

City of Homer



Comprehensive Annual Financial Report

YEAR ENDED DECEMBER 31, 2006

COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE
CITY OF HOMER, ALASKA

Year Ended December 31, 2006

James C. Homaday
Mayor

Walt Wrede
City Manager

Prepared By
Finance Department

Regina Harville
Finance Director

CITY OF HOMER, ALASKA

Comprehensive Annual Financial Report

Table of Contents

INTRODUCTORY SECTION

Table of Contents	i-iv
Letter of Transmittal	V-xii
Principal City Officials	xiii
Organization Chart	xiv
GFOA Certificate of Achievement for Excellence in Financial Reporting	xv

FINANCIAL SECTION

	<u>Exhibit</u>	<u>Page</u>
Independent Auditor's Report		1-2
Management's Discussion and Analysis		3-14
Basic Financial Statements		
<hr/>		
Government-wide Financial Statements:		
Statement of Net Assets	A-1	16
Statement of Activities	A-2	17
Fund Financial Statements:		
Governmental Funds:		
Balance Sheet	B-1	18
Reconciliation of Governmental Funds		
Balance Sheet to Statement of Net Assets	B-2	19
Statement of Revenues, Expenditures and Changes in		
Fund Balances	B-3	20
Reconciliation of the Change in Fund Balances of		
Governmental Funds to Statement of Activities	B-4	21
Statement of Revenues, Expenditures and Changes in Fund		
Balance - Budget and Actual - General Fund	C-1	22
Proprietary Funds:		
Statement of Net Assets	D-1	23
Statement of Revenues, Expenses, and Changes		
in Fund Net Assets	D-2	24
Statement of Cash Flows	D-3	25-26
Notes to Basic Financial Statements		27-48

CITY OF HOMER, ALASKA

Comprehensive Annual Financial Report

Table of Contents, continued

FINANCIAL SECTION, continued

	<u>Exhibit</u>	<u>Page</u>
Supplementary Information		
Combining and Individual Fund Financial Statements and Schedules:		
Nonmajor Governmental Funds:		
Combining Balance Sheet	E-1	52
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	E-2	53
General Fund:		
Balance Sheet	F-1	55
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	F-2	56-60
Special Revenue Funds:		
Combining Balance Sheet	G-1	62
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	G-2	63
Debt Service Funds:		
Combining Balance Sheet	H-1	65
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	H-2	66
Capital Project Funds:		
Combining Balance Sheet	I-1	68
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	I-2	69
Enterprise Funds:		
Port of Homer:		
Statement of Net Assets	K-1	71
Statement of Revenues, Expenses and Changes in Net Assets	K-2	72
Statement of Cash Flows	K-3	73
Combining Schedule of Port of Homer Capital Projects	K-4	74
Water and Sewer Utility:		
Statement of Net Assets	K-5	75
Statement of Revenues, Expenses and Changes in Net Assets	K-6	76-77
Statement of Cash Flows	K-7	78
Combining Schedule of Water and Sewer Utility Capital Projects	K-8	79

CITY OF HOMER, ALASKA

Comprehensive Annual Financial Report

Table of Contents, continued

FINANCIAL SECTION, continued

	<u>Exhibit</u>	<u>Page</u>
<u>Supplementary Information, continued</u>		
Combining and Individual Fund Financial Statements and Schedules, continued:		
Risk Management Internal Service Fund:		
Statement of Net Assets	L-1	81
Statement of Revenues, Expenses and Changes in Net Assets (Deficit)	L-2	82
Statement of Cash Flows	L-3	83
 Schedule of Expenditures of Federal Awards	 M-1	 85-86
Notes to the Schedule of Expenditures of Federal Awards		87

STATISTICAL SECTION

	<u>Table</u>	<u>Page</u>
Government-wide Net Assets by Category	1	89
Changes in Net Assets - Total	2	90
Changes in Net Assets - Governmental Activities	3	91
Changes in Net Assets - Business-Type Activities	4	92
Fund Balances - Governmental Funds	5	93
Changes in Fund Balance - General Fund	6	94
Governmental Revenues by Source	7	95
Tax Revenues by Source - Governmental Funds	8	96
Taxable Sales	9	97
Assessed Value of Taxable Property	10	98
Direct and Underlying Property Tax Rates	11	99
Principal Property Taxpayers	12	100
Ratios of Annual Debt Service Expenditures for General Bonded Debt to Total General Fund Expenditures	13	101
Ratios of Net General Bonded Debt to Assessed Value & Net Bonded Debt Per Capita	14	102
Principal Employers	15	103
City Employees by Function/Program	16	104
Demographic and Economic Statistics	17	105
Miscellaneous Statistical Data	18	106

CITY OF HOMER, ALASKA

Comprehensive Annual Financial Report

Table of Contents, continued

SINGLE AUDIT SECTION	<u>Page</u>
<u>Federal Single Audit Reports</u>	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	107-108
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	109-110
Summary Schedule of Prior Audit Findings	111
Schedule of Findings and Questioned Costs	112
Corrective Action Plan	113



City of Homer

Homer, Alaska

May 31, 2007

To the Honorable Mayor James C. Hornaday
Members of the City Council,
The Citizens of the City of Homer:

The Finance Department of the City of Homer is pleased to submit the Comprehensive Annual Financial Report of the City of Homer, for the fiscal year ended December 31, 2006. The purpose of the report is to provide the council, management, staff, the public and other interested parties with detailed information reflecting the City's financial condition.

THE REPORT

This report satisfies Title 29 of the Alaska Statutes requiring annual audits of all municipalities. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data is accurate in all material respects and is presented in a manner that fairly sets forth the financial position and results of the City. We also believe all disclosures necessary to enable the reader to gain an understanding of the City's financial affairs have been included. To provide a reasonable basis for making these representations, management of the City of Homer has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Homer's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City of Homer's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The comprehensive annual financial report (CAFR) is organized into major Introductory, Financial, Statistical and Single Audit Sections. The Introductory Section provides general information on the government's structure and personnel as well as information useful in assessing the government's financial condition.

The Financial Section contains the opinion of the City's independent auditor. The City of Homer's financial statements have been audited by Mikunda Cottrell & Co., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Homer for the fiscal year ended December 31, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Homer's financial statements for the fiscal year ended December 31, 2005, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Also included in the Financial Section is management's discussion and analysis (MD&A) that provides users of the basic financial statements a narrative introduction, overview, and analysis of those statements. The basic financial statements, including the accompanying notes, represent the core of the financial section. These financial statements present the financial condition of the City of Homer as a single entity, as well as the individual funds that account for the City's various governmental and business-type activities.

The report concludes with the Statistical Section, which through the use of tables, presents comparative economic and financial data to give users of the report a perspective of the City's performance over a number of years.

The City is required to undergo an annual single audit in conformity with the provisions of the Federal and State Single Audit Act. Information related to the single audits, including the auditors' reports on the internal control structure and compliance with applicable laws and regulations are included in this report.

THE REPORTING ENTITY AND ITS SERVICES

The City of Homer is a first class General Law City incorporated in 1964 under Title 29 of the Alaska State Statute. City Code establishes a December 31 year-end.



Under the City's Charter, the Council is comprised of a mayor and six council members who enact local legislation, determine policies, and adopt the City's budget. The mayor is elected for a two-year term and council members are elected for three-year terms with two council members being elected each year. The City Manager is appointed by the City Council and is responsible to them for the proper administration of the affairs of the City.

The City provides a full range of municipal services for the citizens of Homer and surrounding areas including planning and zoning, docks & small boat harbor, airport facility, water and wastewater services, library, parks and recreation, police protection, jail facilities, fire and emergency medical services and general administrative services. In addition to general governmental activities, the City provides financial support to certain community service organizations that promote education, health, recreation and economic stability for the citizens of the community.

The annual budget of the City of Homer serves as the foundation for the City's financial planning and control. The budget is prepared by the city manager and adopted by the City Council in accordance with policies and procedures established by the city charter and council ordinances.¹ Formal budgetary integration is employed as a management control device during the year for the General Fund. Capital projects are budgeted on a project length basis. The objective of these budgetary controls is to insure compliance with legal provisions embodied in the annual appropriated budget approved by the Homer City Council. The legal level of control (that is, the level at which expenditures cannot legally exceed the appropriation) is at the fund level. The City Council may pass subsequent supplemental appropriations. Activities of the General Fund and Enterprise Funds are included in the annual appropriating budget. Appropriations lapse at the end of the year. The City maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Open encumbrances are reported as reservations of the fund balances and are charged to subsequent year appropriations. The appropriated budget is prepared and presented by fund, department (e.g. police) or function (e.g. debt service), and major cost category (e.g. personal services).

Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 22 as part of the basic financial statements for the governmental funds.

Capital Projects

Among the most visible signs of growth in Homer are the numerous construction projects spearheaded by both the public and private sectors. In the 2006 and 2007 construction seasons, capital projects that are planned, completed, or in progress include the following.

¹ Financial policies can be located beginning on page xv of the City of Homer Annual 2006 Budget.

City of Homer Projects:

Approximately half of the City of Homer capital project activity involves carrying out the City's commitment to provide basic water, sewer, and road services to community residents through the Homer Accelerated Water and Sewer Program (HAWSP) and Homer Accelerated Roads and Trails Program (HART), as initiated through local improvement districts. Local Improvement District Projects include:

- Kachemak Drive Water and Sewer Improvements (Phase I). This project will extend water and sewer service from Ocean Drive past the Homer Airport to approximately the Bay Club. The final project was approved and designed in late 2006 and construction began in the spring of 2007.
- Kachemak Drive Water and Sewer Improvements (Phase II). This project will extend water and sewer service along Kachemak Drive beginning at East End Road. Design work began in 2006 and construction is anticipated in 2008.
- Ocean Drive Loop Sewer Improvements: This project extended sewer service to the Oscar Munson subdivision. Construction was completed in 2006.
- Ocean Drive Loop-Peterson Addition: This LID project extended sewer service along Ocean Drive Loop and was constructed in conjunction with the Ocean Drive Loop LID. Construction was completed in 2006.
- Spruceview / Noview Road Construction: This LID project will construct and upgrade Spruceview and Noview streets and includes a bridge over Bartlett St. Planning, design, and some construction work took place in 2006. Construction is expected to be complete in 2007.

Other major City Capital Projects include:

- City Hall-Town Plaza: The City received funding and began planning for a new City Hall in 2006. It is anticipated that design will begin in the fall of 2007 and that construction will start (civil site work) in 2008. The target date for occupancy is the fall of 2009.
- Public Library: The new Homer Public Library was completed in 2006.
- Water Treatment Plant: The City began planning and design activities for a new water treatment plant in 2006. Construction is scheduled to begin in the late summer of 2007.
- Road Repaving: The City used HARP funds to repave 12,605 feet of road. The work was completed in 2006 and included new bike lanes on several streets.
- Deep Water Dock Expansion: The City started preliminary planning and design work for a major upgrade of the Deep Water Dock in 2006. Final engineering and design, permitting, economic feasibility studies, and other work is scheduled for 2007 and 2008.
- East Boat Harbor: A Feasibility Study to create a new boat basin for large commercial and government vessels commenced in 2006. This study is funded by the Corps of Engineers, the State of Alaska, and the City of Homer. Permit scoping work began in the spring of 2007. Project scoping and environmental studies are expected to occur through 2008.
- Spit Trail Parking Lot Expansion: The City began planning for the expansion of the parking lot at the beginning of the Spit Trail in 2006. It is anticipated that construction will occur in the summer of 2007.

Kenai Peninsula Borough Projects

- South Peninsula Hospital Phase I expansion began in 2006. In the spring of 2007, voters in the service area approved an increase in the mil rate to complete Phase II. Expansion of the South Peninsula Hospital is expected to be complete in 2008.

State of Alaska Projects

- East End Road Rehabilitation: The 2006-2008 State Transportation Improvement Plan calls for reconstruction of the road from Kachemak Drive to McNeil Canyon School.
- Paving Skyline Drive and Diamond Ridge Road. The State completed the paving project on Diamond Ridge Road and portions of Skyline Drive in 2006. The remainder of the work is expected to be completed in 2007.
- Homer Airport Expansion: If funding and permitting requirements are met, this \$30 Million will provide a parallel taxiway, a public use helipad, expanded parking, float plane base upgrades, and other improvements.

Major Private Projects:

- Subdivisions: The Public Works and Planning offices reviewed and permitted numerous subdivisions in 2006 including three with 75 lots or more.
- Permits: The number of zoning permits issued continues to climb at a steady level.

A new condominium project is under development on East Hill Road. A Luxury condominium project is planned on the Sterling Highway. A large condominium project is nearing completion at the end of the Homer Spit. These and other projects reflect Homer's increasing popularity as a place to live as well as the community's importance as a regional economic center. Demand for real estate in the Homer area coupled with rising construction costs has led to marked increases in property values.

Fishing

The Kenai Peninsula supports about 40 percent of the recreational fishing in Alaska, and much of that activity is centered in the Homer area. The sport fishing industry around Homer continues to grow each year. The number of charter operators has stabilized over the last few years but they have diversified and offer different charter options, from halibut to salmon, from half day to full day or even two day charters. Through this diversification they continue to bring more and more people to Homer. Homer is referred to by many as the "Halibut Capital of the World." Sports fishing really kicks off when the halibut start biting in May of each year. The first fresh halibut of the year always seems the best. Memorial Day weekend marks the opening of the summer king salmon fishing and brings out the anglers. For the last few years we have had a special Winter King Salmon Tournament in March. In 2006, there was a total of 16.8 million pounds of fish delivered to the Homer docks. These included halibut (9,583,665), grey cod (3,204,127), black cod (1,968,369) and salmon (2,006,410).

Deep Water and Pioneer Docks

Presently the City of Homer has a deep-water and the Pioneer dock. The Pioneer dock is home to the Alaska Marine Highway System and the U.S. Coast Guard. This facility will provide preferential berthing for a new, larger Coast Guard buoy tender and the Alaska Marine Highway System's ocean class ferries (Tustumena and Kennicott), as well as general cargo capability.

Parks

During the next couple of years, the existing 3.5 mile bike path on the Homer Spit will be expanded from Pier 1 Theater, along the west edge of the harbor to the end of the Spit at End of the Road Park. Construction has been completed on the adult softball complex at Jack Gist Park. New swing sets have been installed at Jeffrey Park, and are scheduled for installation at Ben Walters Park. The Parks and Recs Division is also continuing the Beautification Program by providing reduced cost plants to area businesses for the tourist season.

Long-Term Financial Planning

Users of this document as well as others interested in the programs and services offered by the City of Homer are encouraged to read the City's 2006 Annual Budget. The document details the City's long-term goals and financial policies, describes program accomplishments and initiatives, and outlines the City's capital improvement program. The City's Annual Budget also includes long-term financial plans for the major operating funds that forecast revenues and expenditures over a three-year horizon. The document can be obtained from the City of Homer's Finance Department by calling (907) 235-8121. The Annual Budget can also be accessed through the City's web site at www.ci.homer.ak.us and selecting the Finance Department.

FINANCIAL INFORMATION

Single Audit

As a recipient of federal and state assistance, the City is responsible for providing an independent audit to ensure compliance with applicable laws and regulations related to these programs. The reporting entity that is included in our Comprehensive Annual report is determined by the criteria set forth in the Codification of Governmental Accounting and Financial Reporting Standard, Section 2100. The criteria deals with the City's responsibility over a governmental organization and the scope of public service. Based on these criteria, the various funds and account groups (being all the funds and account groups of the City) shown in the Table of Contents are included in this report and there are no component units for which the City has responsibility.

ACCOUNTING SYSTEM AND BUDGETARY CONTROLS

The City's financial records for governmental fund types are maintained on a modified accrual basis. Revenues and other financial resource increments are recognized when they become susceptible to accrual. Expenditures are recognized when the fund liability is incurred except for inventories of materials and supplies, prepaid insurance, and similar items that may be considered expenditures when consumed. The City's Proprietary Funds are accounted for on the accrual basis. The accrual basis means that financial records are affected when the revenues are earned and expenses are incurred.

Cash Management

All idle funds are invested according to the investment guidelines established by the City Council. Under this policy the City may use any of the following instruments:

- (1) U.S. Treasury securities - 3 years.
- (2) Other obligations by the U. S. Government, its agencies and instrumentalities - 3 years.
- (3) Repurchase agreements of acceptable securities listed in subsections 1 and 2 of this section which meet a margin requirement of 102%; provided, however, the maturity limitations specified in those subsections do not apply if the securities in the repurchase agreement are marked to market daily.
- (4) Units of the Alaska Municipal League Investment Pool in accordance with an executed common Investment Agreement and in conformance with AS 37.23.010--37.23.900.
- (5) Certificates of deposit and other deposits at banks and savings and loan associations collateralized as provided in Section 3.10.070 - 3 years.
- (6) Uncollateralized deposits at banks and savings and loan associations, to the extent that the deposits are insured by the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance Corporation - 3 years.
- (7) Taxable bonds or notes which are issued by any state or political subdivision thereof, and which are graded AA or higher by Moody's Investor's Service, Inc., or Standard and Poor's Corporation - 3 years.
- (8) Commercial paper graded A1 or higher by Moody's Investor's Service, Inc., or P1 or higher by Standard and Poor's Corporation - 270 days.
- (9) Bankers' acceptances offered by banks rated at least "AA" by Moody's or Standard and Poor's.
- (10) Money market mutual funds whose portfolios consist entirely of instruments specified in subsection 1, 2 and 3 above - with net asset value of \$1.00.

Risk Management

The City undertakes a comprehensive program of risk management including evaluation of potential risks and exposures on an ongoing basis, establishment of employee safety programs and maintenance of appropriate levels of insurance coverage. New OSHA requirements are being met by employee training programs. Employee training continues both with outside institutions and in-house programs.

AWARDS AND ACKNOWLEDGMENTS

Certification of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Homer for its comprehensive annual financial report for the fiscal year ended December 31, 2006.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such a report must satisfy both Generally Accepted Accounting Principles (GAAP) and applicable legal requirements.

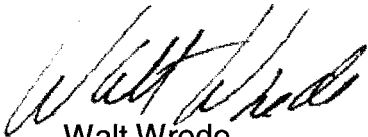
A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA.

Acknowledgements

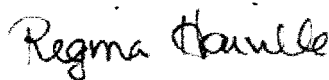
The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the City of Homer. We would like to particularly express our appreciation to Jo Earls, Michele McCandlish, Laurel Moore, Joanne Perret, Lori Sorrows and Lisa Vaughn of the Finance Department. We appreciate the contributions of John Bost, Audit Partner and the staff of Mikunda, Cottrell & Co. and their professional manner, patience and communication skills in dealing with our audit.

We would also like to thank the Mayor and City Council for their interest and support in planning and conducting the financial operations of the City in a responsible manner.

Respectfully submitted,



Walt Wrede
City Manager



Regina Harville
Finance Director

CITY OF HOMER
Principal City Officials

Mayor

James C. Hornaday

City Council

Doug Stark
Mary E. (Beth) Wythe
Matt Shadle

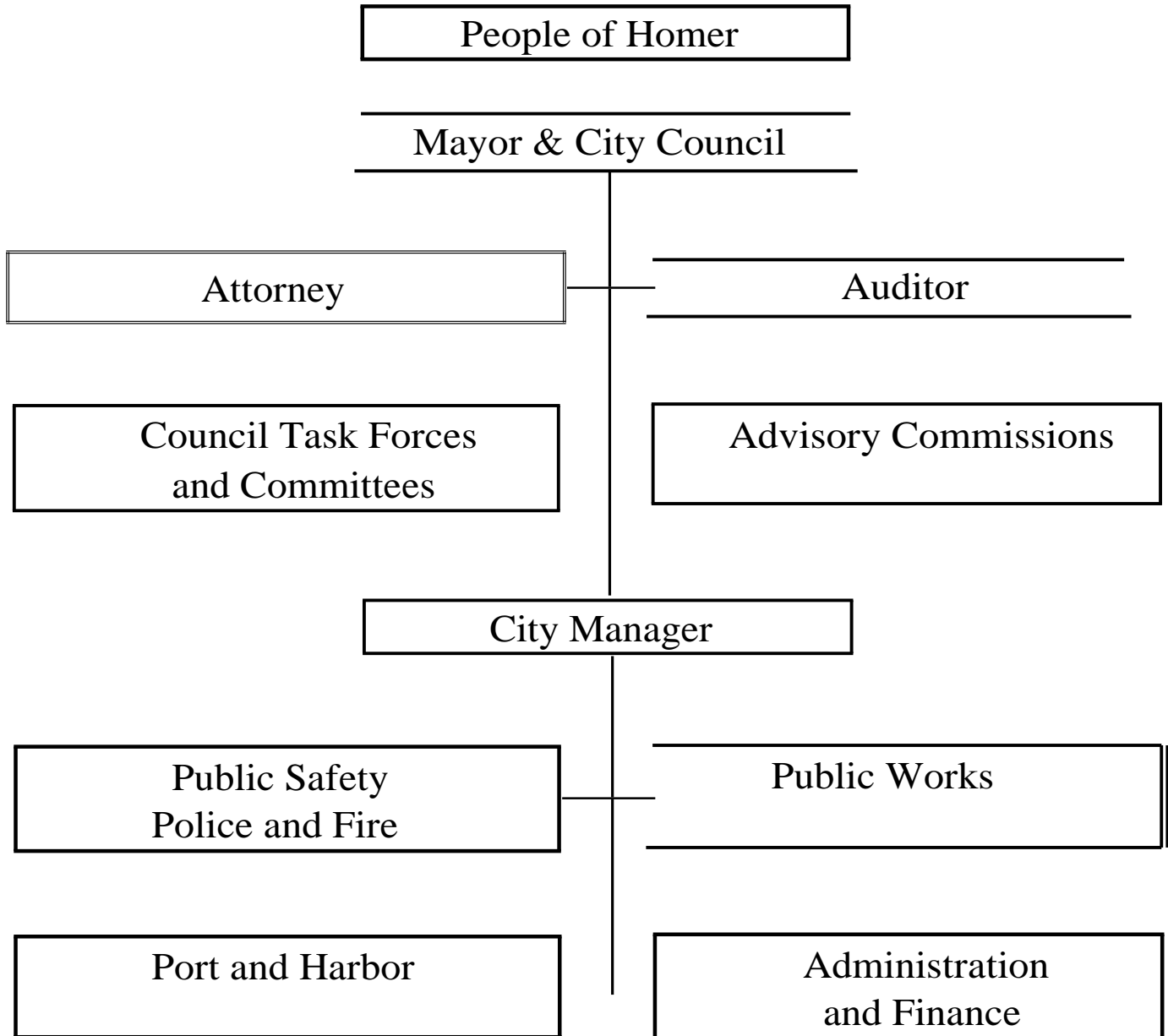
Francie Roberts
Mike Heimbeck
Dennis Novak

City Administration

City Manager
City Attorney
City Clerk
Finance Director
Fire Chief
Library Director
Planning Director
Police Chief
Harbormaster
Public Works Director

Walt Wrede
Gordon Tans
Jo Johnson
Regina Harville
Bob Painter
Helen Hill
Whitney "Beth" McKibbon
Mark Robl
Steve Dean
Carey Meyer

City of Homer Organizational Chart



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Homer
Alaska

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

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Independent Auditor's Report

Honorable Mayor and
Members of the City Council
City of Homer, Alaska

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Homer, Alaska, as of and for the year ended December 31, 2006 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Homer, Alaska, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2007 on our consideration of City of Homer's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Honorable Mayor and
Members of the City Council

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Homer's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and the combining, individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other data included in this report, designated as the "statistical section" in the table of contents, has not been audited by us and, accordingly, we express no opinion on such data.

April 30, 2007

CITY OF HOMER

Management's Discussion and Analysis

December 31, 2006

As management of the City of Homer, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the City of Homer for the fiscal year ended December 31, 2006. Readers are encouraged to read this narrative in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this *section*. *All amounts reported in this MD&A, unless otherwise indicated, are expressed in thousands of dollars.*

Financial Highlights

- The City's assets exceeded its liabilities at the close of the 2006 fiscal year by \$121,248. This amount represents an increase over the previous year by \$3,768. This increase in net assets is attributed to operating revenues exceeding operating expenses in the City's governmental funds. This is primarily due to adding the new library building for \$7,701, new road improvements for \$592, public safety improvements and equipment for \$691, and \$463 in new projects.
- As of December 31, 2006, the City's governmental funds reported combined ending fund balances of \$9,295, an increase of \$1,644. The increase is a result of operating revenues exceeding operating expenditures in the City's governmental funds. This is primarily due to an increase in sales tax receipts, an increase in property tax assessments and legal settlements.
- At the end of the current year, unreserved fund balance for the General Fund was \$3,633 or 43.2% of total fund expenditures.
- At year-end, the City of Homer's outstanding debt totals \$15,028 an increase of \$4,215 from the previous year. This includes the financing of the new library building of \$1,993 and an increase in Alaska Clean Water/Drinking Water loans for new Land Improvement Districts.

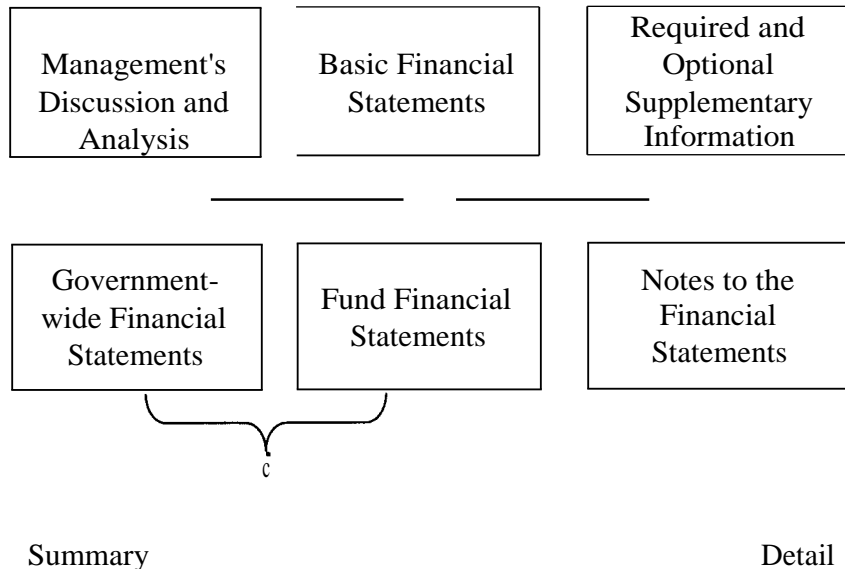
Overview of Financial Statements

This annual report is comprised of four segments as dictated by Generally Accepted Accounting Principles (GAAP): management's discussion and analysis (this section), the basic financial statements, required supplementary information and other supplementary information. The basic financial statements include two kinds of statements that present different views of the City of Homer.

- The government-wide financial statements provide both long-term and short-term information about the City's overall financial status.
- The fund financial statements focus on individual parts of Homer's government, reporting the City's operations in more detail than the government-wide statements.
- The governmental funds statements explain how general government services like public safety were financed in the short-term as well as what remains for future spending.
- Proprietary fund statements offer short-term and long-term financial information about the activities the government operates like businesses, such as the port and harbor and water/sewer funds.

Illustration A-1
Required Components of
City of Homer's Annual Financial Report

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The financial statements also include *notes*, which elaborate on some of the information in the financial statements that provide more detailed data. These financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included other information such as the City's single audit information, and a statistical section, which, through the use of tables, presents comparative economic and financial data to give users of this report a perspective of the City's financial performance over a number of years.

Illustration A-2 summarizes the major features of the City's financial statements. The remainder of this overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Illustration A-2
Major Features of City of Homer's Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City government	The activities of the City that are not proprietary, such as police, fire and public works	Activities the City operates similar to private businesses; port & harbor and water/sewer utility
Required financial statements	*Statement of net assets *Statement of activities	*Balance sheet *Statement of revenues, expenditures and changes in fund balance	*Statement of net assets *Statement of revenues, expenses and changes in net assets *Statement of cash flows
Accounting basis and measurement focus	Accrual accounting	Modified accrual accounting and current financial resources focus	Accrual accounting
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Homer's finances in a manner similar to a private-sector business. These statements can be located on pages 16-17 of this document.

- The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may indicate the improvement or deterioration of the City's financial position.
- The statement of activities presents information showing how the City's net assets changed during the concluded fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The government-wide financial statements of the City are divided into two categories:

- Governmental activities - These are functions such as public safety and public works services that are principally supported by taxes and intergovernmental revenue.
- Business-type activities - These functions are intended to recover all or a significant portion of their costs through user fees and charges. The City's port and harbor and water/sewer utility systems fall within this category.

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 City of Homer, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. 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 City of Homer maintains 14 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all the major funds. Individual fund data for each of the non-major funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement is provided for the General Fund to demonstrate compliance with this budget.

- Proprietary funds - Services for which the City charges customers a fee are generally reported in the proprietary funds. Proprietary funds provide the same type of information as the government-wide statements, only in more detail. The City of Homer 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 City uses enterprise funds to account for its port and harbor and its utility (water and sewer) system.
- Internal service funds - Are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its self-insured health benefit.

The proprietary fund financial statements provide separate information for Homer's port and harbor and utility system, both of which are considered to be major funds of the City of Homer. Conversely, the internal service individual fund data is provided for elsewhere in this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data presented in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-48 of this report.

Government-wide Financial Analysis

At the close of the 2006 fiscal year, the City's net assets (assets exceeding liabilities) totaled \$121,248 (see Table A-1). Of this amount \$105,723, or 87.1%, represents the City's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related outstanding debt used to acquire those assets. Because the City of Homer uses these capital assets to provide services to the community, these assets are not available for future spending. The remaining amount of net assets, are labeled as restricted or unrestricted.

The restricted balances of \$3,602 in the governmental activities is for debt service and capital projects. In the business-type activities, the balance of \$3,584 is also for debt service and capital projects. The unrestricted amount totals \$8,339, and is available to meet the City's ongoing obligations to citizens and creditors.

At the end of the current year, the City of Homer is able to report positive balances in these two categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

**Table A-1
City of Homer's Net Assets**

	Governmental Activities		Business - Type Activities		Total Activities	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$10,420	\$ 10,461	\$ 9,013	\$ 6,442	\$ 19,433	\$ 16,903
Capital assets	44 902	40 777	73 785	74 093	118 687	114 870
Total assets	55 322	51 238	82 798	80 535	138 120	131 773
Long-term liabilities						
outstanding	3,973	2,013	11,055	8,800	15,028	10,813
Other liabilities	548	1 903	1 296	1 577	1 844	3 480
Total liabilities	4 521	3 916	12,351	10 377	16 872	14 293
Net assets:						
Invested in capital assets, net of related debt	42,266	39,634	63,457	65,801	105,723	105,435
Restricted	3,602	3,769	3,584	2,870	7,186	6,639
Unrestricted	4 933	3 919	3 406	1 487	8 339	5 406
Total net assets	\$50,801	\$47,322	\$70,447	\$70,158	\$ 121,248	\$ 117A80

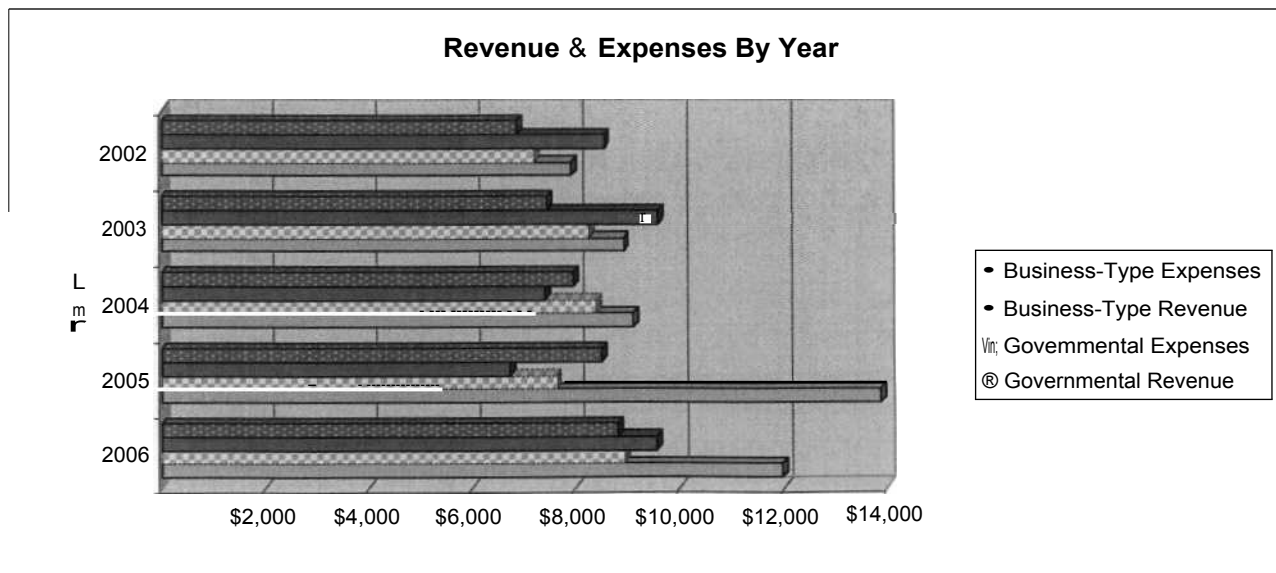
As reflected in Table A-2, the City's net assets increased by \$3,768, or 3.2% during the 2006 fiscal year. Revenues exceeded expenses in the governmental activities by \$3,479, and in the business-type activities by \$289. Key elements of the increases and decreases follows:

**Table A-2
City of Homer's Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total Activities	
	2006	2005	2006	2005	2006	2005
Program revenues:						
Charges for services	\$ 1,160	\$ 1,193	\$5,378	\$5,113	\$ 6,538	\$ 6,306
Operating grants & contributions	641	729			641	729
Capital grants & contributions	1,616	4,361	2,275	290	3,891	4,651
General revenues:						
Property taxes	2,406	2,092			2,406	2,092
Sales taxes	5,671	5,120	1,134	1,031	6,805	6,151
Other	487	376	774	303	1 261	679
Total revenues	\$ 11 981	\$ 13 871	\$9,561	\$6,737	\$21 542	\$20608

Table A-2
City of Homer's Changes in Net Assets, continued

	Governmental Activities		Business-Type Activities		Total Activities	
	2006	2005	2006	2005	2006	2005
Expenses:						
General government	\$ 1,453	\$ 1,800	\$	\$	\$ 1,453	\$ 1,800
Public safety	3,912	3,322			3,912	3,322
Public works	2,405	1,066			2,405	1,066
Library	370	294			370	294
Airport	153	149			153	149
Parks and recreation	391	357			391	357
Community service contributions	212	583			212	583
Unallocated interest	65	71			65	71
Port and harbor			4,075	3,885	4,075	3,885
Water and sewer			4,738	4,615	4,738	4,615
Total expenses	8,961	7,642	8,813	8,500	17,774	16,142
Increase (decrease) in net assets before transfers	3,020	6,229	748	(1,763)	3,768	4,466
Transfers	459	110	(459)	(110)		
Increase (decrease) in net assets	3,479	6,339	289	(1,873)	3,768	4,466
Net assets 12/31/05	47,322	40,983	70,158	72,031	117,480	113,014
Net assets 12/31/06	\$50,801	\$47,322	\$70,447	\$70,158	\$ 121,248	\$ 117,480



Governmental Activities

Governmental activities increased the City of Homer's net assets by \$3,479 which is due in part to revenues exceeding expenses. The increase in funding is a result of an increase in property and sales taxes due in part to increased property values and moderate growth in our tourism industry. The City's sales tax collections in fiscal year 2006 increased by \$551, or 11% higher than amounts received in 2005. Property taxes increased by \$314 or 15% from the previous year. These increases in revenue were conservatively anticipated in the City's 2006 budget. Despite the increases in revenue, our program activities did not experience much growth as we had another year of increases in our insurance and benefit expenses.

Property taxes reflect the increase in construction and assessed values. The last few years have seen an increase in the building of homes and businesses. This is reflected in the collection of property taxes.

Contributions to service organizations are comprised of two parts. The first is a contribution from the City's General Fund to the Homer Foundation for distribution to various non-profit organizations of \$80, and the second part was direct contributions to the museum for \$80. In the past, the City of Homer has supported Community Schools through contributions. The City has assumed responsibility for the operations of this program in 2006. All previous contributions for this program are now being used to pay the expenses of this program.

Business-Type Activities

The City's business-type activities resulted in a \$289 increase in net assets. Port and harbor activities reduced net assets by \$917, while the Utility (water and sewer) activities contributed \$1,133 to the increase, and an increase of \$73 was attributed to the internal service fund.

Port and Harbor Program revenues in 2006 totaled \$2,547. This is a decrease of \$29 from 2005, primarily caused by a significant decrease in capital grants which totaled \$68 for 2005.

- Port and harbor operating revenues were \$39 higher than the previous year;
- Port and harbor non-operating revenues increased \$601. This is attributed to the receipt of litigation settlements for \$627;
- Unrestricted net assets of the Port and Harbor Fund at the end of the year amounted to a deficit of (\$580).

The *Utility Program* revenues in 2006 totaled \$5,020 including \$2,275 in capital grants. This is an increase of \$2,193 from 2005, primarily caused by an increase in capital contributions. The increase in net assets related to the Utility system was a result of:

- Utility operating revenues that were \$25 lower than the previous year due to an increase in sewer rates of 3.82% and a decrease of water rates by 9.27% in 2006;
- Utility non-operating revenues increased \$299 mainly as a result of an increase in sales tax revenue of \$103, an increase of investment income of \$35, an increase in interest expense of \$90, and a one time reimbursement payment from Kachemak City of \$134;
- Utility operating expenses totaled \$4,593, an increase of \$215 from 2005. Water expenses increased by \$62 and sewer expenses increased by \$148. This is primarily due to an increase in salaries, benefits and fuel costs;
- The Utility Fund reported unrestricted net assets of \$3,943.

Internal Service Fund

The City also maintains an *Internal Service Fund* to account for the self-insured employee health plan. At the end of 2006, the fund reported \$140 in net assets, which is an increase from a deficit of \$89 in 2005.

Financial Analysis of the Government Funds

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

As of December 31, 2006, the City's governmental funds reported combined ending fund balances of \$9,295, an increase of \$1,644 compared to balances a year earlier. Of the ending balance, \$3,633, or 39.1% is unreserved and undesignated and is available to the City for future spending. Most of the remaining fund balance is reserved or designated for debt service and capital projects (\$3,602) or future capital projects (\$1,785) or reserved for inventory and prepaid items (\$260). The increase of total fund balance during the year is attributed to:

- In the General Fund, expenditures and transfers out to other funds totaled \$9,038 compared to revenues of \$9,998 and other financing sources of \$66. The \$1,026 increase in the General Fund balance was actually more than the final budgeted net change in fund balance of \$(262). This was primarily due to an increase in sales tax revenue from budgeted of \$670, an increase in property taxes from budgeted of \$147, an increase in legal settlements from budgeted of \$192 and a decrease in overall expenditures from budgeted of \$315.
- The City maintains five capital project funds that account for the use of bond proceeds and intergovernmental grants to support the construction of capital improvements. Financial resources in these funds are intended to eventually be totally expended once the capital improvements have been completed.
 - The City Facilities Capital Project Funds is utilized for the acquisition or construction of major capital facilities. In 2006, proceeds from long term debt for the library were reported in this fund of \$2,100 and expenditures for the new library were \$3,692.
 - The Streets and Sidewalks (HART) Project Funds are used for the repair and replacement of streets and sidewalks. The voters designated $\frac{3}{2}\%$ of all sales tax revenue received to go towards the improvement(s) of streets and sidewalks. In 2006, \$1,134 was received from sales taxes and \$99 was received from interest earned on this revenue.
 - The Depreciation Reserves was set up for the replacement of aged equipment and buildings. Funds are transferred annually from individual departments to keep in savings until equipment/buildings are replaced. In 2006 \$415 was transferred into this fund, and \$219 was used to replace/purchase new equipment.
 - The Fleet Reserve Account is used for the planned rotation basis of the City's fleet of vehicles. Funds are transferred from individual departments to keep in savings until vehicles are replaced or purchased. In 2006, \$524 was transferred in and \$187 was expended.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget are described below:

- There were no major changes to the budget in 2006.
- Original revenue budget was \$8,994; final \$9,009; the net difference of \$15 is attributable to the recognizing of expected Community Schools income for 2006.
- Original expenditure budget was \$8,684; final \$8,729; the net difference of \$45 was due to Fire Department Vehicle Maintenance of \$12, Lawsuit Settlement of \$15, AML reception of \$3, and additional Community School expenditures of \$15.

The budgeted revenues and other financing sources over expenditures and other uses were increased from (\$232) in the original budget to (\$262) in the final budget.

Capital Asset and Debt Administration

Capital assets - As detailed in Table A-3 below, the City of Homer's investment in capital assets for its governmental and business-type activities as of December 31, 2006, totals \$118,687 (net of accumulated depreciation). This amount represents a \$3,817 increase over the previous year and is attributed primarily to the construction in process on the new library.

Table A-3
City of Homer's Capital Assets (net of depreciation)

	Governmental Activities		Business-Type Activities		Total Activities	
	2006	2005	2006	2005	2006	2005
Land	\$ 9,478	\$ 9,392	\$15,690	\$ 15,690	\$ 25,168	\$ 25,082
Buildings	14,697	7,256	10,900	12,236	25,597	19,492
Improvements other than buildings	884	450	43,303	38,875	44,187	39,325
Machinery & equipment	2,182	1,913	3,124	2,077	5,306	3,990
Infrastructure	17,076	17,035	179	198	17,255	17,233
Construction in progress	585	4 731	589	5 017	1 174	9 748
Total Capital Assets	\$ 44,902	\$ 40 777	\$ 73 785	\$ 74 093	\$ 118,687	\$ 114,870

Major capital asset events during the 2006 year included:

- Completion of new library
- Dispatch center
- East End Road & Hillside Acres LID

Construction in progress associated with business-type activities includes Kachemak Drive Phase I and Phase II, High Mast Lights, and repairs on Ramp 7.

Additional information on the City's capital assets can be found in note 5 on pages 36-37 of this report.

**Table A-4
City of Homer's Outstanding Debt**

	Governmental Activities		Business-Type Activities		Total Activities	
	2006	2005	2006	2005	2006	2005
GO bonds	\$ 475	\$ 920	\$ -	\$ -	\$ 475	\$ 920
Revenue bonds			620	870	620	870
Special assessment bonds	5	10			5	10
Notes payable	1,993		9,539	7,479	11,532	7,479
Capital leases	163	212	209		372	212
Total	2,636	1,142	10,368	8,349	13,004	9,491
Compensated absences	419	370	288	247	707	617
Net pension/OPEB obligation	918	501	420	233	1,338	734
Loss on refinancing			(21)	(29)	(21)	(29)
Total long-term debt	\$3,973	2013	11,055	8,800	15,028	10,813

Long-term debt - At the end of the 2006 year, the City of Homer had total debt outstanding of \$13,004 as detailed in Table A-4. This excludes \$707 related to compensated absences, \$1,338 for net pension/OPEB obligation and (\$21) of deferred loss on refunding bonds.

In November of 2002, the City entered into an agreement with the Alaska Department of Environmental Conservation for a Clean Water Loan and Drinking Water Loan in the amounts of \$3,462 and \$3,389, respectively. In August 2003, the City entered into an agreement with ADEC for a Clean Water Loan of \$150. In 2006 the City entered into additional agreements with the Alaska Department of Environmental Conservation for a Clean Water Loan and Drinking Water Loan in the amounts of \$3,250 and \$470, respectively. These loans are a combination of federal and state monies. The Clean Water Loans bear interest at 1.5% and the Drinking Water Loans bear interest at 2.5%. Loan repayments began one year following completion of the plans and specifications or initiation of operation of the facilities.

These loans are used to add water and sewer lines and services to areas. Currently seventy-five percent of the loans are repaid by the customer through an "LID" (Local Improvement District). Twenty-five percent of the loans are paid back by the City of Homer with designated sales tax revenues.

The City of Homer issues bonded debt through the State of Alaska Bond Bank. The State of Alaska Bond Bank maintains a bond rating of "AA" from Standard & Poor's. Additional information on the City's long-term debt can be found in note 6 on pages 38-41 of this report.

Economic Factors and Next Year's Budgets and Rates

- The City has constructed a new Library which went into operation in 2006. This will increase O & M costs over time.

- In 2006, the City of Homer assumed responsibility for the operations of Community Schools. The program is partially funded through class fees. The balance of the funding is provided by the City of Homer through tax dollars. The City has an agreement with Kenai Peninsula Borough School District for the use of equipment and facilities. For 2007 it is anticipated that revenues generated by Community Schools will be approximately \$60, and the expenditures will be approximately \$120.
- During 2006, the City of Homer entered into a contract for a private contractor to staff and maintain the care and welfare of the animals. This has increased the costs of running the shelter.

These various factors were taken into consideration in the development of the City's 2007 annual budget. The annual budget is adopted for the General, Port and Harbor, and Utility Funds. Major aspects of the adopted 2007 budget include:

- Property and sales tax rates are to remain the same.
- Water / sewer rates were increased 4% for 2007.
- A 3% *Cost of living* increase was budgeted for in 2007.

Requests for Information

This financial report is designed to provide a general overview of the City of Homer's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the following:

Finance Department

City of Homer

491 E. Pioneer Ave. Homer, Alaska 99603

Telephone: (907) 235-8121 [email: financenci.homer.ak.us](mailto:financenci.homer.ak.us)

BASIC FINANCIAL STATEMENTS

CITY OF HOMER, ALASKA

Statement of Net Assets

December 31, 2006

Assets	Governmental Activities	Business-type Activities	Total
Cash and investments	\$ 6,510,765	231,454	6,742,219
Receivables, net of allowance for doubtful accounts:			
Accounts		487,478	487,478
Sales and property taxes	1,195,723	222,094	1,417,817
State and federal grants	418,092	3,128,344	3,546,436
Assessments	393,663	2,226,559	2,620,222
Litigation settlement		267,302	267,302
Other	379,135		379,135
Internal balances	1,260,521	(1,260,521)	
Inventory	33,192	260,242	293,434
Prepaid items	227,754	67,400	295,154
Restricted cash and investments		3,363,873	3,363,873
Bond issuance costs, net		18,817	18,817
Capital assets not being depreciated - land and construction in progress	10,062,845	16,279,422	26,342,267
Other capital assets, net of accumulated depreciation	34,839,506	57,505,992	92,345,498
Total assets	\$ 55,321,196	82,798,456	138,119,652
Liabilities			
Accounts payable	417,217	209,009	626,226
Accrued payroll and related liabilities	91,013	43,649	134,662
Accrued interest		51,640	51,640
Prepaid rentals and deposits		595,757	595,757
Unearned revenue	23,629	18,000	41,629
Noncurrent liabilities:			
Unearned revenue	15,686	378,000	393,686
Due within one year:			
Accrued leave	94,659	35,151	129,810
Notes payable	36,875	581,611	618,486
Bonds payable, net of deferred loss	480,280	252,397	732,677
Capital leases	91,276	55,099	146,375
Due in more than one year:			
Accrued leave	324,571	253,020	577,591
Notes payable	1,955,878	8,957,495	10,913,373
Bonds payable, net of deferred loss		346,679	346,679
Capital leases	71,768	153,810	225,578
Net pension/OPEB obligation	917,873	419,966	1,337,839
Total liabilities	4,520,725	12,351,283	16,872,008
Net Assets			
Invested in capital assets, net of related debt	42,266,274	63,457,140	105,723,414
Restricted for debt service and capital projects	3,601,605	3,583,803	7,185,408
Unrestricted	4,932,592	3,406,230	8,338,822
Total net assets	50,800,471	70,447,173	121,247,644
Total liabilities and net assets	\$ 55,321,196	82,798,456	138,119,652

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA

Statement of Activities
Year Ended December 31, 2006

Activities	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines & Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- type Activities	Total
Governmental:							
General government	\$ 1,453,282	437,696		32,000	(983,586)		(983,586)
Public safety	3,912,322	323,916	632,754	266,396	(2,689,256)		(2,689,256)
Public works	2,405,097	62,633		-	(2,342,464)		(2,342,464)
Library	370,404	-	7,650	1,216,939	854,185		854,185
Airport	152,414	143,604		-	(8,810)		(8,810)
Parks and recreation	391,303	173,204		100,740	(117,359)		(117,359)
Community services	211,894	18,549	197		(193,148)		(193,148)
Unallocated interest	64,676				(64,676)		(64,676)
Total governmental activities	8,961,392	1,159,602	640,601	1,616,075	(5,545,114)		(5,545,114)
Business-type:							
Port and harbor	4,075,045	2,632,892		-		(1,442,153)	(1,442,153)
Water and sewer utility	4,737,887	2,745,335		2,274,619		282,067	282,067
Total business-type activities	8,812,932	5,378,227		2,274,619		(1,160,086)	(1,160,086)
Total	\$ 17,774,324	6,537,829	640,601	3,890,694	(5,545,114)	(1,160,086)	(6,705,200)
General revenues:							
Property taxes				\$ 2,406,263	-		2,406,263
Sales taxes				5,670,638	1,134,096		6,804,734
Grants and entitlements not restricted to a specific purpose				53,079	-		53,079
Investment income				233,998	147,708		381,706
Legal settlement				200,404	626,751		827,155
Transfers				459,125	(459,125)		
Total general revenues and transfers				9,023,507	1,449,430		10,472,937
Change in net assets					3,478,393	289,344	3,767,737
Beginning net assets					47,322,078	70,157,829	117,479,907
Ending net assets				\$ 50,800,471	70,447,173		121,247,644

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA

Governmental Funds

Balance Sheet

December 31, 2006

Assets	Major Funds			Total Governmental Funds
	General	City Facilities Capital Pro'ect	Nonmajor Funds	
Cash and investments	\$ 1,333,554	10,689	5,029,565	6,373,808
Receivables, net of allowance for doubtful accounts:				
Property taxes	85,255			85,255
Sales taxes	888,374		222,094	1,110,468
Assessments	391,810		1,853	393,663
State and federal grants		368,049	50,043	418,092
Other	311,256		396	311,652
Due from other funds	1,383,916			1,383,916
Inventory	33,192			33,192
Prepaid items	227,082	672		227,754
Total assets	\$ 4,654,439	379,410	5,303,951	10,337,800
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	171,733	19,353	161,888	352,974
Accrued payroll and related liabilities	90,658		355	91,013
Deferred revenue	91,455	3,783	13,646	108,884
Deferred assessments	391,810		1,853	393,663
Due to other funds			80,835	80,835
Deposits	15,686			15,686
Total liabilities	761,342	23,136	258,577	1,043,055
Fund balances:				
Reserved:				
Debt service and capital projects			3,601,605	3,601,605
Inventory and prepaid items	260,274			260,274
Unreserved:				
Designated:				
Interfund loan for animal shelter	350,000			350,000
Special revenue funds:				
Library			27,750	27,750
Fire department			11,482	11,482
Animal shelter			6,796	6,796
Community schools			197	197
Capital project funds - capital outlay		356,274	1,428,691	1,784,965
Undesignated:				
General Fund	3,282,823			3,282,823
Capital project funds (deficit)			(31,147)	(31,147)
Total fund balances	3,893,097	356,274	5,045,374	9,294,745
Total liabilities and fund balances	\$ 4,654,439	379,410	5,303,951	10,337,800

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA
 Reconciliation of Governmental Funds Balance Sheet
 to Statement of Net Assets
 December 31, 2006

Total fund balances for governmental funds		\$ 9,294,745
Total net assets reported for governmental activities in the Statement of Net Assets is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in in the funds.		
These assets, net of accumulated depreciation consist of:		
Land	\$ 9,478,234	
Buildings	14,697,151	
Improvements other than buildings	883,887	
Machinery and equipment	2,182,246	
Infrastructure	17,076,222	
Construction in progress	584,611	
Total capital assets		44,902,351
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Delinquent property taxes receivable	85,255	
Special assessments not yet due	393,663	
Total other long-term assets		478,918
Internal service funds are used by the City to charge the cost of certain activities, such as insurance, to individual funds. A portion of the assets and liabilities of the internal service funds is included in the governmental activities in the Statement of Net Assets.		
		97,637
Long-term liabilities, including bonds payable and accrued leave, are not due and payable in the current period and therefore are not reported as fund liabilities. These liabilities consist of:		
General obligation bonds payable	(475,000)	
Capital lease obligations	(163,044)	
USDA notes payable	(1,992,753)	
Special assessment bonds payable	(5,280)	
Accrued leave	(419,230)	
Net pension/OPEB obligation	(917,873)	
Total long term liabilities		(3,973,180)
Total net assets of governmental activities		\$ 50,800,471

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA
 Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Year Ended December 31, 2006

	Major Funds			Total Governmental Funds
	General	City Facilities Capital Project	Nonmajor Funds	
Revenues:				
Property taxes	\$ 2,382,936			2,382,936
Sales taxes	4,536,542		1,134,096	5,670,638
Licenses and permits	46,096			46,096
Intergovernmental	611,153	1,521,575	114,615	2,247,343
Charges for services	2,136,838			2,136,838
Special assessments	7,251		3,929	11,180
Investment income	53,775	12,993	167,230	233,998
Fines and forfeitures	19,435			19,435
Donations		62,500	1,912	64,412
Legal settlements	200,404	540,000		740,404
Other	3,159	9,061	11,987	24,207
Total revenues	9,997,589	2,146,129	1,433,769	13,577,487
Expenditures:				
Current:				
General government	2,219,461		625	2,220,086
Public safety	3,256,439	243,150	50,322	3,549,911
Public works	1,506,099	2,170	180,419	1,688,688
Library	449,289			449,289
Airport	179,504			179,504
Parks and recreation	367,027			367,027
Community services	207,858		4,036	211,894
Debt service:				
Principal	204,736		450,280	655,016
Interest	24,089		40,587	64,676
Capital outlay		3,919,110	1,234,303	5,153,413
Total expenditures	8,414,502	4,164,430	1,960,572	14,539,504
Excess of revenues over (under) expenditures	1,583,087	(2,018,301)	(526,803)	(962,017)
Other financing sources (uses):				
Proceeds from long-term debt	46,601	2,100,000		2,146,601
Transfers in	20,000	696,371	1,443,636	2,160,007
Transfers out	(623,743)		(1,077,139)	(1,700,882)
Net other financing sources (uses)	(557,142)	2,796,371	366,497	2,605,726
Net change in fund balances	1,025,945	778,070	(160,306)	1,643,709
Beginning fund balances (deficit)	2,867,152	(421,796)	5,205,680	7,651,036
Ending fund balances	\$ 3,893,097	356,274	5,045,374	9,294,745

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA

Reconciliation of the Change in Fund Balances of Governmental Funds
to Statement of Activities
Year Ended December 31, 2006

Net change in fund balances - total governmental funds		\$ 1,643,709
<p>The change in net assets reported for governmental activities in the Statement of Activities is different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However on the Statement of Activities, depreciation expense is recognized to allocate the cost of these items over their estimated useful lives. This is the amount by which capital outlays (\$5,218,682) exceeded depreciation (\$1,118,231).</p>		
		4,100,451
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.</p>		
		25,170
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This is the amount of the decrease in other long-term assets.</p>		
		(486,617)
<p>Issuance of long-term debt provides current financial resources to governmental funds (\$2,146,601), while the repayment of the principal of the long-term debt (\$653,308) consumes current financial resources in governmental funds. Neither of these transactions has any effect on net assets.</p>		
		(1,493,293)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Increase in accrued leave	\$ (49,588)	
Increase in net pension/OPEB obligation	(416,940)	
		(466,528)
<p>An internal service fund is used by management to charge the cost of health insurance to individual funds. A portion of the net income of this activity is reported with governmental activities.</p>		
		155,501
Change in net assets of governmental activities		\$ 3,478,393

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Year Ended December 31, 2006

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
Revenues:				
Taxes	\$ 6,109,769	6,109,769	6,922,637	812,868
Licenses and permits	73,050	73,050	46,096	(26,954)
Intergovernmental	613,653	613,653	611,153	(2,500)
Charges for services	2,119,369	2,134,369	2,136,838	2,469
Special assessments			7,251	7,251
Investment income	40,000	40,000	53,775	13,775
Fines and forfeitures	30,600	30,600	19,435	(11,165)
Legal settlement	8,000	8,000	200,404	192,404
Total revenues	8,994,441	9,009,441	9,997,589	988,148
Expenditures:				
General government	2,329,541	2,347,541	2,219,461	128,080
Public safety	3,381,106	3,393,106	3,256,439	136,667
Public works	1,532,083	1,532,083	1,506,099	25,984
Library	472,425	472,425	449,289	23,136
Airport	156,295	156,295	179,504	(23,209)
Parks and recreation	377,137	377,137	367,027	10,110
Community services	210,000	225,000	207,858	17,142
Debt service:				
Principal	128,299	128,299	204,736	(76,437)
Interest	97,275	97,275	24,089	73,186
Total expenditures	8,684,161	8,729,161	8,414,502	314,659
Excess of revenues over expenditures	310,280	280,280	1,583,087	1,302,807
Other financing sources (uses):				
Proceeds from capital lease			46,601	46,601
<u>Transfers in</u>	13,000	13,000	20,000	7,000
Transfers out	(555,172)	(555,172)	(623,743)	(68,571)
Net other financing sources (uses)	(542,172)	(542,172)	(557,142)	(14,970)
Net change in fund balance	\$ (231,892)	(261,892)	1,025,945	1,287,837
Beginning fund balance			2,867,152	
Ending fund balance			\$ 3,893,097	

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA

Proprietary Funds
Statement of Net Assets
December 31, 2006

Assets	Enterprise Funds			Internal Service Fund
	Port of Homer	Water and Sewer Utility	Total	
Current assets:				
Cash and investments	\$ 231,454		231,454	136,957
Receivables, net of allowance for doubtful accounts:				
Accounts	213,970	273,508	487,478	67,483
Sales taxes		222,094	222,094	
Assessments due within one year		224,800	224,800	
State and federal grants and loans	100,000	3,028,344	3,128,344	
Litigation settlement	100,000		100,000	
Inventory	9,948	250,294	260,242	
Prepaid items	28,833	38,567	67,400	
Total current assets	684,205	4,037,607	4,721,812	204,440
Noncurrent assets:				
Restricted assets - cash and investments	168,420	3,195,453	3,363,873	
Assessments due after one year		2,001,759	2,001,759	
Bond issuance costs, net	15,993	2,824	18,817	
Litigation settlement receivable, net of current portion	167,302	-	167,302	
Capital assets, net of accumulated depreciation	46,737,511	27,047,903	73,785,414	
Total noncurrent assets	47,089,226	32,247,939	79,337,165	
Total assets	\$ 47,773,431	36,285,546	84,058,977	204,440
Liabilities				
Current liabilities:				
Accounts payable	110,971	98,038	209,009	64,243
Accrued payroll and related liabilities	21,408	22,241	43,649	
Accrued leave	17,245	17,906	35,151	
Accrued interest	5,939	45,701	51,640	
Current portion of long-term debt	186,302	702,805	889,107	
Prepaid rentals and deposits	556,660	39,097	595,757	
Due to other funds		1,303,081	1,303,081	
Unearned lease revenue	18,000		18,000	
Total current liabilities	916,525	2,228,869	3,145,394	64,243
Noncurrent liabilities, net of current portion:				
Unearned lease revenue	378,000		378,000	
Accrued leave	106,558	146,462	253,020	
Notes payable		8,957,495	8,957,495	
Revenue bonds, net of deferred loss	346,679	-	346,679	
Capital lease	45,013	108,797	153,810	
Net pension/OPEB obligation	216,309	203,657	419,966	
Total noncurrent liabilities	1,092,559	9,416,411	10,508,970	
Total liabilities	2,009,084	11,645,280	13,654,364	64,243
Net Assets				
Invested in capital assets, net of related debt	46,175,510	17,281,630	63,457,140	
Restricted for debt service and capital projects	168,420	3,415,383	3,583,803	-
Unrestricted (deficit)	(579,583)	3,943,253	3,363,670	140,197
Total net assets	45,764,347	24,640,266	70,404,613	140,197
Total liabilities and net assets	\$ 47,773,431	36,285,546		204,440
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			42,560	
Net assets of business-type activities			\$ 70,447,173	

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA
Proprietary Funds
Statement of Revenues, Expenses, and Change in Net Assets
Year Ended December 31, 2006

	Enterprise Funds			Internal Service Fund
	Port of Homer	Water and Sewer Utility	Total	
Operating revenues - charges for services:				
Port and harbor	\$ 2,547,028		2,547,028	
Water and sewer		2,580,738	2,580,738	
Interfund insurance charges				1,465,067
Total operating revenues	2,547,028	2,580,738	5,127,766	1,465,067
Operating expenses:				
Operations	1,760,452	1,627,260	3,387,712	
Administration	935,424	1,181,450	2,116,874	52,620
Depreciation	1,380,114	1,784,143	3,164,257	
Claims				910,818
Insurance premiums				272,821
Total operating expenses	4,075,990	4,592,853	8,668,843	1,236,259
Operating income (loss)	(1,528,962)	(2,012,115)	(3,541,077)	228,808
Nonoperating revenues (expenses):				
Investment income	31,269	116,439	147,708	
Interest expense	(35,201)	(141,990)	(177,191)	
Litigation settlements	626,751		626,751	
Sales taxes		1,134,096	1,134,096	
Amortization of bond issuance costs	(5,331)	(2,824)	(8,155)	
Other income	85,864	164,597	250,461	
Other expenses		(32,050)	(32,050)	
Net nonoperating revenues (expenses)	703,352	1,238,268	1,941,620	
Income (loss) before contributions and transfers	(825,610)	(773,847)	(1,599,457)	228,808
Capital contributions		2,274,619	2,274,619	
Transfers out	(91,155)	(367,970)	(459,125)	
Change in net assets	(916,765)	1,132,802	216,037	228,808
Beginning net assets (deficit)	46,681,112	23,507,464		(88,611)
Ending net assets	\$ 45,764,347	24,640,266		140,197
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			73,307	
Change in net assets of business-type activities			\$ 289,344	

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA
Proprietary Funds
Statement of Cash Flows
Year Ended December 31, 2006

	Enterprise Funds			Internal Service Fund
	Port of Homer	Water and Sewer Utility	Total	
Cash flows from operating activities:				
Receipts from customers and users	\$ 2,553,141	2,779,644	5,332,785	
Receipts from interfund services provided				1,429,652
Payments to suppliers	(1,460,257)	(1,742,229)	(3,202,486)	
Payments to employees	(1,137,987)	(1,179,434)	(2,317,421)	
Litigation settlement	726,960		726,960	
Payments for insurance claims and administration				(1,248,369)
Net cash flows from operating activities	<u>681,857</u>	<u>(142,019)</u>	<u>539,838</u>	<u>181,283</u>
Cash flows from noncapital financing activities - decrease in due to other funds				<u>(44,326)</u>
Cash flows from capital and related financing activities:				
Principal payments on long-term debt	(169,860)	(671,788)	(841,648)	
Interest payments on long-term debt	(30,523)	(240,849)	(271,372)	
Acquisition of property, plant and equipment	(169,745)	(2,473,068)	(2,642,813)	
Proceeds from long-term borrowing		643,413	643,413	
Increase (decrease) in due to other funds	(101,544)	1,303,081	1,201,537	
Capital contributions received	81,155	471,467	552,622	
Principal collections on special assessments		247,638	247,638	
Sales tax revenue received		1,090,940	1,090,940	
Transfers out	(91,155)	(367,970)	(459,125)	
Net cash flows from capital and related financing activities	<u>(481,672)</u>	<u>2,864</u>	<u>(478,808)</u>	
Cash flows from investing activities - investment income received	<u>31,269</u>	<u>116,439</u>	<u>147,708</u>	
Net increase (decrease) in cash and investments	231,454	(22,716)	208,738	136,957
Beginning cash and investments	<u>168,420</u>	<u>3,218,169</u>	<u>3,386,589</u>	
Ending cash and investments	<u>\$ 399,874</u>	<u>3,195,453</u>	<u>3,595,327</u>	<u>136,957</u>
Cash and investments at end of year:				
Cash and investments	231,454		231,454	136,957
Cash and investments restricted for debt service and construction	<u>168,420</u>	<u>3,195,453</u>	<u>3,363,873</u>	
	<u>\$ 399,874</u>	<u>3,195,453</u>	<u>3,595,327</u>	<u>136,957</u>

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA
Proprietary Funds
Statement of Cash Flows, continued

	Enterprise Funds			Internal Service Fund
	Port of Homer	Water and Sewer Utility	Total	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (1,528,962)	(2,012,115)	(3,541,077)	228,808
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation	1,380,114	1,784,143	3,164,257	
Increase (decrease) in allowance for doubtful accounts	23,706	(13,136)	10,570	
Amortization of deferred lease revenue	(18,000)		(18,000)	
Litigation settlements	626,751		626,751	
Miscellaneous nonoperating revenues	85,864	164,597	250,461	
Miscellaneous nonoperating expenses		(32,050)	(32,050)	
(Increase) decrease in assets:				
Accounts receivable	(96,918)	46,007	(50,911)	(35,415)
Inventory	(582)	(33,789)	(34,371)	
Prepaid items	(737)	(2,436)	(3,173)	
Litigation settlement receivable	100,209		100,209	
Increase (decrease) in liabilities:				
Accounts payable	(17,385)	(157,085)	(174,470)	(12,110)
Accrued payroll and related liabilities	(282)	1,537	1,255	
Accrued leave	20,707	20,296	41,003	
Prepaid rentals and deposits	11,461	1,438	12,899	
Net pension/OPEB obligation	95,911	90,574	186,485	
Net cash flows from operating activities	\$ 681,857	(142,019)	539,838	181,283
Noncash capital and related financing activities - equipment acquired with capital lease	\$ 66,175	147,593	213,768	

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements

December 31, 2006

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

Organization and Services Provided

The City of Homer, Alaska was incorporated March 31, 1964 as a first-class city and operates under a Council-Manager form of government.

The City provides the full range of municipal services as provided for by Alaska Statute. This includes police and fire protection, ambulance and emergency medical service, water and wastewater service, library, parks and recreation, public improvements, planning and zoning, port and harbor, airport facilities, and general administrative services.

Scope and Presentation

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

Reporting Entity

The City has reviewed the standards established by the Governmental Accounting Standards Board and determined that the City has no component units.

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 activities of the City. In general, the effect of interfund activity has been removed from these statements to minimize the double-counting of internal activities. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely primarily on fees and charges to external parties.

The statement of activities demonstrates the degree to which the direct expenses of a 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) fees, fines and charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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 City generally considers revenues to be available if they are collected within 60 days after year end. 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 are recorded only to the extent they have matured.

Property and sales taxes, licenses, charges for services, intergovernmental revenues, and investment income 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 in the current period. Most other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major funds -

Major governmental funds:

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

The *City Facilities Capital Project Fund* accounts for operating grants and capital improvement projects for buildings and other facilities.

Major proprietary funds:

The *Port of Homer Enterprise Fund* accounts for all activities related to the operation of the City's port and harbor.

The *Water and Sewer Utility Enterprise Fund* accounts for the activities of the water and sewer facility operations including collection and treatment of sewage, and distribution and transmission of water.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

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

The City also reports a single Internal Service Fund which accounts for the activities relating to the City's self-insured health benefit plan. This fund reports revenues charged to the other funds based on premiums established to cover actual costs of benefits.

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 the same limitation. The City has elected not to follow 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 allocated administration fees and charges between the enterprise funds and the various other funds and departments. 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 or applicants for goods, services, or privileges 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. In addition, general revenues include all taxes (including the City's dedicated sales taxes), investment income, and State and federal entitlement revenues.

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 Water and Sewer Enterprise Fund and the Port of Homer Enterprise Fund are charges to customers for sales and services. Operating expenses for the enterprise funds include the costs 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.

Budgets and Budgetary Accounting

The City Council is required to pass an appropriation ordinance for the General Fund which becomes the expenditure budget for the fiscal year. The City Council may pass subsequent supplemental appropriations which are added to the expenditure budget. Expenditures may not legally exceed the fund appropriations. The City Manager may transfer amounts between departments within a fund or between cost centers within a department's budget classification. Appropriations on annual budgets lapse at year-end. The City's legally prescribed budgetary basis of accounting is consistent with generally accepted accounting principles and, accordingly, where budgetary data are presented, the budget and actual information conform to the same basis of accounting.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Encumbrance accounting is employed during the year under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year-end are reported as reservations of fund balances and are charged to the subsequent year appropriations.

Cash and Investments

A central treasury is used to account for all the City's cash and investments to maximize interest income. Investment earnings are allocated to various funds based on average central treasury balances.

For purposes of the statement of cash flows, the City has defined cash and cash equivalents as the demand deposits and all investments maintained in the central treasury, regardless of maturity period, since the various funds use the central treasury essentially as a demand deposit account.

Investments are recorded at fair value.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the 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 noncurrent 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."

Property Taxes

Property taxes are a lien on the assessed value of taxable property as of January 1. Pursuant to Alaska Statute, Title 29.45.240, the City establishes the mill rate levy by June 15. The City is located within the Kenai Peninsula Borough, which acts as the City's agent in the billing and collection of property taxes. Tax bills for one-half of the taxes are mailed prior to July 1 and are payable on August 15; tax bills for the second half of the taxes are mailed by October 1 and are payable on November 15. City property tax revenues, in the fund financial statements, are recognized in the fiscal year in which they are collectible and available (collected within sixty days after year-end) to finance expenditures of the fiscal period.

At December 31, the delinquent real and personal taxes not currently available are reflected as deferred revenue of the General Fund.

Unbilled Service Revenues

Utility revenues are based on cycle billings rendered monthly to customers. As a result of this cycle billing method, the utilities do not accrue revenues at the end of any fiscal period for services sold but not billed at such date. The Port of Homer bills annual moorage charges in advance, which are deferred as unearned revenue at year-end.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Inventory

Inventory of Enterprise Funds are carried at average cost and are charged to expense in accordance with the consumption method of accounting for inventory.

Supplies or materials acquired by governmental fund types are recorded at cost (specific identification) and are charged as expenditures as used in accordance with the consumption method of accounting for inventory. Accordingly, reported inventory for governmental fund types are equally offset by a fund balance reserve.

Prepaid Items

Prepaid items primarily represent costs of insurance and similar services allocated to succeeding periods and rents paid in advance of the period to which they apply. The City's policy is to charge such costs to the period benefited. Accordingly, reported prepaid items for governmental fund types are equally offset by a fund balance reserve.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads 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 City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. In the case of the initial capitalization of infrastructure assets, the City chose to include all such items, regardless of their acquisition date.

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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the useful life of the asset are not capitalized.

Property, plant, and equipment of the City is depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	20-40 years
Infrastructure	50 years
System infrastructure	20-50 years
Machinery and equipment	3-8 years

Accrued Leave

The City allows employees to accumulate earned but unused personal leave benefits up to a maximum accumulation of 720 hours. All personal leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental fund financial statements only if they have matured (e.g. the employee has terminated employment).

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Long-Term Debt

In the government-wide and the 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 discount.

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 are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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.

Comparative Data

Comparative total data for the prior year have been presented in the individual fund statements in order to provide an understanding of the changes in the financial position and operations of the City. Certain amounts in the prior year data have been reclassified to conform to the current year's presentation.

(2) Interfund Receivables, Payables, and Transfers

A schedule of interfund balances and transfers for the year ended December 31, 2006, follows:

Due from other funds:

Due to the General Fund from:

Water and Sewer Enterprise Fund for advances	
to cover the cost of projects	\$ 1,303,081
Nonmajor special revenue funds for advances to	
cover the cost of projects	<u>80,835</u>
Total amount due from other funds	<u>\$ 1,383,916</u>

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Interfund Receivables, Payables, and Transfers, continued

Transfers:

From General Fund to:

City Facilities Capital Project Fund to cover capital costs	\$ 83,825
Nonmajor governmental funds to cover capital costs	499,918
Nonmajor governmental funds to cover debt service	20,000
From nonmajor governmental funds to other	
nonmajor governmental funds to cover debt service	484,916
From nonmajor governmental funds to City Facilities	
Capital Project Fund to cover capital costs	572,223
From Port of Homer Enterprise Fund to nonmajor	
governmental funds to cover capital costs	91,155
From Water and Sewer Enterprise Fund to City Facilities	
Capital Project Fund to cover capital costs	40,323
From Water and Sewer Enterprise Fund to nonmajor	
governmental funds to cover capital costs	327,647
From nonmajor governmental funds to other nonmajor	
governmental funds to cover capital costs	<u>20,000</u>
 Total transfers to other funds	 <u>\$ 2,140,007</u>

(3) **Cash and Investments**

The City of Homer utilizes a central treasury that is available for use by all funds. Each fund's portion of the central treasury is displayed on the balance sheet as "cash and investments" or included in "due to other funds."

Reconciliation of Deposit and Investment Balances

The following is a reconciliation of the City's deposit and investment balances to the financial statements as of December 31, 2006.

Bank deposits	\$ 133,015
Investments	<u>9,973,077</u>
	<u>\$ 10,106,092</u>
 Cash and investments	 \$ 6,742,219
Restricted cash and investments	<u>3,363,873</u>
	<u>\$ 10,106,092</u>

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Cash and Investments, continued

General Investments

Investment Policy

The City's investment policy authorizes investment in the following:

1. U.S. Treasury securities;
2. Other obligations of the U.S. Government, its agencies and instrumentalities;
3. Repurchase agreements of acceptable securities listed in (1) or (2) above which meet a margin requirement of 102%;
4. Units of the Alaska Municipal League Investment Pool;
5. Certificates of deposit;
6. Uncollateralized deposits to the extent that the deposits are insured by the FDIC or FSLIC;
7. Taxable bonds or notes;
8. Commercial paper;
9. Bankers' acceptances; and
10. Money market mutual funds.

Investments in taxable bonds and notes, commercial paper, or bankers' acceptances must meet a minimum rating as determined by Moody's Investor Services or Standard and Poor's.

Interest rate risk

Investment maturities at December 31, 2006 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less Than 1</u>	<u>1-5</u>
Federal Home Loan Bank	\$2,394,616	1,751,491	643,125
Federal Natl. Mtg. Assn.	831,249	546,426	284,823
Federal Home Loan Mtg. Corp	196,522	196,522	
Total U.S. government agencies	3,422,387	2,494,439	927,948
Repurchase agreement	348,016	348,016	
Total subject to interest rate risk	3,770,403	2,842,455	927,948
Certificates of deposit	2,503,510		
Pooled investments	3,699,165		
Total investments	<u>\$9,973,078</u>		

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Cash and Investments, continued

Credit Risk

Pooled investments are invested with the Alaska Municipal League Investment Pool, Inc. (AMLIP). The AMLIP is an external investment pool which is not SEC registered and is not rated for credit risk purposes. Alaska Statute 37.23 establishes regulatory oversight of the pool. The law sets forth numerous requirements regarding authorized investments and reporting. At December 31, 2006, the share value of investments in the AML pool is approximately equal to fair value.

(4) Accounts Receivable and Valuation Allowances

The City maintains accounts receivable balances of which a portion is reserved as an allowance for doubtful accounts. At December 31, 2006, receivables for the City's individual major funds and nonmajor and internal service funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	General	City Facilities	Port of Homer	Water and Sewer	Nonmajor and other funds	Total
Receivables:						
Accounts	\$ -		267,383	314,876		582,259
Taxes	1,046,879		-	222,094	222,094	1,491,067
State and federal grants	-	368,049	100,000	3,028,344	50,043	3,546,436
Special assessments	391,810		-	2,226,559	1,853	2,620,222
Litigation settlement	-		267,302			267,302
Other	311,256		-		67,879	379,135
Total receivables	1,749,945	368,049	634,685	5,791,873	341,869	8,886,421
Less allowance for uncollectibles	(73,250)		(53,413)	(41,368)		(168,031)
Net receivables	\$1,676,695	368,049	581,272	5,750,505	341,869	8,718,390

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 December 31, 2006, the various components of *deferred revenue* reported in the governmental funds were as follows:

Delinquent property taxes receivable (General Fund)	\$ 85,255
Special assessments not yet due (General Fund)	391,810
Special assessments not yet due (Debt Service Funds)	1,853
Grant drawdowns prior to meeting all eligibility requirements	9,983
Other deferred revenue	13,646
Total deferred/unearned revenue for governmental funds	\$502,547

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

(5) **Capital Assets**

Capital asset activity for the year ended December 31, 2006 follows:

	Balance January 1, 2006	Additions and Reclassifications	Deletions and Reclassifications	Balance December 31, 2006
Governmental activities				
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 9,391,788	86,446		9,478,234
Construction in progress	4,730,699	462,700	4,608,788	584,611
Total assets not being depreciated	14,122,487	549,146	4,608,788	10,062,845
<i>Capital assets being depreciated:</i>				
Buildings	10,347,127	7,700,515		18,047,642
Improvements other than buildings	865,513	466,367		1,331,880
Machinery and equipment	4,126,916	551,516	179,958	4,498,474
Infrastructure	26,330,103	591,926	-	26,922,029
Total assets being depreciated	41,669,659	9,310,324	179,958	50,800,025
Less accumulated depreciation for:				
Buildings	3,091,051	259,440		3,350,491
Improvements other than buildings	415,895	32,098		447,993
Machinery and equipment	2,213,780	275,575	173,127	2,316,228
Infrastructure	9,294,690	551,117	-	9,845,807
Total accumulated depreciation	15,015,416	1,118,230	173,127	15,960,519
Total capital assets being depreciated, net	26,654,243	8,192,094	6,831	34,839,506
Governmental activity capital assets, net	\$ 40,776,730	8,741,240	4,615,619	44,902,351
Business-type activities				
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 15,690,268			15,690,268
Construction in progress	5,017,274	485,686	4,913,806	589,154
Total assets not being depreciated	20,707,542	485,686	4,913,806	16,279,422
<i>Capital assets being depreciated:</i>				
Buildings	34,532,528			34,532,528
Improvements other than buildings	61,389,634	6,104,705		67,494,339
Machinery and equipment	5,460,666	1,176,345		6,637,011
Infrastructure	602,534	3,652		606,186
Total assets being depreciated	101,985,362	7,284,701		109,270,064
Less accumulated depreciation for:				
Buildings	22,297,161	1,335,662		23,632,822
Improvements other than buildings	22,514,536	1,676,445		24,190,982
Machinery and equipment	3,383,830	129,196		3,513,027
Infrastructure	404,288	22,952		427,240
Total accumulated depreciation	48,599,815	3,164,257		51,764,072
Total capital assets being depreciated, net	53,385,547	4,120,446		57,505,992
Business-type activity capital assets, net	\$ 74,093,089	4,606,132	4,913,806	73,785,414

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Capital Assets, continued

Depreciation expense was charged to the functions as follows:

Governmental activities	
General government	\$ 166,048
Public safety	217,495
Public works	680,043
Library	25,672
Airport	1,088
Parks and recreation	27,884
Total depreciation expense - governmental activities	1,118,230
Business-type activities	
Port and harbor	1,380,114
Water and sewer utility	1,784,143
Total depreciation expense - business-type activities	3,164,257
Total depreciation expense	\$4,282,487

The Port of Homer Enterprise Fund received a building from the State of Alaska during 1993 in exchange for the use of land by the State Ferry System until the year 2031. The building houses the Port Maintenance Shop. The value of the building and related unearned revenue are as follows:

Original cost assigned to building	\$630,000
Revenue recognized	(234,000)
	\$396,000
Current unearned revenue	\$ 18,000
Noncurrent unearned revenue	378 000
	\$396,000

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

(6) **Long-Term Debt**

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2006:

	Balance January 1, 2006	Additions	Retired	Balance December 31, 2006	Due Within One Year
<u>Governmental activities</u>					
General obligation bonds:					
\$3,095,000 1998 street and sidewalk general obligation refunding bonds, due in final annual installment of \$475,000 plus interest at 4.375%	\$920,000		445,000	475,000	475,000
Special assessment bonds:					
\$105,567 1987 street special assessment bonds, due in final annual installment of \$5,280, plus interest at 6.375%	10,527		5,247	5,280	5,280
\$1,700,000 USDA library note payable, due in annual installments of \$99,824, including interest at 4.125% through September 2035	-	1,700,000	83,759	1,616,241	29,908
\$400,000 USDA library note payable, due in annual installments of \$23,488, including interest at 4.125% through September 2035		400,000	23,488	376,512	6,967
Capital lease payable in quarterly installments of \$8,290, including interest at 4.57% through February 2009	99,630		29,104	70,526	30,457
Capital lease payable in quarterly installments of \$16,814, including interest at 4.45% through September 2007	112,627		63,288	49,339	49,339
Capital lease payable in quarterly installments of \$3,422, including interest at 5.65% through May 2010	-	46,601	3,422	43,179	11,480

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Lone-Term Debt, continued

	Balance January 1, 2006	Additions	Retired	Balance December 31, 2006	Due Within One Year
<u>Governmental activities, continued</u>					
Accrued leave	\$ 369,642	428,454	378,866	419,230	94,659
Net pension/OPEB obligation	500,933	884,638	467,698	917,873	
Total governmental activities long-term liabilities	\$ 2,013,359	3,459,693	1,499,872	3,973,180	703,090

The accrued leave related to governmental activities is generally liquidated by the General Fund.

	Balance January 1, 2006	Additions	Retired	Balance December 31, 2006	Due Within One Year
<u>Business-type activities</u>					
Revenue bonds:					
\$1,595,000 1998 port revenue refunding bonds, due in annual installments of \$170,000 to \$185,000 plus interest at 4.3% to 4.5% through October 1, 2009	\$ 700,000		165,000	535,000	170,000
\$705,000 1998 sewer revenue refunding bonds, due in final annual installment of \$85,000 plus interest at 4.3% on October 1, 2007	170,000		85,000	85,000	85,000
Notes payable:					
\$5,064,500 1989 Sewer Utility Alaska Clean Water loan, due in annual installments of \$341,024 including interest at 1.5% through September 30, 2011	1,942,880		311,881	1,630,999	316,560
\$3,462,403 2002 Sewer Utility Alaska Clean Water loan, due in annual installments of \$121,973 plus interest at 1.5% through August 18, 2025	2,481,490	980,913	121,973	3,340,430	121,973

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

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

	Balance January 1, 2006	Additions	Retired	Balance December 31, 2006	Due Within One Year
\$3,389,321 2002 Water Utility Alaska Drinking Water loan, due in annual installments of \$143,078 plus interest at 2.5% through August 18, 2025	\$2,927,612	461,709	143,078	3,246,243	143,078
\$150,000 (maximum) 2003 Sewer Utility Alaska Clean Water loan, terms not yet established; interest at 1.5%	127,099	12,230		139,329	
\$3,250,000 (maximum) 2006 Sewer Utility Alaska Clean Water loan, terms not yet established; interest at 1.5%		1,158,227		1,158,227	
\$470,000 (maximum) 2006 Water Utility Alaska Drinking Water loan, terms not yet established; interest at 2.5%		23,878		23,878	
Capital lease payable in quarterly installments of \$16,426, including interest at 5.65% through May 2010		225,335	16,426	208,909	55,099
Accrued leave	247,168	219,359	178,356	288,171	35,151
Net pension/OPEB obligation	<u>233,481</u>	<u>400,482</u>	<u>213,997</u>	<u>419,966</u>	
Total business-type activities long-term liabilities	8,829,730	<u>3,482,133</u>	<u>1,235,711</u>	11,076,152	<u>926,861</u>
Less deferred loss on refunding	<u>(29,634)</u>			<u>(20,924)</u>	
	<u>\$8,800,096</u>			<u>11,055,228</u>	

Annual debt service requirements to maturity for the bonds and notes except for the Clean Water loans and Drinking Water loan that are not yet in repayment status follow:

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Long-Term Debt, continued

Governmental activities

Year Ending December 31,	General Obligation Bonds			Special Assessment Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	<u>\$475,000</u>	<u>20,781</u>	<u>495,781</u>	5,280	334	5,614
Year Ending December 31,	USDA Notes Payable					
	Principal	Interest	Total			
2007	36,875	86,437	123,312			
2008	38,396	84,916	123,312			
2009	39,980	83,332	123,312			
2010	41,629	81,683	123,312			
2011	43,346	79,966	123,312			
2012-2016	245,071	371,489	616,560			
2017-2021	299,963	316,597	616,560			
2022-2026	367,149	249,411	616,560			
2027-2031	449,384	167,176	616,560			
2032-2035	430,960	62,288	493,248			
	<u>1,992,753</u>	<u>1,583,295</u>	<u>3,576,048</u>			

Business-type activities

Year Ending December 31,	Revenue Bonds			Notes Payable		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$255,000	27,165	282,165	581,611	127,189	708,800
2008	180,000	16,200	196,200	586,359	117,035	703,394
2009	185,000	8,325	193,325	591,179	106,808	697,987
2010				596,071	96,509	692,580
2011				601,034	86,138	687,172
2012-2016				1,325,255	324,390	1,649,645
2017-2021				1,325,255	189,230	1,514,485
2022-2025				1,060,184	54,065	1,114,249
	<u>\$620,000</u>	<u>51,690</u>	<u>671,690</u>	<u>6,666,948</u>	<u>1,101,364</u>	<u>7,768,312</u>
						<u>2,872,158</u>
						<u>\$9,539,106</u>

(7) **Revenue Bond Requirements**

Certain covenants of the revenue bonds require establishment of bond redemption and bond reserve accounts. The balances in these accounts are included in restricted cash in the financial statements.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Revenue Bond Requirements, continued

The Port of Homer revenue bond requires that rates be maintained at a level that will produce net revenues before depreciation equal to at least 1.25 times the maximum debt service coming due.

The Water and Sewer Utility sewer revenue bond requires that rates be maintained at a level that will produce net revenues before depreciation equal to at least 1.35 times the maximum debt service coming due.

	<u>Port of Homer</u>	<u>Water and Sewer Utility</u>
Operating income excluding depreciation expense	\$(148,848)	(227,972)
Add sales tax revenue dedicated for debt service		<u>1,134,096</u>
Available for debt requirement	(148,848)	906,124
Requirement	<u>(244,403)</u>	<u>(124,561)</u>
Excess (shortfall) of revenue over requirement	<u>\$(393,251)</u>	<u>781,563</u>

(8) **Capital Leases**

The City leases capital equipment (ambulance, rescue truck, grader, public works truck, excavator and loaders) with a historical cost of \$ 965,918 under capital lease arrangements. Future minimum lease payments at December 31, 2006 are as follows:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2007	\$ 97,292	\$ 65,704
2008	46,852	65,704
2009	21,981	65,704
2010	<u>6,846</u>	<u>34,527</u>
Total minimum lease payments	172,970	231,639
Less amount representing interest	<u>9,927</u>	<u>22,730</u>
Present value of minimum lease payments	<u>\$163,044</u>	<u>\$208,909</u>

(9) **Accounting for Health Self-Insurance**

The City provides health insurance on a self-insured basis up to \$35,000 each occurrence or \$642,497 in aggregate for all medical claims during the year. Coverage in excess of these amounts is insured by a private carrier up to lifetime claims of \$1,000,000 per each individual. The City contracts with a third-party administrator for health claims servicing. The City charges each department a premium based on the employees and their selected coverage. This premium is based on actual claims paid by the City. An equal amount is recorded as revenue by the Risk Management Internal Service Fund which is then responsible for paying all claims. The City accrues a liability for claims incurred but not reported at year-end.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Accounting for Health Self-Insurance, continued

A schedule of the changes in the claims liability for the years ended December 31, 2006 and 2005 follows:

	Balance at Beginning of Year	Claims Expense	Claims Paid	Balance at End of Year
2005 health insurance	\$78,320	709,504	711,471	76,353
2006 health insurance	\$76,353	910,818	922,928	64,243

(10) **Risk Management**

The City is exposed to various risks of loss including (a) damage to and loss of buildings and contents, (b) employee torts, (c) professional liability; i.e., errors and omissions, (d) workers' compensation; i.e., employee injuries, and (e) medical insurance costs of employees.

The City is a member of the Alaska Municipal League Joint Insurance Association (JIA), a governmental insurance pool established by the Alaska Municipal League. The JIA provides the City coverage for property, including building and contents, automobiles, mobile equipment and data processing equipment; casualty, including general liability, and public officials, law enforcement professional liability, auto liability and employee benefit liability; and workers' compensation, including employer's liability. In addition, commercial insurance policies are purchased that transfer the risk of loss, except for relatively low deductibles for marina keepers legal liability, and underground tank liability. The City has no coverage for potential losses from environmental damages.

The JIA is a public entity risk pool organized to share risks among its members. The Association's bylaws provide for the assessment of supplemental contributions from members in the event that losses and expenses for any coverage year exceed the annual contributions and income earned on such contributions for the year. Such supplemental contributions shall be based upon each member's deposit contribution in comparison to the aggregate deposit contributions of all members. The Association made no supplemental assessments during the year ended December 31, 2006.

The JIA provides loss control services and conducts periodic inspections to ensure safe operations. The Finance Director coordinates risk management activities with the other City Directors and City Manager. The General Fund fund balance is sufficient to meet potential losses related to the JIA basic core coverage and coverage deductibles. The amount of settlements for the past three years did not materially exceed the City's insurance coverage.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

(11) **Defined Benefit Pension Plan**

The following information conforms to the requirements of Governmental Accounting Standards Board (GASB) Statement 27, Accounting for Pensions by State and Local Governmental Employers. In addition, this note includes the information required by GASB Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The City has elected to implement GASB Statement 45 effective with this financial statement.

Description of Plan

The City participates in the Public Employees' Retirement System (PERS), an agent multiple employer plan which covers eligible State and local government employees. The plan was established and is administered by the State of Alaska 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, AK 99811-0203

Funding Policy and Contribution Rates

Employees are required to contribute 6.75% of their annual covered salary of which 4.20% is for pension and 2.55% is for healthcare. Peace officers and firefighters must contribute 7.50%. 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, subject to an increase limitation. Employer rates cannot be increased by more than five percentage points annually through June 30, 2007. During 2006, a significant difference exists between the actuarial rate and the actual rate due to the five point increase limit.

The City's current contribution rates for PERS for 2006 follow:

	<u>January 1 - June 30</u>		<u>July 1 - December 31</u>	
	Adjusted Actual Rate	Actuarially Required Rate	Adjusted Actual Rate	Actuarially Required Rate
Pension	7.74%	13.56%	10.51%	15.76%
Postemployment healthcare	5.18%	9.06%	7.41%	11.11%
Total contribution rate	12.92%	22.62%	17.92%	26.87%

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Defined Benefit Pension Plan, continued

Funding Policy and Contribution Rates, continued

The employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The plan uses the level dollar method to amortize the unfunded liability over an open, rolling twenty-five year period. Funding surpluses are also amortized over twenty-five years.

The required contributions for the plan were determined as part of the June 30, 2003 and 2004 actuarial valuations. 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 plans 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 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.

The significant actuarial assumptions used in the valuation of the plan follow:

1. Investment return of 8.25% per annum, compounded annually, net of expenses;
2. Projected salary increases of 5.5% for the first ten years and 4.0% thereafter (Police and fire 6.0% for the first five years and 4.5% thereafter);
3. Medical cost inflation of 9.5% for 2005, trending downward 0.5% per year to 5.0% in FY14 and remaining at 5.0% thereafter; and prescription cost inflation of 14% for 2005, trending downward 1.0% per year to 5.0% in FY14 and remaining at 5.0% thereafter;
4. Total inflation, as measured by the Consumer Price Index for urban and clerical workers for Anchorage, is assumed to increase 3.5% annually; and
5. Asset valuation - recognizes 20% of the investment gain or loss in each of the current and preceding four years. Assets are valued at market value and are accounted for on an accrual basis. Valuation assets cannot be outside the range of 80% to 120% of market value of assets.

During 2006, the State of Alaska Legislature approved Section 60 of Senate Bill 231, which granted fiscal relief related to increased costs of the FY07 employer contribution rates. The amount of the fiscal relief payment for the City was \$248,456.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Defined Benefit Pension Plan, continued

Funding Policy and Contribution Rates, continued

This relief was deposited into a defined benefit suspense account in July 2006. The City had the option to exhaust their suspense account with the first few payroll submissions; as a reduction to their contribution payments throughout the year; or as a lump sum deposited into their employer's asset account. The City opted to apply the fiscal relief payment in 2007.

Annual Pension and Postemployment Healthcare Cost

For the year ended December 31, 2006, the City's annual pension and other postemployment benefit (OPEB) costs were as follows:

	Pension	OPEB	Total
Annual required contribution	\$728,601	501,446	1,230,047
Interest on net pension obligation	37,528	17,546	55,074
Adjustment to annual required contribution	(29,188)	(13,646)	(42,834)
Annual pension cost	736,941	505,346	1,242,287
Contributions made	(377,190)	(261,671)	(638,861)
Increase in net pension obligation	359,751	243,675	603,426
Net pension obligation, beginning of year	454,884	279,529	734,413
 Net pension obligation, end of year	 \$814,635	 523,204	 1,337,839

Three-year trend information for PERS follows:

	Year Ending <u>December 31,</u>	Annual Pension Cost (APC)	Actual Contributions	Percentage of APC Contributed
Pension	2004	\$316,732	\$ 112,238	35%
	2005	614,610	364,219	59%
	2006	736,941	377,190	51
	Year Ending <u>December 31,</u>	Annual OPEB Cost	Actual Contributions	Percentage of OPEB Contributed
Postemployment healthcare	2004	\$192,401	\$ 68,180	35%
	2005	392,081	236,773	60%
	2006	505,346	261,671	52%

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Defined Benefit Pension Plan, continued

A schedule of funding progress for PERS for the three most recent actuarial valuations follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as Percentage of Covered Payroll
June 30, 2003:						
Pension	\$ 13,040,000	\$ 16,772,000	\$ 3,732,000	78%	\$ 4,190,000	89%
Postemployment healthcare	8,715,000	11,210,000	2,495,000	78%	4,190,000	60%
June 30, 2004:						
Pension	13,435,000	19,018,000	5,583,000	71%	4,474,000	125%
Postemployment healthcare	9,474,000	13,410,000	3,936,000	71%	4,474,000	88%
June 30, 2005:						
Pension	13,667,942	19,119,524	5,451,582	71%	4,391,808	124%
Postemployment healthcare	12,255,197	17,143,293	4,888,096	71%	4,391,808	111%

(12) **Deferred Compensation Plan**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The deferred compensation plan permits all employees to defer a portion of their salary. The deferred compensation is not available for distribution to employees until termination, retirement, death or unforeseeable emergency. Internal Revenue Code provisions require that all assets and income of the plan be held in trust for the exclusive benefit of participants and their beneficiaries.

(13) **Contingencies**

The City is involved in various claims and pending litigation as part of the normal course of its activities. In the opinion of management, the disposition of these matters is not expected to have a material adverse effect on the City's financial statements.

Grants

Amounts received or receivable from grantors are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, would become a liability of the General Fund or other applicable fund.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

(14) **Designated Sales Tax**

City of Homer sales tax is designated for the following purposes:

Water, sewer, and related debt service	0.75%
Road projects	0.75%
General Fund - undesignated	3.00%
Kenai Peninsula Borough	<u>2.00%</u>
Total sales tax percentage	<u>6.50%</u>

SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

CITY OF HOMER, ALASKA
 Nonmajor Governmental Funds
 Combining Balance Sheet
 December 31, 2006

	<u>Special Revenue Funds</u>						<u>Debt Service Funds</u>			<u>Capital Project Funds</u>				Total Nonmajor Governmental Funds		
	Library Donations	Fire Department Donations	Animal Shelter	Retainage Reimburse- ments	Noncapital Projects	Community Schools	Total	1987 Rangeview Special Assessment Bonds	General Obligation Bonds and 1990 Special Assessment Bonds	Total	Streets and Sidewalks	Depreciation Reserves	Land Reserve		Fleet Reserve Allocation	Total
Assets																
Cash and investments	\$ 27,750	11,482	6,796	13,250		197	59,475	2,655	304,193	306,848	3,226,432	617,883	4,472	814,455	4,663,242	5,029,565
Receivables, net:																
Sales taxes											222,094				222,094	222,094
Assessments									1,853	1,853						1,853
State and federal grants					50,043		50,043									50,043
Other				396			396									396
Total assets	\$ 27,750	11,482	6,796	13,646	50,043	197	109,914	2,655	306,046	308,701	3,448,526	617,883	4,472	814,455	4,885,336	5,303,951
Liabilities and Fund Balances																
Liabilities:																
Accounts payable											153,769	7,283		836	161,888	161,888
Accrued payroll and related liabilities							355			355						355
Due to other funds					80,835		80,835									80,835
Deferred revenue				13,646			13,646									13,646
Deferred assessments									1,853	1,853						1,853
Total liabilities				13,646	81,190		94,836		1,853	1,853	153,769	7,283		836	161,888	258,577
Fund balances:																
Reserved for debt service and capital projects								2,655	304,193	306,848	3,294,757				3,294,757	3,601,605
Unreserved - designated:																
Library	27,750						27,750									27,750
Fire department		11,482	-				11,482									11,482
Animal shelter			6,796				6,796									6,796
Land												4,472			4,472	4,472
Capital outlay											610,600				610,600	610,600
Community schools						197	197									197
Deficit					(31,147)		(31,147)									(31,147)
Total fund balances (deficit)	27,750	11,482	6,796		(31,147)	197	15,078	2,655	304,193	306,848	3,294,757	610,600	4,472	813,619	4,723,448	5,045,374
Total liabilities and fund balances	\$ 27,750	11,482	6,796	13,646	50,043	197	109,914	2,655	306,046	308,701	3,448,526	617,883	4,472	814,455	4,885,336	5,303,951

CITY OF HOMER, ALASKA
 Nonmajor Governmental Funds
 Combining Statement of Revenues, Expenditures, and Change in Fund Balances
 Year Ended December 31, 2006

	Special Revenue Funds						Debt Service Funds			Capital Project Funds				Total Nonmajor Governmental Funds	
	Library Donations	Fire Department Donations	Animal Shelter	Retainage Reimburse - ments	Noncapital Pro'cts	Community Schools	Total	1987 Rangeview Special Assessment Bonds	General Obligation 1990 Special Assessment Bonds	Total	Streets and Sidewalks	Depreciation Reserves	Land Reserve		Fleet Reserve Allocation
Revenues:															
Sales tax	\$										1,134,096				1,134,096
Intergovernmental					114,615										114,615
Special assessments								404	3,525	3,929					3,929
Investment income	17,368	668	385					201	7,753	7,954	98,777	28,856	120	13,102	140,855
Donations	1,400	315				197									1,912
Other				4,750							875	4,025		2,337	7,237
Total revenues	18,768	983	385	4,750	114,615	197	139,698	605	11,278	11,883	1,233,748	32,881	120	15,439	1,282,188
Expenditures:															
General government												22,785		24,113	46,898
Public safety		5,023			45,299		50,322					63,838		59,428	123,266
Public works				4,750	67,036		71,786				941,751	28,554		103,058	1,073,363
Airport												8,299			8,299
Parks and recreation												37,289			37,289
Community service												58,482			58,482
Debt service:															
Principal								5,280	445,000	450,280					450,280
Interest								671	39,916	40,587					40,587
Total expenditures		5,023		4,750	112,335		122,108	5,951	484,916	490,867	941,751	219,247		186,599	1,347,597
Excess of revenues over (under) expenditures	18,768	(4,040)	385		2,280	197	17,590	(5,346)	(473,638)	(478,984)	291,997	(186,366)	120	(171,160)	(65,409)
Other financing sources (uses):															
Transfers in									504,916	504,916		414,918		523,802	938,720
Transfers out			(3,677)				(3,677)				(484,916)	(568,546)		(20,000)	(1,073,462)
Net other financing sources (uses)			(3,677)				(3,677)		504,916	504,916	(484,916)	(153,628)		503,802	(134,742)
Net change in fund balances	18,768	(4,040)	(3,292)		2,280	197	13,913	(5,346)	31,278	25,932	(192,919)	(339,994)	120	332,642	(200,151)
Beginning fund balances (deficit)	8,982	15,522	10,088		(33,427)		1,165	8,001	272,915	280,916	3,487,676	950,594	4,352	480,977	4,923,599
Ending fund balances (deficit)	\$ 27,750	11,482	6,796		(31,147)	197	15,078	2,655	304,193	306,848	3,294,757	610,600	4,472	813,619	4,723,448

GENERAL FUND

The General Fund accounts for the financial operations of the City of Homer which are not accounted for in any other fund. Principal sources of revenues are sales taxes, property taxes, charges for services, and intergovernmental revenues. Primary expenditures in the General Fund are for general government, public safety, and public works.

CITY OF HOMER, ALASKA
 General Fund
 Balance Sheet
 December 31, 2006
 (With Comparative Amounts for 2005)

Assets	2006	2005
Cash and investments	\$ 1,333,554	1,601,782
Receivables:		
Property taxes - delinquent	158,505	133,848
Less allowance for doubtful accounts	(73,250)	(71,920)
Net property taxes receivable	85,255	61,928
Sales taxes	888,374	714,657
Assessments	391,810	901,377
Other	311,256	159,684
Total receivables	1,676,695	1,837,646
Due from other funds	1,383,916	674,672
Inventory	33,192	40,459
Prepaid items	227,082	240,284
 Total assets	 \$ 4,654,439	 4,394,843
<hr/> Liabilities and Fund Balance <hr/>		
Liabilities:		
Accounts payable	171,733	406,521
Accrued payroll and related liabilities	90,658	132,746
Deferred revenue	91,455	71,190
Deferred assessments	391,810	901,377
Deposits	15,686	15,857
Total liabilities	761,342	1,527,691
Fund balance:		
Reserved for inventory and prepaid items	260,274	280,743
Unreserved:		
Designated for interfund loan for animal shelter	350,000	400,000
Undesignated	3,282,823	2,186,409
Total fund balance	3,893,097	2,867,152
 Total liabilities and fund balance	 \$ 4,654,439	 4,394,843

CITY OF HOMER, ALASKA
 General Fund
 Schedule of Revenues, Expenditures and
 Changes in Fund Balance - Budget and Actual
 Year Ended December 31, 2006
 (With Comparative Amounts for 2005)

	2006		Variance Positive (Negative)	2005
	Budget	Actual		Actual
Revenues				
Taxes:				
Property taxes	\$ 2,236,269	2,382,936	146,667	2,102,170
Sales taxes	3,866,500	4,536,542	670,042	4,088,361
Penalties and interest	7,000	3,159	(3,841)	4,821
Total taxes	<u>6,109,769</u>	<u>6,922,637</u>	<u>812,868</u>	<u>6,195,352</u>
Licenses and permits	<u>73,050</u>	<u>46,096</u>	<u>(26,954)</u>	<u>42,717</u>
Intergovernmental:				
Utility cooperative	27,000	27,874	874	28,101
Alcohol beverage tax	23,500	24,875	1,375	23,250
Public safety	498,903	517,824	18,921	499,828
Library grant	6,250	6,250		6,250
Public works	34,000	34,000		34,000
Reimbursements	24,000	330	(23,670)	3,199
Other grants				171,329
Total intergovernmental	<u>613,653</u>	<u>611,153</u>	<u>(2,500)</u>	<u>765,957</u>
Charges for services:				
Administrative services	1,135,379	1,135,379		1,176,023
Ambulance services	120,000	143,141	23,141	125,983
Fire contracts	236,672	158,640	(78,032)	237,481
Camping fees	183,000	173,204	(9,796)	181,294
Rents and leases	200,000	189,647	(10,353)	207,608
Donations				460
Airport services	139,368	143,604	4,236	125,316
Community school fees	15,000	18,549	3,549	125,316
Miscellaneous services	104,950	174,674	69,724	128,883
Total charges for services	<u>2,134,369</u>	<u>2,136,838</u>	<u>2,469</u>	<u>2,183,048</u>
Special assessments		<u>7,251</u>	<u>7,251</u>	<u>12,711</u>
Investment income	<u>40,000</u>	<u>53,775</u>	<u>13,775</u>	<u>30,419</u>
Fines and forfeitures	<u>30,600</u>	<u>19,435</u>	<u>(11,165)</u>	<u>23,269</u>
Legal settlement	<u>8,000</u>	<u>200,404</u>	<u>192,404</u>	
Total revenues	<u>9,009,441</u>	<u>9,997,589</u>	<u>988,148</u>	<u>9,253,473</u>

CITY OF HOMER, ALASKA
 General Fund
 Schedule of Revenues, Expenditures and
 Changes in Fund Balance - Budget and Actual, continued

	2006		Variance Positive (Negative)	2005
	Budget	Actual		Actual
Expenditures				
General government:				
City council/mayor:				
Salaries and benefits	\$ 9,859	9,419	440	6,012
Supplies	7,200	10,116	(2,916)	4,176
Other services and charges	280,426	283,042	(2,616)	679,952
Total city council/mayor	297,485	302,577	(5,092)	690,140
City clerk:				
Salaries and benefits	238,767	253,927	(15,160)	218,592
Supplies	8,000	3,689	4,311	2,859
Other services and charges	34,853	32,867	1,986	31,412
Total city clerk	281,620	290,483	(8,863)	252,863
City manager:				
Salaries and benefits	274,176	260,888	13,288	246,275
Supplies	2,850	5,907	(3,057)	3,313
Other services and charges	39,602	14,813	24,789	19,704
Capital outlay				2,000
Total city manager	316,628	281,608	35,020	271,292
Administrative services:				
Salaries and benefits	730,362	717,759	12,603	803,177
Supplies	12,750	10,443	2,307	13,617
Other services and charges	141,968	108,283	33,685	88,372
Total administrative services	885,080	836,485	48,595	905,166
Planning and zoning/property management:				
Salaries and benefits	293,081	275,441	17,640	276,959
Supplies	46,400	58,017	(11,617)	50,251
Other services and charges	88,840	64,225	24,615	57,497
Total planning and zoning/ property management	428,321	397,683	30,638	384,707
City hall complex:				
Salaries and benefits				191
Supplies	14,850	9,510	5,340	12,660
Other services and charges	123,557	101,115	22,442	104,065
Total city hall complex	138,407	110,625	27,782	116,916
Total general government	2,347,541	2,219,461	128,080	2,621,084

CITY OF HOMER, ALASKA
 General Fund
 Schedule of Revenues, Expenditures and
 Changes in Fund Balance - Budget and Actual, continued

	2006		Variance Positive (Negative)	2005
	Budget	Actual		Actual
Expenditures, continued:				
Public safety:				
Police department:				
Salaries and benefits	\$ 1,538,014	1,450,100	87,914	1,413,170
Supplies	66,900	75,058	(8,158)	56,798
Other services and charges	209,919	195,771	14,148	196,949
Total police department	1,814,833	1,720,929	93,904	1,666,917
Jail:				
Salaries and benefits	506,329	506,946	(617)	456,941
Supplies	24,750	24,103	647	21,841
Other services and charges	47,957	42,295	5,662	41,858
Total jail	579,036	573,344	5,692	520,640
Animal control:				
Supplies	14,881	20,109	(5,228)	19,710
Other services and charges	85,364	96,935	(11,571)	64,151
Total animal control	100,245	117,044	(16,799)	83,861
Emergency services:				
Salaries and benefits	615,998	605,639	10,359	507,746
Supplies	40,000	34,529	5,471	33,127
Other services and charges	242,994	204,954	38,040	202,117
Total emergency services	898,992	845,122	53,870	742,990
Total public safety	3,393,106	3,256,439	136,667	3,014,408
Public works:				
Administration:				
Salaries and benefits	175,361	136,604	38,757	124,850
Supplies	5,000	4,217	783	5,075
Other services and charges	59,770	70,805	(11,035)	65,986
Total administration	240,131	211,626	28,505	195,911
Maintenance:				
Salaries and benefits	152,239	147,220	5,019	125,692
Supplies	12,600	17,431	(4,831)	15,660
Other services and charges	79,650	63,662	15,988	88,475
Capital outlay				5,488
Total maintenance	244,489	228,313	16,176	235,315

CITY OF HOMER, ALASKA
 General Fund
 Schedule of Revenues, Expenditures and
 Changes in Fund Balance - Budget and Actual, continued

	2006		Variance Positive (Negative)	2005
	Budget	Actual		Actual
Expenditures, continued:				
Public works, continued:				
Janitorial:				
Salaries and benefits	\$ 90,047	101,486	(11,439)	
Supplies	10,000	7,885	2,115	
Other services and charges	12,500	7,839	4,661	
Total janitorial	112,547	117,210	(4,663)	
Streets				
Salaries and benefits	206,288	203,289	2,999	208,193
Supplies	174,100	141,885	32,215	178,458
Other services and charges	44,350	28,761	15,589	15,118
Total streets	424,738	373,935	50,803	401,769
Motor pool:				
Salaries and benefits	182,841	176,393	6,448	153,504
Supplies	52,500	69,875	(17,375)	49,300
Other services and charges	129,500	160,702	(31,202)	118,436
Total motor pool	364,841	406,970	(42,129)	321,240
Engineer/inspector:				
Salaries and benefits	133,237	110,323	22,914	124,257
Supplies	2,200	3,388	(1,188)	2,388
Other services and charges	9,900	7,733	2,167	12,212
Total engineer/inspector	145,337	121,444	23,893	138,857
Capital outlay - lease purchase		46,601	(46,601)	
Total public works	1,532,083	1,506,099	25,984	1,293,092
Library:				
Salaries and benefits	357,480	345,801	11,679	296,393
Supplies	19,120	23,287	(4,167)	8,291
Other services and charges	95,825	80,201	15,624	64,285
Total library	472,425	449,289	23,136	368,969
Airport:				
Salaries and benefits	55,147	58,479	(3,332)	45,209
Supplies	17,500	24,132	(6,632)	19,998
Other services and charges	83,648	96,893	(13,245)	81,014
Total airport	156,295	179,504	(23,209)	146,221

CITY OF HOMER, ALASKA
 General Fund
 Schedule of Revenues, Expenditures and
 Changes in Fund Balance - Budget and Actual, continued

	2006		Variance Positive (Negative)	2005
	Budget	Actual		Actual
Expenditures, continued:				
Parks and recreation:				
Salaries and benefits	\$ 237,987	240,223	(2,236)	218,219
Supplies	18,000	28,898	(10,898)	26,594
Other services and charges	121,150	97,906	23,244	82,869
Total parks and recreation	<u>377,137</u>	<u>367,027</u>	<u>10,110</u>	<u>327,682</u>
Community services:				
Community service contributions:				
Community schools				27,000
Museum	80,000	80,000		80,000
Homer Foundation Non-Profit	80,000	80,000		40,000
Total community service contributions	<u>160,000</u>	<u>160,000</u>		<u>147,000</u>
Community schools:				
Salaries and benefits	43,900	38,391	5,509	
Supplies	9,050	2,415	6,635	
Other services and charges	12,050	7,052	4,998	
Total community schools	<u>65,000</u>	<u>47,858</u>	<u>17,142</u>	
Total community services	<u>225,000</u>	<u>207,858</u>	<u>17,142</u>	<u>147,000</u>
Debt service on loans and capital leases:				
Principal	128,299	204,736	(76,437)	88,360
Interest	97,275	24,089	73,186	12,056
Total debt service	<u>225,574</u>	<u>228,825</u>	<u>(3,251)</u>	<u>100,416</u>
Total expenditures	<u>8,729,161</u>	<u>8,414,502</u>	<u>314,659</u>	<u>8,018,872</u>
Excess of revenues over expenditures	280,280	1,583,087	1,302,807	1,234,601
Other financing sources (uses):				
Proceeds from capital lease		46,601	46,601	
Transfers in	13,000	20,000	7,000	
Transfers out	(555,172)	(623,743)	(68,571)	(379,460)
Net other financing sources (uses)	<u>(542,172)</u>	<u>(557,142)</u>	<u>(14,970)</u>	<u>(379,460)</u>
Net change in fund balance	<u>\$ (261,892)</u>	<u>1,025,945</u>	<u>1,287,837</u>	<u>855,141</u>
Beginning fund balance		<u>2,867,152</u>		<u>2,012,011</u>
Ending fund balance		<u>3,893,097</u>		<u>2,867,152</u>

SPECIAL REVENUE FUNDS

A Special Revenue Fund is established to finance particular activities and is created from receipts of designated revenues.

Library Donations - This fund accounts for donations made to the library that have been earmarked for supplies.

Fire Department Donations - This fund accounts for donations made to the fire department that have been earmarked for supplies.

Animal Shelter - This fund accounts for donations made for construction of the Homer animal shelter.

Retainage Reimbursements - This fund accounts for deposits customers have provided for specific projects until their completion.

Community Schools - This fund accounts for donations to be used for community schools.

Noncapital Projects - This fund accounts for projects and grant-related activities that are not capitalized.

CITY OF HOMER, ALASKA
Special Revenue Funds
Combining Balance Sheet
December 31, 2006
(With Comparative Totals for 2005)

Assets	Library Donations	Fire Department Donations	Animal Shelter	Retainage Reimburse - ments	Community Noncapital		Totals	
					Schools	Projects	2006	2005
Cash and investments	\$ 27,750	11,482	6,796	13,250	197		59,475	31,142
Accounts receivable:								
Donations								11,283
Grants						50,043	50,043	
Other				396			396	
Total assets	\$ 27,750	11,482	6,796	13,646	197	50,043	109,914	42,425
Liabilities and Fund Balances (Deficit)								
Liabilities:								
Accrued payroll and related liabilities						355	355	1,656
Deferred revenue				13,646			13,646	
Due to other funds						80,835	80,835	39,604
Total liabilities				13,646		81,190	94,836	41,260
Fund balances:								
Unreserved	27,750	11,482	6,796		197		46,225	34,592
Deficit						(31,147)	(31,147)	(33,427)
Total fund balances (deficit)	27,750	11,482	6,796		197	(31,147)	15,078	1,165
Total liabilities and fund balances (deficit)	\$ 27,750	<u>11,482</u>	<u>6,796</u>	<u>13,646</u>	<u>197</u>	<u>50,043</u>	109,914	42,425

CITY OF HOMER, ALASKA
 Special Revenue Funds
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Year Ended December 31, 2006
 (With Comparative Totals for 2005)

	Library Donations	Fire Department Donations	Animal Shelter	Retainage Reimburse - ments	Community Schools	Noncapital Pro'ects	Totals	
							2006	2005
Revenues:								
Investment income	\$ 17,368	668	385			-	18,421	18,333
Intergovernmental Donations	1,400	315			197	114,615	114,615	66,086
Other				4,750			4,750	
Total revenues	18,768	983	385	4,750	197	114,615	139,698	236,495
Expenditures:								
General government								44,396
Public safety		5,023				45,299	50,322	12,518
Public works				4,750		67,036	71,786	21,749
Parks and recreation								24
Total expenditures		5,023		4,750		112,335	122,108	78,687
 Excess of revenues over (under) expenditures	 18,768	 (4,040)	 385		 197	 2,280	 17,590	 157,808
Other financing sources (uses):								
Transfers in								9,360
Transfers out			(3,677)				(3,677)	(648,848)
Net other financing sources (uses)			(3,677)				(3,677)	(639,488)
 Net change in fund balances	 18,768	 (4,040)	 (3,292)		 197	 2,280	 13,913	 (481,680)
Beginning fund balances (deficit)	8,982	15,522	10,088			(33,427)	1,165	482,845
Ending fund balances (deficit)	\$ 27,750	11,482	6,796		197	(31,147)	15,078	1,165

DEBT SERVICE FUNDS

These funds are established to account for the accumulation and disbursements of monies needed to comply with the interest and principal redemption requirements of general obligation and special assessment bonds.

1987 Rangeview Special Assessment Bonds - This fund accounts for the 1987 street special assessment bonds. Financing is provided by special assessments levied against benefited property.

General Obligation Bonds and 1990 Special Assessment Bonds - This fund accounts for the following bond issues:

1990 Special Assessment Bonds

1998 General Obligation Refunding Bonds

CITY OF HOMER, ALASKA
 Debt Service Funds
 Combining Balance Sheet
 December 31, 2006
 (With Comparative Totals for 2005)

Assets	1987 Rangeview Special Assessment Bonds	General Obligation Bonds and 1990 Special Assessment Bonds	Totals	
			2006	2005
Cash and investments	\$ 2,655	304,193	306,848	280,916
Assessments receivable		1,853	1,853	2,230
Total assets	\$ 2,655	306,046	308,701	283,146
Liabilities and Fund Balances				
Liabilities - deferred assessments		1,853	1,853	2,230
Fund balances - reserved for debt service	2,655	304,193	306,848	280,916
Total liabilities and fund balances	\$ 2,655	306,046	308,701	283,146

CITY OF HOMER, ALASKA
 Debt Service Funds
 Combining Statement of Revenues, Expenditures
 and Changes in Fund Balances
 Year Ended December 31, 2006
 (With Comparative Totals for 2005)

	1987 Rangeview Special Assessment Bonds	General Obligation Bonds and 1990 Special Assessment Bonds	Totals	
			2006	2005
Revenues:				
Special assessments	\$ 404	3,525	3,929	2,751
Investment income	201	7,753	7,954	15,851
Total revenues	605	11,278	11,883	18,602
Expenditures:				
Debt service:				
Principal	5,280	445,000	450,280	425,280
Interest	671	39,916	40,587	58,773
Total expenditures	5,951	484,916	490,867	484,053
Excess of revenues over (under) expenditures	(5,346)	(473,638)	(478,984)	(465,451)
Other financing sources - transfers in		504,916	504,916	477,766
Net change in fund balances	(5,346)	31,278	25,932	12,315
Beginning fund balances	8,001	272,915	280,916	268,601
Ending fund balances	2,655,	304,193	306,848	280,916

CAPITAL PROJECT FUNDS

Capital Project Funds are established to account for the financial resources expended to acquire or construct major capital assets of a relatively permanent nature. Such financial resources include grants, contributions, bond proceeds, and operating transfers from other funds.

Capital Project Funds provide a formal mechanism to ensure that revenues dedicated to a certain project are used only for that project and enable the City administration to report to grantors of Capital Project Fund revenue that their requirements regarding the use of the revenues are fully satisfied.

City Facilities - This fund accounts for capital improvement projects for buildings and other facilities.

Streets and Sidewalks - This fund accounts for capital improvement projects for streets and sidewalks.

Depreciation Reserves - This fund accounts for monies set aside each year from the General Fund to be used for the maintenance of City buildings and the purchase of General Fund equipment.

Land Reserve - This fund accounts for the accumulation of capital to purchase land.

Fleet Reserve Allocation - This fund accounts for the accumulation of capital to purchase vehicles.

CITY OF HOMER, ALASKA
 Capital Project Funds
 Combining Balance Sheet
 December 31, 2006
 (With Comparative Totals for 2005)

Assets	City Facilities	Streets and Sidewalks	Depreciation Reserves	Land Reserve	Fleet Reserve Allocation	Totals	
						2006	2005
Cash and investments	\$ 10,689	3,226,432	617,883	4,472	814,455	4,673,931	4,739,981
Receivables:							
Sales taxes		222,094				222,094	178,938
State and federal grants	368,049					368,049	1,327,650
Other							4,680
Prepaid items	672					672	
Total assets	379,410	3,448,526	617,883,	4,472	814,455	5,264,746	6,251,249
<hr/> Liabilities and Fund Balances <hr/>							
Liabilities:							
Accounts payable	19,353	153,769	7,283		836	181,241	1,253,807
Accrued payroll and related liabilities							2,658
Deferred revenue	3,783					3,783	3,783
Due to other funds							489,198
Total liabilities	23,136	153,769	7,283		836	185,024	1,749,446
Fund balances:							
Reserved for capital projects		3,294,757				3,294,757	3,487,676
Unreserved - designated for capital outlay and land	356,274		610,600	4,472	813,619	1,784,965	1,435,923
Deficit							(421,796)
Total fund balances	356,274	3,294,757	610,600	4,472	813,619	5,079,722	4,501,803
Total liabilities and fund balances	379,410	3,448,526	617,883	4,472	814,455	5,264,746	6,251,249

CITY OF HOMER, ALASKA

Capital Project Funds
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Year Ended December 31, 2006
(With Comparative Totals for 2005)

	City Facilities	Streets and Sidewalks	Depreciation Reserves	Land Reserve	Fleet Reserve Allocation	Totals 2006	Totals 2005
Revenues:							
Sales taxes	\$	1,134,096				1,134,096	1,031,167
Intergovernmental	1,521,575					1,521,575	2,908,286
Investment income	12,993	98,777	28,856	120	13,102	153,848	85,620
Donations	62,500					62,500	1,210,298
Legal settlement	540,000					540,000	
Other	9,061	875	4,025		2,337	16,298	18,541
Total revenues	2,146,129	1,233,748	32,881	120	15,439	3,428,317	5,253,912
Expenditures:							
General government			22,785		24,113	46,898	24,050
Public safety	278,016		63,838		59,428	401,282	155,097
Public works	2,170	941,751	28,554		103,058	1,075,533	422,495
Library	3,692,389		-			3,692,389	3,620,515
Airport			8,299			8,299	
Parks and recreation	191,855		37,289			229,144	65,478
Community services			58,482			58,482	435,677
Total expenditures	4,164,430	941,751	219,247		186,599	5,512,027	4,723,312
Excess of revenues over (under) expenditures	(2,018,301)	291,997	(186,366)	120	(171,160)	(2,083,710)	530,600
Other financing sources (uses):							
Proceeds from long-term debt	2,100,000					2,100,000	
Transfers in	696,371		414,918		523,802	1,635,091	2,011,135
Transfers out		(484,916)	(568,546)		(20,000)	(1,073,462)	(1,359,953)
Net other financing sources (uses)	2,796,371	(484,916)	(153,628)		503,802	2,661,629	651,182
Net change in fund balances	778,070	(192,919)	(339,994)	120	332,642	577,919	1,181,782
Beginning fund balances (deficit)	(421,796)	3,487,676	950,594	4,352	480,977	4,501,803	3,320,021
Ending fund balances	\$ 356,274	3,294,757	610,600	4,472	813,619	5,079,722	4,501,803

ENTERPRISE FUNDS

The Enterprise Funds account for operations that are financed and operated in a manner similar to private business operations. The City of Homer utilizes two Enterprise Funds.

Port of Homer - This fund accounts for the operations of the port and harbor.

Water and Sewer Utility - This fund accounts for the operations of the water and sewer utility providing services to the residents of the City.

CITY OF HOMER, ALASKA

Port of Homer Enterprise Fund

Statement of Net Assets

December 31, 2006

(With Comparative Amounts for 2005)

Assets	2006	2005
Current assets:		
Cash and investments	\$ 231,454	
Receivables:		
Accounts, net of allowance for doubtful accounts of \$53,413 in 2006 and \$29,707 in 2005	213,970	140,758
State and federal grants	100,000	181,155
Litigation settlement - current	100,000	121,000
Net receivables	413,970	442,913
Inventory	9,948	9,366
Prepaid items	28,833	28,096
Total current assets	684,205	480,375
Restricted assets - cash and investments restricted for debt service	168,420	168,420
Bond issuance costs, net of accumulated amortization of \$15,993 in 2006 and \$10,662 in 2005	15,993	21,324
Long-term portion of litigation settlement receivable, net of 6% discount of \$32,698 in 2006 and \$53,489 in 2005	167,302	246,511
Property, plant and equipment:		
Property, plant and equipment in service	52,321,044	52,214,456
Land and land improvements	15,254,041	15,254,041
Construction work in progress	129,332	-
Less accumulated depreciation	(20,966,906)	(19,586,792)
Net property, plant and equipment	46,737,511	47,881,705
Total assets	\$ 47,773,431	48,798,335
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	110,971	128,356
Accrued payroll and related liabilities	21,408	21,690
Accrued leave	17,245	13,207
Accrued interest	5,939	7,368
Current portion of bonds payable	170,000	165,000
Current portion of capital lease	16,302	-
Prepaid berth rentals and deposits	556,660	545,199
Due to other funds	-	101,544
Unearned lease revenue	18,000	18,000
Total current liabilities	916,525	1,000,364
Noncurrent liabilities, net of current portion:		
Unearned lease revenue	378,000	396,000
Accrued leave	106,558	89,889
Revenue bonds, net of deferred loss of \$18,321 in 2006 and \$24,428 in 2005	346,679	510,572
Capital lease	45,013	
Net pension/OPEB obligation	216,309	120,398
Total noncurrent liabilities	1,092,559	1,116,859
Total liabilities	2,009,084	2,117,223
Net assets:		
Invested in capital assets, net of related debt	46,175,510	47,227,457
Restricted for debt service	168,420	168,420
Unrestricted (deficit)	(579,583)	(714,765)
Total net assets	45,764,347	46,681,112
Total liabilities and net assets	\$ 47,773,431	48,798,335

CITY OF HOMER, ALASKA
Port of Homer Enterprise Fund
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended December 31, 2006
(With Comparative Amounts for 2005)

	2006	2005
Operating revenues:		
Harbor	\$ 1,551,356	1,467,490
Main dock	139,754	141,423
Fish dock	685,538	761,798
Deep water dock	117,045	87,831
Rents, leases and storage	41,270	40,754
Fish grinder	12,065	8,519
Total operating revenues	2,547,028	2,507,815
Operating expenses:		
Harbor	1,069,736	993,742
Main dock	57,411	83,050
Fish dock	558,609	488,523
Deep water dock	50,190	51,959
Fish grinder	24,506	19,447
Administration	935,424	858,628
Depreciation	1,380,114	1,366,913
Total operating expenses	4,075,990	3,862,262
Operating loss	(1,528,962)	(1,354,447)
Nonoperating revenues (expenses):		
Investment income	31,269	19,565
Interest expense	(35,201)	(41,392)
Litigation settlements	626,751	25,274
Amortization of bond issuance costs	(5,331)	(5,331)
State of Alaska PERS relief		40,172
Other income	85,864	64,362
Net nonoperating revenues (expenses)	703,352	102,650
Loss before contributions and transfers	(825,610)	(1,251,797)
Capital contributions		68,090
Transfers out	(91,155)	
Change in net assets	(916,765)	(1,183,707)
Beginning net assets	46,681,112	47,864,819
Ending net assets	\$ 45,764,347	46,681,112

CITY OF HOMER, ALASKA

Port of Homer Enterprise Fund

Statement of Cash Flows

Year Ended December 31, 2006

(With Comparative Amounts for 2005)

	2006	2005
Cash flows from operating activities:		
Receipts from customers and users	\$ 2,553,141	2,638,965
Payments to suppliers	(1,460,257)	(1,356,280)
Payments to employees	(1,137,987)	(1,056,205)
Litigation settlements (net)	726,960	121,000
Net cash flows from operating activities	<u>681,857</u>	<u>347,480</u>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(169,860)	(155,000)
Interest payments on long-term debt	(30,523)	(36,916)
Acquisition of property, plant and equipment	(169,745)	(774,341)
Decrease in due to other funds	(101,544)	(31,183)
Capital contributions received	81,155	630,395
Transfers out	(91,155)	
Net cash flows from capital and related financing activities	<u>(481,672)</u>	<u>(367,045)</u>
Cash flows from investing activities - investment income received	<u>31,269</u>	<u>19,565</u>
Net increase in cash and investments	231,454	
Beginning cash and investments	<u>168,420</u>	<u>168,420</u>
Ending cash and investments	<u>399,874</u>	<u>168,420</u>
Cash mid investments at end of year:		
Cash and investments	231,454	
Cash and investments restricted for debt service	<u>168,420</u>	<u>168,420</u>
	<u>\$ 399,874</u>	<u>168,420</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (1,528,962)	(1,354,447)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation	1,380,114	1,366,913
Noncash expense - PERS relief		40,172
Increase (decrease) in allowance for doubtful accounts	23,706	(1,479)
Amortization of deferred lease revenue	(18,000)	(18,000)
Litigation settlements	626,751	25,274
Miscellaneous nonoperating revenues	85,864	64,362
(Increase) decrease in assets:		
Accounts receivable	(96,918)	43,307
Inventory	(582)	2,749
Prepaid items	(737)	3,282
Litigation settlement receivable	100,209	95,726
Increase (decrease) in liabilities:		
Accounts payable	(17,385)	(8,655)
Accrued payroll and related liabilities	(282)	(2,629)
Accrued leave	20,707	(19,241)
Prepaid berth rentals and deposits	11,461	42,961
Net pension/OPEB obligation	95,911	67,185
Net cash flows from operating activities	<u>681,857</u>	<u>347,480</u>
Noncash capital and related financing activities - equipment acquired with capital lease	<u>\$ 66,175</u>	

CITY OF HOMER, ALASKA
 Port of Homer Enterprise Fund
 Combining Schedule of Port of Homer Capital Projects
 Year Ended December 31, 2006

	DWD Corrosion Control	Ramp Improvements	Fish Dock Access	High Mast Lights	Totals
Funding sources - Port of Homer funds	\$ 1,500	77,224	26,569	64,452	169,745
Disbursements	\$ 1,500	77,224	26,569	64,452	169,745

CITY OF HOMER, ALASKA

Water and Sewer Utility Enterprise Fund
Statement of Net Assets
December 31, 2006
(With Comparative Amounts for 2005)

Assets	2006	2005
Current assets:		
Cash and investments	\$	695,282
Receivables:		
Accounts, net of allowance for doubtful accounts of \$41,368 in 2006 and \$54,504 in 2005	273,508	306,379
Sales taxes	222,094	178,938
Assessments due within one year	224,800	125,596
State and federal grants and loans	3,028,344	900,183
Net receivables	3,748,746	1,511,096
Inventory	250,294	216,505
Prepaid items	38,567	36,131
Total current assets	4,037,607	2,459,014
Restricted assets - cash and investments restricted for debt service and construction	3,195,453	2,522,887
Assessments due after one year	2,001,759	670,211
Bond issuance costs, net of accumulated amortization of \$8,471 in 2006 and \$5,647 in 2005	2,824	5,647
Property, plant and equipment:		
Property, plant and equipment in service	56,949,020	49,770,907
Land	436,227	436,227
Construction work in progress	459,822	5,017,274
Less accumulated depreciation	(30,797,166)	(29,013,024)
Net property, plant and equipment	27,047,903	26,211,384
Total assets	36,285,546	31,869,143
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	98,038	255,123
Accrued payroll and related liabilities	22,241	20,704
Accrued leave	17,906	12,312
Accrued interest	45,701	147,163
Current portion of notes payable	581,611	311,881
Current portion of bonds payable, net of deferred loss of \$2,603 in 2006	82,397	85,000
Current portion of capital lease	38,797	
Due to other funds	1,303,081	-
Customer utility deposits	39,097	37,659
Total current liabilities	2,228,869	869,842
Noncurrent liabilities, net of current portion:		
Accrued leave	146,462	131,760
Notes payable	8,957,495	7,167,200
Capital lease	108,797	-
Revenue bonds, net of deferred loss of \$5,206 in 2005	-	79,794
Net pension/OPEB obligation	203,657	113,083
Total noncurrent liabilities	9,416,411	7,491,837
Total liabilities	11,645,280	8,361,679
Net assets:		
Invested in capital assets, net of related debt	17,281,630	18,573,156
Restricted for debt service and capital projects	3,415,383	2,701,825
Unrestricted	3,943,253	2,232,483
Total net assets	24,640,266	23,507,464
Total liabilities and net assets	\$ 36,285,546	31,869,143

CITY OF HOMER, ALASKA
Water and Sewer Utility Enterprise Fund
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended December 31, 2006
(With Comparative Amounts for 2005)

	2006	2005
Operating revenues:		
Water charges and connection fees	\$ 1,199,744	1,343,855
Sewer charges and connection fees	1,380,994	1,261,522
Total operating revenues	2,580,738	2,605,377
Operating expenses:		
Water department:		
Treatment plant operations and testing	319,346	303,020
Pumping system	62,425	54,069
Distribution system and reservoir	270,348	235,567
Water meters	123,717	84,700
Water hydrants	73,907	78,408
Administration	565,627	597,111
Total water department	1,415,370	1,352,875
Sewer department:		
Treatment plant	488,992	424,688
Collection system	163,619	138,243
Lift station	124,906	108,798
Administration	615,823	572,905
Total sewer department	1,393,340	1,244,634
Depreciation	1,784,143	1,780,181
Total operating expenses	4,592,853	4,377,690
Operating loss	(2,012,115)	(1,772,313)

CITY OF HOMER, ALASKA
Water and Sewer Utility Enterprise Fund
Statement of Revenues, Expenses and Changes in Net Assets, continued

	2006	2005
Nonoperating revenues (expenses):		
Investment income	\$ 116,439	81,495
Interest expense	(141,990)	(52,316)
Sales taxes	1,134,096	1,031,167
Amortization of bond issuance costs	(2,824)	(2,824)
Water/sewer master plan	(24,460)	(154,852)
State of Alaska PERS relief		39,241
Other income	164,597	33,031
Other expenses	(7,590)	(46,373)
Net nonoperating revenues (expenses)	1,238,268	928,569
Loss before contributions and transfers	(773,847)	(843,744)
Capital contributions	2,274,619	221,412
Transfers out	(367,970)	(110,000)
Change in net assets	1,132,802	(732,332)
Beginning net assets	23,507,464	24,239,796
Ending net assets	\$ 24,640,266	23,507,464

CITY OF HOMER, ALASKA
Water and Sewer Utility Enterprise Fund
Statement of Cash Flows
Year Ended December 31, 2006
(With Comparative Amounts for 2005)

	2006	2005
Cash flows from operating activities:		
Receipts from customers and users	\$ 2,779,644	2,542,582
Payments to suppliers	(1,742,229)	(2,244,065)
Payments to employees	(1,179,434)	(1,105,107)
Net cash flows from operating activities	(142,019)	(806,590)
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(671,788)	(381,200)
Interest payments on longer term debt	(240,849)	(57,140)
Proceeds from long-term borrowing	643,413	2,077,858
Acquisition of property, plant and equipment	(2,473,068)	(3,518,257)
Capital contributions received	471,467	105,644
Principal collections on special assessments	247,638	125,596
Sales tax revenue received	1,090,940	1,021,260
Increase in due to other funds	1,303,081	
Transfers out	(367,970)	(110,000)
Net cash flows from capital and related financing activities	2,864	(736,239)
Cash flows from investing activities - investment income received	116,439	81,495
Net decrease in cash and investments	(22,716)	(1,461,334)
Beginning cash and investments	3,218,169	4,679,503
Ending cash and investments	3,195,453	3,218,169
Cash and investments at end of year:		
Cash and investments		695,282
Cash and investments restricted for debt service and construction	3,195,453	2,522,887
	3,195,453	3,218,169
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (2,012,115)	(1,772,313)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation	1,784,143	1,780,181
Noncash expense - PERS relief		39,241
Increase (decrease) in allowance for doubtful accounts	(13,136)	33,661
Miscellaneous nonoperating revenues	164,597	33,031
Miscellaneous nonoperating expenses	(32,050)	(201,225)
(Increase) decrease in assets:		
Accounts receivable	46,007	(135,634)
Inventory	(33,789)	(46,548)
Prepaid items	(2,436)	5,293
Increase (decrease) in liabilities:		
Accounts payable	(157,085)	(631,373)
Accrued payroll and related liabilities	1,537	3,414
Accrued leave	20,296	15,834
Customer deposits	1,438	6,147
Net pension/OPEB obligation	90,574	63,701
Net cash flows from operating activities	(142,019)	(806,590)
Noncash capital and related financing activities - equipment acquired with capital lease	147,593	

CITY OF HOMER, ALASKA
 Water and Sewer Utility Enterprise Fund
 Combining Schedule of Water and Sewer Utility Capital Projects
 Year Ended December 31, 2006

	Water Pump	Vehicles and Other Equipment	Water Storage	Hillside Acres LID	Barlett/HOHE Utilities	East End Road LID	Kachemak Drive Phase I	Kachemak Drive Phase II	Ocean Loop LID	Water Treatment Plant Modification	Paintbrush Booster Station	Totals
Funding sources:												
State and federal grants	\$		471,215			41,776				81,839		594,830
Water and Sewer Utility funds and capitalization loans		10,371	209,322	2,525	162,769	207,579	65,425	2,409	1,050,027	34,780	9,134	1,864,632
Total funding sources	\$	10,371	680,537	2,525	162,769	249,355	65,425	2,409	1,050,027	116,619	9,134	2,459,462
Disbursements:												
Salaries and benefits			12,558		301	2,052	9,496	2,409	20,268	3,883		50,967
Other services and charges		10,371	8,789	925	24,999	5,726	38,836		13,812	112,736	9,134	317,053
Capital outlay			18,566	1,600	137,469	241,577	17,093		1,015,947			2,091,442
Total disbursements	\$	10,371	680,537	2,525	162,769	249,355	65,425	2,409	1,050,027	116,619	9,134	2,459,462

INTERNAL SERVICE FUND

An Internal Service Fund accounts for the financing of goods or services provided to other City departments on a cost-reimbursement basis.

Risk Management Fund - This fund accounts for money received from other City funds to pay for the cost of medical, dental, vision and weekly income benefits self-insurance claims.

CITY OF HOMER, ALASKA
 Risk Management Internal Service Fund
 Statement of Net Assets
 December 31, 2006
 (With Comparative Amounts for 2005)

Assets	2006	2005
Cash and investments	\$ 136,957	
Accounts receivable	67,483	32,068
Total assets	\$ 204,440	32,068
Liabilities and Net Assets		
Liabilities:		
Accounts payable	64,243	76,353
Due to other funds		44,326
Total liabilities	64,243	120,679
Net assets (deficit)	140,197	(88,611)
Total liabilities and net assets	\$ 204,440	32,068

CITY OF HOMER, ALASKA
 Risk Management Internal Service Fund
 Statement of Revenues, Expenses and Changes in Net Assets (Deficit)
 Year Ended December 31, 2006
 (With Comparative Amounts for 2005)

	2006	2005
Operating revenues - interfund insurance charges	\$ 1,465,067	1,194,783
Operating expenses:		
Claims	910,818	709,504
Insurance premiums	272,821	287,491
Administration	52,620	57,213
Total operating expenses	1,236,259	1,054,208
Change in net assets	228,808	140,575
Beginning deficit	(88,611)	(229,186)
Ending net assets (deficit)	\$ 140,197	(88,611)

CITY OF HOMER, ALASKA
 Risk Management Internal Service Fund
 Statement of Cash Flows
 Year Ended December 31, 2006
 (With Comparative Amounts for 2005)

	2006	2005
Cash flows from operating activities:		
Receipts from interfund services provided	\$ 1,429,652	1,166,567
Payments for insurance claims and administration	(1,248,369)	(1,056,175)
Net cash flows from operating activities	181,283	110,392
Cash flows from noncapital financing activities - decrease in due to other funds	(44,326)	(110,392)
Net increase in cash and investments	136,957	
Beginning cash and investments		
Ending cash and investments	\$ 136,957	
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 228,808	140,575
Adjustments to reconcile operating income to net cash flows from operating activities:		
Increase in accounts receivable	(35,415)	(28,216)
Decrease in accounts payable	(12,110)	(1,967)
Net cash flows from operating activities	\$ 181,283	110,392

SCHEDULE OF FEDERAL EXPENDITURES

CITY OF HOMER, ALASKA
 Schedule of Expenditures of Federal Awards
 Year Ended December 31, 2006

Federal Grant Title	Grant <u>Number</u>	Catalog of Federal Assistance <u>Number</u>	Total Grant <u>Award</u>	January 1, 2006 Receivable <u>(Deferred)</u>	Federal Share of <u>Expenditures</u>	Federal <u>Receipts</u>	December 31, 2006 Receivable <u>(Deferred)</u>
DEPARTMENT OF AGRICULTURE							
Homer Public Library	60.003-9200 30963	10.760	\$ 880,792		880,792	880,792	
Homer Public Library Loan		10.760	1,700,000		1,700,000	1,700,000	
Homer Public Library Loan		10.760	400,000		400,000	400,000	
Homer Public Library		10.760	12,500		12,500	12,500	
Passed through the State of Alaska Department of Natural Resources - Volunteer Fire Assistance	39749	10.202	7,500		7,500	7,500	
Total Department of Agriculture					3,000,792	3,000,792	
DEPARTMENT OF COMMERCE							
Homer Public Library	07-01-05664	11.300	1,115,000	333,650	259,847	312,215	281,282
DEPARTMENT OF HOMELAND SECURITY							
Passed through the State of Alaska Department of Military and Veteran Affairs:							
Law Enforcement Terrorism Prevention Program	05 LET PP 34051	97.074	164,047	12,147	131,219	115,019	28,347
Law Enforcement Terrorism Prevention Program	35549-04-16	97.004	165,146	24,469	127,677	152,146	-
Homeland Security Equipment	SHSGP 1103-10	97.004	562,923	3,141		3,141	-
Emergency Operations Plan	34021	97.073	16,000	-	13,402		13,402
Total Department of Homeland Security				39,757	272,298	270,306	41,749
DEPARTMENT OF INTERIOR							
Passed through the State of Alaska Department of Natural Resources - Jack Gist Recreational Park	02-00369	15.916	169,792	25,256	69,793	86,629	8,420
Passed through the State of Alaska Department of Fish and Game - Harbor Restrooms and Fish Cleaning Facility (75% Federal)	CO-OP 04-047	15.605	319,238	11,736		11,736	
Total Department of Interior				36,992	69,793	98,365	8,420
ENVIRONMENTAL PROTECTION AGENCY							
Wetland Development Grant	CD-97051401	66.461	127,302	1,633	14,033	12,465	3,201
Passed through the State of Alaska Department of Environmental Conservation:							
Water Storage Reservoir Construction (75% Federal)	40904	66.606	1,179,000	76,923	353,411	312,434	117,900
Water Improvements Phase 2 (75% Federal)	40906	66.606	252,000	-	61,379	-	61,379
Clean Water Loan (83% Federal)	409051	66.458	124,500	105,493	10,150	98,847	16,796
Clean Water Loan (83% Federal)	409081	66.458	2,665,000	-	961,328		961,328
Clean Water Loan (83% Federal)	409031	66.458	2,873,794	167,795	814,158	137,338	844,615
Drinking Water Loan (82% Federal)	409101	66.468	385,400	-	19,580	-	19,580
Drinking Water Loan (82% Federal)	409041	66.468	2,779,243	333,651	378,602	285,030	427,223
Total Environmental Protection Agency				685,495	2,612,641	846,114	2,452,022
NATIONAL ENDOWMENT FOR THE HUMANITIES							
Passed through the State of Alaska Department of Education and Early Development - Continuing Education	CED-06-738-06	45.310	1,000		1,000	1,000	

CITY OF HOMER, ALASKA

Schedule of Expenditures of Federal Awards, continued

Federal Grant Title	Grant Number	Catalog of Federal Domestic Assistance Number	Total Grant Award	January 1, 2006 Receivable (Deferred)	Federal Share of Expenditures	Federal Receipts	December 31, 2006 Receivable (Deferred)
DEPARTMENT OF TRANSPORTATION							
Passed through the State of Alaska Department of Transportation and Public Facilities:							
Kachemak Bay Multi-Purpose Ocean Dock	MOA 75267	20.205	\$ 2,997,000	90,000			90,000
Homer Multit-Use Ice Facility - Ice Equipment	58030	20.58030	400,000	30,116	-	30,116	
Holiday DUI Enforcement	4-76370	20.600	10,725	3,356	3,514	6,870	-
ASTEP DUI Enforcement	FY2006	20.600	10,769	-	7,411	4,264	3,147
ASTEP Seat Belt Enforcement	FY2006	20.600	5,431		5,351	5,207	144
Enhanced Accident Investigation	402PT-07-06-09	20.600	15,319	-	7,749	-	7,749
Strategic Evaluation States DUI Enforcement	060103 1631D	20.600	4,550	279	1,751	2,030	
Commercial Vehicle Enforcement	05-PD-003	20.234	6,605	2,565	-	190	2,375
Commercial Vehicle Enforcement	06-PD-003	20.234	6,605		6,270	4,465	1,805
Scenic Byways (80% Federal)	75813	20.205	120,960		38,639	24,063	14,576
Total Department of Transportation				126,316	70,685	77,205	119,796
Total Federal Financial Assistance			\$ 1,222,210		6,287,056	4,605,997	2,903,269

CITY OF HOMIER, ALASKA

Notes to the Schedule of Expenditures of Federal Awards

Year Ended December 31, 2006

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the grant activity of City of Homer and is presented on the modified accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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CITY OF HOMER, ALASKA
 Government-wide Net Assets by Category
 Last Three Fiscal Years
 (accrual basis of accounting)

	2006	2005	2004
General Fund Activities:			
Invested in capital assets, net of related debt	\$ 42,266,274	39,633,946	34,744,914
Restricted	3,601,605	3,768,592	3,237,361
Unrestricted	4,932,592	3,919,540	3,000,843
Subtotal Governmental Activities Net Assets	50,800,471	47,322,078	40,983,118
Enterprise Fund Activities:			
Invested in capital assets, net of related debt	63,457,140	65,800,613	66,667,055
Restricted	3,583,803	2,870,245	2,316,028
Unrestricted	3,406,230	1,486,971	3,048,076
Subtotal Business-type Activities Net assets	70,447,173	70,157,829	72,031,159
Primary Government:			
Invested in capital assets, net of related debt	105,723,414	105,434,559	101,411,969
Restricted	7,185,408	6,638,837	5,553,389
Unrestricted	8,338,822	5,406,511	6,048,919
Total Primary Government Net Assets	\$ 121,247,644	117,479,907	113,014,277

CITY OF HOMER, ALASKA
Changes in Net Assets - Total
Last Three Fiscal Years
(accrual basis of accounting)

Source	2006	2005	2004
Program Revenues:			
Governmental activities	\$ 3,416,278	6,283,206	3,248,057
Business-type activities	7,652,846	5,402,694	6,200,508
Total Program Revenues	11,069,124	11,685,900	9,448,565
General Revenues:			
Governmental activities	8,564,382	7,587,607	5,866,677
Business-type activities	1,908,555	1,334,307	1,234,411
Total General Revenues	10,472,937	8,921,914	7,101,088
Total Revenues	21,542,061	20,607,814	16,549,653
Expenses:			
Governmental activities	8,961,392	7,641,853	8,404,279
Business-type activities	8,812,932	8,500,331	7,960,147
Total Expenses	17,774,324	16,142,184	16,364,426
Change in Net Assets	\$ 3,767,737	4,465,630	185,227
Beginning Net assets	117,479,907	113,014,277	112,829,050
Ending Net Assets	121,247,644	117,479,907	113,014,277
Change in Net Assets	\$ 3,767,737	4,465,630	185,227

CITY OF HOMER, ALASKA

Changes in Net Assets - Governmental Activities

Last Three Fiscal Years

(accrual basis of accounting)

Source	2006	2005	2004
Expenses:			
General government	\$ 1,453,282	1,800,060	1,870,428
Public safety	3,912,322	3,322,075	3,101,937
Public works	2,405,097	1,066,319	2,136,469
Library	370,404	293,831	473,298
Airport	152,414	149,341	173,258
Parks and recreation	391,303	356,721	377,010
Community service contributions	211,894	582,677	180,964
Unallocated interest	64,676	70,829	90,915
Total Expenses	8,961,392	7,641,853	8,404,279
Program Revenues:			
Charges for services:	1,159,602	1,192,498	1,572,697
Operating grants and contributions	640,601	729,240	401,998
Capital grants and contributions	1,616,075	4,361,468	1,273,362
Total Program Revenues	3,416,278	6,283,206	3,248,057
General Revenues -			
Taxes:			
Property	2,406,263	2,091,977	1,888,761
Sales	5,670,638	5,119,528	3,770,288
Other	487,481	376,102	207,628
Total General Revenues	8,564,382	7,587,607	5,866,677
Total Revenues	11,980,660	13,870,813	9,114,734
Increase in net assets before transfers	3,019,268	6,228,960	710,455
Transfers	459,125	110,000	50,685
Increase in net assets	\$ 3,478,393	6,338,960	761,140
Beginning Net assets	\$ 47,322,078	40,983,118	40,221,978
Ending Net Assets	50,800,471	47,322,078	40,983,118
Change in Net Assets	\$ 3,478,393	6,338,960	761,140

Table 4

CITY OF HOMER, ALASKA
Changes in Net Assets - Business-type Activities
Last Three Fiscal Years
(accrual basis of accounting)

Source	2006	2005	2004
Program Revenues:			
Charges for services	\$ 5,378,227	5,113,192	5,249,325
Capital grants and contributions	2,274,619	289,502	951,183
Total Program Revenues	7,652,846	5,402,694	6,200,508
General Revenues:			
Sales taxes	1,134,096	1,031,167	1,019,645
Other	774,459	303,140	214,766
Total General Revenues	1,908,555	1,334,307	1,234,411
Total Revenues	9,561,401	6,737,001	7,434,919
Expenses:			
Port and Harbor	4,075,045	3,885,187	3,709,842
Water and Sewer	4,737,887	4,615,144	4,250,305
Total Expenses	8,812,932	8,500,331	7,960,147
Increase (decrease) in net assets before transfers	748,469	(1,763,330)	(525,228)
Transfers	(459,125)	(110,000)	(50,685)
Increase (decrease) in net assets	289,344	(1,873,330)	(575,913)
Beginning Net assets	70,157,829	72,031,159	72,607,072
Ending Net Assets	70,447,173	70,157,829	72,031,159
Change in Net Assets	\$ 289,344	(1,873,330)	(575,913)

CITY OF HOMER, ALASKA
Fund Balances - Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	997	998	1999	000	2001	2002	2003	2004	2005	2006
Governmental Funds										
Reserved	\$ 105,737	113,839	145,574	166,446	167,374	495,301	3,012,150	3,551,320	4,049,335	3,861,879
Unreserved	2,969,540	2,992,240	3,368,047	5,523,063	5,756,624	6,077,707	3,219,348	2,532,158	3,601,701	5,432,866
Total Governmental Funds	3,075,277	3,106,079	3,513,621	5,689,509	5,923,998	6,573,008	6,231,498	6,083,478	7,651,036	9,294,745
Percentage Change	1%	0%	13.1%	61.9%	4.1%	11.0%	-5.2%	-2.4%	25.8%	21.5%

CITY OF HOMER, ALASKA
Changes in Fund Balance - General Fund
Last Ten Fiscal Years

Source	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues:										
Taxes	\$ 3,085,592	3,042,702	3,327,801	3,382,688	3,504,746	3,962,127	4,361,019	4,603,632	6,195,352	6,922,637
Licenses and pennits	75,254	55,244	143,271	10,042	12,520	17,000	18,930	88,411	42,717	46,096
Intergovernmental	425,967	412,066	355,322	781,218	784,840	765,845	680,330	547,114	765,957	611,153
Fines and forfeitures				25,044	19,489	35,577	36,321	24,444	23,269	19,435
Charges for services	1,520,942	1,563,540	1,527,933	1,326,039	1,393,570	2,045,851	1,991,495	2,028,181	2,183,048	2,136,838
Investment income	200,529	201,534	160,919	174,395	83,189	45,387	13,571	9,002	30,419	53,775
Special assessments	23,214	35,709	29,889	49,289	29,776	18,197	25,335	13,725	12,711	7,251
Contributions and donations	-	-	-	-	-	-	-	-	-	-
Legal settlement					91,930					200,404
Miscellaneous								3,428	4,821	
Total revenues	\$ 5,331,498	5,310,795	5,545,135	5,748,715	5,920,060	6,889,984	7,127,001	7,317,937	9,258,294	9,997,589
Expenditures:										
General government	\$ 1,376,588	1,534,640	1,421,672	1,449,470	1,684,884	1,688,822	1,747,060	2,388,044	2,621,084	2,219,461
Library	255,315	259,443	284,742	279,252	298,541	331,765	352,380	341,287	368,969	449,289
Public safety	2,210,412	2,198,709	2,608,205	2,043,570	2,164,793	2,427,407	2,663,261	2,852,376	3,014,408	3,256,439
Public works	736,465	709,758	773,563	691,683	803,036	1,040,359	1,197,669	1,217,189	1,293,092	1,506,099
Airport	112,490	114,317	134,262	132,894	107,541	124,311	145,981	128,278	146,221	179,504
Parks and recreation	103,671	172,243	217,261	302,097	342,943	386,188	318,118	300,281	327,682	367,027
Community services	198,608	181,634	161,884	122,359	109,796	128,757	120,000	146,546	147,000	207,858
Economic development										
Other	6,915	3,851								
Debt service:										
Principal retirement	92,245	98,616	131,301	159,864	169,837	137,625	39,481	84,699	88,360	204,736
Interest and fiscal charges	30,272	24,742	26,528	32,746	19,194	22,613	10,495	15,717	12,056	24,089
Total Expenditures	5,122,981	5,297,953	5,759,418	5,213,935	5,700,565	6,287,847	6,594,445	7,474,417	8,018,872	8,414,502
Excess (Deficiency) of Revenues	208,517	12,842	(214,283)	534,780	219,495	602,137	532,556	(156,480)	1,239,422	1,583,087
Over (Under) Expenditures	208,517	12,842	(214,283)	534,780	219,495	602,137	532,556	(156,480)	1,239,422	1,583,087
Other Financing Sources (Uses):										
Proceeds from capital lease	124,567		264,945							46,601
Transfers in	76,815		10,000							20,000
Transfers out	(470,500)	(342,314)	(373,022)	(108,700)	(201,485)	(229,522)	(619,700)	(351,047)	(379,460)	(623,743)
Total Other Financing Sources (Uses)	(269,118)	(342,314)	(98,077)	(108,700)	(201,485)	(229,522)	(619,700)	(351,047)	(379,460)	(557,142)
Net Change in Fund Balance	\$ (60,601)	(329,472)	(312,360)	426,080	18,010	372,615	(87,144)	(507,527)	859,962	1,025,945
Debt Service as a % of Noncapital Expenditures										
	2.4%	2.3%	2.74%	3.7%	3.3%	5%	0.8%	1.3%	1.3%	2.7%

CITY OF HOMER, ALASKA
 Governmental Revenues by Source
 Last Ten Fiscal Years

Year Ended	Taxes	Licenses & Permits	Inter-governmental	Charges For Services	Fines	Investment Income	Special Assessments and Interest	Other	Donations	Legal Settlements	Total
2006	\$ 8,053,574	\$ 46,096	2,247,343	\$ 2,136,838	\$ 19,435	\$ 233,998	\$ 11,180	\$ 24,207	\$ 64,412	\$ 740,404	13,577,487
2005	7,221,698	42,717	3,740,329	2,183,048	23,269	150,223	15,462	23,362	1,362,374		14,762,482
2004	5,623,277	88,411	1,966,565	2,028,181	24,444	47,793	16,517	172,876	170,864		10,138,928
2003	5,317,372	18,930	1,354,063	1,991,495	36,321	66,649	39,571	68,973	140,794		9,034,168
2002	4,846,727	17,000	1,574,238	2,045,851	35,577	119,310	71,959	369,881	77,081		9,157,624
2001	4,281,198	12,520	1,038,386	1,393,570	19,489	198,034	65,682	129,177		91,930	7,229,986
2000	4,123,790	10,042	1,119,177	1,326,039	25,044	417,620	121,568	29,116			7,172,396
1999	4,070,334	12,547	486,130	1,527,933	17,108	254,793	163,446	116,627			6,648,918
1998	3,722,724	15,557	486,399	1,563,540	33,343	201,534	198,023	53,129			6,274,249
1997	3,755,643	6,050	492,788	1,520,942	42,202	200,529	115,078	53,298			6,186,530

CITY OF HOMER, ALASKA
 Tax Revenues by Source - Governmental Funds
 Last Ten Fiscal Years

Fiscal Year	Property	Sales Tax	Total
2006	\$ 2,382,936	\$ 5,670,638	\$ 8,053,574
2005	2,102,170	5,119,528	7,221,698
2004	1,885,333	4,757,589	6,642,922
2003	1,811,202	4,462,523	6,273,725
2002	1,603,317	4,128,010	5,731,327
2001	1,428,622	3,622,824	5,051,446
2000	1,407,579	3,457,312	4,864,891
1999	1,347,712	3,465,156	4,812,868
1998	1,240,627	3,162,119	4,402,746
1997	1,280,563	3,145,130	4,425,693

Percentage Change In Dollars Over 10 Years	Property	Sales Tax	Total
	86.1%	80.3%	82.0%

CITY OF HOMER, ALASKA

Taxable Sales
December 31, 2006

Business	Total
Retail	\$ 69,521,437
Hotel/Motel	24,653,945
Wholesale Trade	15,733,820
Information	7,139,274
Transportation & Warehousing	7,001,574
Remediation Services	5,998,615
Services	5,657,106
Utilities	4,456,860
Public Administration	3,939,804
Professional, Scientific & Technical	2,488,952
Administrative - Waste Management	2,014,776
Arts & Entertainment	1,588,144
Construction	1,029,051
Manufacturing	999,188
Educational Services	253,108
Agriculture, Forestry, Fishing and Hunting	117,473
Health & Social Care	110,392
Restaurant & Bars	102,115
Rental Non Residential Property	60,271
Telecommunications	26,792
Finance & Insurance	11,111
Rental Commercial Property	8,251
Rental Personal Property	7,646
Guiding - Water	5,766
	\$ 152,925,471

Data from the Kenai Peninsula Borough Sales Tax Office.

CITY OF HOMER, ALASKA
 Assessed Value of Taxable Property
 Last Ten Fiscal Years

Amounts			
Fiscal Year Ended 12/31	Real Property	Personal Property	Total Taxable Assessed Value'
2006	\$ 500,195,962	\$ 20,345,978	\$ 520,541,940
2005	426,736,862	20,711,630	447,448,492
2004	348,552,362	17,324,836	365,877,198
2003	324,818,562	18,320,830	343,139,392
2002	307,199,562	19,730,539	326,930,101
2001	230,947,412	16,277,581	247,224,993
2000	223,830,212	17,663,028	241,493,240
1999	218,639,912	16,005,042	234,644,954
1998	191,928,412	23,381,415	215,309,827
1997	182,460,650	40,815,022	223,275,672

Source: City of Homer Comprehensive Annual Financial Report

Notes:

¹ Kenai Peninsula Borough (assessed at 100% of value)

² In 1998, the Kenai Peninsula Borough adopted Borough Ordinance 97-73 that created a flat tax for watercraft, creating \$100,000 personal property tax exemption, and increasing the motor vehicle tax.

CITY OF HOMER, ALASKA

Direct and Underlying Property Tax Rates
 Last Ten Fiscal Years
 Tax Rates (Mils)

Fiscal Year	City of Homer	Kenai Peninsula Borough	South Peninsula Hospital Service Area (a component of KPB)	Kenai Peninsula College	Total
2006	4.50	6.50	1.75	0.10	12.85
2005	4.50	6.50	1.75	0.10	12.85
2004	5.00	6.50	1.75	0.10	13.35
2003	5.00	6.50	1.75	0.10	13.35
2002	5.00	6.50	1.75	0.10	13.35
2001	5.50	7.00	1.75	0.10	14.35
2000	5.50	7.50	2.00	0.10	15.10
1999	5.50	8.00	2.00	0.10	15.60
1998	5.50	8.30	2.00	0.08	15.88
1997	5.50	8.30	2.00	0.08	15.88
1996	5.50	8.30	2.00	0.04	15.84

Source:

City of Homer, Alaska

Notes:

¹ Underlying rates are those of the City of Homer, Kenai Peninsula Borough, South Peninsula Hospital Service Area (component unit of KPB), and Kenai Peninsula College that apply to property owners within the City of Homer.

CITY OF HOMER, ALASKA
 Principal Property Taxpayers
 December 31, 2006

Tax Payer	Taxable Property Values
Homer Spit Properties, LLC	\$ 9,350,000
Tulin Charles E. & Helen L.	5,604,700
Lands End Acquisition Corp.	5,590,800
Wells Fargo Bank	2,994,600
Johnson John R. & Judith E.	2,763,100
Valentin Caspaar, LLC	2,386,800
Spenard Builders Supply, Inc FKA	2,058,012
Alaska USA Federal Credit Union	1,961,600
Ulmer Burgess, Inc.	1,929,100
Moore Kenneth D. & Roseleen L. Trustee	1,917,500

Data from the Kenai Peninsula Borough Economic Analyst

CITY OF HOMER, ALASKA
 Ratios of Annual Debt Service Expenditures for
 General Bonded Debt to Total General Fund Expenditures
 Last Ten Fiscal Years

Fiscal Year	Principal	Interest	Total Debt Service	Total General Expenditures	Percent of Debt Service to General Fund Expenditures
2006	\$ 445,000	\$ 39,916	\$ 484,916	\$ 8,414,502	5.76%
2005	420,000	57,766	477,766	8,018,872	5.96%
2004	390,000	73,854	463,854	7,474,417	6.21%
2003	365,000	88,734	453,734	6,594,445	6.88%
2002	345,000	101,831	446,831	6,287,847	7.11%
2001	320,000	115,054	435,054	5,700,565	7.63%
2000	300,000	127,054	427,054	5,213,935	8.19%
1999	265,000	154,913	419,913	5,759,418	7.29%
1998	205,000	220,981	425,981	5,297,953	8.04%
1997	217,500	259,053	476,553	5,122,981	9.30%

Note:

Principal and interest does not include debt service paid by the Water & Sewer, and Port Enterprise Funds.

CITY OF HOMER, ALASKA
 Ratios of Net General Bonded Debt to Assessed Value & Net Bonded Debt Per Capita
 Last Ten Fiscal Years

Fiscal Year	Population	Assessed Value	Gross Bonded Debt	Debt Service Funds Available	Net Bonded Debt	Percent of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
2006	5454	\$ 520,541,940	\$ 475,000	\$ 306,848	\$ 168,152	0.03%	31
2005	5435	447,448,492	920,000	280,916	639,084	0.14%	118
2004	5332	365,877,198	1,340,000	268,601	1,071,399	0.29%	201
2003	4893	343,139,392	1,730,000	268,068	1,461,932	0.43%	299
2002	4721	326,930,101	2,095,000	259,028	1,835,972	0.56%	389
2001	3946	247,224,993	2,440,000	237,356	2,202,644	0.89%	558
2000	4205	241,493,240	2,760,000	209,678	2,550,322	1.06%	606
1999	4154	234,644,954	3,060,000	568,170	2,491,830	1.06%	600
1998	4126	215,309,827	3,325,000	860,359	2,464,641	1.14%	597
1997	4126	223,275,672	3,355,000	1,171,237	2,183,763	0.98%	529

Notes:

Population per Alaska Department of Community and Economic Development.
 Gross Bonded Debt includes all long-term general obligation bonded debt.

CITY OF HOMIER, ALASKA
 Principal Employers - Lower Kenai Peninsula
 2006

Employer	2006	
	Number of Employees	Percentage of Total Rank Employment
Kenai Peninsula Borough School District	313	8.73%
South Peninsula Hospital	261	7.28%
South Peninsula Behavioral Health Srvcs	148	4.13%
City of Homer	118	3.29%
State of AK-Excludes University	97	2.70%
Safeway	98	2.73%
Lands End Resort	85	2.37%
Federal Government	69	1.92%
Homer Electric Association	66	1.84%
Chugach Electric	64	1.78%
<hr/>		
Total Employees (Top Ten)	1,319	36.77%
Average Employees Per Month	3,587	

Source:
 Kenai Peninsula Borough
 Economic Development

Note:

Comparative principal employers for 1997 is not available.

CITY OF HOMER, ALASKA
 City Employees by Function/Program
 Last Ten Calendar Years

<u>Function/program</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Administration	2	2	2	2	2	3	3	3	3	3
City Clerk	2	2	2	2	3	3	3	3	3	3
Community Schools										6
Planning & Zoning	3	3	3	3	3	3	3	4	4	4
Library	7	7	9	9	9	8	8	8	8	7
Finance	7	7	7	7	7	7	7	7	7	9
Human Resources	1	1	1	1	1	1	1	1	1	1
Info Technology	1	1	1	1	1	1	1	1	1	1
Public Safety	29	30	30	30	28	32	32	32	32	33
Public Works	25	26	33	34	37	39	40	39	39	34
Port and Harbor	18	18	18	18	18	18	18	18	18	13
Total	95	97	106	107	109	115	111	116	116	114

Source:

Personnel Office
 12/31/06 Wage Report

CITY OF HOMER, ALASKA
Demographic and Economic Statistics
Last Ten Years

Year	(1) Population	(2) Annual Average Wage Per Worker	Per Capita Income	(1) Median Age	(3) School Enrollment	(2) Unemployment Rate
2006	5,454	31,164	5,714	38.8	1,119	8.6%
2005	5,435	30,696	5,648	38.8	1,248	8.6%
2004	5,332	34,663	6,501	38.8	1,238	11.1%
2003	4,893	33,069	6,758	38.8	1,250	12.1%
2002	4,721	34,032	7,209	38.8	1,284	12.0%
2001	3,946	34,584	8,764	38.8	1,276	10.6%
2000	4,205	32,275	7,675	32.4	1,311	10.2%
1999	4,154	30,523	7,348	32.4	1,343	10.5%
1998	4,126	30,050	7,283	32.4	1,321	9.8%
1997	4,126	30,091	7,293	32.4	1,412	13.6%

Sources:

(1) Alaska Department of Community and Economic Development

(2) State of Alaska, Department of Labor

(3) Kenai Peninsula Borough School District

CITY OF HOMER, ALASKA

Miscellaneous Statistical Data

December 31, 2006

Date of Incorporation	March 31, 1964
Authority for Incorporation	State of Alaska Borough Act of 1961
Form of Government	Council/Manager
Area in Square Miles	25
Miles of City Maintained Streets	46.50
Emergency Services:	
Number of Stations	1
Number of Employees, inclusive of volunteers	38
Police Protection:	
Number of Stations	1
Number of Employees	27
Municipal Water Department:	
Number of Consumers	1,406
Water Usage (in millions of gallons)	137
Miles of Water Lines	42
Municipal Sewer Department:	
Number of Consumers	1,354
Miles of Sewer Lines	49
Building Permits Issued	83
Parks:	
Number of Parks (220.57 acres)	18
Library:	
Number of Printed Books	32,105
Number of Audio Books	625
Number of Magazine Subscriptions	89
Number of Newspaper Subscriptions	18
City Employees as of December 31, 2006 (full & part-time)	
Permanent - Full Time	96
Permanent - Part Time	7
Temporary - Temporary	16
Elections:	
Number of Registered Voters	4,043
Number of Voters who Cast Ballots in Last General Election	1,316
Percentage of Registered Voters Voting in Last General Election	32.6%
Demographics:	
Median Age (1)	38.8
Average Annual Wage per Worker	31,164
School Enrollment, City of Homer (3)	1,119
Unemployment Rate - Borough-Wide (2)	8.6%
Homeownership (1)	62.3%
Population	5,454

(1) Alaska Department of Community & Economic Development

(2) State of Alaska, Department of Labor (preliminary number)

(3) Kenai Peninsula Borough School District

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Honorable Mayor and City Council
City of Homer, Alaska

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Homer, Alaska, as of and for the year ended December 31, 2006 which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated April 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Honorable Mayor and City Council
City of Homer, Alaska

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of City of Homer's management, Honorable Mayor and City Council and appropriate federal agencies, and is not intended to be and should not be used by anyone other than these specified parties.

April 30, 2007

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Honorable Mayor and City Council
City of Homer, Alaska

Compliance

We have audited the compliance of City of Homer, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The City of Homer's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Homer's management. Our responsibility is to express an opinion on City of Homer's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Homer's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Homer's compliance with those requirements.

In our opinion, City of Homer complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Honorable Mayor and City Council
City of Homer, Alaska

Internal Control Over Compliance

The management of City of Homer is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Homer's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Homer's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of City of Homer's management, Honorable Mayor and City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

April 30, 2007

CITY OF HOMER, ALASKA

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2006

There were no prior year audit findings.

CITY OF HOMER, ALASKA

Schedule of Findings and Questioned Costs

Year Ended December 31, 2006

AUDIT RESULT

I. Summary of Auditor's Results:

Financial Statements:

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weaknesses identified?

no ~~yes~~

Significant deficiencies identified that are not considered to be material weaknesses?

none reported ~~yes~~

Noncompliance material to financial statements noted?

no ~~yes~~

Federal Awards:

Internal control over major programs:

Material weaknesses identified?

no ~~yes~~

Significant deficiencies identified that are not considered to be material weaknesses?

none reported ~~yes~~

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

no ~~yes~~

Major programs:

<u>Agency</u>	<u>CFDA Number</u>	<u>Program</u>
Department of Agriculture Environmental Protection Agency	10.760 66.606	Homer Public Library Water Storage Reservoir, and Water Improvement Phase 2

Dollar threshold used to distinguish between Type A and B programs

\$300,000

Low-risk auditee

Yes

II. Financial Statement Findings

None noted

III. Federal Awards Findings and Questioned Costs

None noted

CITY OF HOMER, ALASKA

Corrective Action Plan

Year Ended December 31, 2006

There are no current year findings; therefore no corrective action plan is required.