

HAINES BOROUGH

FINANCIAL STATEMENTS

For the Year Ended June 30, 2012

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

HAINES BOROUGH
FINANCIAL STATEMENTS
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Haines Borough (the Borough), as of and for the year ended June 30, 2012, which collectively comprise the Borough's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Haines Borough's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Haines Borough School District, which represents 3% of total assets in the statement of net assets and 28% of total revenues in the statement of activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Haines Borough School District, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Haines Borough as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2013 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-11 and 43-44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Handwritten signature in black ink, consisting of the letters 'ERM' in a cursive, slightly stylized font.

March 22, 2013

HAINES BOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2012

The Haines Borough ("the Borough") Management's Discussion and Analysis ("MD&A") provides the narrative overview and analysis of the financial activities of the Borough for the fiscal year ended June 30, 2012 (FY12).

FINANCIAL HIGHLIGHTS

- The assets of the Haines Borough exceeded its liabilities at the close of FY12 by \$57.1 million (net assets). Of this amount, \$38.8 million represents the Borough's investment in capital assets (e.g., land, buildings, roads) net of related debt, and \$9.8 million (unrestricted net assets) may be used to meet the Borough's ongoing obligations to citizens and creditors.
- In FY12 two new enterprise funds were created for the Lutak Dock and Port Chilkoot Dock port facilities. Assets related to the operation of these port facilities were moved in FY12 from the governmental activities section of the statement of net assets to the business-type activities section.
- Total net assets increased by \$6.5 million, or approximately 13%. The total increase reflects an increase in business-type activities of \$8.7 million and a decrease in governmental activities of \$2.3 million. These figures reflect the reclassification of the port facilities from the governmental activities section to business-type activities.
- Net assets for governmental activities decreased \$2.3 million in FY12 due primarily to the transfer out of port facility assets in the amount of \$7.4 million which was partially offset by \$2.6 million of roads and sidewalks conveyed to the Borough from the Chilkoot Indian Association and also by \$1.7 million of road resurfacing, gutter and sidewalks improvements which were constructed utilizing grants from the State of Alaska. Also contributing to the reduction in net assets is \$1.3 million of depreciation on governmental assets.
- Net assets for business-type activities increased \$8.7 million. In addition to the reclassification of the port facility assets, the increase reflects: water and sewer infrastructure conveyed to the Borough by Chilkoot Indian Association of \$1.1 million; construction of new water mains on 4th, View, and Lynnview roads for \$486,000; and a new water pump station at Barnett Road for \$323,000. The change in net assets also reflects \$1.0 million of depreciation on business-type assets.
- In FY12 the Borough obtained financing from the Alaska Department of Environmental Conservation to refinance the 2010 purchase of Crystal Cathedrals Water & Sewer System, a privately owned water and sewer utility adjacent to the Borough's utility.
- In FY12 general fund revenues were comprised primarily of property tax (33%), intergovernmental sources (30%), sales tax (18%), service fees (7%), payment in lieu of taxes (5%), and investment income (2%).
- During the year, the Borough paid down \$759,835 on long-term debt including \$712,617 paid down on general obligation debt and \$47,218 paid down on proprietary fund debts.

HAINES BOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS

REPORT FORMAT

The financial report is presented with the MD&A. The report consists of government-wide financial statements, fund financial statements, notes to the financial statements and supplementary information.

The report layout is presented in the following order:

MD&A (pages 3 - 11)

Basic Financial Statements:

Government-Wide Financial Statements (pages 12 and 13)

Fund Financial Statements (pages 14 - 21)

Notes to the Basic Financial Statements (pages 22 - 42)

Required Supplementary Information (pages 43 and 44)

The first statements are highly condensed and present a government-wide view of the Borough's finances. Within this view, all operations are reported as either governmental or business-type activities. Governmental activities include basic services such as general government, public safety, public works, education, fire services, ambulance, recreation, economic development, museum, and library. Business-type activities are water, sewer, port and boat harbor services. The government-wide statements include the statement of net assets and statement of activities.

The focus is on both the Borough as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow the user to focus on the more relevant financial issues and broaden their basis for year-to-year or government-to-government comparisons.

OVERVIEW OF FINANCIAL STATEMENTS

The MD&A is intended to serve as an introduction to the Borough's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the Borough's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Borough's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as an indicator of whether our financial position is improving or deteriorating.

The statement of activities demonstrates how the net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused personal leave).

HAINES BOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

These financial statements discretely present the financial position and activities of the school district, which is a component unit.

The government-wide financial statements can be found on pages 12 and 13 of this report.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Borough, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Borough can be divided into two categories: governmental funds and enterprise (or proprietary) funds.

Governmental funds – *Governmental funds* are used to account for the same functions reported as *governmental activities* in the government-wide financial statements. Governmental fund financial statements help determine whether there are more or fewer financial resources that can be spent in the near future to finance the Borough's programs.

Because the focus of *governmental funds* is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. A reconciliation is presented to facilitate this comparison between *governmental funds* and *governmental activities*.

The Borough maintains 20 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the major governmental funds. The major governmental funds are the general fund, the permanent trust fund, the new school debt service fund, the special capital projects fund, the Borough capital improvements fund, and the passenger vessel tax fund. Data from the remaining special revenue, debt service, and capital projects funds is presented in aggregate.

The basic governmental fund financial statements can be found on pages 14 - 15 of this report.

Enterprise funds – *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements.

The enterprise fund financial statements provide separate information for the Borough's port facilities, the small boat harbor and for the water and sewer utilities. All are considered major funds.

The basic enterprise fund financial statements can be found on pages 17 - 19 of this report.

HAINES BOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as an indicator of a government's financial position. The Borough's total assets exceeded liabilities by \$57.1 million (net assets) as of June 30, 2012, compared to \$50.6 million as of June 30, 2011.

The largest portion of the Borough's net assets (68%) reflects its investment in capital assets (e.g., land, buildings, improvements, road network, and equipment), less any related debt that is still outstanding. The Borough uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Borough's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this outstanding debt must be provided from other sources, as the capital assets themselves cannot be used as a source of funds to liquidate these liabilities. The amount of debt related to the investment in capital assets is \$16.0 million as of June 30, 2012.

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

HAINES BOROUGH'S NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$18,365,450	\$18,021,698	\$ 2,367,359	\$ 1,655,239	\$20,732,809	\$19,676,937
Capital assets	29,285,114	33,176,681	25,488,111	16,967,044	54,773,225	50,143,725
Total assets	<u>47,650,564</u>	<u>51,198,379</u>	<u>27,855,470</u>	<u>18,622,283</u>	<u>75,506,034</u>	<u>69,820,662</u>
Current and other liabilities	2,941,286	3,491,919	214,523	151,222	3,155,809	3,643,141
Long-term liabilities	13,321,564	14,050,908	1,952,531	1,502,259	15,274,095	15,553,167
Total liabilities	<u>16,262,850</u>	<u>17,542,827</u>	<u>2,167,054</u>	<u>1,653,481</u>	<u>18,429,904</u>	<u>19,196,308</u>
Net assets:						
Invested in capital assets, net of related debt	15,220,807	18,413,276	23,584,270	15,424,270	38,805,077	33,837,546
Restricted	8,397,517	8,112,172	113,415	113,217	8,510,932	8,225,389
Unrestricted	7,769,390	7,130,104	1,990,731	1,431,315	9,760,121	8,561,419
Total net assets	<u>\$31,387,714</u>	<u>\$33,655,552</u>	<u>\$25,688,416</u>	<u>\$16,968,802</u>	<u>\$57,076,130</u>	<u>\$50,624,354</u>

A portion of the Borough's net assets (\$8.5 million or 15%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$9.8 million or 17%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the prior fiscal year, the Borough was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. At the end of the current fiscal year the same was true with the exception of the new Port Chilkoot Dock Fund. The Port Chilkoot Dock Fund ended its first year as an enterprise fund with negative unrestricted net assets of \$21,386.

HAINES BOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS

The government's net assets increased by \$6.5 million in FY12 compared to a \$3.2 million increase in FY11. The increase in FY12 was primarily due to two factors: (1) the conveyance of \$3.7 million of roads, sidewalks, and utility mains to the Haines Borough from the Chilkoot Indian Association; and (2) the use of grant funds from the State of Alaska to construct \$1.7 million of roads, gutters and sidewalks.

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

	HAINES BOROUGH'S CHANGES IN NET ASSETS					
	Governmental		Business-type		Totals	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues						
Fees, fines and charges for services	\$ 484,888	\$ 641,120	\$ 1,601,734	\$ 884,576	\$ 2,086,622	\$ 1,525,696
Operating grants & contributions	1,043,369	824,573	-	-	1,043,369	824,573
Capital grants & contributions	4,018,557	4,882,500	2,118,895	-	6,137,452	4,882,500
General revenues						
Property taxes	2,611,745	2,566,967	-	-	2,611,745	2,566,967
Sales taxes	2,699,741	2,724,105	-	-	2,699,741	2,724,105
Other	4,916,188	1,729,675	13,065	200,120	4,929,253	1,929,795
Total revenues	<u>15,774,488</u>	<u>13,368,940</u>	<u>3,733,694</u>	<u>1,084,696</u>	<u>19,508,182</u>	<u>14,453,636</u>
Expenses						
General government	1,235,757	1,997,670	-	-	1,235,757	1,997,670
Public safety	1,559,861	1,056,469	-	-	1,559,861	1,056,469
Public works and streets	2,321,468	1,416,955	-	-	2,321,468	1,416,955
Education	2,678,771	2,394,388	-	-	2,678,771	2,394,388
Economic Development	523,283	544,378	-	-	523,283	544,378
Culture, recreation and library	1,206,976	1,173,532	-	-	1,206,976	1,173,532
Interest on long-term debt	601,915	629,628	-	-	601,915	629,628
Water	-	-	472,676	388,429	472,676	388,429
Sewer	-	-	541,359	517,304	541,359	517,304
Port/Harbor	535,396	627,295	792,934	517,946	1,328,330	1,145,241
Lutak dock	-	-	293,629	-	293,629	-
Port Chilkoot dock	-	-	292,381	-	292,381	-
Total expenses	<u>10,663,427</u>	<u>9,840,315</u>	<u>2,392,979</u>	<u>1,423,679</u>	<u>13,056,406</u>	<u>11,263,994</u>
Increase (decrease) in net assets before transfers	5,111,061	3,528,625	1,340,715	(338,983)	6,451,776	3,189,642
Transfers	<u>(7,378,899)</u>	<u>(897,548)</u>	<u>7,378,899</u>	<u>897,548</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	(2,267,838)	2,631,077	8,719,614	558,565	6,451,776	3,189,642
Net assets - beg of year	<u>33,655,552</u>	<u>31,024,475</u>	<u>16,968,802</u>	<u>16,410,237</u>	<u>50,624,354</u>	<u>47,434,712</u>
Net assets - end of year	<u>\$ 31,387,714</u>	<u>\$ 33,655,552</u>	<u>\$ 25,688,416</u>	<u>\$ 16,968,802</u>	<u>\$ 57,076,130</u>	<u>\$ 50,624,354</u>

Governmental activities – In FY12 governmental activities' net assets decreased by \$2.3 million. This figure compares to a \$2.6 million increase in FY11. The decrease to governmental net assets in FY12 is due to the reclassification of capital assets related to the operation of the Borough's two port facilities. In FY12 new enterprise funds were formed for the Borough's Lutak and Port Chilkoot dock port facilities which caused \$7.4 million of port capital assets to be classified as business-type assets. The removal of port assets was offset in part by the acquisition of roads, gutters, and sidewalks in the Chilkoot Estates Subdivision through a conveyance from the Chilkoot Indian

HAINES BOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS

Association as well as by the construction of Borough road improvements through grant funds from the State of Alaska.

Business-type activities – Business-type activities increased the Borough's net assets by \$8.7 million in FY12. This compares to an increase of \$0.6 million in FY11. As stated earlier the primary reason for the increase is the reclassification of port assets as business-type assets. Additionally, the Borough acquired \$1.1 million of water and sewer infrastructure from Chilkoot Indian Association and utilized \$0.4 million of grant funding from the State of Alaska to construct water system improvements.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the Borough uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds – The focus of the Borough's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Borough's financing requirements. In particular, an unassigned fund balance may serve as a measure of the government's net resources available for spending at the end of the fiscal year.

As of the end of FY12, the Borough's governmental funds reported combined ending fund balances of \$15.0 million, an increase of \$910,379 (6%) from the prior year. The increase was due to several factors including the repayment of \$412,684 of loan payments from the Chilkoot Indian Association, Capital Improvement sales tax revenues which exceeded current year expenditures by \$249,559, permanent fund earnings of \$167,411, and other revenues which exceeded original projections. In compliance with GASB No. 54 the governmental fund balances have been classified as follows: \$6.4 million is nonspendable, \$4.9 million is restricted, \$1.4 million is assigned, and \$2.3 million is unassigned and available for spending.

The general fund is the primary operating fund of the Borough. At the end of FY12, the fund balance of the general fund was \$4.9 million, up \$548,570 (13%) from the previous year. This compares to an \$84,342 (2%) increase in FY11. The primary reason for the large increase in FY12 was \$412,684 of loan repayment from Chilkoot Indian Association.

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

As of the end of FY12, the enterprise funds' combined net assets were \$25.7 million, an increase of \$8.7 million (51%) from the prior year. The increase is due primarily to the creation of two new enterprise funds. In FY12 enterprise funds were created for the operation of the Lutak Dock and the Port Chilkoot Dock. Previously these operations were included in the general fund. Without the inclusion of the new port enterprise funds the Borough's enterprise funds' net assets as of the end of FY12 are \$18.1 million. This is an increase of \$1.1 million (6%) over the previous year. The increase breaks down between the funds as follows: \$1,030,426 (24%) increase in the water fund, \$410,359 (9%) increase in the sewer fund, and a \$344,452 (4%) decrease in the small boat harbor fund. The increase in the water fund was the combined result of the conveyance of \$549,845 of water infrastructure from Chilkoot Indian Association and the utilization of \$391,794 of grant funding from the State of Alaska to construct water system improvements. The primary reason for

HAINES BOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS

the decrease in the net assets of the harbor funds is revenues from charges for service that were insufficient to cover depreciation expense.

Unrestricted net assets for the enterprise funds total \$2.0 million at the close of FY12. The unrestricted assets are broken down as follows: \$273,061 water fund, \$648,555 sewer fund, \$874,868 harbor fund, \$215,633 Lutak Dock, and (\$21,386) Port Chilkoot Dock. It is worth noting that in its first year of operating as an enterprise fund the Port Chilkoot Dock's expenses, without consideration of depreciation, have exceeded its revenues by \$21,386. Management hopes to address the situation in the future with increased user fees.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

- \$201,268 increase in state revenue sharing due to supplemental revenue sharing passed by the legislature;
- \$142,149 in additional snow removal expenditures resulting from significantly higher snowfall and the temporary loss of a major piece of snow removal equipment;
- \$90,000 of expenditures related to investigation and mitigation of the Lutak Road slope movement;
- \$21,900 in increased pool utility expenditures due to the pool temporarily being kept at a higher temperature without the use of the pool blanket at night; and
- \$19,000 appropriation for redesign of the Borough website.

Actual revenues exceeded budget revenues by \$433,785. One reason for the variance is PERS relief funding from the State of Alaska for \$252,963 which was not included in the budget. Another factor was road maintenance funds paid by Chilkoot Indian Association which came in \$162,684 over budget projections. Actual expenditures were under budget by \$42,057.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets – The Borough's investment in capital assets for its governmental and business-type activities as of June 30, 2012 amounted to \$54.8 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment, road networks, harbors and water/sewer systems. The total increase in the Borough's investment in capital assets for the current fiscal year was \$4.6 million (9%).

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

- Transferred \$7.4 million of capital assets related to port operations from the general fund to new enterprise funds;
- Accepted \$3.7 million of roads, gutters, sidewalks, and utility infrastructure for Chilkoot Estates subdivision from the Chilkoot Indian Association;

HAINES BOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS

- Completed \$1.7 million of road, gutter, and sidewalk improvements with grant funding from the State of Alaska;
- Replaced approximately 2,800' of asbestos cement water main on 4th, View, and Lynnview streets with \$485,804 of grant and loan funding from the State of Alaska; and
- Completed construction of a new drinking water pump station at the Barnett Road tank with \$255,854 of grant funds from the State of Alaska and \$66,795 of local Capital Improvement sales tax funds.

Debt administration – As of June 30, 2012, the Borough has a total of \$16.0 million in bonds and loans payable, which consists of two general obligation bond issues (\$14.0 million), one revenue bond issue (\$1.3 million), and five notes payable to the state of Alaska (\$708,188).

The total debt decreased \$242,525 (1%) in FY12. The decrease is the combined result of normal annual debt retirement netted against several small additional notes payable to the State of Alaska Department of Environmental Conservation.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For FY12 property and sales tax revenues together make up 52% of general fund revenues. This compares to 63% in FY03, the first year of the consolidated government. This reflects a shift in funding for basic governmental services over the first 10 years of consolidated government from local taxes to state funding sources. The shift is due in large part to state revenue sharing which was unfunded during the time of consolidation but totaled \$806,247 in FY12. Sales tax revenues in FY12 were down 2% from the previous year. Real property values, the basis for property tax revenues, have been somewhat flat in recent years.

The Borough continues to depend on intergovernmental revenues for a significant portion of its operating expenses. In FY12 combined revenues from the State of Alaska and the federal government made up \$2.4 million (36%) of general fund revenues. The Borough may see these revenues erode in the near future as state oil revenues are projected to decline and the federal government faces budget tightening measures. Future funding is uncertain for programs which contribute significantly to the Borough's general fund operating budget such as the federal secure and rural schools program and the federal payment in lieu of taxes.

The Borough continues to pursue development opportunities related to the Lutak Dock. The Borough has established a Port Development Steering Committee tasked with overseeing a port development initiative for the Lutak Dock. The committee is made up of elected officials, community members, and industry representatives. With the guidance of the steering committee, a port development study was recently completed by Northern Economics. The Borough continues to work with public officials and private industry in the Yukon to develop relationships and facilitate the use of the dock in conjunction with future mining activity in the Yukon.

HAINES BOROUGH
MANAGEMENT'S DISCUSSION AND ANALYSIS

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Borough's finances and to demonstrate the Borough's accountability for the money it receives. If you have any questions about this report or need additional financial information, a request should be addressed to the Haines Borough, PO Box 1209, Haines, AK 99827 or please call (907) 766-2231.

The Haines Borough School District component unit issues its own separate audited financial statements. These statements may be obtained by directly contacting the Haines Borough School District, PO Box 1289, Haines, AK 99827.

HAINES BOROUGH
STATEMENT OF NET ASSETS
June 30, 2012

	Primary Government		Total	Component Units
	Governmental Activities	Business-type Activities		
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 2,193,671	\$ 575	\$ 2,194,246	\$ 1,977,303
Investments	8,652,497	-	8,652,497	5,255
Receivables	1,459,903	156,291	1,616,194	202,311
Internal balances, net	(1,957,276)	1,957,276	-	-
Due from component units	52,068	-	52,068	-
Inventory and prepaid expenses	78,973	127,527	206,500	261,931
Performance deposit	-	12,275	12,275	-
Total current assets	<u>10,479,836</u>	<u>2,253,944</u>	<u>12,733,780</u>	<u>2,446,800</u>
Restricted Assets				
Cash and cash equivalents	186,951	-	186,951	-
Investments	7,377,738	-	7,377,738	-
Revenue bond debt service reserve investments	-	113,415	113,415	-
Receivables	54,725	-	54,725	-
Noncurrent Assets				
Receivables, net of current portion	266,200	-	266,200	-
Capital assets, net	<u>29,285,114</u>	<u>25,488,111</u>	<u>54,773,225</u>	<u>125,634</u>
Total assets	<u>47,650,564</u>	<u>27,855,470</u>	<u>75,506,034</u>	<u>2,572,434</u>
LIABILITIES				
Current Liabilities				
Accounts payable and accrued expenses	914,693	99,747	1,014,440	115,043
Accrued payroll	218,675	-	218,675	70,069
Accrued interest payable	-	4,390	4,390	-
Due to primary government	-	-	-	48,122
Due to component units	94,683	-	94,683	-
Deposits	-	36,885	36,885	-
Deferred revenue	970,492	-	970,492	1,346
Current portion of long-term obligations	<u>742,743</u>	<u>73,501</u>	<u>816,244</u>	<u>-</u>
Total current liabilities	2,941,286	214,523	3,155,809	234,580
Noncurrent Portion of Long-Term Obligations	<u>13,321,564</u>	<u>1,952,531</u>	<u>15,274,095</u>	<u>-</u>
Total liabilities	<u>16,262,850</u>	<u>2,167,054</u>	<u>18,429,904</u>	<u>234,580</u>
NET ASSETS				
Invested in Capital Assets, net of related debt	15,220,807	23,584,270	38,805,077	125,634
Restricted for				
Bond reserves	-	113,415	113,415	-
Medical services	173,426	-	173,426	-
Capital projects	1,458,068	-	1,458,068	-
Economic development	382,288	-	382,288	-
Museum projects and other	-	-	-	174,233
Permanent fund - nonexpendable	6,383,735	-	6,383,735	-
Unrestricted	<u>7,769,390</u>	<u>1,990,731</u>	<u>9,760,121</u>	<u>2,037,987</u>
Total net assets	<u>\$ 31,387,714</u>	<u>\$ 25,688,416</u>	<u>\$ 57,076,130</u>	<u>\$ 2,337,854</u>

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

HAINES BOROUGH
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

	Program Revenues			Net (Expense) Revenue and Change in Net Assets				
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
Primary Government								
Governmental activities								
General government	\$ 1,554,296	\$ -	\$ 652	\$ 58,916	\$ (1,494,728)	\$ -	\$ (1,494,728)	\$ -
Public safety	1,241,322	417,828	354,001	-	(469,493)	-	(469,493)	-
Public works and streets	2,321,468	-	-	3,049,372	727,904	-	727,904	-
Economic development	523,283	-	-	-	(523,283)	-	(523,283)	-
Education	2,678,771	-	446,727	910,269	(1,321,775)	-	(1,321,775)	-
Port operations	535,396	-	146,682	-	(388,714)	-	(388,714)	-
Culture, recreation and library	1,206,976	67,060	95,307	-	(1,044,609)	-	(1,044,609)	-
Interest on long-term debt	601,915	-	-	-	(601,915)	-	(601,915)	-
Total governmental activities	10,663,427	484,888	1,043,369	4,018,557	(5,116,613)	-	(5,116,613)	-
Business-type activities								
Water	472,676	345,171	-	1,141,719	-	1,014,214	1,014,214	-
Sewer	541,359	398,522	-	549,844	-	407,007	407,007	-
Small boat harbor	792,934	443,901	-	-	-	(349,033)	(349,033)	-
Lutak dock	293,629	359,547	-	-	-	65,918	65,918	-
Port Chilkoot dock	292,381	54,593	-	427,332	-	189,544	189,544	-
Total business-type activities	2,392,979	1,601,734	-	2,118,895	-	1,327,650	1,327,650	-
Total	\$ 13,056,406	\$ 2,086,622	\$ 1,043,369	\$ 6,137,452	(5,116,613)	1,327,650	(3,788,963)	-
Component Units	\$ 6,865,029	\$ 120,772	\$ 1,718,383	\$ -				(5,025,874)
General Revenue and Transfers								
Property taxes					2,611,745	-	2,611,745	-
Sales taxes					2,699,741	-	2,699,741	-
Provided by general government					-	-	-	1,961,549
Intergovernmental revenue not restricted to specific programs					1,244,209	3,000	1,247,209	3,274,274
Investment income					367,614	10,065	377,679	2,212
Contributions to Permanent Fund principal - inflation proofing					91,133	-	91,133	-
Licenses and permits					29,909	-	29,909	-
Rentals					64,262	-	64,262	-
Contributions and other					2,743,818	-	2,743,818	219,204
Payments in lieu of taxes					375,243	-	375,243	-
Transfers (contributions of capital assets and transfers from general government)					(7,378,899)	7,378,899	-	-
Total general revenue and transfers					2,848,775	7,391,964	10,240,739	5,457,239
Change in net assets					(2,267,838)	8,719,614	6,451,776	431,365
Net Assets, beginning of year					33,655,552	16,968,802	50,624,354	1,906,489
Net Assets, end of year					\$ 31,387,714	\$ 25,688,416	\$ 57,076,130	\$ 2,337,854

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

HAINES BOROUGH
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012

	General Fund	Permanent Fund	New School Debt Service	Special Capital Projects	Borough Capital Improvements	Passenger Vessel Tax	Other Governmental Funds	Total Governmental Funds
ASSETS								
Cash and cash equivalents	\$ 2,193,571	\$ 186,951	\$ -	\$ -	\$ -	\$ -	\$ 100	\$ 2,380,622
Investments	8,652,497	7,377,738	-	-	-	-	-	16,030,235
Receivables	454,673	54,725	9,103	815,539	95,769	-	351,019	1,780,828
Due from other funds	115,843	822	-	-	1,377,733	469,614	1,333,053	3,297,065
Due from component units	52,068	-	-	-	-	-	-	52,068
Inventory	78,973	-	-	-	-	-	-	78,973
Total assets	\$ 11,547,625	\$ 7,620,236	\$ 9,103	\$ 815,539	\$ 1,473,502	\$ 469,614	\$ 1,684,172	\$ 23,619,791
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts payable	\$ 173,989	\$ 1,588	\$ -	\$ 684,039	\$ 12,550	\$ 4,497	\$ 38,030	\$ 914,693
Accrued payroll	218,675	-	-	-	-	-	-	218,675
Due to other funds	5,185,147	-	5,383	23,193	-	-	40,618	5,254,341
Due to component units	94,683	-	-	-	-	-	-	94,683
Deferred revenue	1,004,945	-	-	108,307	2,884	465,117	591,240	2,172,493
Total liabilities	6,677,439	1,588	5,383	815,539	15,434	469,614	669,888	8,654,885
Fund Balances								
Nonspendable	78,973	6,304,762	-	-	-	-	-	6,383,735
Restricted	2,400,277	-	3,720	-	1,458,068	-	1,014,284	4,876,349
Assigned	121,981	1,313,886	-	-	-	-	-	1,435,867
Unassigned	2,268,955	-	-	-	-	-	-	2,268,955
Total fund balances	4,870,186	7,618,648	3,720	-	1,458,068	-	1,014,284	14,964,906
Total liabilities and fund balances	\$ 11,547,625	\$ 7,620,236	\$ 9,103	\$ 815,539	\$ 1,473,502	\$ 469,614	\$ 1,684,172	
Amounts reported for governmental activities in the statement of net assets are different because:								
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds								29,285,114
Earned revenues that are not available to pay for current-period expenditures are deferred in the funds								1,202,001
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds								(14,064,307)
Net assets of governmental activities								\$ 31,387,714

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

HAINES BOROUGH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	General Fund	Permanent Fund	New School Debt Service	Special Capital Projects	Borough Capital Improvements	Passenger Vessel Tax	Other Governmental Funds	Total Governmental Funds
Revenues								
Taxes								
Property	\$ 2,197,989	\$ -	\$ 390,179	\$ -	\$ -	\$ -	\$ 14,145	\$ 2,602,313
Sales	1,223,866	-	-	-	737,938	-	737,937	2,699,741
Intergovernmental								
Federal	449,981	-	-	-	-	-	89,738	539,719
State	1,557,666	-	910,269	2,936,777	-	96,421	82,686	5,583,819
Service and admission fees	484,888	-	-	-	-	-	-	484,888
Licenses and permits	29,909	-	-	-	-	-	-	29,909
Rentals	64,262	-	-	-	-	-	-	64,262
Investment earnings	129,728	328,899	-	-	-	-	120	458,747
Contributions and other	129,348	-	-	112,595	-	-	10,652	252,595
LID payments	-	-	-	-	-	-	797	797
Payments in lieu of taxes	364,189	-	-	-	-	-	-	364,189
Total revenues	6,631,826	328,899	1,300,448	3,049,372	737,938	96,421	936,075	13,080,979
Expenditures								
Current								
General government	1,277,117	21,488	-	-	-	-	49,654	1,348,259
Public safety	926,521	-	-	-	-	-	238,382	1,164,903
Public works and streets	954,141	-	-	-	-	-	-	954,141
Economic development	-	-	-	-	-	-	512,160	512,160
Education	1,994,021	-	-	-	-	-	69,359	2,063,380
Culture, recreation, and library	1,060,925	-	-	-	-	-	-	1,060,925
Debt service								
Principal	-	-	700,000	-	-	-	5,199	705,199
Interest	-	-	600,384	-	-	-	8,949	609,333
Capital outlay	-	-	-	3,188,345	339,927	96,421	158,583	3,783,276
Total expenditures	6,212,725	21,488	1,300,384	3,188,345	339,927	96,421	1,042,286	12,201,576
Excess (deficiency) of revenues over (under) expenditures	419,101	307,411	64	(138,973)	398,011	-	(106,211)	879,403
Other financing sources (uses)								
Transfers in	145,000	-	-	138,973	-	-	15,531	299,504
Transfers out	(15,531)	(140,000)	-	-	(148,452)	-	(6,681)	(310,664)
Sale of capital assets	-	-	-	-	-	-	42,136	42,136
Total other financing sources (uses)	129,469	(140,000)	-	138,973	(148,452)	-	50,986	30,976
Net change in fund balances	548,570	167,411	64	-	249,559	-	(55,225)	910,379
Fund Balances, beginning of year	4,321,616	7,451,237	3,656	-	1,208,509	-	1,069,509	14,054,527
Fund Balances, end of year	\$ 4,870,186	\$ 7,618,648	\$ 3,720	\$ -	\$ 1,458,068	\$ -	\$ 1,014,284	\$ 14,964,906

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, 2012

Net change in fund balances - total governmental funds		\$ 910,379
<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	2,103,720	
Donation of capital assets	2,623,559	
Transfers of governmental assets to enterprise funds	(7,367,739)	
Depreciation expense	<u>(1,251,107)</u>	(3,891,567)
<p>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.</p>		
		(42,136)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. This amount is the change in the net amount recognized from year to year (the change in deferred revenue).</p>		
		56,388
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
		712,617
Change in compensated absences		<u>(13,519)</u>
Change in net assets of governmental activities		<u>\$ (2,267,838)</u>

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

HAINES BOROUGH
BALANCE SHEET -
PROPRIETARY FUNDS

June 30, 2012

Business-type Activities - Enterprise Funds

	Water	Sewer	Small Boat Harbor	Lutak Dock	Port Chilkoot Dock	Total
ASSETS						
Current Assets						
Cash and cash equivalents	\$ -	\$ -	\$ 575	\$ -	\$ -	\$ 575
Receivables	38,000	43,510	1,935	64,498	8,348	156,291
Due from other funds	156,932	724,853	1,066,822	152,304	-	2,100,911
Inventory	93,916	7,037	26,574	-	-	127,527
Performance deposit	-	12,275	-	-	-	12,275
Total current assets	288,848	787,675	1,095,906	216,802	8,348	2,397,579
Restricted Assets						
Revenue bond debt service reserve instruments	-	113,415	-	-	-	113,415
Capital Assets						
Land	45,570	9,000	-	-	-	54,570
Buildings, net of accumulated depreciation	39,687	-	-	-	421,392	461,079
Improvements other than buildings, net of accumulated depreciation	5,499,463	5,514,974	6,397,237	2,660,633	3,919,677	23,991,984
Construction in progress	128,745	-	424,401	-	427,332	980,478
Total capital assets	5,713,465	5,523,974	6,821,638	2,660,633	4,768,401	25,488,111
Total assets	\$ 6,002,313	\$ 6,425,064	\$ 7,917,544	\$ 2,877,435	\$ 4,776,749	\$ 27,999,105
LIABILITIES AND NET ASSETS						
Current Liabilities						
Accounts payable	\$ 3,355	\$ 12,118	\$ 81,163	\$ 1,169	\$ 1,942	\$ 99,747
Bond interest payable	-	4,390	-	-	-	4,390
Loan payable - current	38,685	-	-	-	-	38,685
Bond payable - current	-	34,816	-	-	-	34,816
Deposits	7,284	8,439	21,162	-	-	36,885
Due to other funds	-	-	115,843	-	27,792	143,635
Total current liabilities	49,324	59,763	218,168	1,169	29,734	358,158
Noncurrent Liabilities						
Accrued vacation	5,148	5,148	2,870	-	-	13,166
Revenue bonds payable	-	1,391,962	-	-	-	1,391,962
Loans payable	547,403	-	-	-	-	547,403
Total noncurrent liabilities	552,551	1,397,110	2,870	-	-	1,952,531
Total liabilities	601,875	1,456,873	221,038	1,169	29,734	2,310,689
Net Assets						
Invested in capital assets, net of related debt	5,127,377	4,206,221	6,821,638	2,660,633	4,768,401	23,584,270
Restricted for bond reserves	-	113,415	-	-	-	113,415
Unrestricted	273,061	648,555	874,868	215,633	(21,386)	1,990,731
Total net assets	5,400,438	4,968,191	7,696,506	2,876,266	4,747,015	25,688,416
Total liabilities and net assets	\$ 6,002,313	\$ 6,425,064	\$ 7,917,544	\$ 2,877,435	\$ 4,776,749	\$ 27,999,105

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

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

For the Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds					Total
	Water	Sewer	Small Boat Harbor	Lutak Dock	Port Chilkoot Dock	
Operating Revenue						
Charges for services	\$ 345,171	\$ 398,522	\$ 443,901	\$ 359,547	\$ 54,593	\$ 1,601,734
General Revenue						
Intergovernmental - State of Alaska	1,500	1,500	-	-	-	3,000
Operating Expenses						
Depreciation	178,024	223,380	266,903	149,691	216,346	1,034,344
Salaries and benefits	165,001	147,555	113,447	103,116	46,346	575,465
Utilities	36,270	75,663	50,195	4,594	7,013	173,735
Professional services	21,708	955	33,148	20,171	2,065	78,047
Materials and supplies	53,410	9,884	313,556	9,599	9,594	396,043
Banking and insurance	3,230	4,267	11,761	3,883	8,452	31,593
Repairs and maintenance	6,313	2,797	-	-	-	9,110
Vehicle	4,345	4,679	1,738	867	857	12,486
Advertising, dues and subscriptions	305	2,240	703	223	223	3,694
Travel and training	1,726	1,736	1,483	1,485	1,485	7,915
Total operating expenses	470,332	473,156	792,934	293,629	292,381	2,322,432
Operating income (loss)	(123,661)	(73,134)	(349,033)	65,918	(237,788)	(717,698)
Nonoperating Revenue (Expense)						
Investment income	3,552	1,852	4,581	24	56	10,065
Interest expense	(2,344)	(68,203)	-	-	-	(70,547)
Total nonoperating revenue (expense)	1,208	(66,351)	4,581	24	56	(60,482)
Loss before contributions and transfers	(122,453)	(139,485)	(344,452)	65,942	(237,732)	(778,180)
Contributions in aid of construction	1,141,719	549,844	-	2,810,324	4,984,747	9,486,634
Transfers in	36,000	-	-	-	-	36,000
Transfers out	(24,840)	-	-	-	-	(24,840)
Change in net assets	1,030,426	410,359	(344,452)	2,876,266	4,747,015	8,719,614
Net Assets, beginning of year	4,370,012	4,557,832	8,040,958	-	-	16,968,802
Net Assets, end of year	\$ 5,400,438	\$ 4,968,191	\$ 7,696,506	\$ 2,876,266	\$ 4,747,015	\$ 25,688,416

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

HAINES BOROUGH
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
For the Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds					Total
	Water	Sewer	Small Boat Harbor	Lutak Dock	Port Chilkoot Dock	
Cash Flows from Operating Activities						
Cash received from customers	\$ 347,011	\$ 396,522	\$ 451,525	\$ 295,049	\$ 46,245	\$ 1,536,352
Cash paid to suppliers	(178,192)	(100,181)	(377,437)	(39,653)	(27,747)	(723,210)
Cash paid to employees	(164,301)	(146,855)	(110,577)	(103,116)	(46,346)	(571,195)
Net cash transferred from (to) general fund	(332,116)	(170,973)	34,908	(152,304)	27,792	(592,693)
Net cash flows from operating activities	(327,598)	(21,487)	(1,581)	(24)	(56)	(350,746)
Cash Flows from Capital and Related Financing Activities						
Purchases of fixed assets	329,433	-	(3,000)	-	-	326,433
Transfers to other funds	11,160	-	-	-	-	11,160
Proceeds from loans	-	122,100	-	-	-	122,100
Repayment of loan payable	(14,203)	-	-	-	-	(14,203)
Interest on bonds and loan payable	(2,344)	(68,203)	-	-	-	(70,547)
Repayment of bonds payable	-	(33,015)	-	-	-	(33,015)
Net cash flows from capital and related financing activities	324,046	20,882	(3,000)	-	-	341,928
Cash Flows from Investing Activities						
Purchase of investments	-	(1,247)	-	-	-	(1,247)
Cash receipts from investments	3,552	1,852	4,581	24	56	10,065
Net cash flows from investing activities	3,552	605	4,581	24	56	8,818
Net increase in cash	-	-	-	-	-	-
Cash and Cash Equivalents, beginning of year	-	-	575	-	-	575
Cash and Cash Equivalents, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 575</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 575</u>
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities						
Operating income (loss)	\$ (123,661)	\$ (73,134)	\$ (349,033)	\$ 65,918	\$ (237,788)	\$ (717,698)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities						
Depreciation	178,024	223,380	266,903	149,691	216,346	1,034,344
Changes in operating assets and liabilities						
Receivables	(257)	(4,230)	3,968	(64,498)	(8,348)	(73,365)
Due from other funds	(332,116)	(170,973)	34,908	(152,304)	27,792	(592,693)
Inventory	(46,965)	(3,943)	6,093	-	-	(44,815)
Accounts payable	(3,920)	5,983	29,054	1,169	1,942	34,228
Accrued vacation	700	700	2,870	-	-	4,270
Deposits	597	730	3,656	-	-	4,983
Total adjustments	(203,937)	51,647	347,452	(65,942)	237,732	366,952
Net cash flows from operating activities	<u>\$ (327,598)</u>	<u>\$ (21,487)</u>	<u>\$ (1,581)</u>	<u>\$ (24)</u>	<u>\$ (56)</u>	<u>\$ (350,746)</u>
Noncash Capital and Related Financing Activities						
Transfer of capital assets from the General Fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,810,324</u>	<u>\$ 4,984,747</u>	<u>\$ 7,795,071</u>

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

HAINES BOROUGH
 COMPONENT UNIT COMBINING STATEMENT OF NET ASSETS
 June 30, 2012

	Haines Borough School District	Sheldon Museum	Non-major Component Unit	Total
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 1,724,910	\$ 210,865	\$ 41,528	\$ 1,977,303
Investments	5,255	-	-	5,255
Receivables	175,278	100	26,933	202,311
Inventory and prepaid expenses	211,241	50,690	-	261,931
Total current assets	2,116,684	261,655	68,461	2,446,800
Noncurrent Assets				
Capital assets, net	74,235	51,399	-	125,634
Total assets	<u>\$ 2,190,919</u>	<u>\$ 313,054</u>	<u>\$ 68,461</u>	<u>\$ 2,572,434</u>
LIABILITIES				
Current Liabilities				
Accounts payable	\$ 113,045	\$ 1,998	\$ -	\$ 115,043
Due to governmental entity	-	13,192	34,930	48,122
Accrued payroll and related liabilities	62,251	7,818	-	70,069
Deferred revenue	-	1,346	-	1,346
Total current liabilities	175,296	24,354	34,930	234,580
NET ASSETS				
Invested in capital assets	74,235	51,399	-	125,634
Restricted for Museum projects and other	-	174,233	-	174,233
Unrestricted	1,941,388	63,068	33,531	2,037,987
Total net assets	2,015,623	288,700	33,531	2,337,854
Total liabilities and net assets	<u>\$ 2,190,919</u>	<u>\$ 313,054</u>	<u>\$ 68,461</u>	<u>\$ 2,572,434</u>

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

HAINES BOROUGH
 COMPONENT UNIT COMBINING STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2012

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Fee, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Haines Borough School District	Sheldon Museum	Non-Major Component Unit	Total
Haines Borough School District	\$ 6,534,404	\$ 55,228	\$ 1,666,446	\$ -	\$ (4,812,730)	\$ -	\$ -	\$ (4,812,730)
Sheldon Museum	297,887	65,544	19,780	-	-	(212,563)	-	(212,563)
Non-Major Component Unit	32,738	-	32,157	-	-	-	(581)	(581)
	<u>\$ 6,865,029</u>	<u>\$ 120,772</u>	<u>\$ 1,718,383</u>	<u>\$ -</u>	<u>(4,812,730)</u>	<u>(212,563)</u>	<u>(581)</u>	<u>(5,025,874)</u>
General Revenues								
Provided by general government					1,744,865	190,360	26,324	1,961,549
State of Alaska					3,274,274	-	-	3,274,274
Investment income					1,888	320	4	2,212
Contributions and other					180,726	38,198	280	219,204
Total General Revenues					<u>5,201,753</u>	<u>228,878</u>	<u>26,608</u>	<u>5,457,239</u>
Change in Net Assets					389,023	16,315	26,027	431,365
Net Assets, beginning of year					<u>1,626,600</u>	<u>272,385</u>	<u>7,504</u>	<u>1,906,489</u>
Net Assets, end of year					<u>\$ 2,015,623</u>	<u>\$ 288,700</u>	<u>\$ 33,531</u>	<u>\$ 2,337,854</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, 2012

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 assets (page 20) and the combining statement of activities (page 21).

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

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

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

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements

The statement of net assets and the statement of activities display information about the primary government (the Borough) and its component units. These statements include the financial activities of the overall government. For the most part, the effect of interfund activity has been removed from these statements. These statements distinguish between the governmental and business-type activities of the Borough. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Borough, and for each function of the Borough's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Borough reports the following major governmental funds:

General Fund – The General Fund is the Borough's primary operating fund. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Use of Estimates

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

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

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

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

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

Receivables

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

Due to and Due from Other Funds

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

Inventory

Inventory consists of fuel, parts, 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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Deferred Revenue

The Borough occasionally sells land using long-term receivable contracts.

In the fund financial statements, as the amounts due on the receivable contracts are not available to finance current period expenditures, they are recorded as deferred revenue. The amounts due on the receivable contracts are recognized as revenue when the funds are available to meet current period expenditures.

These contracts are revenue for the government-wide statement of activities when the sale occurs.

In addition, amounts received from grants and other sources, but not yet spent for their restricted purpose, are shown on the balance sheet as deferred revenue on both the government-wide and fund financial statements.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation, and related debt. Net assets 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 and current liabilities. 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.

Property Taxes

Property taxes are levied on July 1 and payable in two installments on September 1 and December 1. Property taxes attach as an enforceable lien on property approximately one year from the due date. The Borough bills and collects taxes for its own and school purposes. Borough property tax revenues are recognized when they become measurable and available which is generally when levied. Delinquent property taxes are not considered currently available, so they are reflected as deferred revenues in the fund financial statements.

Reclassifications

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

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.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING (CONTINUED)

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, 2012 expenditures exceeded appropriations in the following departments (the legal level of budgetary control):

General fund	
Administration	\$ 255,690
Lentikof RMSA	4,946
Riverview RMSA	1,375
Datlon trail RMS	1,968
School district	8,955
Museum	1,381

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

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - CASH

The Borough follows the practice of pooling cash equivalents of its various funds. Interest income from pooled cash equivalents is allocated ratably over the various funds.

At June 30, 2012, the carrying amount of the Borough's cash balances was \$2,393,472, while the bank and other institution balances were \$2,426,190. These balances are categorized as follows:

	Bank Balance
Amount insured by the FDIC (up to \$250,000) or collateralized with securities held by the bank or other institutions in the Borough's name	\$ 2,422,191
Uncollateralized/uninsured	3,999
	\$ 2,426,190

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 \$1,724,910 at June 30, 2012.

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

	Carrying Amount
Reconciliation to statement of net assets:	
Cash and cash equivalents	\$ 2,194,246
Restricted cash and cash equivalents	186,951
Performance deposit	12,275
	\$ 2,393,472
Cash and cash equivalents consist of:	
Cash	\$ 1,401,002
Cash equivalents	992,470
	\$ 2,393,472

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.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - INVESTMENTS (CONTINUED)

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:

	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	\$ 2,804,980	\$ 4,862,167	\$ -	\$ -	\$ 7,667,147
U.S. Government Instruments	601,313	1,458,379	855,245	107,800	3,022,737
Corporate Debt	304,761	1,836,393	441,107	-	2,582,261
Municipal Securities	-	950,096	-	187,377	1,137,473
Total debt securities	<u>\$ 3,711,054</u>	<u>\$ 9,107,035</u>	<u>\$ 1,296,352</u>	<u>\$ 295,177</u>	14,409,618
Common stocks (mutual fund that holds the stocks of the S&P 500)					1,325,800
Equity funds					408,232
					<u>\$ 16,143,650</u>
Reconciliation to statement of net assets:					
Investments					\$ 8,652,497
Restricted investments					7,377,738
Revenue bond debt service reserve instruments					113,415
					<u>\$ 16,143,650</u>

The School District's investment balance of \$5,255 consisted of mutual funds and their cost approximates market value.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - INVESTMENTS (CONTINUED)

The credit quality ratings of the Borough's corporate debt investments as of June 30, 2012, as described by nationally recognized statistical rating organizations, are shown below:

	S&P Rating	Investment Fair Value	Percentage of Total
Corporate debt	AAA	\$ 282,387	10.94%
Corporate debt	AA	464,644	17.99%
Corporate debt	A	1,333,784	51.65%
Corporate debt	A1	102,558	3.97%
Corporate debt	BBB	221,463	8.58%
Corporate debt	Unrated	177,425	6.87%
		<u>\$ 2,582,261</u>	<u>100.00%</u>

NOTE 5 - RECEIVABLES AND DEFERRED REVENUE

Receivables at June 30, 2012, 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
General fund	\$ 318,446	\$ -	\$ 106,375	\$ -	\$ 14,489	\$ 15,363	\$ 454,673
Permanent fund	-	-	-	-	-	54,725	54,725
New school debt service	-	-	-	-	9,103	-	9,103
Special capital projects	-	-	-	-	815,539	-	815,539
Borough capital improvements	95,769	-	-	-	-	-	95,769
Other governmental funds	95,769	205,668	-	-	43,600	5,982	351,019
Water fund	-	-	-	38,000	-	-	38,000
Sewer fund	-	-	-	43,510	-	-	43,510
Small boat harbor fund	-	-	-	929	-	1,006	1,935
Lutak dock fund	-	-	-	64,498	-	-	64,498
Port Chilkoot dock fund	-	-	-	8,348	-	-	8,348
Total	<u>\$ 509,984</u>	<u>\$ 205,668</u>	<u>\$ 106,375</u>	<u>\$ 155,285</u>	<u>\$ 882,731</u>	<u>\$ 77,076</u>	<u>\$ 1,937,119</u>

Reconciliation to statement of net assets:

Current receivables	\$ 1,616,194
Restricted receivables	54,725
Noncurrent receivables, net of current portion	<u>266,200</u>
	<u>\$ 1,937,119</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

NOTE 5 - RECEIVABLES AND DEFERRED REVENUE (CONTINUED)

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

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes receivable (general fund)	\$ 151,155	\$ -	\$ 151,155
Payments in lieu of taxes	-	375,243	375,243
Land sale/LID receivables (including accrued interest)	209,825	661	210,486
Grants and contributions	<u>-</u>	<u>1,435,609</u>	<u>1,435,609</u>
 Total deferred/unearned revenue for governmental funds	 <u>360,980</u>	 <u>1,811,513</u>	 <u>2,172,493</u>
 Amounts not deferred for government-wide financial statements			
Property taxes receivable	(151,155)	-	(151,155)
Payments in lieu of taxes	-	(375,243)	(375,243)
Land sales/LID receivables	(209,825)	(661)	(210,486)
Passenger vessel excise tax	<u>-</u>	<u>(465,117)</u>	<u>(465,117)</u>
 Total deferred/unearned revenue for government-wide financial statements	 <u>\$ -</u>	 <u>\$ 970,492</u>	 <u>\$ 970,492</u>

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - CAPITAL ASSETS

Capital assets for the year ended June 30, 2012 were as follows:

	Balance, June 30, 2011	Increases	Transfers/ Decreases	Balance, June 30, 2012
<i>Governmental activities</i>				
Capital assets not being depreciated:				
Land and improvements	\$ 701,573	\$ -	\$ -	\$ 701,573
Construction in progress - Roads	-	260,192	-	260,192
Total capital assets not being depreciated	<u>701,573</u>	<u>260,192</u>	<u>-</u>	<u>961,765</u>
Other capital assets:				
Buildings	32,656,094	-	(715,722)	31,940,372
Other improvements	15,543,454	4,324,228	(12,959,644)	6,908,038
Furniture and equipment	4,588,747	142,859	-	4,731,606
Road network	6,440,093	-	-	6,440,093
Total other capital assets	<u>59,228,388</u>	<u>4,467,087</u>	<u>(13,675,366)</u>	<u>50,020,109</u>
Less accumulated depreciation for:				
Buildings	11,416,357	751,812	(294,330)	11,873,839
Other improvements	7,100,066	328,036	(6,013,297)	1,414,805
Furniture and equipment	3,916,289	171,259	-	4,087,548
Road network	4,320,568	-	-	4,320,568
Total accumulated depreciation	<u>26,753,280</u>	<u>1,251,107</u>	<u>(6,307,627)</u>	<u>21,696,760</u>
Other capital assets, net	<u>32,475,108</u>	<u>3,215,980</u>	<u>(7,367,739)</u>	<u>28,323,349</u>
Governmental activities capital assets, net	<u>\$ 33,176,681</u>	<u>\$ 3,476,172</u>	<u>\$ (7,367,739)</u>	<u>\$ 29,285,114</u>
<i>Business-type activities</i>				
Capital assets not being depreciated:				
Land and improvements	\$ 54,570	\$ -	\$ -	\$ 54,570
Construction in progress	743,805	529,836	(293,163)	980,478
Total capital assets not being depreciated	<u>798,375</u>	<u>529,836</u>	<u>(293,163)</u>	<u>1,035,048</u>
Other capital assets:				
Buildings	22,575	40,360	421,392	484,327
Other improvements (including distribution and collection systems)	24,712,369	1,617,476	13,252,807	39,582,652
Equipment	77,832	-	-	77,832
Total other capital assets	<u>24,812,776</u>	<u>1,657,836</u>	<u>13,674,199</u>	<u>40,144,811</u>
Less accumulated depreciation for:				
Buildings	22,575	673	-	23,248
Other improvements (including distribution and collection systems)	8,543,700	1,033,671	6,013,297	15,590,668
Equipment	77,832	-	-	77,832
Total accumulated depreciation	<u>8,644,107</u>	<u>1,034,344</u>	<u>6,013,297</u>	<u>15,691,748</u>
Other capital assets, net	<u>16,168,669</u>	<u>623,492</u>	<u>7,660,902</u>	<u>24,453,063</u>
Business-type activities capital assets, net	<u>\$ 16,967,044</u>	<u>\$ 1,153,328</u>	<u>\$ 7,367,739</u>	<u>\$ 25,488,111</u>

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - CAPITAL ASSETS (CONTINUED)

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

<i>Governmental activities</i>	
General government	\$ 134,836
Public safety	76,419
Public works and streets, including depreciation of general infrastructure assets	306,221
Economic development	11,123
Education	543,281
Port operations	8,676
Culture, recreation, and library	170,551
Total depreciation expense - governmental activities	\$ 1,251,107
 <i>Business-type activities</i>	
Water	\$ 178,024
Sewer	223,380
Small Boat Harbor	266,903
Lutak Dock	149,691
Port Chilkoot dock fund	216,346
Total depreciation expense - business-type activities	\$ 1,034,344

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

- a school gym floor replacement with a remaining commitment of approximately \$273,000,
- a school construction project with a remaining commitment of approximately \$75,000,
- street improvements with a remaining commitment of approximately \$1,017,000.

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, 2012, the cost and accumulated depreciation associated with these assets was \$23,185,765 and \$6,215,000, respectively.

NOTE 7 - FUND BALANCES – GOVERNMENTAL FUNDS

As of June 30, 2012, 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

NOTE 7 - FUND BALANCES – GOVERNMENTAL FUNDS (CONTINUED)

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, 2012, fund balances are composed of the following:

	General Fund	Permanent Fund	New School Debt Service	Borough Capital Improvements	Other Governmental Funds	Total Governmental Funds
Nonspendable						
Permanent fund	\$ -	\$ 6,304,762	\$ -	\$ -	\$ -	\$ 6,304,762
Inventory	78,973	-	-	-	-	78,973
Total nonspendable	78,973	6,304,762	-	-	-	6,383,735
Restricted						
Road maintenance	32,810	-	-	-	-	32,810
Fire service areas	137,603	-	-	-	-	137,603
Debt service	-	-	3,720	-	17,437	21,157
Capital projects	145,633	-	-	1,458,068	53,242	1,656,943
Medical services	-	-	-	-	173,426	173,426
Economic development	-	-	-	-	382,288	382,288
Land development	-	-	-	-	387,891	387,891
Library memorial materials	671	-	-	-	-	671
Townsite service area	2,083,560	-	-	-	-	2,083,560
Total restricted	2,400,277	-	3,720	1,458,068	1,014,284	4,876,349
Assigned						
Subsequent year expenditures	121,981	-	-	-	-	121,981
Permanent fund	-	1,313,886	-	-	-	1,313,886
Total assigned	121,981	1,313,886	-	-	-	1,435,867
Unassigned						
	2,268,955	-	-	-	-	2,268,955
Total fund balances	\$ 4,870,186	\$ 7,618,648	\$ 3,720	\$ 1,458,068	\$ 1,014,284	\$ 14,964,906

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

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.

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Balance, June 30, 2011	Additions	Reductions	Balance, June 30, 2012	Amounts Due within One Year
<i>Governmental Activities</i>					
Bonds and notes payable:					
USDA bonds	\$ 189,096	\$ -	\$ 5,199	\$ 183,897	\$ 5,325
School construction bonds	14,380,000	-	700,000	13,680,000	730,000
School bonds premium	107,568	-	7,418	100,150	7,418
Total bonds and notes payable	14,676,664	-	712,617	13,964,047	742,743
Other liabilities:					
Compensated absences	86,741	13,519	-	100,260	-
Governmental activities long-term liabilities	<u>\$ 14,763,405</u>	<u>\$ 13,519</u>	<u>\$ 712,617</u>	<u>\$ 14,064,307</u>	<u>\$ 742,743</u>
<i>Business-type Activities</i>					
Bonds and notes payable:					
Sewer revenue bonds	\$ 1,337,693	\$ -	\$ 33,015	\$ 1,304,678	\$ 34,816
State of Alaska DEC loans payable	205,081	517,310	14,203	708,188	38,685
Total bonds and notes payable	1,542,774	517,310	47,218	2,012,866	73,501
Other Liabilities					
Compensated absences	8,896	4,270	-	13,166	-
Business-type activities long-term liabilities	<u>\$ 1,551,670</u>	<u>\$ 521,580</u>	<u>\$ 47,218</u>	<u>\$ 2,026,032</u>	<u>\$ 73,501</u>

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - LONG-TERM DEBT (CONTINUED)

Bonds and notes payable at June 30, 2012, are comprised of the following individual issues:

Governmental Activities:

General obligation bonds:

\$17,500,000 2005 school construction bonds, due in annual installments of \$575,000 to \$1,260,000, plus interest at 4.0% to 5.0%, through October 2025 (not including unamortized premium of \$100,150 at June 30, 2012)	\$ 13,680,000
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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>183,897</u>
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Total bond and note payable	13,863,897
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Unamortized premiums	<u>100,150</u>
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Total general bond and note payable debt	13,964,047
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Less current portion	<u>(742,743)</u>
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Total general long-term bond and note payable debt	<u><u>\$ 13,221,304</u></u>
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Business-type Activities:

\$1,700,000 1994 sewer revenue bonds, due in semi-annual installments of \$50,609, including interest at 5.125%, through 2033	\$ 1,304,678
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Loan from the State of Alaska Department of Environmental Conservation, due in annual principal installments of \$14,203, plus interest at 1.5%, through 2021	142,034
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Loan from the State of Alaska Department of Environmental Conservation, due in annual installments of \$2,847, including interest at 1.5%, through 2032	48,844
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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
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Loan from the State of Alaska Department of Environmental Conservation, due in annual installments of \$14,439, starting one year after the first disbursement. Interest is to accrue at 1.5% and principal paid over 20 years.	247,900
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Loan from the State of Alaska Department of Environmental Conservation, due in annual installments of \$7,111 starting one year after the first disbursement. Interest is to accrue at 1.5% and principal paid over 20 years.	<u>122,100</u>
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Total enterprise funds bond and note payable debt	2,012,866
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Less current portion	<u>(73,501)</u>
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Total enterprise funds long-term bond and note payable debt	<u><u>\$ 1,939,365</u></u>
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HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - LONG-TERM DEBT (CONTINUED)

In conjunction with the issuance of the above school construction bonds, the State of Alaska Department of Education and Early Development has approved the project for a 70% reimbursement rate from the State of Alaska. As State of Alaska funding is on a reimbursement basis, the eventual payments to be received have not been recognized in these financial statements.

The debt service annual requirements to amortize bond and note payable debt outstanding as of June 30, 2012, are as follows:

Governmental Activities:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 742,743	\$ 580,607	\$ 1,323,350
2014	773,002	546,748	1,319,750
2015	808,273	507,602	1,315,875
2016	848,557	466,568	1,315,125
2017	888,855	427,895	1,316,750
2018 - 2022	5,014,279	1,565,778	6,580,057
2023 - 2027	4,818,106	437,235	5,255,341
2028 - 2032	59,745	10,995	70,740
2033 - 2037	10,487	283	10,770
	<u>\$ 13,964,047</u>	<u>\$ 4,543,711</u>	<u>\$ 18,507,758</u>

Business-type Activities:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 73,501	\$ 77,030	\$ 150,531
2014	75,675	74,642	150,317
2015	77,949	72,155	150,104
2016	80,328	69,563	149,891
2017	82,814	66,863	149,677
2018 - 2022	455,625	289,574	745,199
2023 - 2027	466,722	204,263	670,985
2028 - 2032	570,268	100,717	670,985
2033 - 2037	129,984	6,293	136,277
	<u>\$ 2,012,866</u>	<u>\$ 961,100</u>	<u>\$ 2,973,966</u>

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

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, 2012, was \$113,415.

A further requirement of these bonds is that the sewer rates will be maintained at a level which will produce an annual amount of net operating revenue before depreciation equal to at least 1.10 times the maximum amount required each year for debt service. Net operating revenues were \$152,108 and the debt service requirement was \$101,218 resulting in a ratio of 1.50 for the Sewer Enterprise Fund, so the Borough was in compliance with this requirement.

NOTE 10 - BOND DEFEASANCE

On May 4, 2005, the Borough issued its General Obligation Refunding Bond, 2005, in the original principal amount of \$1,040,000 with interest rates ranging from 4-5%. On October 13, 2009, the Borough received a grant from the State of Alaska to pay the debt service on the bond in the amount of \$698,130. This grant was used to purchase a series of U.S. Securities scheduled to mature on the date of future debt service payments. These securities were deposited in an irrevocable trust to provide for future debt service. As a result that portion of the bond is considered defeased, and as such, the Borough removed the liability from the face of its financial statements. The outstanding principal of the defeased bond is \$340,000 at June 30, 2012.

NOTE 11 - RETIREMENT PLAN

Defined Benefit Pension Plan

Plan Description

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

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

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 11 - RETIREMENT PLAN (CONTINUED)

Funding Policy

Police and fire department employees are required by statutes to contribute 7.50% of their annual salary to the plan. All other covered employees are required to contribute 6.75% of their annual salary.

AS 39.35.255 established a statutory PERS employer contribution rate of 22% of annual covered payroll. Out of the 22%, 9.92% funded pension and 12.08% funded other post-employment benefits (OPEB).

AS 39.35.280 requires additional state contribution to make up the difference between the statutory PERS employer contribution rate of 22% and the actuarially determined fiscal year 2012 contribution rate of 33.49%. In accordance with the provisions of GASB Statement No. 24, the Borough has recorded the state contribution in the amount of \$252,963 as a PERS on-behalf payment. However, because the Borough is legally responsible only for the payments of up to 22% of covered payroll, this amount has been excluded from pension and OPEB costs as shown below.

<u>Period Ending</u>	<u>Annual Pension Cost</u>	<u>Annual OPEB Cost</u>	<u>Total Benefit Cost</u>	<u>Percentage of Required Contribution Contributed</u>
June 30, 2012	\$ 105,971	\$ 129,046	\$ 235,017	100%
June 30, 2011	77,286	145,266	222,552	100
June 30, 2010	87,552	154,305	241,857	100

Defined Contribution Pension Plan

Plan Description

Employees first enrolled into PERS after July 1, 2006, participate in PERS Tier IV. PERS Tier IV is a defined contribution retirement plan that includes a component of defined benefit post-employment health care. The plan requires both employer and employee contributions. Employees may make additional contributions into the plan, subject to limitations. Benefit and contribution provisions are established by state law and may be amended only by the State Legislature. Contribution rates are as follows:

	<u>Police/Fire</u>	<u>Others</u>
Employee Contribution	8.00%	8.00%
Employer Contribution		
Retirement	5.00%	5.00%
Health Reimbursement Arrangement	3.00%	3.00%
Retiree Medical Plan	0.51%	0.51%
Death and Disability Benefit	0.97%	0.20%
Unfunded benefit liability	<u>12.52%</u>	<u>13.29%</u>
Total employer contribution	<u>22.00%</u>	<u>22.00%</u>

The Borough made PERS Tier IV pension and other post-employment benefit contributions of \$53,622 and \$182,316, respectively, for the year ended June 30, 2012. The Borough employees contributed \$85,796 toward pension during fiscal year 2012.

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

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, 2012, was as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	New school debt service	\$ 5,383
General	Special capital projects	23,193
General	Nonmajor governmental funds	40,618
General	Small boat harbor	115,843
General	Port Chilkoot Dock	27,792
Borough capital improvements	General	1,377,733
Nonmajor governmental funds	General	1,333,053
Passenger vessel tax	General	469,614
Permanent fund	General	822
Water	General	156,932
Sewer	General	724,853
Small boat harbor	General	1,066,822
Lutak Dock	General	152,304

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

	<u>Transfers In</u>				<u>Total</u>
	<u>General Fund</u>	<u>Special Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Water Fund</u>	
Transfers out:					
General fund	\$ -	\$ -	\$ 15,531	\$ -	\$ 15,531
Permanent fund	140,000	-	-	-	140,000
Borough capital improvements	-	112,452	-	36,000	148,452
Other governmental funds	5,000	1,681	-	-	6,681
Water fund	-	24,840	-	-	24,840
Total	<u>\$ 145,000</u>	<u>\$ 138,973</u>	<u>\$ 15,531</u>	<u>\$ 36,000</u>	<u>\$ 335,504</u>

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

HAINES BOROUGH
NOTES TO FINANCIAL STATEMENTS

NOTE 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 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

Subsequent to year-end Haines Borough refunded \$1.4 million of its sewer revenue bonds.

REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISONS
FOR THE GENERAL FUND AND ALL MAJOR SPECIAL REVENUE FUNDS WITH LEGALLY
ADOPTED BUDGETS

HAINES BOROUGH
BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND

For the Year Ended June 30, 2012

	Budget Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenue				
Taxes				
Property	\$ 2,198,000	\$ 2,198,000	\$ 2,197,989	\$ (11)
Sales	1,203,000	1,203,000	1,223,866	20,866
Intergovernmental - Federal and State	1,515,613	1,758,037	2,007,647	249,610
Service and admission fees	332,275	332,275	484,888	152,613
Licenses and permits	34,500	34,500	29,909	(4,591)
Rentals	69,000	69,000	64,262	(4,738)
Investment income	123,545	106,045	129,728	23,683
Contributions and other	68,454	135,184	129,348	(5,836)
Payments in lieu of taxes	362,000	362,000	364,189	2,189
Total revenue	<u>5,906,387</u>	<u>6,198,041</u>	<u>6,631,826</u>	<u>433,785</u>
Expenditures				
Current				
General government	1,085,694	1,115,269	1,277,117	(161,848)
Public safety	1,006,622	1,006,622	926,521	80,101
Public works and streets	739,553	1,017,109	954,141	62,968
Education	1,985,065	1,985,065	1,994,021	(8,956)
Culture, recreation, and library	1,106,317	1,130,717	1,060,925	69,792
Total expenditures	<u>5,923,251</u>	<u>6,254,782</u>	<u>6,212,725</u>	<u>42,057</u>
Excess (deficiency) of revenue over (under) expenditures	(16,864)	(56,741)	419,101	475,842
Other financing sources (uses)				
Transfers in	145,000	145,000	145,000	-
Transfers out	(500)	(15,500)	(15,531)	(31)
Total other financing sources (uses)	<u>144,500</u>	<u>129,500</u>	<u>129,469</u>	<u>(31)</u>
Net change in fund balance	<u>\$ 127,636</u>	<u>\$ 72,759</u>	<u>\$ 548,570</u>	<u>\$ 475,811</u>

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

For the Year Ended June 30, 2012

	Budget Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenue				
Intergovernmental - State of Alaska	\$ 133,000	\$ 133,000	\$ 96,421	\$ (36,579)
Expenditures				
Capital outlay	83,700	170,740	96,421	74,319
Excess (deficiency) of revenue over (under) expenditures	49,300	(37,740)	-	37,740
Net change in fund balance	\$ 49,300	\$ (37,740)	\$ -	\$ 37,740