

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**OF THE**

**CITY OF HOMER, ALASKA**

Year Ended December 31, 2008

James C. Hornaday  
Mayor

Walt Wrede  
City Manager

Prepared By  
Finance Department

Regina Harville, CPA, CFE, EA  
Finance Director

# CITY OF HOMER, ALASKA

## Comprehensive Annual Financial Report

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*City of Homer*

*Homer, Alaska*

June 15, 2009

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, 2008. 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, 2008, 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, 2008, 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 the last ten 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 Code of Ordinances, 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 terminal, 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's ordinances.<sup>1</sup> 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 2008 and 2009 construction seasons, capital projects that are planned, completed, or in progress include the following.

#### **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 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 2009.

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<sup>1</sup> Financial policies can be located beginning on page xv of the City of Homer Annual 2009 Budget.



**Other major City Capital Projects include:**

- **Water Treatment Plant:** Construction for the new water treatment plant was started in spring of 2008 with an anticipated opening mid-summer of 2009.
- **Road Repaving:** The City uses HART funds to repave and pave roads. There was no paving done in 2008. In 2009, Soundview, Mountainview, Lee Street, and Herndon Street are all scheduled to be repaved. New paving is scheduled for Freight Dock Road and some harbor parking areas.
- **Deep Water Dock:** Repairs are scheduled to be made during 2009 to the Deep Water Dock. A feasibility study is being completed for dock expansion.
- **Harbor:** East Boat Harbor is having a feasibility study done for future expansion.
- **Airport Flooring:** The carpet was removed from the Airport and tile was laid in 2009. Painting is also being completed in 2009.
- **Senior Access Trail:** A trail from Hendon Drive/Svedlund St to Pioneer Avenue. design and construction to be complete in 2009.
- **Spit Trail Parking Lot Expansion:** Expansion to include 20 to 30 additional parking spaces. Construction to begin 2009.
- **Spit Trail:** \$2,000 has been appropriated to complete this project. Design is to be completed in 2009.
- **Reber Trail:** The construction of this trail is scheduled to begin in 2009.
- **Stimulus Projects:** The City has applied for a wide variety of projects.
- More information can be obtained by reviewing the City of Homers Capital Improvement Plan for 2009 – 2014.

**Kenai Peninsula Borough Projects**

- **South Peninsula Hospital Phase II expansion** was started in 2008. In the spring of 2007, voters in the service area approved an increase in the mil rate to complete Phase II. The additional patient rooms and helicopter pad will be completed in the fall of 2009. The South Peninsula Hospital is expected to be completed in the fall of 2010.

**State of Alaska Projects**

- **Lake Street** is scheduled to be repaved.
- **Major Airport Expansion.**

**Major Private Projects:**

- **Subdivisions:** The Public Works and Planning offices reviewed and permitted a few for 2009, and there was one new one in 2008.
- **Permits:** The number of zoning permits issued continues to climb at a steady level. In 2008 there were 62, a decrease of 25 from 2007.

**FACTORS AFFECTING FINANCIAL CONDITION**

**Economy**

Homer's economy is relatively diverse for a community of its size. Major seasonal components of the economy include commercial fishing, sport fishing, recreation, and the visitor industry. The primary year around employers include the South Peninsula Hospital, Homer Electric Association, arts and music, independent entrepreneurs, small locally owned businesses, and the federal, state, borough, and local governments. Homer is the number one commercial

halibut port in the state in terms of pounds landed. It also has the largest single basin boat harbor in the state, a year around ice free port, and an excellent airport. Besides recreation and wildlife viewing, major visitor attractions include the Pratt Museum, the Islands and Ocean Center, and the many art galleries.

The City Economic Development Commission is currently working on an update to the City's Comprehensive Economic Development Strategy (CEDS). One of the objectives is to define and articulate what types of economic development the community supports and how to stimulate it. Prospects for the future that could affect the local economy include green technology and energy development, a proposed airport improvement project, proposed expansions at the Deep Water Dock and Boat Harbor, renovation and expansion of the Pratt Museum, efforts to bring natural gas to Homer, and the Pebble Mine.

Economic growth in Homer has slowed over the past year much as it has in the rest of the Country. Economy activity in most sectors appears to have declined. Tax revenues are projected to be on the decline in coming years. In addition, Borough voters recently voted to exempt unprocessed foods from the local sales tax. This measure, unless it is reversed by local voters, will result in a decline in sales taxes of up to \$1 Million dollars. This will affect the City's ability to finance projects.

### **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 2009 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 ten -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](http://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 Acknowledgements**

### **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, 2007.

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

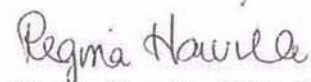
The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the City of Homer. We would like to particularly express our appreciation to Laurel Moore, Jo Earls, Michele McCandlish, Joanne Perret, Lori Sorrows, Juli Swisher, and Lydia Lockhard 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, CPA, CFE, EA  
Finance Director



**CITY OF HOMER**  
**Principal City Officials**

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**Mayor**

James C. Hornaday

**City Council**

David Lewis  
Mary E. (Beth) Wythe  
Bryan Zak

Francie Roberts  
Barbara Howard  
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  
Thomas Klinkner  
Jo Johnson  
Regina Harville  
Bob Painter  
Helen Hill  
Rick Abboud  
Mark Robl  
Bryan Hawkins  
Carey Meyer

# City of Homer Organizational Chart

People of Homer

Mayor & City Council

Attorney

Auditor

Council Task Forces  
and Committees

Advisory Commissions

City Manager

Public Safety  
Police and Fire

Public Works

Port and Harbor

Administration  
and Finance

# 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, 2007

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

## 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, 2008 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, 2008, 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 June 15, 2009 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  
City of Homer, Alaska

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, Schedule of State Financial Assistance, 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* and the Schedule of State Financial Assistance is required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. 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.

*Mikunda, Cottrell & Co.*

Anchorage, Alaska  
June 15, 2009

## CITY OF HOMER

### Management's Discussion and Analysis

December 31, 2008

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, 2008. 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 assets of the City of Homer exceeded its liabilities at December 31, 2008, by \$128,291 (Net assets). Of this amount, unrestricted net assets of \$6,860 may be used to meet the City's ongoing obligations to citizens and creditors. The City's total net assets increased by \$5,840.

As of December 31, 2008, the City's governmental funds reported combined ending fund balances of \$12,148, an increase of \$1,853 from the prior year. Part of the increase is due to \$1,953 of operating revenues exceeding operating expenditures in the City's governmental funds. This is due to an increase in investment income and municipal credit received from the State of Alaska.

In addition, Senate Bill 125 converted the Public Employees Retirement System (PERS) from an agent-multiple employer plan to a cost-sharing plan, resulting in cities no longer being obligated to pay or to continue to amortize previously recorded Net Pension/OPEB assets or obligations. As such, this liability was written off as of July 1, 2008, therefore, the City recognized a special item write off of \$1,099 for governmental activities and \$514 for business type activities.

- At the end of the current year, the fund balance for the General Fund was \$4,600. Of this amount, \$3,825 was unreserved, undesignated, and available for spending.
- At year-end, the City of Homer's outstanding debt totals \$14,255, a decrease of \$929 from the previous year. This excludes an increase in Alaska Clean Water/Drinking Water loans for the \$8,000 loan for the new Water treatment plant being put into service in 2009.

#### 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.

- Government-wide financial statements provide both long-term and short-term information about the City's overall condition in a summary format.



- 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.

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-1 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.

<b>Illustration A-1</b>			
<b>Major Features of City of Homer's Government-wide and Fund Financial Statements</b>			
	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

**Illustration A-1**  
**Major Features of City of Homer's Government-wide and Fund Financial Statements,**  
**continued**

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
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 & 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 sixteen 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 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 & 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 internal service funds to account for its self-insured health benefit, accrued leave cash-outs, and PERS funding.

The proprietary fund financial statements provide separate information for Homer's port & harbor and utility systems, both of which are considered 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 27-50 of this report.

**Government-wide Financial Analysis**

At the close of the 2008 fiscal year, the City's net assets (assets exceeding liabilities) totaled \$128,291 (see Table A-1). Of this amount \$109,419, or 85%, 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 \$4,335 in the governmental activities is for debt service and capital projects. In the business-type activities, the balance of \$7,677 is for debt service and capital projects. The total unrestricted amount totals \$6,860, and is available to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Homer is able to report positive balances in these two categories of net assets for the government as a whole as well as for its separate governmental activities. However, there was a deficit of \$1,289 in unrestricted net assets of the business-type activities at December 31, 2008.

The following schedule provides a summary of the City's net assets:

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

	Governmental Activities		Business-Type Activities		Total Activities	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 13,635	11,787	9,387	9,255	23,022	21,042
Capital assets	<u>45,405</u>	<u>45,907</u>	<u>77,413</u>	<u>72,932</u>	<u>122,818</u>	<u>118,839</u>
Total assets	<u>\$ 59,040</u>	<u>57,694</u>	<u>86,800</u>	<u>82,187</u>	<u>145,840</u>	<u>139,881</u>
Non-Current liabilities	\$ 2,060	3,665	12,536	11,519	14,596	15,184
Other liabilities	<u>648</u>	<u>785</u>	<u>2,304</u>	<u>1,462</u>	<u>2,952</u>	<u>2,247</u>
Total liabilities	<u>\$ 2,708</u>	<u>4,450</u>	<u>14,840</u>	<u>12,981</u>	<u>17,548</u>	<u>17,431</u>
Net Assets:						
Invested in capital assets, net of related debt	\$ 43,848	43,879	65,571	62,276	109,419	106,155
Restricted	4,335	3,350	7,677	7,737	12,012	11,087
Unrestricted	<u>8,149</u>	<u>6,015</u>	<u>(1,289)</u>	<u>(806)</u>	<u>6,860</u>	<u>5,209</u>
Total net assets	<u>\$ 56,332</u>	<u>53,244</u>	<u>71,959</u>	<u>69,207</u>	<u>128,291</u>	<u>122,451</u>

As reflected in Table A-2, the City's net assets increased by \$5,840, or 5% during the 2008 fiscal year. Revenues exceeded expenses in the governmental activities by \$3,088, and in the business-type activities revenues exceeded expenses by \$2,752. Key elements of the increases and decreases follow:

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

	Governmental Activities		Business-Type Activities		Total Activities	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>Program revenues:</b>						
Charges for services	\$ 1,322	1,217	6,312	5,526	7,634	6,743
Operating grants and contributions	697	638	-	-	697	638
Capital grants and contributions	747	340	4,571	1,389	5,318	1,729
<b>General revenues:</b>						
Property taxes	2,977	2,530	-	-	2,977	2,530
Sales taxes	6,335	6,173	1,267	1,235	7,602	7,408
Other	<u>2,067</u>	<u>1,196</u>	<u>923</u>	<u>482</u>	<u>2,990</u>	<u>1,678</u>
Total revenues	<u>14,145</u>	<u>12,094</u>	<u>13,073</u>	<u>8,632</u>	<u>27,218</u>	<u>20,726</u>
<b>Expenses:</b>						
General government	1,761	1,621	-	-	1,761	1,621
Public safety	4,547	3,990	-	-	4,547	3,990
Public works	2,638	2,422	-	-	2,638	2,422
Library	891	806	-	-	891	806
Airport	233	200	-	-	233	200
Parks and recreation	494	411	-	-	494	411
Community services	322	236	-	-	322	236
Unallocated interest	141	113	-	-	141	113
Port and harbor	-	-	4,530	4,406	4,530	4,406
Water and sewer	-	-	<u>5,821</u>	<u>5,318</u>	<u>5,821</u>	<u>5,318</u>
Total expenses	<u>11,027</u>	<u>9,799</u>	<u>10,351</u>	<u>9,724</u>	<u>21,378</u>	<u>19,523</u>
Increase (decrease) in net assets before transfers	3,118	2,295	2,722	(1,092)	5,840	1,203
Transfers	<u>(30)</u>	<u>149</u>	<u>30</u>	<u>(149)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	3,088	2,444	2,752	(1,241)	5,840	1,203
Beginning net assets	<u>53,244</u>	<u>50,800</u>	<u>69,207</u>	<u>70,448</u>	<u>122,451</u>	<u>121,248</u>
Ending net assets	\$ <u>56,332</u>	<u>53,244</u>	<u>71,959</u>	<u>69,207</u>	<u>128,291</u>	<u>122,451</u>

## **Governmental Activities**

Governmental activities increased the City of Homer's net assets by \$3,088. Key elements of this increase are as follows:

- Revenue was up substantially, approximately \$2,051 in 2008.
  - Senate Bill 125 which converted the Public Employees Retirement System (PERS) from an agent-multiple employer plan to a cost-sharing plan, resulted in cities no longer being obligated to pay or to continue to amortize the previously recorded Net Pension/OPEB asset or obligation.

As such, \$1,099 of this increase is the result of a special item write off of the Net Pension Obligation as the City of Homer is no longer obligated to pay this amount to the State.

- Additional revenue was recognized under SB125 for payments made by the State of Alaska to the PERS system on behalf of the City of Homer of \$375 for governmental activities.
- Additional funding was received from the State of Alaska for a Municipal Energy Credit of \$380. The City's sales tax revenues in fiscal year 2008 increased by \$162, or 3% higher than amounts received in 2007. Property taxes increased by \$447 or 18% from the previous year. These increases in revenue were conservatively anticipated in the City's 2008 budget. Despite the increases in revenue, our program activities did not experience as much growth as we had another year of increases in our insurance and benefit expenses and accelerating fuel and electric costs.

Property taxes reflect an increase in 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 \$70, and the second part is direct contributions to different organizations. \$90 went to the Pratt Museum, \$50 went to Homer Hockey Association, and \$45 went to the Chamber of Commerce.

## **Business-Type Activities**

The City's business-type activities resulted in a \$2,752 increase in net assets.

- Senate Bill 125 which converted the Public Employees Retirement System (PERS) from an agent-multiple employer plan to a cost-sharing plan, resulted in cities no longer being obligated to pay or to continue to amortize the previously recorded Net Pension/OPEB asset or obligation.

As such, \$514 of this increase is the result of a special item write off of the Net Pension Obligation as the City of Homer is no longer obligated to pay this amount to the State. \$264 is attributable to the Port and Harbor, and \$250 is attributable to Water / Sewer.

- Additional revenue was recognized under SB125 for payments made by the State of Alaska on behalf of the City of Homer. \$94 was for the Water / Sewer Fund and \$89 was for the Port and Harbor Fund.



**Port and Harbor Enterprise Fund** net assets decreased by \$789 in 2008.

- Operating revenues were \$3,198 in 2008, an increase of \$504 from the previous year.
- Operating expenses were \$4,486 in 2008, an increase of \$78 from 2007. This was due to an increase in utility and fuel costs throughout the year.
- Unrestricted net assets of the Port and Harbor Fund at the end of 2008 amounted to a deficit of \$931. The deficit in 2007 amounted to \$1,140, thus the deficit was reduced by \$209.

**Water/Sewer Enterprise Fund** net assets increased by \$3,570 in 2008.

- Operating revenues were \$2,939 in 2008, an increase of \$252 from the previous year.
- Operating expenses were \$2,018 in 2008, an increase of \$373 from 2007. This was due to an increase in utility and fuel costs throughout the year.
- Unrestricted net assets of the Water/Sewer Enterprise Fund report unrestricted net assets of a deficit of \$409. In 2007, \$265 was reported as unrestricted net assets.

➤ **HAWSP (Homer Accelerated Water Sewer Projects)** was originally set up in 1999 and is a combined local funding source of unexpended dedicated sales tax and dedicated sales tax, to improve the health and welfare of the citizens of Homer by connecting residents to the City Water and/or Sewer. The dedicated sales tax (3/4 of 1% sales tax revenues), is segregated for the specific purpose of the installation of new infrastructure.

LID's (Local Improvement Districts) were set up for areas that requested water/sewer infrastructure. The City obtains 1.5% interest loans through the Alaska Clean Water/Drinking Water Program to build the infrastructure. The owners of properties in the LID's are responsible for 75% of the costs for the infrastructure and pay the City back over a 20 year period for their portion of the cost. The HAWSP fund is responsible for the full payments of the loans and is in part reimbursed by the owners of the properties in the LID's.

HAWSP is reported in combination with the Water / Sewer Enterprise Fund. Accounting for 2008 is as follows:

- ⌘ Sales tax revenues received in 2008 were \$1,267, an increase of \$32 from 2007.
- ⌘ Total outstanding debt at 2008 year end is \$11,567. This is an increase from the 2007 balance at year end of \$10,161.
- ⌘ Total LID assessment payments due to the City at 2008 year end is \$3,294. This is an increase from 2007 of \$446 due to new LID assessments.

### **Internal Service Funds**

The City maintains *Internal Service Funds* to account for the self-insured employee health plan, accrued leave cash outs, and PERS funding.

The *Risk Management Fund* (Self-insured employee health plan) had an operating loss of \$59 for 2008. This was due to large claim amounts of \$1,339 in 2008.

The *Leave Cash-Out Fund* was created to set aside funds to pay for employees' leave cash out. It was anticipated for 2008 that \$160 worth of leave cash outs would occur, however, there was \$186 leave cashed out, leaving a negative change in net assets of \$26.

The *PERS Funding Fund* was created to assist the City in paying for the Net Pension Obligation owed by the City. However SB 125 removes this liability from the City of Homer. Currently these funds are simply collecting interest for future unanticipated PERS activity.

See Pages 84 – 96 for more details.

### **Financial Analysis of the Governmental 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, 2008, the City's governmental funds reported combined ending fund balances of \$12,148, an increase of \$1,853 compared to balances a year earlier. Of the ending balance, \$3,804, or 31% is unreserved and undesignated and is available to the City for future spending. Most of the remaining fund balance is reserved for debt service and capital projects (\$4,334); designated for future capital projects (\$3,116); and reserved for inventory and prepaid items (\$354). The increase of total fund balance during the year is attributed to:

- In the General Fund, expenditures and transfers out to other funds totaled \$12,909 compared to revenues of \$12,510. The (\$399) decrease in the General Fund balance was actually less than the final budgeted decrease in fund balance of (\$1,365). This was primarily due to the receipt of a Municipal Energy Credit for \$380, and PERS on behalf payment of \$375, and the sale of the old library and surplus properties of \$499.
- The City maintains seven capital project funds that account for the use of intergovernmental grants, dedicated sales tax, and department transfers 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 General Fund Capital Projects is utilized for the acquisition, construction, or repair of major capital facilities. In 2008, \$84 was transferred into this fund and \$43 was expended.
  - The Streets and Sidewalks (HART) Project Funds are used for the repair and replacement of streets and sidewalks. The voters designated ¾% of all sales tax revenue received to go towards the improvement of streets and sidewalks. In 2008, \$1,121 was received from sales taxes and \$47 was received from interest earned. Council designated 10% of sales tax revenue earmarked for HART be designated specifically for trails. In 2008, \$145 was put aside for trails. Spruceview and Heath Street were both worked on in 2008.
  - 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 2008 \$1,207 was transferred into this fund and \$174 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 2008, \$556 was transferred in and \$515 was expended.



### General Fund Budgetary Highlights

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

- In 2008, the Depreciation Reserve Budget was amended to cover the costs the purchase of three vehicles for the Police Department for \$70, \$60 for the replacement of Ben Walter Park Dock, \$50 for the Homer Spit Comprehensive Plan, \$8 for outfitting the Police Van, and \$331 for the purchase of a new Fire Truck.
- The original expenditures budget was amended to pay for increased costs of electric, fuel, water & sewer, insurance, and audit services. The operating budget was also amended for \$15 to be paid to the Chamber of Commerce, and the purchase of Caselle software for \$10.

The budgeted revenues and other sources over expenditures and other uses decreased from (\$1,501) in the original budget to (\$1,365) 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, 2008, totals \$122,818 (net of accumulated depreciation). This amount represents a \$3,979 increase over the previous year.

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

	Governmental Activities		Business-Type Activities		Total Activities	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Land	\$ 9,478	9,478	15,702	15,702	25,180	25,180
Buildings	17,824	18,083	34,533	34,533	52,357	52,616
Improvements other than buildings	1,852	1,458	69,554	69,131	71,406	70,589
Machinery and equipment	5,859	5,187	6,964	6,966	12,823	12,153
Infrastructure	28,874	28,555	616	616	29,490	29,171
Construction in progress	289	543	8,683	1,143	8,972	1,686
Accumulated depreciation	<u>(18,771)</u>	<u>(17,397)</u>	<u>(58,639)</u>	<u>(55,159)</u>	<u>(77,410)</u>	<u>(72,556)</u>
Total capital assets	\$ <u>45,405</u>	<u>45,907</u>	<u>77,413</u>	<u>72,932</u>	<u>122,818</u>	<u>118,839</u>

Major capital asset events during the 2008 year included:

➤ General Fund:

- ⌘ Thermal Imaging Camera
- ⌘ Fire Truck
- ⌘ Jail Van
- ⌘ Pro-Comm Spare Parts
- ⌘ Side by Side ATV
- ⌘ Patrol Cars (3)
- ⌘ Road improvements on Spruceview and Douglas Street

- Water / Sewer:
  - ⌘ Spit Reservior Tank
  - ⌘ Lagoon Aerator
  - ⌘ Booster Pump
  - ⌘ Loaders (2)
  - ⌘ Improvement of Paintbrush Booster Station
  
- Port & Harbor:
  - ⌘ Rake Drive Unit
  - ⌘ Feasibility Study
  - ⌘ Fish Outfall Control Panel
  - ⌘ Service Van Welder
  - ⌘ Dock Replacement at Ben Walters

Construction in progress associated with business-type activities includes the new Water / Sewer Treatment Plant and Kachemak Drive Phase II.

Additional information on the City's capital assets can be found in note 5 on pages 36-38 of this report.

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

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u> <u>Activities</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenue bonds	\$ -	-	185	365	185	365
Notes payable	1,529	1,956	11,567	10,161	13,096	12,117
Capital leases	<u>28</u>	<u>72</u>	<u>96</u>	<u>151</u>	<u>124</u>	<u>226</u>
Total	1,557	2,028	11,848	10,680	13,405	12,708
Compensated absences	503	538	353	350	856	888
Net pension obligation	-	1,099	-	501	-	1,600
Loss on refinancing	<u>-</u>	<u>-</u>	<u>(6)</u>	<u>(12)</u>	<u>(6)</u>	<u>(12)</u>
Total long-term debt	\$ <u>2,060</u>	<u>3,665</u>	<u>12,195</u>	<u>11,519</u>	<u>14,255</u>	<u>15,184</u>

*Long-term debt* - At the end of the 2008 year, the City of Homer had total debt outstanding of \$13,405 as detailed in Table A-4. This excludes \$856 related to compensated absences, and \$6 of deferred loss on refunding bonds. The Net Pension Obligation is no longer a liability of the City of Homer as the plan was converted from an agent-multiple employer plan to a cost-sharing plan, resulting in cities no longer being obligated to pay or to continue amortizing the previously recorded Net Pension Obligation.

The notes payable listed under the Business-Type Activities are used to add water and sewer lines and services to areas. Loans are received through Alaska Department of Environmental Conservation for 20 year periods at 1.5% interest. 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.



Additional information on the City's long-term debt can be found in note 6 on pages 38-42 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

These various factors were taken into consideration in the development of the City's 2009 annual budget. The annual budget is adopted for the General, Port and Harbor, and Utility Funds. Major aspects of the adopted 2009 budget include:

- Property taxes are to remain the same.
- Sales tax considers a reduction in the taxes due to the grocery sales tax initiative. Effective 1/1/2009, Ordinance 08-32(S)(A-2) exempts sales tax on non-prepared foods from September 1<sup>st</sup> through May 31<sup>st</sup> of each year. This will decrease revenues to the General Fund, HART and HAWSP significantly.
- Water/Sewer rates remained the same.
- Port & Harbor rates were increased by 10% for most revenue line items.
- A 2% *cost of living* increase was budgeted for in 2009.
- A new Water/Treatment Plant is to be put into service in 2009. This will impact the quality of water that our citizens receive and will help the City meet the new EPA standards for drinking water.

### **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: finance@ci.homer.ak.us](mailto:finance@ci.homer.ak.us)

## **BASIC FINANCIAL STATEMENTS**

## CITY OF HOMER, ALASKA

## Statement of Net Assets

December 31, 2008

<u>Assets</u>	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
Cash and investments	\$ 6,049,596	-	6,049,596
Receivables, net of allowance for doubtful accounts:			
Accounts	-	461,109	461,109
Sales and property taxes	1,168,404	213,397	1,381,801
State and federal grants and loans	49,532	6,747,063	6,796,595
Assessments	561,882	3,294,289	3,856,171
Litigation settlement	-	100,000	100,000
Other	385,582	-	385,582
Internal balances	5,066,203	(5,066,203)	-
Inventory	73,272	261,691	334,963
Prepaid items	280,629	96,715	377,344
Restricted cash and investments	-	3,273,434	3,273,434
Bond issuance costs, net	-	5,331	5,331
Capital assets not being depreciated - land and construction in progress	9,767,345	24,385,237	34,152,582
Other capital assets, net of accumulated depreciation	<u>35,637,713</u>	<u>53,027,795</u>	<u>88,665,508</u>
 Total assets	 \$ <u>59,040,158</u>	 <u>86,799,858</u>	 <u>145,840,016</u>
 <u>Liabilities</u>			
Accounts payable	434,876	1,514,900	1,949,776
Accrued payroll and related liabilities	175,227	77,945	253,172
Accrued interest	-	32,123	32,123
Prepaid rentals and deposits	-	660,923	660,923
Unearned revenue	38,653	18,000	56,653
Noncurrent liabilities:			
Unearned revenue	-	342,000	342,000
Due within one year:			
Accrued leave	90,116	42,413	132,529
Notes payable	36,741	604,367	641,108
Bonds payable	-	178,893	178,893
Capital leases	21,046	63,554	84,600
Due in more than one year:			
Accrued leave	412,383	310,285	722,668
Notes payable	1,492,541	10,962,834	12,455,375
Capital leases	<u>6,703</u>	<u>32,166</u>	<u>38,869</u>
Total liabilities	<u>2,708,286</u>	<u>14,840,403</u>	<u>17,548,689</u>
 <u>Net Assets</u>			
Invested in capital assets, net of related debt	43,848,027	65,571,218	109,419,245
Restricted for debt service and/or capital projects	4,334,477	7,677,436	12,011,913
Unrestricted (deficit)	<u>8,149,368</u>	<u>(1,289,199)</u>	<u>6,860,169</u>
Total net assets	<u>56,331,872</u>	<u>71,959,455</u>	<u>128,291,327</u>
 Total liabilities and net assets	 \$ <u>59,040,158</u>	 <u>86,799,858</u>	 <u>145,840,016</u>

See accompanying notes to basic financial statements.

## CITY OF HOMER, ALASKA

Statement of Activities  
Year Ended December 31, 2008

Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Fees, Fines & Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- type Activities	Total
<b>Governmental:</b>							
General government	\$ 1,761,505	116,606	-	334,585	(1,310,314)	-	(1,310,314)
Public safety	4,546,766	317,835	597,564	-	(3,631,367)	-	(3,631,367)
Public works	2,637,639	34,715	92,097	311,897	(2,198,930)	-	(2,198,930)
Library	890,800	499,189	7,657	-	(383,954)	-	(383,954)
Airport	233,176	169,196	-	-	(63,980)	-	(63,980)
Parks and recreation	494,083	157,264	-	-	(336,819)	-	(336,819)
Community services	321,970	27,058	54	100,321	(194,537)	-	(194,537)
Unallocated interest	141,014	-	-	-	(141,014)	-	(141,014)
Total governmental activities	<u>11,026,953</u>	<u>1,321,863</u>	<u>697,372</u>	<u>746,803</u>	<u>(8,260,915)</u>	<u>-</u>	<u>(8,260,915)</u>
<b>Business-type:</b>							
Port and harbor	4,529,886	3,288,715	-	-	-	(1,241,171)	(1,241,171)
Water and sewer utility	5,820,558	3,023,126	-	4,571,058	-	1,773,626	1,773,626
Total business-type activities	<u>10,350,444</u>	<u>6,311,841</u>	<u>-</u>	<u>4,571,058</u>	<u>-</u>	<u>532,455</u>	<u>532,455</u>
Total	\$ <u>21,377,397</u>	<u>7,633,704</u>	<u>697,372</u>	<u>5,317,861</u>	<u>(8,260,915)</u>	<u>532,455</u>	<u>(7,728,460)</u>
<b>General revenues:</b>							
Property taxes				\$ 2,976,794	-		2,976,794
Sales taxes				6,334,758	1,266,790		7,601,548
Grants and entitlements not restricted to a specific purpose				811,206	183,707		994,913
Investment income				156,429	209,177		365,606
Legal settlement				-	16,660		16,660
Transfers				(30,000)	30,000		-
Special item - writeoff NPO/OPEB				1,099,216	514,438		1,613,654
Total general revenues, transfers and special item				<u>11,348,403</u>	<u>2,220,772</u>		<u>13,569,175</u>
Change in net assets				3,087,488	2,753,227		5,840,715
Beginning net assets				<u>53,244,384</u>	<u>69,206,228</u>		<u>122,450,612</u>
Ending net assets				\$ <u>56,331,872</u>	<u>71,959,455</u>		<u>128,291,327</u>

See accompanying notes to basic financial statements.

## CITY OF HOMER, ALASKA

## Governmental Funds

## Balance Sheet

December 31, 2008

Assets	Major Funds			Total Governmental Funds
	General	Streets and Sidewalks Capital Project	Nonmajor Funds	
Cash and investments	\$ -	2,028,280	3,829,931	5,858,211
Receivables, net of allowance for doubtful accounts:				
Property taxes	101,416	-	-	101,416
Sales taxes	853,590	192,058	21,340	1,066,988
Assessments	561,882	-	-	561,882
State and federal grants	21,023	-	28,509	49,532
Other	190,172	-	2,635	192,807
Due from other funds	3,621,588	1,529,916	-	5,151,504
Inventory	73,272	-	-	73,272
Prepaid items	280,629	-	-	280,629
<b>Total assets</b>	<b>\$ 5,703,572</b>	<b>3,750,254</b>	<b>3,882,415</b>	<b>13,336,241</b>
<b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities:</b>				
Accounts payable	228,693	-	53,532	282,225
Accrued payroll and related liabilities	175,227	-	-	175,227
Deferred revenue	137,451	-	15,724	153,175
Deferred assessments	561,882	-	-	561,882
Due to other funds	-	-	16,113	16,113
<b>Total liabilities</b>	<b>1,103,253</b>	<b>-</b>	<b>85,369</b>	<b>1,188,622</b>
<b>Fund balances:</b>				
<b>Reserved:</b>				
Debt service and capital projects	-	3,750,254	584,223	4,334,477
Inventory and prepaid items	353,901	-	-	353,901
<b>Unreserved:</b>				
<b>Designated:</b>				
Interfund loan for animal shelter	250,000	-	-	250,000
PERS	171,314	-	-	171,314
<b>Special revenue funds:</b>				
Library	-	-	31,326	31,326
Fire department	-	-	62,965	62,965
Animal shelter	-	-	7,352	7,352
Community schools	-	-	509	509
Sustainability global warming	-	-	15,162	15,162
Capital project funds - capital outlay	-	-	3,116,382	3,116,382
<b>Undesignated:</b>				
General Fund	3,825,104	-	-	3,825,104
Capital project funds (deficit)	-	-	(20,873)	(20,873)
<b>Total fund balances</b>	<b>4,600,319</b>	<b>3,750,254</b>	<b>3,797,046</b>	<b>12,147,619</b>
<b>Total liabilities and fund balances</b>	<b>\$ 5,703,572</b>	<b>3,750,254</b>	<b>3,882,415</b>	<b>13,336,241</b>

See accompanying notes to basic financial statements.

**CITY OF HOMER, ALASKA**  
 Reconciliation of Governmental Funds Balance Sheet  
 to Statement of Net Assets  
 December 31, 2008

Total fund balances for governmental funds \$ 12,147,619

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 and land improvements	\$	9,478,234	
Buildings		17,824,188	
Improvements other than buildings		1,851,868	
Machinery and equipment		5,858,770	
Infrastructure		28,873,660	
Construction in progress		289,111	
Accumulated depreciation		<u>(18,770,773)</u>	
Total capital assets			45,405,058

Other long-term assets are not available to pay for current period  
 expenditures and therefore are deferred in the funds.

Delinquent property taxes receivable		114,522	
Special assessments not yet due		<u>561,882</u>	
Total other long-term assets			676,404

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.

162,321

Long-term liabilities, including notes 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:

Capital lease obligations		(27,749)	
USDA notes payable		(1,529,282)	
Accrued leave		<u>(502,499)</u>	
Total long term liabilities			<u>(2,059,530)</u>

Total net assets of governmental activities \$ 56,331,872

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, 2008**

	Major Funds			Total Governmental Funds
	General	Streets and Sidewalks Capital Project	Nonmajor Funds	
Revenues:				
Property taxes	\$ 2,975,448	-	-	2,975,448
Sales taxes	5,067,968	1,121,406	145,384	6,334,758
Licenses and permits	26,219	-	-	26,219
Intergovernmental	1,372,905	-	405,614	1,778,519
Charges for services	2,337,323	-	-	2,337,323
Special assessments	127,876	-	-	127,876
Investment income	63,429	46,580	46,420	156,429
Fines and forfeitures	34,193	-	-	34,193
Donations	-	-	9,181	9,181
Sales of property and equipment	499,189	-	-	499,189
Other	5,532	-	165,006	170,538
Total revenues	12,510,082	1,167,986	771,605	14,449,673
Expenditures:				
Current:				
General government	2,936,021	-	28,884	2,964,905
Public safety	4,143,393	-	45,984	4,189,377
Public works	1,765,997	238,310	103,808	2,108,115
Library	681,983	-	-	681,983
Airport	228,720	-	-	228,720
Parks and recreation	422,251	-	-	422,251
Community services	321,476	-	494	321,970
Debt service:				
Principal	470,615	-	-	470,615
Interest	75,812	-	-	75,812
Capital outlay	-	71,511	1,031,533	1,103,044
Total expenditures	11,046,268	309,821	1,210,703	12,566,792
Excess of revenues over (under) expenditures	1,463,814	858,165	(439,098)	1,882,881
Other financing sources (uses):				
Transfers in	-	321,290	1,862,702	2,183,992
Transfers out	(1,862,702)	-	(351,290)	(2,213,992)
Net other financing sources (uses)	(1,862,702)	321,290	1,511,412	(30,000)
Net change in fund balances	(398,888)	1,179,455	1,072,314	1,852,881
Beginning fund balances	4,999,207	2,570,799	2,724,732	10,294,738
Ending fund balances	\$ 4,600,319	3,750,254	3,797,046	12,147,619

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, 2008

Net change in fund balances - total governmental funds		\$ 1,852,881
The change in net assets reported for governmental activities in the Statement of Activities is different because:		
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 depreciation (\$1,554,800) and loss on disposal of capital assets (\$77,634) exceeded capital outlays (\$1,130,536).		
		(501,898)
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 increase in other long-term assets.		
		182,316
Issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of the long-term debt (\$470,615) consumes current financial resources in governmental funds. Neither of these transactions has any effect on net assets.		
		470,615
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.		
Decrease in accrued leave	\$ 35,473	
Decrease in net pension/OPEB obligation	<u>1,099,216</u>	
		1,134,689
An internal service fund is used by management to charge the cost of health insurance to individual funds. A portion of the net loss of this activity is reported with governmental activities.		
		<u>(51,115)</u>
Change in net assets of governmental activities		\$ <u>3,087,488</u>

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, 2008

	<u>Budget</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				Positive (Negative)
Revenues:				
Taxes	\$ 8,064,257	8,008,256	8,048,948	40,692
Licenses and permits	56,550	53,850	26,219	(27,631)
Intergovernmental	577,994	633,994	1,372,905	738,911
Charges for services	1,745,118	2,534,582	2,337,323	(197,259)
Special assessments	-	-	127,876	127,876
Investment income	40,000	40,000	63,429	23,429
Fines and forfeitures	20,400	20,400	34,193	13,793
Sales of property and equipment	-	800,000	499,189	(300,811)
Total revenues	<u>10,504,319</u>	<u>12,091,082</u>	<u>12,510,082</u>	<u>419,000</u>
Expenditures:				
General government	2,391,187	2,896,005	2,936,021	(40,016)
Public safety	4,388,154	4,164,657	4,143,393	21,264
Public works	2,020,128	1,865,902	1,765,997	99,905
Library	561,663	652,381	681,983	(29,602)
Airport	229,813	234,292	228,720	5,572
Parks and recreation	434,469	427,398	422,251	5,147
Community services	281,938	325,380	321,476	3,904
Debt service:				
Principal	931,754	931,754	470,615	461,139
Interest	88,851	88,851	75,812	13,039
Total expenditures	<u>11,327,957</u>	<u>11,586,620</u>	<u>11,046,268</u>	<u>540,352</u>
Excess of revenues over (under) expenditures	(823,638)	504,462	1,463,814	959,352
Other financing uses - transfers out	<u>(677,010)</u>	<u>(1,869,047)</u>	<u>(1,862,702)</u>	<u>6,345</u>
Net change in fund balance	\$ <u>(1,500,648)</u>	<u>(1,364,585)</u>	(398,888)	<u>965,697</u>
Beginning fund balance			<u>4,999,207</u>	
Ending fund balance			\$ <u>4,600,319</u>	

See accompanying notes to basic financial statements.

**CITY OF HOMER, ALASKA**  
Proprietary Funds  
Statement of Net Assets  
December 31, 2008

	Enterprise Funds			
<u>Assets</u>	<u>Port of Homer</u>	<u>Water and Sewer Utility</u>	<u>Total</u>	<u>Internal Service Funds</u>
Current assets:				
Cash and investments	\$ -	-	-	191,385
Receivables, net of allowance for doubtful accounts:				
Accounts	196,953	264,156	461,109	192,775
Sales taxes	-	213,397	213,397	-
Assessments due within one year	-	188,008	188,008	-
State and federal grants and loans	-	6,747,063	6,747,063	-
Litigation settlement	100,000	-	100,000	-
Inventory	13,425	248,266	261,691	-
Prepaid items	45,979	50,736	96,715	-
Total current assets	<u>356,357</u>	<u>7,711,626</u>	<u>8,067,983</u>	<u>384,160</u>
Noncurrent assets:				
Restricted assets - cash and investments	168,420	3,105,014	3,273,434	-
Assessments due after one year	-	3,106,281	3,106,281	-
Bond issuance costs, net	5,331	-	5,331	-
Capital assets, net of accumulated depreciation	44,434,552	32,978,480	77,413,032	-
Total noncurrent assets	<u>44,608,303</u>	<u>39,189,775</u>	<u>83,798,078</u>	<u>-</u>
Total assets	<u>\$ 44,964,660</u>	<u>46,901,401</u>	<u>91,866,061</u>	<u>384,160</u>
	<u>Liabilities</u>			
Current liabilities:				
Accounts payable	120,134	1,394,766	1,514,900	152,651
Accrued payroll and related liabilities	35,692	42,253	77,945	-
Accrued leave	17,815	24,598	42,413	-
Accrued interest	2,213	29,910	32,123	-
Current portion of long-term debt	197,202	649,612	846,814	-
Prepaid rentals and deposits	623,340	37,583	660,923	-
Due to other funds	3,242	5,113,952	5,117,194	18,197
Unearned lease revenue	18,000	-	18,000	-
Total current liabilities	<u>1,017,638</u>	<u>7,292,674</u>	<u>8,310,312</u>	<u>170,848</u>
Noncurrent liabilities, net of current portion:				
Unearned lease revenue	342,000	-	342,000	-
Accrued leave	129,999	180,286	310,285	-
Notes payable	-	10,962,834	10,962,834	-
Capital lease	9,517	22,649	32,166	-
Total noncurrent liabilities	<u>481,516</u>	<u>11,165,769</u>	<u>11,647,285</u>	<u>-</u>
Total liabilities	<u>1,499,154</u>	<u>18,458,443</u>	<u>19,957,597</u>	<u>170,848</u>
	<u>Net Assets</u>			
Invested in capital assets, net of related debt	44,227,833	21,343,385	65,571,218	-
Restricted for debt service and capital projects	168,420	7,509,016	7,677,436	-
Unrestricted (deficit)	(930,747)	(409,443)	(1,340,190)	213,312
Total net assets	<u>43,465,506</u>	<u>28,442,958</u>	<u>71,908,464</u>	<u>213,312</u>
Total liabilities and net assets	<u>\$ 44,964,660</u>	<u>46,901,401</u>	<u>91,866,061</u>	<u>384,160</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			<u>50,991</u>	
Net assets of business-type activities			<u>\$ 71,959,455</u>	

See accompanying notes to basic financial statements.

**CITY OF HOMER, ALASKA**  
 Proprietary Funds  
 Statement of Revenues, Expenses and Changes in Net Assets  
 Year Ended December 31, 2008

	Enterprise Funds			Internal Service Funds
	Port of Homer	Water and Sewer Utility	Total	
Operating revenues - charges for services:				
Port and harbor	\$ 3,197,633	-	3,197,633	-
Water and sewer	-	2,938,595	2,938,595	-
Interfund charges	-	-	-	1,838,432
Total operating revenues	<u>3,197,633</u>	<u>2,938,595</u>	<u>6,136,228</u>	<u>1,838,432</u>
Operating expenses:				
Operations	1,988,868	1,913,222	3,902,090	185,660
Administration	1,086,263	1,739,879	2,826,142	63,250
Depreciation	1,411,020	2,069,133	3,480,153	-
Claims	-	-	-	1,338,666
Insurance premiums	-	-	-	335,978
Total operating expenses	<u>4,486,151</u>	<u>5,722,234</u>	<u>10,208,385</u>	<u>1,923,554</u>
Operating loss	(1,288,518)	(2,783,639)	(4,072,157)	(85,122)
Nonoperating revenues (expenses):				
Investment income	37,224	171,953	209,177	6,359
Interest expense	(24,580)	(84,500)	(109,080)	-
Litigation settlements	16,660	-	16,660	-
Sales taxes	-	1,266,790	1,266,790	-
Amortization of bond issuance costs	(5,331)	-	(5,331)	-
State PERS relief	89,477	94,230	183,707	-
Other income	91,082	84,531	175,613	-
Net nonoperating revenues (expenses)	<u>204,532</u>	<u>1,533,004</u>	<u>1,737,536</u>	<u>6,359</u>
Loss before contributions, transfers and special item	(1,083,986)	(1,250,635)	(2,334,621)	(78,763)
Capital contributions	-	4,571,058	4,571,058	-
Transfers in	30,000	-	30,000	-
Special item - writeoff of NPO/OPEB	<u>264,771</u>	<u>249,667</u>	<u>514,438</u>	<u>-</u>
Change in net assets	(789,215)	3,570,090	2,780,875	(78,763)
Beginning net assets	<u>44,254,721</u>	<u>24,872,868</u>		<u>292,075</u>
Ending net assets	<u>\$ 43,465,506</u>	<u>28,442,958</u>		<u>213,312</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			(27,648)	
Change in net assets of business-type activities			<u>\$ 2,753,227</u>	

See accompanying notes to basic financial statements.

**CITY OF HOMER, ALASKA**  
Proprietary Funds  
Statement of Cash Flows  
Year Ended December 31, 2008

	Enterprise Funds			Internal Service Funds
	Port of Homer	Water and Sewer Utility	Total	
Cash flows from operating activities:				
Receipts from customers and users	\$ 3,269,990	3,053,288	6,323,278	-
Receipts from interfund services provided	-	-	-	1,656,471
Payments to suppliers	(1,376,052)	(1,950,401)	(3,326,453)	-
Payments to employees	(1,608,522)	(1,733,890)	(3,342,412)	(185,660)
Litigation settlement	100,000	-	100,000	-
Payments for insurance claims and administration	-	-	-	(1,678,231)
Net cash flows from operating activities	<u>385,416</u>	<u>(631,003)</u>	<u>(245,587)</u>	<u>(207,420)</u>
Cash flows from noncapital financing activities - increase in due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,197</u>
Cash flows from capital and related financing activities:				
Principal payments on long-term debt	(197,187)	(640,594)	(837,781)	-
Interest payments on long-term debt	(18,452)	(104,882)	(123,334)	-
Acquisition of property, plant and equipment	(221,828)	(6,429,697)	(6,651,525)	-
Increase (decrease) in due to other funds	(15,173)	3,854,313	3,839,140	-
Capital contributions received	-	2,585,265	2,585,265	-
Sales tax revenue received	-	1,261,222	1,261,222	-
Transfers in	30,000	-	30,000	-
Net cash flows from capital and related financing activities	<u>(422,640)</u>	<u>525,627</u>	<u>102,987</u>	<u>-</u>
Cash flows from investing activities - investment income received	<u>37,224</u>	<u>171,953</u>	<u>209,177</u>	<u>6,359</u>
Net increase (decrease) in cash and investments	<u>-</u>	<u>66,577</u>	<u>66,577</u>	<u>(182,864)</u>
Beginning cash and investments	<u>168,420</u>	<u>3,038,437</u>	<u>3,206,857</u>	<u>374,249</u>
Ending cash and investments	<u>\$ 168,420</u>	<u>3,105,014</u>	<u>3,273,434</u>	<u>191,385</u>

See accompanying notes to basic financial statements.

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

	Enterprise Funds			Internal Service Funds
	<u>Port of Homer</u>	<u>Water and Sewer Utility</u>	<u>Total</u>	
Cash and investments at end of year:				
Cash and investments	\$ -	-	-	191,385
Cash and investments restricted for debt service and construction	<u>168,420</u>	<u>3,105,014</u>	<u>3,273,434</u>	<u>-</u>
	<u>\$ 168,420</u>	<u>3,105,014</u>	<u>3,273,434</u>	<u>191,385</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:				
Operating loss	\$ (1,288,518)	(2,783,639)	(4,072,157)	(85,122)
Adjustments to reconcile operating loss to net cash flows from operating activities:				
Depreciation	1,411,020	2,069,133	3,480,153	-
Noncash expense - PERS relief	89,477	94,230	183,707	-
Increase (decrease) in allowance for doubtful accounts	6,931	(9,312)	(2,381)	-
Amortization of deferred lease revenue	(18,000)	-	(18,000)	-
Litigation settlements	16,660	-	16,660	-
Miscellaneous nonoperating revenues	91,082	84,531	175,613	-
(Increase) decrease in assets:				
Accounts receivable	(45,444)	37,481	(7,963)	(181,961)
Inventory	(615)	536	(79)	-
Prepaid items	(9,745)	(3,216)	(12,961)	-
Litigation settlement receivable	83,340	-	83,340	-
Increase (decrease) in liabilities:				
Accounts payable	19,309	(167,311)	(148,002)	59,663
Accrued payroll and related liabilities	6,303	14,920	21,223	-
Accrued leave	(20,604)	23,379	2,775	-
Prepaid rentals and deposits	37,788	1,993	39,781	-
Net pension/OPEB obligation	<u>6,432</u>	<u>6,272</u>	<u>12,704</u>	<u>-</u>
Net cash flows from operating activities	<u>\$ 385,416</u>	<u>(631,003)</u>	<u>(245,587)</u>	<u>(207,420)</u>

See accompanying notes to basic financial statements.

# CITY OF HOMER, ALASKA

## Notes to Basic Financial Statements

December 31, 2008

(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 all revenues except reimbursement grants to be available if they are collected within 60 days after year end. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only to the extent they have matured.

Property and sales taxes, 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 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 *Streets and Sidewalks Capital Project Fund* accounts for operating grants and capital improvement projects for streets and sidewalks.

##### 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 Internal Service Funds which account for the activities relating to the City's self-insured health benefit plan, accrued leave cash-outs, and PERS funding. These funds report revenues charged to the other funds based on estimated amounts 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 restricted 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**

##### Budgets and Budgetary Accounting, 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.

## CITY OF HOMER, ALASKA

### Notes to Basic Financial Statements, continued

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

##### 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.

##### 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

## CITY OF HOMER, ALASKA

### Notes to Basic Financial Statements, continued

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

##### 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).

##### 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, discount, or deferred loss.

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 data for the prior year have been presented in some of 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, 2008, follows:

##### ***Due from other funds:***

Due to the General Fund from:

Water and Sewer Utility Enterprise Fund for advances  
to cover the cost of projects

\$ 3,584,036

## CITY OF HOMER, ALASKA

### Notes to Basic Financial Statements, continued

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

##### *Due from other funds, continued:*

Port of Homer Enterprise Fund for advances to cover the cost of projects	\$ 3,242
Leave Cash-Out Internal Service Fund for advances to cover operating costs	18,197
Nonmajor special revenue funds for advances to cover the cost of projects	16,113
Due to the Streets and Sidewalks Capital Project Fund from Water and Sewer Utility Enterprise Fund for advances to cover the cost of projects	<u>1,529,916</u>
Total amount due from other funds	<u>\$ 5,151,504</u>

##### *Transfers:*

From General Fund to:	
Nonmajor governmental funds to cover capital costs	\$ 1,847,702
Nonmajor governmental funds to cover operating costs	15,000
From nonmajor governmental funds to Streets and Sidewalks Capital Project Fund to cover capital costs	321,290
From nonmajor governmental funds to Port of Homer Enterprise Fund to match grant costs	<u>30,000</u>
Total transfers to other funds	<u>\$ 2,213,992</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, 2008.

Bank deposits	\$ 712,118
Investments	<u>8,610,912</u>
	<u>\$ 9,323,030</u>



## CITY OF HOMER, ALASKA

### Notes to Basic Financial Statements, continued

#### Cash and Investments, continued

##### Reconciliation of Deposit and Investment Balances, continued

Cash and investments	\$ 6,049,596
Restricted cash and investments	<u>3,273,434</u>
	<u>\$ 9,323,030</u>

Restricted cash and investments represents funds set aside for various bond and note reserves and capital projects.

#### 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*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Investment maturities at December 31, 2008 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	\$ 319,090	-	319,090
Federal Home Loan Mtg. Corp	644,927	-	644,927
FNMA	<u>256,754</u>	<u>-</u>	<u>256,754</u>
Total U.S. government agencies	1,220,771	-	1,220,771

## CITY OF HOMER, ALASKA

### Notes to Basic Financial Statements, continued

#### **Cash and Investments, continued**

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less Than 1</u>	<u>1-5</u>
Repurchase agreement	\$ <u>152,181</u>	<u>152,181</u>	<u>-</u>
Total subject to interest rate risk	<u>1,372,952</u>	<u>152,181</u>	<u>1,220,771</u>
Certificates of deposit	5,594,734		
Pooled investments	<u>3,016,178</u>		
Total investments	\$ <u>8,610,912</u>		

#### *Uninsured Investments*

During 2008, the City's investment brokers purchased certificates of deposit that were not covered by FDIC insurance. It was discovered that four certificates of deposit, with a total market value of \$612,885 at year end, were not covered under FDIC insurance. This was corrected in the first quarter of 2009 by shifting uninsured investments to covered investments. The City of Homer's investment brokers are annually sent the City's investment policy in order to maintain compliance with the City's policies.

#### *Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. All of the U.S. government agency investments are rated AAA by Standard and Poor's.

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, 2008, 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, 2008, 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:

**CITY OF HOMER, ALASKA**

Notes to Basic Financial Statements, continued

**Accounts Receivable and Valuation Allowances, continued**

	<u>General</u>	<u>Streets and Sidewalks</u>	<u>Port of Homer</u>	<u>Water and Sewer</u>	<u>Nonmajor and other funds</u>	<u>Total</u>
Receivables:						
Accounts	\$ -	-	275,700	290,749	-	566,449
Taxes	968,287	192,058	-	213,397	21,340	1,395,082
State and federal grants	21,023	-	-	6,747,063	28,509	6,796,595
Special assessments	561,882	-	-	3,294,289	-	3,856,171
Litigation settlement	-	-	100,000	-	-	100,000
Other	<u>190,172</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>195,410</u>	<u>385,582</u>
Total receivables	1,741,364	192,058	375,700	10,545,498	245,259	13,099,879
Less allowance for uncollectibles	<u>(13,281)</u>	<u>-</u>	<u>(78,747)</u>	<u>(26,593)</u>	<u>-</u>	<u>(118,621)</u>
Net receivables	<u>\$ 1,728,083</u>	<u>192,058</u>	<u>296,953</u>	<u>10,518,905</u>	<u>245,259</u>	<u>12,981,258</u>

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, 2008, the various components of *deferred revenue* reported in the governmental funds were as follows:

Delinquent property taxes receivable (General Fund)	\$ 114,523
Special assessments not yet due (General Fund)	561,882
Airport deposits (General Fund)	16,442
Grant drawdowns prior to meeting all eligibility requirements	12,460
Other deferred revenue	<u>9,750</u>
 Total deferred/unearned revenue for governmental funds	 <u>\$ 715,057</u>

(5) **Capital Assets**

Capital asset activity for the year ended December 31, 2008 follows:

	Balance January 1, <u>2008</u>	Additions and <u>Reclassifications</u>	Deletions and <u>Reclassifications</u>	Balance December 31, <u>2008</u>
<b><u>Governmental activities</u></b>				
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 9,478,234	-	-	9,478,234
Construction in progress	<u>542,678</u>	<u>310,458</u>	<u>564,025</u>	<u>289,111</u>
Total assets not being depreciated	<u>10,020,912</u>	<u>310,458</u>	<u>564,025</u>	<u>9,767,345</u>
 Buildings	 18,082,967	 -	 258,779	 17,824,188
Improvements other than buildings	1,458,402	393,466	-	1,851,868
Machinery and equipment	5,187,228	671,542	-	5,858,770
Infrastructure	<u>28,554,565</u>	<u>319,095</u>	<u>-</u>	<u>28,873,660</u>
Total assets being depreciated	<u>53,283,162</u>	<u>1,384,103</u>	<u>258,779</u>	<u>54,408,486</u>

## CITY OF HOMER, ALASKA

### Notes to Basic Financial Statements, continued

#### **Capital Assets, continued**

	Balance January 1, <u>2008</u>	Additions and <u>Reclassifications</u>	Deletions and <u>Reclassifications</u>	Balance December 31, <u>2008</u>
<b><u>Governmental activities, continued</u></b>				
<i>Capital assets being depreciated:</i>				
Less accumulated depreciation for:				
Buildings	\$ 3,802,445	387,035	181,145	4,008,335
Improvements other than buildings	501,661	102,193	-	603,854
Machinery and equipment	2,636,896	425,519	-	3,062,415
Infrastructure	<u>10,456,116</u>	<u>640,053</u>	<u>-</u>	<u>11,096,169</u>
Total accumulated depreciation	<u>17,397,118</u>	<u>1,554,800</u>	<u>181,145</u>	<u>18,770,773</u>
Total capital assets being depreciated, net	<u>35,886,044</u>	<u>(170,697)</u>	<u>77,634</u>	<u>35,637,713</u>
Governmental activity capital assets, net	\$ <u>45,906,956</u>	<u>139,761</u>	<u>641,659</u>	<u>45,405,058</u>
<b><u>Business-type activities</u></b>				
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 15,702,268	-	-	15,702,268
Construction in progress	<u>1,143,431</u>	<u>7,629,629</u>	<u>90,091</u>	<u>8,682,969</u>
Total assets not being depreciated	<u>16,845,699</u>	<u>7,629,629</u>	<u>90,091</u>	<u>24,385,237</u>
<i>Capital assets being depreciated:</i>				
Buildings	34,532,528	-	-	34,532,528
Improvements other than buildings	69,131,318	469,593	47,168	69,553,743
Machinery and equipment	6,965,424	54,258	55,187	6,964,495
Infrastructure	<u>616,286</u>	<u>-</u>	<u>-</u>	<u>616,286</u>
Total assets being depreciated	<u>111,245,556</u>	<u>523,851</u>	<u>102,355</u>	<u>111,667,052</u>
Less accumulated depreciation for:				
Buildings	24,945,580	1,309,292	-	26,254,872
Improvements other than buildings	26,008,398	1,885,754	-	27,894,152
Machinery and equipment	3,755,256	263,216	-	4,018,472
Infrastructure	<u>449,870</u>	<u>21,891</u>	<u>-</u>	<u>471,761</u>
Total accumulated depreciation	<u>55,159,104</u>	<u>3,480,153</u>	<u>-</u>	<u>58,639,257</u>
Total capital assets being depreciated, net	<u>56,086,452</u>	<u>(2,956,302)</u>	<u>102,355</u>	<u>53,027,795</u>
Business-type activity capital assets, net	\$ <u>72,932,151</u>	<u>4,673,327</u>	<u>192,446</u>	<u>77,413,032</u>

Depreciation expense was charged to the functions as follows:

#### **Governmental activities**

General government	\$ 117,721
Public safety	342,073
Public works	800,878
Library	226,025
Airport	2,631
Parks and recreation	<u>65,472</u>
Total depreciation expense – governmental activities	<u>1,554,800</u>



**CITY OF HOMER, ALASKA**

Notes to Basic Financial Statements, continued

**Capital Assets, continued**

**Business-type activities**

Port and harbor	\$ 1,411,020
Water and sewer utility	<u>2,069,133</u>
Total depreciation expense – business-type activities	<u>3,480,153</u>
 Total depreciation expense	 \$ <u>4,853,807</u>

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 on cumulative basis	<u>(270,000)</u>
	 \$ <u>360,000</u>
 Current unearned revenue	 \$ 18,000
Noncurrent unearned revenue	<u>342,000</u>
 Total unearned lease revenue	 \$ <u>360,000</u>

(6) **Long-Term Debt**

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2008:

	Balance January 1, <u>2008</u>	<u>Additions</u>	<u>Retired</u>	Balance December 31, <u>2008</u>	Due Within <u>One Year</u>
<b><u>Governmental activities</u></b>					
\$1,700,000 USDA library note payable, due in annual installments of \$99,824, including interest at 4.125% through September 2033	\$ 1,586,333	-	57,051	1,529,282	36,741
 \$400,000 USDA library note payable, due in annual installments of \$23,488, including interest at 4.125% through September 2035 (paid in full in 2008)	 369,545	 -	 369,545	 -	 -

**CITY OF HOMER, ALASKA**

Notes to Basic Financial Statements, continued

**Long-Term Debt, continued**

	Balance January 1, <u>2008</u>	<u>Additions</u>	<u>Retired</u>	Balance December 31, <u>2008</u>	Due Within <u>One Year</u>
<b><u>Governmental activities, continued</u></b>					
Capital lease payable in quarterly installments of \$8,290, including interest at 4.57% through February 2009	\$ 40,069	-	31,873	8,196	8,196
Capital lease payable in quarterly installments of \$3,422, including interest at 5.65% through May 2010	31,699	-	12,146	19,553	12,850
Accrued leave	537,972	375,980	411,453	502,499	90,116
Net pension/OPEB obligation	<u>1,099,216</u>	<u>-</u>	<u>1,099,216</u>	<u>-</u>	<u>-</u>
Total governmental activities long-term liabilities	\$ <u>3,664,834</u>	<u>375,980</u>	<u>1,981,284</u>	<u>2,059,530</u>	<u>147,903</u>

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

	Balance January 1, <u>2008</u>	<u>Additions</u>	<u>Retired</u>	Balance December 31, <u>2008</u>	Due Within <u>One Year</u>
<b><u>Business-type activities</u></b>					
Revenue bonds:					
\$1,595,000 1998 port revenue refunding bonds, due in final installment of \$185,000 plus interest at 4.5% on October 1, 2009	\$ 365,000	-	180,000	185,000	185,000
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	1,314,439	-	321,307	993,132	326,128
\$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	3,218,457	-	1,144,924	2,073,533	121,973

## CITY OF HOMER, ALASKA

### Notes to Basic Financial Statements, continued

#### Long-Term Debt, continued

	Balance January 1, <u>2008</u>	<u>Additions</u>	<u>Retired</u>	Balance December 31, <u>2008</u>	Due Within <u>One Year</u>
<b><u>Business-type activities, continued</u></b>					
\$3,389,321 2002 Water Utility Alaska Drinking Water loan, due in annual installments of \$143,078 plus interest at 1.5% through August 18, 2025	\$ 3,103,165	-	670,848	2,432,317	143,077
\$131,980 2003 Sewer Utility Alaska Clean Water loan, due in annual installments of \$13,189 plus interest at 1.5% through August 28, 2016	126,140	-	20,628	105,512	13,189
\$3,250,000 (maximum) 2006 Sewer Utility Alaska Clean Water loan, terms not yet established; interest at 1.5%	2,070,456	66,359	-	2,136,815	-
\$470,000 (maximum) 2006 Water Utility Alaska Drinking Water loan, terms not yet established; interest at 1.5%	327,954	22,124	-	350,078	-
\$8,000,000 (maximum) 2006 Water Utility Alaska Drinking Water loan, terms not yet established; interest at 1.5%	-	3,475,814	-	3,475,814	-
Capital lease payable in quarterly installments of \$16,426, including interest at 5.65% through May 2010	153,810	-	58,090	95,720	63,554
Accrued leave	349,923	152,508	149,733	352,698	42,413
Net pension/OPEB obligation	<u>501,840</u>	<u>12,598</u>	<u>514,438</u>	<u>-</u>	<u>-</u>
Total business-type activities long-term liabilities	11,531,184	<u>3,729,403</u>	<u>3,059,968</u>	12,200,619	<u>895,334</u>
Less deferred loss on refunding	<u>(12,214)</u>			<u>(6,107)</u>	
	<u>\$ 11,518,970</u>			<u>12,194,512</u>	

**CITY OF HOMER, ALASKA**

Notes to Basic Financial Statements, continued

**Long-Term Debt, continued**

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:

**Governmental activities**

Year Ending December 31,	USDA Notes Payable		
	Principal	Interest	Total
2009	\$ 36,741	63,083	99,824
2010	38,257	61,567	99,824
2011	39,835	59,989	99,824
2012	41,478	58,346	99,824
2013	43,189	56,635	99,824
2014-2018	244,184	254,936	499,120
2019-2023	298,877	200,243	499,120
2024-2028	365,820	133,300	499,120
2029-2033	420,901	51,363	472,264
	<u>\$ 1,529,282</u>	<u>939,462</u>	<u>2,468,744</u>

**Business-type activities**

Year Ending December 31,	Revenue Bonds			Notes Payable		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 185,000	8,325	193,325	604,367	84,068	688,435
2010	-	-	-	609,260	75,002	684,262
2011	-	-	-	614,222	65,863	680,085
2012	-	-	-	278,239	56,649	334,888
2013	-	-	-	278,239	52,476	330,715
2014-2018	-	-	-	1,364,817	199,973	1,564,790
2019-2023	-	-	-	1,325,250	99,394	1,424,644
2024-2025	-	-	-	530,100	11,927	542,027
	<u>\$ 185,000</u>	<u>8,325</u>	<u>193,325</u>	<u>5,604,494</u>	<u>645,352</u>	<u>6,249,846</u>

Payment terms not yet established 5,962,707

\$ 11,567,201

(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.

	<u>Port of Homer</u>
Operating income excluding depreciation expense	\$ <u>122,502</u>
Available for debt requirement	122,502
Requirement	<u>(240,329)</u>
Shortfall of revenue to meet requirement	\$ <u>(117,827)</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, 2008 are as follows:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2009	\$ 21,981	67,583
2010	<u>6,845</u>	<u>32,853</u>
Total minimum lease payments	28,826	100,436
Less amount representing interest	<u>1,077</u>	<u>4,716</u>
Present value of minimum lease payments	\$ <u>27,749</u>	<u>95,720</u>

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

The City provides health insurance on a self-insured basis up to \$45,000 each occurrence or \$1,308,605 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, 2008 and 2007 follows:

	Balance at Beginning of Year	Claims Expense	Claims Paid	Balance at End of Year
2007 health insurance	\$ <u>64,243</u>	<u>1,075,895</u>	<u>1,047,150</u>	<u>92,988</u>
2008 health insurance	\$ <u>92,988</u>	<u>1,338,666</u>	<u>1,279,003</u>	<u>152,651</u>

(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, 2008.

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 City participates in the Public Employees' Retirement System (PERS). PERS was originally established as an agent multiple employer plan, but was converted by legislation to a cost-sharing plan, effective July 1, 2008. Under the cost-sharing arrangement, the State of Alaska Division of Retirement and Benefits will no longer track individual employer assets and liabilities. Rather, all plan costs and past service liabilities will be shared among all participating employers.

The Plan covers eligible State and local government employees and was established and is administered by the State of Alaska. It provides pension, postemployment healthcare, death, and disability benefits. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

The Plan is included in a comprehensive annual financial report that includes financial statements and other required supplemental information. The report is available at the following address:

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

**Funding Policy**

Regular employees are required to contribute 6.75% of their annual covered salary (2.09% for pension and 4.66% for healthcare). Police and firefighters are required to contribute 7.5% of their annual covered salary (2.35% for pension and 5.15% for healthcare). The funding policy provides for periodic employer contributions based on actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay both pension and postemployment healthcare benefits when due.

Under the newly adopted cost sharing arrangement, the employer contribution rate is statutorily capped at 22%. State legislation currently provides that the State of Alaska will contribute any amount over 22% such that the total contribution equals the Alaska Retirement Management Board adopted rate. This rate will be consistent with the actuarially determined rate.

## CITY OF HOMER, ALASKA

### Notes to Basic Financial Statements, continued

#### **Defined Benefit Pension Plan, continued**

##### Funding Policy, continued

The City's contribution rates for 2008 are as follows:

	<u>January to June</u> <u>Agent Multi-</u> <u>Employer Plan</u>		<u>July to December</u> <u>Cost-Sharing</u> <u>Plan</u>	
	<u>Employer</u> <u>Rate</u>	<u>Actuarial</u> <u>Rate</u>	<u>Employer</u> <u>Rate</u>	<u>Actuarial</u> <u>Rate</u>
Pension	6.05%	8.20%	6.82%	10.91%
Postemployment healthcare	<u>15.95%</u>	<u>21.62%</u>	<u>15.18%</u>	<u>24.31%</u>
Total contribution rate	<u>22.00%</u>	<u>29.82%</u>	<u>22.00%</u>	<u>35.22%</u>

The employer contribution rate for the fiscal year ended June 30, 2008 was established in the June 30, 2005 actuarial valuation using the projected unit credit actuarial funding method. Effective with the June 30, 2006 valuation, which established the fiscal year end June 30, 2009 rates, the Entry Age Actuarial Cost Method has been employed. Under both methods, the rates were determined as a level percentage of payroll. Unfunded accrued liabilities and future gains/losses are amortized over a fixed 25 year period as a level percentage of pay.

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

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

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



## CITY OF HOMER, ALASKA

### Notes to Basic Financial Statements, continued

#### **Defined Benefit Pension Plan, continued**

##### Funding Policy, continued

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

Valuation Date	June 30, 2007
Actuarial Cost Method	Entry age normal, level percentage of pay for pension; level dollar for healthcare
Amortization Method	Level dollar, closed
Equivalent Single Amortization Period	21 years
Asset Valuation Method	5-year smoothed market
Investment rate of return	8.25% for pension; 4.5% for healthcare
Projected salary increases	Peace officer/firefighter: Merit: 2.5% per year for first 6 years of employment, 0.5% thereafter; Productivity: 0.5% per year Others: Merit: 5.5% per year grading down to 1.5% after 5 years; for more than 6 years of service, 1.0% grading down to 0%. Productivity: 0.5% per year
Inflation	3.5%

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

#### Annual Pension and Postemployment Healthcare Cost – through June 30, 2008

Through June 30, 2008, the State of Alaska adopted contribution rates for each employer at an amount no less than 14.48% and no more than 22%. The Legislature then approved State funding in the form of an on-behalf payment for those amounts between the established employer rate and the actuarially determined rate. This on-behalf payment was transferred to the Alaska Division of Retirement and Benefits at July 1, but was allocated to the individual employer accounts on a prorata basis with each payroll reporting period. In accordance with GASB Statement Number 24, the City has recorded \$206,056 in these financial statements as PERS relief and related PERS expenditures/expenses. In addition, because the City is legally obligated for these amounts under the plan, the on-behalf payment is included in employer contributions for the purpose of calculating the ending net pension obligation and other post-employment benefit (OPEB) obligation as noted below.

Because of the conversion to cost-sharing, the net pension obligation and net OPEB obligation will not be paid. As a result, these amounts have been written off as of July 1, 2008.

**CITY OF HOMER, ALASKA**

Notes to Basic Financial Statements, continued

**Defined Benefit Pension Plan, continued**

Annual Pension and Postemployment Healthcare Cost – through June 30, 2008, continued

Through June 30, 2008, the City's annual pension and OPEB costs were as follows:

	<u>Pension</u>	<u>OPEB</u>	<u>Total</u>
Annual required contribution	\$ 232,385	612,653	845,038
Interest on net pension/OPEB obligation	36,324	95,763	132,087
Adjustment to annual required contribution	<u>(32,059)</u>	<u>(99,333)</u>	<u>(131,392)</u>
Annual pension/OPEB cost	236,650	609,083	845,733
Contributions made	<u>(229,112)</u>	<u>(604,023)</u>	<u>(833,135)</u>
Increase in net pension/OPEB obligation	7,538	5,060	12,598
Net pension/OPEB obligation, beginning of year	<u>959,315</u>	<u>641,741</u>	<u>1,601,056</u>
Net pension/OPEB July 1 write off, special item	\$ <u>966,853</u>	<u>646,801</u>	<u>1,613,654</u>

Trend information for PERS (prior to conversion to cost sharing) follows:

	<u>Period</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Actual</u> <u>Contributions</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
Pension	12/31/06	\$ 736,941	\$ 377,190	51%	814,635
	12/31/07	617,168	472,488	77%	959,315
	7/1/08	236,650	229,112	97%	-
	<u>Period</u> <u>Ending</u>	<u>Annual</u> <u>OPEB</u> <u>Cost</u>	<u>Actual</u> <u>Contributions</u>	<u>Percentage</u> <u>of OPEB</u> <u>Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
Postemployment healthcare	12/31/06	\$ 505,346	\$ 261,671	52%	523,204
	12/31/07	848,287	729,750	86%	641,741
	7/1/08	609,083	604,023	99%	-

Annual Pension and Postemployment Healthcare Cost – July 1 – December 31

Effective July 1, 2008, the Plan has been converted to a cost-sharing arrangement. The statutorily established rate is 22% of covered payroll, subject to a wage floor. In addition, the State contributed approximately 13.22% of covered payroll to the Plan. In accordance with the provisions of GASB Statement Number 24, the City has recorded the State contribution in the amount of \$352,371 as a PERS on-behalf payment. However, because the City is not legally responsible for the payments, these amounts are excluded from pension and OPEB cost as described here.

**CITY OF HOMER, ALASKA**

Notes to Basic Financial Statements, continued

**Defined Benefit Pension Plan, continued**

Annual Pension and Postemployment Healthcare Cost – July 1 – December 31, continued

<u>Six Months End December 31</u>	<u>Annual Pension Cost</u>	<u>Annual OPEB Cost</u>	<u>Total Benefit Cost (TBC)</u>	<u>City Contri- butions</u>	<u>% of TBC Contributed</u>
2008	\$ 165,895	\$ 369,249	\$ 535,144	\$ 535,144	100%

Funding Status and Funding Progress

As of June 30, 2007, the pension plan (the cost-sharing plan as a whole) is 77.8% funded and the post-employment health plan is 28.5% funded. The following schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (in thousands)</u>	<u>Actuarial Accrued Liability (in thousands)</u>	<u>Unfunded Liability (in thousands)</u>	<u>Funded Ratio</u>	<u>Unfunded Covered Payroll (in thousands)</u>	<u>Unfunded Liability as Percentage of Covered Payroll</u>
June 30, 2007:						
Pension	\$ 6,739,004	\$ 8,662,324	\$ 1,923,320	77.8%	\$ 1,605,819	119.8%
Postemployment healthcare	3,161,956	11,108,553	7,946,597	28.5%	1,605,819	494.9%
June 30, 2006:						
Pension	6,331,065	8,094,043	1,762,978	78.2%	1,590,693	110.8%
Postemployment healthcare	2,709,843	11,455,015	8,745,172	23.7%	1,590,693	549.8%

(12) **Tier IV Defined Contribution Pension Plan**

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

**CITY OF HOMER, ALASKA**

Notes to Basic Financial Statements, continued

**Tier IV Defined Contribution Pension Plan, continued**

	<u>PERS</u> <u>Tier IV</u>
Individual account	5.00%
Health reimbursement arrangement (HRA) *	3.00
Retiree medical plan	1.75
Occupational death and disability benefits	<u>.30</u>
	<u>10.05 %</u>

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

The City and employee contributions to PERS including the HRA contribution for the year ended December 31, 2008 were \$33,589 and \$26,344, respectively.

(13) **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.

(14) **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

(15) **Designated Sales Tax**

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

Water, sewer, and related debt service	0.75%
Road and trail projects	0.75%
General Fund – undesignated	3.00%
Kenai Peninsula Borough	<u>3.00%</u>
Total sales tax percentage	<u>7.50%</u>

Effective January 1, 2009, Ordinance 08-32(s)(A-2) exempts sales tax on non-prepared foods from September 1 through May 31 annually.



SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

**CITY OF HOMER, ALASKA**  
 Nonmajor Governmental Funds  
 Combining Balance Sheet  
 December 31, 2008

	Special Revenue Funds										Capital Project Funds							Total Nonmajor Governmental Funds	
	Library Donations	Fire Department Donations	Animal Shelter	Retainage Reimbursements	Community Schools	Sustainability Global Warming	Non-capital Projects	Special Revenue Funds	City Facilities	New City Hall	HART Trails	Depreciation Reserves	Land Reserve	Fleet Reserve Allocation	Total Capital Project Funds				
<b>Assets</b>																			
Cash and investments	\$ 31,326	62,965	7,352	8,241	509	15,162	-	125,555	379,109	415,274	147,609	1,989,168	6,634	766,582	3,704,376				3,829,931
Receivables, net:																			
Sales taxes	-	-	-	-	-	-	-	-	-	-	21,340	-	-	-	21,340				21,340
State and federal grants	-	-	-	-	-	-	28,509	28,509	-	-	-	-	-	-	-				28,509
Other	-	-	-	1,223	-	-	-	1,223	1,412	-	-	-	-	-	1,412				2,635
<b>Total assets</b>	<b>\$ 31,326</b>	<b>62,965</b>	<b>7,352</b>	<b>9,464</b>	<b>509</b>	<b>15,162</b>	<b>28,509</b>	<b>155,287</b>	<b>380,521</b>	<b>415,274</b>	<b>168,949</b>	<b>1,989,168</b>	<b>6,634</b>	<b>766,582</b>	<b>3,727,128</b>				<b>3,882,415</b>
<b>Liabilities and Fund Balances</b>																			
<b>Liabilities:</b>																			
Accounts payable	-	-	-	-	-	-	27,009	27,009	1,460	-	-	25,063	-	-	26,523				53,532
Due to other funds	-	-	-	-	-	-	16,113	16,113	-	-	-	-	-	-	-				16,113
Deferred revenue	-	-	-	9,464	-	-	6,260	15,724	-	-	-	-	-	-	-				15,724
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,464</b>	<b>-</b>	<b>-</b>	<b>49,382</b>	<b>58,846</b>	<b>1,460</b>	<b>-</b>	<b>-</b>	<b>25,063</b>	<b>-</b>	<b>-</b>	<b>26,523</b>				<b>85,369</b>
<b>Fund balances:</b>																			
Reserved for debt service and capital projects	-	-	-	-	-	-	-	-	-	415,274	168,949	-	-	-	584,223				584,223
Unreserved - designated:																			
Library	31,326	-	-	-	-	-	-	31,326	-	-	-	-	-	-	-				31,326
Fire department	-	62,965	-	-	-	-	-	62,965	-	-	-	-	-	-	-				62,965
Animal shelter	-	-	7,352	-	-	-	-	7,352	-	-	-	-	-	-	-				7,352
Land	-	-	-	-	-	-	-	-	-	-	-	-	6,634	-	6,634				6,634
Capital outlay	-	-	-	-	-	-	-	-	379,061	-	-	1,964,105	-	766,582	3,109,748				3,109,748
Community schools	-	-	-	-	509	-	-	509	-	-	-	-	-	-	-				509
Sustainability global warming	-	-	-	-	-	15,162	-	15,162	-	-	-	-	-	-	-				15,162
Deficit	-	-	-	-	-	-	(20,873)	(20,873)	-	-	-	-	-	-	-				(20,873)
<b>Total fund balances (deficit)</b>	<b>\$ 31,326</b>	<b>62,965</b>	<b>7,352</b>	<b>9,464</b>	<b>509</b>	<b>15,162</b>	<b>(20,873)</b>	<b>96,441</b>	<b>379,061</b>	<b>415,274</b>	<b>168,949</b>	<b>1,964,105</b>	<b>6,634</b>	<b>766,582</b>	<b>3,700,605</b>				<b>3,797,046</b>
<b>Total liabilities and fund balances</b>	<b>\$ 31,326</b>	<b>62,965</b>	<b>7,352</b>	<b>9,464</b>	<b>509</b>	<b>15,162</b>	<b>28,509</b>	<b>155,287</b>	<b>380,521</b>	<b>415,274</b>	<b>168,949</b>	<b>1,989,168</b>	<b>6,634</b>	<b>766,582</b>	<b>3,727,128</b>				<b>3,882,415</b>

**CITY OF HOMER, ALASKA**  
 Nonmajor Governmental Funds  
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
 Year Ended December 31, 2008

	Special Revenue Funds										Capital Project Funds						Total Nonmajor Governmental Funds
	Library Donations	Fire Department Donations	Animal Shelter	Retainage Reimburse- ments	Community Schools	Sustainability Global Warming	Non- capital Projects	Total Special Revenue Funds	Debt Service Fund	City Facilities	New City Hall	HART Trails	Depre- ciation Reserves	Land Reserve	Fleet Reserve Allocation	Total Capital Project Funds	
Revenues:																	
Sales taxes	-	-	-	-	-	-	-	-	-	-	145,384	-	-	-	-	145,384	
Intergovernmental	-	-	-	-	-	-	71,029	-	32,499	302,086	-	-	-	-	-	334,585	
Investment income	730	1,197	179	-	-	55	2,161	5,827	6,823	-	1,394	18,989	114	11,112	-	405,614	
Donations	1,307	7,820	-	-	54	-	9,181	-	-	-	-	-	-	-	-	46,420	
Other	-	-	-	6,171	-	-	55,463	-	-	-	-	100,321	-	-	3,051	9,181	
Total revenues	2,037	9,017	179	6,171	54	55	126,492	5,827	39,322	302,086	146,778	119,310	114	14,163	103,372	165,006	
Expenditures:																	
General government	-	-	-	-	-	-	-	-	-	-	26,480	2,404	-	-	-	28,884	
Public safety	-	-	-	-	-	-	45,984	-	-	-	-	-	-	-	-	45,984	
Public works	-	-	-	6,171	-	-	97,637	-	-	-	-	-	-	-	-	103,808	
Community service	-	-	-	-	244	-	244	-	-	-	-	250	-	-	250	494	
Capital outlay	-	-	-	6,171	244	-	143,621	-	42,717	302,086	-	171,607	-	-	515,123	1,031,533	
Total expenditures	-	-	-	6,171	244	-	143,621	-	42,717	302,086	26,480	174,261	-	-	515,123	1,060,667	
Excess of revenues over (under) expenditures	2,037	9,017	179	-	(190)	55	(17,129)	5,827	(3,395)	-	120,298	(54,951)	114	(500,960)	(438,894)	(439,098)	
Other financing sources (uses):																	
Transfers in	-	-	-	-	-	-	15,000	-	84,347	-	-	1,207,134	-	-	556,221	1,847,702	
Transfers out	-	-	-	-	-	-	-	(321,290)	-	-	-	(30,000)	-	-	-	(30,000)	
Net other financing sources (uses)	-	-	-	-	-	-	15,000	(321,290)	84,347	-	-	1,177,134	-	-	556,221	1,817,702	
Net change in fund balances	2,037	9,017	179	-	(190)	15,055	(17,129)	(315,463)	80,952	-	120,298	1,122,183	114	55,261	1,378,808	1,072,314	
Beginning fund balances (deficit)	29,289	53,948	7,173	-	699	107	(3,744)	315,463	298,109	415,274	48,651	841,922	6,520	711,321	2,321,797	2,724,732	
Ending fund balances (deficit)	\$ 31,326	62,965	7,352	-	509	15,162	(20,873)	96,441	379,061	415,274	168,949	1,964,105	6,634	766,582	3,700,605	3,797,046	



## 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, 2008  
 (With Comparative Amounts for 2007)

<u>Assets</u>	<u>2008</u>	<u>2007</u>
Cash and investments	\$ -	2,751,615
Receivables:		
Property taxes - delinquent	114,697	118,802
Less allowance for doubtful accounts	(13,281)	(17,386)
Net property taxes receivable	101,416	101,416
Sales taxes	853,590	831,316
Assessments	561,882	380,912
State and federal grants	21,023	-
Other	190,172	129,432
Total receivables	<u>1,728,083</u>	<u>1,443,076</u>
Due from other funds	3,621,588	1,291,577
Inventory	73,272	33,588
Prepaid items	<u>280,629</u>	<u>263,322</u>
Total assets	\$ <u>5,703,572</u>	<u>5,783,178</u>
<u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	228,693	151,284
Accrued payroll and related liabilities	175,227	116,244
Deferred revenue	137,451	135,531
Deferred assessments	561,882	380,912
Total liabilities	<u>1,103,253</u>	<u>783,971</u>
Fund balance:		
Reserved for inventory and prepaid items	353,901	296,910
Unreserved:		
Designated:		
Interfund loan for animal shelter	250,000	300,000
PERS	171,314	171,314
Undesignated	<u>3,825,104</u>	<u>4,230,983</u>
Total fund balance	<u>4,600,319</u>	<u>4,999,207</u>
Total liabilities and fund balance	\$ <u>5,703,572</u>	<u>5,783,178</u>

**CITY OF HOMER, ALASKA**  
 General Fund  
 Schedule of Revenues, Expenditures and  
 Changes in Fund Balance - Budget and Actual  
 Year Ended December 31, 2008  
 (With Comparative Amounts for 2007)

	2008		Variance Positive (Negative)	2007
	Budget	Actual		Actual
Revenues:				
Taxes:				
Property taxes	\$ 2,630,117	2,975,448	345,331	2,501,693
Sales taxes	5,373,139	5,067,968	(305,171)	4,938,456
Penalties and interest	5,000	5,532	532	2,931
Total taxes	8,008,256	8,048,948	40,692	7,443,080
Licenses and permits	53,850	26,219	(27,631)	43,765
Intergovernmental:				
Municipal energy assistance	-	-	-	544,922
Revenue - sharing	-	379,649	379,649	-
State PERS relief	-	374,720	374,720	302,637
Utility cooperative	30,000	28,287	(1,713)	28,168
Alcohol beverage tax	26,000	28,550	2,550	18,450
Public safety	536,744	555,349	18,605	537,224
Library grant	6,250	6,350	100	6,350
Public works	34,000	-	(34,000)	34,000
Reimbursements	1,000	-	(1,000)	5,745
Other grants	-	-	-	4,940
Total intergovernmental	633,994	1,372,905	738,911	1,482,436
Charges for services:				
Administrative services	1,586,764	1,586,764	-	1,283,986
Ambulance services	150,000	225,461	75,461	211,005
Fire contracts	252,669	58,181	(194,488)	224,530
Camping fees	195,000	157,264	(37,736)	183,310
Rents and leases	-	-	-	133,461
Airport services	161,790	169,196	7,406	170,944
Community school fees	50,000	27,058	(22,942)	38,696
Miscellaneous services	138,359	113,399	(24,960)	136,533
Total charges for services	2,534,582	2,337,323	(197,259)	2,382,465

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

	2008		Variance Positive (Negative)	2007
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Revenues, continued:				
Special assessments	\$ -	127,876	127,876	12,244
Investment income	40,000	63,429	23,429	89,191
Fines and forfeitures	20,400	34,193	13,793	19,941
Sales of property and equipment	800,000	499,189	(300,811)	-
Total revenues	<u>12,091,082</u>	<u>12,510,082</u>	<u>419,000</u>	<u>11,473,122</u>
Expenditures:				
General government:				
City council/mayor:				
Salaries and benefits	9,859	10,711	(852)	21,227
Supplies	9,700	3,340	6,360	4,239
Other services and charges	301,153	313,202	(12,049)	263,434
Total city council/mayor	<u>320,712</u>	<u>327,253</u>	<u>(6,541)</u>	<u>288,900</u>
City clerk:				
Salaries and benefits	279,616	293,643	(14,027)	245,366
Supplies	5,450	4,622	828	3,538
Other services and charges	51,832	36,198	15,634	33,676
Total city clerk	<u>336,898</u>	<u>334,463</u>	<u>2,435</u>	<u>282,580</u>
City manager:				
Salaries and benefits	257,809	256,489	1,320	303,037
Supplies	5,000	1,092	3,908	2,926
Other services and charges	36,870	19,587	17,283	30,551
Total city manager	<u>299,679</u>	<u>277,168</u>	<u>22,511</u>	<u>336,514</u>
Administrative services:				
Salaries and benefits	1,009,181	1,020,738	(11,557)	838,136
Supplies	88,431	100,235	(11,804)	54,747
Other services and charges	265,417	236,684	28,733	201,686
Total administrative services	<u>1,363,029</u>	<u>1,357,657</u>	<u>5,372</u>	<u>1,094,569</u>

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

	2008		Variance Positive (Negative)	2007
	Budget	Actual		Actual
Expenditures, continued:				
General government, continued:				
Planning and zoning/property management:				
Salaries and benefits	\$ 361,654	349,572	12,082	326,495
Supplies	4,400	6,859	(2,459)	4,537
Other services and charges	31,638	28,430	3,208	16,209
Total planning and zoning/ property management	397,692	384,861	12,831	347,241
City hall complex:				
Salaries and benefits	-	173	(173)	44
Supplies	14,926	14,185	741	12,726
Other services and charges	163,069	147,323	15,746	126,244
Total city hall complex	177,995	161,681	16,314	139,014
Non-departmental - salaries and benefits	-	92,938	(92,938)	95,849
Total general government	2,896,005	2,936,021	(40,016)	2,584,667
Public safety:				
Police department:				
Salaries and benefits	1,846,533	1,884,422	(37,889)	1,592,811
Supplies	98,030	93,980	4,050	71,971
Other services and charges	300,367	269,191	31,176	211,776
Total police department	2,244,930	2,247,593	(2,663)	1,876,558
Jail:				
Salaries and benefits	571,795	617,456	(45,661)	560,764
Supplies	26,200	21,585	4,615	25,546
Other services and charges	86,815	77,962	8,853	67,933
Total jail	684,810	717,003	(32,193)	654,243
Animal control:				
Supplies	20,500	24,618	(4,118)	25,516
Other services and charges	127,065	121,526	5,539	114,925
Total animal control	147,565	146,144	1,421	140,441



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

	2008		Variance	2007
	Budget	Actual	Positive	Actual
			(Negative)	
Expenditures, continued:				
Public safety, continued:				
Emergency services:				
Salaries and benefits	\$ 736,388	740,120	(3,732)	662,319
Supplies	51,928	48,291	3,637	39,846
Other services and charges	299,036	244,242	54,794	169,629
Total emergency services	1,087,352	1,032,653	54,699	871,794
Total public safety	4,164,657	4,143,393	21,264	3,543,036
Administration:				
Salaries and benefits	206,250	251,813	(45,563)	174,159
Supplies	5,000	4,536	464	5,371
Other services and charges	101,562	81,845	19,717	73,273
Total administration	312,812	338,194	(25,382)	252,803
Maintenance:				
Salaries and benefits	179,696	184,724	(5,028)	170,375
Supplies	18,337	20,840	(2,503)	16,674
Other services and charges	94,237	97,395	(3,158)	95,010
Total maintenance	292,270	302,959	(10,689)	282,059
Janitorial:				
Salaries and benefits	122,357	120,572	1,785	111,022
Supplies	12,000	12,337	(337)	11,119
Other services and charges	15,500	15,494	6	13,115
Total janitorial	149,857	148,403	1,454	135,256
Streets:				
Salaries and benefits	207,237	211,456	(4,219)	213,419
Supplies	185,300	115,254	70,046	130,393
Other services and charges	45,350	36,399	8,951	34,205
Total streets	437,887	363,109	74,778	378,017

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

	2008		Variance Positive (Negative)	2007
	Budget	Actual		Actual
Expenditures, continued:				
Public works, continued:				
Motor pool:				
Salaries and benefits	\$ 180,299	172,427	7,872	170,017
Supplies	90,737	100,665	(9,928)	70,320
Other services and charges	<u>153,795</u>	<u>184,637</u>	<u>(30,842)</u>	<u>167,084</u>
Total motor pool	<u>424,831</u>	<u>457,729</u>	<u>(32,898)</u>	<u>407,421</u>
Engineer/inspector:				
Salaries and benefits	228,345	144,030	84,315	131,913
Supplies	4,200	3,535	665	4,843
Other services and charges	<u>15,700</u>	<u>8,038</u>	<u>7,662</u>	<u>7,562</u>
Total engineer/inspector	<u>248,245</u>	<u>155,603</u>	<u>92,642</u>	<u>144,318</u>
Total public works	<u>1,865,902</u>	<u>1,765,997</u>	<u>99,905</u>	<u>1,599,874</u>
Library:				
Salaries and benefits	475,790	512,419	(36,629)	445,797
Supplies	44,921	47,551	(2,630)	37,483
Other services and charges	<u>131,670</u>	<u>122,013</u>	<u>9,657</u>	<u>109,747</u>
Total library	<u>652,381</u>	<u>681,983</u>	<u>(29,602)</u>	<u>593,027</u>
Airport:				
Salaries and benefits	82,782	90,593	(7,811)	72,361
Supplies	32,067	37,040	(4,973)	23,605
Other services and charges	<u>119,443</u>	<u>101,087</u>	<u>18,356</u>	<u>99,714</u>
Total airport	<u>234,292</u>	<u>228,720</u>	<u>5,572</u>	<u>195,680</u>
Parks and recreation:				
Salaries and benefits	256,601	264,261	(7,660)	249,410
Supplies	35,596	36,830	(1,234)	26,023
Other services and charges	<u>135,201</u>	<u>121,160</u>	<u>14,041</u>	<u>109,264</u>
Total parks and recreation	<u>427,398</u>	<u>422,251</u>	<u>5,147</u>	<u>384,697</u>

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

	2008		Variance Positive (Negative)	2007
	Budget	Actual		Actual
Expenditures, continued:				
Community services:				
Community service contributions:				
Chamber of Commerce	\$ -	-	-	5,000
Museum	90,000	90,000	-	90,000
Homer Foundation Non-Profit	70,000	70,000	-	50,000
Homer Hockey Association	50,000	50,000	-	-
North Pacific Fisheries	700	700	-	-
Total community service contributions	<u>210,700</u>	<u>210,700</u>	<u>-</u>	<u>145,000</u>
Community schools:				
Salaries and benefits	88,794	86,276	2,518	72,581
Supplies	4,500	2,224	2,276	990
Other services and charges	21,386	22,276	(890)	16,672
Total community schools	<u>114,680</u>	<u>110,776</u>	<u>3,904</u>	<u>90,243</u>
Total community services	<u>325,380</u>	<u>321,476</u>	<u>3,904</u>	<u>235,243</u>
Debt service on loans and capital leases:				
Principal	931,754	470,615	461,139	128,151
Interest	88,851	75,812	13,039	92,454
Total debt service	<u>1,020,605</u>	<u>546,427</u>	<u>474,178</u>	<u>220,605</u>
Total expenditures	<u>11,586,620</u>	<u>11,046,268</u>	<u>540,352</u>	<u>9,356,829</u>
Excess of revenues over expenditures	504,462	1,463,814	959,352	2,116,293
Other financing uses - transfers out	<u>(1,869,047)</u>	<u>(1,862,702)</u>	<u>6,345</u>	<u>(1,010,183)</u>
Net change in fund balance	\$ <u>(1,364,585)</u>	(398,888)	<u>965,697</u>	1,106,110
Beginning fund balance		<u>4,999,207</u>		<u>3,893,097</u>
Ending fund balance	\$	<u>4,600,319</u>		<u>4,999,207</u>

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## 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.

**Sustainability Global Warming** – This fund accounts for donations for sustainable global warming.

**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, 2008

<u>Assets</u>	<u>Library Donations</u>	<u>Fire Department Donations</u>	<u>Animal Shelter</u>	<u>Retainage Reimbursements</u>	<u>Community Schools</u>	<u>Sustainability</u>		<u>Totals</u>
						<u>Global Warming</u>	<u>Noncapital Projects</u>	
Cash and investments	\$ 31,326	62,965	7,352	8,241	509	15,162	-	125,555
Accounts receivable:								
Grants	-	-	-	-	-	-	28,509	28,509
Other	-	-	-	1,223	-	-	-	1,223
<b>Total assets</b>	<b>\$ 31,326</b>	<b>62,965</b>	<b>7,352</b>	<b>9,464</b>	<b>509</b>	<b>15,162</b>	<b>28,509</b>	<b>155,287</b>

Liabilities and Fund Balances (Deficit)

<b>Liabilities:</b>								
Accounts payable	-	-	-	-	-	-	27,009	27,009
Deferred revenue	-	-	-	9,464	-	-	6,260	15,724
Due to other funds	-	-	-	-	-	-	16,113	16,113
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,464</b>	<b>-</b>	<b>-</b>	<b>49,382</b>	<b>58,846</b>
<b>Fund balances:</b>								
Unreserved	31,326	62,965	7,352	-	509	15,162	-	117,314
Deficit	-	-	-	-	-	-	(20,873)	(20,873)
<b>Total fund balances (deficit)</b>	<b>31,326</b>	<b>62,965</b>	<b>7,352</b>	<b>-</b>	<b>509</b>	<b>15,162</b>	<b>(20,873)</b>	<b>96,441</b>
<b>Total liabilities and fund balances</b>	<b>\$ 31,326</b>	<b>62,965</b>	<b>7,352</b>	<b>9,464</b>	<b>509</b>	<b>15,162</b>	<b>28,509</b>	<b>155,287</b>

**CITY OF HOMER, ALASKA**  
Special Revenue Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Year Ended December 31, 2008

	Library Donations	Fire Department Donations	Animal Shelter	Retainage Reimburse - ments	Community Schools	Sustainability Global Warming	Noncapital Projects	Totals
Revenues:								
Investment income	\$ 730	1,197	179	-	-	55	-	2,161
Intergovernmental	-	-	-	-	-	-	71,029	71,029
Donations	1,307	7,820	-	-	54	-	-	9,181
Other	-	-	-	6,171	-	-	55,463	61,634
Total revenues	<u>2,037</u>	<u>9,017</u>	<u>179</u>	<u>6,171</u>	<u>54</u>	<u>55</u>	<u>126,492</u>	<u>144,005</u>
Expenditures:								
Public safety	-	-	-	-	-	-	45,984	45,984
Community services	-	-	-	-	244	-	-	244
Public works	-	-	-	6,171	-	-	97,637	103,808
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,171</u>	<u>244</u>	<u>-</u>	<u>143,621</u>	<u>150,036</u>
Excess of revenues over (under) expenditures	2,037	9,017	179	-	(190)	55	(17,129)	(6,031)
Other financing sources - transfers in	-	-	-	-	-	15,000	-	15,000
Net change in fund balances	2,037	9,017	179	-	(190)	15,055	(17,129)	8,969
Beginning fund balances (deficit)	<u>29,289</u>	<u>53,948</u>	<u>7,173</u>	<u>-</u>	<u>699</u>	<u>107</u>	<u>(3,744)</u>	<u>87,472</u>
Ending fund balances (deficit)	<u>\$ 31,326</u>	<u>62,965</u>	<u>7,352</u>	<u>-</u>	<u>509</u>	<u>15,162</u>	<u>(20,873)</u>	<u>96,441</u>

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## DEBT SERVICE FUND

This fund was 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. The bonds have been retired and this fund was closed in 2008.

**CITY OF HOMER, ALASKA**  
General Obligation Bonds and 1990 Special Assessment Bonds Debt Service Fund  
Statement of Revenues, Expenditures  
and Changes in Fund Balance  
Year Ended December 31, 2008

Revenues - investment income	\$ 5,827
Expenditures	<u>-</u>
Excess of revenues over expenditures	5,827
Other financing uses - transfers out	<u>(321,290)</u>
Net change in fund balance	(315,463)
Beginning fund balance	<u>315,463</u>
Ending fund balance	\$ <u>-</u>

## 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.

**New City Hall** – This fund accounts for the design of a new City hall and town center.

**HART Trails** – This fund accounts for improvements to City trails. It is funded by 10% of HAWSP sales tax designated specifically for City trails.

**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, 2008

<u>Assets</u>	<u>City Facilities</u>	<u>Streets and Sidewalks</u>	<u>New City Hall</u>	<u>HART Trails</u>	<u>Depreciation Reserves</u>	<u>Land Reserve</u>	<u>Fleet Reserve Allocation</u>	<u>Totals</u>
Cash and investments	\$ 379,109	2,028,280	415,274	147,609	1,989,168	6,634	766,582	5,732,656
Receivables - sales taxes	-	192,058	-	21,340	-	-	-	213,398
Prepaid items	1,412	-	-	-	-	-	-	1,412
Due from other funds	-	1,529,916	-	-	-	-	-	1,529,916
<b>Total assets</b>	<b>\$ 380,521</b>	<b>3,750,254</b>	<b>415,274</b>	<b>168,949</b>	<b>1,989,168</b>	<b>6,634</b>	<b>766,582</b>	<b>7,477,382</b>
 <u>Liabilities and Fund Balances</u>								
Liabilities - accounts payable	1,460	-	-	-	25,063	-	-	26,523
Fund balances:								
Reserved for capital projects	-	3,750,254	415,274	168,949	-	-	-	4,334,477
Unreserved - designated for capital outlay and land	379,061	-	-	-	1,964,105	6,634	766,582	3,116,382
<b>Total fund balances</b>	<b>379,061</b>	<b>3,750,254</b>	<b>415,274</b>	<b>168,949</b>	<b>1,964,105</b>	<b>6,634</b>	<b>766,582</b>	<b>7,450,859</b>
<b>Total liabilities and fund balances</b>	<b>\$ 380,521</b>	<b>3,750,254</b>	<b>415,274</b>	<b>168,949</b>	<b>1,989,168</b>	<b>6,634</b>	<b>766,582</b>	<b>7,477,382</b>

**CITY OF HOMER, ALASKA**  
 Capital Project Funds  
 Combining Statement of Revenues, Expenditures and  
 Changes in Fund Balances  
 Year Ended December 31, 2008

	<u>City Facilities</u>	<u>Streets and Sidewalks</u>	<u>New City Hall</u>	<u>HART Trails</u>	<u>Depreciation Reserves</u>	<u>Land Reserve</u>	<u>Fleet Reserve Allocation</u>	<u>Totals</u>
Revenues:								
Sales taxes	\$ -	1,121,406	-	145,384	-	-	-	1,266,790
Intergovernmental	32,499	-	302,086	-	-	-	-	334,585
Investment income	6,823	46,580	-	1,394	18,989	114	11,112	85,012
Other	-	-	-	-	100,321	-	3,051	103,372
Total revenues	<u>39,322</u>	<u>1,167,986</u>	<u>302,086</u>	<u>146,778</u>	<u>119,310</u>	<u>114</u>	<u>14,163</u>	<u>1,789,759</u>
Expenditures:								
General government	-	-	-	26,480	2,404	-	-	28,884
Public works	-	238,310	-	-	-	-	-	238,310
Community services	-	-	-	-	250	-	-	250
Capital outlay	42,717	71,511	302,086	-	171,607	-	515,123	1,103,044
Total expenditures	<u>42,717</u>	<u>309,821</u>	<u>302,086</u>	<u>26,480</u>	<u>174,261</u>	<u>-</u>	<u>515,123</u>	<u>1,370,488</u>
Excess of revenues over (under) expenditures	(3,395)	858,165	-	120,298	(54,951)	114	(500,960)	419,271
Other financing sources (uses):								
Transfers in	84,347	321,290	-	-	1,207,134	-	556,221	2,168,992
Transfers out	-	-	-	-	(30,000)	-	-	(30,000)
Net other financing sources (uses)	<u>84,347</u>	<u>321,290</u>	<u>-</u>	<u>-</u>	<u>1,177,134</u>	<u>-</u>	<u>556,221</u>	<u>2,138,992</u>
Net change in fund balances	80,952	1,179,455	-	120,298	1,122,183	114	55,261	2,558,263
Beginning fund balances	<u>298,109</u>	<u>2,570,799</u>	<u>415,274</u>	<u>48,651</u>	<u>841,922</u>	<u>6,520</u>	<u>711,321</u>	<u>4,892,596</u>
Ending fund balances	<u>\$ 379,061</u>	<u>3,750,254</u>	<u>415,274</u>	<u>168,949</u>	<u>1,964,105</u>	<u>6,634</u>	<u>766,582</u>	<u>7,450,859</u>

## 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, 2008  
(With Comparative Amounts for 2007)

<u>Assets</u>	<u>2008</u>	<u>2007</u>
Current assets:		
Receivables:		
Accounts, net of allowance for doubtful accounts of \$78,747 (\$71,816 in 2007)	\$ 196,953	158,440
Litigation settlement - current	100,000	100,000
Net receivables	<u>296,953</u>	<u>258,440</u>
Inventory	13,425	12,810
Prepaid items	45,979	36,234
Total current assets	<u>356,357</u>	<u>307,484</u>
Restricted assets - cash and investments restricted for debt service	<u>168,420</u>	<u>168,420</u>
Bond issuance costs, net of accumulated amortization of \$26,655 (\$21,324 in 2007)	<u>5,331</u>	<u>10,662</u>
Long-term portion of litigation settlement receivable, net of 6% discount (\$16,660 in 2007)	<u>-</u>	<u>83,340</u>
Property, plant and equipment:		
Property, plant and equipment in service	52,743,592	52,624,937
Land and land improvements	15,254,041	15,254,041
Construction work in progress	193,264	90,091
Less accumulated depreciation	<u>(23,756,345)</u>	<u>(22,345,324)</u>
Net property, plant and equipment	<u>44,434,552</u>	<u>45,623,745</u>
Total assets	<u>\$ 44,964,660</u>	<u>46,193,651</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Current liabilities:		
Accounts payable	120,134	100,825
Accrued payroll and related liabilities	35,692	29,389
Accrued leave	17,815	34,797
Accrued interest	2,213	2,192
Current portion of bonds payable, net of deferred loss of \$6,107 in 2008	178,893	180,000
Current portion of capital lease	18,309	17,248
Prepaid berth rentals and deposits	623,340	585,552
Due to other funds	3,242	18,415
Unearned lease revenue	18,000	18,000
Total current liabilities	<u>1,017,638</u>	<u>986,418</u>
Noncurrent liabilities, net of current portion:		
Unearned lease revenue	342,000	360,000
Accrued leave	129,999	133,621
Revenue bonds, net of deferred loss of \$12,214 in 2007	-	172,786
Capital lease	9,517	27,765
Net pension/OPEB obligation	<u>-</u>	<u>258,340</u>
Total noncurrent liabilities	<u>481,516</u>	<u>952,512</u>
Total liabilities	<u>1,499,154</u>	<u>1,938,930</u>
Net assets:		
Invested in capital assets, net of related debt	44,227,833	45,225,946
Restricted for debt service	168,420	168,420
Unrestricted (deficit)	<u>(930,747)</u>	<u>(1,139,645)</u>
Total net assets	<u>43,465,506</u>	<u>44,254,721</u>
Total liabilities and net assets	<u>\$ 44,964,660</u>	<u>46,193,651</u>

**CITY OF HOMER, ALASKA**  
Port of Homer Enterprise Fund  
Statement of Revenues, Expenses and Changes in Net Assets  
Year Ended December 31, 2008  
(With Comparative Amounts for 2007)

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Harbor	\$ 1,693,272	1,628,913
Main dock	131,312	120,465
Fish dock	779,527	793,499
Deep water dock	289,627	45,385
Rents, leases and storage	292,674	93,229
Fish grinder	11,221	12,266
Total operating revenues	<u>3,197,633</u>	<u>2,693,757</u>
Operating expenses:		
Harbor	1,194,569	1,121,517
Main dock	61,752	78,800
Fish dock	642,085	620,015
Deep water dock	74,426	53,274
Fish grinder	16,036	28,448
Administration	1,086,263	1,127,724
Depreciation	1,411,020	1,378,419
Total operating expenses	<u>4,486,151</u>	<u>4,408,197</u>
Operating loss	<u>(1,288,518)</u>	<u>(1,714,440)</u>
Nonoperating revenues (expenses):		
Investment income	37,224	45,721
Interest expense	(24,580)	(29,008)
Litigation settlements	16,660	16,038
Amortization of bond issuance costs	(5,331)	(5,331)
State PERS relief	89,477	71,315
State grant - smolt stocking	-	10,000
Other income	91,082	97,956
Net nonoperating revenues (expenses)	<u>204,532</u>	<u>206,691</u>
Loss before contributions, transfers and special item	(1,083,986)	(1,507,749)
Capital contributions	-	55,187
Transfers in	30,000	22,000
Transfers out	-	(79,064)
Special item - writeoff of NPO/OPEB	<u>264,771</u>	<u>-</u>
Change in net assets	(789,215)	(1,509,626)
Beginning net assets	<u>44,254,721</u>	<u>45,764,347</u>
Ending net assets	\$ <u>43,465,506</u>	<u>44,254,721</u>

**CITY OF HOMER, ALASKA**  
Port of Homer Enterprise Fund  
Statement of Cash Flows  
Year Ended December 31, 2008  
(With Comparative Amounts for 2007)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 3,269,990	2,858,135
Payments to suppliers	(1,376,052)	(1,233,564)
Payments to employees	(1,608,522)	(1,650,681)
Litigation settlements (net)	<u>100,000</u>	<u>100,000</u>
Net cash flows from operating activities	<u>385,416</u>	<u>73,890</u>
Cash flows from noncapital financing activities:		
Transfers out	-	(79,064)
Noncapital State grant	<u>-</u>	<u>10,000</u>
Net cash flows from noncapital financing activities	<u>-</u>	<u>(69,064)</u>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(197,187)	(186,302)
Interest payments on long-term debt	(18,452)	(26,648)
Acquisition of property, plant and equipment	(221,828)	(264,653)
Increase (decrease) in due to other funds	(15,173)	18,415
Capital contributions received	-	155,187
Transfers in	<u>30,000</u>	<u>22,000</u>
Net cash flows from capital and related financing activities	<u>(422,640)</u>	<u>(282,001)</u>
Cash flows from investing activities - investment income received	<u>37,224</u>	<u>45,721</u>
Net increase (decrease) in cash and investments	-	(231,454)
Beginning cash and investments	<u>168,420</u>	<u>399,874</u>
Ending cash and investments	\$ <u>168,420</u>	\$ <u>168,420</u>
Cash and investments at end of year:		
Cash and investments	-	-
Cash and investments restricted for debt service	<u>168,420</u>	<u>168,420</u>
	\$ <u>168,420</u>	\$ <u>168,420</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (1,288,518)	(1,714,440)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation	1,411,020	1,378,419
Noncash expense - PERS relief	89,477	71,315
Increase in allowance for doubtful accounts	6,931	18,403
Amortization of deferred lease revenue	(18,000)	(18,000)
Litigation settlements	16,660	16,038
Miscellaneous nonoperating revenues	91,082	97,956
(Increase) decrease in assets:		
Accounts receivable	(45,444)	37,127
Inventory	(615)	(2,862)
Prepaid items	(9,745)	(7,401)
Litigation settlement receivable	83,340	83,962
Increase (decrease) in liabilities:		
Accounts payable	19,309	(10,146)
Accrued payroll and related liabilities	6,303	7,981
Accrued leave	(20,604)	44,615
Prepaid berth rentals and deposits	37,788	28,892
Net pension/OPEB obligation	<u>6,432</u>	<u>42,031</u>
Net cash flows from operating activities	\$ <u>385,416</u>	\$ <u>73,890</u>



**CITY OF HOMER, ALASKA**  
Port of Homer Enterprise Fund  
Combining Schedule of Port of Homer Capital Projects  
Year Ended December 31, 2008

		Fish Outfall <u>System</u>	Port <u>Equipment</u>	Port <u>Improvements</u>	<u>Totals</u>
Funding source - Port of Homer funds	\$	<u>49,232</u>	<u>26,500</u>	<u>193,264</u>	<u>268,996</u>
Disbursements	\$	<u>49,232</u>	<u>26,500</u>	<u>193,264</u>	<u>268,996</u>

**CITY OF HOMER, ALASKA**  
Water and Sewer Utility Enterprise Fund  
Statement of Net Assets  
December 31, 2008  
(With Comparative Amounts for 2007)

<u>Assets</u>	<u>2008</u>	<u>2007</u>
Current assets:		
Receivables:		
Accounts, net of allowance for doubtful accounts of \$26,593 (\$35,905 in 2007)	\$ 264,156	292,325
Sales taxes	213,397	207,829
Assessments due within one year	188,008	160,186
State and federal grants and loans	6,747,063	3,201,281
Net receivables	<u>7,412,624</u>	<u>3,861,621</u>
Inventory	248,266	248,802
Prepaid items	50,736	47,520
Total current assets	<u>7,711,626</u>	<u>4,157,943</u>
Restricted assets - cash and investments restricted for debt service and construction	<u>3,105,014</u>	<u>3,038,437</u>
Assessments due after one year	<u>3,106,281</u>	<u>2,687,916</u>
Property, plant and equipment:		
Property, plant and equipment in service	58,923,460	58,620,620
Land	448,227	448,227
Construction work in progress	8,489,705	1,053,340
Less accumulated depreciation	<u>(34,882,912)</u>	<u>(32,813,779)</u>
Net property, plant and equipment	<u>32,978,480</u>	<u>27,308,408</u>
Total assets	<u>\$ 46,901,401</u>	<u>37,192,704</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Current liabilities:		
Accounts payable	1,394,766	252,569
Accrued payroll and related liabilities	42,253	27,333
Accrued leave	24,598	50,318
Accrued interest	29,910	50,292
Current portion of notes payable	604,367	599,548
Current portion of capital lease	45,245	41,047
Due to other funds	5,113,952	1,259,639
Customer utility deposits	37,583	35,590
Total current liabilities	<u>7,292,674</u>	<u>2,316,336</u>
Noncurrent liabilities, net of current portion:		
Accrued leave	180,286	131,187
Notes payable	10,962,834	9,561,063
Capital lease	22,649	67,750
Net pension/OPEB obligation	-	243,500
Total noncurrent liabilities	<u>11,165,769</u>	<u>10,003,500</u>
Total liabilities	<u>18,458,443</u>	<u>12,319,836</u>
Net assets:		
Invested in capital assets, net of related debt	21,343,385	17,039,000
Restricted for debt service and capital projects	7,509,016	7,568,358
Unrestricted (deficit)	<u>(409,443)</u>	<u>265,510</u>
Total net assets	<u>28,442,958</u>	<u>24,872,868</u>
Total liabilities and net assets	<u>\$ 46,901,401</u>	<u>37,192,704</u>

**CITY OF HOMER, ALASKA**  
 Water and Sewer Utility Enterprise Fund  
 Statement of Revenues, Expenses and Changes in Net Assets  
 Year Ended December 31, 2008  
 (With Comparative Amounts for 2007)

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Water charges and connection fees	\$ 1,481,241	1,267,186
Sewer charges and connection fees	<u>1,457,354</u>	<u>1,419,399</u>
Total operating revenues	<u>2,938,595</u>	<u>2,686,585</u>
Operating expenses:		
Water department:		
Treatment plant operations and testing	325,941	316,322
Pumping system	96,715	68,138
Distribution system and reservoir	358,521	262,413
Water meters	113,874	111,520
Water hydrants	94,907	87,171
Administration	<u>1,027,842</u>	<u>799,379</u>
Total water department	<u>2,017,800</u>	<u>1,644,943</u>
Sewer department:		
Treatment plant	744,273	706,129
Collection system	178,991	183,753
Administration	<u>712,037</u>	<u>615,985</u>
Total sewer department	<u>1,635,301</u>	<u>1,505,867</u>
Depreciation	<u>2,069,133</u>	<u>2,016,613</u>
Total operating expenses	<u>5,722,234</u>	<u>5,167,423</u>
Operating loss	(2,783,639)	(2,480,838)

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

	<u>2008</u>	<u>2007</u>
Nonoperating revenues (expenses):		
Investment income	\$ 171,953	271,545
Interest expense	(84,500)	(147,640)
Sales taxes	1,266,790	1,235,022
Amortization of bond issuance costs	-	(2,824)
State PERS relief	94,230	67,491
Other income	<u>84,531</u>	<u>47,979</u>
Net nonoperating revenues (expenses)	<u>1,533,004</u>	<u>1,471,573</u>
Loss before contributions, transfers and special item	(1,250,635)	(1,009,265)
Capital contributions	4,571,058	1,333,867
Transfers out	-	(92,000)
Special item - writeoff of NPO/OPEB	<u>249,667</u>	<u>-</u>
Change in net assets	3,570,090	232,602
Beginning net assets	<u>24,872,868</u>	<u>24,640,266</u>
Ending net assets	\$ <u>28,442,958</u>	<u>24,872,868</u>

**CITY OF HOMER, ALASKA**  
 Water and Sewer Utility Enterprise Fund  
 Statement of Cash Flows  
 Year Ended December 31, 2008  
 (With Comparative Amounts for 2007)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 3,053,288	2,712,240
Payments to suppliers	(1,950,401)	(1,225,901)
Payments to employees	(1,733,890)	(1,648,276)
Net cash flows from operating activities	<u>(631,003)</u>	<u>(161,937)</u>
Cash flows from noncapital financing activities - transfers out	<u>-</u>	<u>(92,000)</u>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(640,594)	(721,597)
Interest payments on long-term debt	(104,882)	(140,446)
Proceeds from long-term borrowing	-	1,219,305
Acquisition of property, plant and equipment	(6,429,697)	(2,277,118)
Capital contributions received	2,585,265	539,387
Sales tax revenue received	1,261,222	1,249,287
Increase (decrease) in due to other funds	3,854,313	(43,442)
Net cash flows from capital and related financing activities	<u>525,627</u>	<u>(174,624)</u>
Cash flows from investing activities - investment income received	<u>171,953</u>	<u>271,545</u>
Net increase (decrease) in cash and investments	66,577	(157,016)
Beginning cash and investments	<u>3,038,437</u>	<u>3,195,453</u>
Ending cash and investments	\$ <u>3,105,014</u>	<u>3,038,437</u>
Cash and investments at end of year:		
Cash and investments	-	-
Cash and investments restricted for debt service and construction	<u>3,105,014</u>	<u>3,038,437</u>
	\$ <u>3,105,014</u>	<u>3,038,437</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (2,783,639)	(2,480,838)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation	2,069,133	2,016,613
Noncash expense - PERS relief	94,230	67,491
Decrease in allowance for doubtful accounts	(9,312)	(5,463)
Miscellaneous nonoperating revenues	84,531	47,979
(Increase) decrease in assets:		
Accounts receivable	37,481	(13,354)
Inventory	536	1,492
Prepaid items	(3,216)	(8,953)
Increase (decrease) in liabilities:		
Accounts payable	(167,311)	154,531
Accrued payroll and related liabilities	14,920	5,092
Accrued leave	23,379	17,137
Customer deposits	1,993	(3,507)
Net pension/OPEB obligation	6,272	39,843
Net cash flows from operating activities	\$ <u>(631,003)</u>	<u>(161,937)</u>

**CITY OF HOMER, ALASKA**  
 Water and Sewer Utility Enterprise Fund  
 Combining Schedule of Water and Sewer Utility Capital Projects  
 Year Ended December 31, 2008

	Spit Reservoir Tank and Other <u>Equipment</u>	Kachemak Drive <u>Phase II</u>	Water Treatment Plant <u>Modification</u>	Paintbrush Booster <u>Station</u>	<u>Totals</u>
Funding sources:					
State and federal grants	\$ -	-	3,740,885	-	3,740,885
Water and Sewer Utility funds and capitalization loans	<u>297,634</u>	<u>148,525</u>	<u>3,546,954</u>	<u>5,207</u>	<u>3,998,320</u>
 Total funding sources	 <u>\$ 297,634</u>	 <u>148,525</u>	 <u>7,287,839</u>	 <u>5,207</u>	 <u>7,739,205</u>
Disbursements:					
Salaries and benefits	2,764	30,058	68,057	1,358	102,237
Other services and charges	52,695	118,467	282,603	3,849	457,614
Capital outlay	<u>242,175</u>	<u>-</u>	<u>6,937,179</u>	<u>-</u>	<u>7,179,354</u>
 Total disbursements	 <u>\$ 297,634</u>	 <u>148,525</u>	 <u>7,287,839</u>	 <u>5,207</u>	 <u>7,739,205</u>

## INTERNAL SERVICE FUNDS

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.

**Leave Cash-out Fund** – This fund accounts for anticipated employee leave cash outs.

**PERS Funding** – This fund accounts for funds set aside for future PERS obligation.

**CITY OF HOMER, ALASKA**  
 Internal Service Funds  
 Combining Statement of Net Assets  
 December 31, 2008

<u>Assets</u>	<u>Risk Management</u>	<u>Leave Cash-out</u>	<u>PERS Funding</u>	<u>Total</u>
Cash and investments	\$ 177,946	-	13,439	191,385
Accounts receivable	<u>192,775</u>	<u>-</u>	<u>-</u>	<u>192,775</u>
 Total assets	 \$ <u>370,721</u>	 <u>-</u>	 <u>13,439</u>	 <u>384,160</u>
 <u>Liabilities and Net Assets</u>				
Current liabilities:				
Accounts payable	152,651	-	-	152,651
Due to other funds	<u>-</u>	<u>18,197</u>	<u>-</u>	<u>18,197</u>
Total current liabilities	<u>152,651</u>	<u>18,197</u>	<u>-</u>	<u>170,848</u>
 Net assets - unrestricted (deficit)	 <u>218,070</u>	 <u>(18,197)</u>	 <u>13,439</u>	 <u>213,312</u>
 Total liabilities and net assets	 \$ <u>370,721</u>	 <u>-</u>	 <u>13,439</u>	 <u>384,160</u>



**CITY OF HOMER, ALASKA**  
 Internal Service Funds  
 Combining Statement of Revenues, Expenses and Changes in Net Assets  
 Year Ended December 31, 2008

	<u>Risk</u> <u>Management</u>	<u>Leave</u> <u>Cash-out</u>	<u>PERS</u> <u>Funding</u>	<u>Total</u>
Operating revenues - interfund charges	\$ <u>1,678,433</u>	<u>159,999</u>	<u>-</u>	<u>1,838,432</u>
Operating expenses:				
Personnel	-	185,660	-	185,660
Claims	1,338,666	-	-	1,338,666
Insurance premiums	335,978	-	-	335,978
Administration	<u>63,250</u>	<u>-</u>	<u>-</u>	<u>63,250</u>
Total operating expenses	<u>1,737,894</u>	<u>185,660</u>	<u>-</u>	<u>1,923,554</u>
Operating loss	(59,461)	(25,661)	-	(85,122)
Nonoperating revenues - investment income	<u>-</u>	<u>-</u>	<u>6,359</u>	<u>6,359</u>
Change in net assets	(59,461)	(25,661)	6,359	(78,763)
Beginning net assets	<u>277,531</u>	<u>7,464</u>	<u>7,080</u>	<u>292,075</u>
Ending net assets (deficit)	\$ <u>218,070</u>	<u>(18,197)</u>	<u>13,439</u>	<u>213,312</u>

**CITY OF HOMER, ALASKA**  
Internal Service Funds  
Combining Statement of Cash Flows  
Year Ended December 31, 2008

	<u>Risk</u> <u>Management</u>	<u>Leave</u> <u>Cash-out</u>	<u>PERS</u> <u>Funding</u>	<u>Total</u>
Cash flows from operating activities:				
Receipts from interfund services provided	\$ 1,496,472	159,999	-	1,656,471
Payments to employees	-	(185,660)	-	(185,660)
Payments for insurance claims and administration	(1,678,231)	-	-	(1,678,231)
Net cash flows from operating activities	(181,759)	(25,661)	-	(207,420)
Cash flows from noncapital financing activities -				
increase in due to other funds	-	18,197	-	18,197
Cash flows from investing activities -				
investment income received	-	-	6,359	6,359
Net increase (decrease) in cash and				
investments	(181,759)	(7,464)	6,359	(182,864)
Beginning cash and investments	359,705	7,464	7,080	374,249
Ending cash and investments	\$ 177,946	-	13,439	191,385
Reconciliation of operating loss to net cash				
provided (used) by operating activities:				
Operating loss	\$ (59,461)	(25,661)	-	(85,122)
Adjustments to reconcile operating loss to				
net cash flows from operating activities:				
Increase in accounts receivable	(181,961)	-	-	(181,961)
Increase in accounts payable	59,663	-	-	59,663
Net cash flows from operating activities	\$ (181,759)	(25,661)	-	(207,420)

**CITY OF HOMER, ALASKA**  
 Risk Management Internal Service Fund  
 Statement of Net Assets  
 December 31, 2008  
 (With Comparative Amounts for 2007)

<u>Assets</u>	<u>2008</u>	<u>2007</u>
Cash and investments	\$ 177,946	359,705
Accounts receivable	<u>192,775</u>	<u>10,814</u>
Total assets	\$ <u>370,721</u>	<u>370,519</u>
<u>Liabilities and Net Assets</u>		
Current liabilities - accounts payable	<u>152,651</u>	<u>92,988</u>
Net assets - unrestricted	<u>218,070</u>	<u>277,531</u>
Total liabilities and net assets	\$ <u>370,721</u>	<u>370,519</u>

**CITY OF HOMER, ALASKA**  
 Risk Management Internal Service Fund  
 Statement of Revenues, Expenses and Changes in Net Assets  
 Year Ended December 31, 2008  
 (With Comparative Amounts for 2007)

	<u>2008</u>	<u>2007</u>
Operating revenues - interfund insurance charges	\$ <u>1,678,433</u>	<u>1,580,346</u>
Operating expenses:		
Claims	1,338,666	1,075,895
Insurance premiums	335,978	309,163
Administration	<u>63,250</u>	<u>57,954</u>
Total operating expenses	<u>1,737,894</u>	<u>1,443,012</u>
Change in net assets	(59,461)	137,334
Beginning net assets	<u>277,531</u>	<u>140,197</u>
Ending net assets	\$ <u>218,070</u>	<u>277,531</u>

**CITY OF HOMER, ALASKA**  
 Risk Management Internal Service Fund  
 Statement of Cash Flows  
 Year Ended December 31, 2008  
 (With Comparative Amounts for 2007)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Receipts from interfund services provided	\$ 1,496,472	1,637,015
Payments for insurance claims and administration	<u>(1,678,231)</u>	<u>(1,414,267)</u>
Net cash flows from operating activities	(181,759)	222,748
Beginning cash and investments	<u>359,705</u>	<u>136,957</u>
Ending cash and investments	\$ <u>177,946</u>	<u>359,705</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (59,461)	137,334
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:		
(Increase) decrease in accounts receivable	(181,961)	56,669
Increase (decrease) in accounts payable	<u>59,663</u>	<u>28,745</u>
Net cash flows from operating activities	\$ <u>(181,759)</u>	<u>222,748</u>

**CITY OF HOMER, ALASKA**  
 Leave Cash-out Internal Service Fund  
 Statement of Net Assets (Deficit)  
 December 31, 2008  
 (With Comparative Amounts for 2007)

	<u>Assets</u>	<u>2008</u>	<u>2007</u>
Cash and investments		\$ <u>-</u>	<u>7,464</u>
<u>Liabilities and Net Assets</u>			
Current liabilities - due to other funds		<u>18,197</u>	<u>-</u>
Net assets (deficit)		<u>(18,197)</u>	<u>7,464</u>
Total liabilities and net assets		\$ <u>-</u>	<u>7,464</u>

**CITY OF HOMER, ALASKA**  
 Leave Cash-out Internal Service Fund  
 Statement of Revenues, Expenses and Changes in Net Assets  
 Year Ended December 31, 2008  
 (With Comparative Amounts for 2007)

	<u>2008</u>	<u>2007</u>
Operating revenues - interfund leave cash-out charges	\$ 159,999	140,000
Operating expenses - salaries and benefits	<u>185,660</u>	<u>132,536</u>
Change in net assets	(25,661)	7,464
Beginning net assets	<u>7,464</u>	<u>-</u>
Ending net assets (deficit)	\$ <u>(18,197)</u>	<u>7,464</u>

**CITY OF HOMER, ALASKA**  
 Leave Cash-out Internal Service Fund  
 Statement of Cash Flows  
 Year Ended December 31, 2008  
 (With Comparative Amounts for 2007)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Receipts from interfund services provided	\$ 159,999	140,000
Payments to employees	<u>(185,660)</u>	<u>(132,536)</u>
Net cash flows from operating activities	(25,661)	7,464
 Cash flows from noncapital financing activities - increase in due to other funds	 <u>18,197</u>	 <u>-</u>
 Net increase (decrease) in cash and investments	 (7,464)	 7,464
 Beginning cash and investments	 <u>7,464</u>	 <u>-</u>
 Ending cash and investments	 \$ <u>-</u>	 <u>7,464</u>
 Reconciliation of operating income to net cash provided by operating activities - operating income (loss)	  \$ <u>(25,661)</u>	  <u>7,464</u>



**CITY OF HOMER, ALASKA**  
PERS Funding Internal Service Fund  
Statement of Net Assets  
December 31, 2008  
(With Comparative Amounts for 2007)

	<u>Assets</u>	<u>2008</u>	<u>2007</u>
Cash and investments		\$ <u>13,439</u>	<u>7,080</u>
	<u>Net Assets</u>		
Net assets		\$ <u>13,439</u>	<u>7,080</u>

**CITY OF HOMER, ALASKA**  
PERS Funding Internal Service Fund  
Statement of Revenues, Expenses and Changes in Net Assets  
Year Ended December 31, 2008  
(With Comparative Amounts for 2007)

	<u>2008</u>	<u>2007</u>
Nonoperating revenues - investment income	\$ 6,359	7,080
Beginning net assets	<u>7,080</u>	<u>-</u>
Ending net assets	\$ <u>13,439</u>	<u>7,080</u>

**CITY OF HOMER, ALASKA**  
PERS Funding Internal Service Fund  
Statement of Cash Flows  
Year Ended December 31, 2008  
(With Comparative Amounts for 2007)

	<u>2008</u>	<u>2007</u>
Cash flows from investing activities - investment income received	\$ 6,359	7,080
Beginning cash and investments	<u>7,080</u>	<u>-</u>
Ending cash and investments	\$ <u>13,439</u>	<u>7,080</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE

**CITY OF HOMER, ALASKA**  
Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2008

<u>Federal Grant Title</u>	<u>Grant Number</u>	<u>Catalog of Federal Assistance Number</u>	<u>Total Grant Award</u>	<u>January 1, 2008 Receivable (Deferred)</u>	<u>Federal Share of Expenditures</u>	<u>Federal Receipts</u>	<u>December 31, 2008 Receivable (Deferred)</u>
<b>DEPARTMENT OF AGRICULTURE</b>							
Passed through the State of Alaska Department of Natural Resources -							
Volunteer Fire Assistance	39927	10.664	\$ 5,000	-	-	5,000	(5,000)
Volunteer Fire Assistance	39809	10.664	7,500	(7,500)	7,500	-	-
Total Department of Agriculture				(7,500)	7,500	5,000	(5,000)
<b>DEPARTMENT OF HOMELAND SECURITY</b>							
Passed through the State of Alaska Department of Commerce, Community and Economic Development -							
Managing Floodplain Development	890506	97.023	1,023	-	1,023	1,023	-
Passed through the State of Alaska Department of Military and Veteran Affairs -							
Homeland Security Program: Radio Replacement	07SHSP-GR34054	97.073	35,000	-	24,999	24,999	-
Total Department of Homeland Security				-	26,022	26,022	-
<b>DEPARTMENT OF JUSTICE</b>							
Drug Enforcement Forfeitures	2008	16.900	3,938	-	3,938	3,938	-
Bulletproof Vest Partnership Program	2008	16.607	1,200	-	298	-	298
Total Department of Justice				-	4,236	3,938	298
<b>ENVIRONMENTAL PROTECTION AGENCY</b>							
Wetland Development Grant	CD-97051401	66.461	127,302	39	14,748	14,787	-
Passed through the State of Alaska Department of Environmental Conservation:							
Water Storage Reservoir Construction (75% Federal)	40906	66.606	252,000	73,921	-	48,721	25,200
Clean Water Loan (83% Federal)	409081	66.458	2,697,500	816,376	55,081	-	871,457
Drinking Water Loan (82% Federal)	409101	66.468	385,400	268,866	18,139	-	287,005
Drinking Water Loan (84.6% Federal)	409131	66.468	5,711,862	-	1,883,949	-	1,883,949
Total Environmental Protection Agency				1,159,201	1,971,917	63,508	3,067,610
<b>DEPARTMENT OF TRANSPORTATION</b>							
Passed through the State of Alaska Department of Transportation and Public Facilities:							
Sterling Highway Corridor Management Plan (80% Federal)							
	75813	20.205	120,960	9,411	12,089	9,411	12,089
Advanced Training, Federal Motor Carrier Safety	402PT-09-06	20.600	1,125	-	1,125	-	1,125
Traffic Radar Training	410K8 08-01-01(H)	20.601	6,716	-	6,716	6,716	-
Lifesavers 2008 National Conference	402OP-08-04-04-1	20.600	1,939	-	1,939	1,939	-
ASTEP DUI Enforcement	154AL-08-00-01	20.607	25,212	2,721	7,613	10,334	-
ASTEP DUI Enforcement	154AL 09-01-01	20.607	6,914	-	940	-	940
ASTEP Seat Belt Enforcement	402PT 09-06-03	20.609	2,074	-	289	-	289
ASTEP Seat Belt Enforcement	402OP-08-04-03	20.609	11,584	309	4,116	4,425	-
National Motor Carrier Safety	08-PD-003	20.218	6,605	-	6,365	6,365	-
Total Department of Transportation				12,441	41,192	39,190	14,443
Total Federal Financial Assistance			\$	1,164,142	2,050,867	137,658	3,077,351

**CITY OF HOMER, ALASKA**  
 Schedule of State Financial Assistance  
 Year Ended December 31, 2008

<u>State Grant Title</u>	<u>Grant Number</u>	<u>Total Grant Award</u>	<u>January 1, 2008 Receivable (Deferred)</u>	<u>State Share of Expenditures</u>	<u>State Receipts</u>	<u>December 31, 2008 Receivable (Deferred)</u>
<b>DEPARTMENT OF ADMINISTRATION</b>						
*PERS Relief	SB 53	\$ 206,056	-	206,056	206,056	-
*PERS Relief	HB 210	352,371	-	352,371	352,371	-
Total Department of Administration			-	558,427	558,427	-
<b>DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT</b>						
Rescue System Upgrade	07-DC-221	28,000	2,405	-	2,405	-
*Homer City Hall	07-DC-497	2,000,000	197,000	302,086	499,086	-
Kachemak Bay Research Reserve Education Project	08-DC-286	133,000	-	10,745	-	10,745
*Revenue - sharing	2008	379,649	-	379,649	379,649	-
Total Department of Commerce, Community, and Economic Development			199,405	692,480	881,140	10,745
<b>DEPARTMENT OF REVENUE</b>						
*Fisheries Business Tax	N/A	98,958	-	98,958	98,958	-
Electric and Telephone Co-op Tax	N/A	28,287	-	28,287	28,287	-
Liquor Licenses	N/A	28,550	-	28,550	28,550	-
Total Department of Revenue			-	155,795	155,795	-
<b>DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT</b>						
Public Library Assistance	PLA-09-738-31	6,350	-	6,350	6,350	-
<b>DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES</b>						
Sterling Hwy Corridor Mgmt Plan (20% State)	75813	30,240	2,353	3,022	2,353	3,022
<b>DEPARTMENT OF ENVIRONMENTAL CONSERVATION</b>						
Water Improvements Ph 2-Design (25% State)	40906	84,000	24,640	-	16,240	8,400
*Water Treatment Plant Upgrades	40907	3,997,000	203,976	3,740,745	2,148,871	1,795,850
East End Road Water and Sewer Extension	40905	41,776	41,776	-	-	41,776
Total Department of Environmental Conservation			270,392	3,740,745	2,165,111	1,846,026
Total State Financial Assistance		\$	472,150	5,156,819	3,769,176	1,859,793

\* Major Program

## **CITY OF HOMER, ALASKA**

### **Notes to the Schedules of Expenditures of Federal Awards and State Financial Assistance**

**Year Ended December 31, 2008**

#### **Basis of Presentation**

The accompanying Schedules of Expenditures of Federal Awards and State Financial Assistance include the grant activity of City of Homer and are presented on the modified accrual basis of accounting. The information in the schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.

**CITY OF HOMER, ALASKA**  
 Statistical Section  
 (Unaudited)

This part of the City of Homer's comprehensive annual financial report presents detailed information as a context for understanding this year's financial statements, note disclosures, and required supplementary information. This information has not been audited by the independent auditor.

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<b>Financial Trends</b>	
These tables contain trend information that may assist the reader in assessing the City's current financial performance by placing it in historical perspective.	
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**CITY OF HOMER, ALASKA**  
Statistical Section, continued  
(Unaudited)

<b>Contents</b>	<b><u>Page</u></b>
<b>Operating Information</b>	
These tables contain service and infrastructure indicators that can inform one's understanding how the information in the City's financial statements relates to the services the City provides and the activities it performs.	
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**Source:**

Unless otherwise noted, the information in these tables is derived from the annual financial reports for the relevant year.

**CITY OF HOMER, ALASKA**  
**Net Assets by Component**  
**Last Six Fiscal Years**  
**(accrual basis of accounting)**

	Fiscal Year					
	2008	2007	2006	2005	2004	2003
<b>Governmental Activities</b>						
Investment in capital assets, net of related debt	\$ 43,848,027	43,879,310	42,266,274	39,633,946	34,744,914	34,357,797
Restricted	4,334,477	3,350,187	3,601,605	3,768,592	3,237,361	2,743,871
Unrestricted	8,149,368	6,014,887	4,932,592	3,919,540	3,000,843	3,120,310
Total Governmental Activities Net Assets	<u>56,331,872</u>	<u>53,244,384</u>	<u>50,800,471</u>	<u>47,322,078</u>	<u>40,983,118</u>	<u>40,221,978</u>
<b>Business-type Activities</b>						
Investment in capital assets, net of related debt	65,571,218	62,275,608	63,457,140	65,800,613	66,667,055	66,924,353
Restricted	7,677,436	7,736,778	3,583,803	2,870,245	2,316,028	2,314,557
Unrestricted	(1,289,199)	(806,158)	3,406,230	1,486,971	3,048,076	3,368,162
Total Business-type Activities Net Assets	<u>71,959,455</u>	<u>69,206,228</u>	<u>70,447,173</u>	<u>70,157,829</u>	<u>72,031,159</u>	<u>72,607,072</u>
<b>Total Activities</b>						
Investment in capital assets, net of related debt	109,419,245	106,154,918	105,723,414	105,434,559	101,411,969	101,282,150
Restricted	12,011,913	11,086,965	7,185,408	6,638,837	5,553,389	5,058,428
Unrestricted	6,860,169	5,208,729	8,338,822	5,406,511	6,048,919	6,488,472
Total Primary Government Net Assets	<u>\$ 128,291,327</u>	<u>122,450,612</u>	<u>121,247,644</u>	<u>117,479,907</u>	<u>113,014,277</u>	<u>112,829,050</u>

**CITY OF HOMER, ALASKA**  
**Changes in Net Assets**  
**Last Six Fiscal Years**  
**(accrual basis of accounting)**

	Fiscal Year					
	2008	2007	2006	2005	2004	2003
<b>Expenses</b>						
<b>Governmental Activities Expenses</b>						
General government	\$ 1,761,505	1,621,298	1,453,282	1,800,060	1,870,428	1,040,890
Public safety	4,546,766	3,989,765	3,912,322	3,322,075	3,101,937	3,128,167
Public works	2,637,639	2,422,038	2,405,097	1,066,319	2,136,469	1,979,338
Library	890,800	805,570	370,404	293,831	473,298	370,272
Airport	233,176	200,331	152,414	149,341	173,258	174,868
Parks & recreation	494,083	410,556	391,303	356,721	377,010	397,241
Community services	321,970	235,831	211,894	582,677	180,964	147,891
Unallocated interest	141,014	113,536	64,676	70,829	90,915	100,910
<b>Total Governmental Activities Expenses</b>	<b>11,026,953</b>	<b>9,798,925</b>	<b>8,961,392</b>	<b>7,641,853</b>	<b>8,404,279</b>	<b>7,339,577</b>
<b>Business-type Activities Expenses</b>						
Port & Harbor	4,529,886	4,406,311	4,075,045	3,885,187	3,709,842	3,561,815
Water & Sewer	5,820,558	5,318,033	4,737,887	4,615,144	4,250,305	3,889,601
<b>Total Business-type Activities Expenses</b>	<b>10,350,444</b>	<b>9,724,344</b>	<b>8,812,932</b>	<b>8,500,331</b>	<b>7,960,147</b>	<b>7,451,416</b>
<b>Total Activities Expenses</b>	<b>21,377,397</b>	<b>19,523,269</b>	<b>17,774,324</b>	<b>16,142,184</b>	<b>16,364,426</b>	<b>14,790,993</b>
<b>Program Revenues</b>						
<b>Governmental Activities Revenue</b>						
Charges for services	1,321,863	1,217,061	1,159,602	1,192,498	1,572,697	1,553,139
Operating grants & contributions	697,372	638,290	640,601	729,240	401,998	589,364
Capital grants & contributions	746,803	339,482	1,616,075	4,361,468	1,273,362	325,481
<b>Total Governmental Activities Revenue</b>	<b>2,766,038</b>	<b>2,194,833</b>	<b>3,416,278</b>	<b>6,283,206</b>	<b>3,248,057</b>	<b>2,467,984</b>
<b>Business-type Activities Revenues</b>						
Charges for services Port&Harbor	3,288,715	2,791,713	2,632,892	2,507,815	2,679,831	2,789,364
Charges for services Water/Sewer	3,023,126	2,734,564	2,745,335	2,605,377	2,569,494	2,281,614
Capital grants & contributions P&H	-	55,187	-	68,090	723,375	1,428,887
Capital grants & contributions W/S	4,571,058	1,333,867	2,274,619	221,412	227,808	1,842,866
<b>Total Program Revenues</b>	<b>10,882,899</b>	<b>4,123,618</b>	<b>5,019,954</b>	<b>2,894,879</b>	<b>3,520,677</b>	<b>5,553,367</b>
<b>Total Primary Government Program Revenues</b>	<b>13,648,937</b>	<b>6,318,451</b>	<b>8,436,232</b>	<b>9,178,085</b>	<b>6,768,734</b>	<b>8,021,351</b>
<b>Net (Expense)Revenue</b>						
Governmental Activities	(8,260,915)	(7,604,092)	(5,545,114)	(1,358,647)	(5,156,222)	(4,871,593)
Business-type Activities	532,455	(5,600,726)	(1,160,086)	(5,605,452)	(4,439,470)	(1,898,049)
<b>Total Primary Government Net Expenses</b>	<b>(7,728,460)</b>	<b>(13,204,818)</b>	<b>(6,705,200)</b>	<b>(6,964,099)</b>	<b>(9,595,692)</b>	<b>(6,769,642)</b>
<b>General Revenues and Other Changes in Net Assets</b>						
<b>Governmental Activities</b>						
<b>Taxes:</b>						
Property Taxes	2,976,794	2,529,614	2,406,263	2,091,977	1,888,761	1,785,092
Sales Taxes	6,334,758	6,173,478	5,670,638	5,119,528	3,770,288	3,506,170
Other	967,635	1,195,849	487,481	376,102	207,628	489,857
Transfers	(30,000)	149,064	459,125	110,000	50,685	(199,442)
Special item write-off NPO	1,099,216	-	-	-	-	-
<b>Total Governmental Activities Revenue</b>	<b>11,348,403</b>	<b>10,048,005</b>	<b>9,023,507</b>	<b>7,697,607</b>	<b>5,917,362</b>	<b>5,581,677</b>
<b>Business-type Activities Revenue</b>						
Sales tax	1,266,790	1,235,022	1,134,096	1,031,167	1,019,645	956,353
Other	409,544	482,110	774,459	303,140	214,766	418,591
Transfers	30,000	(149,064)	(459,125)	(110,000)	(50,685)	199,442
Special item write-off NPO	514,438	-	-	-	-	-
<b>Total Business-type Activities Revenue</b>	<b>2,220,772</b>	<b>1,568,068</b>	<b>1,449,430</b>	<b>1,224,307</b>	<b>1,183,726</b>	<b>1,574,386</b>
<b>Total Primary Government Revenue</b>	<b>14,114,441</b>	<b>12,242,838</b>	<b>12,439,785</b>	<b>13,980,813</b>	<b>9,165,419</b>	<b>8,049,661</b>
<b>Changes in Net Assists</b>						
Governmental Activities	3,087,488	2,443,913	3,478,393	6,338,960	761,140	710,084
Business-type Activities	2,753,227	(4,032,658)	(2,343,548)	(4,381,145)	(3,255,744)	(323,663)
<b>Total Primary Government</b>	<b>5,840,715</b>	<b>(1,588,745)</b>	<b>1,134,845</b>	<b>1,957,815</b>	<b>(2,494,604)</b>	<b>386,421</b>

**CITY OF HOMER, ALASKA**  
**Governmental Activities Tax Revenues by Source**  
**Last Ten Fiscal Years**  
**(accrual basis of accounting)**

<b>Fiscal Year</b>		<b>Property Tax</b>	<b>Sales Tax</b>	<b>Total</b>
2008	\$	2,976,794	6,334,758	9,311,552
2007		2,501,693	6,173,478	8,675,171
2006		2,382,936	5,670,638	8,053,574
2005		2,102,170	5,119,528	7,221,698
2004		1,888,761	3,737,944	5,626,705
2003		1,811,202	3,506,170	5,317,372
2002		1,603,317	3,243,410	4,846,727
2001		1,434,826	2,846,372	4,281,198
2000		1,407,579	2,716,211	4,123,790
1999		1,347,712	2,722,622	4,070,334

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

	Fiscal Year									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
<b>General Fund</b>										
Reserved	\$ 353,901	296,910	260,274	280,743	313,959	268,279	223,973	167,374	166,446	145,574
Unreserved:										
Interfund Loan Animal Shelter	250,000	300,000	350,000	400,000	450,000	-	-	-	-	-
PERS	171,314	171,314	-	-	-	-	-	-	-	-
Designated for subsequent year's expenditures	-	-	-	-	-	256,682	-	-	-	-
Undesignated	3,825,104	4,230,983	3,282,823	2,186,409	1,248,052	1,994,577	2,382,709	1,919,436	2,141,762	1,736,554
Total Unreserved General Fund	4,246,418	4,702,297	3,632,823	2,586,409	1,698,052	2,251,259	2,382,709	1,919,436	2,141,762	1,736,554
<b>Total General Fund</b>	4,600,319	4,999,207	3,893,097	2,867,152	2,012,011	2,519,538	2,606,682	2,086,810	2,308,208	1,882,128
<b>Other Governmental Funds</b>										
Reserved	4,334,477	3,350,187	3,601,605	3,768,592	3,237,361	2,743,871	271,328	-	-	-
Unreserved:										
Library	31,326	29,289	27,750	8,982	471,148	309,698	177,575	-	-	-
Fire Department	62,965	53,948	11,482	15,522	11,697	7,170	20,217	-	-	-
Animal Shelter	7,352	7,173	6,796	10,088	-	-	-	-	-	-
Community Schools	509	699	197	-	-	-	-	-	-	-
Sustainability Global Warming	15,162	107	-	-	-	-	-	-	-	-
Land	-	-	-	-	-	-	-	1,575	-	-
Capital Project Funds	3,116,382	1,857,872	1,784,965	1,435,923	421,066	651,221	3,497,206	3,835,613	3,381,301	1,631,493
Capital Project Deficit	(20,873)	(3,744)	(31,147)	(455,223)	(69,805)	-	-	-	-	-
Total Unreserved Other Governmental Funds	3,212,823	1,945,344	1,800,043	1,015,292	834,106	968,089	3,694,998	3,837,188	3,381,301	1,631,493
<b>Total Other Governmental Funds</b>	7,547,300	5,295,531	5,401,648	4,783,884	4,071,467	3,711,960	3,966,326	3,837,188	3,381,301	1,631,493
Total General Fund and Other Governmental Funds	\$ 12,147,619	10,294,738	9,294,745	7,651,036	6,083,478	6,231,498	6,573,008	5,923,998	5,689,509	3,513,621
Change in Fund Balances	1,852,881	999,993	1,643,709	1,567,558	(148,020)	(341,510)	407,467	234,489	2,175,888	407,542
Percentage of Change	18.0%	10.8%	21.5%	25.8%	-2.4%	-5.2%	11.0%	4.1%	61.9%	13.1%

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

	Fiscal Year									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
<b>Revenues:</b>										
Property taxes	\$ 2,975,448	2,501,693	2,382,936	2,102,170	1,888,761	1,811,202	1,603,317	1,434,826	1,407,579	1,347,712
Sales taxes	6,334,758	6,173,478	5,670,638	5,119,528	3,737,944	3,506,170	3,243,410	2,846,372	2,716,211	2,722,622
Licenses and permits	26,219	43,765	46,096	42,717	88,411	18,930	17,000	12,520	10,042	147,925
Intergovernmental	1,778,519	1,873,233	2,247,343	3,740,329	1,966,565	1,354,063	1,574,238	1,038,386	1,119,177	486,130
Charges for services	2,337,323	2,382,465	2,136,838	2,183,048	2,028,181	1,991,495	2,045,851	1,393,570	1,326,039	1,527,933
Special assessments	127,876	14,802	11,180	15,462	16,517	39,571	43,412	59,189	85,325	99,873
Investment income	156,429	290,987	233,998	150,223	47,793	66,649	119,310	204,527	453,863	318,366
Fines and forfeitures	34,193	19,941	19,435	23,269	24,444	36,321	35,577	19,489	25,044	-
Contributions and donations	9,181	42,256	64,412	1,362,374	170,864	140,794	77,081	-	-	-
Legal settlement	-	-	740,404	-	-	-	-	91,930	-	-
Sale of property and equipment	499,189	-	-	-	-	-	-	-	-	-
Miscellaneous	170,538	19,970	24,207	23,362	172,876	68,973	369,881	129,507	32,720	-
<b>Total revenues</b>	<b>\$ 14,449,673</b>	<b>13,362,590</b>	<b>13,577,487</b>	<b>14,762,482</b>	<b>10,142,356</b>	<b>9,034,168</b>	<b>9,129,077</b>	<b>7,230,316</b>	<b>7,176,000</b>	<b>6,650,561</b>
<b>Expenditures:</b>										
General government	\$ 2,964,905	2,585,147	2,220,086	2,689,530	2,554,078	1,759,588	1,724,904	1,685,478	1,449,470	1,421,672
Public safety	4,189,377	3,622,296	3,549,911	3,053,686	2,894,621	2,837,662	2,527,104	2,165,322	2,043,570	2,609,205
Public works	2,108,115	1,750,045	1,688,688	1,491,893	1,350,580	1,593,608	1,620,633	803,036	691,683	773,563
Library	681,983	593,027	449,289	374,932	341,287	352,380	333,982	298,541	279,252	284,742
Airport	228,720	196,710	179,504	146,221	128,278	169,211	124,311	107,541	132,894	134,262
Parks and recreation	422,251	384,697	367,027	338,359	340,471	353,548	407,982	342,943	302,097	217,261
Community services	321,970	235,831	211,894	582,677	180,964	147,891	294,809	109,796	122,359	161,884
Debt service:										
Principal retirement	470,615	608,431	655,016	513,640	479,979	409,761	487,905	495,117	481,394	434,081
Interest and fiscal charges	75,812	113,536	64,676	70,829	90,915	100,910	126,462	136,602	162,987	185,203
Capital outlay	1,103,044	2,421,941	5,153,413	4,043,157	1,976,460	1,161,677	1,565,695	643,259	1,050,805	401,237
<b>Total expenditures</b>	<b>12,566,792</b>	<b>12,511,661</b>	<b>14,539,504</b>	<b>13,304,924</b>	<b>10,337,633</b>	<b>8,886,236</b>	<b>9,213,787</b>	<b>6,787,635</b>	<b>6,716,511</b>	<b>6,623,110</b>
Excess (deficiency) of revenues over (under) expenditures	\$ 1,882,881	850,929	(962,017)	1,457,558	(195,277)	147,932	(84,710)	442,681	459,489	27,451
<b>Other financing sources (uses):</b>										
Proceeds from capital lease	-	-	2,146,601	-	-	-	300,000	-	-	264,945
Transfers in	2,183,992	2,499,222	2,160,007	2,498,261	879,211	1,585,122	762,026	629,234	123,125	219,347
Transfers out	(2,213,992)	(2,350,158)	(1,700,882)	(2,388,261)	(828,526)	(2,074,564)	(729,406)	(570,539)	(173,125)	(395,747)
<b>Net other financing sources (uses)</b>	<b>(30,000)</b>	<b>149,064</b>	<b>2,605,726</b>	<b>110,000</b>	<b>50,685</b>	<b>(489,442)</b>	<b>332,620</b>	<b>58,695</b>	<b>(50,000)</b>	<b>88,545</b>
<b>Net change in fund balance</b>	<b>\$ 1,852,881</b>	<b>999,993</b>	<b>1,643,709</b>	<b>1,567,558</b>	<b>(144,592)</b>	<b>(341,510)</b>	<b>247,910</b>	<b>501,376</b>	<b>409,489</b>	<b>115,996</b>
Debt service as a % of noncapital expenditures	4.96%	7.37%	8.03%	7.65%	6.79%	6.96%	8.50%	-	-	-

**CITY OF HOMER, ALASKA**  
**Assessed Value and Estimated Actual Value of Taxable Property**  
**Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Real Property Less Tax Exempt Property</b>	<b>Personal Property Less Tax Exempt Property</b>	<b>Total Taxable Assessed Value</b>	<b>Tax Direct Rate</b>	<b>Estimated Full Value</b>	<b>Assessed Value as a Percent of Actual Value</b>
2008	\$ 588,595,562	24,988,891	613,584,453	11.30%	777,118,400	78.96%
2007	489,448,562	22,811,263	512,259,825	12.00%	717,875,400	71.36%
2006	461,018,162	24,598,683	485,616,845	12.10%	646,448,500	75.12%
2005	399,827,162	26,893,341	426,720,503	12.85%	587,914,700	72.58%
2004	333,843,562	19,148,462	352,992,024	13.35%	497,201,500	71.00%
2003	312,647,212	19,978,948	332,626,160	13.35%	448,443,700	74.17%
2002	295,979,412	21,458,976	317,438,388	13.35%	397,449,200	79.87%
2001	221,752,012	16,401,954	238,153,966	14.35%	321,539,100	74.07%
2000	217,038,712	14,547,700	231,586,412	15.10%	310,123,200	74.68%
1999	212,064,712	14,761,308	226,826,020	15.60%	305,447,500	74.26%

Source: State of Alaska Assessor Office - Taxable Alaska

Notes: 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**  
**Property Tax Rates**  
**Direct and Overlapping Government**  
**Last Ten Fiscal Years**  
**Tax Rates (Mils)**

<u>Fiscal Year</u>	<u>City of Homer</u>	<u>Kenai Peninsula Borough</u>	<u>South Peninsula Hospital Service Area</u>	<u>Kenai Peninsula College</u>	<u>Total</u>
2008	4.50	4.50	2.30	0.00	11.30
2007	4.50	6.50	1.00	0.00	12.00
2006	4.50	6.50	1.00	0.10	12.10
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

Notes: Overlapping rates are those of the City of Homer, Kenai Peninsula Borough, South Peninsula Hospital Service Area (a 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, 2008**  
**and December 31, 1999**

Owner	2008			1999		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Value
Homer Spit Properties, LLC	\$ 12,377,500	1	4.95 %	\$		%
ACS of the Northland, LLC	11,261,293	2	4.50	7,097,232	1	5.72
Tulin Charles E & Helen L	7,015,700	3	2.80			
Lands End Acquisition Corp.	5,756,500	4	2.30	3,127,049	6	2.52
Alaska USA Federal Credit Union	3,814,794	5	1.52			
CGF Properties, Inc	3,732,000	6	1.49	2,331,350	8	1.88
Moore Kenneth & Roseleen Trust	3,309,800	7	1.32			
Wells Fargo Bank	3,309,115	8	1.32	3,212,758	4	2.59
Johnson John R & Judith E	2,934,000	9	1.17			
Sunset View Estates LLC	2,607,500	10	1.04			
Herndon & Thomas Leasing	-		-	3,713,800	3	2.99
Circle De Pacific Corporation	-		-	3,819,434	2	3.08
Robert Hunt	-		-	3,153,500	5	2.54
Harbor Enterprise, Inc	-		-	3,060,772	7	2.47
Spenard Builders Supply, Inc F KA	-		-	2,199,776	9	1.77
Bidarka Inn/Hunter Investments	-		-	2,165,441	10	1.75
Total	\$ <u>56,118,202</u>		<u>22.43</u> %	<u>33,881,112</u>		<u>27.31</u> %

Source: Kenai Peninsula Borough

Century Telephone Enterprises was acquired by ACS of the Northland Inc

National Bank of Alaska was acquired by Wells Fargo

The Bidarka Inn & Hunter Investments is owned by John R & Judith E Johnson

**CITY OF HOMER, ALASKA**  
**Property Tax Levies and Collections**  
**Last Ten Fiscal Years**

<b>Fiscal Year Ended December 31,</b>	<b>Total Tax Levy for Fiscal Year</b>	<b>Collected within the Fiscal Year of the Levy</b>		<b>Collected in Subsequent Years Amount</b>	<b>Total Tax Collected to Date</b>	
		<b>Amount</b>	<b>% of Levy</b>		<b>Amount</b>	<b>% of Levy</b>
1999	\$ 1,290,547	\$ 1,190,679	92.26%	\$ 60,385	\$ 1,251,064	96.94%
2000	1,328,213	1,245,592	93.78%	90,071	1,335,663	100.56%
2001	1,359,737	1,304,217	95.92%	66,615	1,370,832	100.82%
2002	1,634,651	1,491,221	91.23%	53,515	1,544,736	94.50%
2003	1,715,697	1,672,366	97.47%	51,033	1,723,399	100.45%
2004	1,829,389	1,768,120	96.65%	34,012	1,802,132	98.51%
2005	2,013,518	1,989,890	98.83%	53,009	2,042,899	101.46%
2006	2,342,439	2,299,478	98.17%	32,081	2,331,559	99.54%
2007	2,383,617	2,339,720	98.16%	10,970	2,350,690	98.62%
2008	2,823,552	2,822,660	99.97%	93,274	2,915,935	103.27%

**CITY OF HOMER, ALASKA**  
**Ratios of Outstanding Debt by Type**  
**Last Ten Fiscal Years**

	Governmental Activities					Business-Type Activities					Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Special Assessment Bonds	Notes Payable	Capital Leases	Accrued Leave & Pension	Revenue Bonds	Notes Payable	Capital Leases	Accrued Leave & Pension				
2008	\$ -	\$ -	\$ 1,529,282	\$ 27,749	\$ 502,499	\$ 185,000	\$ 11,567,201	\$ 95,720	\$ 352,698	\$ 14,260,149	0.00%	0	
2007	-	-	1,955,878	71,768	1,637,188	365,000	10,160,611	153,810	851,763	15,196,018	0.00%	29	
2006	475,000	5,280	1,992,753	163,044	1,337,103	620,000	9,539,106	208,909	708,137	15,049,332	0.03%	31	
2005	920,000	10,527		212,257		870,000	7,479,081		480,649	9,972,514	0.14%	118	
2004	1,340,000	15,807		300,617		1,105,000	5,388,839		353,170	8,503,433	0.29%	201	
2003	1,730,000	21,087		385,316		1,335,000	5,279,514		245,237	8,996,154	0.43%	299	
2002	2,095,000	26,367		424,601		1,620,000	3,807,372		206,153	8,179,493	0.56%	389	
2001	2,440,000	31,647		262,226		1,890,000	3,132,195		46,468	7,802,536	0.89%	558	
2000	2,760,000	36,927		432,063		2,150,000	3,431,618		315,869	9,126,477	1.06%	606	
1999	3,060,000	58,457		591,927		2,405,000	3,698,167		341,059	10,154,610	1.06%	600	

Population per Alaska Department of Community and Economic Development

**CITY OF HOMER, ALASKA**  
**Ratios of General Bonded Debt Outstanding**  
**Last Ten Fiscal Years**  
**(amounts expressed in thousands, except per capita amount)**

<b>Fiscal Year</b>	<b>Population</b>	<b>Assessed Value</b>	<b>Gross Bonded Debt</b>	<b>Debt Service Funds Available</b>	<b>Net Bonded Debt</b>	<b>Percent of Net Bonded Debt to Assessed Value</b>	<b>Net Bonded Debt Per Capita</b>
2008	5390	\$ 588,595	\$ -	\$ -	\$ -	0.00%	\$ 0
2007	5502	551,814	-	-	-	0.00%	0
2006	5454	520,542	475	307	168	0.03%	31
2005	5435	447,448	920	281	639	0.14%	118
2004	5332	365,877	1,340	269	1,071	0.29%	201
2003	4893	343,139	1,730	268	1,462	0.43%	299
2002	4721	326,930	2,095	259	1,836	0.56%	389
2001	3946	247,225	2,440	237	2,203	0.89%	558
2000	4205	241,493	2,760	210	2,550	1.06%	606
1999	4154	234,645	3,060	568	2,492	1.06%	600

## Note:

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

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Total General Fund Expenditures</u>	<u>Percent of Debt Service to General Fund Expenditures</u>
2008	\$ -	\$ -	\$ -	\$ 11,046,268	0.00%
2007	475,000	21,082	496,082	9,356,829	5.30%
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%

**Note:**

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

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

	(1)	(2)	(1)	(3)	(2)	
<b>Year</b>	<b>Population</b>	<b>Annual Average Wage Per Worker</b>	<b>Per Capita Income</b>	<b>Median Age</b>	<b>School Enrollment</b>	<b>Unemployment Rate</b>
2008	5,390	\$ 31,625	\$ 24,565	38.8	1,445	7.5%
2007	5,502	30,795	23,985	39.7	1,135	6.7%
2006	5,454	31,164	23,630	38.8	1,119	8.6%
2005	5,435	30,696	23,280	38.8	1,248	8.6%
2004	5,332	34,663	22,936	38.8	1,238	11.1%
2003	5,865	33,069	22,709	38.8	1,250	12.1%
2002	4,721	34,032	22,484	38.8	1,284	12.0%
2001	3,946	34,584	22,262	38.8	1,276	10.6%
2000	4,205	32,275	22,041	32.4	1,311	10.2%
1999	4,154	30,523	21,823	32.4	1,343	10.5%

## 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**  
**Principal Employers - Lower Kenai Peninsula**

<u>Employer</u>	<u>2008</u>		
	<u>Number of Employees</u>	<u>Rank</u>	<u>Percentage of Total Employment</u>
Kenai Peninsula Borough School District	313	1	10.41%
South Peninsula Hospital	261	2	8.68%
South Peninsula Behavioral Health Services	148	3	4.92%
City of Homer	103	4	3.43%
Safeway	98	5	3.26%
State of AK-Excludes University	97	6	3.23%
Lands End Resort	85	7	2.83%
Federal Government	69	8	2.30%
Homer Electric Association	66	9	2.20%
Chugach Electric	64	10	2.13%
 Total Employees (Top Ten)	 1,304		 43.38%
 Average Employees Per Month	 3,006		

Source:  
Alaska Department of Labor and Workforce Development

Note:  
Comparative principal employers for 1999 is not available.

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

<b>Function/program</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
Administration	29	29	34	27	27	26	26	26	25	25
Public Safety:										
Fire Department	6	6	6	6	6	6	6	6	6	6
Police Department	21	24	27	26	27	26	26	22	24	24
Public Works:										
PW General Fund	16	13	11	14	14	15	14	1	13	11
PW Water/Sewer	18	19	23	25	25	25	25	36	21	22
Port and Harbor	<u>13</u>	<u>11</u>	<u>13</u>	<u>18</u>	<u>18</u>	<u>18</u>	<u>18</u>	<u>18</u>	<u>18</u>	<u>18</u>
Total	<u>103</u>	<u>102</u>	<u>114</u>	<u>116</u>	<u>117</u>	<u>116</u>	<u>115</u>	<u>109</u>	<u>107</u>	<u>106</u>



**CITY OF HOMER, ALASKA**  
**Operating Indicators by Function**  
**Last Ten Fiscal Years**

Source Function/Program	Fiscal Year									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
General Government										
Registered voters	4,161	4,172	4,073	4,022	4,098	4,146	4,000	3,332	3,363	3,327
Building permits issued	62	87	83	103	109	86	74	72	58	52
Police										
Requests for service	7,532	6,052	5,987	5,878	6,141	7,552	4,265	6,242	4,453	4,049
Physical arrests	391	425	428	507	429	480	589	604	460	505
Traffic citations	731	515	450	464	525	807	1,033	835	873	616
Animal control impounds	415	864	1,048	1,065	967	2,139	2,139	2,452	1,660	3,038
Fire										
Emergency responses	599	566	472	469	439	457	478	359	311	338
Fires calls	83	100	79	111	107	103	109	138	100	96
Parks & Recreation										
Camping permits - Tents	3,852	3,934	3,830	3,888	4,559	4,144	3,291	3,570	4,316	3,604
Camping permits - RV's	4,988	5,621	5,250	5,515	6,662	6,466	5,905	5,609	6,093	5,122
Library										
Number of Visitors	132,402	133,186	91,301	88,372	88,136	88,810	90,529	98,099	92,008	87,453
Number of Library cards	10,405	10,055	9,812	9,073	9,013	8,713	8,544	8,444	8,353	8,135
Internet Users		40,041		19,145	18,359					
Public Works										
Work orders	6,553	6,761	6,852	6,758	6,573	6,438	6,036	5,543	5,015	3,158
Water										
Number of Consumers	1,445	1,406	1,406	1,373	1,337	1,297	1,269	1,229	1,218	1,189
Water usage in millions gal	142.2	145.1	137.5	179.0	161.0	132.5	132.8	133.9	131.0	137.5
Wastewater										
Number of Consumers	1,432	1,354	1,354	1,280	1,374	1,197	1,153	1,117	1,115	1,084
Port & Harbor										
Harbor Assists	143	197	220	298	302	378	249			
Dock Landings	226	202	162	139	113	126	155	161	132	
Ice sales (ton)	3,776	3,826	3,333	4,261	3,869	3,744	3,896	4,029	3,740	5,231
Crane hours billed	2,672	2,574	2,535	2,819	2,979	3,187	3,492	3,162	3,213	
Halibut landings (million tons)	10	10	10	10	10	12	12	11	9	11

**CITY OF HOMER, ALASKA**  
**Operating Assets Indicators by Function**  
**Last Ten Fiscal Years**

Source Function by Program	Fiscal Year									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
<b>Emergency Services:</b>										
Number of Stations	1	1	1	1	1	1	1	1	1	1
Number of Fire Trucks	4	3	3	2	2	2	2	2	2	2
Number of Ambulances	2	2	2	2	2	2	2	1	1	1
Number of Employees/ Volunteers	39	39	38	37	54	48	52	40	49	40
<b>Police Protection</b>										
Number of Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units	12	11	10	9	9	9	8	7	6	5
Number of Employees	21	24	27	28	27	26	27	26	24	23
<b>Public Works</b>										
Miles of City-maintained streets	46.5	46.9	46.9	46.5	45.0	44.0	41.0	22.6	21.9	21.9
<b>Water/ Sewer</b>										
Miles of Water Lines	42.4	42.4	42.3	42.1	46.5	36.41	36.41	36	36	36
Miles of Sewer Lines	49.2	49.2	49.2	48.7	39.5	42.8	42.8	43	41	41
<b>Parks &amp; Recreation</b>										
Number of Parks	18	18	18	18	18	18	18	18	18	18
Acres	518.2	518.2	267.4	267.4	267.4	267.4	267.4	267.4	267.4	267.4
<b>Library</b>										
Volumes	42,812	40,181	36,984	34,791	34,080	34,080	34,080	34,080	33,810	33,649
Circulation	99,511	98,815	99,020	89,964	91,886	89,617	95,051	96,490	104,190	99,018
Public use computers	18	18	6	6	6	6	6	6	6	6
<b>Port &amp; Harbor</b>										
Small Boat Harbor - stalls	920	920	920	920	920	920	772	772	772	772
Transient space square feet	6,000	6,000	6,000	6,000	6,000	6,000	4,000	4,000	4,000	4,000

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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 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, 2008 which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated June 15, 2009. 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 results 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, others within the entity, federal and state awarding agencies and, if applicable, pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Mikunda, Cottrell & Co.*

Anchorage, Alaska  
June 15, 2009



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 OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. 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 of 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, 2008.

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 the 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.

*Mikunda, Cottrell & Co.*

Anchorage, Alaska  
June 15, 2009



Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

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 *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that are applicable to each of its major state programs for the year ended December 31, 2008. City of Homer's major state programs are identified in the accompanying Schedule of State Financial Assistance. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state 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 the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* 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 state 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 of 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 state programs for the year ended December 31, 2008.

Internal Control Over Compliance

The management of City of Homer is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state 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 state 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.



Honorable Mayor and City Council  
City of Homer, Alaska

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 state 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 state program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state 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 state 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 the State of Alaska and is not intended to be and should not be used by anyone other than these specified parties.

*Mikunda, Cottrell & Co.*

Anchorage, Alaska  
June 15, 2009

**CITY OF HOMER, ALASKA**

Schedule of Findings and Questioned Costs

Year Ended December 31, 2008

**I. Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?  yes  none reported
- Noncompliance material to financial statements noted?  yes  no

**Federal Financial Assistance**

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?  yes  none reported

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?

yes  no

Identification of major programs:

<u>Agency</u>	<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Environmental protection Agency	66.468	Drinking Water Loan: Water Service Extensions, Phase II

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes  no



**CITY OF HOMER, ALASKA**

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2008

**Federal**

There were no prior year audit findings.

**State of Alaska**

There were no prior year audit findings.

**CITY OF HOMER, ALASKA**

Corrective Action Plan

Year Ended December 31, 2008

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