

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

# CITY AND BOROUGH OF SITKA, ALASKA

## Management's Discussion and Analysis

June 30, 2009

As management of the City and Borough of Sitka (Municipality), we offer the readers of the Municipality's financial statements this overview and analysis of the Municipality's financial activities for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages IV-VII of this report.

### Financial Highlights

- The assets of the Municipality exceeded its liabilities at the close of the most recent year by \$242 million. Of this amount, \$42 million (unrestricted net assets) is legally unreserved and may therefore be used to meet the Municipality's ongoing obligations to citizens and creditors.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$7.2 million. \$7.2 million was unreserved, undesignated and available for spending. The unreserved, undesignated fund balance for the General Fund represented 30% of total General Fund expenditures exclusive of transfers out.

### Overview of the Financial Statements

The management's discussion and analysis serves as an introduction to the Municipality's basic financial statements, which are the government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

#### Government-wide financial statements

The government-wide financial statements report information about the overall finances of the Municipality similar to a business enterprise. These statements combine and consolidate short-term, spendable resources with capital assets and long-term obligations.

The Statement of Net Assets presents information on all of the Municipality's assets less liabilities, which results in net assets. The statement is designed to display the financial position of the Municipality. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities provides information which shows how the Municipality's net assets changed as a result of the year's activities. The statement uses the accrual basis of accounting, which is similar to the accounting used by private-sector businesses. All of the revenues and expenses are reported regardless of the timing of when cash is received or paid.

## CITY AND BOROUGH OF SITKA, ALASKA

### Management's Discussion and Analysis, continued

The Statement of Net Assets and the Statement of Activities distinguish functions of the Municipality that are financed primarily by taxes, intergovernmental revenues, and charges for services (governmental activities) from functions where user fees and charges to customers help to cover all or most of the cost of services (business-type activities). The Municipality's governmental activities include administration, public safety, public works, public services and support. The business-type activities of the Municipality include the seven enterprise funds: Electric and water, waste water treatment, solid waste disposal, harbor, airport terminal building, Marine Service Center, and Sawmill Cove Industrial Park.

The government-wide financial statements present not only the Municipality itself, which is the primary government, but also its component units: Sitka School District, Sitka Community Hospital and Sitka Convention and Visitors Bureau for which the Municipality is financially accountable. Financial information for the Sitka School District, Sitka Community Hospital and Sitka Convention and Visitors Bureau is reported separately from the financial information presented for the primary government itself. The government-wide financial statements can be found on pages 16 and 17 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 Municipality, like other state and local governments, uses fund accounting to ensure and demonstrate fiscal accountability. All of the funds of the Municipality can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

#### **Governmental funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on the short-term view of the Municipality's operations. 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 the governmental funds with similar information presented for governmental activities in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The Municipality maintains 21 individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Permanent Fund and Capital Projects Fund. The other 18 governmental funds are combined and shown as Nonmajor Governmental Funds on the Governmental Fund Balance Sheet and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances. Individual fund information for the 18 nonmajor funds is presented in the Combining Balance Sheet Nonmajor Governmental Funds and Combining statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Funds.

## CITY AND BOROUGH OF SITKA, ALASKA

### Management's Discussion and Analysis, continued

#### **Proprietary funds**

The Municipality maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Municipality uses enterprise funds to account for the electric and water, waste water treatment, and solid waste disposal utility services provided to the local citizens. The Municipality also uses enterprise funds for the harbors, airport terminal building, Marine Service Center (for cold storage), and the Sawmill Cove Industrial Park. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Municipality's various functions. The Municipality uses internal service funds to account for its management information systems (MIS), central garage, and building maintenance. Because these services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements. All internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Proprietary fund financial statements provide separate information for the Electric and Water, Waste Water Treatment Plant, Solid Waste Disposal, and Harbor Funds, which are considered to be major funds of the Municipality. The remaining three enterprise funds are combined and shown as Nonmajor Enterprise Funds on the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Fund Net Assets, and Statement of Cash Flows for Proprietary Funds. The basic proprietary fund financial statements can be found on pages 27 - 29 of this report.

#### **Fiduciary funds**

Fiduciary funds are used to account for assets held by the Municipality in a trustee capacity or as an agent for others. Activities from fiduciary funds are not included in the government-wide financial statements because the Municipality cannot use these assets for its operations. The accounting for fiduciary funds is much like that used in proprietary funds. The basic fiduciary aggregated fund financial statements can be found on pages 30 – 31 of this report.

#### **Notes to the financial statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 34 – 64 of this report.

#### **Other information**

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Municipality's progress in funding its obligation to provide pension benefits to its employees. This required supplementary information can be found on pages 60 – 64 of this report. Supplementary information can be found following the Notes to Financial Statements beginning on page 66.

## CITY AND BOROUGH OF SITKA, ALASKA

### Management's Discussion and Analysis, continued

#### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Municipality, assets exceeded liabilities by \$242 million at June 30, 2009 compared to \$237.3 million at June 30, 2008. By far the largest portion of the Municipality's net assets (69%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, etc.) less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

#### Net Assets June 30, 2009 and 2008 (in millions)

	Governmental Activities		Business-type Activities		Total	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 56	51	31	31	87	82
Capital assets	<u>103</u>	<u>99</u>	<u>142</u>	<u>140</u>	<u>245</u>	<u>239</u>
Total assets	<u>159</u>	<u>150</u>	<u>173</u>	<u>171</u>	<u>332</u>	<u>321</u>
Long-term debt outstanding	36	31	50	50	85	81
Other liabilities	<u>2</u>	<u>2</u>	<u>2</u>	<u>1</u>	<u>5</u>	<u>3</u>
Total liabilities	<u>38</u>	<u>33</u>	<u>52</u>	<u>51</u>	<u>90</u>	<u>84</u>
Net assets:						
Invested in capital assets, net of related debt	74	70	93	91	167	161
Restricted	26	23	7	7	33	30
Unrestricted	<u>21</u>	<u>24</u>	<u>21</u>	<u>22</u>	<u>42</u>	<u>46</u>
Total net assets	<u>\$ 121</u>	<u>117</u>	<u>121</u>	<u>120</u>	<u>242</u>	<u>237</u>

#### Governmental Activities

Governmental activities increased the Municipality's net assets by \$3.6 million. Key elements of this increase follows:

- The investments in the Permanent Fund decreased by \$3.9 million.
- Nonmajor governmental funds revenues exceeded expenditures by \$1.9 million.

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Management's Discussion and Analysis, continued

- Property tax revenue increased by \$0.4 million over fiscal year 2008.

The net assets for the Municipality's governmental activities are \$120.9 million, an increase of \$3.6 million. A substantial portion (61.6%) of the net assets is invested in capital assets. The Municipality uses these assets to provide services to the citizens. The unrestricted net assets of the governmental activities are \$20.6 million as of June 30, 2009.

**Business-type activities**

Business-type activities increased the Municipality's net assets by \$1.1 million. This compares to an increase of \$7.5 million for the year ended June 30, 2008. Key elements of this increase follows:

- The Electric and Water Fund's net assets increased by \$2.5 million. This increase was due to capital grant revenue for infrastructure of \$0.6 million and the remaining amount came from operations (\$1.6 million) and the write off of the net pension obligation (\$0.3 million).
- The Waste Water Treatment Fund's net assets decreased by \$0.9 million primarily from operations.
- Solid Waste Disposal Fund net assets increased by \$0.2 million from operations.
- The Harbor Fund net assets increased by \$0.7 million. This increase was due to State of Alaska grant revenues of \$1.1 million for raw fish tax which offset the loss from operations.

The net assets for the Municipality's business-type activities are \$121.1 million, an increase of \$1.1 million. As with government-wide activities, a substantial portion (76%) of the net assets is invested in capital assets. The Municipality uses these assets to provide services to the citizens. The unrestricted net assets of the business-type activities are \$21.2 million as of June 30, 2009.

**Changes in Net Assets  
For Years Ended June 30, 2009 and 2008  
(in millions)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenues:						
Program revenues:						
Charges for services	\$ 2.5	1.9	20.4	19.8	22.9	21.7
Operating grants and contributions	4.6	6.0	1.7	-	6.3	6.0
Capital grants and contributions	3.3	4.1	1.3	6.4	4.6	10.5

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Management's Discussion and Analysis, continued

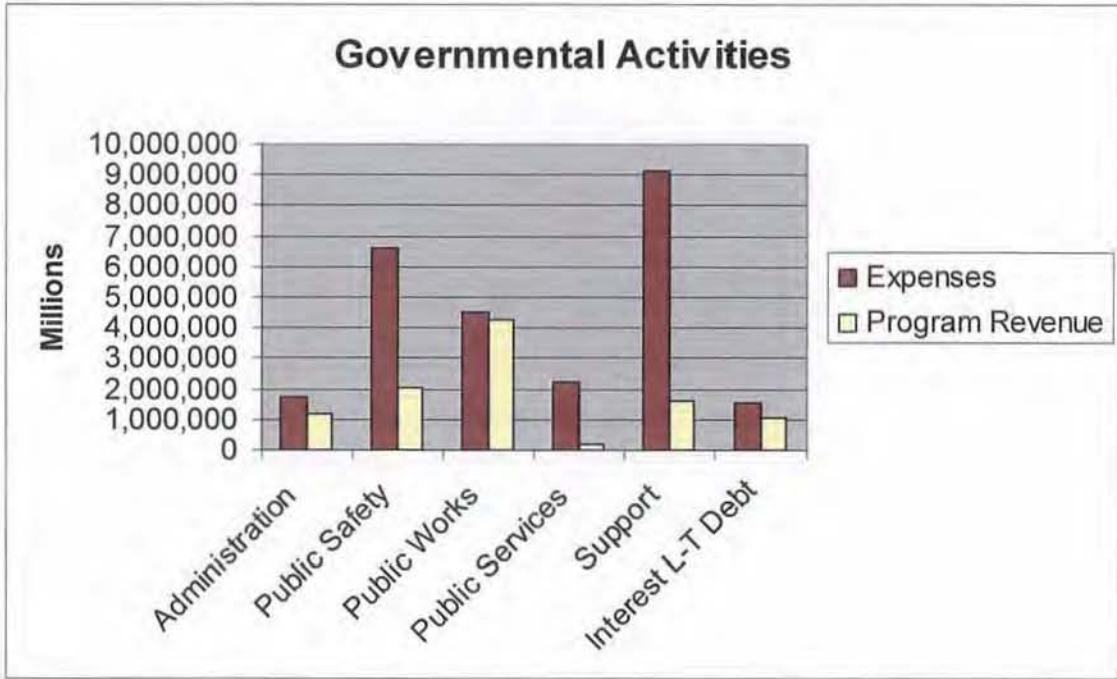
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
General revenues:						
Property taxes	\$ 5.9	5.5	-	-	5.9	5.5
Sales and other taxes	9.8	10.2	-	-	9.8	10.2
Grants and contributions not restricted to specific programs	1.9	1.4	-	1.4	1.9	2.8
Unrestricted investment earnings (loss)	(2.0)	0.6	1.3	1.8	(0.7)	2.4
Other	<u>3.5</u>	<u>-</u>	<u>0.5</u>	<u>-</u>	<u>4.0</u>	<u>-</u>
Total revenues	<u>29.5</u>	<u>29.7</u>	<u>25.2</u>	<u>29.4</u>	<u>54.7</u>	<u>59.1</u>
Expenses:						
Administration	1.8	1.9	-	-	1.8	1.9
Public safety	6.6	6.7	-	-	6.6	6.7
Public works	4.5	4.4	-	-	4.5	4.4
Public services	2.2	2.1	-	-	2.2	2.1
Support	9.2	8.7	-	-	9.2	8.7
Interest on long-term debt	1.5	1.3	-	-	1.5	1.3
Electric and water	-	-	12.4	11.9	12.4	11.9
Wastewater treatment	-	-	3.2	3.0	3.2	3.0
Solid waste disposal	-	-	2.9	2.9	2.9	2.9
Harbor	-	-	2.4	2.3	2.4	2.3
Airport terminal building	-	-	0.7	0.5	0.7	0.5
Marine Service Center	-	-	0.3	0.5	0.3	0.5
Sawmill Cove Industrial Park	-	-	<u>2.3</u>	<u>0.9</u>	<u>2.3</u>	<u>0.9</u>
Total expenses	<u>25.8</u>	<u>25.1</u>	<u>24.2</u>	<u>22.0</u>	<u>50.0</u>	<u>47.1</u>
Increase in net assets before transfers	3.7	4.6	1.0	7.4	4.7	12.0
Transfers in (out)	<u>(0.1)</u>	<u>(0.1)</u>	<u>0.1</u>	<u>0.1</u>	<u>-</u>	<u>-</u>
Increase in net assets	3.6	4.5	1.1	7.5	4.7	12.0
Net assets, beginning of year	<u>117.3</u>	<u>112.8</u>	<u>120.0</u>	<u>112.5</u>	<u>237.3</u>	<u>225.3</u>
Net assets, end of year	\$ <u>120.9</u>	<u>117.3</u>	<u>121.1</u>	<u>120.0</u>	<u>242.0</u>	<u>237.3</u>

**Expenses and Program Revenues – Governmental Activities**

The graph shown below compares program expenses with associated revenues. It should be noted that revenue generated through sales, bed, and property taxes are considered general revenues and are therefore not included on this graph.

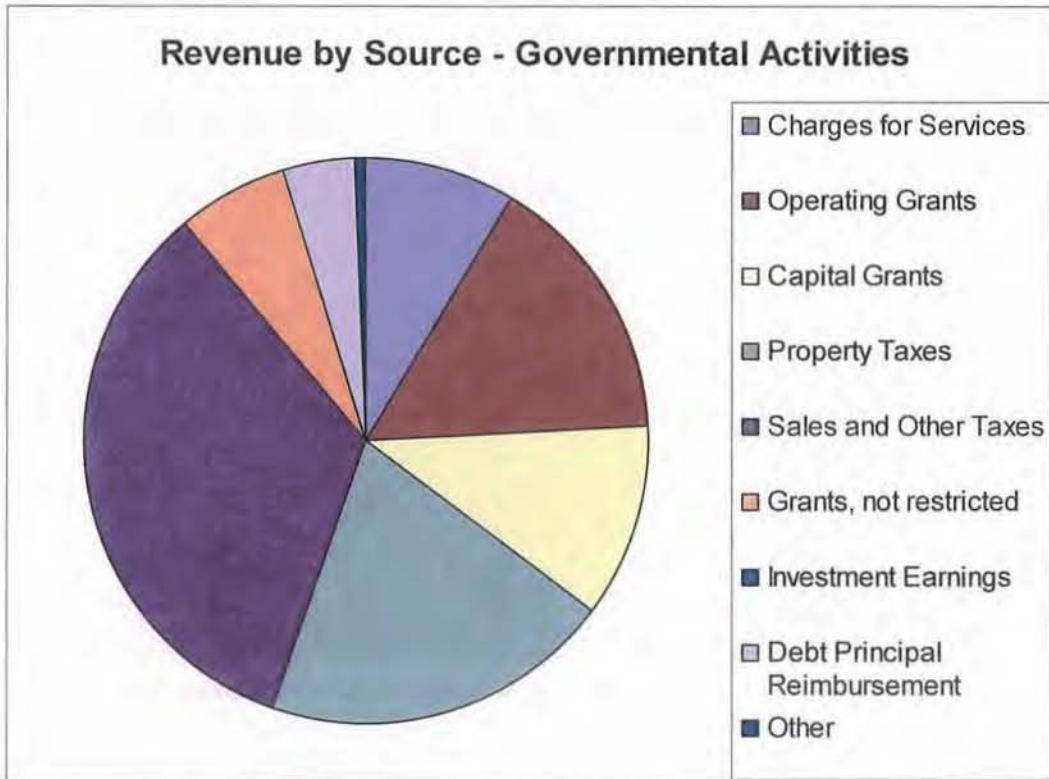
**CITY AND BOROUGH OF SITKA, ALASKA**

Management’s Discussion and Analysis, continued



**Revenues by Source – Governmental Activities**

The graph shown below depicts all sources of revenues, both program and general.



## CITY AND BOROUGH OF SITKA, ALASKA

### Management's Discussion and Analysis, continued

#### **Financial Analysis of the Government's Funds**

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

#### **Governmental funds**

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Did the Municipality generate enough revenue to pay for current obligations? What is available for spending at the end of the year?

At the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$50.0 million, an increase of \$5.3 million in comparison with the prior year. A portion of this amount is reserved to indicate it is not available to new spending because it has already been committed. The remainder of fund balance is unreserved (\$24.5 million); although \$17.3 million is shown as designated in accordance with the Assembly's direction. The remainder (\$7.2 million) is available for spending at the government's discretion.

The General Fund is the chief operating fund of the Municipality. At the end of the current fiscal year, total fund balance was \$8.7 million and unreserved fund balance was \$7.2 million. Total fund balance increased by \$0.6 million from the prior year. Key factors include:

- The receipt from the federal government for Timber receipts of \$1.6 million.

#### **Proprietary funds**

The Municipality's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the seven enterprise funds at the end of the year were \$21.9 million. Other factors concerning the finances of the proprietary funds have already been addressed in the discussion of the Municipality's business-type activities.

#### **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget were relatively minor and can be briefly summarized as follows:

- The receipt from the federal government for Timber receipts of \$1.6 million.
- The authorization for additional support for Sitka School District of \$0.9 million.

## CITY AND BOROUGH OF SITKA, ALASKA

### Management's Discussion and Analysis, continued

#### Capital Assets and Debt Administration

##### Capital assets

The Municipality's investment in capital assets for its governmental and business-type activities as of June 30, 2009 amounts to \$244.6 million (net of accumulated depreciation), an increase of \$5.0 million from the prior year. This investment in capital assets includes land, buildings, machinery and equipment, roads, and infrastructure.

#### City and Borough of Sitka Capital Assets June 30, 2009 and 2008 (in millions, net of depreciation)

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Land and improvements	\$ 8.9	8.5	10.8	10.7	19.7	19.2
Buildings	47.5	42.6	10.3	10.0	57.8	52.6
Equipment	3.2	3.1	1.9	1.6	5.1	4.7
Infrastructure	16.2	16.1	-	-	16.2	16.1
Electric and water plants	-	-	74.0	76.2	74.0	76.2
Wastewater treatment plant	-	-	15.7	16.8	15.7	16.8
Harbors	-	-	15.9	17.6	15.9	17.6
Construction in progress	<u>26.6</u>	<u>28.9</u>	<u>13.6</u>	<u>7.5</u>	<u>40.2</u>	<u>36.4</u>
Total capital assets	\$ <u>102.4</u>	<u>99.2</u>	<u>142.2</u>	<u>140.4</u>	<u>244.6</u>	<u>239.6</u>

Major additions to capital assets during the current fiscal year included the following (in millions):

- Waste Water Treatment Building Roof Replacement for \$0.5 million
- Airport Terminal Building Restroom Remodel for \$0.1 million
- Airport Terminal Building Underground Storage Fuel Tank for \$0.1 million
- Biorka and Park Street Water and Sewer lines for \$0.6 million
- Airport Terminal Building HVAC Control Upgrade for \$0.2 million
- Indian River Subdivision for \$0.9 million
- Sitka High School Roof replacement for \$2.6 million
- Water Tank – Whitcombe Heights subdivision for \$3.2 million

Additional information on the Municipality's capital assets can be found in Note 5 on pages 47 – 49 of this report.

## CITY AND BOROUGH OF SITKA, ALASKA

### Management's Discussion and Analysis, continued

#### Long-term debt

At the end of the current fiscal year, the Municipality had total debt outstanding of \$85.9 million. Of this amount \$34.4 million was bonded and backed by the full faith and credit of the Municipality. The remaining debt consists of debt secured by equipment, revenue bonds and notes, capital leases, compensated absences, and landfill closure costs.

#### City and Borough of Sitka Outstanding Debt June 30, 2009 and 2008 (in millions)

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
General obligation bonds	\$ 34.4	29.0	-	-	34.4	29.0
Revenue bonds	-	-	30.4	31.5	30.4	31.5
Revenue note	-	-	9.3	9.5	9.3	9.5
Other debt	<u>1.2</u>	<u>2.2</u>	<u>10.6</u>	<u>9.4</u>	<u>11.8</u>	<u>11.6</u>
Total outstanding debt	<u>\$ 35.6</u>	<u>31.2</u>	<u>50.3</u>	<u>50.4</u>	<u>85.9</u>	<u>81.6</u>

Additional information on the Municipality's long-term debt can be found in Note 8 on pages 52 – 58 of this report.

#### Economic Factors and the Next Year's Budget and Rates

In setting the budgets for FY2010, the Municipality considered a number of issues with Municipality wide impact, among them:

- A sufficient level of funding necessary to meet the needs of Municipality residents, visitors and communities.
- A continued reduction in the historical variance between budget and actual revenues and expenditures.
- Maintenance of the Municipality's financial condition.
- The highest level of local educational funding that Municipality residents can reasonable afford and sustain.
- A high quality capital and operational maintenance program that ensures the continued use and economic value of Municipality assets.

All of these factors were considered in preparing the Municipality's budget for FY2010.

## **CITY AND BOROUGH OF SITKA, ALASKA**

### Management's Discussion and Analysis, continued

#### **Request for information**

This financial report is designed to provide a general overview of the Municipality's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Finance Director, City and Borough of Sitka, 100 Lincoln Street, Sitka, Alaska 99835.