

**NOTES TO BASIC FINANCIAL STATEMENTS**

# CITY AND BOROUGH OF SITKA, ALASKA

## Notes to Financial Statements

June 30, 2009

(1) **Summary of Significant Accounting Policies**

**Reporting Entity**

The City and Borough of Sitka, Alaska (City and Borough) is governed by an elected assembly under a home rule charter. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government. The City and Borough has no blended component units.

*Discretely presented component units.* The Sitka School District (District) is responsible for elementary and secondary education within the government's jurisdiction. The members of the District's governing board are elected by the voters. However, the District is fiscally dependent upon the City and Borough because the City and Borough's Assembly approves the District's budget. The City and Borough provides operating support from real and personal property tax assessments and other sources. The funds are used for the operation of the school system. The City and Borough is also responsible for repayment of all bonds, the proceeds of which were used for school construction.

Sitka Community Hospital (Hospital) is responsible for hospital services within the City and Borough. Its governing board is appointed by the Assembly of the City and Borough. The Assembly approves the Hospital's budget. The City and Borough provides operating and capital support to the Hospital.

Sitka Convention and Visitors Bureau (Visitors Bureau) is responsible for promoting tourism and attracting conventions to the City and Borough. This component unit's governing board is appointed by the Assembly of the City and Borough. Transfers from the City and Borough provided most of the Visitors Bureau's operating revenue.

Complete financial statements of each of the individual component units may be obtained at the entity's administrative offices.

Sitka School District	Sitka Community Hospital	Sitka Convention and Visitors Bureau
P.O. Box 179	209 Moller Drive	P.O. Box 1226
Sitka, Alaska 99835	Sitka, Alaska 99835	Sitka, Alaska 99835

## CITY AND BOROUGH OF SITKA, ALASKA

### Notes to Financial Statements, continued

#### **Summary of Significant Accounting Policies, continued**

##### Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. 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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Agency funds have no measurement focus. 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 year. 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, are recorded only when payment is due.

## CITY AND BOROUGH OF SITKA, ALASKA

### Notes to Financial Statements, continued

#### **Summary of Significant Accounting Policies, continued**

##### Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued

Property taxes, sales taxes, charges for services, interest and grant revenue 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when received by the government.

The City and Borough reports the following major governmental funds:

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

The Permanent Fund was established by a vote of the people of Sitka. The principal of the fund cannot be used other than by the consent of the voters. The purpose of the fund is to provide operating income to the General Fund through the transfer of investment earnings.

The Capital Projects Fund is used to account for all governmental construction projects except those financed by Enterprise and Internal Service Funds.

The City and Borough reports the following major proprietary funds:

The Electric and Water Utilities Enterprise Fund records the activities of the City and Borough's electric and water generation and distribution activities.

The Waste Water Treatment Enterprise Fund provides sewer service for the City and Borough.

The Solid Waste Disposal Enterprise Fund was established to manage solid waste. Revenues include billings for garbage disposal, billings for the use of the landfill and sale of scrap material.

The Harbor Enterprise Fund provides rental space for commercial and recreational boats within the five harbors that are located within the City and Borough.

Additionally, the government reports the following fund types:

Internal service funds account for management information systems, central garage and building maintenance services provided to other departments of the government on a cost reimbursement basis.

## CITY AND BOROUGH OF SITKA, ALASKA

### Notes to Financial Statements, continued

#### **Summary of Significant Accounting Policies, continued**

##### Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued

The private-purpose trust fund is used to account for resources legally held in trust for use by the Library Board to purchase children's books and computer equipment to increase children's enjoyment of reading.

An agency fund is used to account for resources held for the Sitka Cemetery Association.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City and Borough has elected not to follow the subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the various proprietary funds and the General Fund for administrative services. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers for goods and services provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenues include all taxes and investment income.

Proprietary 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 City and Borough's enterprise and internal service funds are charges to customers for sales and services. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City and Borough's policy to use restricted resources first, then unrestricted resources as they are intended.

## CITY AND BOROUGH OF SITKA, ALASKA

### Notes to Financial Statements, continued

#### **Summary of Significant Accounting Policies, continued**

##### Assets, Liabilities and Net Assets or Equity

###### a. Deposits and Investments

Equity in central treasury represents a fund's equity in cash and investments of the central treasury of the City and Borough. For funds with a negative equity in central treasury, the amount is shown as an interfund payable to the General Fund. Interest income on investments is allocated monthly to participating funds based on their average monthly balance.

For purposes of the statement of cash flows for the proprietary funds, the City and Borough has defined cash and cash equivalents as the equity maintained in the central treasury since the various funds use the central treasury essentially as a demand deposit account.

Sitka General Code 4.28.060 authorizes the City and Borough to invest in the following securities:

1. United States government obligations, United States government agency obligations, and United States government instrumentality obligations, which have a liquid market with a readily determinable market value;
2. Certificates of deposit and other evidences of deposits at financial institutions, bankers' acceptances, and commercial paper, rated in the highest tier by a nationally recognized rating agency;
3. Investment-grade obligation of state and local governments and public authorities;
4. Repurchase agreements whose underlying purchased securities consist of United States Treasury securities;
5. Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities;
6. Local government investment pools, either state-administered or through joint powers statutes and other intergovernmental agreement legislation.

In addition, Sitka General Code 4.28.110 allows the Permanent Fund to invest in mutual funds which are invested in corporate equity securities.

Investments are stated at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. All of the City and Borough's investments have established market values. As a result, fair value and market value are the same.

## CITY AND BOROUGH OF SITKA, ALASKA

### Notes to Financial Statements, continued

#### **Summary of Significant Accounting Policies, continued**

##### **Assets, Liabilities and Net Assets or Equity, continued**

###### **b. Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables, including those for the Hospital, are shown net of an allowance for uncollectibles. Trade accounts receivable of the primary government in excess of 120 days comprise the trade accounts receivable allowance for uncollectibles.

Property tax is considered an enforceable lien at the January 1 assessment date. Mill levies are set prior to June 30 to finance the period July 1 through June 30 of the following year. Receivables are recognized and revenues are recorded when taxpayer liability is calculated and billed on July 1. Property tax bills are due 60 days after billing date, which normally makes them due August 30. A limit on property tax of six tenths of one percent (.006) of the assessed valuation of property is currently in effect. Levying of property tax in excess of the limit is allowed only if ratified by a majority of the voters.

###### **c. Inventory and Prepaid Items**

Inventories are valued at cost using the average cost method. Enterprise Fund inventories consist of items used in maintaining and upgrading the electric and water systems.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

###### **d. Restricted Assets**

Certain resources set aside for the repayment of the Electric and Water Utilities Fund revenue bonds are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The “revenue bond accrued aggregate debt service” account is used to segregate resources accumulated for current debt service payments.

# CITY AND BOROUGH OF SITKA, ALASKA

## Notes to Financial Statements, continued

### Summary of Significant Accounting Policies, continued

#### Assets, Liabilities and Net Assets or Equity, continued

##### Restricted Assets, continued

The “revenue bond debt service” account is used to report resources set aside to make up potential future deficiencies in the revenue bond accrued aggregate debt service account. The “revenue bond renewal and replacement account” is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements. These three accounts have been combined and included with restricted assets on the balance sheet of the Electric and Water Utilities Fund.

Capital Project Fund assets are classified as restricted because their use is limited by bond covenant or grant agreement to the construction of capital assets.

Special Revenue Fund assets are restricted under the terms of grant agreements with State of Alaska and federal agencies or by agreement with donors and others.

#### e. 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, or in the case of infrastructure, \$10,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The City and Borough did not have any projects requiring interest capitalization in 2009.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Utility plant in service	30-65
Buildings	20-40
Equipment	3-10
Land improvements	50

## CITY AND BOROUGH OF SITKA, ALASKA

### Notes to Financial Statements, continued

#### **Summary of Significant Accounting Policies**

##### f. Compensated Absences

It is the City and 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 as it is the government's policy to pay any amounts when employees separate from service with the City and Borough at \$1 per hour of unused sick leave. All vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary 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.

##### g. Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discounts.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

##### h. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

#### (2) **Stewardship, Compliance, and Accountability**

##### Budgetary Information

The annual budget is adopted on the modified accrual basis plus encumbrances and capital additions for all funds except the debt service and capital project funds. The Capital Projects Fund adopts individual project-length budgets and most special revenue funds are controlled by grant agreements which may include more than one fiscal year. Appropriations lapse at year-end to the extent they have not been expended or encumbered except for capital items and the Capital Project Funds, which lapse at project completion or when the capital item is acquired. Most special revenue fund appropriations lapse when the terms of the grant have been met and all authorized expenditures have been made. There are four special revenue funds that adopt annual budgets.

## CITY AND BOROUGH OF SITKA, ALASKA

### Notes to Financial Statements, continued

#### **Stewardship, Compliance, and Accountability, continued**

##### **Budgetary information, continued**

No later than sixty days before the end of the current fiscal year, the City and Borough Administrator presents to the City and Borough Assembly a proposed operating budget for the next fiscal year. The operating budget includes proposed expenditures and the means to finance them. Public hearings are conducted not less than one week before the final adoption of the budget to obtain taxpayer comments. No later than June 20<sup>th</sup> of the current fiscal year, the budget is legally adopted by ordinance of the City and Borough Assembly.

Annual budgeted expenditures are adopted at the department level within the General Fund and at the fund level for Enterprise and Internal Service Funds. The level at which expenditures cannot legally exceed appropriations is the department level for the General Fund, the fund level for the Enterprise and Internal Service Funds, and the project level in Capital Projects Fund. The only exception to this rule is amounts appropriated for salaries and benefits, travel and the acquisition of capital assets by a fund. The City and Borough Assembly must approve increases and decreases to these budget line items even if the legal level of budget authority is the fund or department level.

The City and Borough Administrator is authorized to transfer budgeted amounts within a department or fund depending on the legal level of control. The City and Borough Assembly is authorized to transfer unencumbered balances between departments and between funds. The annual budget is amended quarterly based upon a review by the City and Borough Assembly. The supplementary appropriations of \$1,612,082 in the General Fund related, for the most part, to capital acquisitions, including transfers to the Capital Projects Fund. The General Fund transferred \$565,000 to Capital Projects Fund for the repaving of Seward Street.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

The operating budgets for the District, Hospital and Visitors Bureau are approved by their respective boards. The budgets are then submitted to the Assembly for approval and to determine the amount of funding to be made available from local sources for school, hospital and visitor promotion purposes.

##### **Budget to GAAP Reconciliation**

The following schedule reconciles the amounts on the Statement of Revenues, Expenditures, and Changes in Fund Balances reported for the General Fund with the General Fund, Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:

**CITY AND BOROUGH OF SITKA, ALASKA**

Notes to Financial Statements, continued

**Stewardship, Compliance, and Accountability, continued**

**Budget to GAAP Reconciliation, continued**

Fund balance – budget	\$ 8,736,896
State PERS relief	795,816
PERS expenditures	<u>(795,816)</u>
Fund balance – GAAP	\$ <u>8,736,896</u>

(3) **Deposits and investments**

As of June 30, 2009, the City and Borough had the following investments:

<b><u>Investment Type</u></b>	<b><u>S &amp; P Rating</u></b>	<b><u>Fair Value</u></b>	<b><u>Weighted Average Maturity (Years)</u></b>
Investments subject to custodial credit risk:			
U.S. Treasury notes	AAA	\$ 3,964,331	1.54
Corporate notes & bonds	A1 to AAA	17,365,192	1.98
Mortgage back securities	unrated	156,514	12.69
U.S. government sponsored:			
Agency notes & bonds	AAA	35,028,993	3.29
Repurchase agreements	unrated	<u>4,452,460</u>	
Total fair value of investments subject to custodial credit risk		\$ 60,967,490	
Portfolio weighted average maturity			2.79
Investments not subject to custodial credit risk:			
External investment pools	unrated	5,502,181	
Open-end mutual funds	unrated	<u>8,496,802</u>	
Total investments		\$ <u>74,966,473</u>	

**Interest Rate Risk.** The City and Borough does have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The pooled investments cannot have a weighted average maturity in excess of five (5) years, while the bonds in the Permanent Fund cannot have a weighted average maturity in excess of ten (10) years. The City and Borough's investment policy mandates that the investment portfolio be structured to minimize the need to sell securities prior to maturity and that operating funds be invested primarily in shorter-term securities, money market mutual funds and similar investment pools.

## CITY AND BOROUGH OF SITKA, ALASKA

### Notes to Financial Statements, continued

#### **Deposits and investments, continued**

**Credit Risk.** The City and Borough's investment policy limits investment in corporate debt securities to those rated AA or better by a nationally recognized statistical rating organization. Debt securities of state and local governmental entities must have a similar rating. Short term commercial promissory notes must have a rating of A1/P1 or better. The long-term credit rating of the issuing organization must be A- or better. Real Estate Mortgage Investment Conduit securities are limited to the Federal National Mortgage Association, the Government National Mortgage Association and the Federal Home Loan Mortgage Association. The investment policy does not require these securities to have any minimum rating. The City and Borough's investments complied with its policy at June 30, 2009.

**Concentration of Credit Risk.** The City and Borough's investment policy states that one of the general objectives of investing will be to diversify the portfolio so that potential losses on individual securities will be minimized. The policy does not limit the investment in any one security to a percentage of the total portfolio.

**Custodial Credit Risk – Deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the City and Borough's deposits may not be returned to it. It is the City and Borough's policy to mitigate this risk by requiring that all demand deposits be fully collateralized by securities held in the City and Borough's name by an agent of the financial institution holding the demand deposits. Of the bank balance at June 30, 2009, \$250,000 was covered by the Federal Deposit Insurance Corporation (FDIC), and \$4,352,460 was subject to a collateral agreement.

**Custodial Credit Risk – Investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of outside parties. All of the City and Borough's investments subject to custodial credit risk are held by the City and Borough's agent in its name.

The City and Borough's investment policy allows the Permanent Fund to invest in mutual funds which are invested in corporate equity securities in addition to all of the investments described above. The investment policy requires that the equity securities within the mutual funds be broadly diversified across all sectors. The investment mix within the Permanent Fund's portfolio has a target of 5% cash equivalents, 35% fixed income securities and 60% mutual fund equities. At June 30, 2009, the Permanent Fund's portfolio contained 52% mutual fund equities, 39% fixed income securities, and 9% cash equivalents.

## CITY AND BOROUGH OF SITKA, ALASKA

### Notes to Financial Statements, continued

#### **Deposits and Investments, continued**

The City and Borough participates in two external pooled investment pools. One pool is registered with the Securities and Exchange Commission, the other is not. All of the participants of the unregistered pool are municipalities within the State of Alaska. The funds in that pool are managed by the trust department of a large bank. A share price of \$1 is maintained for both pools, giving the City and Borough one share for every dollar invested in the pools. As a result, the fair value of the pools is the same as the value of the pool shares.

A reconciliation of cash and investments as shown in the basic financial statements for the primary government follows:

Cash on hand	\$ 22,269
Carrying amount of deposits	(321,840)
Carrying amount of investments	<u>74,966,473</u>
	\$ <u>74,666,902</u>
Reported in the Statement of Net Assets:	
Equity in central treasury	\$ 33,538,875
Equity in central treasury - temporarily restricted	19,999,052
Equity in central treasury – permanently restricted	1,319,782
Cash and investments – temporarily restricted	56,529
Cash and investments – permanently restricted	14,900,085
Cash and investments with trustee	4,561,721
Reported in Fiduciary Funds	<u>290,858</u>
	\$ <u>74,666,902</u>

At June 30, 2009, the Sitka School District's cash and investments included operating bank accounts and sweep accounts. The carrying amount of deposits was \$1,517,670 and the bank balance was \$2,075,641. Amounts are insured at each financial institution by the Federal Deposit Insurance Corporation up to legal maximum, with the remainder being insured by collateral held by the District's agent in the District's name.

At June 30, 2009, Sitka Community Hospital's cash and investments included operating bank accounts, money market funds and a repurchase agreement. The carrying amount of deposits was \$188,620 and was covered by the Federal Deposit Insurance Corporation.

At June 30, 2009, Sitka Convention and Visitors Bureau's cash and investments consist of an operating bank account and certificates of deposit. The carrying amount of the deposits was \$304,918 and the bank balance was \$325,259. Of the bank balance, \$325,259 was covered by the Federal Deposit Insurance Corporation.

**CITY AND BOROUGH OF SITKA, ALASKA**

Notes to Financial Statements, continued

(4) **Receivables**

Receivables as of year end for the City and Borough's individual major funds and nonmajor, internal service and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	<u>General</u>	<u>Permanent</u>	<u>Capital Projects</u>	<u>Electric and Water Utilities</u>	<u>Waste Water Treatment</u>	<u>Solid Waste Disposal</u>	<u>Harbor</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Taxes	\$ 2,221,258	-	-	-	-	-	-	52,175	2,273,433
Special assessments	-	-	-	-	174,061	-	-	182,352	356,413
Federal and State Accounts	53,278	-	2,272,353	350,190	23,551	-	1,139,956	290,947	4,144,545
Interest	689,979	-	2,823	996,440	136,127	232,033	165,684	531,825	2,740,641
Notes	525,599	82,301	-	-	-	-	-	-	607,900
Total	-	-	-	31,331	146,445	-	-	394,998	572,774
Total receivables	3,490,114	82,301	2,275,176	1,377,961	480,184	232,033	1,305,640	1,452,297	10,695,706
Less allowance for uncollectibles	<u>(511,764)</u>	<u>-</u>	<u>-</u>	<u>(340,249)</u>	<u>(39,430)</u>	<u>(59,536)</u>	<u>(88,252)</u>	<u>(337,481)</u>	<u>(1,376,712)</u>
Net total receivables	<u>\$ 2,978,350</u>	<u>82,301</u>	<u>2,275,176</u>	<u>1,037,712</u>	<u>440,754</u>	<u>172,497</u>	<u>1,217,388</u>	<u>1,114,816</u>	<u>9,318,994</u>

Notes receivable in the nonmajor and other funds are all accounted for in the Southeast Economic Development Fund, a special revenue fund. Of the total amount, \$294,998 is due from participants in an economic development revolving loan program and \$100,000 is due from a not-for-profit organization. At June 30, 2009 the revolving loan program had four outstanding loans. The first note, with a balance of \$125,787 at June 30, 2009, has a thirty year term with a stated interest rate of 5%, and requires annual payments of \$10,408. The second note, with a balance of \$121,127 at June 30, 2009, has a fifteen year term with a stated interest rate of 5%, and requires monthly payments of \$1,708. The third note, with a balance of \$32,789 at June 30, 2009, has a term of ten years with a stated interest rate of 3% and requires monthly payments of \$385. The fourth note totaling \$15,295 at June 30, 2009 is in the draw down phase and at completion will have a term of ten years with a stated interest rate of 3%. The note receivable from the not-for-profit organization was loaned in order for the organization to purchase a building for its programs. The note is due only if the organization sells the building. It does not bear interest.

In addition, the Southeast Economic Development Fund has a small business guaranteed loan program. At June 30, 2009, there were two participants in the program. The City and Borough has two certificates of deposit with a local bank totaling \$36,360 as a guarantee on the notes between the small businesses and the bank.

**CITY AND BOROUGH OF SITKA, ALASKA**

Notes to Financial Statements, continued

**Receivables, 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:

	<b><u>Unavailable</u></b>	<b><u>Unearned</u></b>
Special assessments not yet due	\$ 182,352	-
Grant draw downs prior to meeting all eligibility requirements	-	601,815
Property taxes received in advance	<u>-</u>	<u>34,031</u>
 Total deferred/unearned revenue for governmental funds	 \$ <u>182,352</u>	 <u>635,846</u>

(5) **Capital Assets**

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 8,269,353	35,268	-	8,304,621
Construction in progress	<u>28,930,787</u>	<u>-</u>	<u>(2,315,268)</u>	<u>26,615,519</u>
Total capital assets, not being depreciated	37,200,140	35,268	(2,315,268)	34,920,140
Capital assets, being depreciated:				
Buildings	73,933,833	6,868,908	-	80,802,741
Land improvements	219,816	890,369	(512,800)	597,385
Infrastructure	26,441,968	750,969	-	27,192,937
Equipment	<u>8,108,905</u>	<u>564,226</u>	<u>(78,945)</u>	<u>8,594,186</u>
Total capital assets, being depreciated	<u>108,704,522</u>	<u>9,074,472</u>	<u>(591,745)</u>	<u>117,187,249</u>
Less accumulated depreciation for:				
Buildings	(31,312,904)	(2,007,917)	-	(33,320,821)
Land improvements	(16,095)	(11,582)	-	(27,677)
Infrastructure	(10,345,820)	(606,317)	-	(10,952,137)
Equipment	<u>(5,012,329)</u>	<u>(494,757)</u>	<u>73,945</u>	<u>(5,433,141)</u>
Total accumulated depreciation	<u>(46,687,148)</u>	<u>(3,120,573)</u>	<u>73,945</u>	<u>(49,733,776)</u>

**CITY AND BOROUGH OF SITKA, ALASKA**

Notes to Financial Statements, continued

**Capital Assets, continued**

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Governmental activities:</b>				
Total capital assets, being depreciated, net	\$ <u>62,017,374</u>	<u>5,953,899</u>	<u>(517,800)</u>	<u>67,453,473</u>
Governmental activities capital assets, net	\$ <u>99,217,514</u>	<u>5,989,167</u>	<u>(2,833,068)</u>	<u>102,373,613</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 4,831,334	22,958	-	4,854,292
Construction in progress	<u>7,466,984</u>	<u>6,117,578</u>	-	<u>13,584,562</u>
Total capital assets, not being depreciated	<u>12,298,318</u>	<u>6,140,536</u>	-	<u>18,438,854</u>
Capital assets, being depreciated:				
Buildings	15,540,350	1,140,235	(310,153)	16,370,432
Land improvements	6,213,656	256,626	-	6,470,282
Equipment	3,757,826	559,623	(95,949)	4,221,500
Harbors	24,040,599	20,632	(1,142,418)	22,918,813
Electric and water plant	133,263,497	87,381	-	133,350,878
Waste water treatment plant	<u>42,762,824</u>	<u>212,252</u>	-	<u>42,975,076</u>
Total capital assets, being depreciated	<u>225,578,752</u>	<u>2,276,749</u>	<u>(1,548,520)</u>	<u>226,306,981</u>
Less accumulated depreciation for:				
Buildings	(5,480,808)	(555,336)	-	(6,036,144)
Land improvements	(365,886)	(133,646)	-	(499,532)
Equipment	(2,136,463)	(213,669)	7,364	(2,342,768)
Harbors	(6,486,331)	(781,080)	288,877	(6,978,534)
Electric and water plant	(57,034,465)	(2,360,752)	-	(59,395,217)
Waste water treatment plant	<u>(25,945,909)</u>	<u>(1,325,607)</u>	-	<u>(27,271,516)</u>
Total accumulated depreciation	<u>(97,449,862)</u>	<u>(5,370,090)</u>	<u>296,241</u>	<u>(102,523,711)</u>
Total capital assets, being depreciated, net	<u>128,128,890</u>	<u>(3,093,341)</u>	<u>(1,252,279)</u>	<u>123,783,270</u>
Business-type activities capital assets, net	\$ <u>140,427,208</u>	<u>3,047,195</u>	<u>(1,252,279)</u>	<u>142,222,124</u>

**CITY AND BOROUGH OF SITKA, ALASKA**

Notes to Financial Statements, continued

**Capital Assets, continued**

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

**Governmental activities:**

Administration	\$ 63,697
Public safety	252,413
Public works	650,800
Public services	211,499
Support	1,585,419
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>356,745</u>

Total depreciation expense – governmental activities \$ 3,120,573

**Business-type activities:**

Electric and water	\$ 2,472,134
Waste water treatment	1,400,659
Solid waste disposal	137,922
Harbor	758,856
Airport terminal building	159,271
Marine service center	150,456
Sawmill Cove Industrial Park	<u>290,792</u>

Total depreciation expense – business-type activities \$ 5,370,090

**Construction Commitments**

The City and Borough of Sitka has active construction projects as of June 30, 2009. The projects include utility upgrades and street repaving. At year end, the City and Borough's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Kimsham landfill and ball parks	\$ 5,018,251	536,381
Seward Street paving	787	564,213
Sitka High School auditorium	17,029,842	184,148
Sitka Schools upgrade	409,355	6,740,645
Whitcomb Heights subdivision	5,959,521	2,486,342
Blue Lake 3 <sup>rd</sup> turbine and dam upgrade	1,083,283	11,592,717
HPR/SMCR main rehab water/sewer	546,906	233,094
Sawmill Cove Industrial Park paving	<u>146,791</u>	<u>2,184,305</u>
	\$ <u>30,194,736</u>	<u>24,521,845</u>

**CITY AND BOROUGH OF SITKA, ALASKA**

Notes to Financial Statements, continued

(6) **Interfund Receivables, Payables and Transfers**

<b><u>Receivable Fund</u></b>	<b><u>Payable Fund</u></b>	<b><u>Amount</u></b>
Due to/from other funds:		
General Fund	Harbor Fund	\$ 100,000
General Fund	Nonmajor governmental funds	92,877
General Fund	Central Garage Fund	50,000
Nonmajor governmental fund	Solid Waste Fund	123,579
Nonmajor governmental fund	Harbor Fund	150,000
Nonmajor governmental fund	Nonmajor enterprise funds	209,674
Nonmajor governmental fund	General Fund	<u>426,667</u>
Total		<u>\$ 1,152,797</u>
Advances from/to other funds:		
General Fund	Central Garage Fund	\$ 550,000
Nonmajor governmental fund	Solid Waste Fund	249,303
Nonmajor governmental fund	Harbor Fund	460,000
Nonmajor governmental fund	Nonmajor enterprise funds	<u>350,261</u>
Total		<u>\$ 1,609,564</u>

<b><u>Receivable Entity</u></b>	<b><u>Payable Entity</u></b>	<b><u>Amounts</u></b>
Advances from/to primary government and component units –		
Primary government – General Fund	Component unit – Hospital	<u>\$ 129,994</u>

Amounts due between the General Fund and both the Harbor Fund and nonmajor governmental funds result from negative equity in the central treasury because expenditures are made prior to the receipt of revenue, as in the case of funds that account for the activity of reimbursable grants for both capital and noncapital expenditures. Some grants require cash matches. Transfers are made from the General Fund at the conclusion of the project to meet the match requirements. Until the transfer is made, the fund has a negative equity in the central treasury.

The Southeast Alaska Economic Development Fund, a nonmajor governmental fund, was established with federal monies, to promote economic development. This fund advanced amounts to the Harbor, Solid Waste Disposal and Airport Terminal Building Funds for expansion projects. The current portion of those advances is reported as amounts due to/from other funds and the long-term portion is reported as advances to/from other funds.

Several years ago the Central Garage Internal Service Fund constructed a public service building. Part of the funding for the project was an advance from the General Fund. The advance is being repaid in \$50,000 annual payments.

**CITY AND BOROUGH OF SITKA, ALASKA**

Notes to Financial Statements, continued

**Interfund Receivables, Payables and Transfers, continued**

Advances to Sitka Community Hospital were made to cover cash shortages. The balance of \$129,994 was made during fiscal years 2006 and 2008. The Hospital is using one half of the tobacco tax revenues each month toward the advance outstanding. The Hospital took a \$150,000 advance in July, 2009 and a \$150,000 advance in October, 2009.

**Interfund Transfers**

Transfers are used to move general and other fund revenues for the purchase and construction of capital assets to the capital projects and internal service funds. In addition, funds are transferred to the General Fund each year from the Permanent Fund for general support.

Transfer out:	General Fund	Permanent Fund	Capital Projects Fund	Nonmajor Govern- mental Funds	Harbor Fund	Nonmajor Enterprise Funds	Internal Service Fund	Total
General Fund	\$ -	47,661	8,291,112	1,098,526	31,774	117,837	-	9,586,910
Permanent Fund	693,334	-	-	-	-	-	-	693,334
Capital Projects Fund	10,419	-	-	-	-	-	-	10,419
Nonmajor Governmental Funds	36,679	-	-	-	-	111,155	115,643	263,477
Harbor Fund	100,000	-	-	-	-	-	-	100,000
Internal Service Funds	-	-	232,848	-	-	-	-	232,848
 Total transfers in	 \$ <u>840,432</u>	 <u>47,661</u>	 <u>8,523,960</u>	 <u>1,098,526</u>	 <u>31,774</u>	 <u>228,992</u>	 <u>115,643</u>	 <u>10,886,988</u>

(7) **Capital Leases**

The City and Borough has entered into two lease agreements as lessee for financing the acquisition of equipment. Three proprietary funds, (the Airport Terminal, the Marine Service Center, and Waste Water Treatment Plant), and the General Fund purchased heating systems which are financed by one capital lease. The General Fund purchased an Emergency 911 system under a second lease. These leases both qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	<b><u>Governmental Activities</u></b>	<b><u>Business-type Activities</u></b>
Machinery and equipment	\$ 1,125,191	\$ 82,344
Less accumulated depreciation	<u>(604,072)</u>	<u>(78,038)</u>
 Total	 \$ <u>521,119</u>	 \$ <u>4,306</u>

**CITY AND BOROUGH OF SITKA, ALASKA**

Notes to Financial Statements, continued

**Capital Leases, continued**

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2009 were as follows:

<u>Year Ending June 30,</u>	<b><u>Governmental Activities</u></b>	<b><u>Business-type Activities</u></b>
2010	\$ 52,536	2,584
Less: amount representing interest	<u>(1,100)</u>	<u>(32)</u>
Present value of minimum lease payments	\$ <u>51,436</u>	<u>2,552</u>

(8) **Long-Term Debt**

**General Obligation Bonds**

The City and Borough issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued only for governmental activities. The original amount of general obligation bonds issued in prior years was \$42,705,000.

General obligation bonds are direct obligations and pledge the full faith and credit of the City and Borough. All of the bonds outstanding are held by the Alaska Municipal Bond Bank Authority. This State of Alaska agency purchases bonds from municipalities within the State, while simultaneously selling its own bonds to third parties in order to fund the bond purchases.

General obligation bonds currently outstanding are as follows:

**Governmental activities:**

	<b><u>Interest rates</u></b>	<b><u>Amount</u></b>
School renovation and additions:		
\$6,775,000, 2008 Series A bonds refinancing portion of 1999 School serial bonds, final payment due December 1, 2018	4.000% to 5.500%	\$ 6,775,000
\$3,300,000, 2005 Series A bonds refinancing portion of 2000 series B bonds, final payment due May 1, 2020	4.000% to 5.250%	3,185,000
\$8,480,000, 2005 Series B School bonds, final payment due May 1, 2025	4.000% to 5.250%	7,340,000
\$12,000,000, 2004 Series A School bonds, final payment due December 1, 2023	3.000% to 4.400%	9,700,000

**CITY AND BOROUGH OF SITKA, ALASKA**

Notes to Financial Statements, continued

**Long-Term Debt, continued**

**Governmental activities, continued:**

	<b><u>Interest rates</u></b>	<b><u>Amount</u></b>
\$5,000,000, 2000 Series B School bonds, final payment due May 1, 2011	5.800% to 6.000%	\$ 475,000
\$7,150,000, 2008 Series Two School bonds, final payment due June 1, 2028	4.000% to 6.000%	<u>6,935,000</u>
Total		\$ <u>34,410,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

<b><u>Year Ending June 30,</u></b>	<b><u>Governmental Activities</u></b>	
	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2010	\$ 1,860,000	1,526,208
2011	1,940,000	1,447,422
2012	2,025,000	1,361,155
2013	2,100,000	1,274,890
2014	2,200,000	1,181,710
2015-2019	12,535,000	4,350,618
2020-2024	9,100,000	1,833,050
2025-2028	<u>2,650,000</u>	<u>284,097</u>
Total	\$ <u>34,410,000</u>	<u>13,259,150</u>

State of Alaska, Department of Environmental Conservation Loan      \$ 185,250

**Business-type activities:**

**Revenue Bonds**

The City and Borough issues bonds where it pledges income derived from the acquired or constructed assets to pay debt service. The original amount of revenue bonds issued in prior years was \$69,205,000. Revenue bonds outstanding at year end are as follows:

	<b><u>Interest rates</u></b>	<b><u>Amount</u></b>
Electric and Water Utilities – Construction of Green Lake Dam		
\$52,160,000, 1992 Electric and Water Revenue Serial bonds, final payment due July 1, 2015	5.200% to 7.000%	\$ 15,000,000

**CITY AND BOROUGH OF SITKA, ALASKA**

Notes to Financial Statements, continued

**Long-Term Debt, continued**

**Business-type activities, continued:**

	<b><u>Interest rates</u></b>	<b><u>Amount</u></b>
\$17,045,000, Municipal Utility Revenue Bonds, 1997 Refunding Series, final payment due July 1, 2019	4.625% to 5.375%	\$ <u>15,395,000</u>
Total		\$ <u>30,395,000</u>

Annual debt service requirements to maturity for revenue bonds are as follows:

<b><u>Year Ending June 30,</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2010	\$ 2,305,000	1,803,408
2011	2,455,000	1,654,558
2012	2,610,000	1,495,778
2013	2,750,000	1,324,748
2014	2,910,000	1,146,019
2015-2019	<u>17,365,000</u>	<u>2,905,031</u>
Total	\$ <u>30,395,000</u>	<u>10,329,542</u>

In connection with the issuance of the 1992 revenue bonds, the City and Borough agreed to maintain a debt service reserve of \$4,027,685. This amount is equivalent to the maximum annual aggregate debt service required and is included in restricted assets in the Electric and Water Utilities Fund.

In addition, the provisions of bond ordinances for issues by the Electric and Water Utilities require maintenance of stipulated cash deposits in renewal and replacement, bond redemption and bond refunding accounts. Furthermore, electric and water rates are required to be maintained at a level which will produce a minimum annual unpledged surplus of \$50,000 before depreciation, and operating income before depreciation equal to at least 1.25 times the aggregate amount required each year for revenue bond debt service. All such requirements were met for the year ended June 30, 2009.

In addition, with relation to the 1992 revenue bonds, the City and Borough is required to carry breakdown and burn-out insurance and all-risk insurance, so long as such insurance is available at a reasonable cost, with coverage equal to the lesser of (a) 80% of the estimated replacement cost of specific plant and equipment stipulated in the ordinance or (b) the aggregate principal amount of bonds outstanding. The City and Borough currently carries insurance coverage of \$61,500,000 with a minimum deductible ranging from \$500,000 to \$3,075,000. The Assembly of the City and Borough has approved this level of coverage as it is the maximum available and has obtained the opinion from bond counsel that compliance has been met with respect to Section 706 of the bond ordinance.

**CITY AND BOROUGH OF SITKA, ALASKA**

Notes to Financial Statements, continued

**Long-Term Debt, continued**  
**Business-type activities, continued:**

**Revenue Note**

The City and Borough issued a note to the State of Alaska – Alaska Energy Authority where it pledges income derived from the acquired or constructed assets to pay debt service. The original note issued in prior years was \$15,000,000. The revenue note outstanding at year end is as follows:

	<b><u>Interest rate</u></b>	<b><u>Amount</u></b>
\$15,000,000, 1982 Alaska Energy Authority note secured by a second lien on the revenues of the electric and water supply system, final payment due January 1, 2033	4%	\$ 9,299,130

Annual debt service requirements to maturity for the revenue note are as follows:

<b><u>Year Ending June 30,</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2010	\$ 244,532	369,544
2011	254,411	359,665
2012	264,689	349,387
2013	275,383	338,693
2014	286,508	327,568
2015-2019	1,615,804	1,454,475
2020-2024	1,969,657	1,100,723
2025-2029	2,401,000	669,379
2030-2033	<u>1,987,146</u>	<u>162,119</u>
Total	\$ <u>9,299,130</u>	<u>5,131,553</u>

In connection with the borrowing evidenced by the 1982 revenue note payable, the City and Borough has agreed to set electric and water rates at the greater of the requirements pursuant to the 1992 revenue bond covenants or as required to produce a minimum operating income before depreciation equal to at least 1.00 times the aggregate amount required each year for revenue bond debt service plus revenue note principal and interest. The rate requirement has been met for the year ended June 30, 2009.

**State of Alaska, Department of Environmental Conservation Loan Program**

The City and Borough borrowed funds from the State of Alaska to upgrade water and waste water distribution systems.

**CITY AND BOROUGH OF SITKA, ALASKA**

Notes to Financial Statements, continued

**Long-Term Debt, continued**

**Business-type activities, continued:**

	<b><u>Interest rates</u></b>	<b><u>Amount</u></b>
Completed projects:		
\$250,000, note payable for waste water treatment improvements	1.5%	\$ 178,867
\$400,000, note payable for corrosion control of municipal water	1.5%	227,493
\$565,000, note payable for water system upgrades on Sawmill Creek Road	1.5%	500,273
\$1,000,000, note payable for harbor water distribution system upgrades	1.5%	906,963
\$1,310,000 note payable for waste water treatment plant upgrades	1.5%	1,120,521
\$1,500,000, project for I and I	1.5%	937,799
\$2,400,000, project for Kimsham landfill closure	1.5%	2,177,100
\$1,000,000, project for Japonski Island water distribution main	1.5%	<u>644,997</u>
Total notes payable for completed projects		<u>6,694,013</u>
Uncompleted projects in draw down phase:		
\$1,400,000, project for sewer system upgrades	1.5%	958,920
\$3,170,000, project for Whitcombe Heights subdivision water tank	1.5%	<u>3,170,000</u>
Total draw downs on notes yet to be finalized		<u>4,128,920</u>
Total		\$ <u>10,822,933</u>

**CITY AND BOROUGH OF SITKA, ALASKA**

Notes to Financial Statements, continued

**Long-Term Debt, continued**

**Business-type activities, continued:**

Annual debt service requirements to maturity for notes payable on completed projects are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 373,440	114,437
2011	366,411	97,442
2012	367,671	91,798
2013	368,950	86,138
2014	370,249	80,950
2015-2019	1,788,861	315,669
2020-2024	1,678,147	181,750
2025-2029	<u>1,380,284</u>	<u>56,465</u>
Total	<u>\$ 6,694,013</u>	<u>1,024,649</u>

**Changes in long-term liabilities:**

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due within One Year</u>
<b><u>Governmental activities:</u></b>					
Bonds payable:					
General obligation bonds	\$ 29,035,000	7,150,000	1,775,000	34,410,000	1,860,000
Less deferred amounts:					
On refunding	(468,738)	-	(40,491)	(428,247)	-
For issuance premiums	<u>650,771</u>	<u>121,482</u>	<u>54,975</u>	<u>717,278</u>	<u>-</u>
Total bonds payable	29,217,033	7,271,482	1,789,484	34,699,031	1,860,000
Capital leases	187,312	-	135,876	51,436	51,436
State of Alaska notes	195,000	-	9,750	185,250	9,750
Compensated absences	666,335	575,431	550,776	690,990	36,785
Net pension obligation	<u>971,585</u>	<u>-</u>	<u>971,585</u>	<u>-</u>	<u>-</u>
Governmental activity long-term liabilities	<u>\$ 31,237,265</u>	<u>7,846,913</u>	<u>3,457,471</u>	<u>35,626,707</u>	<u>1,957,971</u>
<b><u>Business-type activities:</u></b>					
Bonds payable:					
Revenue bonds	\$ 32,550,000	-	2,155,000	30,395,000	2,305,000
Less deferred amounts on refunding	<u>(1,093,244)</u>	<u>-</u>	<u>(138,463)</u>	<u>(954,781)</u>	<u>-</u>
Total bonds payable	31,456,756	-	2,016,537	29,440,219	2,305,000

**CITY AND BOROUGH OF SITKA, ALASKA**

Notes to Financial Statements, continued

**Long-Term Debt, continued**

**Changes in long-term liabilities, continued:**

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due within One Year</u>
<b><u>Business-type activities, continued:</u></b>					
Notes payable:					
Revenue notes	\$ 9,534,167	-	235,037	9,299,130	244,532
Note payable – FNBA	1,365,273	-	1,365,273	-	-
States of Alaska notes	<u>6,797,599</u>	<u>4,210,165</u>	<u>184,831</u>	<u>10,822,933</u>	<u>373,440</u>
Total notes payable	17,697,039	4,210,165	1,785,141	20,122,063	617,972
Capital leases	12,457	-	9,905	2,552	2,552
Compensated absences	265,696	287,997	285,569	268,124	-
Net pension obligation	457,566	-	457,566	-	-
Landfill post-closure liability	<u>499,995</u>	<u>-</u>	<u>-</u>	<u>499,995</u>	<u>-</u>
Business-type activity					
long-term liabilities	\$ <u>50,389,509</u>	<u>4,498,162</u>	<u>4,554,718</u>	<u>50,332,953</u>	<u>2,925,524</u>

The government-wide statement of net assets included \$2,305,000 of long-term liabilities due within one year for business-type activities in “current portion of notes payable.” The remaining amount of \$612,254 is displayed as “noncurrent liabilities, due within one year” on that same statement. Also, for governmental activities, compensated absences are generally liquidated by the General Fund.

(9) **Restricted Assets**

The balance of the restricted assets accounts in the enterprise funds are as follows:

Landfill post-closure	\$ 499,995
Customer deposits:	
Electric and Water Utilities	96,364
Harbor	18,641
Solid Waste Disposal	8,522
Renewal and Replacement Reserve –	
Electric and Water Utilities pursuant	
to revenue bond covenants	2,719,000
Investments with bond trustee –	
Electric and Water Utilities pursuant to	
revenue bond covenants	<u>4,561,721</u>
Total restricted assets	\$ <u>7,904,243</u>

## CITY AND BOROUGH OF SITKA, ALASKA

### Notes to Financial Statements, continued

(10) **Risk Management**

The City and Borough is exposed to various risks of loss related to torts; theft of; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City and Borough carries commercial insurance for all risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The City and Borough has not accrued a liability for claims and judgments at June 30, 2009 because the amount of potential claims at year end was determined to be immaterial. The City and Borough made no claim payments during fiscal year 2009.

Effective January 1, 1989, the City and Borough was self-insured with respect to unemployment claims made by former employees. The City and Borough of Sitka accounts for claims on a pay-as-you-go basis.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the State of Alaska. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Municipal Attorney the resolution of these matters will not have an adverse material effect on the financial condition of the government.

The City and Borough's sewage treatment plant provides for primary treatment of waste. The City and Borough was operating under a five year exemption which expired in August, 1994 from Environmental Protection Agency (EPA) regulations requiring secondary treatment for sewage discharged into marine waters. The City and Borough is currently under a temporary EPA permit and anticipates finalizing a permanent five year exemption permit in the near future. The cost of upgrading the plant to secondary treatment at the expiration of the exemption, if necessary, would be approximately \$10 million. The cost of treating storm water is not presently estimable.

Other Federal and State regulations, compliance with which will require significant expenditures by the City and Borough, include the Americans with Disabilities Act. The costs of compliance with these requirements are not presently known.

## CITY AND BOROUGH OF SITKA, ALASKA

### Notes to Financial Statements, continued

(11) **Public Employees' Retirement System**  
**Defined Benefit Pension Plan**

The City and Borough participates in the Public Employees' Retirement System (PERS). PERS was originally established as an agent multiple employer plan, but was converted by legislation to a cost-sharing plan, effective July 1, 2008. The plan was established and is administered by the State of Alaska Department of Administration to provide pension, postemployment 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 is included in a comprehensive annual financial report that includes financial statements and other required supplemental information. The report is available at the following address:

Department of Administration  
Division of Retirement and Benefits  
P.O. Box 110203  
Juneau, Alaska 99811-0203

**Conversion to Cost Sharing**

In April 2008, the Alaska Legislature passed Senate Bill (SB) 125 which converted the existing Public Employees Retirement System (PERS) from an agent-multiple employer plan to a cost-sharing plan with an effective date of July 1, 2008. Under the cost-sharing arrangement, the State of Alaska Division of Retirement and Benefits will no longer track individual employer assets and liabilities. Rather, all plan costs and past service liabilities will be shared among all participating employers. The cost-sharing plan will require a uniform employer contribution rate of 22% or less of active member wages, subject to a wage floor. In addition, the legislation provides for State contributions in the event that the annually calculated and board adopted rate, which includes a provision to pay down the past-service liability, exceeds 22%. Any such additional contributions will be recognized by each employer as an on-behalf payment.

In addition, in fiscal year 2008, the State of Alaska passed legislation (SB 123) which requires that the employer contribution be calculated on all PERS eligible wages, including wages attributable to the defined contribution plan described later in these footnotes.

As a result of the conversion to cost-sharing, the City and Borough will not be obligated to pay or to continue amortizing any prior recorded Net Pension/OPEB obligation. Accordingly, the City and Borough has written off its June 30, 2008 net pension/OPEB obligation and has recognized a special item (gain) in the amount of \$1,429,151 in these financial statements.

**CITY AND BOROUGH OF SITKA, ALASKA**

Notes to Financial Statements, continued

**Public Employees' Retirement System, continued**

**Defined Benefit Pension Plan, continued**

Funding Policy

Regular employees are required to contribute 6.75% of their annual covered salary (2.09% for pension and 4.66% for healthcare). Police and firefighters are required to contribute 7.5% of their annual covered salary (2.32% for pension and 5.18% for healthcare). The funding policy provides for periodic employer contributions based on actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay both pension and postemployment healthcare benefits when due.

Under the recently adopted cost sharing arrangement, the employer contribution rate is statutorily capped at 22%, although State legislation currently provides that the State of Alaska will contribute any amount over 22% such that the total contribution equals the Alaska Retirement Management Board adopted rate. This rate will be consistent with the actuarially determined rate, but not the same as the Governmental Accounting Standards Board (GASB) Statement 45 accounting rate.

The City and Borough's contribution rates for 2009 were determined as part of the June 30, 2006 actuarial valuation and are as follows:

	Contractual <u>Rate</u>	ARM Board Adopted <u>Rate</u>	GASB 45* <u>Rate</u>
Pension	6.82%	10.91%	8.47%
Postemployment healthcare	<u>15.18%</u>	<u>24.31%</u>	<u>37.25%</u>
Total contribution rate	<u>22.00%</u>	<u>35.22%</u>	<u>45.72%</u>

\*Using the 4.5% OPEB discount rate and disregarding future Medicare Part D payments.

The significant actuarial information and assumptions used in the most recent valuation of the plan follow:

Valuation Date	June 30, 2008
Actuarial Cost Method	Entry age normal Level percentage of pay for pension Level dollar for healthcare
Amortization Method	Level dollar, closed
Equivalent Single Amortization Period	20 years
Asset Valuation Method	5-year smoothed market
Investment Rate of Return	8.25% pension, 4.5% healthcare

**CITY AND BOROUGH OF SITKA, ALASKA**

Notes to Financial Statements, continued

**Public Employees' Retirement System, continued**  
**Defined Benefit Pension Plan, continued**  
Funding Policy, continued

Salary Scale	<p><i>Peace Officers/Firefighters</i>  Merit: 2.5% per year for first 6 years, 0.5% thereafter  Productivity: 0.5% per year</p> <p><i>Others</i>  Merit: 5.5% per year grading down to 1.5% after 5 years, for more than 6 years of service, 1.0% grading down to 0%  Productivity: 0.5% per year</p>
Payroll Growth	4.0%
Inflation	3.5%
Health Cost Trend	<p>Medical: 8.0% in FY09 trending downward by variable amounts to 5.9% in FY15, 5.8% through FY25, 5.7% through FY50, and 5.1% through FY100</p> <p>Prescription Drugs: 10.8% in FY09 trending downward by variable amounts to 5.9% in FY15, 5.8% through FY25, 5.7% through FY50 and 5.1% through FY100</p>

The State of Alaska Public Employees' Retirement System retiree healthcare benefits are partially funded. The PERS plan uses the percentage of ARC methodology in the development of the investment rate of return.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and Borough and the plan members at that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial values of assets.

Projected benefits for financial reporting purposes do not incorporate any potential effects of legal or contractual funding limitations.

**CITY AND BOROUGH OF SITKA, ALASKA**

Notes to Financial Statements, continued

**Public Employees' Retirement System, continued**

**Defined Benefit Pension Plan, continued**

**Annual Pension and Postemployment Healthcare Cost**

The City and Borough is required to contribute 22% of covered payroll, subject to a wage floor. In addition, the State of Alaska contributed approximately 13.22% of covered payroll to the Plan. In accordance with the provisions of GASB Statement Number 24, the City and Borough has recorded the State contribution in the amount of \$1,283,026 as a PERS on-behalf payment. However, because the City and Borough is not statutorily obligated for these payments, this amount is excluded from pension and OPEB cost as described here. Only one year of information is available at this time.

<u>Year Ended June 30</u>	<u>Annual Pension Cost</u>	<u>Annual OPEB Cost</u>	<u>Total Benefit Cost (TBC)</u>	<u>City and Borough Contributions</u>	<u>% of TBC Contributed</u>
2009	\$ 627,162	\$ 1,395,942	\$ 2,023,104	\$ 2,023,104	100%

**Defined Contribution Pension Plan**

The State of Alaska Legislature approved Senate Bill 141 to create the Public Employees' Retirement System (PERS) Tier IV for employees hired after July 1, 2006 or for employees converting from the PERS Tier I, II or III defined benefit plans. The plan is administered by the State of Alaska, Department of Administration, and benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Alaska Retirement Management Board may also amend contribution requirements. Included in the plan are individual pension accounts, retiree medical insurance plan and a separate Health Reimbursement Arrangement account that will help retired members pay medical premiums and other eligible medical expenses not covered by the medical plan. Employees are required to contribute 8.0% of their annual covered salary and the City and Borough is required to make the following contributions:

	<u>Others Tier IV</u>	<u>Police/Fire Tier IV</u>
Individual account	5.00%	5.00%
Health reimbursement arrangement (HRA) *	3.00	3.00
Retiree medical plan	0.99	0.99
Occupational death and disability benefits	<u>0.58</u>	<u>1.33</u>
	<u>9.57 %</u>	<u>10.32%</u>

\*Health Reimbursement Arrangement – AS 39.30.370 requires that the employer contribute “an amount equal to three percent of the average employer’s average annual employee compensation.” For actual remittance, this amount is calculated as a flat rate for each full time or part-time employee per pay period.

## CITY AND BOROUGH OF SITKA, ALASKA

### Notes to Financial Statements, continued

#### **Public Employees' Retirement System, continued**

##### **Defined Contribution Pension Plan, continued**

##### **Annual Pension and Postemployment Healthcare Cost, continued**

Employees are immediately vested in their own contributions and vest 25% per year in employer contributions. The City and Borough and employee contributions to PERS including the HRA contribution for the year ended June 30, 2009 were \$116,184 and \$95,008, respectively.

##### **Supplemental Benefit System**

Effective January 1, 1983, the City and Borough, as allowed by provisions in State and Federal law, withdrew from the Federal Social Security system and began participating in the Alaska Supplemental Benefits System (ASBS). The ASBS is a defined contribution plan administered by the State of Alaska. Benefits depend solely on amounts contributed to the plan and investment earnings. Annual contributions of the City and Borough equal those of qualified employees and amounts to 6.13% of the employees' wages up to the Social Security wage base. Employees are eligible to participate from the date of employment. Contributions made by the City and Borough and any investment earnings on the account are vested to the employee immediately.

Total contributions to ASBS for the year ended June 30, 2009 were \$1,285,650, based on a payroll of \$10,486,549 for those employees eligible to participate in the plan. Both the City and Borough and the covered employees made the required 6.13% contribution of \$642,825.

#### (12) **Landfill Closure and Postclosure Care Cost**

State and federal laws and regulations require the government to place a final cover on its municipal landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure.

Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the government reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each net asset financial statement date.

The City and Borough has recognized a liability for the estimated costs of closure and postclosure care of \$499,995 as of June 30, 2009, which is based upon 100% usage of the landfill. The Kimsham landfill was closed during fiscal year 2007 and is in the process of putting the final cover on the landfill. A new landfill has been permitted by the State of Alaska and is accepting only the sludge from the Waste Water Treatment Plant at this time. Actual postclosure costs may be higher because of inflation, changes in technology, or changes in regulations.