or as soon after July 1 for the ensuing fiscal year, an amount that when combined with the total employer contributions is sufficient to pay the System's past service liability at the actuarially determined contribution rate adopted by the Board for that fiscal year. Additionally, there is a Defined Benefit Unfunded Liability (DBUL) amount levied against the DCR Plan payroll. The DBUL amount is computed as the difference between:

- (A) the amount calculated for the statutory employer contribution rate of 22.00% on eligible salary, less
- (B) the total of the employer contributions for
  - (1) the defined contribution employer matching amount,
  - (2) major medical,
  - (3) occupational death & disability, and
  - (4) health reimbursement arrangement.

The difference is deposited based on an actuarial allocation into the DB Plan's pension and healthcare funds.

Refunds

DB Plan member contributions may be voluntarily or, under certain circumstances, involuntarily refunded to the member or a garnishing agency 60 days after termination of employment. Voluntary refund rights are forfeited on July 1 following the member's 75th birthday or within 50 years of the member's last termination date. Members who have had contributions refunded forfeit all retirement benefits, including postemployment healthcare benefits. Members are allowed to reinstate refunded service due to involuntary refunds by repaying the total involuntary refunded balance and accrued interest. Members were allowed to reinstate voluntarily refunded service by repaying the voluntarily refunded balance and accrued interest, as long as they reestablished an employee relationship with a participating DB Plan employer before July 1, 2010. Members who had not reestablished an employee relationship with a participating DB Plan employer by June 30, 2010 was not eligible to reinstate voluntarily refunded service and forfeited any claim to DB Plan membership rights. Balances refunded to members accrue interest at the rate of 7.0% per annum, compounded semiannually.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Borough and the School District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the Borough and the School District. The amount recognized by the Borough and the School District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Borough and the School District were as follows:

Borough's proportionate share of the net pension liability	\$ 2,326,689
State's proportionate share of the net pension liability associated the Borough	<u>2,289,751</u>
Total Net Pension Liability	<u>\$ 4,616,440</u>

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School District's proportionate share of the net pension liability for PERS	\$ 814,793
State's proportionate share of the net pension liability for PERS associated the School District	<u>831,844</u>
Total Net Pension Liability for PERS	<u>\$ 1,646,637</u>

The Borough and the School District will record the entire net pension liability, including the State's proportionate share, if the State of Alaska no longer contributes its proportionate share as measured by the annual State contributions and provided under Alaska Statute 39.35.280. By changing the existing statute to a higher rate above and up to the actuarially determined rate, the Borough and the School District may be required to record some or all of the State's proportion and its contribution amounts will increase accordingly.

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Borough and the School District's proportion of the net pension liability was based on a projection of the Borough and the School District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers and the State, actuarially determined. At June 30, 2014, the Borough's proportion was .04988465%, which was a decrease of .00181519% from its proportion measured as of June 30, 2013. At June 30, 2014, the School District's proportion was .01746932%, which was a decrease of .00164625% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Borough recognized pension expense of \$1,059,886 and revenue of \$1,059,886 for support provided by the State. At June 30, 2015, the Borough reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 268,811
Changes in proportion and differences between Borough contributions and proportionate share of contributions	53,877	-
Borough contributions subsequent to measurement date	<u>210,862</u>	<u>-</u>
Total	<u>\$ 264,739</u>	<u>\$ 268,811</u>

\$210,862 reported as deferred outflows of resources related to pensions resulting from the Borough contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the measurement year (fiscal year) as follows:

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Year ended June 30:

2015 (2016)	\$	25,758
2016 (2017)		54,770
2017 (2018)		67,203
2018 (2019)		67,203

For the year ended June 30, 2015, the School District recognized pension expense of \$89,272 and revenue of \$68,406 for support provided by the State. At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 94,136
Changes in proportion and differences between School District contributions and proportionate share of contributions	-	48,864
School District contributions subsequent to measurement date	<u>63,950</u>	<u>-</u>
Total	<u>\$ 63,950</u>	<u>\$ 143,000</u>

\$63,950 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the measurement year (fiscal year) as follows:

Year ended June 30:

2015 (2016)	\$	37,913
2016 (2017)		25,823
2017 (2018)		20,641
2018 (2019)		20,640

Actuarial Assumptions

The total pension liability at the June 30, 2014 measurement date was determined by an actuarial valuation as of June 30, 2013, which was rolled forward to June 30, 2014. The total pension liability for the June 30, 2013 measurement date was determined by an actuarial valuation as of June 30, 2013. This actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.12%
Salary increases	Graded by service, from 6.36% to 4.12% for Peace Officers/Firefighters Graded by age and service, from 9.60% to 3.62% for All Others
Investment rate of return	8.00%, net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%.

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Mortality rates (pre-termination) were based on the 2005-2009 actual mortality experience. For Peace Officers/Firefighters, the 1994 Group Annuity Mortality (GAM) table, sex distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA, 80% of the male table for males and 90% of the female table for females were used. For All Others, the 1994 GAM Table, sex distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA, 75% of the male table for males and 55% of the female table for females were used. For post-termination mortality the 1994 GAM Table, sex-distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and with a 1-year set-forward for females were used.

The actuarial assumptions used in the June 30, 2013 actuarial valuation were based on the results of an actuarial experience study for the period July 1, 2005 to June 30, 2009, resulting in changes in actuarial assumptions adopted by the Board to better reflect expected future experience.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the System's current and expected asset allocation are summarized in the following table (note that the rates shown below exclude the inflation component):

Asset Class	Long-term Expected Real Rate of Return
Equities:	
Broad domestic equity	5.40%
Large cap	5.25
Small/mid cap	5.60
International equity	5.25
Emerging markets equity	5.65
Global ex-U.S. equity	5.55
Fixed income:	
Domestic fixed	0.75
TIPS	0.75
Other:	
Real estate	3.95
Private equity	6.40
Hedge funds	2.85
Cash equivalents	(0.25)

Discount Rate

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that employer and nonemployer State contributions will continue to follow the current funding policy, which meets State statutes. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Sensitivity of the Borough and the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Borough and the School District's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent, as well as what the Borough and the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0 percent) or 1-percentage-point higher (9.0 percent) than the current rate:

	1% Decrease (7.0)	Current Discount rate (8.0%)	1% Increase (9.0%)
Borough's proportionate share of the Net pension liability	\$ 3,050,737	\$ 2,326,689	\$ 1,716,974
School District's proportionate share of the net pension liability	\$ 1,068,351	\$ 814,793	\$ 601,275

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report. During fiscal year 2015, pursuant to SB 119, the State of Alaska provided additional on-behalf funding totaling \$1 billion. This resulted in a total contribution rate, including the rate required of the Borough and the School District of 22%, of 64.41%, which exceeded the actuarially determined rate set by the Board of 44.03%. This additional contribution was applied to the non-employer component of the total net pension liability.

**PERS - Defined Benefit Other Postemployment Benefit Plans Funding Status**

The Borough's annual OPEB costs for the years ending June 30, 2015, 2014 and 2013, and the amounts actually contributed are listed below.

Period Ending	Annual OPEB Cost	Percentage of Required Contribution
June 30, 2015	\$ 86,933	100%
June 30, 2014	105,365	100%
June 30, 2013	121,660	100%

The School District's annual OPEB costs for the years ending June 30, 2015, 2014 and 2013, and the amounts actually contributed are listed below.

Period Ending	Annual OPEB Cost	Percentage of Required Contribution
June 30, 2015	\$ 51,375	100%
June 30, 2014	63,920	100%
June 30, 2013	84,057	100%

**State of Alaska TRS Defined Benefit Plan**

Plan Description

TRS is a cost-sharing multiple-employer defined benefit (DB) pension plan administered by the State of Alaska which includes a defined benefit health plan, and occupational death and disability plan (Other

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Post Employment Benefits “OPEB”). All employees initially hired prior to July 1, 2006 must participate in this plan. With the passage of Senate Bill (SB) 141, the DB Plan is closed to all new members effective July 1, 2006. Employees hired on or after this date must participate in the DC Plan described later.

Benefits Provided

TRS provides retirement, health insurance premium supplement, long-term disability, occupational death and disability and survivor benefits. Retirement benefits are calculated on the basis of age, average monthly compensation and service credit as follows (a more complete description of benefits can be found at <http://doa.alaska.gov/drb/> or the financial report referred to earlier):

	"Tier 1"	"Tier 2"
Initial hire date	Before July 1, 1990	July 1, 1990 to June 30, 2006
Minimum credited years of service	Five Years	Five Years
Retirement age with minimum years of service	55, or early retirement - 50, or any age with 30 or more service years	60, or early retirement - 55, or any age with 30 or more service years
Pension benefit:		
Basis	Years of Service based and average of three highest contract years salaries	Years of Service based and average of three highest contract years salaries
Amount per year of service	2% to 2.5% depending on hire date and length of service	2% to 2.5% depending on hire date and length of service
Form	Joint and survivor annuity	Joint and survivor annuity
Death benefit:		
Pre-retirement, work related, non-willful negligence death	Monthly survivor benefit	Monthly survivor benefit
Active DB Plan member, occupational death	40% of members' salary,	40% of members' salary,
Active DB Plan member, non-occupational death	Spouse receives 50% of members' benefit, or lump sum to other beneficiaries	Spouse receives 50% of members' benefit, or lump sum to other beneficiaries
Disability benefits	Paid to normal retirement age, if vested, when normal retirement benefits apply	Paid to normal retirement age, if vested, when normal retirement benefits apply
Medical benefits	Major medical benefits at no cost	Major medical at premium amount if under age 60, at no cost thereafter, if 25 years of service or if disabled
Postretirement pension adjustments		

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(PRPA):

Automatic	Benefits increased each July 1 based on cost of living increase the previous calendar year	Benefits increased each July 1 based on cost of living increase the previous calendar year
Discretionary	Granted if funding ratio of the DB Plan meets or exceeds 105%	Granted if funding ratio of the DB Plan meets or exceeds 105%

Contributions

Contributions requirements of the active plan members and the participating employers are actuarially determined and approved by the Board as an amount that, when combined, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The DB Plan members contribute 8.65% of their base salary as required by statute. The School District's effective contribution rate is 12.56% of annual payroll. Alaska Statute 14.25.085 requires that additional state contributions made each July 1, or as soon after July 1, for the ensuing fiscal year that when combined with the total employer contributions is sufficient to pay the System's past service liability at the actuarially determined contribution rate adopted by the Board for that fiscal year. Additionally, there is a Defined Benefit Unfunded Liability (DBUL) amount levied against the DCR Plan payroll. The DBUL amount is computed as the difference between:

- (A) The amount calculated for the statutory employer contribution rate of 12.56% on eligible salary less
- (B) The total of the employer contributions for
  - (1) The defined contribution employer matching amount;
  - (2) Major medical;
  - (3) Occupational death & disability; and
  - (4) Health reimbursement arrangement.

The difference is deposited based on an actuarial allocation into the DB Plan's pension and healthcare funds.

Refunds

DB Plan member contributions may be voluntarily or involuntarily refunded to the employee or a garnishing agency 60 days after termination of employment. Voluntary refund rights are forfeited on July 1 following the member's 75<sup>th</sup> birthday or within 50 years of the member's last termination date. Members who have had contributions refunded forfeit all retirement benefits, including postemployment healthcare benefits. Members were allowed to reinstate refunded service due to involuntary refunds by paying the total involuntary refunded balance and accrued interest, as long as they reestablished an employee relationship with a participating DB Plan employer before July 1, 2010. Members who had not reestablished an employee relationship with a participating DB Plan employer by June 30, 2010 was not eligible to reinstate voluntarily refunded service and forfeited any claim to DB Plan membership rights. Balances refunded to members accrue interest at the rate of 7.0% per annum, compounded semiannually.

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Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the School District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the School District. The amount recognized by the School District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the School District were as follows:

School District's proportionate share of the net pension liability for TRS	\$ 958,231
State's proportionate share of the net pension liability for TRS associated the School District	<u>5,976,589</u>
Total Net Pension Liability for TRS	<u>\$ 6,934,820</u>

The School District will record the entire net pension liability, including the State's proportionate share, if the State of Alaska no longer contributes its proportionate share as measured by the annual State contributions and provided under Alaska Statute 14.25.085. By changing the existing statute to a higher rate above and up to the actuarially determined rate, the School District may be required to record some or all of the State's proportion and its contribution amounts will increase accordingly.

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on a projection of the School District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers and the State, actuarially determined. At June 30, 2014, the School District's proportion was .03195102%, which was a decrease of .00421670% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the School District recognized pension expense of \$495,271 and revenue of \$491,153 for support provided by the State. At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 85,546
Changes in proportion and differences between School District contributions and proportionate share of contributions	-	78,899
School District contributions subsequent to measurement date	<u>75,224</u>	<u>-</u>
Total	<u>\$ 75,224</u>	<u>\$ 164,445</u>

\$75,224 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension

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liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the measurement year (fiscal year) as follows:

Year ended June 30:		
2015 (2016)	\$	44,596
2016 (2017)		30,374
2017 (2018)		24,280
2018 (2019)		24,279

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2013, using the following actuarial assumptions, applied to all periods included in the measurement, and rolled forward to the measurement date of June 30, 2014:

Inflation	3.12%
Salary increases	Graded for service, from 6.11% to 3.62%
Rate of return	8.00%, net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%.

Mortality rates were based on the 1994 Group Annuity Mortality (GAM) Table, sex distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA, adjusted 55% for females and 45% for males for pre-termination mortality and the 1994 GAM Sex-distinct Table 1994 Base Year without margin projected to 2013 using Projection Scale AA, with a 3-year setback for females and a 4-year setback for males for post-termination mortality.

The actuarial assumptions used in the June 30, 2013 actuarial valuation were based on the results of an actuarial experience study for the period July 1, 2005 to June 30, 2009, resulting in changes in actuarial assumptions adopted by the Board to better reflect expected future experience.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
Equities:	
Broad domestic equity	5.40%
Large cap	5.25
Small/mid cap	5.60
International equity	5.25
Emerging markets equity	5.65
Global ex-U.S. equity	5.55

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Fixed income:

Domestic fixed	0.75
TIPS	0.75

Other:

Real estate	3.95
Private equity	6.40
Hedge funds	2.85
Cash equivalents	(0.25)

Discount Rate

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that employer and nonemployer State contributions will continue to follow the current funding policy, which meets State statutes. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0 percent) or 1-percentage-point higher (9.0 percent) than the current rate:

	1% Decrease (7.0)	Current Discount rate (8.0%)	1% Increase (9.0%)
School District's proportionate share of the net pension liability	\$ 1,206,785	\$ 958,231	\$ 749,623

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report. During fiscal year 2015, pursuant to SB 119, the State of Alaska provided additional on-behalf funding totaling \$2 billion. This resulted in a total contribution rate, including the rate required of the School District of 12.56, of 267.85%, which exceeded the actuarially determined rate set by the Board of 70.75%. This additional contribution was applied to the non-employer component of the total net pension liability.

**TRS - Defined Benefit Other Postemployment Benefit Plans Funding Status**

The League's annual OPEB costs for the years ending June 30, 2015, 2014 and 2013, and the amounts actually contributed are listed below.

Period Ending	Annual OPEB Cost	Percentage of Required Contribution
June 30, 2015	\$ 52,567	100%
June 30, 2014	71,759	100%
June 30, 2013	80,024	100%

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**PERS and TRS - Defined Contribution Pension Plan**

**General**

The Borough and the School District participates in the State of Alaska Defined Contribution Pension Plan (DC Plan) which provides pension benefits and Other Postemployment Benefits Occupational death and disability benefits similar to those of the defined contribution plan for eligible employees hired after July 1, 2006. The State of Alaska Healthcare Reimbursement Arrangement Plan is also provided allow medical expenses to be reimbursed from individual savings accounts established for eligible participants. Additionally, certain active members of the DB Plan were eligible to transfer to the DC Plan if that member had not vested in the DB Plan. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The DC Plan is administered by the System.

**Pension Benefits**

A participating member is immediately and fully vested in that member's contributions and related earnings (losses). A member shall be fully vested in the employer contributions made on that member's behalf, and related earnings (losses), after five years of service. A member is partially vested in the employer contributions made on that member's behalf, and the related earnings, in the ratio of (a) 25% with two years of service; (b) 50% with three years of service; (c) 75% with four years of service; and (d) 100% with five years of service.

**Contributions**

Alaska statutes require an 8.0% contribution rate for DC Plan members. Employers are required to contribute 5.0% of the member's compensation. For the Borough's PERS members for the year ended June 30, 2015 and 2014, employee contributions totaled \$110,735 and \$108,307, respectively, and the Borough recognized pension expense of \$69,210 and \$67,922, respectively. For the School District's PERS members for the year ended June 30, 2015 and 2014, employee contributions totaled \$32,798 and \$36,323, respectively, and the School District recognized pension expense of \$20,499 and \$51,309, respectively. For the School District's TRS members for the year ended June 30, 2015 and 2014, employee contributions totaled \$66,414 and \$75,001, respectively, and the School District recognized pension expense of \$57,452 and \$117,479, respectively.

**Refunds**

A member is eligible to elect distribution of their account 60 days after termination of employment.

**Participant Accounts**

Participant accounts under the DC Plan are self-directed with respect to investment options.

Each participant designates how contributions are to be allocated among the investment options. Each participant's account is credited with the participant's contributions and the appreciation or depreciation in unit value for the investment funds.

Record-keeping/administrative fees consisting of a fixed amount, applied in a lump sum each calendar year, and a variable amount, applied monthly, are deducted from each participant's account, applied pro rata to all the funds in which the employee participates. This fee is for all costs incurred by the record keeper and by the State. The investment management fees are netted out of the funds' performance.

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**NOTE 12 - 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, 2015, was as follows:

Receivable Fund	Payable Fund	Amount
General	New school debt service	\$ 3,233
General	Special capital projects	702,622
General	Nonmajor governmental funds	29,798
General	Small boat harbor	115,843
General	Port Chilkoot Dock	5,331
Borough capital improvements	General	1,527,105
Nonmajor governmental funds	General	826,051
Passenger vessel tax	General	20,169
Permanent fund	General	50,980
Water	General	115,582
Sewer	General	810,074
Small boat harbor	General	586,081
Lutak Dock	General	861,330

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

	Transfers In							Total
	General Fund	Permanent Fund	Borough Capital Improvements	Special Capital Projects	Other Governmental Funds	Small Boat Harbor	Sewer Fund	
Transfers out:								
General fund	\$ -	\$ -	\$ 264,709	\$ 1,401	\$ 543,217	\$ 47,500	\$ -	\$ 856,827
Permanent fund	267,000	-	-	-	-	-	-	267,000
Borough capital improvements	70,000	-	-	68	-	-	83,201	153,269
Passenger vessel tax	-	-	-	16,743	-	-	-	16,743
Other governmental funds	5,000	93,344	7,681	19,253	-	-	-	125,278
Total	\$ 342,000	\$ 93,344	\$ 272,390	\$ 37,465	\$ 543,217	\$ 47,500	\$ 83,201	\$ 1,419,117

Transfers between funds are in accordance with the Borough Code and budgetary authorizations, and are generally for capital outlay and operations.

**NOTE 13 - RISK MANAGEMENT**

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, natural disasters 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. The Borough's insurance is on a claims occurred basis, except for public officials' coverage which is on a claims made basis. There were no significant changes in insurance

HAINES BOROUGH  
NOTES TO FINANCIAL STATEMENTS

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 14 - PERMANENT 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 15 – SUBSEQUENT EVENTS**

On September 16, 2015 the Borough issued general obligation bonds in the amount of \$1,295,000 for the funding of the Haines Borough's vocational building and high school projects. Principal payments are due annually over 20 years, starting October 1, 2016. Interest payments are due semi-annually on April 1 and October 1, of each year.

## REQUIRED SUPPLEMENTARY INFORMATION

HAINES BOROUGH  
BUDGETARY COMPARISON SCHEDULE -  
GENERAL FUND

For the Year Ended June 30, 2015

	Budget Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenue				
Taxes				
Property	\$ 2,320,918	\$ 2,270,418	\$ 2,296,774	\$ 26,356
Sales	1,262,000	1,262,000	1,327,531	65,531
Intergovernmental - Federal and State	1,417,169	2,594,090	2,704,939	110,849
Federal payments in lieu of taxes	360,000	344,205	344,205	-
Service and admission fees	72,476	72,476	72,430	(46)
Licenses and permits	26,000	26,000	25,337	(663)
Rentals	64,000	64,000	60,213	(3,787)
Investment earnings	112,500	112,500	91,930	(20,570)
Contributions and other	58,686	70,766	122,469	51,703
Total revenue	<u>5,693,749</u>	<u>6,816,455</u>	<u>7,045,828</u>	<u>229,373</u>
Expenditures				
Current				
General government	782,116	1,717,116	1,785,916	(68,800)
Public safety	1,478,707	1,500,582	1,414,707	85,875
Public works and streets	901,139	901,139	824,215	76,924
Education	1,786,866	1,786,866	1,770,439	16,427
Culture, recreation, and library	615,531	1,105,033	1,053,478	51,555
Total expenditures	<u>5,564,359</u>	<u>7,010,736</u>	<u>6,848,755</u>	<u>161,981</u>
Excess (deficiency) of revenue over (under) expenditures	<u>129,390</u>	<u>(194,281)</u>	<u>197,073</u>	<u>391,354</u>
Other financing sources (uses)				
Transfers in	342,000	342,000	342,000	-
Transfers out	<u>(276,000)</u>	<u>(417,948)</u>	<u>(856,827)</u>	<u>(438,879)</u>
Total other financing sources (uses)	<u>66,000</u>	<u>(75,948)</u>	<u>(514,827)</u>	<u>(438,879)</u>
Net change in fund balance	<u>\$ 195,390</u>	<u>\$ (270,229)</u>	<u>\$ (317,754)</u>	<u>\$ (47,525)</u>

HAINES BOROUGH  
BUDGETARY COMPARISON SCHEDULE -  
PASSENGER VESSEL TAX SPECIAL REVENUE FUND

For the Year Ended June 30, 2015

	Budget Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenue				
Intergovernmental - State of Alaska	\$ 145,000	\$ 145,000	\$ 140,944	\$ (4,056)
Expenditures				
Port development	106,675	106,675	119,800	(13,125)
Excess of revenues over expenditures	38,325	38,325	21,144	(17,181)
Other financing uses - transfers out	-	-	(16,743)	(16,743)
Net change in fund balance	\$ 38,325	\$ 38,325	\$ 4,401	\$ (33,924)

HAINES BOROUGH  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE BOROUGH'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Haines Borough's proportion of the net pension liability	0.04988465%	0.04806946%
Haines Borough's proportionate share of the net pension liability	\$ 2,326,689	\$ 2,524,319
State's proportionate share of the net pension liability associated with the Borough	<u>2,289,751</u>	<u>2,758,681</u>
Total	<u>\$ 4,616,440</u>	<u>\$ 5,283,000</u>
Haines Borough's covered payroll	\$ 2,281,338	\$ 2,450,903
Haines Borough's proportionate share of the net pension liability as a percentage of its covered employee payroll	101.99%	103.00%
Plan fiduciary net position as a percentage of the total pension liability	62.37%	56.04%

HAINES BOROUGH  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF BOROUGH CONTRIBUTIONS  
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 210,862	\$ 191,334
Contributions in relation to the contractually required contribution	<u>(210,862)</u>	<u>(191,334)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Haines Borough's covered payroll	\$ 2,303,150	\$ 2,281,338
Contributions as a percentage of covered employee payroll	9.16%	8.39%

HAINES BOROUGH SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY

Years Ended June 30, 2014 and 2013

PERS		
	2014	2013
School District's proportion of the net pension liability	0.01746932%	0.01911557%
School District's proportionate share of the net pension liability	\$ 814,793	\$ 1,003,835
State's proportionate share of the net pension liability associated with the School District	831,844	1,087,306
Total	<u>\$ 1,646,637</u>	<u>\$ 2,091,141</u>
School District's covered payroll	\$ 597,996	N/A
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	136.25%	N/A
Plan fiduciary net position as a percentage of the total pension liability	62.37%	N/A
TRS		
	2014	2013
School District's proportion of the net pension liability	0.03195102%	0.03616772%
School District's proportionate share of the net pension liability	\$ 958,231	\$ 1,197,304
State's proportionate share of the net pension liability associated with the School District	5,976,589	6,567,873
Total	<u>\$ 6,934,820</u>	<u>\$ 7,765,177</u>
School District's covered payroll	\$ 1,251,616	N/A
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	76.56%	N/A
Plan fiduciary net position as a percentage of the total pension liability	55.70%	N/A

HAINES BOROUGH SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF SCHOOL DISTRICT CONTRIBUTIONS  
Year Ended June 30, 2015

PERS	
	2015
Contractually required contribution	\$ 68,101
Contributions in relation to the contractually required contribution	<u>(68,101)</u>
Contribution deficiency (excess)	<u>\$ -</u>
School District's covered payroll	\$ 366,422
Contributions as a percentage of covered employee payroll	18.59%
TRS	
	2015
Contractually required contribution	\$ 71,073
Contributions in relation to the contractually required contribution	<u>(71,073)</u>
Contribution deficiency (excess)	<u>\$ -</u>
School District's covered payroll	\$ 919,873
Contributions as a percentage of covered employee payroll	7.73%