

CITY OF HOMER, ALASKA

Comprehensive Annual Financial Report

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VISITORS

A. Mikunda Cottrell and Company, John M. Bost, Partner, Presentation on 2002 Comprehensive Financial Report.

John Bost gave an overview of the audit, effects of GASB 34 and the Ocean Drive Loop Bluff Erosion Control Project.

General Fund had a positive increase to Fund Balance of \$373,000 as compared to lost in 2001 of \$221,000. (Property taxes up, fire contracts, sales taxes up - many of which were due to the annexation.)

Enterprise Funds - due to GASB 34, depreciation is no longer added back on grant funded fixed assets. As a consequence it may look like the City lost money, but it is because it is presented differently than it has been in prior years. Under the old scenario the enterprise funds would have done better.

Port Fund - In 2002 lost \$265,000, including 100% of depreciation with no add back for that portion funded with grants. In 2001 it made \$7,600. Operational speaking it was essentially the same from the Revenues and Operating Expenses. Interest in 2001 was \$315,000 more, with the Small Boat Harbor Repairs and Renovations, Pioneer Dock Project and etcetera.

Water and Sewer - No add back for depreciation relating to grants. Virtually the same as 2001, \$596,000 loss in 2002 versus a \$560,000 in 2001. The add back would have been \$1.3 million.

Risk Management Fund lost \$122,000 in 2002 versus \$184,000 in 2001.

Overall the City loss was exclusive of adding back the depreciation on grants. In 2002 there was a loss of \$234,000 versus \$397,000 in 2001. The main reason is the Ocean Drive Loop Bluff Erosion Control project, where about \$930,000 was spent in 2002. The bonds being issued will be in a different year, which will make 2003 look pretty good with the receipt of the proceeds from the Bond.

He pointed out that absent the Ocean Drive Loop Bluff Erosion Control Project the City actually had a better year than in 2001. He expressed his opinion that the City is in a pretty good position compared to other cities by having more than one revenue source and taxes are increasing due to property value increases.

Mr. Bost reported that the test of controls, grants and systems showed no problems, major weaknesses or cause for concern. He complemented the Finance Department.

Audit 2002

Explanations of over budget amounts (begin with page 55)

City Hall Complex (140)
Other Services & Charges

Electricity Over Budget 4,321.00
Budgeted \$15,000
FY 2001 expense was \$16,324, FY 2002 expense is \$19,321, a difference of \$2,997

Rent Lease Expense Over Budget 8,211.00
Budgeted \$16,000 and had excess copy charge in December of \$1,816
Copy machines and postage machines rent were a little higher than last year
FY 2001 expense was \$22,137, FY 2002 expense is \$24,210, a difference of 2,073

Bad Debt Expense Over Budget 58,289.00
There was no budget
Write off of \$26,986 for prior 2002 debt
FY 2001 expense was \$25,149, FY 2002 expense is \$58,289, a difference of \$33,140

Transfers Expense Over Budget 7,700.00
There was no budget
No expense in 2001

2000-2002 a BrBm 2000

Public Safety (160 - 163)
Other Services & Charges

Communications Over Budget 8,608.00
Budgeted \$21,000
Purchased two mobile radios for \$3,323.50 (not budgeted)
FY 2001 expense was \$26,631, FY 2002 expense is \$29,608, a difference of \$2,977

Transfers Expense Over Budget 35,297.00
There was no budget
FY 2001 expense was \$25,000, FY 2002 expense is \$35,297, a difference of \$10,297

Overtime Over Budget - Dispatch 4,121.00
Budgeted \$20,000
FY 2001 expense was \$27,702, FY 2002 expense is \$24,121, a difference of \$(3,581)

Tools/Equip Over Budget - Dispatch 5,748.00
Budgeted \$4,500
Purchased a computer and a scanner for a total of \$5,377 - not budgeted
FY 2001 expense was \$2,952, FY 2002 expense is \$10,248, a difference of \$7,296

Part Time Over Budget - Patrol 14,702.00
There was no budget
We hired a part time officer who after a several months decided to go full time
FY 2001 expense was \$-0-, FY 2002 expense is \$14,702, a difference of \$14,702

Leave Cash Out Over Budget - Patrol 8,080.00
There was no budget
No expense in FY 2001

Motor Pool (176)
Other Services & Charges

Regular Wages Over Budget 21,129.00
Budgeted \$86,107
A couple of pw employees were charged to the wrong account
FY 2001 expense was \$68,288, FY 2002 expense is \$107,236, a difference of \$38,948

Vehicle/Boat Maintenance Over Budget 46,711.00
Budgeted \$43,000
There doesn't seem to be anything unusual - note our fleet is aging
FY 2001 expense was \$81,945, FY 2002 expense is \$89,711, a difference of \$7,766

Police Motor Pool Over Budget 13,182.00
Budgeted \$5,500
There doesn't seem to be anything unusual - note our fleet is aging
No expense in FY 2001

Parks & Rec (175)
Other Services & Charges

Fringe for Part Time Over Budget 5,053.00
Budgeted \$10,087
Nothing Unusual
FY 2001 expense was \$14,465, FY 2002 expense is \$15,140, a difference of \$675

Professional Services Over Budget 5,239.00
Budgeted \$17,650
Lawn mowing costs were \$5,000 over budgeted
FY 2001 expense was \$26,001, FY 2002 expense is \$22,889, a difference of \$3,112

Water Over Budget 4,296.00
Budgeted \$8200
Nothing Unusual
FY 2001 expense was \$13,376, FY 2002 expense is \$12,496, a difference of \$(880)

Transfers Expense Over Budget 5,000.00
There was no budget
No expense in 2001



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City of Homer

Homer, Alaska

June 4, 2003

To the Honorable Mayor Jack Cushing,
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, 2002. 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, 2002, 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, 2002, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

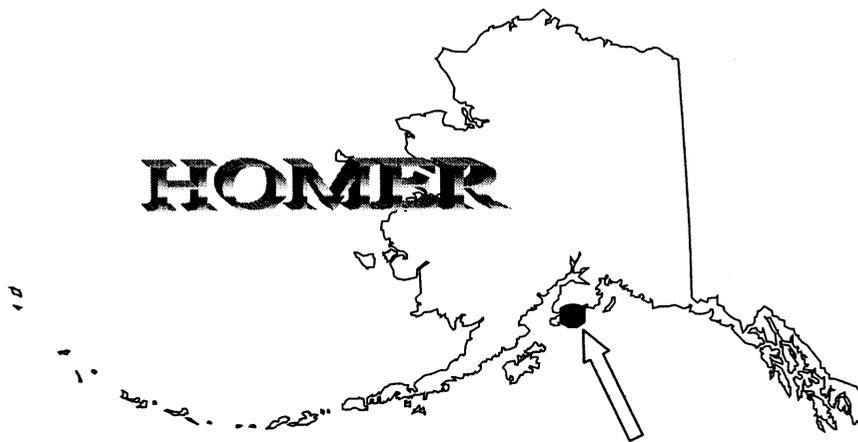
Also included in the *Financial Section* is management's discussion and analysis (MD&A) that provides users of the basic financial statements a narrative introduction, overview, and analysis of those statements. The basic financial statements, including the accompanying notes, represent the core of the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

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

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

THE REPORTING ENTITY AND ITS SERVICES

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



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

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

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

¹ Financial policies can be located beginning on page xvi of the City of Homer Annual 2003 Budget.

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.

ECONOMIC CONDITION AND OUTLOOK

Tourism

Homer, "*Where the Land Ends and the Sea Begins*", overlooks majestic Kachemak Bay and has a lot to offer in the way of tourism. Many of our visitors continue to come from the Anchorage and Mat-Su areas of Alaska, Alaskans wanting to get away from the City and visit the real Alaska. Many others come from locations worldwide.

Tourism in the Homer area has diversified over the past few years, from fishing charters to offering many environmentally sensitive tour options. These include ecotours, hiking, kayaking, natural history and environmental tours around Kachemak Bay, which is one of the richest ecosystems in the world. We've seen an increase in the number of lodges and bed & breakfasts in Homer and the Kachemak Bay area, and have started to attract a more diverse type of clientele to our community.

Many marine science organizations are located in Homer, these include, Kachemak Bay National Estuaries Research and Reserve (KBNERRS), Alaska Maritime National Wildlife Refuge Headquarters and in 2003 we will see the completion of construction on the U.S. Fish & Wildlife Marine Science Center.

The Chamber of Commerce operates the Kachemak Bay Visitor and Business Resource Center to assist visitors to the Homer area and provide business counseling and resources to local small businesses.

Each year the Homer area hosts the Kachemak Bay Shorebird Festival to celebrate the annual migration of birds through Homer. This is one of the largest wildlife festivals held in the State of Alaska. During the first two weeks in May of each year, approximately 100,000 shorebirds pass through Mud Bay; one of the largest migration points on Alaska's road system. In addition, bald eagles can be seen year round with a winter concentration sometimes of more than 100 eagles on the Homer Spit.

Homer is home to many fine artists whose works are on display and for sale at the many art galleries around town and at the world-renowned Pratt Museum. We're growing as a destination for in-depth art workshops and instructional programs for performing and visual arts.

Fishing

The Kenai Peninsula supports about 40 percent of the recreational fishing in Alaska, and much of that activity is centered in the Homer area. The sport fishing industry around Homer continues to grow each year. The number of charter operators has stabilized over the last few years but they have diversified and offer different charter

options, from halibut to salmon, from half day to full day or even two day charters. Through this diversification they continue to bring more and more people to Homer.

Homer is referred to by many as the "Halibut Capital of the World." Sports fishing really kicks off when the halibut start biting in May of each year. The first fresh halibut of the year always seems the best. Memorial Day weekend marks the opening of the summer king salmon fishing and brings out the anglers. For the last few years we have had a special Winter King Salmon Tournament in March. Commercially Homer maintained the title of Halibut Capital of the World with 13.6 million pounds of halibut delivered to the Homer dock. There was a total of 12,960 tons of fish delivered to the Homer docks (25,920,072 pounds). These included halibut (13,633,196), pacific cod (3,250,000), black cod (2,606,876) and salmon (6,430,000). With the development of new processors we've seen an increase in the amount of black cod delivered to Homer.

Deep Water and Pioneer Docks

Presently the City of Homer has a deep-water and the Pioneer dock. The Pioneer dock is home to the Alaska Marine Highway System and the U.S. Coast Guard. Construction on the new \$12 million dock to replace the aging timber main/ferry dock, began in 2001 and is on schedule for completion no later than June 2003. This facility will provide preferential berthing for a new, larger Coast Guard buoy tender and the Alaska Marine Highway System's ocean class ferries (Tustumena and Kennicott), as well as general cargo capability.

The main export over the deep-water dock has been wood chips and logs. This activity at the deep-water dock increased over 2001. Wood chips loading decreased in 2002 from 58,942 bone dry units [6 ships] to 49,428 bone dry units [5 ships], and log loadouts increased by 20.1%, from 12 vessels [18.1 million board feet] to 13 vessels [21.7 million board feet].

Parks

During the next couple of years, the existing 3.5 mile bike path on the Homer Spit will be expanded from Pier 1 Theater, along the west edge of the harbor to the end of the Spit at End of the Road Park. Construction has started on the adult softball complex at Jack Gist Park and should be completed during the 2003-2004 construction season. The City of Homer is working with the Skateboard Association and Hockey Association in hopes of assisting in the creation of adequate facilities for those activities.

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 2003 Annual Budget. The document details the City's long-term goals and financial policies, describes program accomplishments and initiatives, and outlines the City's capital improvement program. The City's Annual Budget also includes long-term financial plans for the major operating funds that forecast revenues and expenditures over a three-year horizon. The document can be obtained from the City of Homer's Finance Department by calling (907) 235-8121. The Annual Budget can also be accessed through the City's web site at www.ci.homer.ak.us and selecting the Finance Department.

FINANCIAL INFORMATION

Single Audit

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

ACCOUNTING SYSTEM AND BUDGETARY CONTROLS

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

Cash Management

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

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

- (10) Money market mutual funds whose portfolios consist entirely of instruments specified in subsection 1,2 and 3 above- with net asset value of \$1.00.

Risk Management

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

AWARDS AND ACKNOWLEDGMENTS

Certification of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Homer for its comprehensive annual financial report for the fiscal year ended December 31, 2001.

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 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 Lisa Vaughn, Laurel Moore, Michele McCandlish, Joanne Perret, Jo Earls and Lori Sorrows 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



Dean W. Baugh
Finance Director

CITY OF HOMER

Principal City Officials

Mayor
Jack Cushing

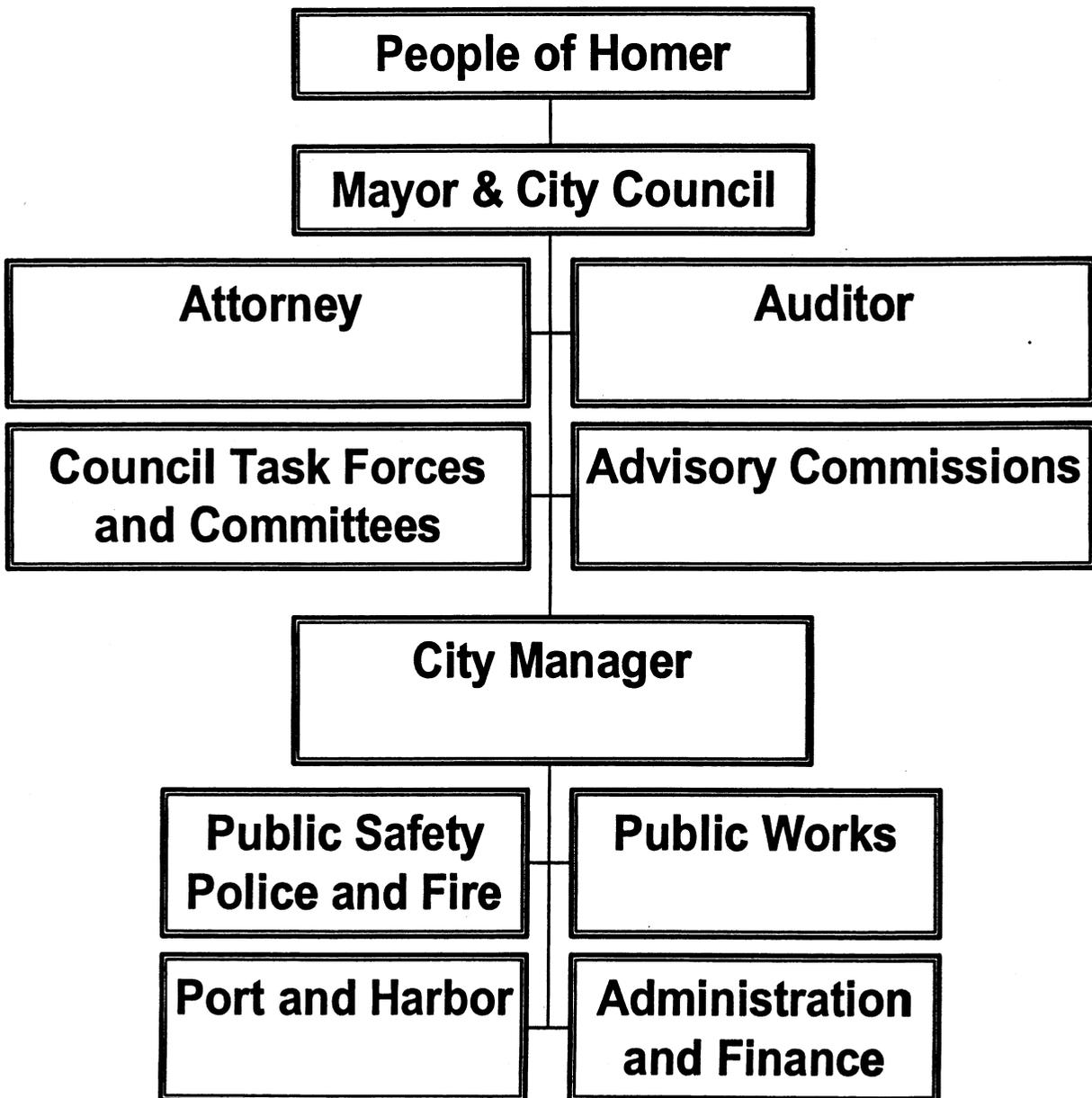
City Council

Rose Beck	Rick Ladd
John Fenske	Doug Stark
Ray Kranich	Michael Yourkowski

City Administration

City Manager	Walt Wrede
City Attorney.....	Gordon Tans
City Clerk	Mary Calhoun
Finance Director	Dean W. Baugh
Fire Chief	Robert Painter
Library Director	Helen K. Hill
Planning Director	Zak Tucker
Police Chief	Mark Robl
Harbormaster	William Abbott
Public Works Director ...	Carey Meyer

City of Homer Organization Chart



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Homer,
Alaska

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2001

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.



William Patrick Bate

President

Jeffrey R. Enev

Executive Director

MIKUNDA, COTTRELL & Co.

A Professional Corporation

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

3601 "C" Street, Suite 600 • Anchorage, Alaska 99503

(907) 278-8878, Fax (907) 278-5779

www.mcc-cpa.com

Independent Auditor's Report

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

We have audited the accompanying basic financial statements of City of Homer, Alaska, as of and for the year ended December 31, 2002 as listed in the accompanying table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic 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 opinion.

As described in Notes 1 and 17 to the financial statements, the City adopted Governmental Accounting Standards Board Statements 34, 36, 37, and 38 as of and for the year ended December 31, 2002.

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, 2002, 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.

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 thereon.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Homer's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and 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 Office of Management and Budget, *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 presented in all material respects in relation to the basic financial statements.

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.

April 10, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2002. Readers are encouraged to read this narrative in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this section. **All amounts reported in this MD&A, unless otherwise indicated, are expressed in thousands of dollars.**

Financial Highlights

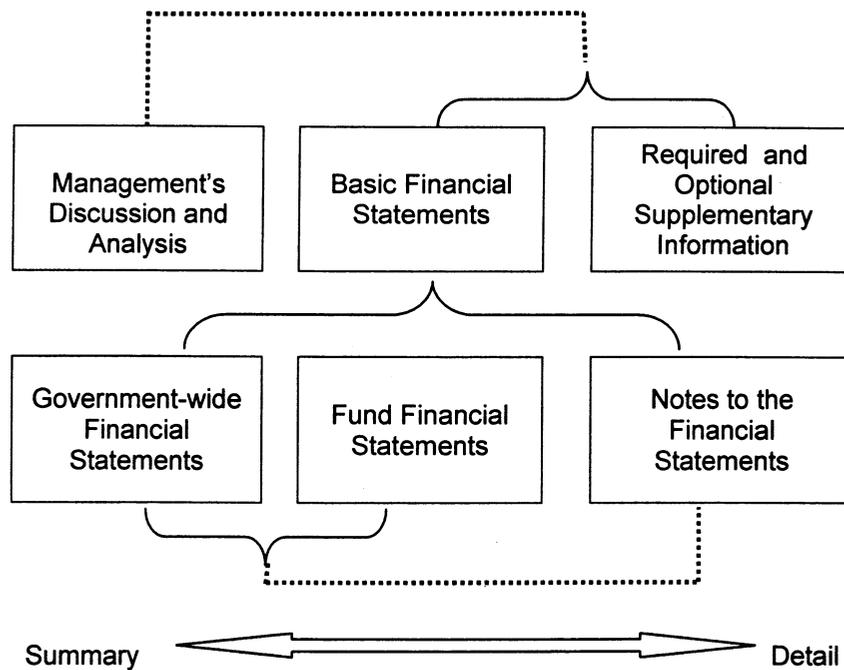
- The City's assets exceeded its liabilities at the close of the 2002 fiscal year by \$109,653. This amount represents an increase over the previous year by \$13,904. This increase in net assets is attributed to operating revenues exceeding operating expenses in the City's governmental funds. The largest part of the increase in the governmental funds is due to the addition of \$11,264 in capital assets from an annexation.
- As of December 31, 2002, the City's governmental funds reported combined ending fund balances of \$6,573, an increase of \$248.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$2,383, or 37.9% of total fund expenditures.
- At year-end, the City of Homer's outstanding debt totals \$9,432, an increase of \$1,658 from the previous year.

Overview of Financial Statements

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

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

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



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

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

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

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

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Homer's finances in a manner similar to a private-sector business. These statements can be located on pages 4-5 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 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 nine 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 these funds. Individual fund data for each of these minor funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for only the 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 an internal service fund to account for its self-insured health benefit.

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

Notes to the Financial Statements

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

Government-wide Financial Analysis

At the close of the 2002 fiscal year, the City's net assets (assets exceeding liabilities) totaled \$109,653 (see Table A-1). Of this amount \$99,127, or 90.4%, 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 balance of \$12 is the Library Permanent Fund. The unrestricted amount totals \$10,514, 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, both for the government as a whole, as well as for its separate governmental and business-type activities.

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

	Governmental Activities		Business-type Activities		Total	
	2001	2002	2001	2002	2001	2002
Current and other assets	\$6,986	\$7,686	\$9,260	\$5,915	\$16,246	\$13,601
Capital assets	23,963	35,915	68,901	72,078	92,864	107,993
Total assets	30,949	43,601	78,161	77,993	109,110	121,594
Long-term liabilities	2,772	2,905	4,962	6,526	7,734	9,431
Other liabilities	932	1,184	4,695	1,326	5,627	2,510
Total liabilities	3,704	4,089	9,657	7,852	13,361	11,941
Net assets:						
Invested in capital assets, net of related debt	44,564	33,369	63,938	65,758	108,502	99,127
Restricted	250	12	368	-	618	12
Unrestricted	(17,569)	6,131	4,198	4,383	(13,371)	10,514
Total net assets	\$27,245	\$39,512	\$68,504	\$70,141	\$95,749	\$109,653

As reflected in Table A-2, the City's net assets increased by \$13,904, or 14.5% during the 2002 fiscal year. The largest part of the increase in the governmental activities is due to the addition of \$11,264 in capital assets from the annexation. Revenues exceeded expenses in both the governmental and business-type activities. Key elements of the increases follow:

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

	Governmental Activities		Business-type Activities		Total	
	2001	2002	2001	2002	2001	2002
Revenues						
Program revenues:						
Charges for services	\$693	\$1,217	\$4,502	\$4,817	\$5,195	\$6,034
Operating grants & contributions	619	1,134	117	-	736	1,134
Capital grants & contributions	437	339	11,697	2,570	12,134	2,909
General revenues:						
Property taxes	1,503	1,601	-	-	1,503	1,601
Sales taxes	2,846	3,244	777	885	3,623	4,129
Other	538	391	441	285	979	676
Total Revenues	6,636	7,926	17,534	8,557	24,170	16,483
Expenses						
General government	1,199	989	-	-	1,199	989
Public safety	2,454	2,671	-	-	2,454	2,671
Public works	1,569	2,210	-	-	1,569	2,210
Library	344	348	-	-	344	348
Airport	168	128	-	-	168	128
Parks & recreation	377	457	-	-	377	457
Community service contributions	331	295	-	-	331	295
Unallocated interest	137	126	-	-	137	126
Port and harbor	-	-	3,036	3,093	3,036	3,093
Water and sewer utility	-	-	3,413	3,794	3,413	3,794
Total Expenses	6,579	7,224	6,449	6,887	13,028	14,111
Increase in net assets before special items and transfers						
	57	702	11,085	1,670	11,142	2,372
Special items	92	11,532	-	-	92	11,532
Transfers	(239)	33	239	(33)	-	-
Increase (decrease) in net assets	(90)	12,267	11,324	1,637	11,234	13,904
Net assets 1/1/02	27,335	27,245	57,180	68,504	84,515	95,749
Net assets 12/31/02	27,245	39,512	68,504	70,141	95,749	109,653

Governmental Activities

Governmental activities increased the City of Homer's net assets by \$12,267, which is due in part to revenues exceeding expenses. The largest part of the increase in the governmental funds is due to the addition of \$11,264 in capital assets from the annexation completed in March 2002. The increase in funding is a result of an increase in property and sales taxes due in part to the annexation, increased property values and moderate growth in our tourism industry. The City's sales tax collections in fiscal year 2002 were \$3,244, or 14.0% higher than amounts received

in 2001. Property taxes increased by \$98 or 6.5% from the previous year. These increases in revenue were conservatively anticipated in the City's 2002 budget. Despite the increases in revenue our program activities did not experience much growth as we had larger than anticipated increases in our insurance expense.

Property taxes reflect the increase in construction and assessed values and the completion of the annexation in March. The last few years have seen a definite increase in the building of homes and businesses. This is now being reflected in the collection of property taxes.

Each year the City of Homer receives less from the State of Alaska in the form of revenue sharing, as the State deals with its budget shortfalls. For 2002 the level of funding was not reduced. However, we were notified by the governor's office in June 2003 that he is ending the revenue sharing program over the next two years. The impact will hit the local property owner hardest, as the City will have to seek other means to balance the budget.

Contributions to service organizations is 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 \$120,000 and the second is pass through funds from the State of Alaska of \$8,757.

Business-Type Activities

The City's business-type activities resulted in a \$1,637 increase in net assets. Port and harbor activities contributed an increase of \$2,030 that was offset by a \$1,530 decline experienced by Utility (water and sewer) activities. Port and harbor program revenues in 2002 totaled \$5,122, including \$2,518 from capital grants. This is a decrease of \$9,190 from 2001, primarily caused by the significant decrease in capital grants which totaled \$11,653 for 2001. The Utility program revenues in 2002 totaled \$2,265, an increase of 13% over last year. The increase in net assets related to the Port and Harbor and Utility system were a result of:

- Utility operating revenues that were \$254 higher than the previous year due to an increased customer base and a rate increase in 2002,
- Utility sales tax revenues increased \$109 primarily as a result of the annexation which provided an increase in sales tax revenue for water-sewer debt payments; and,
- Port and harbor operating revenues were \$61 higher than the previous year due to an increased customer base as a result of the completion of the harbor expansion project and a rate increase in 2002,
- Port and harbor non-operating revenues decreased \$296. This is attributed to the reduction in investment income, due to the completion of the new \$12,000 Pioneer dock; and,
- Port and harbor capital grants and contributions were \$2,519 due to state and federal grants to complete the Pioneer dock and harbor expansion projects.

Financial Analysis of the Government's 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, 2002, the City's governmental funds reported combined ending fund balances of \$6,573, an increase of \$395 compared to balances a year earlier. Of the ending balance, \$2,383, or 36% is unreserved and undesignated and is available to the City for future spending. Most of the remaining fund balance is designated for future capital projects (\$3,497) or reserved for debt service (\$259) or inventory and prepaid items (\$224). The increase of total fund balance during the year is attributed to:

- In the General Fund, expenditures and transfers out to other funds totaled \$6,517 compared to revenues of \$6,890. The \$373 increase in fund balance, exclusive of the effect of a change in accounting principle, was actually more than the final budgeted increase of \$32.
- The City maintains three capital project funds that account for the use of bond proceeds and intergovernmental grants to support the construction of capital improvements. Financial resources in these funds are intended to eventually be totally expended once the capital improvements have been completed. During the course of the 2002 fiscal year, the fund balances of the three capital project funds were reduced by \$190.

Proprietary funds - The City of Homer's proprietary funds provide the same type of information found in the government-wide financial statements. Unrestricted net assets of the Port and Harbor Fund at the end of the fiscal year amounted to a deficit of \$181 while the Utility (water & sewer) Fund reported unrestricted net assets of \$4,655. Issues relating to these two funds were discussed in the preceding narrative of the City's business-type activities. The City also maintains an internal service fund to account for the self-insured employee health plan. At the end of 2002 there was a deficit in net assets of \$283. The plan is being reorganized in 2003 to bring revenues in line with the expenses.

General Fund Budgetary Highlights

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

- Recognizing the increase in sales and property tax revenues as a result of the annexation approved in March 2002, budgeted income from these sources increased by \$211 and \$139.
- Charges for service increase of \$923 is due to reclassifying administrative charges from transfers to charges for services in accordance with GASB 34.

- Allocations to various departments were made that resulted in a net increase to appropriations of \$260.
- Transfers to other funds were increased by \$57.

These adjustments resulted in increasing budgeted revenue (less the amount due to the reclassifying the charges for services) by 7.0% and increasing expenditures and other financing uses by 5.1%. The excess of revenues and other sources over expenditures and other uses was increased from a deficit of \$20 to a surplus of \$32. As noted earlier, the actual net change in fund balance was \$373, exclusive of the effect of a change in accounting principle.

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, 2002, totals \$107,993 (net of accumulated depreciation). This amount represents a \$10,563 increase over the previous year and is attributed primarily to the annexation completed in March 2002 and the completion of the new Pioneer dock.

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

	Governmental Activities		Business-Type Activities		Total	
	2001	2002	2001	2002	2001	2002
Land	\$1,830	\$8,671	\$15,361	\$15,361	\$17,191	\$24,032
Buildings	6,532	6,780	16,964	15,664	23,496	22,444
Improvements other than buildings	1,550	399	22,670	38,129	24,220	38,528
Machinery & equipment	2,763	1,935	489	606	3,252	2,541
Infrastructure	15,813	17,092	175	166	15,988	17,258
Construction in process	39	1,038	13,244	2,152	13,283	3,190
Total	28,527	35,915	68,903	72,078	97,430	107,993

Major capital asset events during the 2002 fiscal year included:

- Attributed primarily to the annexation completed in March 2002
- The completion of the new Pioneer dock.

Long-term debt - At the end of the 2002 fiscal year the City of Homer had total long-term debt outstanding of \$8,924. This excludes \$565 related to compensated absences and \$58 of deferred loss on refunding bonds.

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

	Governmental Activities		Business-Type Activities		Total	
	2001	2002	2001	2002	2001	2002
General obligation bonds	\$2,440	\$2,095	\$ -	\$ -	\$2,440	\$2,095
Revenue bonds	-	-	1,890	1,620	1,890	1,620
Special assessment bonds	32	26	-	-	32	26
Notes payable	-	-	3,132	4,758	3,132	4,758
Capital leases	262	425	-	-	262	425
Total	2,734	2,546	5,022	6,378	7,756	8,924

In November of 2002, the City entered into an agreement with the Alaska Department of Environmental Conservation for a Clean Water Loan and Drinking Water Loan in the amounts of \$3,431 and \$3,417, respectively. These loans are a combination of federal and state monies. However we did not draw down funds on these loans until January 2003, in the amounts of \$822, and \$780, respectively. Interest does not begin accruing until January 2004 and will be 2.5%.

The City of Homer issues bonded debt through the State of Alaska Bond Bank. The State of Alaska Bond Bank maintains a bond rating of "AA" from Standard & Poor's.

Economic Factors and Next Year's Budgets and Rates

- As noted earlier, the recent annexation and the steady growth of the local economy has resulted in an increase in sales tax and property tax revenues. For the fiscal year ended December 31, 2002, Homer's sales taxes and property taxes increased 13.96% and 11.74%, respectively.
- In June 2003 we were notified by the governors office that he is ending the state revenue sharing program over the next two years. This will be a reduction of approximately \$170 to the operating budget of the General Fund.

These various factors were taken into consideration in the development of the City's 2003 annual budget. An annual budget is adopted for the General Fund. Major aspects of the adopted 2003 budget include:

- The property tax rate held steady at a rate of 5 mil or \$.005 per \$100 appraised value. This amount was levied for the operation and maintenance activities in the General Fund. (Note: the preceding numbers are not reflected in \$000's of

- Insurance rates increased on average of 50%.

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

BASIC FINANCIAL STATEMENTS

CITY OF HOMER, ALASKA

Statement of Net Assets

December 31, 2002

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and investments	\$ 5,792,747	2,016,136	7,808,883
Receivables, net of allowance for uncollectible amounts:			
Accounts	66,585	259,221	325,806
Sales and property taxes	622,593	152,022	774,615
State and federal grants	539,950	2,295,314	2,835,264
Assessments	75,237	126,781	202,018
Accrued interest	-	2,409	2,409
Internal balances	364,600	(364,600)	-
Inventory	41,650	164,132	205,782
Prepaid items	182,323	78,569	260,892
Restricted cash and investments	-	573,483	573,483
Bond issuance costs, net	-	53,708	53,708
Litigation receivable	-	558,238	558,238
Capital assets, net of accumulated depreciation	<u>35,914,966</u>	<u>72,077,998</u>	<u>107,992,964</u>
 Total assets	 <u>43,600,651</u>	 <u>77,993,411</u>	 <u>121,594,062</u>
<u>Liabilities</u>			
Accounts payable	843,312	245,302	1,088,614
Accrued payroll and related liabilities	165,700	62,241	227,941
Accrued interest	-	34,532	34,532
Prepaid rentals and deposits	8,117	515,428	523,545
Deferred revenue	166,577	468,000	634,577
Noncurrent liabilities:			
Due within one year:			
Accrued leave	60,000	60,000	120,000
Bonds and notes payable	370,280	568,003	938,283
Capital lease obligations	82,685	-	82,685
Due in more than one year:			
Accrued leave	299,083	146,153	445,236
Notes payable	-	4,475,146	4,475,146
Bonds payable, net of deferred loss	1,751,087	1,277,235	3,028,322
Capital lease obligations	<u>341,916</u>	<u>-</u>	<u>341,916</u>
 Total liabilities	 <u>4,088,757</u>	 <u>7,852,040</u>	 <u>11,940,797</u>
<u>Net Assets</u>			
Investment in capital assets, net of related debt	33,368,998	65,757,614	99,126,612
Restricted for endowments	12,300	-	12,300
Unrestricted	<u>6,130,596</u>	<u>4,383,757</u>	<u>10,514,353</u>
 Total net assets	 <u>\$ 39,511,894</u>	 <u>70,141,371</u>	 <u>109,653,265</u>

CITY OF HOMER, ALASKA
Statement of Activities
Year Ended December 31, 2002

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
Governmental:							
General government	\$ 988,706	435,825	-	25,215	(527,666)	-	(527,666)
Public safety	2,670,840	471,059	581,045	132,689	(1,486,047)	-	(1,486,047)
Public works	2,210,010	75,590	514,522	-	(1,619,898)	-	(1,619,898)
Library	348,578	-	38,721	-	(309,857)	-	(309,857)
Airport	128,329	97,404	-	-	(30,925)	-	(30,925)
Parks and recreation	456,594	136,765	-	15,415	(304,414)	-	(304,414)
Community service contributions	294,809	-	-	166,056	(128,753)	-	(128,753)
Unallocated interest	126,462	-	-	-	(126,462)	-	(126,462)
Total governmental activities	7,224,328	1,216,643	1,134,288	339,375	(4,534,022)	-	(4,534,022)
Business-type:							
Port and harbor	3,092,600	2,603,535	-	2,518,630	-	2,029,565	2,029,565
Water and sewer utility	3,794,467	2,213,359	-	51,273	-	(1,529,835)	(1,529,835)
Total business-type activities	6,887,067	4,816,894	-	2,569,903	-	499,730	499,730
Total	\$ 14,111,395	6,033,537	1,134,288	2,909,278	(4,534,022)	499,730	(4,034,292)
General revenues:							
Taxes:							
Property taxes				\$ 1,601,450	-	1,601,450	
Sales taxes				3,243,410	884,600	4,128,010	
Grants and entitlements not restricted to a specific purpose				208,589	-	208,589	
Investment earnings				119,310	93,756	213,066	
Other				63,154	192,230	255,384	
Special items:							
Litigation settlement				268,048	-	268,048	
Annexation (receipt of capital assets)				11,264,053	-	11,264,053	
Transfers				32,620	(32,620)	-	
Total general revenues and transfers				16,800,634	1,137,966	17,938,600	
Changes in net assets				12,266,612	1,637,696	13,904,308	
Net assets at beginning of year, restated				27,245,282	68,503,675	95,748,957	
Net assets at end of year				\$ 39,511,894	70,141,371	109,653,265	

CITY OF HOMER, ALASKA

Balance Sheet
Governmental Funds
December 31, 2002

<u>Assets</u>	<u>General</u>	<u>City Facilities</u>	<u>Non-major Governmental</u>	<u>Total Governmental Funds</u>
Cash and investments	\$ 1,883,344	568,111	3,341,292	5,792,747
Receivables, net of allowance for uncollectible accounts:				
Property taxes	65,887	-	-	65,887
Sales taxes	404,684	-	152,022	556,706
Assessments	55,387	-	19,850	75,237
State and federal grants	2,562	537,388	-	539,950
Other	54,870	-	-	54,870
Due from other funds	470,222	-	-	470,222
Inventory	41,650	-	-	41,650
Prepaid items	182,323	-	-	182,323
 Total assets	 \$ <u>3,160,929</u>	 <u>1,105,499</u>	 <u>3,513,164</u>	 <u>7,779,592</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	217,866	250,930	276,120	744,916
Accrued payroll and related liabilities	165,272	428	-	165,700
Deferred revenues	107,605	105,009	19,850	232,464
Deferred assessments	55,387	-	-	55,387
Deposits	8,117	-	-	8,117
Total liabilities	<u>554,247</u>	<u>356,367</u>	<u>295,970</u>	<u>1,206,584</u>
Fund balances:				
Reserved:				
Endowments	-	-	12,300	12,300
Debt service	-	-	259,028	259,028
Inventory, prepaid items and other assets	223,973	-	-	223,973
Unreserved:				
General Fund	2,382,709	-	-	2,382,709
Special Revenue Funds - designated for library and fire department	-	-	197,792	197,792
Capital Project Funds - designated for capital outlay	-	749,132	2,748,074	3,497,206
Total fund balances	<u>2,606,682</u>	<u>749,132</u>	<u>3,217,194</u>	<u>6,573,008</u>
 Total liabilities and fund balances	 \$ <u>3,160,929</u>	 <u>1,105,499</u>	 <u>3,513,164</u>	 <u>7,779,592</u>

CITY OF HOMER, ALASKA
 Reconciliation of Governmental Funds Balance Sheet
 to Statement of Net Assets
 December 31, 2002

Total fund balances for governmental funds		\$ 6,573,008
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 the funds. These assets, net of accumulated depreciation consist of:		
Land	\$ 8,670,713	
Buildings	6,780,232	
Improvements other than buildings	399,172	
Infrastructure	17,091,510	
Machinery and equipment	1,935,560	
Construction in progress	<u>1,037,779</u>	
Total capital assets		35,914,966
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		121,274
Internal service funds are used by the City to charge the cost of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.		(192,303)
Long-term liabilities, including bonds payable and accrued vacation, are not due and payable in the current period and therefore are not reported as fund liabilities. These liabilities consist of:		
General obligation bonds payable	(2,095,000)	
Capital lease obligations	(424,601)	
Special assessment bonds payable	(26,367)	
Accrued leave	<u>(359,083)</u>	
Total long term liabilities		<u>(2,905,051)</u>
Total net assets of governmental activities		\$ <u>39,511,894</u>

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2002

	<u>General</u>	<u>City Facilities</u>	<u>Non-major Governmental</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 1,603,317	-	-	1,603,317
Sales taxes	2,358,810	-	884,600	3,243,410
Licenses and permits	17,000	-	-	17,000
Intergovernmental	765,845	808,393	-	1,574,238
Charges for services	2,045,851	-	-	2,045,851
Special assessments	18,197	-	25,215	43,412
Investment and other interest income	45,387	21,807	52,116	119,310
Fines and forfeitures	35,577	-	-	35,577
Donations	-	-	77,081	77,081
Other	-	101,833	268,048	369,881
Total revenues	<u>6,889,984</u>	<u>932,033</u>	<u>1,307,060</u>	<u>9,129,077</u>
Expenditures:				
Current:				
General government	1,688,822	36,082	-	1,724,904
Public safety	2,427,407	57,913	41,784	2,527,104
Public works	1,040,359	503,090	77,184	1,620,633
Library	331,765	2,217	-	333,982
Airport	124,311	-	-	124,311
Parks and recreation	386,188	21,794	-	407,982
Community service contributions	128,757	166,052	-	294,809
Debt service:				
Principal payments	137,625	-	350,280	487,905
Interest	22,613	-	103,849	126,462
Capital projects	-	1,121,035	444,660	1,565,695
Total expenditures	<u>6,287,847</u>	<u>1,908,183</u>	<u>1,017,757</u>	<u>9,213,787</u>
Excess of revenues over (under) expenditures	602,137	(976,150)	289,303	(84,710)
Other financing sources (uses):				
Transfers from other funds	-	153,522	608,504	762,026
Transfers to other funds	(229,522)	-	(499,884)	(729,406)
Proceeds from issuance of capital lease	-	-	300,000	300,000
Net other financing sources (uses)	<u>(229,522)</u>	<u>153,522</u>	<u>408,620</u>	<u>332,620</u>
Net change in fund balances	372,615	(822,628)	697,923	247,910
Fund balances at beginning of year	2,086,810	1,571,760	2,519,271	6,177,841
Cumulative effect of a change in accounting principle	147,257	-	-	147,257
Fund balances at end of year	<u>\$ 2,606,682</u>	<u>749,132</u>	<u>3,217,194</u>	<u>6,573,008</u>

CITY OF HOMER, ALASKA
 Reconciliation of the Change in Fund Balances of Governmental Funds
 to Statement of Activities
 Year Ended December 31, 2002

Net change in fund balances - total governmental funds	\$ 247,910
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 capital outlays (\$1,667,620) exceeded depreciation (\$979,557).	688,063
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(20,064)
Issuance of long-term debt (\$300,000) provides current financial resources to governmental funds, while the repayment of the principal of the long-term debt (\$525,643) consumes current financial resources in governmental funds. Neither of these transactions has any effect on net assets.	225,643
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.	(54,695)
Internal service funds are used by management to charge the costs of health insurance to individual funds. Net expense of these activities is reported with governmental activities.	(84,298)
Capital assets, acquired through annexation, are not recorded in the fund financial statements.	<u>11,264,053</u>
Change in net assets of governmental activities	\$ <u>12,266,612</u>

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual - General Fund
Year Ended December 31, 2002

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 3,586,433	3,882,860	3,962,127	79,267
Licenses and permits	6,900	6,900	17,000	10,100
Intergovernmental	695,471	759,437	765,845	6,408
Charges for services	890,635	1,813,380	2,045,851	232,471
Special assessments	-	-	18,197	18,197
Investment income	82,200	82,200	45,387	(36,813)
Fines and forfeitures	25,600	25,600	35,577	9,977
Total revenues	<u>5,287,239</u>	<u>6,570,377</u>	<u>6,889,984</u>	<u>319,607</u>
Expenditures:				
General government	1,663,705	1,722,692	1,688,822	33,870
Public safety	2,383,167	2,427,060	2,427,407	(347)
Public works	1,016,932	1,033,445	1,040,359	(6,914)
Library	333,362	333,362	331,765	1,597
Airport	125,255	125,255	124,311	944
Parks and recreation	303,110	378,769	386,188	(7,419)
Community service contributions	128,400	128,400	128,757	(357)
Debt service:				
Principal payments	95,337	137,839	137,625	214
Interest	-	22,399	22,613	(214)
Total expenditures	<u>6,049,268</u>	<u>6,309,221</u>	<u>6,287,847</u>	<u>21,374</u>
Excess of revenues over (under) expenditures	(762,029)	261,156	602,137	340,981
Other financing sources (uses):				
Operating transfers from other funds	914,746	-	-	-
Operating transfers to other funds	(172,717)	(229,522)	(229,522)	-
Net other financing sources (uses)	<u>742,029</u>	<u>(229,522)</u>	<u>(229,522)</u>	<u>-</u>
Net change in fund balance	(20,000)	31,634	372,615	340,981
Fund balance at beginning of year	1,761,031	2,086,810	2,086,810	-
Cumulative effect of a change in accounting principle	-	-	147,257	147,257
Fund balance at end of year	<u>\$ 1,741,031</u>	<u>2,118,444</u>	<u>2,606,682</u>	<u>488,238</u>

CITY OF HOMER, ALASKA
Statement of Net Assets
Proprietary Funds
December 31, 2002

<u>Assets</u>	<u>Enterprise Funds</u>			<u>Internal Service Fund</u>
	<u>Port of Homer</u>	<u>Water and Sewer Utility</u>	<u>Total</u>	
Current assets:				
Cash and investments	\$ -	2,016,136	2,016,136	-
Receivables, net of allowance for uncollectible amounts:				
Accounts	100,173	153,513	253,686	17,251
Sales taxes	-	152,022	152,022	-
Assessments due within one year	-	28,668	28,668	-
State and federal grants	282,042	2,013,272	2,295,314	-
Litigation settlement	100,000	-	100,000	-
Accrued interest	-	2,409	2,409	-
Inventory	30,491	133,641	164,132	-
Prepaid items	33,792	44,777	78,569	-
Noncurrent assets:				
Restricted assets - cash and investments	269,612	303,871	573,483	-
Assessments due after one year	-	98,113	98,113	-
Bond issuance costs, net	37,316	16,392	53,708	-
Litigation settlement, net of current portion	458,238	-	458,238	-
Capital assets, net of accumulated depreciation	<u>48,398,584</u>	<u>23,679,414</u>	<u>72,077,998</u>	<u>-</u>
Total assets	<u>49,710,248</u>	<u>28,642,228</u>	<u>78,352,476</u>	<u>17,251</u>
<u>Liabilities</u>				
Current liabilities:				
Accounts payable	63,106	135,703	198,809	144,890
Accrued payroll and related liabilities	33,104	29,137	62,241	-
Accrued leave	113,881	92,272	206,153	-
Accrued interest	12,105	22,427	34,532	-
Current portion of long-term debt	145,000	423,003	568,003	-
Prepaid rentals and deposits	487,500	27,928	515,428	-
Due to other funds	314,693	-	314,693	155,529
Deferred revenue	18,000	-	18,000	-
Total current liabilities	<u>1,187,389</u>	<u>730,470</u>	<u>1,917,859</u>	<u>300,419</u>
Noncurrent liabilities:				
Deferred lease revenue	450,000	-	450,000	-
Long-term debt, net of current portion:				
Notes payable	-	4,475,146	4,475,146	-
Revenue bonds payable, net of deferred loss	<u>962,250</u>	<u>314,985</u>	<u>1,277,235</u>	<u>-</u>
Total liabilities	<u>2,599,639</u>	<u>5,520,601</u>	<u>8,120,240</u>	<u>300,419</u>
<u>Net Assets</u>				
Invested in capital assets, net of related debt	47,291,334	18,466,280	65,757,614	-
Unrestricted (deficit)	<u>(180,725)</u>	<u>4,655,347</u>	<u>4,474,622</u>	<u>(283,168)</u>
Total net assets	<u>\$ 47,110,609</u>	<u>23,121,627</u>	<u>70,232,236</u>	<u>(283,168)</u>
Some amounts reported in the business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are included in business-type activities			<u>(90,865)</u>	
Net assets of business-type activities			<u>\$ 70,141,371</u>	

CITY OF HOMER, ALASKA
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended December 31, 2002

	Enterprise Funds			Internal Service Fund
	Port of Homer	Water and Sewer Utility	Total	
Operating revenues- charges for services:				
Port	\$ 2,603,535	-	2,603,535	-
Water and sewer	-	2,213,359	2,213,359	-
Interfund insurance charges	-	-	-	633,424
Total operating revenues	<u>2,603,535</u>	<u>2,213,359</u>	<u>4,816,894</u>	<u>633,424</u>
Operating expenses:				
Operations	1,355,545	1,039,984	2,395,529	-
Administration	724,993	949,020	1,674,013	43,202
Depreciation	925,553	1,610,338	2,535,891	-
Claims	-	-	-	513,297
Insurance premiums	-	-	-	199,017
Total operating expenses	<u>3,006,091</u>	<u>3,599,342</u>	<u>6,605,433</u>	<u>755,516</u>
Operating loss	(402,556)	(1,385,983)	(1,788,539)	(122,092)
Nonoperating revenues (expenses):				
Investment income	33,855	59,901	93,756	-
Interest expense	(58,950)	(103,454)	(162,404)	-
Litigation settlement	58,259	-	58,259	-
Amortization of bond issuance costs	(5,331)	(5,098)	(10,429)	-
Sales taxes	-	884,600	884,600	-
Other income	108,874	25,097	133,971	-
Other expenses	-	(71,008)	(71,008)	-
Net nonoperating revenues (expenses)	<u>136,707</u>	<u>790,038</u>	<u>926,745</u>	<u>-</u>
Loss before contributions and transfers	(265,849)	(595,945)	(861,794)	(122,092)
Capital contributions	2,518,630	51,273	2,569,903	-
Transfers in	82,630	-	82,630	-
Transfers out	-	(115,250)	(115,250)	-
Change in net assets	2,335,411	(659,922)	1,675,489	(122,092)
Net assets (deficit) at beginning of year	<u>44,775,198</u>	<u>23,781,549</u>		<u>(161,076)</u>
Net assets (deficit) at end of year	<u>\$ 47,110,609</u>	<u>23,121,627</u>		<u>(283,168)</u>

Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities

(37,793)

Change in net assets of business-type activities

\$ 1,637,696

CITY OF HOMER, ALASKA

Statement of Cash Flows

Proprietary Funds

Year Ended December 31, 2002

	Enterprise Funds			Internal Service Fund
	Port of Homer	Water and Sewer Utility	Total	
Cash flows from operating activities:				
Receipts from customers and users	\$ 2,831,128	2,190,333	5,021,461	-
Receipts from interfund services provided	58,259	-	58,259	643,200
Payments to suppliers	(1,832,362)	(1,171,247)	(3,003,609)	-
Payments to employees	(1,054,177)	(828,968)	(1,883,145)	-
Payments for interfund services used	-	-	-	(692,993)
Net cash provided by operating activities	<u>2,848</u>	<u>190,118</u>	<u>192,966</u>	<u>(49,793)</u>
Cash flows from noncapital financing activities - increase in due to other funds	-	-	-	49,793
Cash flows from capital and related financing activities:				
Principal payments on long-term debt	(148,762)	(429,424)	(578,186)	-
Interest payments on long-term debt and interfund borrowing	(54,317)	(100,749)	(155,066)	-
Acquisition of property, plant and equipment	(3,688,406)	(2,024,776)	(5,713,182)	-
Increase (decrease) in due to other funds	(584,325)	-	(584,325)	-
Decrease in deferred revenue	(2,501,997)	-	(2,501,997)	-
Capital contributions received	3,757,009	3,058	3,760,067	-
Principal collections on special assessments	-	90,423	90,423	-
Sales tax revenue received	-	864,639	864,639	-
Transfer in	82,630	-	82,630	-
Transfer out	-	(115,250)	(115,250)	-
Refund of deferred charge	-	75,250	75,250	-
Net cash flows from capital and related financing activities	<u>(3,138,168)</u>	<u>(1,636,829)</u>	<u>(4,774,997)</u>	<u>-</u>
Cash flows from investing activities:				
Investment income received	33,855	60,808	94,663	-
Payments received on note	-	38,929	38,929	-
Net cash flows from investing activities	<u>33,855</u>	<u>99,737</u>	<u>133,592</u>	<u>-</u>
Net decrease in cash and cash equivalents	(3,101,465)	(1,346,974)	(4,448,439)	-
Cash and cash equivalents at beginning of year	<u>3,371,077</u>	<u>3,666,981</u>	<u>7,038,058</u>	<u>-</u>
Cash and cash equivalents at end of year	\$ <u>269,612</u>	<u>2,320,007</u>	<u>2,589,619</u>	<u>-</u>
Cash and cash equivalents at end of year:				
Cash and investments	-	2,016,136	2,016,136	-
Cash and investments restricted for debt service and capital projects	<u>269,612</u>	<u>303,871</u>	<u>573,483</u>	<u>-</u>
	\$ <u>269,612</u>	<u>2,320,007</u>	<u>2,589,619</u>	<u>-</u>

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

	<u>Enterprise Funds</u>			<u>Internal Service Fund</u>
	<u>Port of Homer</u>	<u>Water and Sewer Utility</u>	<u>Total</u>	
Reconciliation of operating loss to net cash provided (used) by operating activities:				
Operating loss	\$ (402,556)	(1,385,983)	(1,788,539)	(122,092)
Adjustments to reconcile operating loss to net cash flows from operating activities:				
Depreciation	925,553	1,610,338	2,535,891	-
Increase (decrease) in allowance for doubtful accounts	(3,430)	2,094	(1,336)	-
Amortization of deferred lease revenue	(18,000)	-	(18,000)	-
Litigation settlement	58,259	-	58,259	-
Miscellaneous nonoperating revenues	108,874	25,097	133,971	-
Miscellaneous nonoperating expenses	-	(71,008)	(71,008)	-
(Increase) decrease in assets:				
Receivables	48,093	(48,123)	(30)	9,776
Inventory	(15,759)	(12,363)	(28,122)	-
Prepaid items	(10,534)	(21,213)	(31,747)	-
Litigation settlement receivable	62,742	-	62,742	-
Increase (decrease) in liabilities:				
Accounts payable	(824,138)	34,299	(789,839)	62,523
Accrued liabilities	23	2,942	2,965	-
Accrued leave	18,734	51,444	70,178	-
Prepaid rentals and deposits	54,987	2,594	57,581	-
Net cash flows from operating activities	\$ <u>2,848</u>	<u>190,118</u>	<u>192,966</u>	<u>(49,793)</u>

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements

December 31, 2002

(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. The City 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 (GASB) Statement No. 14, *The Financial Reporting Entity*, and determined that the City has no component units as defined in that statement.

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 considers revenues to be available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only to the extent they have matured.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major funds –

Major governmental funds:

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

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

Major proprietary funds:

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

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

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

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

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

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are allocated administration fees and charges between the enterprise funds and the various other funds and departments. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. In addition, general revenues include all taxes (including the City's dedicated sales taxes), investment income, and State of Alaska 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.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

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.

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."

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

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 revenues of the General Fund.

Unbilled Service Revenues

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

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.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

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.

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.

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.

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

Compensated absences

The City allows employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees terminate employment. All vacation pay 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 or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Long-Term Debt, continued

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

Fund Equity

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

Comparative Data

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

(2) Interfund Receivables, Payables, and Transfers

A schedule of interfund balances and transfers for the year ended December 31, 2002, follows:

Due from other funds:

Due to the General Fund from the Port of Homer Enterprise Fund for advances to cover the cost of construction	\$ 314,693
Due to the General Fund from the Internal Service Fund for advances to cover the operating costs of the fund	<u>155,529</u>
Total amount due from other funds	\$ <u>470,222</u>

Transfers:

From Reserve Allocation Capital Project Fund to Port Enterprise Fund for fleet purchases	\$ 82,630
From Water and Sewer Enterprise Fund to Reserve Allocation Capital Project Fund for fleet purchases	115,250
From General Fund to City Facilities Capital Project Fund to cover capital costs	153,522
From General Fund to nonmajor governmental funds to cover capital costs	46,000
From General Fund to nonmajor governmental funds to cover debt service costs	30,000
Other transfers between nonmajor governmental funds	<u>417,254</u>
Total transfers to other funds	\$ <u>844,656</u>

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

(3) **Cash and Investments**

The City maintains 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."

Deposits are categorized below to give an indication of the level of risk assumed by the City at year end.

Category 1 – Insured or collateralized with securities held by the City or its agent in the City's name.

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 – Uncollateralized, including bank balances collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the City's name.

At December 31, 2002, the City's deposits are categorized as follows:

	<u>Category</u>			<u>Bank</u>	<u>Carrying</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Balance</u>	<u>Amount</u>
Petty cash	\$ -	-	-	-	3,840
Checking accounts	45,994	-	-	45,994	(166,410)
Certificates of deposit	3,391,803	14,594	-	3,410,897	3,410,897
Money market account	<u>178,514</u>	<u>5,014</u>	<u>-</u>	<u>183,528</u>	<u>183,527</u>
Totals	<u>\$ 3,616,311</u>	<u>19,608</u>	<u>-</u>	<u>3,640,419</u>	<u>3,431,854</u>

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.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Cash and Investments, continued

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.

The Alaska Municipal League Investment Pool is an external investment pool which is not SEC registered. Alaska Statute 37.23 establishes regulatory oversight of the pool. The law sets forth numerous requirements regarding authorized investments and reporting. At December 31, 2002, the share value of investments in the AML pool is approximately equal to fair value.

Investments which are carried at fair value are categorized below to give an indication of the level of credit risk assumed by the City at year end.

Category 1 – Insured or registered, or securities held by the City or its agent in the City's name.

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

Category 3 – Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the City's name.

At December 31, 2002, the City's investments are categorized as follows:

	<u>Category</u>			
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Fair Value</u>
Government securities	\$ 672,450	-	-	672,450
Commercial paper	1,227,822	-	-	1,227,822
Mortgage-backed securities	405,036	-	-	405,036
Corporate bonds	925,453	-	-	925,453
Overnight repurchase agreement	<u>-</u>	<u>658,671</u>	<u>-</u>	<u>658,671</u>
Totals	<u>\$ 3,230,761</u>	<u>658,671</u>	<u>-</u>	3,889,432
Alaska Municipal League Investment Pool				<u>1,061,080</u>
Total investments				<u>\$ 4,950,512</u>

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Cash and Investments, continued

Restricted Cash

The City maintains bond redemption and reserve accounts as required by the bond covenants and City ordinances. The City has also restricted funds that are earmarked for capital projects. The balances in these accounts at December 31, 2002 totaled \$573,483 and are included in the central treasury.

A reconciliation of cash and investments as shown on the government-wide statement of net assets follows:

Cash and investments	\$ 7,808,883
Restricted assets – cash and investments	<u>573,483</u>
	<u>\$ 8,382,366</u>

(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, 2002, receivables for the government's individual major funds and nonmajor and internal service funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>City Facilities</u>	<u>Port of Homer</u>	<u>Water and Sewer</u>	<u>Nonmajor and other funds</u>	<u>Total</u>
Receivables:						
Accounts	\$ 54,870	-	136,625	160,559	17,250	369,304
Taxes	542,634	-	-	152,022	152,022	846,678
State and federal grants	2,562	537,388	282,042	2,013,272	-	2,835,264
Special assessments	55,387	-	-	126,781	19,850	202,018
Interest	-	-	-	2,409	-	2,409
Litigation settlement	-	-	<u>558,238</u>	-	-	<u>558,238</u>
Total receivables	<u>655,453</u>	<u>537,388</u>	<u>976,905</u>	<u>2,455,043</u>	<u>189,122</u>	<u>4,813,911</u>
Less: allowance for uncollectibles	<u>(72,063)</u>	<u>-</u>	<u>(36,452)</u>	<u>(7,046)</u>	<u>-</u>	<u>(115,561)</u>
Net total receivables	<u>\$ 583,390</u>	<u>537,388</u>	<u>940,453</u>	<u>2,447,997</u>	<u>189,122</u>	<u>4,698,350</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, 2002, the various components of *deferred revenue* reported in the governmental funds were as follows:

Delinquent property taxes receivable (General Fund)	\$ 65,887
Delinquent ambulance receivable (General Fund)	33,526
Special assessments not yet due (General Fund)	55,387
Special assessments not yet due (Debt Service Funds)	19,850
Grant drawdowns prior to meeting all eligibility requirements	<u>113,201</u>
Total deferred/unearned revenue for governmental funds	<u>\$ 287,851</u>

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

(5) **Capital Assets**

Capital asset activity for the year ended December 31, 2002 follows:

	Balance January 1, 2002	Additions and Reclassifications	Deletions and Reclassifications	Balance December 31, 2002
<u>Governmental activities</u>				
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 1,830,179	6,853,931	13,397	8,670,713
Construction in progress	<u>38,762</u>	<u>999,017</u>	<u>-</u>	<u>1,037,779</u>
Total assets not being depreciated	<u>1,868,941</u>	<u>7,852,948</u>	<u>13,397</u>	<u>9,708,492</u>
<i>Capital assets being depreciated:</i>				
Buildings	8,675,217	496,545	19,079	9,152,683
Improvements other than buildings	1,847,207	-	1,125,963	721,244
Machinery and equipment	3,998,570	668,602	1,310,253	3,356,919
Infrastructure	<u>23,173,863</u>	<u>1,818,592</u>	<u>-</u>	<u>24,992,455</u>
Total assets being depreciated	\$ <u>37,694,857</u>	<u>2,983,739</u>	<u>2,455,295</u>	<u>38,223,301</u>
Less accumulated depreciation for:				
Buildings	\$ 2,142,872	229,579	-	2,372,451
Improvements other than buildings	297,194	24,878	-	322,072
Machinery and equipment	1,235,887	185,472	-	1,421,359
Infrastructure	<u>7,361,317</u>	<u>539,628</u>	<u>-</u>	<u>7,900,945</u>
Total accumulated depreciation	<u>11,037,270</u>	<u>979,557</u>	<u>-</u>	<u>12,016,827</u>
Total capital assets being depreciated, net	<u>26,657,587</u>	<u>2,004,182</u>	<u>2,455,295</u>	<u>26,206,474</u>
Governmental activity capital assets, net	\$ <u>28,526,528</u>	<u>9,857,130</u>	<u>2,468,692</u>	<u>35,914,966</u>
<u>Business-type activities:</u>				
Port and Harbor				
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 15,254,041	-	-	15,254,041
Construction in progress	<u>13,056,134</u>	<u>3,437,525</u>	<u>16,493,659</u>	<u>-</u>
Total assets not being depreciated	<u>28,310,175</u>	<u>3,437,525</u>	<u>16,493,659</u>	<u>15,254,041</u>
<i>Capital assets being depreciated:</i>				
Buildings	12,460,649	20,632	-	12,481,281
Improvements other than buildings	17,165,403	16,507,294	-	33,672,697
Machinery and equipment	<u>2,358,951</u>	<u>213,819</u>	<u>-</u>	<u>2,572,770</u>
Total assets being depreciated	<u>31,985,003</u>	<u>16,741,745</u>	<u>-</u>	<u>48,726,748</u>
Less accumulated depreciation for:				
Buildings	4,979,934	278,979	-	5,258,913
Improvements other than buildings	7,612,453	531,536	-	8,143,989
Machinery and equipment	<u>2,064,265</u>	<u>115,038</u>	<u>-</u>	<u>2,179,303</u>
Total accumulated depreciation	<u>14,656,652</u>	<u>925,553</u>	<u>-</u>	<u>15,582,205</u>
Total capital assets being depreciated, net	\$ <u>17,328,351</u>	<u>15,816,192</u>	<u>-</u>	<u>33,144,543</u>

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Capital Assets, continued

	Balance January 1, <u>2002</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2002</u>
<u>Business-type activities, continued:</u>				
Water and sewer utility:				
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 107,239	-	-	107,239
Construction in progress	<u>187,584</u>	<u>1,964,610</u>	-	<u>2,152,194</u>
Total assets not being depreciated	<u>294,823</u>	<u>1,964,610</u>	-	<u>2,259,433</u>
<i>Capital assets being depreciated:</i>				
Infrastructure	510,069	5,267	-	515,336
Buildings	21,497,692	-	-	21,497,692
Improvements other than buildings	22,413,957	-	-	22,413,957
Machinery and equipment	<u>953,805</u>	<u>54,900</u>	-	<u>1,008,705</u>
Total assets being depreciated	<u>45,375,523</u>	<u>60,167</u>	-	<u>45,435,690</u>
Less accumulated depreciation for:				
Infrastructure	334,605	14,917	-	349,522
Buildings	12,014,004	1,042,315	-	13,056,319
Improvements other than buildings	9,297,138	516,512	-	9,813,650
Machinery and equipment	<u>759,623</u>	<u>36,595</u>	-	<u>796,218</u>
Total accumulated depreciation	<u>22,405,370</u>	<u>1,610,339</u>	-	<u>24,015,709</u>
Total capital assets being depreciated, net	<u>22,970,153</u>	<u>(1,550,172)</u>	-	<u>21,419,981</u>
Business-type activity capital assets, net	\$ <u>68,903,502</u>	<u>19,668,155</u>	<u>16,493,659</u>	<u>72,077,998</u>

Depreciation expense was charged to the functions as follows:

General government	\$ 164,245
Public safety	140,602
Public works	626,424
Library	23,460
Airport	1,087
Parks and recreation	23,740
Community service	-
Port and harbor	925,553
Water and sewer utility	<u>1,610,338</u>
Total depreciation expense	\$ <u>3,515,449</u>

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Capital Assets, continued

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 deferred revenue is as follows:

Original cost assigned to building	\$ 630,000
Revenue recognized	<u>(162,000)</u>
	\$ <u>468,000</u>
Current deferred revenue	\$ 18,000
Noncurrent deferred revenue	<u>450,000</u>
	\$ <u>468,000</u>

(6) **Long-Term Obligations**

The following is a summary of long-term obligation transactions of the City for the year ended December 31, 2002:

	Balance January 1, <u>2002</u>	<u>Additions</u>	<u>Retired</u>	Balance December 31, <u>2002</u>
<u>Governmental activities:</u>				
General obligation bonds:				
\$3,095,000 1998 street and sidewalk general obligation refunding bonds, due in future annual installments of \$365,000 to \$475,000 plus interest at 4% to 4.375% through January 1, 2008	\$ 2,440,000	-	345,000	2,095,000
Special assessment bonds:				
\$105,567 1987 street special assessment bonds, due in future annual installments of \$5,280 plus interest at 6.375% through 2006, with the balance of \$5,247 due in 2007	31,647	-	5,280	26,367
Capital lease obligations:				
Capital lease obligation payable, (paid off in 2002)	31,191	-	31,191	-

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Long-Term Obligations, continued

	Balance January 1, <u>2002</u>	<u>Additions</u>	<u>Retired</u>	Balance December 31, <u>2002</u>
<u>Governmental activities, continued:</u>				
Capital lease obligation payable in various monthly amounts including interest at 4.57%	\$ 231,035	-	51,624	179,411
Capital lease obligation payable in quarterly installments of \$16,814, including interest at 4.45% through 2006	-	300,000	54,810	245,190
Compensated absences	<u>304,389</u>	<u>245,960</u>	<u>191,266</u>	<u>359,083</u>
Total governmental activities long-term liabilities	\$ <u>3,038,262</u>	<u>545,960</u>	<u>679,171</u>	<u>2,905,051</u>
<u>Business-type activities:</u>				
Revenue bonds:				
\$1,595,000 1998 port revenue refunding bonds, due in future annual installments of \$145,000 to \$185,000 plus interest at 4% to 4.5% through October 1, 2009	\$ 1,290,000	-	140,000	1,150,000
\$225,000 1998 water revenue refunding bonds, due in a future installment of \$60,000 plus interest at 4% in October 1, 2003	115,000	-	55,000	60,000
\$705,000 1998 sewer revenue refunding bonds, due in future annual installments of \$80,000 to \$85,000 plus interest at 4% to 4.3% through October 1, 2007	485,000	-	75,000	410,000
Notes payable:				
\$5,064,500 1989 Sewer Utility Alaska Clean Water loan, due in future annual installments of \$353,433 including interest at 2.5% through September 30, 2011	3,093,265	-	276,101	2,817,164
\$117,015 note payable from Water enterprise fund to Sewer enterprise fund (both funds consolidated in 2002 and loan paid off)	23,403	-	23,403	-

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Long-Term Obligations, continued

	Balance January 1, <u>2002</u>	<u>Additions</u>	<u>Retired</u>	Balance December 31, <u>2002</u>
<u>Business-type activities, continued:</u>				
\$77,631 note payable from Sewer Enterprise fund to Water Enterprise Fund (both funds consolidated in 2002 and loan paid off)	\$ 15,527	-	15,527	-
\$3,431,113 (maximum) 2002 Sewer Utility Alaska Clean Water loan, terms not yet established; interest at 2.5%	-	990,208	-	990,208
\$3,416,605 (maximum) 2002 Water Utility Alaska Drinking Water loan, terms not yet established; interest at 2.5%	-	950,778	-	950,778
Compensated absences	<u>135,975</u>	<u>172,207</u>	<u>102,029</u>	<u>206,153</u>
Total business-type activities long-term liabilities	\$ <u>5,158,170</u>	<u>2,113,193</u>	<u>687,060</u>	6,584,303
Less deferred loss on refunding				<u>(57,766)</u>
				\$ <u>6,526,537</u>

In November of 2002, the City entered into an agreement with the Alaska Department of Environmental Conservation for a Clean Water Loan and a Drinking Water Loan in the amounts of \$3,431,113 and \$3,416,603, respectively. These loans are a combination of federal and state monies. However, they did not draw down funds on these loans until January 2003, in the amounts of \$821,873 and \$779,638, respectively. Interest does not begin accruing until January 2004 and will be at 2.5%.

Annual debt service requirements to maturity for all of the above obligations except for the 2002 Clean Water loan and Drinking Water loan follow:

Governmental activities:

Year Ending <u>December 31,</u>	<u>General Obligation Bonds</u>			<u>Special Assessment Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 365,000	88,454	453,454	5,280	1,681	6,961
2004	390,000	73,854	463,854	5,280	1,344	6,624
2005	420,000	57,766	477,766	5,280	1,008	6,288
2006	445,000	39,916	484,916	5,280	671	5,951
2007	<u>475,000</u>	<u>20,781</u>	<u>495,781</u>	<u>5,247</u>	<u>334</u>	<u>5,581</u>
	\$ <u>2,095,000</u>	<u>280,771</u>	<u>2,375,771</u>	<u>26,367</u>	<u>5,038</u>	<u>31,405</u>

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Long-Term Obligations, continued

Business-type activities:

Year Ending December 31,	<u>Revenue Bonds</u>			<u>Notes Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 285,000	68,084	353,084	283,003	70,430	353,433
2004	230,000	56,684	286,684	290,079	63,354	353,433
2005	235,000	47,484	282,484	297,331	56,102	353,433
2006	250,000	37,790	287,790	304,764	48,669	353,433
2007	255,000	27,165	282,165	312,383	41,050	353,433
2008-2011	<u>365,000</u>	<u>24,525</u>	<u>389,525</u>	<u>1,329,604</u>	<u>84,125</u>	<u>1,413,729</u>
	\$ <u>1,620,000</u>	<u>261,732</u>	<u>1,881,732</u>	<u>2,817,164</u>	<u>363,730</u>	<u>3,180,894</u>

(7) **Revenue Bond Requirements**

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

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

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

	<u>Port of Homer</u>	<u>Water and Sewer Utility</u>
Operating income before depreciation	\$ 522,997	224,355
Add sales tax revenue dedicated for debt service	-	<u>884,600</u>
Available for debt requirement	522,997	1,108,955
Requirement	<u>(242,145)</u>	<u>(215,146)</u>
Excess of revenue over requirement	\$ <u>280,852</u>	<u>893,809</u>

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

(8) Capital Leases

The City leases capital equipment with a historical cost and accumulated depreciation of \$580,366 and \$155,765, respectively, under capital lease arrangements. Future minimum lease payments at December 31, 2002 are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2003	\$ 100,416
2004	100,416
2005	100,416
2006	100,416
2007	33,162
2008-2009	<u>41,451</u>
Total minimum lease payments	476,277
Less amount representing interest	<u>51,676</u>
 Present value of minimum lease payments	 \$ <u>424,601</u>

(9) Accounting for Health Self-Insurance

The City provides health insurance on a self-insured basis up to \$15,000 each occurrence or \$525,635 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. A schedule of the changes in the claims liability for the years ended December 31, 2001 and 2002 follows:

	<u>Balance at</u> <u>Beginning</u> <u>of Year</u>	<u>Claims</u> <u>Expense</u>	<u>Claims</u> <u>Paid</u>	<u>Balance at</u> <u>End of</u> <u>Year</u>
2001 health insurance	\$ <u>56,213</u>	<u>444,391</u>	<u>418,237</u>	<u>82,367</u>
2002 health insurance	\$ <u>82,367</u>	<u>513,297</u>	<u>450,774</u>	<u>144,890</u>

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

(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, 2002.

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 Balance is sufficient to meet potential losses related to the JIA basic core coverage and coverage deductibles.

(11) **Defined Benefit Pension Plan**

Description of Plan

The City participates in the Public Employees' Retirement System (PERS), an agent multiple employer plan which covers eligible State and local government employees. The plan was established and is administered by the State of Alaska to provide pension, postemployment healthcare, death, and disability benefits. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Defined Benefit Pension Plan, continued

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

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

Funding Policy

For PERS, employees are required to contribute 6.75% (7.5% for peace officers and firefighters) of their annual covered salary. Under the plan, the funding policy provides for periodic employer contributions at 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. The City's contribution rate for PERS for 200 follows:

Pension	1.74%
Postemployment healthcare	<u>0.68%</u>
Total contribution rate	<u>2.42%</u>

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

Annual Pension Cost

For the year ended December 31, 2002, the City's annual pension cost of \$99,235 for PERS was equal to its required and actual contributions.

The required contribution was determined as part of the June 30, 1999 actuarial valuation. The significant actuarial assumptions used in the valuation of the plan follow:

1. Investment return of 8.25% per annum, compounded annually, net of expenses;
2. Projected salary increases of 5.5% for the first five years of employment and 4.5% per year thereafter;
3. Health cost inflation of 9.5% in 1999, trending downward 1% per year through 2003; 5% from 2004 through 2008; and 4.5% thereafter;

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Defined Benefit Pension Plan, continued

4. Total inflation, as measured by the Consumer Price Index for urban and clerical workers for Anchorage, is assumed to increase 4% annually; and
5. Asset valuation – assumes investment return of 8.25% compared to a 5% corridor around the market value of assets. Any differences are amortized and applied to the employer contribution rate. Valuation assets cannot be outside the range of 80% to 120% of market value of assets.

Three-year trend information for PERS follows:

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
December 31, 2000	\$ 121,762	100%	-
2001	109,588	100%	-
2002	99,235	100%	-

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded (Assets in Excess of) Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded (Assets in Excess of) Liability as Percentage of Covered Payroll</u>
June 30, 1998:						
Pension	\$ 11,981,000	\$ 10,337,000	\$ (1,644,000)	116%	\$ 3,339,000	(49%)
Postemployment healthcare	4,449,000	3,839,000	(610,000)	116%	3,339,000	(18%)
June 30, 1999:						
Pension	13,256,000	11,433,000	(1,823,000)	116%	3,225,000	(57%)
Postemployment healthcare	5,374,000	4,636,000	(738,000)	116%	3,225,000	(23%)
June 30, 2001:						
Pension	15,234,000	14,110,000	(1,124,000)	108%	3,361,000	(33%)
Postemployment healthcare	6,451,000	5,975,000	(476,000)	108%	3,361,000	(14%)

No actuarial valuation was performed for June 30, 2000.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

(12) **Deferred Compensation Plan**

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

(13) **Retirement Incentive Program**

The City has elected to participate in the Public Employees' Retirement System retirement incentive program. The final payment of \$46,468 was paid in 2002.

(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.

(15) **Litigation Settlement**

On January 25, 1988, the City agreed on a settlement of the Tippetts-Abbott-McCarthy-Stratton (TAMS) litigation with the following terms:

1. The City paid TAMS \$300,000 for engineering services provided to the City. The final payment was made for their services in 1999.
2. TAMS paid the City \$500,000 upon execution of the settlement and is paying \$100,000 per year for twenty-one years.

(16) **Designated Sales Tax**

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

Water, sewer, and related debt service	.75 %
Road projects	.75 %
General Fund – undesignated	2.00 %
Kenai Peninsula Borough	<u>2.00 %</u>
Total sales tax percentage	<u>5.50 %</u>

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

(17) **Change in Accounting Principles and Restatement of Fund Balance**

For fiscal year 2002, the City has implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*; GASB Interpretation No. 6 *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*; GASB Statement No. 36, *Recipient Reporting for Certain Shared Non-Exchange Revenues*; GASB Statement 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

These statements create new basic financial statements for reporting on the City’s financial activities. The financial statements now include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds as of December 31, 2001, caused by the conversion to the accrual basis of accounting. The beginning fund balance at the fund level has been restated to reflect the adoption of these statements.

Beginning fund balance and net assets have been adjusted as follows to reflect these changes:

Governmental activities:

General Fund fund balance, December 31, 2001	\$ 2,086,810
Cumulative effect adjustment	<u>147,257</u>
General Fund fund balance, December 31, 2001, as restated	2,234,067
Other governmental fund balances, December 31, 2001	4,091,031
New standards adjustments:	
Capital assets	23,962,850
Long term liabilities	(3,075,999)
Long term receivables	141,338
Internal service funds allocated	<u>(108,005)</u>

Governmental activities net assets, December 31, 2001 \$ 27,245,282

Business-type activities:

Enterprise Fund retained earnings and contributed capital December 31, 2001	\$ 68,556,747
Internal service funds allocated	<u>(53,072)</u>

Business-type activities net assets, December 31, 2001 \$ 68,503,675

COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS
AND SCHEDULES

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, 2002
 (With Comparative Amounts for 2001)

<u>Assets</u>	<u>2002</u>	<u>2001</u>
Cash and investments	\$ 1,883,344	1,045,068
Receivables:		
Property taxes - delinquent	137,950	103,379
Less allowance for doubtful accounts	<u>(72,063)</u>	<u>(36,888)</u>
Net property taxes receivable	65,887	66,491
Sales taxes	404,684	351,546
Assessments	55,387	73,584
State and federal grants	2,562	-
Other	<u>54,870</u>	<u>85,973</u>
Total receivables	<u>583,390</u>	<u>577,594</u>
Due from other funds	470,222	1,004,754
Inventory	41,650	48,532
Prepaid items	182,323	102,428
Other asset	<u>-</u>	<u>16,414</u>
Total assets	\$ <u>3,160,929</u>	<u>2,794,790</u>
<u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	217,866	168,250
Accrued payroll and related liabilities	165,272	130,158
Accrued leave	-	38,685
Deferred revenue	107,605	288,854
Deferred assessments	55,387	73,584
Deposits	<u>8,117</u>	<u>8,449</u>
Total liabilities	<u>554,247</u>	<u>707,980</u>
Fund balance:		
Reserved for inventory, prepaid items and other asset	223,973	167,374
Unreserved	<u>2,382,709</u>	<u>1,919,436</u>
Total fund balance	<u>2,606,682</u>	<u>2,086,810</u>
Total liabilities and fund balance	\$ <u>3,160,929</u>	<u>2,794,790</u>

CITY OF HOMER, ALASKA

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance

Year Ended December 31, 2002

(With Comparative Amounts for 2001)

	<u>2002</u>	<u>2001</u>
Revenues:		
Property taxes	\$ 1,603,317	1,434,826
Sales taxes	2,358,810	2,069,920
Licenses and permits	17,000	12,520
Intergovernmental	765,845	784,840
Charges for services	2,045,851	1,393,570
Special assessments	18,197	29,776
Investment income	45,387	83,189
Fines and forfeitures	35,577	19,489
Total revenues	<u>6,889,984</u>	<u>5,828,130</u>
Expenditures:		
General government	1,688,822	1,684,884
Public safety	2,427,407	2,164,793
Public works	1,040,359	803,036
Library	331,765	298,541
Airport	124,311	107,541
Parks and recreation	386,188	342,943
Community service contributions	128,757	109,796
Debt service on capital leases:		
Principal payments	137,625	169,837
Interest	22,613	19,194
Total expenditures	<u>6,287,847</u>	<u>5,700,565</u>
Excess of revenues over expenditures	602,137	127,565
Other uses - transfers out	(229,522)	(440,893)
Special item - litigation settlement	-	91,930
Net change in fund balance	372,615	(221,398)
Fund balance at beginning of year	2,086,810	2,308,208
Cumulative effect of a change in accounting principle	147,257	-
Fund balance at end of year	\$ <u>2,606,682</u>	<u>2,086,810</u>

CITY OF HOMER, ALASKA
 General Fund
 Statement of Revenues, Expenditures and
 Changes in Fund Balance - Budget and Actual
 Year Ended December 31, 2002
 (With Comparative Amounts for 2001)

	2002		Variance Positive (Negative)	2001
	Budget	Actual		Actual
Revenues:				
Taxes:				
Property taxes	\$ 1,620,425	1,597,793	(22,632)	1,428,622
Sales taxes	2,255,434	2,358,810	103,376	2,069,920
Penalties and interest	7,001	5,524	(1,477)	6,204
Total taxes	3,882,860	3,962,127	79,267	3,504,746
Licenses and permits	6,900	17,000	10,100	12,520
Intergovernmental:				
Shared revenue	53,000	64,060	11,060	53,700
Safe communities	108,473	104,433	(4,040)	101,073
Utility cooperative	23,462	22,396	(1,066)	22,724
Alcohol beverage license	20,200	17,700	(2,500)	19,450
Public safety	456,500	453,028	(3,472)	471,853
Library grants	14,498	17,146	2,648	13,788
Public works	34,000	34,000	-	34,000
Reimbursements	29,000	38,131	9,131	47,948
Other grants	20,304	14,951	(5,353)	20,304
Total intergovernmental	759,437	765,845	6,408	784,840
Charges for services:				
Administrative services	914,746	914,746	-	752,651
Ambulance services	65,000	74,221	9,221	91,996
Fire contracts	242,000	352,120	110,120	31,629
Camping fees	114,000	133,165	19,165	114,773
Rents and leases	274,423	333,673	59,250	276,413
Donations	2,500	1,039	(1,461)	-
Airport services	83,411	97,404	13,993	83,888
Miscellaneous services	117,300	139,483	22,183	42,220
Total charges for services	1,813,380	2,045,851	232,471	1,393,570
Special assessments	-	18,197	18,197	29,776
Investment income	82,200	45,387	(36,813)	83,189
Fines and forfeitures	25,600	35,577	9,977	19,489
Total revenues	6,570,377	6,889,984	319,607	5,828,130

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

	2002		Variance Positive (Negative)	2001
	Budget	Actual		Actual
Expenditures:				
General government:				
City council/mayor:				
Salaries and benefits	\$ 4,585	4,730	(145)	4,670
Supplies	5,500	5,206	294	4,613
Other services and charges	<u>258,120</u>	<u>218,838</u>	<u>39,282</u>	<u>360,629</u>
Total City council/mayor	<u>268,205</u>	<u>228,774</u>	<u>39,431</u>	<u>369,912</u>
City clerk:				
Salaries and benefits	154,829	152,402	2,427	135,523
Supplies	1,900	2,204	(304)	2,347
Other services and charges	<u>24,398</u>	<u>26,334</u>	<u>(1,936)</u>	<u>24,759</u>
Total City clerk	<u>181,127</u>	<u>180,940</u>	<u>187</u>	<u>162,629</u>
City manager:				
Salaries and benefits	195,479	207,657	(12,178)	164,587
Supplies	2,700	2,806	(106)	1,505
Other services and charges	<u>26,300</u>	<u>27,451</u>	<u>(1,151)</u>	<u>24,429</u>
Total City manager	<u>224,479</u>	<u>237,914</u>	<u>(13,435)</u>	<u>190,521</u>
Financial services:				
Salaries and benefits	590,762	560,997	29,765	583,743
Supplies	9,100	7,557	1,543	5,803
Other services and charges	116,383	87,870	28,513	77,409
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>91</u>
Total financial services	<u>716,245</u>	<u>656,424</u>	<u>59,821</u>	<u>667,046</u>
Planning and zoning/property management:				
Salaries and benefits	193,006	178,773	14,233	111,315
Supplies	3,000	1,988	1,012	13,141
Other services and charges	<u>19,961</u>	<u>19,625</u>	<u>336</u>	<u>23,202</u>
Total planning and zoning/ property management	<u>215,967</u>	<u>200,386</u>	<u>15,581</u>	<u>147,658</u>

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

	2002		Variance Positive (Negative)	2001
	Budget	Actual		Actual
Expenditures, continued:				
General government, continued:				
City hall complex:				
Salaries and benefits	\$ 12,026	12,145	(119)	5,004
Supplies	14,100	11,726	2,374	11,173
Other services and charges	90,543	160,513	(69,970)	130,941
Total City hall complex	116,669	184,384	(67,715)	147,118
Total general government	1,722,692	1,688,822	33,870	1,684,884
Public safety:				
Police department:				
Salaries and benefits	1,182,227	1,114,830	67,397	980,750
Supplies	39,950	39,519	431	34,548
Other services and charges	149,450	174,132	(24,682)	203,822
Total police department	1,371,627	1,328,481	43,146	1,219,120
DWI enforcement grant:				
Salaries and benefits	-	14,518	(14,518)	37,061
Capital outlay	-	-	-	5,008
Total DWI enforcement grant	-	14,518	(14,518)	42,069
Jail:				
Salaries and benefits	284,955	301,630	(16,675)	280,855
Supplies	21,540	17,553	3,987	18,923
Other services and charges	27,650	24,166	3,484	29,756
Capital outlay	-	-	-	10,000
Total jail	334,145	343,349	(9,204)	339,534
Animal control:				
Supplies	5,000	2,945	2,055	4,389
Other services and charges	44,550	45,291	(741)	44,202
Total animal control	49,550	48,236	1,314	48,591

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

	2002		Variance Positive (Negative)	2001
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Expenditures, continued:				
Public safety, continued:				
Emergency services:				
Salaries and benefits	\$ 402,464	425,433	(22,969)	301,598
Supplies	28,570	34,755	(6,185)	26,926
Other services and charges	187,654	161,141	26,513	186,955
Capital outlay	<u>53,050</u>	<u>71,494</u>	<u>(18,444)</u>	<u>-</u>
Total emergency services	<u>671,738</u>	<u>692,823</u>	<u>(21,085)</u>	<u>515,479</u>
Total public safety	<u>2,427,060</u>	<u>2,427,407</u>	<u>(347)</u>	<u>2,164,793</u>
Public works:				
Administration:				
Salaries and benefits	144,751	115,380	29,371	105,164
Supplies	4,500	4,589	(89)	2,525
Other services and charges	<u>49,581</u>	<u>62,389</u>	<u>(12,808)</u>	<u>56,554</u>
Total administration	<u>198,832</u>	<u>182,358</u>	<u>16,474</u>	<u>164,243</u>
Maintenance:				
Salaries and benefits	91,663	91,874	(211)	86,222
Supplies	9,900	12,320	(2,420)	14,636
Other services and charges	63,000	54,531	8,469	49,261
Capital outlay	7,500	5,377	2,123	428
Less amounts allocated to other departments	<u>-</u>	<u>-</u>	<u>-</u>	<u>(23,100)</u>
Total maintenance	<u>172,063</u>	<u>164,102</u>	<u>7,961</u>	<u>127,447</u>
Streets:				
Salaries and benefits	194,754	158,559	36,195	156,906
Supplies	96,500	101,295	(4,795)	71,819
Other services and charges	45,700	24,085	21,615	23,255
Capital outlay	<u>5,000</u>	<u>5,115</u>	<u>(115)</u>	<u>-</u>
Total streets	<u>341,954</u>	<u>289,054</u>	<u>52,900</u>	<u>251,980</u>

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

	2002		Variance Positive (Negative)	2001
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Expenditures, continued:				
Public works, continued:				
Motor pool:				
Salaries and benefits	\$ 129,379	150,860	(21,481)	110,961
Supplies	29,500	34,376	(4,876)	34,976
Other services and charges	65,300	124,207	(58,907)	89,055
Capital outlay	-	-	-	4,724
Less amounts allocated to other departments	-	-	-	(50,442)
Total motor pool	<u>224,179</u>	<u>309,443</u>	<u>(85,264)</u>	<u>189,274</u>
Engineer/inspector:				
Salaries and benefits	80,417	87,284	(6,867)	61,530
Supplies	1,900	1,853	47	1,646
Other services and charges	14,100	6,265	7,835	6,916
Total engineer/inspector	<u>96,417</u>	<u>95,402</u>	<u>1,015</u>	<u>70,092</u>
Total public works	<u>1,033,445</u>	<u>1,040,359</u>	<u>(6,914)</u>	<u>803,036</u>
Library:				
Salaries and benefits	257,502	254,118	3,384	217,091
Supplies	6,080	6,262	(182)	12,898
Other services and charges	56,280	51,584	4,696	68,552
Capital outlay	13,500	19,801	(6,301)	-
Total library	<u>333,362</u>	<u>331,765</u>	<u>1,597</u>	<u>298,541</u>
Airport:				
Salaries and benefits	35,065	37,151	(2,086)	24,678
Supplies	13,000	12,636	364	14,313
Other services and charges	77,190	74,524	2,666	68,550
Total airport	<u>125,255</u>	<u>124,311</u>	<u>944</u>	<u>107,541</u>
Parks and recreation:				
Salaries and benefits	191,166	180,565	10,601	177,998
Supplies	31,500	37,535	(6,035)	27,034
Other services and charges	156,103	168,088	(11,985)	132,202
Capital outlay	-	-	-	5,709
Total parks and recreation	<u>378,769</u>	<u>386,188</u>	<u>(7,419)</u>	<u>342,943</u>

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

	2002		Variance Positive (Negative)	2001
	Budget	Actual		Actual
Expenditures, continued:				
Community service contributions:				
Hospice of Homer	\$ 1,200	1,251	(51)	1,268
Council on Alcoholism	1,200	1,251	(51)	1,268
Mental health program	1,200	1,251	(51)	1,268
South Peninsula Women's Services	1,200	1,251	(51)	1,268
Kachemak Bay Family Planning	1,200	1,251	(51)	1,268
Homer Senior Citizens	1,200	1,251	(51)	1,268
Homer Friendship Center	1,200	1,251	(51)	1,268
Homer Foundation Non-Profit	120,000	120,000	-	100,920
Total community service contributions	128,400	128,757	(357)	109,796
Debt service on capital leases:				
Principal	137,839	137,625	214	169,837
Interest	22,399	22,613	(214)	19,194
Total debt service	160,238	160,238	-	189,031
Total expenditures	6,309,221	6,287,847	21,374	5,700,565
Excess of revenues over expenditures	261,156	602,137	340,981	127,565
Other uses - operating transfers to other funds	(229,522)	(229,522)	-	(440,893)
Special item - litigation settlement	-	-	-	91,930
Net change in fund balance	31,634	372,615	340,981	(221,398)
Fund balance at beginning of year	2,086,810	2,086,810	-	2,308,208
Cumulative effect of a change in accounting principle	-	147,257	147,257	-
Fund balance at end of year	\$ 2,118,444	2,606,682	488,238	2,086,810

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CITY OF HOMER, ALASKA
 Combining Balance Sheet - Nonmajor Governmental Funds
 December 31, 2002

Exhibit F-1

	Special Revenue Funds			Debt Service Funds			Capital Project Funds			Permanent Fund	Total Nonmajor Governmental Funds
	Library Donations	Volunteer Fire Department Donations	Total	1987 Rangeview Special Assessment Bonds	General Obligation Bonds and 1990 Special Assessment Bonds	Total	Streets and Sidewalks	Reserve Allocation	Total	Library Endowment	
Assets											
Cash and investments	\$ 177,575	50,209	227,784	22,249	236,779	259,028	1,837,113	1,005,067	2,842,180	12,300	3,341,292
Receivables, net:											
Sales taxes	-	-	-	-	-	-	152,022	-	152,022	-	152,022
Assessments	-	-	-	4,525	15,325	19,850	-	-	-	-	19,850
Total assets	\$ 177,575	50,209	227,784	26,774	252,104	278,878	1,989,135	1,005,067	2,994,202	12,300	3,513,164
Liabilities and Fund Balance											
Liabilities:											
Accounts payable	-	29,992	29,992	-	-	-	-	246,128	246,128	-	276,120
Deferred revenues	-	-	-	4,525	15,325	19,850	-	-	-	-	19,850
Total liabilities	-	29,992	29,992	4,525	15,325	19,850	-	246,128	246,128	-	295,970
Fund balances:											
Reserved:											
Endowments	-	-	-	-	-	-	-	-	-	12,300	12,300
Debt service	-	-	-	22,249	236,779	259,028	-	-	-	-	259,028
Unreserved	177,575	20,217	197,792	-	-	-	1,989,135	758,939	2,748,074	-	2,945,866
Total fund balances	177,575	20,217	197,792	22,249	236,779	259,028	1,989,135	758,939	2,748,074	12,300	3,217,194
Total liabilities and fund balances	\$ 177,575	50,209	227,784	26,774	252,104	278,878	1,989,135	1,005,067	2,994,202	12,300	3,513,164

CITY OF HOMER, ALASKA

Exhibit F-2

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Nonmajor Governmental Funds
 Year Ended December 31, 2002

	Special Revenue Funds			Debt Service Funds			Capital Project Funds			Permanent Fund	Total Nonmajor Governmental Funds
	Library Donations	Volunteer Fire Department Donations	Total	1987 Rangeview Special Assessment Bonds	General Obligation Bonds and 1990 Special Assessment Bonds	Total	Streets and Sidewalks	Reserve Allocation	Total	Library Endowment	
Revenues:											
Sales taxes	\$ -	-	-	-	-	-	884,600	-	884,600	-	884,600
Special assessments	-	-	-	7,541	17,674	25,215	-	-	-	-	25,215
Investment income	8,167	91	8,258	881	2,451	3,332	26,117	14,409	40,526	-	52,116
Donations	19,358	57,723	77,081	-	-	-	-	-	-	-	77,081
Other	-	-	-	-	-	-	-	268,048	268,048	-	268,048
Total revenues	<u>27,525</u>	<u>57,814</u>	<u>85,339</u>	<u>8,422</u>	<u>20,125</u>	<u>28,547</u>	<u>910,717</u>	<u>282,457</u>	<u>1,193,174</u>	<u>-</u>	<u>1,307,060</u>
Expenditures:											
Public safety	-	41,784	41,784	-	-	-	-	-	-	-	41,784
Public works	-	-	-	-	-	-	74,372	2,812	77,184	-	77,184
Debt service:											
Principal payments	-	-	-	5,280	345,000	350,280	-	-	-	-	350,280
Interest	-	-	-	2,018	101,831	103,849	-	-	-	-	103,849
Capital projects	-	-	-	-	-	-	-	444,660	444,660	-	444,660
Total expenditures	<u>-</u>	<u>41,784</u>	<u>41,784</u>	<u>7,298</u>	<u>446,831</u>	<u>454,129</u>	<u>74,372</u>	<u>447,472</u>	<u>521,844</u>	<u>-</u>	<u>1,017,757</u>
Excess of revenues over (under) expenditures	<u>27,525</u>	<u>16,030</u>	<u>43,555</u>	<u>1,124</u>	<u>(426,706)</u>	<u>(425,582)</u>	<u>836,345</u>	<u>(165,015)</u>	<u>671,330</u>	<u>-</u>	<u>289,303</u>
Other financing sources (uses):											
Transfers in	-	-	-	-	447,254	447,254	-	161,250	161,250	-	608,504
Transfers out	-	-	-	-	-	-	(417,254)	(82,630)	(499,884)	-	(499,884)
Proceeds from issuance of capital lease	-	-	-	-	-	-	-	300,000	300,000	-	300,000
Net other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>447,254</u>	<u>447,254</u>	<u>(417,254)</u>	<u>378,620</u>	<u>(38,634)</u>	<u>-</u>	<u>408,620</u>
Net change in fund balances	<u>27,525</u>	<u>16,030</u>	<u>43,555</u>	<u>1,124</u>	<u>20,548</u>	<u>21,672</u>	<u>419,091</u>	<u>213,605</u>	<u>632,696</u>	<u>-</u>	<u>697,923</u>
Beginning fund balances	<u>150,050</u>	<u>4,187</u>	<u>154,237</u>	<u>21,125</u>	<u>216,231</u>	<u>237,356</u>	<u>1,570,044</u>	<u>545,334</u>	<u>2,115,378</u>	<u>12,300</u>	<u>2,519,271</u>
Ending fund balances	<u>\$ 177,575</u>	<u>20,217</u>	<u>197,792</u>	<u>22,249</u>	<u>236,779</u>	<u>259,028</u>	<u>1,989,135</u>	<u>758,939</u>	<u>2,748,074</u>	<u>12,300</u>	<u>3,217,194</u>

SPECIAL REVENUE FUNDS

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

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

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

CITY OF HOMER, ALASKA
Special Revenue Funds
Combining Balance Sheet
December 31, 2002
(With Comparative Totals for 2001)

<u>Assets</u>	<u>Library</u>	<u>Fire</u>	<u>Totals</u>	
	<u>Donations</u>	<u>Department</u>	<u>2002</u>	<u>2001</u>
		<u>Donations</u>		
Cash and investments	\$ <u>177,575</u>	<u>50,209</u>	<u>227,784</u>	<u>154,237</u>
 <u>Liabilities and Fund Balances</u> 				
Liabilities - accounts payable	-	29,992	29,992	-
Fund balances - unreserved	<u>177,575</u>	<u>20,217</u>	<u>197,792</u>	<u>154,237</u>
Total liabilities and fund balances	\$ <u>177,575</u>	<u>50,209</u>	<u>227,784</u>	<u>154,237</u>

CITY OF HOMER, ALASKA
Special Revenue Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended December 31, 2002
(With Comparative Totals for 2001)

	<u>Library</u>	<u>Fire</u>	<u>Totals</u>	
	<u>Donations</u>	<u>Department</u>	<u>2002</u>	<u>2001</u>
		<u>Donations</u>		
Revenues:				
Contributions	\$ 19,358	57,723	77,081	77,094
Interest	8,167	91	8,258	-
Total revenues	<u>27,525</u>	<u>57,814</u>	<u>85,339</u>	<u>77,094</u>
Expenditures - supplies	<u>-</u>	<u>41,784</u>	<u>41,784</u>	<u>529</u>
Excess of revenues over expenditures	27,525	16,030	43,555	76,565
Other financing sources - transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,695</u>
Net change in fund balance	27,525	16,030	43,555	135,260
Fund balances at beginning of year	150,050	4,187	154,237	18,977
Fund balances at end of year	\$ <u>177,575</u>	<u>20,217</u>	<u>197,792</u>	<u>154,237</u>

Excluded 10K transfer from Donations

Excluded 10K from

DEBT SERVICE FUNDS

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

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

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

1990 Special Assessment Bonds

1998 General Obligation Refunding Bonds

CITY OF HOMER, ALASKA
 Debt Service Funds
 Combining Balance Sheet
 December 31, 2002
 (With Comparative Totals for 2001)

<u>Assets</u>	1987 Rangeview Special Assessment <u>Bonds</u>	General Obligation Bonds and 1990 Special Assessment <u>Bonds</u>	<u>Totals</u>	
			<u>2002</u>	<u>2001</u>
Cash and investments	\$ 22,249	236,779	259,028	237,356
Assessments receivable:				
Current	2,262	15,325	17,587	18,505
Deferred	<u>2,263</u>	<u>-</u>	<u>2,263</u>	<u>26,560</u>
 Total assets	 \$ <u>26,774</u>	 <u>252,104</u>	 <u>278,878</u>	 <u>282,421</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities - deferred revenue	4,525	15,325	19,850	45,065
Fund balances - reserved for debt service	<u>22,249</u>	<u>236,779</u>	<u>259,028</u>	<u>237,356</u>
 Total liabilities and fund balances	 \$ <u>26,774</u>	 <u>252,104</u>	 <u>278,878</u>	 <u>282,421</u>

CITY OF HOMER, ALASKA
Debt Service Funds
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Year Ended December 31, 2002
(With Comparative Totals for 2001)

	1987 Rangeview Special Assessment <u>Bonds</u>	General Obligation Bonds and 1990 Special Assessment <u>Bonds</u>	Totals	
			<u>2002</u>	<u>2001</u>
Revenues:				
Special assessments	\$ 7,541	17,674	25,215	29,413
Interest	881	2,451	3,332	6,493
Total revenues	<u>8,422</u>	<u>20,125</u>	<u>28,547</u>	<u>35,906</u>
Expenditures:				
Debt service:				
Principal payments	5,280	345,000	350,280	325,280
Interest	2,018	101,831	103,849	118,002
Total expenditures	<u>7,298</u>	<u>446,831</u>	<u>454,129</u>	<u>443,282</u>
Excess of revenues over (under) expenditures	1,124	(426,706)	(425,582)	(407,376)
Other financing sources - transfers in	-	447,254	447,254	435,054
Net change in fund balance	1,124	20,548	21,672	27,678
Fund balances at beginning of year	<u>21,125</u>	<u>216,231</u>	<u>237,356</u>	<u>209,678</u>
Fund balances at end of year	\$ <u>22,249</u>	<u>236,779</u>	<u>259,028</u>	<u>237,356</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.

Reserve Allocation – This fund accounts for the accumulation of capital to purchase equipment.

CITY OF HOMER, ALASKA
 Capital Project Funds
 Combining Balance Sheet
 December 31, 2002
 (With Comparative Totals for 2001)

<u>Assets</u>	<u>City Facilities</u>	<u>Streets and Sidewalks</u>	<u>Reserve Allocation</u>	<u>Totals</u>	
				<u>2002</u>	<u>2001</u>
Cash and investments	\$ 568,111	1,837,113	1,005,067	3,410,291	3,705,117
Accounts receivable:					
Sales taxes	-	152,022	-	152,022	132,060
State and federal grants	537,388	-	-	537,388	54,270
Other	-	-	-	-	53,574
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ <u>1,105,499</u>	<u>1,989,135</u>	<u>1,005,067</u>	<u>4,099,701</u>	<u>3,945,021</u>
 <u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	250,930	-	246,128	497,058	12,237
Accrued liabilities	428	-	-	428	4,940
Deferred revenue	105,009	-	-	105,009	90,656
Total liabilities	<u>356,367</u>	<u> </u>	<u>246,128</u>	<u>602,495</u>	<u>107,833</u>
 Fund balances - unreserved - designated:					
Capital outlay	749,132	1,989,135	757,364	3,495,631	3,835,613
Land	-	-	1,575	1,575	1,575
Total fund balances	<u>749,132</u>	<u>1,989,135</u>	<u>758,939</u>	<u>3,497,206</u>	<u>3,837,188</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	\$ <u>1,105,499</u>	<u>1,989,135</u>	<u>1,005,067</u>	<u>4,099,701</u>	<u>3,945,021</u>

CITY OF HOMER, ALASKA
Capital Project Funds
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Year Ended December 31, 2002
(With Comparative Totals for 2001)

	City Facilities	Streets and Sidewalks	Reserve Allocation	Totals	
				2002	2001
Revenues:					
Sales tax	\$ -	884,600	-	884,600	776,452
Intergovernmental	808,393	-	-	808,393	253,546
Investment income	21,807	26,117	14,409	62,333	114,845
Other	101,833	-	268,048	369,881	129,177
Total revenues	<u>932,033</u>	<u>910,717</u>	<u>282,457</u>	<u>2,125,207</u>	<u>1,274,020</u>
Expenditures:					
General government	36,082	-	-	36,082	34,720
Public safety	57,913	-	-	57,913	5,113
Public works	503,090	74,372	2,812	580,274	148,361
Library	2,217	-	-	2,217	4,492
Parks and recreation	21,794	-	-	21,794	789
Community service	166,052	-	-	166,052	221,360
Capital outlay	1,121,035	-	444,660	1,565,695	228,424
Total expenditures	<u>1,908,183</u>	<u>74,372</u>	<u>447,472</u>	<u>2,430,027</u>	<u>643,259</u>
Excess of revenues over (under) expenditures	(976,150)	836,345	(165,015)	(304,820)	630,761
Other financing sources (uses):					
Transfers in	153,522	-	161,250	314,772	194,180
Transfers out	-	(417,254)	(82,630)	(499,884)	(369,054)
Proceeds from issuance of capital lease	-	-	300,000	300,000	-
Net other financing sources (uses)	<u>153,522</u>	<u>(417,254)</u>	<u>378,620</u>	<u>114,888</u>	<u>(174,874)</u>
Net change in fund balance	(822,628)	419,091	213,605	(189,932)	455,887
Fund balances at beginning of year	<u>1,571,760</u>	<u>1,570,044</u>	<u>545,334</u>	<u>3,687,138</u>	<u>3,231,251</u>
Fund balances at end of year	\$ <u>749,132</u>	<u>1,989,135</u>	<u>758,939</u>	<u>3,497,206</u>	<u>3,687,138</u>

PERMANENT FUND

This fund was established to benefit the library. The fund balance is reserved and only investment earnings may be spent.

CITY OF HOMER, ALASKA
Library Endowment Permanent Fund
Balance Sheet
December 31, 2002
(With Comparative Amounts for 2001)

	<u>2002</u>	<u>2001</u>
<u>Assets</u>		
Cash and investments	\$ <u>12,300</u>	<u>12,300</u>
<u>Fund Balance</u>		
Fund balance - reserved for endowments	\$ <u>12,300</u>	<u>12,300</u>

CITY OF HOMER, ALASKA
Library Endowment Permanent Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended December 31, 2002
(With Comparative Amounts for 2001)

	<u>2002</u>	<u>2001</u>
Operating revenues	\$ -	-
Operating transfers to other funds	<u>-</u>	<u>(58,695)</u>
Net change in fund balance	-	(58,695)
Fund balance at beginning of year	<u>12,300</u>	<u>70,995</u>
Fund balance at end of year	\$ <u><u>12,300</u></u>	<u><u>12,300</u></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.

xtra PGS

Exhibit combined

CITY OF HOMER, ALASKA
 Water and Sewer Utility Enterprise Fund
 Combining Balance Sheet
 December 31, 2002

<u>Assets</u>	<u>200</u>	<u>205</u>	<u>215</u>	<u>153</u>	<u>Eliminating</u>	<u>Total</u>
Current assets:						
Equity in central treasury	\$ 277,035	(2,018,828)	2,175,198	1,582,731	-	2,016,136
Receivables:						
Trade accounts, net of allowance for doubtful accounts c	153,513	-	-	-	-	153,513
Sales tax	-	-	-	152,022	-	152,022
Assessments due within one year	-	28,668	-	-	-	28,668
Federal government	-	-	-	-	-	-
State of Alaska	-	1,940,986	72,286	-	-	2,013,272
Net receivables	<u>153,513</u>	<u>1,969,654</u>	<u>72,286</u>	<u>152,022</u>	<u>-</u>	<u>2,347,475</u>
Inventory	133,641	-	-	-	-	133,641
Prepaid items	44,777	-	-	-	-	44,777
Deferred charges	-	-	-	-	-	-
Total current assets	<u>608,966</u>	<u>(49,174)</u>	<u>2,247,484</u>	<u>1,734,753</u>	<u>-</u>	<u>4,542,029</u>
Restricted assets - equity in central treasury restricted for de	303,871	-	-	-	-	303,871
Assessments due after one year	-	98,113	-	-	-	98,113
Accrued interest receivable	-	2,409	-	-	-	2,409
Bond issuance costs	-	16,392	-	-	-	16,392
Property, plant and equipment:						
Property, plant and equipment in service	45,435,690	-	-	-	-	45,435,690
Land	107,239	-	-	-	-	107,239
Construction work in progress	2,152,194	-	-	-	-	2,152,194
Less accumulated depreciation	<u>(24,015,709)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(24,015,709)</u>
Net property, plant and equipment	<u>23,679,414</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,679,414</u>
Total assets	<u>\$ 24,592,251</u>	<u>67,740</u>	<u>2,247,484</u>	<u>1,734,753</u>	<u>-</u>	<u>28,642,228</u>
<u>Liabilities and Fund Equity</u>						
Liabilities:						
Current liabilities:						
Accounts payable	66,310	-	69,393	-	-	135,703
Accrued liabilities	28,121	-	1,016	-	-	29,137
Accrued leave	92,272	-	-	-	-	92,272
Interest payable	-	22,427	-	-	-	22,427
Current bonds payable	-	140,000	-	-	-	140,000
Current loan payable	-	283,003	-	-	-	283,003
Customer utility deposits	27,928	-	-	-	-	27,928
Deferred revenue	-	-	-	-	-	-
Total current liabilities	<u>214,631</u>	<u>445,430</u>	<u>70,409</u>	<u>-</u>	<u>-</u>	<u>730,470</u>
Long-term debt, net of current portion:						
Revenue bonds payable, net of deferred loss of	-	314,985	-	-	-	314,985
Loan payable	-	4,475,146	-	-	-	4,475,146
Total liabilities	<u>214,631</u>	<u>5,235,561</u>	<u>70,409</u>	<u>-</u>	<u>-</u>	<u>5,520,601</u>
Fund equity:						
Contributed capital	37,351,665	-	-	-	-	37,351,665
Less accumulated amortization	<u>(18,385,602)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,385,602)</u>
Net contributed capital	<u>18,966,063</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,966,063</u>
Net assets:						
Reserved for bond redemption	175,950	-	-	-	-	175,950
Unreserved	<u>5,235,607</u>	<u>(5,167,821)</u>	<u>2,177,075</u>	<u>1,734,753</u>	<u>-</u>	<u>3,979,614</u>
Total retained earnings	<u>5,411,557</u>	<u>(5,167,821)</u>	<u>2,177,075</u>	<u>1,734,753</u>	<u>-</u>	<u>4,155,564</u>
TOTAL NET ASSETS	<u>24,377,620</u>	<u>(5,167,821)</u>	<u>2,177,075</u>	<u>1,734,753</u>	<u>-</u>	<u>23,121,627</u>
Total liabilities and fund equity	<u>\$ 24,592,251</u>	<u>67,740</u>	<u>2,247,484</u>	<u>1,734,753</u>	<u>-</u>	<u>28,642,228</u>
Out of Balance Amount	-	-	-	-	-	-





x to P8

Port of Homer Enterprise Fund
Balance Sheet
December 31, 2002

	Fund 400 Group Code 2	400	415	Reclass	Report
<u>Assets</u>					
Current assets:					
Equity in central treasury	P1000	\$ (817,902)	503,209	314,693	-
Receivables:					
Trade, net of allowance for doubtful accounts of \$39,88	P1002	-	100,173	-	100,173
State and federal grants	P1010	182,042	100,000	-	282,042
Litigation settlement - current	reclass	-	-	-	-
Accrued interest	P1008	-	-	-	-
Net receivables		182,042	200,173	-	382,215
Inventory	P1040	30,491	-	-	30,491
Prepaid items	P1045	33,792	-	-	33,792
Total current assets		(571,577)	703,382	314,693	446,498
Restricted asset- equity in central treasury restricted for debt service and Harbor deferred maintenance	P1055	269,612	-	-	269,612
Bond issuance costs, net of \$	P1065	37,316	-	-	37,316
Property, plant and equipment:					
Property, plant and equipment in service	P1091	48,726,748	-	-	48,726,748
Land and land improvements	P1092	15,254,041	-	-	15,254,041
Construction work in progress	P1093	-	-	-	-
Less accumulated depreciation	P1094	(15,582,205)	-	-	(15,582,205)
Net property, plant and equipment		48,398,584	-	-	48,398,584
Long-term portion of litigation receivable, net of 6% discou of \$	P1080	558,238	-	-	558,238
Total assets		\$ 48,692,173	703,382	314,693	49,710,248
<u>Liabilities and Fund Equity</u>					
Liabilities:					
Current liabilities:					
Accounts payable	P2000	55,639	7,467	-	63,106
Accrued liabilities	P2002	32,887	217	-	33,104
Accrued leave	P2004	113,881	-	-	113,881
Interest payable	P2006	12,105	-	-	12,105
Current portion of bonds payable	reclass	145,000	-	-	145,000
Prepaid berth rentals and deposits	P2010	487,500	-	-	487,500
Due to other funds	P2020	-	-	314,693	314,693
Deferred revenue	P2025	18,000	-	-	18,000
Total current liabilities		865,012	7,684	314,693	1,187,389
Deferred lease revenue	P2030	450,000	-	-	450,000
Long-term debt, net of current portion:					
Revenue bonds payable, net of deferred loss of \$48,857 in 2001	P2050	962,250	-	-	962,250
Total liabilities		2,277,262	7,684	314,693	2,599,639
Fund equity:					
Contributed capital		52,135,274	-	-	52,135,274
Less accumulated amortization		(11,172,791)	-	-	(11,172,791)
Net contributed capital		40,962,483	-	-	40,962,483
Retained earnings:					
Reserved for bond redemption		191,500	-	-	191,500
Unreserved		5,260,928	695,698	-	5,956,626
Total retained earnings		5,452,428	695,698	-	6,148,126
Total fund equity -REPORT AS NET ASSETS	P3000	46,414,911	695,698	-	47,110,609
Proof total [OUT OF BALANCE]		\$ -	-	-	-
Proof total		48,692,173	703,382	314,693	49,710,248



Extra PG

CITY OF HOMER, ALASKA
 Port of Homer Enterprise Fund
 Statement of Revenues, Expenses and Changes in Retained Earnings
 Year Ended December 31, 2002

	Fund 400 Group Code 2	400	415	Eliminate	Total	Equity Reclass	Total
Operating revenues:							
Harbor	P4000	\$ 1,335,248	-	-	1,335,248	-	1,335,248
Main dock	P4002	105,545	-	-	105,545	-	105,545
Fish dock	P4004	708,203	-	-	708,203	-	708,203
Deep water dock	P4006	210,283	-	-	210,283	-	210,283
Uplands	P4008	233,698	-	-	233,698	-	233,698
Recreation revenue	P4010	10,558	-	-	10,558	-	10,558
Total operating revenues		<u>2,603,535</u>	<u>-</u>	<u>-</u>	<u>2,603,535</u>	<u>-</u>	<u>2,603,535</u>
Operating expenses, excluding depreciation:							
Harbor	P5000	807,690	8,733	-	816,423	-	816,423
Main dock	P5002	41,218	4,444	-	45,662	-	45,662
Fish dock	P5004	433,068	-	-	433,068	-	433,068
Deep water dock	P5006	45,487	-	-	45,487	-	45,487
Recreation	P5010	14,905	-	-	14,905	-	14,905
Administration	P5012	724,993	-	-	724,993	-	724,993
Depreciation	P5014	925,553	-	-	925,553	-	925,553
Capital Costs		-	3,602,981	(3,602,981)	-	-	-
Total operating expenses, excluding depreciation		<u>2,992,914</u>	<u>3,616,158</u>	<u>(3,602,981)</u>	<u>3,006,091</u>	<u>-</u>	<u>3,006,091</u>
Operating loss		(389,379)	(3,616,158)	3,602,981	(402,556)	-	(402,556)
Nonoperating revenues (expenses):							
Investment income	P5300	374	33,481	-	33,855	-	33,855
Interest expense:							
Bonds	P5310	(58,950)	-	-	(58,950)	-	(58,950)
Litigation settlement	P5320	58,259	-	-	58,259	-	58,259
Amortization of bond issuance costs	P5330	(5,331)	-	-	(5,331)	-	(5,331)
State of Alaska	P5340	-	-	-	-	-	-
Other income	P5345	102,125	6,749	-	108,874	-	108,874
Other	P5400	-	-	-	-	-	-
Net nonoperating revenues (expenses)		<u>96,477</u>	<u>40,230</u>	<u>-</u>	<u>136,707</u>	<u>-</u>	<u>136,707</u>
Loss before operating transfers		(292,902)	(3,575,928)	3,602,981	(265,849)	-	(265,849)
Capital Contributions	P5500	-	2,518,630	(2,518,630)	-	2,518,630	2,518,630
Operating transfers	P5550						
From Fund 152		82,630	-	-	82,630	-	82,630
Fund 400/415		(228,228)	228,228	-	-	-	-
Net operating transfers from (to) other funds		<u>(145,598)</u>	<u>228,228</u>	<u>-</u>	<u>82,630</u>	<u>-</u>	<u>82,630</u>
Add back depreciation		<u>1,153,414</u>	<u>-</u>	<u>-</u>	<u>1,153,414</u>	<u>(1,153,414)</u>	<u>-</u>
Change in net assets		714,914	(829,070)	1,084,351	970,195	1,365,216	2,335,411
Contributed Capital (Bring in Contributed Capital and related)		-	-	-	-	40,962,483	40,962,483
Retained Earnings		<u>3,653,163</u>	<u>1,524,768</u>	<u>-</u>	<u>5,177,931</u>	<u>(1,365,216)</u>	<u>3,812,715</u>
Elimination		<u>1,084,351</u>	<u>-</u>	<u>(1,084,351)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets, end of year	\$	<u>5,452,428</u>	<u>695,698</u>	<u>-</u>	<u>6,148,126</u>	<u>40,962,483</u>	<u>47,110,609</u>
OUT OF BALANCE AMOUNT		-	-	-	-	-	-



CITY OF HOMER, ALASKA

Enterprise Funds

Combining Statement of Net Assets

December 31, 2002

(With Comparative Totals for 2001)

<u>Assets</u>	Port of <u>Homer</u>	Water and Sewer <u>Utility</u>	<u>Totals</u>	
			<u>2002</u>	<u>2001</u>
Current assets:				
Cash and investments	\$ -	2,016,136	2,016,136	1,432,564
Receivables, net of allowance for doubtful accounts:				
Accounts	100,173	153,513	253,686	274,593
Sales taxes	-	152,022	152,022	132,061
Assessments due within one year	-	28,668	28,668	29,586
State and federal grants and loans	282,042	2,013,272	2,295,314	1,537,827
Litigation settlement	100,000	-	100,000	100,000
Accrued interest	-	2,409	2,409	3,316
Inventory	30,491	133,641	164,132	136,010
Prepaid items	33,792	44,777	78,569	46,822
Current portion of note receivable	-	-	-	38,929
Deferred charges	-	-	-	75,250
Total current assets	<u>546,498</u>	<u>4,544,438</u>	<u>5,090,936</u>	<u>3,806,958</u>
Restricted assets- cash and investments restricted for debt service and capital projects	269,612	303,871	573,483	5,605,494
Assessments due after one year	-	98,113	98,113	187,618
Bond issuance costs, net of accumulated amortization	37,316	16,392	53,708	64,137
Litigation receivable, net of current portion	458,238	-	458,238	520,980
Property, plant and equipment, net of accumulated depreciation	<u>48,398,584</u>	<u>23,679,414</u>	<u>72,077,998</u>	<u>68,900,707</u>
Total assets	\$ <u>49,710,248</u>	<u>28,642,228</u>	<u>78,352,476</u>	<u>79,085,894</u>
<u>Liabilities and Net Assets</u>				
Liabilities:				
Current liabilities:				
Accounts payable	63,106	135,703	198,809	988,648
Accrued liabilities	33,104	29,137	62,241	59,276
Accrued leave	113,881	92,272	206,153	135,975
Accrued interest	12,105	22,427	34,532	37,904
Current portion of long-term debt	145,000	423,003	568,003	593,793
Prepaid rentals and deposits	487,500	27,928	515,428	457,847
Due to other funds	314,693	-	314,693	899,018
Deferred revenue	18,000	-	18,000	2,519,997
Total current liabilities	<u>1,187,389</u>	<u>730,470</u>	<u>1,917,859</u>	<u>5,692,458</u>
Noncurrent liabilities:				
Deferred lease revenue	450,000	-	450,000	468,000
Long-term debt, net of current portion:				
Notes payable	-	4,475,146	4,475,146	2,817,164
Revenue bonds payable, net of deferred loss	<u>962,250</u>	<u>314,985</u>	<u>1,277,235</u>	<u>1,551,525</u>
Total liabilities	<u>2,599,639</u>	<u>5,520,601</u>	<u>8,120,240</u>	<u>10,529,147</u>
Net assets:				
Invested in capital assets, net of related debt	47,291,334	18,466,280	65,757,614	63,938,225
Unrestricted (deficit)	<u>(180,725)</u>	<u>4,655,347</u>	<u>4,474,622</u>	<u>4,618,522</u>
Total net assets	\$ <u>47,110,609</u>	<u>23,121,627</u>	<u>70,232,236</u>	<u>68,556,747</u>

CITY OF HOMER, ALASKA
Enterprise Funds
Combining Statement of Revenues, Expenses
and Changes in Net Assets
Year Ended December 31, 2002
(With Comparative Totals for 2001)

	Port of Homer	Water and Sewer Utility	Totals	
			2002	2001
Operating revenues - charges for services	\$ 2,603,535	2,213,359	4,816,894	4,501,641
Operating expenses:				
Operations	1,355,545	1,039,984	2,395,529	2,194,804
Administration	724,993	949,020	1,674,013	1,447,199
Depreciation	925,553	1,610,338	2,535,891	2,551,593
Total operating expenses	3,006,091	3,599,342	6,605,433	6,193,596
Operating loss	(402,556)	(1,385,983)	(1,788,539)	(1,691,955)
Nonoperating revenues (expenses):				
Investment income	33,855	59,901	93,756	440,850
Interest expense	(58,950)	(103,454)	(162,404)	(189,737)
Litigation settlement	58,259	-	58,259	40,821
Amortization of bond issuance costs	(5,331)	(5,098)	(10,429)	(10,430)
Sales taxes	-	884,600	884,600	776,452
Other income	108,874	25,097	133,971	107,502
Other expenses	-	(71,008)	(71,008)	(26,170)
Net nonoperating revenues (expenses)	136,707	790,038	926,745	1,139,288
Loss before contributions and transfers	(265,849)	(595,945)	(861,794)	(552,667)
Capital contributions	2,518,630	51,273	2,569,903	11,697,320
Transfers in	82,630	-	82,630	239,408
Transfers out	-	(115,250)	(115,250)	-
Change in net assets	2,335,411	(659,922)	1,675,489	11,384,061
Net assets at beginning of year	44,775,198	23,781,549	68,556,747	57,172,686
Net assets at end of year	\$ 47,110,609	23,121,627	70,232,236	68,556,747

CITY OF HOMER, ALASKA
Enterprise Funds
Combining Statement of Cash Flows
Year Ended December 31, 2002
(With Comparative Totals for 2001)

	Port of <u>Homer</u>	Water and Sewer <u>Utility</u>	<u>Totals</u>	
			<u>2002</u>	<u>2001</u>
Cash flows from operating activities:				
Receipts from customers and users	\$ 2,831,128	2,190,333	5,021,461	4,651,729
Payments to suppliers	(1,832,362)	(1,171,247)	(3,003,609)	(1,128,849)
Payments to employees	(1,054,177)	(828,968)	(1,883,145)	(1,728,888)
Litigation settlement	58,259	-	58,259	40,821
Other miscellaneous receipts	-	-	-	107,502
Net cash flows from operating activities	<u>2,848</u>	<u>190,118</u>	<u>192,966</u>	<u>1,942,315</u>
Cash flows from capital and related financing activities:				
Principal payments on long-term debt	(148,762)	(429,424)	(578,186)	(573,169)
Interest payments on long-term debt and interfund borrowing	(54,317)	(100,749)	(155,066)	(193,385)
Acquisition of property, plant and equipment	(3,688,406)	(2,024,776)	(5,713,182)	(12,667,235)
Increase (decrease) in due to other funds	(584,325)	-	(584,325)	530,849
Decrease in deferred revenue	(2,501,997)	-	(2,501,997)	(832,267)
Capital contributions received	3,757,009	3,058	3,760,067	10,295,148
Principal collections on special assessments	-	90,423	90,423	66,500
Sales tax revenue received	-	864,639	864,639	775,218
Transfers in	82,630	-	82,630	239,408
Transfers out	-	(115,250)	(115,250)	-
Refund of deferred charge	-	75,250	75,250	-
Net cash flows from capital and related financing activities	<u>(3,138,168)</u>	<u>(1,636,829)</u>	<u>(4,774,997)</u>	<u>(2,358,933)</u>
Cash flows from investing activities:				
Investment income received	33,855	60,808	94,663	534,115
Payments received on note	-	38,929	38,929	38,930
Net cash flows from investing activities	<u>33,855</u>	<u>99,737</u>	<u>133,592</u>	<u>573,045</u>
Net increase (decrease) in cash and cash equivalents	<u>(3,101,465)</u>	<u>(1,346,974)</u>	<u>(4,448,439)</u>	<u>156,427</u>
Cash and cash equivalents at beginning of year	<u>3,371,077</u>	<u>3,666,981</u>	<u>7,038,058</u>	<u>6,881,631</u>
Cash and cash equivalents at end of year	<u>\$ 269,612</u>	<u>2,320,007</u>	<u>2,589,619</u>	<u>7,038,058</u>
Cash and cash equivalents at end of year:				
Cash and investments	-	2,016,136	2,016,136	1,432,564
Cash and investments restricted for debt service and capital projects	269,612	303,871	573,483	5,605,494
	<u>\$ 269,612</u>	<u>2,320,007</u>	<u>2,589,619</u>	<u>7,038,058</u>

CITY OF HOMER, ALASKA
Enterprise Funds
Combining Statement of Cash Flows, continued
Year Ended December 31, 2002
(With Comparative Totals for 2001)

	Port of <u>Homer</u>	Water and Sewer <u>Utility</u>	<u>Totals</u>	
			<u>2002</u>	<u>2001</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:				
Operating loss	(402,556)	(1,385,983)	(1,788,539)	(1,691,955)
Adjustments to reconcile operating loss to net cash flows from operating activities:				
Depreciation	925,553	1,610,338	2,535,891	2,551,593
Increase (decrease) in allowance for doubtful accounts	(3,430)	2,094	(1,336)	13,637
Amortization of deferred lease revenue	(18,000)	-	(18,000)	(18,000)
Litigation settlement	58,259	-	58,259	40,821
Miscellaneous nonoperating revenues	108,874	25,097	133,971	107,502
Miscellaneous nonoperating expenses	-	(71,008)	(71,008)	(26,170)
(Increase) decrease in assets:				
Receivables	48,093	(48,123)	(30)	118,921
Inventory	(15,759)	(12,363)	(28,122)	(12,285)
Prepaid items	(10,534)	(21,213)	(31,747)	(1,733)
Litigation settlement receivable	62,742	-	62,742	59,15
Increase (decrease) in liabilities:				
Accounts payable	(824,138)	34,299	(789,839)	751,111
Accrued liabilities	23	2,942	2,965	(9,843)
Accrued leave	18,734	51,444	70,178	32,957
Prepaid rentals and deposits	54,987	2,594	57,581	35,331
Retirement incentive program	-	-	-	(8,762)
Net cash flows from operating activities	\$ <u>2,848</u>	<u>190,118</u>	<u>192,966</u>	<u>1,942,315</u>

CITY OF HOMER, ALASKA
Port of Homer Enterprise Fund
Statement of Net Assets
December 31, 2002
(With Comparative Amounts for 2001)

<u>Assets</u>	<u>2002</u>	<u>2001</u>
Current assets:		
Receivables:		
Accounts, net of allowance for doubtful accounts of \$36,452 in 2002 and \$39,882 in 2001	\$ 100,173	144,836
State and federal grants	282,042	1,520,421
Litigation settlement - current	<u>100,000</u>	<u>100,000</u>
Net receivables	482,215	1,765,257
Inventory	30,491	14,732
Prepaid items	<u>33,792</u>	<u>23,258</u>
Total current assets	<u>546,498</u>	<u>1,803,247</u>
Restricted assets- cash and investments restricted for debt service and harbor deferred maintenance and construction	<u>269,612</u>	<u>3,371,077</u>
Bond issuance costs, net of accumulated amortization of \$21,324 in 2002 and \$15,993 in 2001	<u>37,316</u>	<u>42,647</u>
Property, plant and equipment:		
Property, plant and equipment in service	48,726,748	31,985,003
Land and land improvements	15,254,041	15,254,041
Construction work in progress	-	13,053,339
Less accumulated depreciation	<u>(15,582,205)</u>	<u>(14,656,652)</u>
Net property, plant and equipment	<u>48,398,584</u>	<u>45,635,731</u>
Long-term portion of litigation receivable, net of 6% discount of \$141,762 in 2002 and \$179,020 in 2001	<u>458,238</u>	<u>520,980</u>
Total assets	<u>\$ 49,710,248</u>	<u>51,373,682</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Current liabilities:		
Accounts payable	63,106	887,244
Accrued liabilities	33,104	33,081
Accrued leave	113,881	95,147
Accrued interest	12,105	13,579
Current portion of bonds payable	145,000	148,762
Prepaid berth rentals and deposits	487,500	432,513
Due to other funds	314,693	899,018
Deferred revenue	<u>18,000</u>	<u>2,519,997</u>
Total current liabilities	1,187,389	5,029,341
Deferred lease revenue	450,000	468,000
Long-term debt, net of current portion - revenue bonds payable, net of deferred loss of \$42,750 in 2002 and \$48,857 in 2001	<u>962,250</u>	<u>1,101,143</u>
Total liabilities	<u>2,599,639</u>	<u>6,598,484</u>
Net assets:		
Invested in capital assets, net of related debt	47,291,334	44,385,826
Unrestricted	<u>(180,725)</u>	<u>389,372</u>
Total net assets	<u>\$ 47,110,609</u>	<u>44,775,198</u>

CITY OF HOMER, ALASKA
Port of Homer Enterprise Fund
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended December 31, 2002
(With Comparative Amounts for 2001)

	<u>2002</u>	<u>2001</u>
Operating revenues:		
Harbor	\$ 1,335,248	1,218,924
Main dock	105,545	128,982
Fish dock	708,203	665,006
Deep water dock	210,283	279,138
Uplands	233,698	240,732
Recreation facilities	<u>10,558</u>	<u>9,662</u>
Total operating revenues	<u>2,603,535</u>	<u>2,542,444</u>
Operating expenses, excluding depreciation:		
Harbor	816,423	736,225
Main dock	45,662	35,089
Fish dock	433,068	413,988
Deep water dock	45,487	48,206
Uplands	-	1,242
Recreation facilities	14,905	20,105
Administration	724,993	735,103
Depreciation	<u>925,553</u>	<u>951,944</u>
Total operating expenses, excluding depreciation	<u>3,006,091</u>	<u>2,941,902</u>
Operating loss	<u>(402,556)</u>	<u>(399,458)</u>
Nonoperating revenues (expenses):		
Investment income	33,855	348,618
Interest expense - bonds	(58,950)	(58,366)
Litigation settlement	58,259	40,821
Amortization of bond issuance costs	(5,331)	(5,331)
State of Alaska	-	11,783
Other income	108,874	95,719
Other expenses	<u>-</u>	<u>(26,170)</u>
Net nonoperating revenues (expenses)	<u>136,707</u>	<u>407,074</u>
Income (loss) before contributions and transfers	<u>(265,849)</u>	<u>7,616</u>
Capital contributions	2,518,630	11,652,999
Transfers in	<u>82,630</u>	<u>239,408</u>
Change in net assets	2,335,411	11,900,023
Net assets at beginning of year	<u>44,775,198</u>	<u>32,875,175</u>
Net assets at end of year	\$ <u>47,110,609</u>	<u>44,775,198</u>

CITY OF HOMER, ALASKA
Port of Homer Enterprise Fund
Statement of Cash Flows
Year Ended December 31, 2002
(With Comparative Amounts for 2001)

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 2,831,128	2,535,612
Other miscellaneous receipts	-	107,502
Payments to suppliers	(1,832,362)	(237,267)
Payments to employees	(1,054,177)	(966,931)
Litigation settlement	<u>58,259</u>	<u>40,821</u>
Net cash flows from operating activities	<u>2,848</u>	<u>1,479,737</u>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(148,762)	(148,746)
Interest payments on long-term debt and interfund borrowing	(54,317)	(53,609)
Acquisition of property, plant and equipment	(3,688,406)	(12,444,767)
Increase (decrease) in due to other funds	(584,325)	530,849
Decrease in deferred revenue	(2,501,997)	(832,267)
Capital contributions received	3,757,009	10,250,827
Transfers in	<u>82,630</u>	<u>239,408</u>
Net cash flows from capital and related financing activities	<u>(3,138,168)</u>	<u>(2,458,305)</u>
Cash flows from investing activities - investment income received	<u>33,855</u>	<u>416,343</u>
Net decrease in cash and cash equivalents	(3,101,465)	(562,225)
Cash and cash equivalents at beginning of year	<u>3,371,077</u>	<u>3,933,302</u>
Cash and cash equivalents at end of year	\$ <u>269,612</u>	<u>3,371,077</u>
Cash and cash equivalents at end of year - Cash and investments restricted for debt service and harbor deferred maintenance and construction	\$ <u>269,612</u>	<u>3,371,077</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (402,556)	(399,458)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation	925,553	951,944
Increase (decrease) in allowance for doubtful accounts	(3,430)	11,699
Amortization of deferred lease revenue	(18,000)	(18,000)
Litigation settlement	58,259	40,821
Miscellaneous nonoperating revenues	108,874	107,502
Miscellaneous nonoperating expenses	-	(26,170)
(Increase) decrease in assets:		
Receivables	48,093	(37,999)
Inventory	(15,759)	(1,364)
Prepaid items	(10,534)	(765)
Litigation settlement receivable	62,742	59,190
Increase (decrease) in liabilities:		
Accounts payable	(824,138)	744,945
Accrued liabilities	23	(5,730)
Accrued leave	18,734	30,418
Prepaid berth rentals and deposits	54,987	31,466
Retirement incentive program	-	(8,762)
Net cash flows from operating activities	\$ <u>2,848</u>	<u>1,479,737</u>

CITY OF HOMER, ALASKA
 Port of Homer Enterprise Fund
 Combining Schedule of Port of Homer Capital Projects
 Year Ended December 31, 2002

	Kachemak				
	Bay	Boat	Fish	Other	
	Pioneer	Harbor	Cleaning	Equipment	Totals
	<u>Dock</u>	<u>TORA</u>	<u>Station</u>		
Funding sources:					
State and federal grants	\$ 1,932,755	566,241	20,000	-	2,518,996
Port of Homer funds	<u>264,514</u>	<u>674,015</u>	<u>632</u>	<u>144,823</u>	<u>1,083,984</u>
Total funding sources	\$ <u>2,197,269</u>	<u>1,240,256</u>	<u>20,632</u>	<u>144,823</u>	<u>3,602,980</u>
Capital outlay:					
Salaries and benefits	22,367	4,677	292	-	27,336
Supplies	1,697	1,235,579	-	-	1,237,276
Other services and charges	2,173,205	-	20,340	6,674	2,200,219
Equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>138,149</u>	<u>138,149</u>
Total capital outlay	\$ <u>2,197,269</u>	<u>1,240,256</u>	<u>20,632</u>	<u>144,823</u>	<u>3,602,980</u>

CITY OF HOMER, ALASKA
Water and Sewer Utility Enterprise Fund
Statement of Net Assets
December 31, 2002
(With Comparative Amounts for 2001)

<u>Assets</u>	<u>2002</u>	<u>2001</u>
Current assets:		
Cash and investments	\$ 2,016,136	1,432,564
Receivables:		
Accounts, net of allowance for doubtful accounts of \$7,046 in 2002 and \$4,952 in 2001	153,513	129,757
Sales taxes	152,022	132,061
Assessments due within one year	28,668	29,586
State and federal grants and loans	2,013,272	17,406
Accrued interest	2,409	3,316
Net receivables	<u>2,349,884</u>	<u>312,126</u>
Inventory	133,641	121,278
Prepaid items	44,777	23,564
Current portion of note receivable	-	38,929
Deferred charges	-	75,250
Total current assets	<u>4,544,438</u>	<u>2,003,711</u>
Restricted assets - cash and investments restricted for debt service	<u>303,871</u>	<u>2,234,417</u>
Assessments due after one year	<u>98,113</u>	<u>187,618</u>
Bond issuance costs, net of accumulated amortization of \$20,392 in 2002 and \$15,294 in 2001	<u>16,392</u>	<u>21,490</u>
Property, plant and equipment:		
Property, plant and equipment in service	45,435,690	45,375,524
Land	107,239	107,239
Construction work in progress	2,152,194	187,584
Less accumulated depreciation	<u>(24,015,709)</u>	<u>(22,405,371)</u>
Net property, plant and equipment	<u>23,679,414</u>	<u>23,264,976</u>
Total assets	<u>\$ 28,642,228</u>	<u>27,712,212</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Current liabilities:		
Accounts payable	135,703	101,404
Accrued liabilities	29,137	26,195
Accrued leave	92,272	40,828
Accrued interest	22,427	24,325
Current portion of long-term debt	423,003	445,031
Customer utility deposits	<u>27,928</u>	<u>25,334</u>
Total current liabilities	<u>730,470</u>	<u>663,117</u>
Long-term debt, net of current portion:		
Notes payable	4,475,146	2,817,164
Revenue bonds payable, net of deferred loss of \$15,015 in 2002 and \$19,618 in 2001	<u>314,985</u>	<u>450,382</u>
Total liabilities	<u>5,520,601</u>	<u>3,930,663</u>
Net assets		
Invested in capital assets, net of related debt	18,466,280	19,552,399
Unrestricted	<u>4,655,347</u>	<u>4,229,150</u>
Total net assets	<u>\$ 23,121,627</u>	<u>23,781,549</u>

CITY OF HOMER, ALASKA
Water and Sewer Utility Enterprise Fund
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended December 31, 2002
(With Comparative Amounts for 2001)

	<u>2002</u>	<u>2001</u>
Operating revenues:		
Water charges and connection fees	\$ 1,204,898	1,160,849
Sewer charges and connection fees	1,008,461	797,348
Inspection fees	-	1,000
Total operating revenues	<u>2,213,359</u>	<u>1,959,197</u>
Operating expenses:		
Water department:		
Treatment plant operations and testing	226,180	205,876
Pumping system	49,142	58,605
Distribution system and reservoir	134,347	109,763
Water meters	57,960	44,569
Water hydrants	43,921	40,215
Administration	<u>481,109</u>	<u>336,779</u>
Total water department	<u>992,659</u>	<u>795,807</u>
Sewer department:		
Treatment plant	368,139	298,232
Collection system	71,844	109,515
Lift station	88,451	73,174
Administration	<u>467,911</u>	<u>375,317</u>
Total sewer department	<u>996,345</u>	<u>856,238</u>
Depreciation	<u>1,610,338</u>	<u>1,599,649</u>
Total operating expenses	<u>3,599,342</u>	<u>3,251,694</u>
Operating loss	\$ <u>(1,385,983)</u>	<u>(1,292,497)</u>

CITY OF HOMER, ALASKA
 Water and Sewer Utility Enterprise Fund
 Statement of Revenues, Expenses and Changes in Net Assets, continued
 Year Ended December 31, 2002
 (With Comparative Amounts for 2001)

	<u>2002</u>	<u>2001</u>
Nonoperating revenues (expenses):		
Investment income	\$ 59,901	92,232
Interest expense	(103,454)	(131,371)
Sales taxes	LIAW > P → 884,600	776,452
Amortization of bond issuance costs	(5,098)	(5,099)
Infiltration study	(31,818)	-
Other income	25,097	-
Other expenses	(39,190)	-
Net nonoperating revenues (expenses)	<u>790,038</u>	<u>732,214</u>
 Loss before contributions and transfers	 (595,945)	 (560,283)
Capital contributions	51,273	44,321
Transfers out	<u>(115,250)</u>	<u>-</u>
 Change in net assets	 (659,922)	 (515,962)
Net assets at beginning of year	<u>23,781,549</u>	<u>24,297,511</u>
Net assets at end of year	\$ <u>23,121,627</u>	<u>23,781,549</u>

CITY OF HOMER, ALASKA
Water and Sewer Utility Enterprise Fund
Statement of Cash Flows
Year Ended December 31, 2002
(With Comparative Amounts for 2001)

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 2,190,333	2,116,117
Payments to suppliers	(1,171,247)	(891,582)
Payments to employees	(828,968)	(761,957)
Net cash flows from operating activities	<u>190,118</u>	<u>462,578</u>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(429,424)	(424,423)
Interest payments on long-term debt	(100,749)	(139,776)
Acquisition of property, plant and equipment	(2,024,776)	(222,468)
Capital contributions received	3,058	44,321
Principal collections on special assessments	90,423	66,500
Sales tax revenue received	864,639	775,218
Transfers out	(115,250)	-
Refund of deferred charge	75,250	-
Net cash flows from capital and related financing activities	<u>(1,636,829)</u>	<u>99,372</u>
Cash flows from investing activities:		
Investment income received	60,808	117,772
Payments received on note	38,929	38,930
Net cash flows from investing activities	<u>99,737</u>	<u>156,702</u>
Increase (decreases) in cash and cash equivalents	(1,346,974)	718,652
Cash and cash equivalents at beginning of year	<u>3,666,981</u>	<u>2,948,329</u>
Cash and cash equivalents at end of year	\$ <u>2,320,007</u>	<u>3,666,981</u>
Cash and cash equivalents at end of year:		
Cash and investments	2,016,136	1,432,564
Cash and investments restricted for debt service	303,871	2,234,417
	\$ <u>2,320,007</u>	<u>3,666,981</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (1,385,983)	(1,292,497)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation	1,610,338	1,599,649
Increase in allowance for doubtful accounts	2,094	1,938
Miscellaneous nonoperating revenues	25,097	-
Miscellaneous nonoperating expenses	(71,008)	-
(Increase) decrease in assets:		
Receivables	(48,123)	156,920
Inventory	(12,363)	(10,921)
Prepaid items	(21,213)	(968)
Increase (decrease) in liabilities:		
Accounts payable	34,299	6,166
Accrued liabilities	2,942	(4,113)
Accrued leave	51,444	2,539
Deposits	2,594	3,865
Net cash flows from operating activities	\$ <u>190,118</u>	<u>462,578</u>

CITY OF HOMER, ALASKA
 Water and Sewer Utility Enterprise Fund
 Combining Schedule of Water and Sewer Utility Capital Projects
 Year Ended December 31, 2002

	Vehicles and Other Equipment	Water Storage	Hillside Acres LID	Harrington Heights LID	Mariner Drive LID	Forest Glen LID	East End LID	West Lakeshore LID	Thompson Drive LID	East Road LID	Totals
Funding sources:											
State and federal grants	\$ -	51,273	-	-	-	-	-	-	-	-	51,273
Capitalization loans	-	-	69,198	363,214	289,486	600,334	8,253	525,520	10,802	13,979	1,880,786
Water and Sewer Utility funds	<u>54,899</u>	<u>32,361</u>	<u>-</u>	<u>48</u>	<u>47</u>	<u>48</u>	<u>-</u>	<u>47</u>	<u>-</u>	<u>-</u>	<u>87,450</u>
Total funding sources	\$ <u>54,899</u>	<u>83,634</u>	<u>69,198</u>	<u>363,262</u>	<u>289,533</u>	<u>600,382</u>	<u>8,253</u>	<u>525,567</u>	<u>10,802</u>	<u>13,979</u>	<u>2,019,509</u>
Capital outlay:											
Salaries and benefits	-	2,469	4,416	4,374	7,964	11,232	595	10,014	108	224	41,396
Other services and charges	-	81,165	64,782	358,888	281,569	589,150	7,658	515,553	10,694	13,755	1,923,214
Equipment	<u>54,899</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>54,899</u>
Total capital outlay	\$ <u>54,899</u>	<u>83,634</u>	<u>69,198</u>	<u>363,262</u>	<u>289,533</u>	<u>600,382</u>	<u>8,253</u>	<u>525,567</u>	<u>10,802</u>	<u>13,979</u>	<u>2,019,509</u>

INTERNAL SERVICE FUND

The Internal Service Fund accounts for the financing of goods or services provided by one City department to another City department on a cost-reimbursement basis.

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

CITY OF HOMER, ALASKA
Risk Management Internal Service Fund
Statement of Net Assets
December 31, 2002
(With Comparative Amounts for 2001)

	<u>Assets</u>	<u>2002</u>	<u>2001</u>
Accounts receivable		\$ <u>17,251</u>	<u>27,027</u>
<u>Liabilities and Net Assets</u>			
Liabilities:			
Accounts payable		144,890	82,367
Due to other funds		<u>155,529</u>	<u>105,736</u>
Total liabilities		300,419	188,103
Net assets - deficit		<u>(283,168)</u>	<u>(161,076)</u>
Total liabilities and net assets		\$ <u>17,251</u>	<u>27,027</u>

CITY OF HOMER, ALASKA
Risk Management Internal Service Fund
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended December 31, 2002
(With Comparative Amounts for 2001)

	<u>2002</u>	<u>2001</u>
Operating revenues - interfund insurance charges	\$ <u>633,424</u>	<u>447,349</u>
Operating expenses:		
Claims	513,297	444,391
Insurance premiums	199,017	146,411
Administration	<u>43,202</u>	<u>40,269</u>
Total operating expenses	<u>755,516</u>	<u>631,071</u>
Net loss	(122,092)	(183,722)
Net assets - deficit at beginning of year	<u>(161,076)</u>	<u>22,646</u>
Net assets - deficit at end of year	\$ <u>(283,168)</u>	<u>(161,076)</u>

CITY OF HOMER, ALASKA
 Risk Management Internal Service Fund
 Statement of Cash Flows
 Year Ended December 31, 2002
 (With Comparative Amounts for 2001)

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Operating loss	\$ (122,092)	(183,722)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
(Increase) decrease in accounts receivable	9,776	(27,027)
Increase in accounts payable	<u>62,523</u>	<u>26,154</u>
Net cash flows from operating activities	(49,793)	(184,595)
 Cash flows from noncapital financing activities - increase in due to other funds	 <u>49,793</u>	 <u>105,736</u>
 Net decrease in cash and cash equivalents	 -	 (78,859)
 Cash and cash equivalents at beginning of year	 <u>-</u>	 <u>78,859</u>
 Cash and cash equivalents at end of year	 <u>\$ -</u>	 <u>-</u>

CITY OF HOMER, ALASKA
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2002

<u>Federal Grant Title</u>	<u>Grant Number</u>	<u>Catalog of Federal Assistance Number</u>	<u>Total Grant Award</u>	<u>Federal Share of Expenditures</u>
DEPARTMENT OF AGRICULTURE				
Community Recreation Facility	98G-10-037	10.670	\$ 12,500	5,911
Passed through the State of Alaska Department of Natural Resources - Volunteer Fire Assistance	39717	10.202	5,000	<u>5,000</u>
Total Department of Agriculture				<u>10,911</u>
DEPARTMENT OF INTERIOR				
Passed Through the State of Alaska Department of Natural Resources - Jack Gist Recreational Park	02-00369	15.916	169,792	125
Passed Through the State of Alaska Department of Fish and Game - Fish Cleaning Facilities (75% Federal)	Co-op 00-035	15.605	81,000	<u>15,000</u>
Total Department of Interior				<u>15,125</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed through the State of Alaska Department of Community and Economic Development South Peninsula Women's Shelter	824750	14.228	106,752	<u>73,102</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY				
Passed through the State of Alaska Department of Military and Veteran Affairs Kenai Peninsula Flooding and Winter Storm Disaster	DR-1445-AK	83.544	575,460	<u>377,318</u>
ENVIRONMENTAL PROTECTION AGENCY				
Passed through the State of Alaska Department of Environmental Conservation Clean Water Loan	409031	66.458	2,847,824	821,873
Drinking Water Loan	409041	66.468	2,801,614	<u>779,638</u>
Total Environmental Protection Agency				<u>1,601,511</u>
DEPARTMENT OF JUSTICE				
Bulletproof Vest Partnership	01006031	16.607	2,407	2,057
Internet Crimes Against Children	2001-MC-CX-K040	16.543	45,000	22,715
Passed through the City of Soldotna Byrne Memorial Drug Grant	None	16.580	6,722	<u>5,345</u>
Total Department of Justice				<u>30,117</u>
DEPARTMENT OF LABOR				
Passed through the State of Alaska Department of Administration, Alaska Commission on Aging Senior Employment Program	0225141	17.235	8,423	3,813
Senior Employment Program	0235141	17.235	8,424	<u>4,665</u>
Total Department of Labor				<u>8,478</u>
DEPARTMENT OF TRANSPORTATION				
Multi-Purpose Dock (U.S. Coast Guard)	N/A	20.xxx	5,787,240	1,932,755
Passed through the State of Alaska Department of Transportation and Public Facilities Safety Saturation Patrols	020215	20.600	20,304	14,518
Speed Enforcement Safety Project	PT 020513	20.600	26,271	26,116
Passed through the State of Alaska Department of Public Safety, Division of Alaska State Troopers Seat Belt Enforcement	DTNH 22-00-G-09051	20.205	10,631	<u>10,631</u>
Total Department of Transportation				<u>1,984,020</u>
Total Federal Financial Assistance			\$	<u>4,100,582</u>

CITY OF HOMER, ALASKA
 Schedule of State Financial Assistance
 Year Ended December 31, 2002

<u>Name of Award</u>	<u>Grant Number</u>	<u>Total Grant Award</u>	<u>State Share of Expenditures</u>
DEPARTMENT OF REVENUE:			
Raw Fish Tax	-	\$ 46,756	46,756
Electric and Telephone Sharing	-	22,396	22,396
Liquor License	-	17,700	<u>17,700</u>
Total Department of Revenue			<u>86,852</u>
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT:			
* State Revenue Sharing	830070	64,060	64,060
* Safe Communities	830315	104,433	104,433
New Animal Shelter	00/569-9-001	102,500	7,339
Community Recreation Facility	99/569-9-001	101,862	33,669
Fish Resource Landing Tax	-	3,670	3,670
* Ambulance Replacement	02-DC-024	100,000	<u>100,000</u>
Total Department of Community and Economic Development			<u>313,171</u>
DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT:			
Public Library Assistance	PLA-02-738-34	6,400	6,300
Public Library Assistance	PLA-03-738-34	6,250	<u>100</u>
Total Department of Education and Early Development			<u>6,400</u>
DEPARTMENT OF ENVIRONMENTAL CONSERVATION:			
* Water Storage Reservoir Design	40902	72,000	51,273
Infiltration and Inflow Study	40903	51,100	<u>22,273</u>
Total Department of Environmental Conservation			<u>73,546</u>
DEPARTMENT OF FISH AND GAME -			
Fish Cleaning Facilities (25% State)	Co-op 00-035	27,000	<u>5,000</u>
DEPARTMENT OF MILITARY AND VETERAN AFFAIRS -			
* Kenai Peninsula Flooding and Winter Storm Disaster	DR-1445	191,820	<u>125,773</u>
DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES:			
* Homer Small Boat Harbor Transfer	-	3,587,373	<u>566,241</u>
DEPARTMENT OF HEALTH AND SOCIAL SERVICES -			
Tobacco Sales to Minors	06844	3,900	<u>1,225</u>
DEPARTMENT OF PUBLIC SAFETY			
Drug Eradication Funds	None	636	<u>636</u>
Total State Financial Assistance		\$	<u>1,178,844</u>

* Major program

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Table 1

CITY OF HOMER, ALASKA

General Governmental Expenditures by Function (1)
Last Ten Fiscal Years

<u>Year Ended</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Library</u>	<u>Parks and Recreation</u>	<u>Airport</u>	<u>Other</u>	<u>Debt Service</u>	<u>Total</u>
1993	\$ 1,563,150	\$ 1,794,808	\$ 563,719	\$ 221,988	\$ 88,009	\$ -	\$ 191,891	\$ 644,916	\$ 5,068,481
1994	1,514,196	1,790,708	693,080	228,955	99,816	-	201,691	641,471	5,169,917
1995	1,214,321	2,090,374	706,829	223,189	62,887	-	184,948	615,976	5,098,524
1996	1,581,176	2,133,053	741,293	242,421	62,793	130,733	177,671	602,327	5,671,467
1997	1,376,588	2,210,412	736,465	255,315	103,671	112,490	205,523	608,050	5,608,514
1998	1,534,640	2,198,709	709,758	259,443	172,243	114,317	185,765	596,270	5,771,145
1999	1,421,672	2,608,205	773,563	284,742	217,261	134,262	161,884	619,284	6,220,873
2000	1,449,470	2,043,570	691,683	279,252	302,097	132,894	122,359	644,381	5,665,706
2001	1,685,478	2,164,793	803,036	298,541	342,943	107,541	109,796	631,719	6,143,847
2002	1,688,822	2,469,191	1,040,359	331,765	386,188	124,311	128,757	614,367	6,783,760

(1) Includes General Fund, Special Revenue Funds and Debt Service Funds

Table 2

CITY OF HOMER, ALASKA
 General Governmental Revenues by Source (1)
 Last Ten Fiscal Years

<u>Year Ended</u>	<u>Taxes</u>	<u>Licenses and Permits</u>	<u>Inter-governmental</u>	<u>Charges for Services</u>	<u>Fines</u>	<u>Investment Income</u>	<u>Special Assessments</u>	<u>Other</u>	<u>Total</u>
1993	\$ 3,198,991	\$ 4,556	\$ 624,583	\$ 1,195,998	\$ 12,456	\$ 132,252	\$ 79,726	\$ -	\$ 5,248,562
1994	3,349,574	5,634	867,477	825,613	11,466	152,339	170,568	-	5,382,671
1995	3,178,743	5,763	880,413	990,031	28,647	274,439	115,324	-	5,473,360
1996	2,979,162	8,994	1,011,222	1,027,391	28,419	237,933	98,011	-	5,391,132
1997	3,426,714	8,437	895,283	1,076,242	42,202	226,365	89,242	-	5,764,485
1998	3,042,702	7,745	912,538	1,077,224	33,343	296,095	103,462	-	5,473,109
1999	3,327,801	6,740	931,248	1,071,430	17,108	224,492	99,873	-	5,678,692
2000	3,382,688	10,042	781,218	1,326,039	25,044	210,638	85,325	-	5,820,994
2001	3,504,746	12,520	784,840	1,393,570	19,489	89,682	59,189	-	5,864,036
2002	3,962,127	17,000	765,845	2,045,851	35,577	56,977	43,412	77,081	7,003,870

(1) Includes General Fund, Special Revenue Funds and Debt Service Funds

Table 3

CITY OF HOMER, ALASKA

Tax Revenues by Source
Last Ten Fiscal Years

<u>Year Ended</u>	(1) Property <u>Tax</u>	(2) Sales <u>Tax</u>	<u>Total Taxes</u>
1993	\$ 1,107,099	\$ 2,695,852	\$ 3,802,951
1994	1,143,158	2,733,420	3,876,578
1995	1,162,195	2,971,413	4,133,608
1996	1,212,370	3,079,629	4,291,999
1997	1,280,563	3,145,130	4,425,693
1998	1,240,627	3,162,119	4,402,746
1999	1,347,712	3,465,156	4,812,868
2000	1,407,579	3,457,312	4,864,891
2001	1,428,622	3,622,824	5,051,446
2002	1,603,317	4,128,010	5,731,327

(1) Property tax for all years is recorded in the General Fund.

(2) In 1993 and 1997, sales tax revenues were recorded in the General Fund, Debt Service Funds and Sewer Enterprise Fund. In 1994 and 1995, sales tax revenues were recorded in the General Fund, Debt Service Funds, Capital Projects Funds and Sewer Enterprise Fund. In 1996, 1998, 1999, 2000, and 2001, sales tax revenues were recorded in the General Fund, Capital Projects Funds and Sewer Enterprise Fund. In 2002, sales tax revenues were recorded in the General Fund, Capital Projects Funds and Water and Sewer Enterprise Fund.

Table 4

CITY OF HOMER, ALASKA

Property Tax Levies and Collections
Last Ten Fiscal Years

<u>Year Ended</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Tax Collections</u>	<u>Total Collections as a Percent of Levy</u>	<u>Outstanding Delinquent Taxes</u>	<u>Outstanding Delinquent Taxes as a Percent of Total Taxes</u>
1993	\$1,067,013	\$ 988,267	92.62%	\$ 98,452	\$ 1,086,719	101.85%	\$ 96,682	8.90%
1994	1,116,945	1,033,867	92.56	86,869	1,120,736	100.34	81,336	7.26
1995	1,153,306	1,058,018	91.74	79,487	1,137,505	98.63	99,658	8.76
1996	1,198,613	1,101,388	91.89	93,663	1,195,051	99.70	77,326	6.22
1997	1,228,016	1,128,456	91.89	106,653	1,235,109	100.58	46,454	3.76
1998	1,184,204	1,119,732	94.56	89,848	1,209,580	102.15	48,046	4.06
1999	1,290,547	1,190,679	92.26	60,385	1,251,064	96.94	46,784	3.63
2000	1,328,213	1,245,592	93.78	90,071	1,335,663	100.56	46,617	3.51
2001	1,359,737	1,304,217	95.92	66,615	1,370,832	100.82	49,157	3.62
2002	1,634,651	1,491,221	91.23	53,515	1,544,736	94.50	81,258	4.97

Table 5

CITY OF HOMER, ALASKA
 Assessed Value of Taxable Property (1)
 Last Ten Fiscal Years

<u>Year Ended</u>	<u>Real Property</u>	<u>Personal Property (2)</u>	<u>Total</u>
1993	\$ 160,792,600	\$ 34,560,457	\$ 195,353,057
1994	166,210,870	36,870,116	203,080,986
1995	171,671,589	38,020,359	209,691,948
1996	177,061,261	40,868,391	217,929,652
1997	182,460,650	40,815,022	223,275,672
1998	191,928,412	23,381,415	215,309,827
1999	218,639,912	16,005,042	234,644,954
2000	223,830,212	17,663,028	241,493,240
2001	230,947,412	16,277,581	247,224,993
2002	307,199,562	19,730,539	326,930,101

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

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

Table 6

CITY OF HOMER, ALASKA

Property Tax Rates and Tax Levies -
All Direct and Overlapping Governments
Last Ten Fiscal Years

<u>Year Ended</u>	<u>City of Homer</u>	<u>Tax Rates (Mils)</u>			<u>Total</u>
		<u>Kenai Peninsula Borough</u>	<u>South Peninsula Hospital Service Area (a component unit of Kenai Peninsula Borough)</u>	<u>Kenai Peninsula College</u>	
1993	5.50	8.55	2.00	-	16.05
1994	5.50	8.59	2.00	0.03	16.12
1995	5.50	8.59	2.00	0.03	16.12
1996	5.50	8.30	2.00	0.04	15.84
1997	5.50	8.30	2.00	0.08	15.88
1998	5.50	8.30	2.00	0.08	15.88
1999	5.50	8.00	2.00	0.10	15.60
2000	5.50	7.50	2.00	0.10	15.10
2001	5.50	7.00	1.75	0.10	14.35
2002	5.00	6.50	1.75	0.10	13.35

<u>Year Ended</u>	<u>Tax Levies</u>				
1993	\$ 1,067,013	\$ 1,670,269	\$ 390,706	\$ -	\$ 3,127,988
1994	1,116,945	1,661,599	388,678	6,092	3,173,314
1995	1,153,306	1,801,254	419,384	6,291	3,380,235
1996	1,198,613	1,808,816	435,859	8,717	3,452,005
1997	1,228,016	1,853,188	446,551	17,862	3,545,617
1998	1,184,204	1,787,072	430,620	17,225	3,419,121
1999	1,290,547	1,877,160	469,290	23,464	3,660,461
2000	1,328,213	1,811,199	482,986	24,149	3,646,547
2001	1,359,737	1,730,575	432,644	24,772	3,547,728
2002	1,634,651	2,125,046	572,128	32,693	4,364,518

Table 7

CITY OF HOMER, ALASKA

Special Assessment Collections (1)
Last Ten Fiscal Years

<u>Year Ended</u>	<u>Current Assessments Billed</u>	<u>Total Assessments Collected in Current Year</u>	<u>Ratio of Collections to Amount Billed</u>	<u>Total Outstanding Assessments at Year End</u>
1993	\$ 109,181	\$ 304,539	278.93%	\$ 1,536,678
1994	151,033	302,227	200.11	1,277,388
1995	126,379	233,366	184.66	1,044,021
1996	113,525	216,008	190.27	828,013
1997	110,004	143,901	130.81	816,681
1998	130,614	169,889	130.07	646,792
1999	100,649	170,615	169.51	547,792
2000	91,980	132,738	144.31	415,243
2001	70,853	125,690	177.40	289,553
2002	58,509	87,535	149.61	202,018

(1) Includes special assessments recorded in the General Fund, Debt Service Funds, and Water and Sewer Enterprise Fund.

Table 8

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

<u>Year Ended</u>	<u>(1) Population</u>	<u>Assessed Value</u>	<u>(2) Gross Bonded Debt</u>	<u>Debt Service Moneys Available</u>	<u>(3) Debt Payable From Enterprise Revenues</u>	<u>Net Bonded Debt</u>	<u>Percent of Net Bonded Debt to Assessed Value</u>	<u>Net Bonded Debt Per Capita</u>
1993	4349	\$ 195,353,057	\$ 4,026,000	\$ 1,021,400	\$ 41,000	\$ 2,963,600	1.52	\$ 681
1994	4349	203,080,986	3,876,000	1,389,091	21,000	2,465,909	1.21	567
1995	4133	209,691,948	3,705,000	1,480,376	-	2,224,624	1.06	538
1996	4030	217,929,652	3,540,000	1,223,784	-	2,316,216	1.06	575
1997	4126	223,275,672	3,355,000	1,171,237	-	2,183,763	0.98	529
1998	4126	215,309,827	3,325,000	860,359	-	2,464,641	1.15	597
1999	4154	234,644,954	3,060,000	568,170	-	2,491,830	1.06	600
2000	4205	241,493,240	2,760,000	209,678	-	2,550,322	1.06	606
2001	3946	247,224,993	2,440,000	237,356	-	2,202,644	0.89	558
2002	4721	326,930,101	2,095,000	259,028	-	1,835,972	0.56	389

(1) Council determination.

(2) Includes all long-term general obligation bonded debt.

(3) Includes water obligation debt and port obligation debt. Data for 1994 includes water obligation debt only.

CITY OF HOMER, ALASKA

Legal Debt Margin
December 31, 2002

No debt limit is mandated by law.

CITY OF HOMER, ALASKA

Computation of Direct and Overlapping General Obligation Debt
December 31, 2002

<u>Name of Governmental Unit</u>	<u>Net Debt Outstanding</u>	<u>Percentage Applicable to this Government</u>	<u>City of Homer</u>
City of Homer	\$ 1,835,972	100.00%	\$ 1,835,972
Kenai Peninsula Borough	12,689,000	9.79%	<u>1,242,721</u>
			\$ <u>3,078,693</u>

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

<u>Year Ended</u>	<u>(1) Principal</u>	<u>(2) Interest</u>	<u>Total Debt Service</u>	<u>(2) Total General Expenditures</u>	<u>Percent of Debt Service to General Expenditures</u>
1993	\$ 147,500	\$ 305,201	\$ 452,701	\$ 5,067,481	8.93%
1994	162,500	299,357	461,857	5,169,917	8.93
1995	182,500	284,630	467,130	5,098,524	9.16
1996	197,500	272,431	469,931	5,671,467	8.29
1997	217,500	259,053	476,553	5,608,514	8.50
1998	205,000	220,981	425,981	5,771,145	7.39
1999	265,000	154,913	419,913	6,220,873	6.75
2000	300,000	127,054	427,054	5,665,706	7.54
2001	320,000	115,054	435,054	6,143,847	7.08
2002	345,000	101,831	446,831	6,783,760	6.59

- (1) Does not include debt service paid by the Sewer, Water and Port Enterprise Funds.
 (2) Includes General Fund and Debt Service Funds.

Table 12

CITY OF HOMER, ALASKA

Property Value, Construction and Bank Deposits
Last Ten Fiscal Years

Year Ended	Number of Commercial Permits Issued	Estimated Value	Number of Residential Permits Issued	Estimated Value	(1) Bank Deposits (in thousands)	(2) Property Values	
						Real	Personal
1993	16	\$ 2,714,500	18	\$ 1,209,500	\$ 82,108	\$ 160,792,600	\$ 34,560,459
1994	6	420,500	38	3,735,820	92,517	166,210,870	36,870,116
1995	14	2,187,000	33	2,766,500	81,739	171,671,589	38,020,359
1996	25	2,369,500	38	3,171,800	84,748	177,061,261	40,868,391
1997	12	3,934,000	42	3,730,265	64,731	182,460,650	40,815,022
1998	12	3,795,000	44	3,219,615	97,376	191,928,412	23,381,415
1999	7	2,060,000	20	3,646,000	N.A.	218,639,912	16,005,042
2000	6	1,030,000	23	2,611,040	N.A.	223,830,212	17,663,028
2001	8	1,785,800	27	3,582,220	N.A.	230,947,412	16,277,581
2002	8	5,024,740	34	4,395,180	N.A.	307,199,562	19,730,539

(1) Individual branch office.

(2) Kenai Peninsula Borough (property assessed at 100% of value).

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

CITY OF HOMER, ALASKA

Principal Taxpayers

December 31, 2002

<u>Taxpayer</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Total</u>
ACS of the Northland Inc.	\$ -	\$ 10,155,966	\$ 10,155,966
Homer Spit Properties, LLC	3,628,200	-	3,628,200
Lands End Acquisition Corp.	3,467,600	-	3,467,600
Harbor Enterprises, Inc.	2,833,600	-	2,833,600
National Bank of Alaska	2,729,400	-	2,729,400
Johnson John R & Judith E	2,166,700	-	2,166,700
Moore Kenneth & Roseleen	2,099,300	-	2,099,300
Spenard Builders Supply	1,958,512	-	1,958,512
CGF Properties, Inc.	1,833,300	-	1,833,300
Maritime Helicopters	-	1,825,883	1,825,883

CITY OF HOMER, ALASKA
Miscellaneous Statistical Data
December 31, 2002

Date of Incorporation	March 31, 1964
Authority for incorporation	State of Alaska Borough Act of 1961
Form of government	Council/Manager
Area in square miles	25
Miles of City-maintained street	46.33
Emergency services:	
Number of stations	1
Number of employees, inclusive of volunteers	52
Police protection:	
Number of stations	1
Number of employees	27
Municipal water department:	
Number of consumers	1,269
Water usage (in millions of gallons)	133
Miles of water lines	38
Sewers:	
Number of customers	1,153
Miles of sewer lines	45
Building permits issued	42
Recreation and culture:	
Number of parks (220.57 acres)	12
Number of libraries	1
Number of volumes	33,635
City employees as of December 31, 2002 (full and part-time):	
Regular employees	90
Regular part time employees	9
Temporary part time employees	10
Elections:	
Number of registered voters	4,000
Number of voters who cast ballots in last general election	1294
Percentage of registered voters voting in last general election	32.4%
Demographics:	
Median age (1)	38.8
Average annual wage per worker-borough-wide (2)	\$ 34,032
School enrollment, City of Homer (3)	1,284
Unemployment rate - borough-wide (2)	12.0%
Homeownership (1)	61.7%
Population (1)	4,721

- (1) Alaska Department of Community and Economic Development
(2) State of Alaska, Department of Labor
(3) Kenai Peninsula Borough School District

Table 15

CITY OF HOMER, ALASKA

Demographic Statistics
Last Ten Fiscal Years

<u>Year Ended</u>	(1) <u>Population</u>	(2) Annual Average Wage Per <u>Worker</u>	(1) Median <u>Age</u>	(3) School <u>Enrollment</u>	(2) Unemployment <u>Rate</u>
1993	4,349	\$ 29,508	32.4	1,486	12.3%
1994	4,349	29,844	32.4	1,317	12.6
1995	4,133	29,704	32.4	1,341	12.4
1996	4,030	29,548	32.4	1,364	14.1
1997	4,126	30,091	32.4	1,412	13.6
1998	4,126	30,050	32.4	1,321	9.8
1999	4,154	30,523	32.4	1,343	10.5
2000	4,205	32,275	32.4	1,311	10.2
2001	3,946	34,584	38.8	1,276	10.6
2002	4,721	34,032	38.8	1,284	12.0

(1) Alaska Department of Community and Economic Development

(2) State of Alaska, Department of Labor

(3) Kenai Peninsula Borough School District

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Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting 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 Basic financial statements of City of Homer as of and for the year ended December 31, 2002, and have issued our report thereon dated April 10, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether City of Homer's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Homer's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Homer in a separate letter dated April 10, 2003.

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

Mikunda, Cottrell & Co.

April 10, 2003

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

Honorable Mayor and City Council
City of Homer, Alaska

Compliance

We have audited the compliance of City of Homer with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2002. City of Homer's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questions costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Homer's management. Our responsibility is to express an opinion on City of Homer's compliance based on our audit.

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

In our opinion, City of Homer complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2002.

Honorable Mayor and City Council
City of Homer, Alaska

Internal Control Over Compliance

The management of City of Homer is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Homer's internal control over compliance with 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Mikunda, Cottrell & Co.

April 10, 2003

CITY OF HOMER, ALASKA

Schedule of Findings and Questioned Costs

Year Ended December 31, 2002

AUDIT RESULT

I. Summary of Auditor's Results:

Financial Statements:

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

- Material weaknesses identified?

yes no

- Reportable conditions identified that are not considered to be material weaknesses?

yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards:

Internal control over major programs:

- Material weaknesses identified?

yes no

- Reportable conditions identified that are not considered to be material weaknesses?

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

Major programs:

<u>Agency</u>	<u>CFDA Number</u>	<u>Program</u>
Environmental Protection Agency	66.458	Clean Water Loan
Environmental Protection Agency	66.468	Drinking Water Loan
Federal Emergency Management Agency	83.544	Flood Mitigation

Dollar threshold used to distinguish between Type A and B programs

\$300,000

Low-risk auditee

Yes

II. Financial Statement Findings

None noted

III. Federal Awards Findings and Questioned Costs

None noted

CITY OF HOMER, ALASKA
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2002

There were no prior year audit findings.

CITY OF HOMER, ALASKA

Corrective Action Plan

Year Ended December 31, 2002

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

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Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting 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 Basic financial statements of City of Homer as of and for the year ended December 31, 2002, and have issued our report thereon dated April 10, 2003. We conducted our audit in accordance with auditing standards generally accepted auditing 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.

Compliance

As part of obtaining reasonable assurance about whether City of Homer's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Homer's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of City of Homer in a separate letter dated April 10, 2003.

This report is intended solely for the information of the 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.

April 10, 2003

MIKUNDA, COTTRELL & Co.

A Professional Corporation

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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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, 2002. 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, general requirements, and the specific requirements 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, 2002.

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 state programs. In planning and performing our audit, we considered City of Homer's internal control over compliance with 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 and to test and report on the internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the 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.

April 10, 2003

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