

COMPREHENSIVE ANNUAL FINANCIAL REPORT

OF THE

CITY OF HOMER, ALASKA

Year Ended December 31, 2012

Mary E. Wythe
Mayor

Walt Wrede
City Manager

Prepared By
Finance Department

Regina Mauras, CPA, CFE, EA
Finance Director

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CITY OF HOMER, ALASKA

Comprehensive Annual Financial Report

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City of Homer

Homer, Alaska

May 7, 2013

To the Honorable Mayor Mary E. Wythe
Members of the City Council,
The Citizens of the City of Homer:

The Finance Department is pleased to submit the Comprehensive Annual Financial Report of the City of Homer, for the fiscal year ended December 31, 2012. 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.

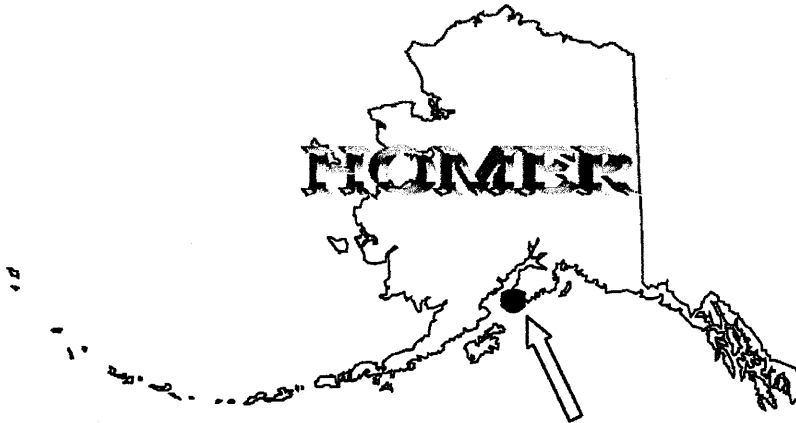
THE REPORT

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

THE REPORTING ENTITY AND ITS SERVICES

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



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

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

The annual budget of the City of Homer serves as the foundation for the City's financial planning and control. The budget is prepared by the city manager and adopted by the City Council in accordance with policies and procedures established by the city's ordinances.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. The appropriated budget is prepared and presented by fund, department (e.g. police) or function (e.g. debt service), and major cost category (e.g. personal services).

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

¹ Financial policies can be located beginning on page 15 of the City of Homer Annual 2012 Budget.

Capital Projects

Although the overall economy in the Homer area remains sluggish, visible signs of growth are apparent. This is especially true if growth is measured by capital investment in infrastructure. Much of this growth is currently fueled by public sector spending. Major capital projects that are planned, completed, or in progress in 2012 and 2013 include the following:

City of Homer Special Assessment District (SAD) Projects

A very significant portion of the City of Homer's financing (and debt) for capital project activity involves carrying out the City's commitment to provide basic water, sewer, and road services to community residents through the Homer Accelerated Water and Sewer Program (HAWSP) and the Homer Accelerated Roads and Trails Program (HART). Funding for projects under these programs is generated through a combination of dedicated sales taxes and assessments that are levied through Special Assessment Districts (SAD). Special Assessment Districts currently in the planning, design, and construction phase include:

- Kachemak Drive Water and Sewer Improvements (Phase II). This project will extend water and sewer service to eighty-eighty properties along Kachemak Drive beginning at East End Road. Design work began in 2006. The design, engineering, environmental research, and permitting was completed in 2010. In 2011, the LID was finalized, a construction contract was awarded, and construction began. The construction was completed in 2012.
- Kachemak Drive Water and Sewer Improvements (Phase III). This project would close the loop on Kachemak Drive and link water and sewer improvements constructed during Phases I and II. This potential SAD failed at the petition phase but the City anticipates that local property owners will mount another effort. The City plans to close the water loop independently using a grant funds. Design work is anticipated in 2013.
- Crittenden Drive. This is a road SAD that has worked its way through the approval and formation process and is ready to go to bid. Construction is anticipated in 2013. This project would reconstruct and pave an important road in the downtown area that serves a major motel and provides access to an adjacent neighborhood.
- Waddell St. This potential road SAD serves the neighborhood accessed by Crittenden Drive. The SAD has been approved by the affected property owners and is currently scheduled for final approval by the City Council. Construction is anticipated in 2013.
- Gas Utility SAD. In 2012 the Homer City Council approved a natural gas distribution system SAD. The City sold a bond to the Kenai Peninsula Borough in the amount of \$12.7 Million. The revenue from the bond sale will be used to finance construction of gas mains in approximately 73 miles of road within the City limits. Construction of Phase I, the downtown core, will begin in May of 2013.

OTHER CITY CAPITAL PROJECTS

- Deep Water Dock: The City and the Alaska Department of Transportation and Public Facilities recently entered into a Transfer of Responsibility Agreement (TORA) under which the City will take full responsibility for the project. Under this agreement, a \$2 million dollar federal earmark approved in 2005 will be combined with a \$1 million Legislative Grant to conduct a feasibility study on expanding and strengthening the Deep Water Dock. Feasibility work will commence in 2013.

- **Skyline Drive Fire Station:** At the City's request, the Legislature re-appropriated a \$ 2 million grant intended for improvements at the Main St. and Sterling Highway intersection to construction of the long awaited fire station on Skyline Drive. Engineering and design is anticipated in 2013.
- **Harbormaster's Office:** The legislative re-appropriation described above also provided most of the funding needed for a new harbormaster's office. The remaining funds are currently being identified and preliminary design work is expected in 2013.
- **Natural Gas Trunk Line:** The 2012 State Capital Budget contained an \$8.15 Million grant to the City of Homer for construction of a natural gas trunk line from Anchor Point, through Homer, and on to Kachemak City. This is the large diameter pipe that will bring gas into Homer and serve the distribution system described above. Construction is scheduled for 2013.
- **Spit Trail:** The City has received approximately \$2.1 Million in Legislative and Scenic Byways grants to complete the Spit Trail and make improvements to End of the Road Park. The City and the Department of Transportation and Public Facilities recently entered into a Transfer of Responsibility Agreement (TORA) which enables the City to proceed with the project. Engineering, design, and much of the construction is scheduled for 2013.
- **Load and Launch Ramp:** The City and the Alaska Department of Fish and Game recently entered into a Memorandum of Understanding regarding the reconstruction and rehabilitation of the Load and Launch Ramp in the harbor. The state is expected to bring about \$3 million to the table in construction funds and is paying for all of the engineering and design work. The City will be expected to contribute a local match for construction. Engineering and design commenced in 2012 and will continue into 2013. Construction is anticipated in 2014.
- **Harbor Revenue Bond Projects:** The City Council has identified several priority harbor improvement projects that total approximately \$ 8.9 million. Engineering and design funds were secured through a Denali Commission grant and a local match of harbor reserve funds. \$ 4.2 Million of the construction cost is included in the 2014 State Capital Budget and the City will raise another \$4.2 million through the sale of revenue bonds. The sale of those bonds was recently approved by the Alaska Municipal Bond Bank. Construction activity will commence in 2013 and be completed in 2014.
- **Cruise Ship Passenger Amenities:** In 2011 the City received a Legislative Grant in the amount of \$6 million for improvements that directly benefit cruise ship passengers. Improvements will include a pathway around the harbor, a passenger staging area, restrooms at various locations, and improvements at the Deep Water Dock that will make docking and movement of passengers easier and more comfortable. Engineering and Design commenced in 2012 and construction is schedule for 2013.
- **Parks and Recreation:** The remainder of the grant funding for Phase I of the Karen Hornaday Parks Improvements will be expended in 2013. The remaining money will be used primarily for improvements to the Day Use Area. Construction will be completed in 2013.

Kenai Peninsula Borough Projects

- The most significant Borough project in the Homer area at the moment is the closure of the landfill. This is a \$10 Million dollar project expected to be largely completed in 2012 or 2013. Construction began in 2011.
- The 2014 State Capital Budget contains partial funding to install artificial turf at the Homer High School football field and to improve various Borough roads.
- The 2014 State Capital Budget contains funds to convert South Peninsula Hospital to natural gas.

State of Alaska Projects

- A major airport improvement and expansion project is scheduled within the next few years pending the availability of funds.
- Funding to proceed with planned East End Road Improvements (beyond M.P. 3.5) is anticipated.
- The State has made repair and upgrade of Lake Street a priority STIP project and preliminary planning and scoping has begun. Construction is anticipated in 2014.

Major Private Sector Projects

- Due to the overall downturn in the economy, the City did not experience large private capital investments or developments in 2012. Things appeared to be turning around slightly at the end of 2012 with renewed interest in subdivisions and construction.

FACTORS AFFECTING FINANCIAL CONDITION

Economy

Homer's economy is relatively diverse for a community of its size. Major seasonal components of the economy include commercial fishing, sport fishing, recreation, and the visitor industry. The primary employers include South Peninsula Hospital, Homer Electric Association, the Federal, State, Borough, and City governments, the marine trades, the service industry, a thriving non-profit sector, arts and music, independent entrepreneurs, and small, locally owned businesses. Homer has been the number one commercial halibut port in the state in terms of pounds landed. The community has many economic assets including the largest single basin boat harbor in the state, an open access year around ice free port, an excellent airport, and access to the national highway system. Major attractions include the Pratt Museum, the Islands and Ocean Center, numerous art galleries, and unlimited recreational opportunities.

The City Council recently adopted a new Comprehensive Economic development Strategy (CEDS). One of the objectives in adopting the Plan was to define and articulate the types of economic development the community supports and how to stimulate it. The Council is presently discussing implementation priorities and strategies. Large prospects for the future that could impact the local economy include green technology and energy development (both renewable and non-renewable), a proposed expansion of the Deep Water Dock, expansion and

improvements at the airport, expansion of the Pratt Museum, the prospect of bringing natural gas to Homer, and development of the Pebble Mine. The CEDS places a strong emphasis on local food production, a sustainable economy based upon small local businesses, and building upon what Homer already is.

Economic growth in Homer has slowed over the past few years much as it has in the rest of the country. Economic activity in most sectors has declined. The City of Homer has been able to avoid significant cuts in programs and services so far due to conservative budgeting and fiscal management practices. But additional revenues will be needed in order to provide the high quality services residents expect and to keep up with maintenance, repair, and replacement obligations. It is important for the City to encourage the creation of more year around job opportunities so that young people can remain and working families can afford to live here.

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 2012 Annual Budget. The document details the City's long-term goals and financial policies, describes program accomplishments and initiatives, and outlines the City's capital improvement program. The City's Annual Budget also includes long-term financial plans for the major operating funds that forecast revenues and expenditures over a ten -year horizon. The document can be obtained from the City of Homer's Finance Department by calling (907) 235-8121. The Annual Budget can also be accessed through the City's web site at www.ci.homer.ak.us and selecting the Finance Department.

FINANCIAL INFORMATION

Single Audit

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

ACCOUNTING SYSTEM AND BUDGETARY CONTROLS

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

Cash Management

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

- (1) U.S. Treasury securities - 3 years.
- (2) Other obligations by the U. S. Government, its agencies, and instrumentalities - 3 years.

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

Risk Management

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

Awards and Acknowledgements

Certification of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Homer for its comprehensive annual financial report for the fiscal year ended December 31, 2010.

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

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

Acknowledgements

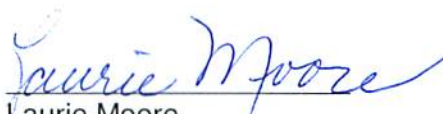
The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the City of Homer. We would like to particularly express our appreciation to Laurel Moore, Jo Earls, Jenna deLumeau, Joanne Perret, Lori Sorrows, and Juli Swisher of the Finance Department. We appreciate the contributions of the staff of Mikunda, Cottrell & Co. and their professional manner, patience and communication skills in conducting 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



Laurie Moore
Interim Finance Director

CITY OF HOMER
Principal City Officials

Mayor

Mary E. Wythe

City Council

David Lewis
James Dolma
Bryan Zak

Francie Roberts
Barbara Howard
Beauregard Burgess

City Administration

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

Walt Wrede
Thomas Klinkner
Jo Johnson
Regina Mauras
Bob Painter
Anne Dixon
Rick Abboud
Mark Robl
Bryan Hawkins
Carey Meyer

City of Homer Organizational Chart

People of Homer

Mayor & City Council

Attorney

Auditor

Council Task Forces
and Committees

Advisory Commissions

City Manager

Public Safety
Police and Fire

Public Works

Port and Harbor

Administration
and Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Homer
Alaska

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2011

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.



Linda C. Danson

President

Jeffrey R. Emer

Executive Director

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Homer, Alaska, as of and for the year ended December 31, 2012 and the related notes to the financial statements, which collectively comprise City of Homer's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Homer, Alaska, as of December 31, 2012, and the respective changes in financial position, and cash flows where applicable, thereof and the respective budgetary comparison for the General Fund and the Utility Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2012, City of Homer adopted the provisions of Governmental Accounting Standards Board (GASB) Statement number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and the provisions of GASB Statement number 65, *Items Previously Reported as Assets and Liabilities*. These provisions have been retrospectively applied to all periods presented in these financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit for the year ended December 31, 2012 was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Homer's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, the Schedule of State Financial Assistance, and the combining and 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 and the Schedule of State Financial Assistance are required by OMB Circular A-133 and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audit*, respectively.

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

The accompanying Schedule of Expenditures of Federal Awards, the Schedule of State Financial Assistance, and the combining and individual fund financial statements and schedules listed in the table of contents, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended December 31, 2012 and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole for the year ended December 31, 2012.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, City of Homer's basic financial statements for the year ended December 31, 2011 which are not presented with the accompanying financial statements. In our report dated May 4, 2012, we expressed unqualified opinions on the respective financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information. The individual fund financial statements and schedules related to the December 31, 2011 financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the December 31, 2011 financial statements. The information has been subjected to the auditing procedures applied in the audit of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended December 31, 2011.

The other data included in this report, designated as the "introductory" and "statistical" section in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2013 on our consideration of City of Homer's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Homer's internal control over financial reporting and compliance.

Mikunda, Cottrell & Co.

Anchorage, Alaska
May 7, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF HOMER

Management's Discussion and Analysis

December 31, 2012

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, 2012. Readers are encouraged to read this narrative in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this *section*. ***All amounts reported in this MD&A, unless otherwise indicated, are expressed in thousands of dollars.***

Financial Highlights

- The assets of the City of Homer exceeded its liabilities at December 31, 2012, by \$127,206 (Net Position). Of this amount, unrestricted net position of \$16,501 may be used to meet the City's ongoing obligations to citizens and creditors. The City's total net position decreased by \$179.

As of December 31, 2012, the City's governmental funds reported combined ending fund balances of \$20,407, an increase of \$170 from the prior year. The increase is due to the Utility Fund operating losses of \$141, and HART Roads and Non-major Funds not completing major capital projects during the year.

- At the end of the current year, the fund balance for the General Fund was \$6,089. Of this amount, \$5,661 was unassigned and available for spending.
- At year-end, the City of Homer's outstanding debt totals \$17,319, an increase of \$689 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.

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

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

Illustration A-1
Major Features of City of Homer’s Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City government	The activities of the City that are not proprietary, such as police, fire, public works, and water/sewer utility	Activities the City operates similar to private businesses; port & harbor
Required financial statements	*Statement of net position *Statement of activities	*Balance sheet *Statement of revenues, expenditures and changes in fund balance	*Statement of net position *Statement of revenues, expenses and changes in net position *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

Illustration A-1 summarizes the major features of the City's financial statements. The remainder of this overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Government-wide Financial Statements

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

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

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

- Governmental activities - These are functions such as public safety and public works services that are principally supported by taxes and intergovernmental revenue.
- Business-type activities - These functions are intended to recover all or a significant portion of their costs through user fees and charges. The City's port & harbor system 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 thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds. Individual fund data for each of the non-major funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund and Utility Special Revenue Fund. Budgetary comparison statements are provided for these funds to demonstrate compliance with the budgets.

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 one enterprise fund to account for its port & harbor system.
- Internal service funds - Are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its self-insured health benefit and accrued leave cash-outs.

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 28-49 of this report.

Government-wide Financial Analysis

At the close of the 2012 fiscal year, the City's net position (assets exceeding liabilities) totaled \$127,206 (see Table A-1). Of this amount \$104,013, or 82%, 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 amounts of net position are labeled as restricted or unrestricted.

The restricted balances of \$8,340 in the governmental activities is for debt service and capital projects. There is no debt service for the business-type activities. The total unrestricted amount totals \$14,853 and is available to meet the City's ongoing obligations to citizens and creditors.

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

Table A-1
City of Homer's Net Position

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>		<u>Activities</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 24,289	24,478	2,665	1,460	26,954	25,938
Capital assets	<u>81,072</u>	<u>80,247</u>	<u>40,260</u>	<u>40,597</u>	<u>121,332</u>	<u>120,844</u>
Total assets	<u>105,361</u>	<u>104,725</u>	<u>42,925</u>	<u>42,057</u>	<u>148,286</u>	<u>146,782</u>
Non-Current liabilities	17,281	16,495	407	409	17,688	16,904
Other liabilities	<u>1,990</u>	<u>1,555</u>	<u>1,402</u>	<u>938</u>	<u>3,392</u>	<u>2,493</u>
Total liabilities	<u>19,271</u>	<u>18,050</u>	<u>1,809</u>	<u>1,347</u>	<u>21,080</u>	<u>19,397</u>
Net Position:						
Invested in capital assets, net of related debt	63,753	63,617	40,260	40,597	104,013	104,214
Restricted	6,692	7,284	-	-	6,692	7,284
Unrestricted	<u>15,645</u>	<u>15,774</u>	<u>856</u>	<u>112</u>	<u>16,501</u>	<u>15,887</u>
Total net position	<u>\$ 86,090</u>	<u>86,675</u>	<u>41,116</u>	<u>40,709</u>	<u>127,206</u>	<u>127,385</u>

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

	Governmental Activities		Business-Type Activities		Total Activities	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Program revenues:						
Charges for services	\$ 4,357	4,414	3,917	3,563	8,275	7,977
Operating grants and contributions	1,378	734	250	103	1,628	837
Capital grants and contributions	1,699	2,983	883	59	2,582	3,042
General revenues:						
Property taxes	2,999	2,922	-	-	2,999	2,922
Sales taxes	7,031	7,059	-	-	7,031	7,059
Other	809	1,222	233	191	1,042	1,413
Total revenues	<u>18,273</u>	<u>19,334</u>	<u>5,283</u>	<u>3,916</u>	<u>23,557</u>	<u>23,250</u>
Expenses:						
General government	3,889	3,908	-	-	3,889	3,908
Public safety	4,757	4,452	-	-	4,757	4,452
Public works	2,681	2,613	-	-	2,681	2,613
Library	988	943	-	-	988	943
Airport	284	281	-	-	284	281
Parks and recreation	512	388	-	-	512	388
Community services	899	586	-	-	899	586
Unallocated interest	251	226	-	-	251	226
Port and harbor	-	-	4,877	4,650	4,877	4,650
Water and sewer	4,598	4,263	-	-	4,598	4,263
Total expenses	<u>18,859</u>	<u>17,660</u>	<u>4,877</u>	<u>4,650</u>	<u>23,736</u>	<u>22,310</u>
Increase (decrease) in net position before transfers	(586)	1,674	406	(734)	(179)	940
Transfers	<u>-</u>	<u>131</u>	<u>-</u>	<u>(131)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	(586)	1,805	406	(865)	(179)	940
Beginning net position	<u>86,676</u>	<u>84,871</u>	<u>40,710</u>	<u>41,575</u>	<u>127,384</u>	<u>126,446</u>
Ending net position	\$ <u>86,090</u>	<u>86,676</u>	<u>41,116</u>	<u>40,710</u>	<u>127,206</u>	<u>127,386</u>

As reflected in Table A-2, the City’s net position decreased by \$179. Expenses exceeded revenues in the governmental activities by \$586, and in the business-type activities revenues exceeded expenses by \$406. Key elements of the increases and decreases follow:

- Revenues increased, by approximately \$309 in 2012 from 2011.
 - Sales Taxes reflect a decrease from 2012. This breakdown shows the Sales Taxes by fund to receive them. Changes in sales tax dollars from 2012 to 2011 are as follows:

Fund	2012	2011	Decrease in 2012
General	\$4,699	\$4,684	15
HART – Roads	1,057	1,061	(4)
HART – Trails	100	135	(35)
Utility(Water/Sewer-HAWSP)	1,175	1,179	(4)
Total	\$7,031	\$7,059	(28)

- Capital grants and contributions decreased by \$460.
 - Property taxes increased by \$77, due to a decline in property values.
- Expenses in the governmental activities increased by \$1,199 for 2012.

Financial Analysis of the Governmental Funds

Governmental funds - The focus of the City of Homer's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned 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, 2012, the City's governmental funds reported combined ending fund balances of \$20,407, an increase of \$170 compared to balances a year earlier. Of the ending balance, \$5,598, or 27% is unassigned and is available to the City for future spending. Most of the remaining fund balance is restricted for Roads (\$6,692), Permanent Fund, (\$1,648), or assigned for future capital projects (\$2,660); and non-spendable in the form of inventory and prepaid items (\$507). The increase of total fund balance during the year is attributed to:

- In the General Fund, expenditures and transfers out to other funds totaled \$12,192 compared to revenues and transfers in of \$11,552. The \$(639) decrease in the General Fund balance was actually less than the final budgeted net change in fund balance of \$(959). This was primarily due to higher than expected property taxes and sales taxes.
- The City Facilities Capital Projects is utilized for the acquisition, construction, or repair of major capital facilities.
- The Streets and Sidewalks (HART) Project Funds are used for the repair and replacement of streets and sidewalks. The voters designated three fourths (¾)% of all sales tax revenue received to go towards the improvement of streets and sidewalks. In 2012, \$1,057 was received from sales taxes and \$26 was received from interest earned on this revenue. Council designated 10% of sales tax revenue earmarked for HART is designated specifically for trails. In 2012, \$100 was put aside for trails.

- In the Non-major funds category, the City maintains five capital project funds that account for the use of intergovernmental grants, dedicated sales tax, and department transfers to support the construction of capital improvements. Financial resources in these funds are intended to eventually be totally expended once the capital improvements have been completed. Included in this category are:
 - The Depreciation Reserves was set up for the replacement of aged equipment and buildings. Funds are transferred annually from individual departments to keep in savings until equipment/buildings are replaced. In 2012 \$579 was transferred into this fund, \$168 was used to replace/purchase new equipment.
 - The Fleet Reserve Account is used for the planned rotation basis of the City's fleet of vehicles. Funds are transferred from individual departments to keep in savings until vehicles are replaced or purchased. In 2012, \$246 was received in this fund as a transfer.

General Fund Budgetary Highlights

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

- Original expenditures budget was amended to recognize PERS relief for all general fund departments with employees.

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, 2012, totals \$121,332 (net of accumulated depreciation). This amount represents a \$487 increase over the previous year.

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

	Governmental Activities		Business-Type Activities		Total Activities	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 10,676	10,569	15,254	15,254	25,930	25,823
Buildings	49,614	48,837	13,035	13,035	62,649	61,872
Improvements other than Buildings	44,635	37,712	37,535	37,366	82,170	75,078
Machinery and equipment	14,139	13,801	3,108	3,097	17,247	16,898
Infrastructure	29,421	29,373	-	-	29,421	29,373
Construction in progress	1,002	4,910	852	-	1,854	4,910
Accumulated depreciation	<u>(68,415)</u>	<u>(64,955)</u>	<u>(29,524)</u>	<u>(28,154)</u>	<u>(97,939)</u>	<u>(93,109)</u>
Total capital assets	\$ <u>81,072</u>	<u>80,247</u>	<u>40,260</u>	<u>40,598</u>	<u>121,332</u>	<u>120,845</u>

Major capital asset events during the 2012 year included:

- General Fund:
 - Beluga Slough
 - Boiler Replacement
 - Fishing Lagoon Dredging
 - Airport Front Door Replacement
 - Steamer Unit
 - Vapor Steamer

Construction in progress associated with the General Fund activities include Karen Hornaday Park improvements.

- Utility (Water/Sewer) Special Revenue:
 - Kachemak Dr Phase II water/sewer
 - Belugas Lift Station
 - Steamer Unit
 - Polymer Feed Equipment Replacement
 - Pressure Reducing Station

Construction in progress associated with the Utility Special Revenue Fund activities include .

- Port & Harbor:
 - Fish Cleaning Table
 - Security Gates and Cameras
 - Cruise Ship Enhancements
 - Fish Dock Corrosion and Access Improvements

Additional information on the City’s capital assets can be found in note 5 on pages 38-40 of this report.

**Table A-4
City of Homer’s Debt**

	Governmental Activities		Business-Type Activities		Total Activities	
	2012	2011	2012	2011	2012	2011
Notes payable	\$ 1,369	1,410	-	-	1,369	1,410
Notes payable – Utility	<u>15,950</u>	<u>15,220</u>	<u>-</u>	<u>-</u>	<u>15,950</u>	<u>15,220</u>
Total	17,319	16,630	-	-	17,319	16,630
Compensated absences	<u>752</u>	<u>666</u>	<u>155</u>	<u>140</u>	<u>907</u>	<u>806</u>
Total long-term debt	\$ <u>18,071</u>	<u>17,296</u>	<u>155</u>	<u>140</u>	<u>18,226</u>	<u>17,436</u>

Long-term debt - At the end of the 2012 year, the City of Homer had total debt outstanding of \$17,319 as detailed in Table A-4. This excludes \$907 related to compensated absences.

The notes payables listed under Notes Payable Utility are used to add water and sewer lines and services to areas. Additionally, the new water treatment plant was built utilizing a loan. Loans are received through Alaska Department of Environmental Conservation for 20 year periods at 1.5% interest. Currently seventy five percent of the loans are repaid by the customer through an “LID” (Land Improvement District). Twenty five percent of the loans are paid back by the City of Homer with designated sales tax revenues.

Additional information on the City’s long-term debt can be found in note 6 on pages 40-42 of this report.

Economic Factors and Next Year's Budgets and Rates

The number of vacant and unfunded positions continues to be a problem and the uncertainty about the economy and the loss of revenue associated with the sales tax exemption for unprepared foods casts doubt over future revenues.

Overall, the General Fund is showing an increase of revenues over expenditures of \$530,278, before transferring funds to reserve accounts. The increase is due in part to maintaining staffing levels at the 2011 level and not providing COLA's to personnel since 2009.

The Water and Sewer Utility Fund remains vulnerable because of the basic structural flaws. The City owns a production and distribution system infrastructure that is very expensive to operate and maintain and has relatively few customers to pay for it. The City has a reliable source of funds to build things and expand the infrastructure (dedicated sales tax) but inadequate funds to maintain it all (user fees). There is intense political pressure to keep fees down even though doing so may not be in the best long term interest of the Fund. The Water/Sewer fund shows an excess of revenue over expenditures in the amount of \$202,422 before capital outlays of \$1,888,835 causing a net decrease in Fund Balance of \$1,686,413 before transfers and issuance of long-term debt. The Fund's debt load is significant and will limit opportunities to finance new projects or expansion of the distribution and collection system for the next few years. This is a problem because one of the solutions to the revenue problem is to increase the number of customers.

The Port and Harbor Enterprise Fund is showing an excess in revenues over expenditures of \$645,651 before depreciation due to an increase in rates which were implemented due to anticipated bonded projects. Additionally, there has been an increase in activity at the docks, ramps and tidelands.

Requests for Information

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

Finance Department

City of Homer

491 E. Pioneer Ave. Homer, Alaska 99603

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

BASIC FINANCIAL STATEMENTS

CITY OF HOMER, ALASKA

Statement of Net Position

December 31, 2012

<u>Assets</u>	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
Cash and investments	\$ 15,023,100	1,550,237	16,573,337
Receivables, net of allowance for doubtful accounts:			
Accounts	237,294	345,545	582,839
Sales and property taxes	1,269,886	-	1,269,886
State and federal grants and loans	2,682,326	779,990	3,462,316
Assessments	2,783,820	-	2,783,820
Other	90,000	-	90,000
Internal balances	73,581	(73,581)	-
Inventory	251,674	14,712	266,386
Prepaid items	228,901	47,981	276,882
Restricted cash and investments	1,648,032	-	1,648,032
Capital assets not being depreciated - land and construction in progress	11,678,257	16,106,284	27,784,541
Other capital assets, net of accumulated depreciation	<u>69,393,744</u>	<u>24,153,613</u>	<u>93,547,357</u>
 Total assets	 \$ <u>105,360,615</u>	 <u>42,924,781</u>	 <u>148,285,396</u>
 <u>Liabilities</u>			
Accounts payable	748,710	592,682	1,341,392
Accrued payroll and related liabilities	346,918	36,103	383,021
Accrued leave	102,292	17,751	120,043
Accrued interest payable	32,163	-	32,163
Prepaid rentals and deposits	51,910	736,958	788,868
Unearned revenue	20,110	18,000	38,110
Current portion of notes payable	687,909	-	687,909
Noncurrent liabilities, net of current portion:			
Notes payable	16,631,465	-	16,631,465
Accrued leave	649,578	137,289	786,867
Unearned revenue	-	270,000	270,000
Total liabilities	<u>19,271,055</u>	<u>1,808,783</u>	<u>21,079,838</u>
 <u>Net Position</u>			
Invested in capital assets, net of related debt	63,752,627	40,259,897	104,012,524
Restricted - roads and trails	6,691,992	-	6,691,992
Unrestricted	<u>15,644,941</u>	<u>856,101</u>	<u>16,501,042</u>
Total net position	<u>86,089,560</u>	<u>41,115,998</u>	<u>127,205,558</u>
 Total liabilities and net position	 \$ <u>105,360,615</u>	 <u>42,924,781</u>	 <u>148,285,396</u>

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA

Statement of Activities
Year Ended December 31, 2012

Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Fees, Fines & Charges for Services	Operating Grants & Contri- butions	Capital Grants & Contri- butions	Govern- mental Activities	Business- type Activities	Total
Governmental:							
General government	\$ 3,889,598	515,737	178,688	49,401	(3,145,772)	-	(3,145,772)
Public safety	4,757,442	234,527	842,100	-	(3,680,815)	-	(3,680,815)
Public works	2,680,878	6,048	144,935	-	(2,529,895)	-	(2,529,895)
Library	987,638	-	58,466	5,793	(923,379)	-	(923,379)
Airport	283,619	170,609	4,065	-	(108,945)	-	(108,945)
Parks and recreation	512,081	129,070	-	1,218,547	835,536	-	835,536
Community services	899,357	28,345	19,651	378,738	(472,623)	-	(472,623)
Water	2,724,923	1,718,767	65,002	23,185	(917,969)	-	(917,969)
Sewer	1,872,736	1,554,324	65,002	23,185	(230,225)	-	(230,225)
Unallocated interest	250,842	-	-	-	(250,842)	-	(250,842)
Total governmental activities	18,859,114	4,357,427	1,377,909	1,698,849	(11,424,929)	-	(11,424,929)
Business-type -							
Port and harbor	4,876,870	3,917,599	249,979	883,031	-	173,739	173,739
Total	\$ 23,735,984	8,275,026	1,627,888	2,581,880	(11,424,929)	173,739	(11,251,190)
General revenues:							
Property taxes					\$ 2,999,341	-	2,999,341
Sales taxes					7,031,266	-	7,031,266
Grants and entitlements not restricted to a specific purpose					538,563	-	538,563
Investment income					238,172	16,181	254,353
Legal settlement					1,911	-	1,911
Other					30,060	216,430	246,490
Total general revenues					10,839,313	232,611	11,071,924
Change in net position					(585,616)	406,350	(179,266)
Beginning net position					86,675,176	40,709,648	127,384,824
Ending net position					\$ 86,089,560	41,115,998	127,205,558

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA

Governmental Funds

Balance Sheet

December 31, 2012

<u>Assets</u>	Major Funds					Total Governmental Funds
	<u>General</u>	<u>Utility Special Revenue</u>	<u>City Facilities Capital Project</u>	<u>HART Roads Capital Project</u>	<u>Nonmajor Funds</u>	
Cash and investments	\$ 4,904,951	961,252	-	6,154,715	2,998,310	15,019,228
Receivables, net of allowance:						
Accounts	-	237,294	-	-	-	237,294
Property taxes	105,210	-	-	-	-	105,210
Sales taxes	776,443	194,117	-	174,701	19,415	1,164,676
Assessments	376,771	2,407,049	-	-	-	2,783,820
State and federal grants and loans	-	1,791,229	891,097	-	-	2,682,326
Interfund loan	-	-	-	-	26,003	26,003
Other	88,734	-	-	-	1,266	90,000
Due from other funds	624,307	-	-	-	-	624,307
Inventory	60,507	191,167	-	-	-	251,674
Prepaid items	195,758	33,143	-	-	-	228,901
Restricted cash and investments	-	-	-	-	1,648,032	1,648,032
Total assets	\$ 7,132,681	5,815,251	891,097	6,329,416	4,693,026	24,861,471
<u>Liabilities</u>						
Accounts payable	240,258	126,722	225,319	-	27,976	620,275
Accrued payroll and related liabilities	304,728	42,190	-	-	-	346,918
Customer deposits	17,102	34,808	-	-	-	51,910
Unearned revenue	-	-	-	-	20,110	20,110
Due to other funds	-	-	468,825	-	57,091	525,916
Total liabilities	562,088	203,720	694,144	-	105,177	1,565,129
<u>Deferred Inflows</u>						
Deferred property taxes	105,210	-	-	-	-	105,210
Deferred assessments	376,771	2,407,049	-	-	-	2,783,820
Total deferred inflows	481,981	2,407,049	-	-	-	2,889,030
Total liabilities and deferred inflows	1,044,069	2,610,769	694,144	-	105,177	4,454,159
<u>Fund Balances</u>						
Nonspendable:						
Inventory	60,507	191,167	-	-	-	251,674
Prepaid items	195,758	33,143	-	-	-	228,901
Interfund loan	-	-	-	-	26,003	26,003
Restricted - roads and trails	-	-	-	6,329,416	362,576	6,691,992
Committed - Permanent fund	-	-	-	-	1,648,032	1,648,032
Assigned:						
Library	-	-	-	-	32,145	32,145
Fire	-	-	-	-	87,741	87,741
Community schools	-	-	-	-	1,092	1,092
Sustainability	-	-	-	-	14,779	14,779
Water and sewer	-	2,980,172	-	-	-	2,980,172
PERS benefits	171,314	-	-	-	14,612	185,926
Capital and land	-	-	196,953	-	2,463,460	2,660,413
Unassigned (deficit)	5,661,033	-	-	-	(62,591)	5,598,442
Total fund balances	6,088,612	3,204,482	196,953	6,329,416	4,587,849	20,407,312
Total liabilities, deferred inflows and fund balances	\$ 7,132,681	5,815,251	891,097	6,329,416	4,693,026	24,861,471

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA
 Reconciliation of Governmental Funds Balance Sheet
 to Statement of Net Position
 December 31, 2012

Total fund balances for governmental funds		\$	20,407,312
Total net position reported for governmental activities in the Statement of Net Position 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 and land improvements	\$	10,676,104	
Construction in progress		1,002,153	
Buildings		49,614,014	
Improvements other than buildings		44,635,404	
Machinery and equipment		14,138,576	
Infrastructure		29,420,626	
Accumulated depreciation		<u>(68,414,876)</u>	
Total capital assets			81,072,001
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			
Delinquent property taxes receivable		105,210	
Special assessments not yet due		<u>2,783,820</u>	
Total other long-term assets			2,889,030
Internal service funds are used by the City to charge the cost of certain activities, such as insurance, to individual funds. A portion of the assets and liabilities of the internal service funds is included in the governmental activities in the Statement of Net Position.			
			(175,376)
Long-term liabilities, including notes payable and accrued leave, are not due and payable in the current period and therefore are not reported as fund liabilities. These liabilities consist of:			
Accrued interest		(32,163)	
Notes payable		(17,319,374)	
Accrued leave		<u>(751,870)</u>	
Total long term liabilities			<u>(18,103,407)</u>
Total net position of governmental activities		\$	<u>86,089,560</u>

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA
 Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Year Ended December 31, 2012

	Major Funds					Total Governmental Funds
	General	Utility Special Revenue	City Facilities Capital Project	HART Roads Capital Project	Nonmajor Funds	
Revenues:						
Property taxes	\$ 2,991,230	-	-	-	-	2,991,230
Sales taxes	4,698,866	1,174,683	-	1,057,215	100,502	7,031,266
Licenses and permits	22,248	-	-	-	-	22,248
Intergovernmental	1,741,303	176,374	1,646,686	-	9,444	3,573,807
Charges for services	1,976,371	3,270,075	-	-	-	5,246,446
Special assessments	67,367	262,591	-	-	-	329,958
Investment income	28,423	-	1,911	26,215	183,534	240,083
Fines and forfeitures	8,065	-	-	-	-	8,065
Donations	-	-	-	-	19,044	19,044
Other	18,346	10,900	195	-	27,384	56,825
Total revenues	<u>11,552,219</u>	<u>4,894,623</u>	<u>1,648,792</u>	<u>1,083,430</u>	<u>339,908</u>	<u>19,518,972</u>
Expenditures:						
Current:						
General government	3,286,949	-	61,221	161,590	24,223	3,533,983
Public safety	4,201,504	-	-	-	11,212	4,212,716
Public works	1,940,325	-	-	-	3,942	1,944,267
Library	707,603	-	-	-	-	707,603
Airport	209,859	-	-	-	-	209,859
Parks and recreation	347,107	-	-	-	-	347,107
Community services	228,770	-	658,790	-	11,797	899,357
Water	-	1,951,063	-	-	-	1,951,063
Sewer	-	1,745,959	-	-	-	1,745,959
Debt service:						
Principal	41,643	834,681	-	-	-	876,324
Interest	58,181	160,498	-	-	-	218,679
Capital outlay	-	1,888,835	2,112,461	49,834	216,409	4,267,539
Total expenditures	<u>11,021,941</u>	<u>6,581,036</u>	<u>2,832,472</u>	<u>211,424</u>	<u>267,583</u>	<u>20,914,456</u>
Excess of revenues over (under) expenditures	530,278	(1,686,413)	(1,183,680)	872,006	72,325	(1,395,484)
Other financing sources (uses):						
Issuance of long-term debt	-	1,565,730	-	-	-	1,565,730
Transfers in	-	-	502,876	-	857,059	1,359,935
Transfers out	(1,169,512)	(20,300)	-	-	(170,123)	(1,359,935)
Net other financing sources (uses)	<u>(1,169,512)</u>	<u>1,545,430</u>	<u>502,876</u>	<u>-</u>	<u>686,936</u>	<u>1,565,730</u>
Net change in fund balances	(639,234)	(140,983)	(680,804)	872,006	759,261	170,246
Beginning fund balances	<u>6,727,846</u>	<u>3,345,465</u>	<u>877,757</u>	<u>5,457,410</u>	<u>3,828,588</u>	<u>20,237,066</u>
Ending fund balances	<u>\$ 6,088,612</u>	<u>3,204,482</u>	<u>196,953</u>	<u>6,329,416</u>	<u>4,587,849</u>	<u>20,407,312</u>

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA

Reconciliation of the Change in Fund Balances of Governmental Funds
to Statement of Activities
Year Ended December 31, 2012

Net change in fund balances - total governmental funds	\$ 170,246
The change in net position 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 (\$4,285,532) exceeded depreciation (\$3,460,174).	825,358
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This is the amount of the decrease in other long-term assets.	(269,810)
Issuance of long-term debt (\$1,565,730) provides current financial resources to governmental funds, while the repayment of the principal of the long-term debt (\$876,324) consumes current financial resources in governmental funds. Neither of these transactions has any effect on net position.	(689,406)
Accrued interest on long-term debt is not reported in the funds until the liability matures. This is the increase in accrued interest payable.	(32,163)
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. This is the amount of increase in accrued leave.	(86,296)
Internal service funds are used by management to charge the cost of health insurance and accrued leave cash-outs to individual funds. A portion of the net loss of these activities is reported with governmental activities.	<u>(503,545)</u>
Change in net position of governmental activities	\$ <u><u>(585,616)</u></u>

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA
 General Fund
 Statement of Revenues, Expenditures and
 Changes in Fund Balance - Budget and Actual
 Year Ended December 31, 2012

	Budget		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 7,245,692	7,245,692	7,708,442	462,750
Licenses and permits	24,900	24,900	22,248	(2,652)
Intergovernmental	1,399,450	1,385,201	1,741,303	356,102
Charges for services	2,104,751	2,104,751	1,976,371	(128,380)
Special assessments	-	-	67,367	67,367
Investment income	1,600	16,000	28,423	12,423
Fines and forfeitures	15,500	15,500	8,065	(7,435)
Total revenues	10,791,893	10,792,044	11,552,219	760,175
Expenditures:				
General government	2,847,583	3,002,041	3,286,949	(284,908)
Public safety	4,382,363	4,246,759	4,201,504	45,255
Public works	1,891,987	1,917,947	1,940,325	(22,378)
Library	841,947	754,832	707,603	47,229
Airport	217,888	222,888	209,859	13,029
Parks and recreation	402,445	382,444	347,107	35,337
Community services	213,852	225,212	228,770	(3,558)
Debt service:				
Principal	39,835	41,478	41,643	(165)
Interest	59,989	58,346	58,181	165
Total expenditures	10,897,889	10,851,947	11,021,941	(169,994)
Excess of revenues over (under) expenditures	(105,996)	(59,903)	530,278	590,181
Other financing sources - transfers out	(443,246)	(898,908)	(1,169,512)	(270,604)
Net change in fund balance	\$ (549,242)	(958,811)	(639,234)	319,577
Beginning fund balance			6,727,846	
Ending fund balance			\$ 6,088,612	

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA
Utility Special Revenue Fund
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
Year Ended December 31, 2012

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Sales taxes	\$ 1,099,890	1,099,890	1,174,683	74,793
Intergovernmental	-	50,000	176,374	126,374
Charges for services	3,289,190	3,289,190	3,270,075	(19,115)
Special assessments	45,000	45,000	262,591	217,591
Investment income	11,000	5,000	-	(5,000)
Other	50,000	6,000	10,900	4,900
Total revenues	<u>4,495,080</u>	<u>4,495,080</u>	<u>4,894,623</u>	<u>399,543</u>
Expenditures:				
Water	1,703,834	1,703,833	1,951,063	(247,230)
Sewer	1,686,858	1,686,858	1,745,959	(59,101)
Debt service:				
Principal	775,198	775,198	834,681	(59,483)
Interest	276,702	276,702	160,498	116,204
Total debt service	<u>1,051,900</u>	<u>1,051,900</u>	<u>995,179</u>	<u>56,721</u>
Capital outlay	-	14,092	1,888,835	(1,874,743)
Total expenditures	<u>4,442,592</u>	<u>4,456,683</u>	<u>6,581,036</u>	<u>(2,124,353)</u>
Excess of revenues over (under) expenditures	52,488	38,397	(1,686,413)	(1,724,810)
Other financing sources (uses):				
Issuance of long-term debt	-	-	1,565,730	1,565,730
Transfers out	(35,792)	(69,273)	(20,300)	48,973
Net other financing sources (uses)	<u>(35,792)</u>	<u>(69,273)</u>	<u>1,545,430</u>	<u>1,614,703</u>
Net change in fund balance	\$ <u>16,696</u>	<u>(30,876)</u>	(140,983)	<u>(110,107)</u>
Beginning fund balance			<u>3,345,465</u>	
Ending fund balance			\$ <u>3,204,482</u>	

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA

Proprietary Funds
Statement of Net Position
December 31, 2012

	<u>Major Enterprise Fund Port of Homer</u>	<u>Internal Service Funds</u>
<u>Assets</u>		
Current assets:		
Cash and investments	\$ 1,550,237	3,872
Accounts receivable, net of allowance for doubtful accounts	345,545	-
State and federal grants	779,990	-
Inventory	14,712	-
Prepaid items	47,981	-
Total current assets	<u>2,738,465</u>	<u>3,872</u>
Noncurrent assets - capital assets, net of accumulated depreciation	<u>40,259,897</u>	<u>-</u>
Total assets	<u>\$ 42,998,362</u>	<u>3,872</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	592,682	128,435
Accrued payroll and related liabilities	36,103	-
Accrued leave	17,751	-
Prepaid rentals and deposits	736,958	-
Due to other funds	-	98,391
Unearned lease revenue	18,000	-
Interfund loan	3,291	-
Total current liabilities	<u>1,404,785</u>	<u>226,826</u>
Noncurrent liabilities, net of current portion:		
Unearned lease revenue	270,000	-
Accrued leave	137,289	-
Interfund loan	22,712	-
Total noncurrent liabilities	<u>430,001</u>	<u>-</u>
Total liabilities	<u>1,834,786</u>	<u>226,826</u>
<u>Net Position</u>		
Invested in capital assets	40,259,897	-
Unrestricted (deficit)	903,679	(222,954)
Total net position	<u>41,163,576</u>	<u>(222,954)</u>
Total liabilities and net position	42,998,362	<u>3,872</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise fund	<u>(47,578)</u>	
Net position of business-type activities	<u>\$ 41,115,998</u>	

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA
 Proprietary Funds
 Statement of Revenues, Expenses and Changes in Net Position
 Year Ended December 31, 2012

	Major Enterprise Fund <u>Port of Homer</u>	Internal Service Funds <u>Funds</u>
Operating revenues - charges for services:		
Port and harbor	\$ 3,917,599	-
Interfund charges	-	1,744,288
Employee health contributions	-	117,930
Total operating revenues	<u>3,917,599</u>	<u>1,862,218</u>
Operating expenses:		
Operations	2,080,277	144,549
Administration	1,191,671	99,143
Depreciation	1,369,668	-
Claims	-	1,780,281
Insurance premiums	-	438,910
Total operating expenses	<u>4,641,616</u>	<u>2,462,883</u>
Operating loss	(724,017)	(600,665)
Nonoperating revenues (expenses):		
Investment income	16,181	-
State PERS relief	118,644	-
Other income	216,430	-
Miscellaneous repairs	(124,797)	-
FEMA repairs grant	131,335	-
Harbormaster conference expense	(13,337)	-
Net nonoperating revenues (expenses)	<u>344,456</u>	<u>-</u>
Loss before capital contributions	(379,561)	(600,665)
Capital contributions	<u>883,031</u>	<u>-</u>
Change in net position	503,470	(600,665)
Beginning net position	<u>40,660,106</u>	<u>377,711</u>
Ending net position (deficit)	41,163,576	<u><u>(222,954)</u></u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise fund	<u>(97,120)</u>	
Change in net position of business-type activities	<u>\$ 406,350</u>	

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA
Proprietary Funds
Statement of Cash Flows
Year Ended December 31, 2012

	<u>Major Enterprise Fund Port of Homer</u>	<u>Internal Service Funds</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 4,010,933	-
Receipts from interfund services provided and employee contributions	-	1,862,218
Payments to suppliers	(1,082,926)	-
Payments to employees	(1,772,535)	(144,549)
Payments for insurance claims and administration	-	(2,283,711)
Net cash flows from operating activities	<u>1,155,472</u>	<u>(566,042)</u>
Cash flows from noncapital financing activities:		
Increase in due to other funds	-	61,813
Nonoperating grants and cruise ship tax received	<u>82,386</u>	<u>-</u>
Net cash flows from noncapital financing activities	<u>82,386</u>	<u>61,813</u>
Cash flows from capital and related financing activities:		
Capital contributions received	269,671	-
Acquisition of property, plant and equipment	(1,032,199)	-
Decrease in interfund loan	<u>(3,291)</u>	<u>-</u>
Net cash flows from capital and related financing activities	<u>(765,819)</u>	<u>-</u>
Cash flows from investing activities - investment income received	<u>16,181</u>	<u>-</u>
Net increase (decrease) in cash and investments	488,220	(504,229)
Beginning cash and investments	<u>1,062,017</u>	<u>508,101</u>
Ending cash and investments	\$ <u><u>1,550,237</u></u>	<u><u>3,872</u></u>

See accompanying notes to basic financial statements.

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

	Major Enterprise Fund <u>Port of Homer</u>	Internal Service <u>Funds</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (724,017)	(600,665)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation	1,369,668	-
Noncash expense - PERS relief	118,644	-
Decrease in allowance for doubtful accounts	(21,836)	-
Amortization of deferred lease revenue	(18,000)	-
Miscellaneous nonoperating revenues	78,296	-
(Increase) decrease in assets:		
Accounts receivable	(113,671)	-
Inventory	878	-
Prepaid items	(14,011)	-
Increase (decrease) in liabilities:		
Accounts payable	448,370	34,623
Accrued payroll and related liabilities	(14,731)	-
Accrued leave	15,471	-
Prepaid rentals and deposits	30,411	-
Net cash flows from operating activities	\$ <u>1,155,472</u>	<u>(566,042)</u>

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements

December 31, 2012

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

Organization and Services Provided

The City of Homer, Alaska was incorporated March 31, 1964 as a first-class city and operates under a Council-Manager form of government. The City provides the full range of municipal services as provided for by Alaska Statute. This includes police and fire protection, ambulance and emergency medical service, water and wastewater service, library, parks and recreation, public improvements, planning and zoning, port and harbor, airport facilities, and general administrative services.

Scope and Presentation

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

Reporting Entity

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

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the City. In general, the effect of interfund activity has been removed from these statements to minimize the double-counting of internal activities. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely primarily on fees and charges to external parties.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) fees, fines and charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City generally considers all revenues except reimbursement grants to be available if they are collected within 60 days after year end. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only to the extent they have matured.

Property and sales taxes, charges for services, intergovernmental revenues, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue in the current period. Most other revenue items are considered to be measurable and available only when received by the government.

The City reports the following major funds:

Major governmental funds:

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

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

The *City Facilities Capital Project Fund* accounts for building and facilities capital improvements.

The *HART Roads Capital Project Fund* accounts for operating grants and capital improvement projects for streets and sidewalks.

Major proprietary fund:

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

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

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

The City also reports Internal Service Funds which account for the activities relating to the City's self-insured health benefit plan and accrued leave cash-outs. These funds report revenues charged to the other funds based on estimated amounts to cover actual costs of benefits.

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 fund and the various other funds and departments. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. In addition, general revenues include all taxes (including the City's restricted sales taxes), investment income, and State 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 Port of Homer Enterprise Fund are charges to customers for sales and services. Operating expenses for the enterprise fund include the costs of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Budgets and Budgetary Accounting

The City Council is required to pass an appropriation ordinance for the General Fund and Utility Special Revenue Fund which becomes the expenditure budget for each fund 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 appropriate constraints of fund balance if they meet the definitions and criteria described later in these footnotes.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Cash and Investments

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

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

Investments are recorded at fair value.

Receivables and Payables

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

Property Taxes

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

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

Unbilled Service Revenues

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

Inventory

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

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Inventory, continued

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 nonspendable fund balance.

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 nonspendable fund balance.

Capital Assets

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

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

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

Accrued Leave

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

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Long-Term Debt

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

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

Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form—prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of fund balances comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – These amounts can only be used for specific purposes pursuant to constraints imposed by formal ordinances of the City Council—the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the City Council removes the specified use through ordinance. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance – This classification reflects the amounts constrained by the City’s “intent” to be used for specific purposes, but are neither restricted nor committed. The City Council has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Fund Balances, continued

Unassigned fund balance – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use externally restricted resources first, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

Comparative Data

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

Change in Accounting Principle

The City has adopted newly issued GASB pronouncements 63 and 65, resulting in a change in presentation of the government-wide and fund level financial statements. The new pronouncements require reporting two new categories of accounts. Certain items previously reported as assets are now categorized as *deferred outflows*. A *deferred outflow* represents the consumption of the government’s net assets or fund balance that is applicable to a future reporting period. The City did not have any *deferred outflows* in 2012. Other items previously categorized as liabilities are now categorized as *deferred inflows*. A *deferred inflow* represents the acquisition of net assets or fund balance that is applicable to a future reporting period. For example, revenues that have been earned but are not yet available in the governmental funds are now reported as *deferred inflows*. In the government-wide financial statements the residual net of all of the accounts is now called *net position*. The adoption of these statements has no effect on previously reported net assets.

(2) **Cash and Investments**

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

Reconciliation of Deposit and Investment Balances

The following is a reconciliation of the City’s deposit and investment balances to the financial statements as of December 31, 2012.

Bank deposits	\$ 2,700,232
Investments	15,521,137
	<u>\$ 18,221,369</u>
Cash and investments	\$ 16,573,337
Restricted cash and investments	1,648,032
	<u>\$ 18,221,369</u>

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Cash and Investments, continued

Reconciliation of Deposit and Investment Balances, continued

Restricted cash and investments represent funds set aside for capital projects.

General Investments

Investment Policy

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

1. U.S. Treasury securities;
2. Other obligations of the U.S. Government, its agencies and instrumentalities;
3. Repurchase agreements of acceptable securities listed in (1) or (2) above which meet a margin requirement of 102%;
4. Units of the Alaska Municipal League Investment Pool;
5. Certificates of deposit;
6. Uncollateralized deposits to the extent that the deposits are insured by the FDIC or FSLIC;
7. Taxable bonds or notes; graded AA or higher;
8. Commercial paper; graded A1 or higher;
9. Bankers' acceptances; rated at least AA; and
10. Money market mutual funds.

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Aside from the investment policy stated above, the City has no specific policy with respect to interest rate risk.

Investment maturities at December 31, 2012 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>5-10</u>
U.S. government agencies:				
FNMA	\$ 1,932,718	-	1,932,718	-
Federal Financing Corp.	536,286	536,286	-	-
US Treasury	<u>25,105</u>	<u>25,105</u>	-	-
Total U.S. government agencies	2,494,109	561,391	1,932,718	-
Corporate bonds	289,550	50,007	183,830	55,713
Foreign bonds	102,659	50,279	52,380	-
Pooled investments (AMLIP)	<u>6,390,803</u>	<u>6,390,803</u>	-	-
Total subject to interest rate risk	9,277,121	<u>7,052,480</u>	<u>2,168,928</u>	<u>55,713</u>
Money market	1,331,370			
Certificates of deposit	<u>4,912,646</u>			
Total investments	\$ <u>15,521,137</u>			

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Cash and Investments, continued

General Investments, continued

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's investment policy specifies the types of investments which can be purchased, in order to limit credit risk, as described above. All of the U.S. government agency investments are rated AAA by Standard and Poor's.

Pooled investments are invested with the Alaska Municipal League Investment Pool, Inc. (AMLIP). The AMLIP is an external investment pool which is rated AAAM by Standard and Poor's for credit risk purposes. Alaska Statute 37.23 establishes regulatory oversight of the Pool. The law sets forth numerous requirements regarding authorized investments and reporting. At December 31, 2012, the share value of investments in the AML pool is approximately equal to fair value.

(3) **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, 2012, receivables for the City's individual major funds and nonmajor and internal service funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Utility Special Revenue</u>	<u>City Facilities Capital Project</u>	<u>HART Roads Capital Project</u>	<u>Port of Homer Enterprise</u>	<u>Nonmajor and Other Funds</u>	<u>Totals</u>
Receivables:							
Accounts	\$ -	290,644	-	-	381,618	-	672,262
Sales taxes	776,443	194,117	-	174,701	-	19,415	1,164,676
Property taxes	119,216	-	-	-	-	-	119,216
State and federal grants and loans	-	1,791,229	891,097	-	779,990	-	3,462,316
Special assessments	376,771	2,407,049	-	-	-	-	2,783,820
Other	<u>190,944</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,269</u>	<u>218,213</u>
Total receivables	1,463,374	4,683,039	891,097	174,701	1,161,608	46,684	8,420,503
Less allowance for uncollectibles	<u>(116,216)</u>	<u>(53,350)</u>	<u>-</u>	<u>-</u>	<u>(36,073)</u>	<u>-</u>	<u>(205,639)</u>
Net receivables	\$ <u>1,347,158</u>	<u>4,629,689</u>	<u>891,097</u>	<u>174,701</u>	<u>1,125,535</u>	<u>46,684</u>	<u>8,214,864</u>

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Accounts Receivable and Valuation Allowances, continued

At December 31, 2012, the various components of *deferred inflows and unearned revenue* reported in the governmental funds were as follows:

Deferred Inflows

Delinquent property taxes receivable - General Fund	\$ 105,210
Special assessments not yet due:	
General Fund	376,771
Utility Special Revenue Fund	<u>2,407,049</u>
Total deferred inflows	\$ <u>2,889,030</u>

Unearned Revenues

Grant drawdowns prior to meeting all eligibility requirements	5,547
Other unearned revenue	<u>14,563</u>
Total unearned revenues	\$ <u>20,110</u>

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

A schedule of interfund balances and transfers for the year ended December 31, 2012 follows. Interfund transfers are routinely recorded throughout the year and are typically to fund capital depreciation reserves and other operating subsidies.

Due from other funds:

Due to the General Fund from:	
City Facilities Capital Project Fund	\$ 468,825
Nonmajor governmental funds	57,091
Internal Service Fund	<u>98,391</u>
Total due from other funds	\$ <u>624,307</u>

Transfers:

From General Fund to:	
City Facilities Capital Project Fund	\$ 332,753
Nonmajor governmental funds	836,759
From the Utility Special Revenue Fund to nonmajor governmental funds	20,300
From nonmajor governmental funds to City Facilities Capital Project Fund	<u>170,123</u>
Total transfers to other funds	\$ <u>1,359,935</u>

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Interfund Receivables, Payables, and Transfers, continued

Interfund loan

In 2011 the City underwent an extensive energy audit with the goal of identifying areas for energy savings and efficiencies. Numerous minor upgrades or repairs were conducted in this effort. Most of these costs were funded by fund balances set aside in the prior year along with grant funds. The City approved and recorded an interfund loan from the Energy Revolving Loan Capital Project Fund to the Port of Homer Enterprise Fund in the amount of \$29,294 to fund a portion of the Port related upgrades. The Port will repay the loan in \$3,291 annual installments over nine years. The loan had a balance of \$26,003 as of December 31, 2012.

(5) **Capital Assets**

Capital asset activity for the year ended December 31, 2012 follows:

	Balance January 1, <u>2012</u>	Additions and Reclass- ifications	Deletions and Reclass- ifications	Balance December 31, <u>2012</u>
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land and land improvements	\$ 10,568,770	107,334	-	10,676,104
Construction in progress	<u>4,910,028</u>	<u>2,465,608</u>	<u>6,373,483</u>	<u>1,002,153</u>
Total assets not being depreciated	<u>15,478,798</u>	<u>2,572,942</u>	<u>6,373,483</u>	<u>11,678,257</u>
Capital assets being depreciated:				
Buildings	48,836,551	777,463	-	49,614,014
Improvements other than buildings	37,711,931	6,923,473	-	44,635,404
Machinery and equipment	13,801,258	337,318	-	14,138,576
Infrastructure	<u>29,372,807</u>	<u>47,819</u>	<u>-</u>	<u>29,420,626</u>
Total assets being depreciated	<u>129,722,547</u>	<u>8,086,073</u>	<u>-</u>	<u>137,808,620</u>
Less accumulated depreciation for:				
Buildings	26,655,640	722,977	-	27,378,617
Improvements other than buildings	17,264,334	1,285,841	-	18,550,175
Machinery and equipment	7,327,635	815,695	-	8,143,330
Infrastructure	<u>13,707,093</u>	<u>635,661</u>	<u>-</u>	<u>14,342,754</u>
Total accumulated depreciation	<u>64,954,702</u>	<u>3,460,174</u>	<u>-</u>	<u>68,414,876</u>
Total assets being depreciated, net	<u>64,767,845</u>	<u>4,625,899</u>	<u>-</u>	<u>69,393,744</u>
Governmental activity capital assets, net	\$ <u>80,246,643</u>	<u>7,198,841</u>	<u>6,373,483</u>	<u>81,072,001</u>

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Capital Assets, continued

	Balance January 1, <u>2012</u>	Additions and Reclass- <u>ifications</u>	Deletions and Reclass- <u>ifications</u>	Balance December 31, <u>2012</u>
<u>Business-type activities</u>				
Capital assets not being depreciated:				
Land and land improvements	\$ 15,254,041	-	-	15,254,041
Construction in progress	<u>-</u>	<u>852,243</u>	<u>-</u>	<u>852,243</u>
Total assets not being depreciated	<u>15,254,041</u>	<u>852,243</u>	<u>-</u>	<u>16,106,284</u>
Capital assets being depreciated:				
Buildings	13,034,836	-	-	13,034,836
Improvements other than buildings	37,366,138	168,516	-	37,534,654
Machinery and equipment	<u>3,096,555</u>	<u>11,440</u>	<u>-</u>	<u>3,107,995</u>
Total assets being depreciated	<u>53,497,529</u>	<u>179,956</u>	<u>-</u>	<u>53,677,485</u>
Less accumulated depreciation for:				
Buildings	7,873,999	293,349	-	8,167,348
Improvements other than buildings	17,582,144	998,719	-	18,580,863
Machinery and equipment	<u>2,698,061</u>	<u>77,600</u>	<u>-</u>	<u>2,775,661</u>
Total accumulated depreciation	<u>28,154,204</u>	<u>1,369,668</u>	<u>-</u>	<u>29,523,872</u>
Total capital assets being depreciated, net	<u>25,343,325</u>	<u>(1,189,712)</u>	<u>-</u>	<u>24,153,613</u>
Business-type activity capital assets, net	\$ <u>40,597,366</u>	<u>(337,469)</u>	<u>-</u>	<u>40,259,897</u>

Depreciation expense was charged to the functions as follows:

Governmental activities

General government	\$ 199,683
Public safety	374,407
Public works	825,073
Library	232,027
Airport	68,561
Parks and recreation	157,095
Water utility	1,080,188
Sewer utility	<u>523,140</u>
Total depreciation expense – governmental activities	\$ <u>3,460,174</u>

Business-type activities

Port and harbor	\$ <u>1,369,668</u>
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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 in 1993 in exchange for the use of land by the State Ferry System until the year 2031. The building houses the Port Maintenance Shop. The value of the building and related unearned revenue are as follows:

Original cost assigned to building	\$ 630,000
Revenue recognized on cumulative basis	<u>(342,000)</u>
	<u>\$ 288,000</u>
Current unearned revenue	\$ 18,000
Noncurrent unearned revenue	<u>270,000</u>
Total unearned lease revenue	<u>\$ 288,000</u>

(6) **Long-Term Debt**

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2012:

<u>Governmental activities</u>	Balance January 1, <u>2012</u>	<u>Additions</u>	<u>Retired</u>	Balance December 31, <u>2012</u>	Due Within <u>One Year</u>
Notes payable:					
\$1,700,000 USDA library note payable, due in annual installments of \$99,824, including interest at 4.125% through September 2033	\$ 1,410,454	-	41,643	1,368,811	43,361
\$3,462,403 2002 Sewer Utility Alaska Clean Water loan, due in annual installments of \$121,973 plus interest at 1.5% through August 18, 2025	1,707,614	-	121,973	1,585,641	121,973

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Long-Term Debt, continued

<u>Governmental activities, continued</u>	Balance January 1, <u>2012</u>	<u>Additions</u>	<u>Retired</u>	Balance December 31, <u>2012</u>	Due Within <u>One Year</u>
Notes payable, continued:					
\$3,389,321 2002 Water Utility Alaska Drinking Water loan, due in annual installments of \$143,078 plus interest at 1.5% through August 18, 2025	\$ 2,003,085	-	143,078	1,860,007	143,078
\$148,047 2003 Sewer Utility Alaska Clean Water loan, due in annual installments of \$15,496 plus interest at 1.5% through August 28, 2016	77,398	-	15,415	61,983	15,496
\$2,100,000 (maximum) 2011 Sewer Utility Alaska Clean Water loan, terms not yet established; interest at 1.5%	920,375	643,798	-	1,564,173	-
\$3,250,000 (maximum) 2006 Sewer Utility Alaska Clean Water loan, terms not yet established; interest at 1.5%	2,245,316	-	-	2,245,316	-
\$2,150,000 (maximum) 2011 Water Utility Alaska Drinking Water loan, terms not yet established; interest at 1.5%	1,101,074	921,932	-	2,023,006	-
\$470,000 (maximum) 2006 Water Utility Alaska Drinking Water loan, terms not yet established; interest at 1.5%	422,412	-	-	422,412	-
\$8,000,000 (maximum) 2006 Water Utility Alaska Drinking Water loan, due in annual installments of \$364,001, plus interest at 1.5% through December 28, 2029	6,547,624	-	359,599	6,188,025	364,001

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Long-Term Debt, continued

	Balance January 1, <u>2012</u>	<u>Additions</u>	<u>Retired</u>	Balance December 31, <u>2012</u>	Due Within <u>One Year</u>
<u>Governmental activities, continued</u>					
Notes payable, continued:					
\$174,612 (maximum) 2009 American Recovery and Reinvestment Act loan; interest at 1%	\$ 174,612	-	174,612	-	-
\$21,500 (maximum) 2009 American Recovery and Reinvestment Act loan; interest at 1%	20,004	-	20,004	-	-
Accrued leave	<u>665,574</u>	<u>401,556</u>	<u>315,260</u>	<u>751,870</u>	<u>102,292</u>
Total governmental activities long-term liabilities	\$ <u>17,295,542</u>	<u>1,967,286</u>	<u>1,191,584</u>	<u>18,071,244</u>	<u>790,201</u>
<u>Business-type activities</u>					
Accrued leave	\$ <u>139,569</u>	<u>76,147</u>	<u>60,676</u>	<u>155,040</u>	<u>17,751</u>

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

Governmental activities

<u>Year Ending December 31,</u>	<u>Notes Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 687,909	201,898	889,807
2014	689,696	190,442	880,138
2015	691,560	178,911	870,471
2016	693,498	167,303	860,801
2017	680,023	155,615	835,638
2018-2022	3,433,431	603,218	4,036,649
2023-2027	2,967,878	306,749	3,274,627
2028-2032	1,159,729	83,774	1,243,503
2033	<u>60,743</u>	<u>2,506</u>	<u>63,249</u>
	11,064,467	<u>1,890,416</u>	<u>12,954,883</u>
Payment terms not yet established	<u>6,254,907</u>		
	\$ <u>17,319,374</u>		

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

(7) **Fund Balances**

Fund balances, reported for the major funds and the nonmajor funds in the aggregate on the governmental funds balance sheet are subject to the following constraints:

	<u>General</u>	<u>Utility Special Revenue</u>	<u>City Facilities Capital Project</u>	<u>HART Roads Capital Project</u>	<u>Nonmajor Funds</u>	<u>Totals</u>
Nonspendable:						
Inventory	\$ 60,507	191,167	-	-	-	251,674
Prepaid items	195,758	33,143	-	-	-	228,901
Interfund loan	-	-	-	-	26,003	26,003
Restricted – Roads and trails	-	-	-	6,329,416	362,576	6,691,992
Committed – Permanent fund	-	-	-	-	1,648,032	1,648,032
Assigned:						
Library	-	-	-	-	32,145	32,145
Fire	-	-	-	-	87,741	87,741
Community schools	-	-	-	-	1,092	1,092
Global warming	-	-	-	-	14,779	14,779
Water and sewer	-	2,980,172	-	-	-	2,980,172
PERS benefits	171,314	-	-	-	14,612	185,926
Capital and land	-	-	196,953	-	2,463,460	2,660,413
Unassigned (deficit)	<u>5,661,033</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(62,591)</u>	<u>5,598,442</u>
Total fund balances	<u>\$ 6,088,612</u>	<u>3,204,482</u>	<u>196,953</u>	<u>6,329,416</u>	<u>4,587,849</u>	<u>20,407,312</u>

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

The City provides health insurance on a self-insured basis up to \$75,000 each occurrence or \$1,804,669 in aggregate for all medical claims during the year. Coverage in excess of these amounts is insured by a private carrier up to lifetime claims of \$1,000,000 per each individual.

The City contracts with a third-party administrator for health claims servicing. The City charges each department a premium based on the employees and their selected coverage. This premium is based on actual claims paid by the City. An equal amount is recorded as revenue by the Risk Management Internal Service Fund which is then responsible for paying all claims. The City accrues a liability for claims incurred but not reported at year-end.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Accounting for Health Self-Insurance, continued

A schedule of the changes in the claims liability for the years ended December 31, 2012 and 2011 follows:

	Balance at Beginning of Year	Claims Expense	Claims Paid	Balance at End of Year
2011 health insurance	\$ <u>78,812</u>	<u>1,285,767</u>	<u>1,270,767</u>	<u>93,812</u>
2012 health insurance	\$ <u>93,812</u>	<u>1,780,281</u>	<u>1,745,658</u>	<u>128,435</u>

(9) **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, 2012.

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

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

(10) **Defined Benefit Pension Plan**

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

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

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

Conversion to Cost Sharing

In April 2008, the Alaska Legislature passed legislation which converted the existing Public Employees Retirement System (PERS) from an agent-multiple employer plan to a cost-sharing plan with an effective date of July 1, 2008. Under the cost-sharing arrangement, the State of Alaska Division of Retirement and Benefits no longer tracks individual employer assets and liabilities. Rather, all plan costs and past service liabilities are shared among all participating employers.

That same year, the State of Alaska passed additional legislation which statutorily capped the employer contribution, established a state funded "on-behalf" contribution, and required that employer contributions be calculated against all PERS eligible wages, including wages attributable to the defined contribution plan described later in these footnotes.

Employee Contribution Rates

Regular employees are required to contribute 6.75% of their annual covered salary (2.97% for pension and 3.78% for healthcare). Police and firefighters are required to contribute 7.5% of their annual covered salary (3.29% for pension and 4.21% for healthcare).

Employer and Other Contribution Rates

There are three contribution rates associated with the pension and healthcare contributions and related liabilities:

Contractual Rate: This is the required funding rate for participating employers. The contractual rate is statutorily capped at a uniform 22% of eligible wages, subject to a wage floor, and other termination events. This 22% rate includes all PERS participating wages, including those wages attributable to employees in the defined contribution plan.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Defined Benefit Pension Plan, continued

Employer and Other Contribution Rates, continued

ARM Board Adopted Rate: This is the rate formally adopted by the Alaska Retirement Management (ARM) Board. This rate is actuarially determined to calculate annual funding requirements of the plan, without regard to the statutory rate cap. There are no constraints or restrictions on the actuarial cost method or other assumptions used in this valuation, other than those established and agreed to by the ARM Board.

Current legislation provides that the State of Alaska will contribute the difference between the ARM Board adopted rate and the contractual (statutory) rate. These additional contributions are recognized by each employer as an on-behalf payment and are reflected within the financial statements.

GASB 43 Rate: This is the rate used to determine the long-term pension and healthcare liability for plan accounting purposes in accordance with generally accepted accounting principles as established by GASB. Certain actuarial methods and assumptions for this rate calculation are mandated by GASB. For FY13, the rate uses an 8.00% pension discount rate and a 6.88% healthcare discount rate. Additionally, the GASB 43 rate disregards all future Medicare Part D payments.

The GASB 43 rate differs significantly from the ARM Board adopted rate as a direct result of differences in the actuarial valuation methodology and assumptions.

Contribution rates for the six months ended June 30, 2012 were determined as part of the June 30, 2009 actuarial valuation. Rates for the six months ended December 31, 2012 (State fiscal year 2013) were determined in the June 30, 2010 valuation.

	Contractual	ARM Board Adopted	GASB 43
	<u>Rate</u>	<u>Rate</u>	<u>Rate</u>
State FY12			
<u>January to June</u>			
Pension	9.92%	15.10%	23.10%
Postemployment healthcare	<u>12.08%</u>	<u>18.39%</u>	<u>32.74%</u>
Total contribution rate	<u>22.00%</u>	<u>33.49%</u>	<u>55.84%</u>

	Contractual	ARM Board Adopted	GASB 43*
	<u>Rate</u>	<u>Rate</u>	<u>Rate</u>
State FY13			
<u>July to December</u>			
Pension	9.67%	15.75%	24.95%
Postemployment healthcare	<u>12.33%</u>	<u>20.09%</u>	<u>39.93%</u>
Total contribution rate	<u>22.00%</u>	<u>35.84%</u>	<u>64.88%</u>

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Defined Benefit Pension Plan, continued

Annual Pension and Postemployment Healthcare Cost

The City is required to contribute 22% of covered payroll, subject to a wage floor. In addition, the State of Alaska contributed approximately 11.49% and 13.84% of covered payroll to the Plan for each six month period noted above, respectively. In accordance with the provisions of GASB Statement Number 24, the City has recorded the State on-behalf payment in the amount of \$812,525 as revenue and expense/expenditures in these financial statements. However, because the City is not statutorily obligated for these payments, this amount is excluded from pension and OPEB cost as described here.

<u>Year Ended December 31</u>	<u>Annual Pension Cost</u>	<u>Annual OPEB Cost</u>	<u>Total Benefit Cost (TBC)</u>	<u>City Contributions</u>	<u>% of TBC Contributed</u>
2012	\$ 526,358	\$ 671,272	\$ 1,197,630	\$ 1,197,630	100%
2011	550,105	604,927	1,155,032	1,155,032	100%
2010	503,833	658,566	1,162,399	1,162,399	100%

(11) **Defined Contribution Pension Plan**

Employees hired after July 1, 2006 participate in PERS Tier IV, a defined contribution plan. The Plan is administered by the State of Alaska, Department of Administration, and benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Alaska Retirement Management Board may also amend contribution requirements. Included in the Plan are individual pension accounts, retiree medical insurance plan and a separate Health Reimbursement Arrangement account that will help retired members pay medical premiums and other eligible medical expenses not covered by the medical plan.

Employee Contribution Rates

Employees are required to contribute 8.0% of their annual covered salary. This amount goes directly to the individual account.

Employer Contribution Rates

The City is required to contribute the following amounts based on covered salary:

<u>January to June</u>	<u>Others Tier IV</u>	<u>Police/Fire Tier IV</u>
Individual account	5.00%	5.00%
Retiree medical plan	0.51	0.51
Occupational death and disability benefits	<u>0.20</u>	<u>0.97</u>
	<u>5.71%</u>	<u>6.48%</u>

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Defined Contribution Pension Plan, continued

Employer Contribution Rates, continued

	<u>Others</u> <u>Tier IV</u>	<u>Police/Fire</u> <u>Tier IV</u>
<u>July-December</u>		
Individual account	5.00%	5.00%
Retiree medical plan	0.48	0.48
Occupational death and disability benefits	<u>0.14</u>	<u>0.99</u>
	<u>5.62</u> %	<u>6.47</u> %

In addition, the employer must contribute to the Health Reimbursement Arrangement. AS 39.30.370 establishes this contribution amount at “three percent of the average annual employee compensation of all employees of all employers in the plan.” As of July 1, 2012, for actual remittance, this amount is calculated as a flat rate for each full time or part-time employee per pay period and approximates \$1,848 per year for each full-time employee. The employer contribution rate for part time employees is \$1.18 per hour.

Employees are immediately vested in their own contributions and vest 25% per year in employer contributions. The City and employee contributions to PERS including the HRA contribution for the year ended June 30, 2012 were \$173,947 and \$147,737, respectively.

(12) **Deferred Compensation Plan**

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

(13) **Contingencies and Subsequent Events**

In March 2013, the City Council approved a Contribution in Aid of Construction Agreement (CIAC), Ordinance 13-03, between the City of Homer and Enstar Natural Gas Company for construction and improvements within the Homer natural gas distribution system special assessment district. A \$12.7 million loan will be obtained from Kenai Peninsula Borough. Assessments for this project are to begin after completion, currently projected to be in 2015.

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.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Contingencies and Subsequent Events, continued

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.

Subsequent to year end, an ordinance has been proposed to authorize the issuance of Harbor Revenue Bonds in an amount not to exceed \$4.2 million. The ordinance is pending second reading at the audit opinion date.

(14) **Designated Sales Tax**

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

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

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

(15) **New Accounting Pronouncements**

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates as follows:

GASB 66 – Technical Corrections – 2012 – Effective for year end December 31, 2013 – This statement contains certain technical corrections to prior GASB statements on the topics of Risk Financing, Operating Leases, Loan Purchases, and Servicing Fees.

GASB 67 – Financial Reporting for Pension Plans – 2013 – Effective for year end December 31, 2014 – This statement contains certain technical corrections to prior GASB statements on the topic of improving financial reporting by state and local governmental pension plans.

GASB 68 – Accounting and Financial Reporting for Pensions – 2013 – Effective for year end December 31, 2015 – This statement contains certain technical corrections to prior GASB statements on the topics of Net Pension Liability and Pension Expense.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

New Accounting Pronouncements, continued

GASB 69 – Government Combinations and Disposals of Government Operations – 2013 – Effective for year end December 31, 2014 – This statement contains certain disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and effects of these transactions.

SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

A Special Revenue Fund is established to finance particular activities and is created from proceeds of specific revenue sources that are restricted or committed for specific purposes.

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.

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

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

Sustainability – This fund accounts for donations for sustainable global warming.

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

Permanent Fund – This fund accounts for the payment received as a result of the Exxon Valdez oil spill settlement.

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

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.

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

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

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

Energy Revolving Loan – This fund accounts for forward funding of energy efficiency improvement projects with corpus to be reinstated through future repayments.

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

CITY OF HOMER, ALASKA
 Nonmajor Governmental Funds
 Combining Balance Sheet
 December 31, 2012

	Special Revenue Funds									Capital Project Funds					Total Nonmajor Govern- mental Funds	
	Library Donations	Fire Depart- ment Donations	Retainage Reimburse- ments	Com- munity Schools	Sustain- ability	Non- capital Projects	Permanent Fund	PERS Funding	Total Special Revenue Funds	HART Trails	Depre- ciation Reserves	Land Reserve	Energy Revolving Loan	Fleet Reserve Allocation		Total Capital Project Funds
<u>Assets</u>																
Cash and investments	\$ 32,145	87,741	13,363	1,092	14,779	-	-	14,612	163,732	343,161	1,712,299	-	5,855	773,263	2,834,578	2,998,310
Receivables, net:																
Sales taxes	-	-	-	-	-	-	-	-	-	19,415	-	-	-	-	19,415	19,415
Interfund loan	-	-	-	-	-	-	-	-	-	-	-	26,003	-	-	26,003	26,003
Other	-	-	1,266	-	-	-	-	-	1,266	-	-	-	-	-	-	1,266
Restricted cash and investments	-	-	-	-	-	-	1,648,032	-	1,648,032	-	-	-	-	-	-	1,648,032
Total assets	\$ 32,145	87,741	14,629	1,092	14,779	-	1,648,032	14,612	1,813,030	362,576	1,712,299	-	31,858	773,263	2,879,996	4,693,026
<u>Liabilities</u>																
Accounts payable	-	-	-	-	-	19	-	-	19	-	27,957	-	-	-	27,957	27,976
Unearned revenue	-	-	14,563	-	-	5,547	-	-	20,110	-	-	-	-	-	-	20,110
Due to other funds	-	-	-	-	-	56,822	-	-	56,822	-	-	269	-	-	269	57,091
Total liabilities	-	-	14,563	-	-	62,388	-	-	76,951	-	27,957	269	-	-	28,226	105,177
<u>Fund Balances</u>																
Nonspendable - interfund loan	-	-	-	-	-	-	-	-	-	-	-	26,003	-	-	26,003	26,003
Restricted - roads and trails	-	-	-	-	-	-	-	-	-	362,576	-	-	-	-	362,576	362,576
Committed - Permanent fund	-	-	-	-	-	-	1,648,032	-	1,648,032	-	-	-	-	-	-	1,648,032
Assigned:																
Library	32,145	-	-	-	-	-	-	-	32,145	-	-	-	-	-	-	32,145
Fire	-	87,741	-	-	-	-	-	-	87,741	-	-	-	-	-	-	87,741
Community schools	-	-	-	1,092	-	-	-	-	1,092	-	-	-	-	-	-	1,092
Global warming	-	-	-	-	14,779	-	-	-	14,779	-	-	-	-	-	-	14,779
PERS benefits	-	-	-	-	-	-	-	14,612	14,612	-	-	-	-	-	-	14,612
Capital and land	-	-	-	-	-	-	-	-	-	-	1,684,342	5,855	773,263	2,463,460	2,463,460	
Unassigned (deficit)	-	-	66	-	-	(62,388)	-	-	(62,322)	-	-	(269)	-	-	(269)	(62,591)
Total fund balances	32,145	87,741	66	1,092	14,779	(62,388)	1,648,032	14,612	1,736,079	362,576	1,684,342	(269)	31,858	773,263	2,851,770	4,587,849
Total liabilities and fund balances	\$ 32,145	87,741	14,629	1,092	14,779	-	1,648,032	14,612	1,813,030	362,576	1,712,299	-	31,858	773,263	2,879,996	4,693,026

CITY OF HOMER, ALASKA
 Nonmajor Governmental Funds
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits)
 Year Ended December 31, 2012

	Special Revenue Funds								Capital Project Funds					Total Nonmajor Govern- mental Funds	
	Library Donations	Fire Depart- ment Donations	Retainage Reimburse- ments	Com- munity Schools	Sustain- ability	Non- capital Projects	Permanent Fund	PERS Funding	Total Special Revenue Funds	HART Trails	Depre- ciation Reserves	Land Reserve	Energy Revolving Loan		Fleet Reserve Allocation
Revenues:															
Sales taxes	\$ -	-	-	-	-	-	-	-	100,502	-	-	-	-	100,502	100,502
Intergovernmental	-	-	-	-	-	9,444	-	9,444	-	-	-	-	-	-	9,444
Investment income	9	8	-	-	2	-	172,552	41	172,612	1,506	6,817	-	2,599	10,922	183,534
Donations	292	18,752	-	-	-	-	-	-	19,044	-	-	-	-	-	19,044
Other	-	-	3,942	-	-	23,442	-	-	27,384	-	-	-	-	-	27,384
Total revenues	<u>301</u>	<u>18,760</u>	<u>3,942</u>	<u>-</u>	<u>2</u>	<u>32,886</u>	<u>172,552</u>	<u>41</u>	<u>228,484</u>	<u>102,008</u>	<u>6,817</u>	<u>-</u>	<u>-</u>	<u>2,599</u>	<u>339,908</u>
Expenditures:															
Current:															
General government	-	-	-	-	-	972	-	-	972	17,954	5,297	-	-	-	24,223
Public safety	-	-	-	-	-	11,212	-	-	11,212	-	-	-	-	-	11,212
Public works	-	-	3,942	-	-	-	-	-	3,942	-	-	-	-	-	3,942
Community services	-	-	-	-	-	-	11,797	-	11,797	-	-	-	-	-	11,797
Capital outlay	-	-	-	-	-	14,040	-	-	14,040	-	162,514	39,855	-	-	216,409
Total expenditures	<u>-</u>	<u>-</u>	<u>3,942</u>	<u>-</u>	<u>-</u>	<u>26,224</u>	<u>11,797</u>	<u>-</u>	<u>41,963</u>	<u>17,954</u>	<u>167,811</u>	<u>39,855</u>	<u>-</u>	<u>-</u>	<u>267,583</u>
Excess of revenues over (under) expenditures	301	18,760	-	-	2	6,662	160,755	41	186,521	84,054	(160,994)	(39,855)	-	2,599	72,325
Other financing sources (uses):															
Transfers in	-	-	-	-	-	-	-	-	-	-	579,472	-	31,167	246,420	857,059
Transfers out	-	-	-	-	-	-	-	-	-	(61,000)	(109,123)	-	-	-	(170,123)
Net other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(61,000)</u>	<u>470,349</u>	<u>-</u>	<u>31,167</u>	<u>246,420</u>	<u>686,936</u>
Net change in fund balances	301	18,760	-	-	2	6,662	160,755	41	186,521	23,054	309,355	(39,855)	31,167	249,019	759,261
Beginning fund balances (deficit)	<u>31,844</u>	<u>68,981</u>	<u>66</u>	<u>1,092</u>	<u>14,777</u>	<u>(69,050)</u>	<u>1,487,277</u>	<u>14,571</u>	<u>1,549,558</u>	<u>339,522</u>	<u>1,374,987</u>	<u>39,586</u>	<u>691</u>	<u>524,244</u>	<u>3,828,588</u>
Ending fund balances (deficits)	\$ <u>32,145</u>	<u>87,741</u>	<u>66</u>	<u>1,092</u>	<u>14,779</u>	<u>(62,388)</u>	<u>1,648,032</u>	<u>14,612</u>	<u>1,736,079</u>	<u>362,576</u>	<u>1,684,342</u>	<u>(269)</u>	<u>31,858</u>	<u>773,263</u>	<u>4,587,849</u>

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, 2012
 (With Comparative Amounts for 2011)

<u>Assets</u>	<u>2012</u>	<u>2011</u>
Cash and investments	\$ 4,904,951	4,556,592
Receivables:		
Property taxes - delinquent, net of allowance for doubtful accounts of \$14,006 (\$16,728 in 2011)	105,210	102,138
Sales taxes	776,443	753,646
Assessments	376,771	420,372
Other, net of allowance for doubtful accounts of \$102,210 (\$54,131 in 2011)	88,734	193,751
Total receivables	<u>1,347,158</u>	<u>1,469,907</u>
Due from other funds	624,307	1,400,875
Inventory	60,507	25,316
Prepaid items	<u>195,758</u>	<u>219,001</u>
Total assets	\$ <u>7,132,681</u>	<u>7,671,691</u>
<u>Liabilities</u>		
Accounts payable	240,258	158,864
Accrued payroll and related liabilities	304,728	231,615
Customer deposits	17,102	17,632
Total liabilities	<u>562,088</u>	<u>408,111</u>
<u>Deferred Inflows</u>		
Deferred property taxes	105,210	115,445
Deferred assessments	376,771	420,289
Total deferred inflows	<u>481,981</u>	<u>535,734</u>
Total liabilities and deferred inflows	<u>1,044,069</u>	<u>943,845</u>
<u>Fund Balance</u>		
Nonspendable - inventory and prepaid items	256,265	244,317
Assigned - PERS benefits	171,314	171,314
Unassigned	5,661,033	6,312,215
Total fund balance	<u>6,088,612</u>	<u>6,727,846</u>
Total liabilities, deferred inflows and fund balance	\$ <u>7,132,681</u>	<u>7,671,691</u>

CITY OF HOMER, ALASKA
 General Fund
 Schedule of Revenues, Expenditures and
 Changes in Fund Balance - Budget and Actual
 Year Ended December 31, 2012
 (With Comparative Amounts for 2011)

	2012		Variance Positive (Negative)	2011
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Revenues:				
Taxes:				
Property taxes	\$ 2,839,472	2,991,230	151,758	2,916,176
Sales taxes	4,401,220	4,698,866	297,646	4,684,222
Penalties and interest	5,000	18,346	13,346	6,104
Total taxes	<u>7,245,692</u>	<u>7,708,442</u>	<u>462,750</u>	<u>7,606,502</u>
Licenses and permits	<u>24,900</u>	<u>22,248</u>	<u>(2,652)</u>	<u>25,040</u>
Intergovernmental:				
Revenue - sharing	375,000	485,141	110,141	459,632
State PERS relief	222,100	563,877	341,777	432,061
Utility cooperative	28,582	27,672	(910)	59,183
Alcohol beverage tax	22,000	25,750	3,750	20,400
Public safety	697,019	584,863	(112,156)	648,305
Library grant	6,500	6,500	-	6,500
Public works	34,000	34,000	-	34,000
Other grants	-	13,500	13,500	8,500
Total intergovernmental	<u>1,385,201</u>	<u>1,741,303</u>	<u>356,102</u>	<u>1,668,581</u>
Charges for services:				
Administrative services	1,387,141	1,387,140	(1)	1,259,098
Ambulance services	225,000	99,508	(125,492)	117,169
Fire contracts	65,000	72,148	7,148	102,412
Camping fees	160,000	129,070	(30,930)	145,587
Rents and leases	-	3,000	3,000	300
Airport services	179,885	170,609	(9,276)	168,569
Community school fees	30,500	28,345	(2,155)	31,767
Miscellaneous services	57,225	86,551	29,326	119,004
Total charges for services	<u>2,104,751</u>	<u>1,976,371</u>	<u>(128,380)</u>	<u>1,943,906</u>
Special assessments	<u>-</u>	<u>67,367</u>	<u>67,367</u>	<u>29,775</u>

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

	2012		Variance Positive (Negative)	2011
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Revenues, continued:				
Investment income	\$ 16,000	28,423	12,423	33,499
Fines and forfeitures	15,500	8,065	(7,435)	17,460
Total revenues	<u>10,792,044</u>	<u>11,552,219</u>	<u>760,175</u>	<u>11,324,763</u>
Expenditures:				
General government:				
City council/mayor:				
Salaries and benefits	4,914	4,946	(32)	4,868
Supplies	2,500	1,692	808	1,238
Other services and charges	278,129	606,068	(327,939)	279,519
Total city council/mayor	<u>285,543</u>	<u>612,706</u>	<u>(327,163)</u>	<u>285,625</u>
City clerk:				
Salaries and benefits	300,541	312,631	(12,090)	292,234
Supplies	3,400	2,273	1,127	2,672
Other services and charges	48,018	26,584	21,434	21,303
Total city clerk	<u>351,959</u>	<u>341,488</u>	<u>10,471</u>	<u>316,209</u>
City manager:				
Salaries and benefits	220,074	269,734	(49,660)	272,645
Supplies	4,000	3,529	471	3,608
Other services and charges	14,103	11,824	2,279	9,556
Total city manager	<u>238,177</u>	<u>285,087</u>	<u>(46,910)</u>	<u>285,809</u>
Administrative services:				
Salaries and benefits	1,056,810	1,092,068	(35,258)	1,041,256
Supplies	12,430	13,399	(969)	4,511
Other services and charges	260,937	211,491	49,446	188,036
Total administrative services	<u>1,330,177</u>	<u>1,316,958</u>	<u>13,219</u>	<u>1,233,803</u>

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

	2012		Variance Positive (Negative)	2011
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Expenditures, continued:				
General government, continued:				
Planning and zoning/property management:				
Salaries and benefits	\$ 391,320	393,520	(2,200)	380,460
Supplies	2,900	4,341	(1,441)	2,114
Other services and charges	<u>27,110</u>	<u>24,085</u>	<u>3,025</u>	<u>13,737</u>
Total planning and zoning/ property management	<u>421,330</u>	<u>421,946</u>	<u>(616)</u>	<u>396,311</u>
City hall complex:				
Supplies	35,426	25,221	10,205	19,051
Other services and charges	<u>226,077</u>	<u>170,191</u>	<u>55,886</u>	<u>139,805</u>
Total city hall complex	<u>261,503</u>	<u>195,412</u>	<u>66,091</u>	<u>158,856</u>
Non-departmental - salaries and benefits	<u>113,352</u>	<u>113,352</u>	-	<u>112,547</u>
Total general government	<u>3,002,041</u>	<u>3,286,949</u>	<u>(284,908)</u>	<u>2,789,160</u>
Public safety:				
Police department:				
Salaries and benefits	2,054,162	2,096,621	(42,459)	1,969,834
Supplies	42,350	35,727	6,623	29,182
Other services and charges	<u>318,272</u>	<u>283,542</u>	<u>34,730</u>	<u>276,993</u>
Total police department	<u>2,414,784</u>	<u>2,415,890</u>	<u>(1,106)</u>	<u>2,276,009</u>
Jail:				
Salaries and benefits	547,975	526,836	21,139	499,189
Supplies	26,200	27,830	(1,630)	30,507
Other services and charges	<u>126,153</u>	<u>115,453</u>	<u>10,700</u>	<u>110,715</u>
Total jail	<u>700,328</u>	<u>670,119</u>	<u>30,209</u>	<u>640,411</u>
Animal control:				
Supplies	22,500	24,363	(1,863)	20,661
Other services and charges	<u>143,754</u>	<u>135,356</u>	<u>8,398</u>	<u>137,696</u>
Total animal control	<u>166,254</u>	<u>159,719</u>	<u>6,535</u>	<u>158,357</u>

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

	2012		Variance Positive (Negative)	2011
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Expenditures, continued:				
Public safety, continued:				
Emergency services:				
Salaries and benefits	\$ 637,500	702,001	(64,501)	666,979
Supplies	55,000	40,208	14,792	38,455
Other services and charges	<u>272,893</u>	<u>213,567</u>	<u>59,326</u>	<u>186,921</u>
Total emergency services	<u>965,393</u>	<u>955,776</u>	<u>9,617</u>	<u>892,355</u>
Total public safety	<u>4,246,759</u>	<u>4,201,504</u>	<u>45,255</u>	<u>3,967,132</u>
Public works:				
Administration:				
Salaries and benefits	219,543	289,086	(69,543)	256,666
Supplies	4,000	4,932	(932)	3,809
Other services and charges	<u>84,107</u>	<u>75,703</u>	<u>8,404</u>	<u>74,094</u>
Total administration	<u>307,650</u>	<u>369,721</u>	<u>(62,071)</u>	<u>334,569</u>
Maintenance:				
Salaries and benefits	186,496	195,775	(9,279)	185,417
Supplies	21,850	17,565	4,285	22,018
Other services and charges	<u>108,600</u>	<u>83,943</u>	<u>24,657</u>	<u>77,090</u>
Total maintenance	<u>316,946</u>	<u>297,283</u>	<u>19,663</u>	<u>284,525</u>
Streets:				
Salaries and benefits	210,062	247,266	(37,204)	217,778
Supplies	183,000	148,824	34,176	153,518
Other services and charges	<u>61,506</u>	<u>56,628</u>	<u>4,878</u>	<u>30,733</u>
Total streets	<u>454,568</u>	<u>452,718</u>	<u>1,850</u>	<u>402,029</u>

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

	2012		Variance Positive (Negative)	2011
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Expenditures, continued:				
Public works, continued:				
Motor pool:				
Salaries and benefits	\$ 165,633	162,280	3,353	167,154
Supplies	141,360	121,095	20,265	119,199
Other services and charges	<u>195,000</u>	<u>199,414</u>	<u>(4,414)</u>	<u>211,286</u>
Total motor pool	<u>501,993</u>	<u>482,789</u>	<u>19,204</u>	<u>497,639</u>
Engineer/inspector:				
Salaries and benefits	291,410	294,649	(3,239)	292,440
Supplies	15,580	14,553	1,027	16,024
Other services and charges	<u>29,800</u>	<u>28,612</u>	<u>1,188</u>	<u>26,150</u>
Total engineer/inspector	<u>336,790</u>	<u>337,814</u>	<u>(1,024)</u>	<u>334,614</u>
Total public works	<u>1,917,947</u>	<u>1,940,325</u>	<u>(22,378)</u>	<u>1,853,376</u>
Library:				
Salaries and benefits	544,432	515,163	29,269	512,053
Supplies	45,839	47,531	(1,692)	38,788
Other services and charges	<u>164,561</u>	<u>144,909</u>	<u>19,652</u>	<u>154,311</u>
Total library	<u>754,832</u>	<u>707,603</u>	<u>47,229</u>	<u>705,152</u>
Airport:				
Salaries and benefits	64,226	63,907	319	72,092
Supplies	43,500	43,356	144	36,908
Other services and charges	<u>115,162</u>	<u>102,596</u>	<u>12,566</u>	<u>107,035</u>
Total airport	<u>222,888</u>	<u>209,859</u>	<u>13,029</u>	<u>216,035</u>
Parks and recreation:				
Salaries and benefits	221,672	228,718	(7,046)	182,812
Supplies	34,521	34,976	(455)	34,268
Other services and charges	<u>126,251</u>	<u>83,413</u>	<u>42,838</u>	<u>82,551</u>
Total parks and recreation	<u>382,444</u>	<u>347,107</u>	<u>35,337</u>	<u>299,631</u>

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

	2012		Variance Positive (Negative)	2011
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Expenditures, continued:				
Community services:				
Community service contributions:				
Museum	\$ 69,000	78,439	(9,439)	66,500
Homer Foundation Non-Profit	19,000	19,000	-	19,000
Junk cars	-	-	-	3,456
Haven House	12,350	12,350	-	12,350
Other	<u>13,067</u>	<u>11,367</u>	<u>1,700</u>	<u>2,514</u>
Total community service contributions	<u>113,417</u>	<u>121,156</u>	<u>(7,739)</u>	<u>103,820</u>
Community schools:				
Salaries and benefits	87,281	88,127	(846)	85,046
Supplies	3,000	1,370	1,630	1,615
Other services and charges	<u>21,514</u>	<u>18,117</u>	<u>3,397</u>	<u>19,804</u>
Total community schools	<u>111,795</u>	<u>107,614</u>	<u>4,181</u>	<u>106,465</u>
Total community services	<u>225,212</u>	<u>228,770</u>	<u>(3,558)</u>	<u>210,285</u>
Debt service on loans:				
Principal	41,478	41,643	(165)	39,993
Interest	<u>58,346</u>	<u>58,181</u>	<u>165</u>	<u>59,831</u>
Total debt service	<u>99,824</u>	<u>99,824</u>	<u>-</u>	<u>99,824</u>
Total expenditures	<u>10,851,947</u>	<u>11,021,941</u>	<u>(169,994)</u>	<u>10,140,595</u>
Excess of revenues over (under) expenditures	(59,903)	530,278	590,181	1,184,168
Other financing sources (uses):				
Transfers in	-	-	-	40,000
Transfers out	<u>(898,908)</u>	<u>(1,169,512)</u>	<u>(270,604)</u>	<u>(70,136)</u>
Net other financing sources (uses)	<u>(898,908)</u>	<u>(1,169,512)</u>	<u>(270,604)</u>	<u>(30,136)</u>
Net change in fund balance	\$ <u>(958,811)</u>	(639,234)	<u>319,577</u>	1,154,032
Beginning fund balance		<u>6,727,846</u>		<u>5,573,814</u>
Ending fund balance		\$ <u><u>6,088,612</u></u>		<u><u>6,727,846</u></u>

UTILITY SPECIAL REVENUE FUND

The Utility Special Revenue 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
 Utility Special Revenue Fund
 Schedule of Revenues, Expenditures and
 Changes in Fund Balance - Budget and Actual
 Year Ended December 31, 2012

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues:			
Sales taxes	\$ 1,099,890	1,174,683	74,793
Intergovernmental:			
Capital grants	-	46,370	46,370
State of Alaska PERS relief	50,000	130,004	80,004
Total intergovernmental	<u>50,000</u>	<u>176,374</u>	<u>126,374</u>
Charges for services:			
Water charges and connection fees	1,717,101	1,717,259	158
Sewer charges and connection fees	1,572,089	1,552,816	(19,273)
Total charges for services	<u>3,289,190</u>	<u>3,270,075</u>	<u>(19,115)</u>
Water and sewer special assessments	45,000	262,591	217,591
Investment income	5,000	-	(5,000)
Other	6,000	10,900	4,900
Total revenues	<u>4,495,080</u>	<u>4,894,623</u>	<u>399,543</u>
Expenditures:			
Water:			
Pumping system	93,475	88,471	5,004
Treatment plant and operations testing	377,511	481,615	(104,104)
Distribution system and reservoir	343,216	354,459	(11,243)
Water meters	109,775	115,531	(5,756)
Water hydrants	83,653	92,038	(8,385)
Administration	696,203	818,949	(122,746)
Total water	<u>1,703,833</u>	<u>1,951,063</u>	<u>(247,230)</u>
Sewer:			
Pumping system	755,156	761,560	(6,404)
Collection system	165,001	173,131	(8,130)
Administration	766,701	811,268	(44,567)
Total sewer	<u>1,686,858</u>	<u>1,745,959</u>	<u>(59,101)</u>
Debt service:			
Principal	775,198	834,681	(59,483)
Interest	276,702	160,498	116,204
Total debt service	<u>1,051,900</u>	<u>995,179</u>	<u>56,721</u>
Capital outlay	14,092	1,888,835	(1,874,743)
Total expenditures	<u>4,456,683</u>	<u>6,581,036</u>	<u>(2,124,353)</u>
Excess of revenues over (under) expenditures	38,397	(1,686,413)	(1,724,810)
Other financing sources (uses):			
Issuance of long-term debt	-	1,565,730	1,565,730
Transfers out	(69,273)	(20,300)	48,973
Net other financing sources (uses)	<u>(69,273)</u>	<u>1,545,430</u>	<u>1,614,703</u>
Change in fund balance	\$ <u>(30,876)</u>	(140,983)	<u>(110,107)</u>
Beginning fund balance		3,345,465	
Ending fund balance		\$ <u>3,204,482</u>	

CITY OF HOMER, ALASKA

Utility Special Revenue Fund

Combining Balance Sheet

December 31, 2012

<u>Assets</u>	Utility <u>Operations</u>	HAWSP <u>Debt Service</u>	Utility <u>Capital Projects</u>	Utility <u>Reserves</u>	Total <u>Utility Fund</u>
Cash and investments	\$ 2,690,812	(4,942,856)	(1,102,443)	4,315,739	961,252
Receivables:					
Accounts	237,294	-	-	-	237,294
Sales taxes	-	194,117	-	-	194,117
Assessments	-	2,407,049	-	-	2,407,049
State and federal grants and loans	-	1,749,454	41,775	-	1,791,229
Total receivables	<u>237,294</u>	<u>4,350,620</u>	<u>41,775</u>	<u>-</u>	<u>4,629,689</u>
Inventory	191,167	-	-	-	191,167
Prepaid items	<u>33,143</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,143</u>
Total assets	<u>\$ 3,152,416</u>	<u>(592,236)</u>	<u>(1,060,668)</u>	<u>4,315,739</u>	<u>5,815,251</u>
<u>Liabilities</u>					
Accounts payable	117,321	-	10	9,391	126,722
Accrued payroll and related liabilities	42,190	-	-	-	42,190
Customer deposits	<u>34,808</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,808</u>
Total liabilities	194,319	-	10	9,391	203,720
<u>Deferred Inflows</u>					
Deferred assessments	<u>-</u>	<u>2,407,049</u>	<u>-</u>	<u>-</u>	<u>2,407,049</u>
Total liabilities and deferred inflows	<u>194,319</u>	<u>2,407,049</u>	<u>10</u>	<u>9,391</u>	<u>2,610,769</u>
<u>Fund Balances (Deficits)</u>					
Nonspendable - inventory and prepaid items	224,310	-	-	-	224,310
Assigned - water and sewer	<u>2,733,787</u>	<u>(2,999,285)</u>	<u>(1,060,678)</u>	<u>4,306,348</u>	<u>2,980,172</u>
Total fund balances (deficits)	<u>2,958,097</u>	<u>(2,999,285)</u>	<u>(1,060,678)</u>	<u>4,306,348</u>	<u>3,204,482</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 3,152,416</u>	<u>(592,236)</u>	<u>(1,060,668)</u>	<u>4,315,739</u>	<u>5,815,251</u>

CITY OF HOMER, ALASKA

Utility Special Revenue Fund

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances (Deficits)

Year Ended December 31, 2012

	Utility <u>Operations</u>	HAWSP <u>Debt Service</u>	Utility <u>Capital Projects</u>	Utility <u>Reserves</u>	Total Utility <u>Fund</u>
Revenues:					
Sales tax	\$ -	1,174,683	-	-	1,174,683
Intergovernmental:					
Capital grants	-	-	46,370	-	46,370
State of Alaska PERS relief	130,004	-	-	-	130,004
Total intergovernmental	130,004	-	46,370	-	176,374
Charges for services:					
Water charges and connection fees	1,717,259	-	-	-	1,717,259
Sewer charges and connection fees	1,552,816	-	-	-	1,552,816
Total charges for services	3,270,075	-	-	-	3,270,075
Water and sewer special assessments	-	262,591	-	-	262,591
Other	-	-	-	10,900	10,900
Total revenues	3,400,079	1,437,274	46,370	10,900	4,894,623
Expenditures:					
Water:					
Pumping system	88,471	-	-	-	88,471
Treatment plant and operations testing	481,615	-	-	-	481,615
Distribution system and reservoir	354,459	-	-	-	354,459
Water meters	115,531	-	-	-	115,531
Water hydrants	92,038	-	-	-	92,038
Administration	680,152	138,797	-	-	818,949
Total water	1,812,266	138,797	-	-	1,951,063
Sewer:					
Pumping system	761,560	-	-	-	761,560
Collection system	173,131	-	-	-	173,131
Administration	672,471	138,797	-	-	811,268
Total sewer	1,607,162	138,797	-	-	1,745,959
Debt service:					
Principal	-	834,681	-	-	834,681
Interest	1,794	158,704	-	-	160,498
Total debt service	1,794	993,385	-	-	995,179
Capital outlay	-	-	1,633,463	255,372	1,888,835
Total expenditures	3,421,222	1,270,979	1,633,463	255,372	6,581,036
Excess of revenues over (under) expenditures	(21,143)	166,295	(1,587,093)	(244,472)	(1,686,413)
Other financing sources (uses):					
Issuance of long-term debt	-	1,565,730	-	-	1,565,730
Eliminating transfers	(213,181)	(1,532,027)	1,532,027	213,181	-
Transfers out	(20,300)	-	-	-	(20,300)
Net other financing sources (uses)	(233,481)	33,703	1,532,027	213,181	1,545,430
Change in fund balances	(254,624)	199,998	(55,066)	(31,291)	(140,983)
Beginning fund balances (deficits)	3,212,721	(3,199,283)	(1,005,612)	4,337,639	3,345,465
Ending fund balances (deficits)	\$ 2,958,097	(2,999,285)	(1,060,678)	4,306,348	3,204,482

ENTERPRISE FUND

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

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

CITY OF HOMER, ALASKA
 Port of Homer Enterprise Fund
 Statement of Net Position
 December 31, 2012
 (With Comparative Amounts for 2011)

	<u>Assets</u>	<u>2012</u>	<u>2011</u>
Current assets:			
Cash and investments		\$ 1,550,237	1,062,017
Receivables:			
Accounts, net of allowance for doubtful accounts of \$36,073 (\$57,909 in 2011)		345,545	278,238
State and federal grants		779,990	49,481
Inventory		14,712	15,590
Prepaid items		<u>47,981</u>	<u>33,970</u>
Total current assets		<u>2,738,465</u>	<u>1,439,296</u>
Property, plant and equipment:			
Property, plant and equipment in service		53,677,485	53,497,529
Land and land improvements		15,254,041	15,254,041
Construction work in progress		852,243	-
Less accumulated depreciation		<u>(29,523,872)</u>	<u>(28,154,204)</u>
Net property, plant and equipment		<u>40,259,897</u>	<u>40,597,366</u>
Total assets		<u>\$ 42,998,362</u>	<u>42,036,662</u>
	<u>Liabilities</u>		
Current liabilities:			
Accounts payable		592,682	144,312
Accrued payroll and related liabilities		36,103	50,834
Accrued leave		17,751	18,210
Prepaid berth rentals and deposits		736,958	706,547
Unearned lease revenue		18,000	18,000
Interfund loan		<u>3,291</u>	<u>3,291</u>
Total current liabilities		<u>1,404,785</u>	<u>941,194</u>
Noncurrent liabilities, net of current portion:			
Unearned lease revenue		270,000	288,000
Accrued leave		137,289	121,359
Interfund loan		<u>22,712</u>	<u>26,003</u>
Total noncurrent liabilities		<u>430,001</u>	<u>435,362</u>
Total liabilities		<u>1,834,786</u>	<u>1,376,556</u>
	<u>Net Position</u>		
Invested in capital assets		40,259,897	40,597,366
Unrestricted		<u>903,679</u>	<u>62,740</u>
Total net position		<u>41,163,576</u>	<u>40,660,106</u>
Total liabilities and net position		<u>\$ 42,998,362</u>	<u>42,036,662</u>

CITY OF HOMER, ALASKA
 Port of Homer Enterprise Fund
 Statement of Revenues, Expenses and Changes in Net Position
 Year Ended December 31, 2012
 (With Comparative Amounts for 2011)

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Harbor	\$ 2,151,063	2,035,523
Main dock	242,442	206,170
Fish dock	676,351	800,960
Deep water dock	430,201	162,448
Rents, leases and storage	407,027	341,212
Fish grinder	10,515	17,118
Total operating revenues	<u>3,917,599</u>	<u>3,563,431</u>
Operating expenses:		
Harbor	1,311,272	1,274,411
Main dock	67,750	61,529
Fish dock	595,308	602,682
Deep water dock	84,155	78,606
Fish grinder	21,792	11,732
Administration	1,191,671	1,077,971
Depreciation	1,369,668	1,488,909
Total operating expenses	<u>4,641,616</u>	<u>4,595,840</u>
Operating loss	(724,017)	(1,032,409)
Nonoperating revenues (expenses):		
Investment income	16,181	12,592
State PERS relief	118,644	103,169
Other income	216,430	95,240
Miscellaneous repairs	(124,797)	-
FEMA repairs grant	131,335	-
Cruise ship tax	-	68,200
Harbormaster conference revenue	-	34,565
Harbormaster conference expense	(13,337)	(21,228)
Net nonoperating revenues	<u>344,456</u>	<u>292,538</u>
Loss before capital contributions and transfers	(379,561)	(739,871)
Capital contributions	883,031	59,176
Transfers out	-	(131,335)
Change in net position	503,470	(812,030)
Beginning net position	<u>40,660,106</u>	<u>41,472,136</u>
Ending net position	\$ <u><u>41,163,576</u></u>	<u><u>40,660,106</u></u>

CITY OF HOMER, ALASKA
Port of Homer Enterprise Fund
Statement of Cash Flows
Year Ended December 31, 2012
(With Comparative Amounts for 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 4,010,933	3,596,156
Payments to suppliers	(1,082,926)	(1,195,122)
Payments to employees	<u>(1,772,535)</u>	<u>(1,730,830)</u>
Net cash flows from operating activities	<u>1,155,472</u>	<u>670,204</u>
Cash flows from noncapital financing activities:		
Transfer out	-	(131,335)
Nonoperating grants and cruise ship tax received	<u>82,386</u>	<u>-</u>
Net cash flows from noncapital financing activities	<u>82,386</u>	<u>(131,335)</u>
Cash flows from capital and related financing activities:		
Capital contributions received	269,671	59,176
Acquisition of property, plant and equipment	(1,032,199)	(324,039)
(Decrease) increase in interfund loan	<u>(3,291)</u>	<u>29,294</u>
Net cash flows from capital and related financing activities	<u>(765,819)</u>	<u>(235,569)</u>
Cash flows from investing activities - investment income received	<u>16,181</u>	<u>12,592</u>
Net increase in cash and investments	488,220	315,892
Beginning cash and investments	<u>1,062,017</u>	<u>746,125</u>
Ending cash and investments	\$ <u><u>1,550,237</u></u>	<u><u>1,062,017</u></u>
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (724,017)	(1,032,409)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation	1,369,668	1,488,909
Noncash expense - PERS relief	118,644	103,169
Decrease in allowance for doubtful accounts	(21,836)	(7,134)
Amortization of deferred lease revenue	(18,000)	(18,000)
Miscellaneous nonoperating revenues and expense, net	78,296	176,777
(Increase) decrease in assets:		
Accounts receivable	(113,671)	(159,221)
Inventory	878	(4,063)
Prepaid items	(14,011)	1,471
Increase (decrease) in liabilities:		
Accounts payable	448,370	93,648
Accrued payroll and related liabilities	(14,731)	(378)
Accrued leave	15,471	(12,868)
Prepaid berth rentals and deposits	<u>30,411</u>	<u>40,303</u>
Net cash flows from operating activities	\$ <u><u>1,155,472</u></u>	<u><u>670,204</u></u>

INTERNAL SERVICE FUNDS

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

Health Insurance Fund – This fund accounts for the cost of medical, dental, vision and self-insurance claims.

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

CITY OF HOMER, ALASKA
 Internal Service Funds
 Combining Statement of Net Position
 December 31, 2012

<u>Assets</u>	<u>Health Insurance</u>	<u>Leave Cash-out</u>	<u>Total</u>
Cash and investments	\$ -	3,872	3,872
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	128,435	-	128,435
Due to other funds	98,391	-	98,391
Total current liabilities	<u>226,826</u>	<u>-</u>	<u>226,826</u>
<u>Net Position</u>			
Unrestricted (deficit)	<u>(226,826)</u>	<u>3,872</u>	<u>(222,954)</u>
Total liabilities and net position	<u>\$ -</u>	<u>3,872</u>	<u>3,872</u>

CITY OF HOMER, ALASKA

Internal Service Funds

Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2012

	<u>Health Insurance</u>	<u>Leave Cash-out</u>	<u>Total</u>
Operating revenues:			
Interfund charges	\$ 1,559,289	184,999	1,744,288
Employee health contributions	<u>117,930</u>	<u>-</u>	<u>117,930</u>
Total operating revenues	<u>1,677,219</u>	<u>184,999</u>	<u>1,862,218</u>
Operating expenses:			
Personnel	-	144,549	144,549
Claims	1,780,281	-	1,780,281
Insurance premiums	438,910	-	438,910
Administration	<u>99,143</u>	<u>-</u>	<u>99,143</u>
Total operating expenses	<u>2,318,334</u>	<u>144,549</u>	<u>2,462,883</u>
Change in net position	(641,115)	40,450	(600,665)
Beginning net position (deficit)	<u>414,289</u>	<u>(36,578)</u>	<u>377,711</u>
Ending net position (deficit)	\$ <u><u>(226,826)</u></u>	<u><u>3,872</u></u>	<u><u>(222,954)</u></u>

CITY OF HOMER, ALASKA
Internal Service Funds
Combining Statement of Cash Flows
Year Ended December 31, 2012

	<u>Health Insurance</u>	<u>Leave Cash-out</u>	<u>Total</u>
Cash flows from operating activities:			
Receipts from interfund services provided	\$ 1,677,219	184,999	1,862,218
Payments to employees	-	(144,549)	(144,549)
Payments for insurance claims and administration	<u>(2,283,711)</u>	<u>-</u>	<u>(2,283,711)</u>
Net cash flows from operating activities	<u>(606,492)</u>	<u>40,450</u>	<u>(566,042)</u>
 Cash flows from noncapital financing activities - increase (decrease) in due to other funds	 <u>98,391</u>	 <u>(36,578)</u>	 <u>61,813</u>
 Net increase (decrease) in cash and investments	 <u>(508,101)</u>	 <u>3,872</u>	 <u>(504,229)</u>
 Beginning cash and investments	 <u>508,101</u>	 <u>-</u>	 <u>508,101</u>
 Ending cash and investments	 <u>\$ -</u>	 <u>3,872</u>	 <u>3,872</u>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (641,115)	40,450	(600,665)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities - increase in accounts payable	<u>34,623</u>	<u>-</u>	<u>34,623</u>
Net cash flows from operating activities	<u>\$ (606,492)</u>	<u>40,450</u>	<u>(566,042)</u>

CITY OF HOMER, ALASKA
 Health Insurance Internal Service Fund
 Statement of Net Position
 December 31, 2012
 (With Comparative Amounts for 2011)

<u>Assets</u>	<u>2012</u>	<u>2011</u>
Cash and investments	\$ <u>-</u>	<u>508,101</u>
 <u>Liabilities</u>		
Current liabilities:		
Accounts payable	128,435	93,812
Due to other funds	<u>98,391</u>	<u>-</u>
Total current liabilities	<u>226,826</u>	<u>93,812</u>
 <u>Net Position</u>		
Unrestricted (deficit)	<u>(226,826)</u>	<u>414,289</u>
Total liabilities and net position	\$ <u>-</u>	<u>508,101</u>

CITY OF HOMER, ALASKA
 Health Insurance Internal Service Fund
 Statement of Revenues, Expenses and Changes in Net Position
 Year Ended December 31, 2012
 (With Comparative Amounts for 2011)

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Interfund insurance charges	\$ 1,559,289	1,553,908
Employee health contributions	<u>117,930</u>	<u>-</u>
Total operating revenues	<u>1,677,219</u>	<u>1,553,908</u>
Operating expenses:		
Claims	1,780,281	1,285,767
Insurance premiums	438,910	479,696
Administration	<u>99,143</u>	<u>61,502</u>
Total operating expenses	<u>2,318,334</u>	<u>1,826,965</u>
Change in net position	(641,115)	(273,057)
Beginning net position	<u>414,289</u>	<u>687,346</u>
Ending net position (deficit)	\$ <u><u>(226,826)</u></u>	<u><u>414,289</u></u>

CITY OF HOMER, ALASKA
 Health Insurance Internal Service Fund
 Statement of Cash Flows
 Year Ended December 31, 2012
 (With Comparative Amounts for 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Receipts from interfund services provided and employee contributions	\$ 1,677,219	1,553,908
Payments for insurance claims and administration	<u>(2,283,711)</u>	<u>(1,811,965)</u>
Net cash flows from operating activities	(606,492)	(258,057)
 Cash flows from noncapital financing activities - increase in due to other funds	 <u>98,391</u>	 <u>-</u>
 Net decrease in cash and investments	 (508,101)	 (258,057)
 Beginning cash and investments	 <u>508,101</u>	 <u>766,158</u>
 Ending cash and investments	 \$ <u><u>-</u></u>	 \$ <u><u>508,101</u></u>
 Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (641,115)	(273,057)
Adjustments to reconcile operating loss to net cash flows from operating activities - increase in accounts payable	 <u>34,623</u>	 <u>15,000</u>
Net cash flows from operating activities	\$ <u><u>(606,492)</u></u>	<u><u>(258,057)</u></u>

CITY OF HOMER, ALASKA
 Leave Cash-out Internal Service Fund
 Statement of Net Position
 December 31, 2012
 (With Comparative Amounts for 2011)

<u>Assets</u>	<u>2012</u>	<u>2011</u>
Cash and investments	\$ <u>3,872</u>	<u>-</u>
 <u>Liabilities</u>		
Current liabilities - due to other funds	<u>-</u>	<u>36,578</u>
 <u>Net Position</u>		
Unrestricted (deficit)	<u>3,872</u>	<u>(36,578)</u>
Total liabilities and net position	\$ <u>3,872</u>	<u>-</u>

CITY OF HOMER, ALASKA
 Leave Cash-out Internal Service Fund
 Statement of Revenues, Expenses and Changes in Net Position
 Year Ended December 31, 2012
 (With Comparative Amounts for 2011)

	<u>2012</u>	<u>2011</u>
Operating revenues - interfund leave cash-out charges	\$ 184,999	185,000
Operating expenses - salaries and benefits	<u>144,549</u>	<u>203,314</u>
Change in net position	40,450	(18,314)
Beginning deficit	<u>(36,578)</u>	<u>(18,264)</u>
Ending net position (deficit)	\$ <u><u>3,872</u></u>	<u><u>(36,578)</u></u>

CITY OF HOMER, ALASKA
 Leave Cash-out Internal Service Fund
 Statement of Cash Flows
 Year Ended December 31, 2012
 (With Comparative Amounts for 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Receipts from interfund services provided	\$ 184,999	185,000
Payments to employees	<u>(144,549)</u>	<u>(203,314)</u>
Net cash flows from operating activities	40,450	(18,314)
Cash flows from noncapital financing activities - (decrease) increase in due to other funds	<u>(36,578)</u>	<u>18,314</u>
Net increase in cash and investments	3,872	-
Beginning cash and investments	<u>-</u>	<u>-</u>
Ending cash and investments	\$ <u><u>3,872</u></u>	<u><u>-</u></u>
Reconciliation of operating income (loss) to net cash flows from operating activities - operating income (loss)	\$ <u><u>40,450</u></u>	<u><u>(18,314)</u></u>

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
SCHEDULE OF STATE FINANCIAL ASSISTANCE**

CITY OF HOMER, ALASKA
 Schedule of Expenditures of Federal Awards
 Year Ended December 31, 2012

Federal Grant Title	Grant Number	Catalog of Federal Domestic Assistance Number	Total Grant Award	January 1, 2012 Receivable (Deferred)	Adjustments (Note 2)	Federal Share of Expen- ditures	Federal Receipts	December 31, 2012 Receivable (Deferred)
DEPARTMENT OF HOMELAND SECURITY								
FEMA Port Security - Port Security Program	2009-PU-T9-0082	97.056	\$ 107,252	49,481	-	48,076	97,557	-
Passed through the State of Alaska Division of Homeland Security & Emergency Management:								
* FEMA	FEMA-DR-4054-AK	97.036	2,533	-	-	2,533	2,533	-
* FEMA	FEMA-DR-4054-AK	97.036	131,335	-	-	131,335	14,186	117,149
Total CFDA 97.036				-	-	133,868	16,719	117,149
INSTITUTE OF MUSEUM AND LIBRARY SERVICES								
Passed through the State of Alaska Department of Education and Early Development:								
Continuing Education	CED-11-738-160	45.310	821	-	-	821	821	-
Continuing Education	CED-11-738-161	45.310	1,000	-	-	1,000	1,000	-
Interlibrary Cooperation Grant	ILC 12-738-202	45.310	3,550	-	-	3,276	3,276	-
Total CFDA 45.310				-	-	5,097	5,097	-
DENALI COMMISSION								
Small Boat Harbor Float	01412-01	90.100	440,000	-	-	67,113	-	67,113
DEPARTMENT OF COMMERCE								
Passed through the State of Alaska Department of Education and Early Development -								
Alaska Owl Project IT Aid Award Funds - ARRA	OWL 13-738-01	11.557	4,760	-	-	474	4,760	(4,286)
ENVIRONMENTAL PROTECTION AGENCY								
Passed through the State of Alaska Department of Environmental Conservation:								
Clean Water Loan	409081	66.458	2,697,500	958,268	-	-	-	958,268
Clean Water Loan (Note 2) - 90% Loan portion	409261	66.458	1,533,841	828,153	(67,966)	488,551	1,214,606	34,132
Clean Water Loan (Note 2) - 10% ARRA subsidy	409261	66.458	150,000	92,017	(7,552)	65,535	114,759	35,241
Clean Water Loan (ARRA)	409141	66.458	1,404,645	193,725	-	12,371	206,096	-
Total CFDA 66.458				2,072,163	(75,518)	566,457	1,535,461	1,027,641
Drinking Water Loan	409101	66.468	385,400	349,581	-	-	-	349,581
Drinking Water Loan (78% Federal)	409131	66.468	1,404,645	35,084	-	-	35,084	-
Drinking Water Loan (Note 2)	409271	66.468	1,432,994	658,923	(649,899)	655,276	604,297	60,003
Total CFDA 66.468				1,043,588	(649,899)	655,276	639,381	409,584
DEPARTMENT OF TRANSPORTATION								
Passed through the State of Alaska Department of Transportation and Public Facilities:								
ASTEP DUI Enforcement	154AL 12-01-03	20.607	2,500	1,560	-	1,118	2,678	-
TRACS User Group Meeting	154AL 12-01-03	20.610	390	-	-	390	390	-
AMHS Bike & Pedestrian Trail/Homer Terminal	2006-01	20.205	59,673	-	-	59,673	7,431	52,242
DEPARTMENT OF THE INTERIOR								
Beluga Slough Trail Reconstruction	F10AP00306	15.631	87,000	-	-	87,000	87,000	-
Passed through the State of Alaska Kenai Peninsula Borough -								
* Beluga Slough Trail	271-21135-11067-43011	15.668	65,351	-	-	65,351	-	65,351
Passed through the State of Alaska Department of Commerce, Community, and Economic Development CCIAP -								
* Beluga Slough Trail Reconstruction to Restore Wetland	10-CIAP-017	15.668	448,116	-	-	426,653	-	426,653
Total CFDA 15.668				-	-	492,004	-	492,004
Total Federal Financial Assistance			\$	3,166,792	(725,417)	2,116,546	2,396,474	2,161,447

* Major Program

CITY OF HOMER, ALASKA
 Schedule of State Financial Assistance
 Year Ended December 31, 2012

State Grant Title	Grant Number	Total Grant Award	January 1, 2012 Receivable (Deferred)	State Share of Expenditures	State Receipts	December 31, 2012 Receivable (Deferred)
DEPARTMENT OF ADMINISTRATION						
* PERS Relief	N/A	\$ 812,525	-	812,525	812,525	-
DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT						
* Katen Hornaday Park Improvements	11-DC-234	250,000	4,660	124,795	91,208	38,247
SPIT Trail Completion	08-DC-288	65,000	-	21,695	322	21,373
* Fishing Lagoon Improvements	13-DC-129	100,000	-	100,000	-	100,000
* South Peninsula Natural Gas Pipeline	13-DC-617	8,150,000	-	658,790	545,000	113,790
* Cruise Ship Dock and Passenger Facility Improvements	12-DC-609	6,000,000	-	870,570	201,401	669,169
* Revenue - sharing	N/A	485,141	-	485,141	485,141	-
Total Department of Commerce, Community, and Economic Development			<u>4,660</u>	<u>2,260,991</u>	<u>1,323,072</u>	<u>942,579</u>
DEPARTMENT OF REVENUE						
Electric and Telephone Co-op Tax	N/A	27,672	-	27,672	27,672	-
Liquor Licenses	N/A	25,750	-	25,750	25,750	-
Total Department of Revenue			<u>-</u>	<u>53,422</u>	<u>53,422</u>	<u>-</u>
DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT						
Continuing Education	CED 12-738-160	16	-	16	16	-
Director Lead Conference	20358549	205	-	205	205	-
Public Library Assistance	PLA-13-738-31	6,500	-	6,500	6,500	-
Total Department of Educaion and Early Development			<u>-</u>	<u>6,721</u>	<u>6,721</u>	<u>-</u>
Total State Financial Assistance		\$	<u>4,660</u>	<u>3,133,659</u>	<u>2,195,740</u>	<u>942,579</u>

* Major Program

CITY OF HOMER, ALASKA

Notes to the Schedule of Expenditures of Federal Awards and Schedule of State Financial Assistance

Year Ended December 31, 2012

(1) Basis of Presentation

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

(2) Clean Water and Drinking Water Adjustments

In 2012, the City identified an error in the allocation of costs reported in 2011 on the Kachemak Phase II Water/Sewer project. This project is funded through two separate Alaska Department of Environmental Conservation Revolving Loan Programs: 1) a clean water loan for the sewer portion, which includes a “10% forgiveness” clause; and 2) a drinking water loan for the water portion, with no forgiveness clause. The 10% forgiveness portion, is a federal subsidy under ARRA, and is treated like a grant.

Except for the forgiveness amount noted above, the revolving loan agreements do not identify a consistent breakdown between federal and state funding. In fact, every individual cash distribution under the program may bear a different allocation of state and federal funding. In other words, the City has no way of knowing how much of the expenditures have been applied to the federal or state portion of the loan, until the cash is actually disbursed by the State of Alaska. At December 31, 2011, the expenditures reported in total for these programs was in agreement with the actual costs incurred; however, as the funding was not actually distributed to the City before year end, the allocation between the state and federal portion was estimated. This situation is further complicated by a difference in reporting rules: The federal loan rules require that the federal portion of these expenditures be reported on the Schedule of Expenditures of Federal Awards. The State rules, in contrast, do *not* require that the state portion of these expenditures be reported on the Schedule of State Financial Assistance.

The overall total error identified was \$112,455 of costs inadvertently charged to the sewer project, that should have been charged to the water project. However, because of the federal subsidy, as well as the inconsistent allocation of federal and state funding between the two programs, the resulting misstatement in the 2011 Schedule of Federal Financial Assistance is considerably higher. The following table details the reallocation of costs between CFDA numbers and between the federal and state portion. Note that this error had no impact on the basic financial statements, only on the reporting of federal expenditures for single audit purposes.

CITY OF HOMER, ALASKA

Notes to the Schedule of Expenditures of Federal Awards and
Schedule of State Financial Assistance, continued

Clean Water and Drinking Water Adjustments, continued

	<u>Total Expenditures</u>	<u>Federal Loan & Subsidy</u>	<u>State Loan</u>
<i>Clean Water (CFDA 66.458)</i>			
2011 expenditures as reported	\$ 1,147,589	920,170	227,419
Allocation Adjustment	<u>(112,455)</u>	<u>(75,518)</u>	<u>(36,937)</u>
2011 expenditures as adjusted	\$ <u>1,035,134</u>	<u>844,652</u>	<u>190,482</u>
<i>Drinking Water (CFDA 66.468)</i>			
2011 expenditures as reported	\$ 988,619	658,924	329,695
Allocation Adjustment	<u>112,455</u>	<u>(649,899)</u>	<u>762,354</u>
2011 expenditures as adjusted	\$ <u>1,101,074</u>	<u>9,025</u>	<u>1,092,049</u>

CITY OF HOMER, ALASKA
 Statistical Section
 (Unaudited)

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

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

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Operating Information

These tables contain service and infrastructure indicators that can inform one's understanding of how the information in the City's financial statements relates to the services the City provides and the activities it performs.

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Source:

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

CITY OF HOMER, ALASKA
Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Governmental Activities										
Invested in capital assets, net of related debt	\$ 63,752,627	63,616,675	62,427,809	43,615,673	43,848,027	43,879,310	42,266,274	39,633,946	34,744,914	34,357,797
Restricted	6,691,992	7,284,209	5,610,035	3,350,187	4,334,477	3,350,187	3,601,605	3,768,592	3,237,361	2,743,871
Unrestricted	<u>15,644,941</u>	<u>15,774,292</u>	<u>16,833,035</u>	<u>10,482,882</u>	<u>8,149,368</u>	<u>6,014,887</u>	<u>4,932,592</u>	<u>3,919,540</u>	<u>3,000,843</u>	<u>3,120,310</u>
Total Governmental Activities Net Position	<u>86,089,560</u>	<u>86,675,176</u>	<u>84,870,879</u>	<u>57,448,742</u>	<u>56,331,872</u>	<u>53,244,384</u>	<u>50,800,471</u>	<u>47,322,078</u>	<u>40,983,118</u>	<u>40,221,978</u>
Business-type Activities										
Invested in capital assets, net of related debt	40,259,897	40,597,366	41,762,236	63,567,468	65,571,218	62,275,608	63,457,140	65,800,613	66,667,055	66,924,353
Restricted	-	-	-	4,347,509	7,677,436	7,736,778	3,583,803	2,870,245	2,316,028	2,314,557
Unrestricted	<u>856,101</u>	<u>112,282</u>	<u>(186,693)</u>	<u>1,448,400</u>	<u>(1,289,199)</u>	<u>(806,158)</u>	<u>3,406,230</u>	<u>1,486,971</u>	<u>3,048,076</u>	<u>3,368,162</u>
Total Business-type Activities Net Position	<u>41,115,998</u>	<u>40,709,648</u>	<u>41,575,543</u>	<u>69,363,377</u>	<u>71,959,455</u>	<u>69,206,228</u>	<u>70,447,173</u>	<u>70,157,829</u>	<u>72,031,159</u>	<u>72,607,072</u>
Primary government										
Invested in capital assets, net of related debt	104,012,524	104,214,041	104,190,045	107,183,141	109,419,245	106,154,918	105,723,414	105,434,559	101,411,969	101,282,150
Restricted	6,691,992	7,284,209	5,610,035	7,697,696	12,011,913	11,086,965	7,185,408	6,638,837	5,553,389	5,058,428
Unrestricted	<u>16,501,042</u>	<u>15,886,574</u>	<u>16,646,342</u>	<u>11,931,282</u>	<u>6,860,169</u>	<u>5,208,729</u>	<u>8,338,822</u>	<u>5,406,511</u>	<u>6,048,919</u>	<u>6,488,472</u>
Total Primary Government Net Position	<u>\$ 127,205,558</u>	<u>127,384,824</u>	<u>126,446,422</u>	<u>126,812,119</u>	<u>128,291,327</u>	<u>122,450,612</u>	<u>121,247,644</u>	<u>117,479,907</u>	<u>113,014,277</u>	<u>112,829,050</u>

Notes:

In 2010, the City converted its Water and Sewer Utility from an Enterprise Fund to a Special Revenue Fund. Prior years presentation has not been reclassified or restated to reflect this change.

In 2012 the City implemented GASB 63. Net assets have been retitled.

CITY OF HOMER, ALASKA

Changes in Net Assets
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Expenses										
Governmental Activities:										
General government	\$ 3,889,598	3,907,607	3,722,993	2,066,529	1,761,505	1,621,298	1,453,282	1,800,060	1,870,428	1,040,890
Public safety	4,757,442	4,451,784	4,168,529	4,409,769	4,546,766	3,989,765	3,912,322	3,322,075	3,101,937	3,128,167
Public works	2,680,878	2,612,530	2,676,839	2,955,896	2,637,639	2,422,038	2,405,097	1,066,319	2,136,469	1,979,338
Library	987,638	943,075	931,139	932,552	890,800	805,570	370,404	293,831	473,298	370,272
Airport	283,619	281,351	207,701	239,214	233,176	200,331	152,414	149,341	173,258	174,868
Parks & recreation	512,081	387,924	468,782	427,271	494,083	410,556	391,303	356,721	377,010	397,241
Community services	899,357	586,195	263,224	266,144	321,970	235,831	211,894	582,677	180,964	147,891
Water	2,724,923	2,607,880	2,231,144	-	-	-	-	-	-	-
Sewer	1,872,736	1,655,405	2,339,709	-	-	-	-	-	-	-
Unallocated interest	250,842	225,572	225,553	63,870	141,014	113,536	64,676	70,829	90,915	100,910
Total Governmental Activities Expenses	18,859,114	17,659,323	17,235,613	11,361,245	11,026,953	9,798,925	8,961,392	7,641,853	8,404,279	7,339,577
Business-type Activities:										
Port & Harbor	4,876,870	4,649,705	4,501,480	4,794,367	4,529,886	4,406,311	4,075,045	3,885,187	3,709,842	3,561,815
Water & Sewer	-	-	-	6,145,835	5,820,558	5,318,033	4,737,887	4,615,144	4,250,305	3,889,601
Total Business-type Activities Expenses	4,876,870	4,649,705	4,501,480	10,940,202	10,350,444	9,724,344	8,812,932	8,500,331	7,960,147	7,451,416
Total Activities Expenses	\$ 23,735,984	22,309,028	21,737,093	22,301,447	21,377,397	19,523,269	17,774,324	16,142,184	16,364,426	14,790,993
Program Revenues										
Governmental Activities:										
Charges for services										
General Government	\$ 515,737	511,997	211,625	185,215	116,606	290,197	437,696	433,860	377,892	297,629
Public Safety	234,527	258,804	198,119	633,372	317,835	462,050	323,916	389,826	815,935	920,648
Public Works	6,048	9,427	12,090	62,544	34,715	71,864	62,633	61,572	90,436	99,941
Library	-	-	-	4,869	499,189.00	-	-	-	-	-
Airport	170,609	168,569	166,666	165,781	169,196	170,944	143,604	125,316	131,072	95,918
Parks and Recreation	129,070	145,587	175,859	165,849	157,264	183,310	173,204	181,924	157,362	139,003
Community Services	28,345	31,767	32,292	28,166	27,058	38,696	18,549.00	-	-	-
Water	1,718,767	1,765,551	2,067,751	-	-	-	-	-	-	-
Sewer	1,554,324	1,521,740	1,483,423	-	-	-	-	-	-	-
Operating grants & contributions	1,377,909	734,045	665,150	607,284	697,372	638,290	640,601	729,240	401,998	589,364
Capital grants & contributions	1,698,849	2,982,510	1,632,234	376,375	746,803	339,482	1,616,075	4,361,468	1,273,362	325,481
Total Governmental Activities Revenues	7,434,185	8,129,997	6,645,209	2,229,455	2,766,038	2,194,833	3,416,278	6,283,206	3,248,057	2,467,984
Business-type Activities:										
Charges for services Port&Harbor	3,917,599	3,563,431	3,504,442	3,347,738	3,288,715	2,791,713	2,632,892	2,507,815	2,679,831	2,789,364
Charges for services Water/Sewer	-	-	-	3,039,391	3,023,126	2,734,564	2,745,335	2,605,377	2,569,494	2,281,614
Operating grants & contributions P&H	249,979	103,169	48,469.00	-	-	-	-	-	-	-
Capital grants & contributions P&H	883,031	59,176	-	-	-	55,187	-	68,090	723,375	1,428,887
Capital grants & contributions W/S	-	-	-	317,159	4,571,058	1,333,867	2,274,619	221,412	227,808	1,842,866
Total Business-type Activities Revenues	5,050,609	3,725,776	3,552,911	6,704,288	10,882,899	6,915,331	7,652,846	5,402,694	6,200,508	8,342,731
Total Primary Government Program Revenues	\$ 12,484,794	11,855,773	10,198,120	8,933,743	13,648,937	9,110,164	11,069,124	11,685,900	9,448,565	10,810,715
Net (Expense)Revenue										
Governmental Activities	(11,424,929)	(9,529,326)	(10,590,404)	(9,131,790)	(8,260,915)	(7,604,092)	(5,545,114)	(1,358,647)	(5,156,222)	(4,871,593)
Business-type Activities	173,739	(923,929)	(948,569)	(4,235,914)	532,455	(2,809,013)	(1,160,086)	(3,097,637)	(1,759,639)	891,315
Total Primary Government Net Expenses	\$ (11,251,190)	(10,453,255)	(11,538,973)	(13,367,704)	(7,728,460)	(10,413,105)	(6,705,200)	(4,456,284)	(6,915,861)	(3,980,278)
General Revenues and Other Changes in Net Position										
Governmental Activities:										
Taxes:										
Property Taxes	\$ 2,999,341	2,922,246	3,051,919	2,889,856	2,976,794	2,529,614	2,406,263	2,091,977	1,888,761	1,785,092
Sales Taxes	7,031,266	7,059,404	6,613,640	5,361,109	6,334,758	6,173,478	5,670,638	5,119,528	3,770,288	3,506,170
Other	781,706	1,220,638	1,272,273	2,113,103	967,635	1,195,849	487,481	376,102	207,628	489,857
Transfers	-	131,335	(24,925)	(115,408)	(30,000)	149,064	459,125	110,000	50,685	(199,442)
Special item write-off NPO	-	-	-	-	1,099,216	-	-	-	-	-
Total Governmental Activities Revenue	10,812,313	11,333,623	10,912,907	10,248,660	11,348,403	10,048,005	9,023,507	7,697,607	5,917,362	5,581,677
Business-type Activities:										
Sales tax	-	-	-	1,072,222	1,266,790	1,235,022	1,134,096	1,031,167	1,019,645	956,353
Other	232,611	189,369	235,444	452,206	409,544	482,110	774,459	303,140	214,766	418,591
Transfers	-	(131,335)	24,925	115,408	30,000	(149,064)	(459,125)	(110,000)	(50,685)	199,442
Special item write-off NPO	-	-	-	-	514,438.00	-	-	-	-	-
Total Business-type Activities Revenue	232,611	58,034	260,369	1,639,836	2,220,772	1,568,068	1,449,430	1,224,307	1,183,726	1,574,386
Total Primary Government General and Transfers Revenue	\$ 11,044,924	11,391,657	11,173,276	11,888,496	13,569,175	11,616,073	10,472,937	8,921,914	7,101,088	7,156,063
Changes in Net Position										
Governmental Activities	\$ (612,616)	1,804,297	322,503	1,116,870	3,087,488	2,443,913	3,478,393	6,338,960	761,140	710,084
Business-type Activities	406,350	(865,895)	(688,200)	(2,596,078)	2,753,227	(1,240,945)	289,344	(1,873,330)	(575,913)	2,465,701
Total Primary Government	\$ (206,266)	938,402	(365,697)	(1,479,208)	5,840,715	1,202,968	3,767,737	4,465,630	185,227	3,175,785

Notes:

The City implemented GASB 34 in 2003.

In 2010, the City converted its Water and Sewer Utility from an Enterprise Fund to a Special Revenue Fund. Prior years presentation has not been reclassified or restated to reflect this change.

In 2012 the City implemented GASB 63. Net assets have been reclassified.

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

Fiscal Year	Property Tax	Sales Tax	Total
2012	\$ 2,999,341	\$ 7,031,266	\$ 10,030,607
2011	2,922,246	7,059,404	9,981,650
2010	3,051,919	6,613,640	9,665,559
2009	2,889,856	5,361,109	8,250,965
2008	2,976,794	6,334,758	9,311,552
2007	2,501,693	6,173,478	8,675,171
2006	2,382,936	5,670,638	8,053,574
2005	2,102,170	5,119,528	7,221,698
2004	1,888,761	3,737,944	5,626,705
2003	1,811,202	3,506,170	5,317,372
2002	1,603,317	3,243,410	4,846,727

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

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
General Fund										
Nonspendable	\$ 256,265	244,317	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-	-	-	-
Assigned	171,314	171,314	-	-	-	-	-	-	-	-
Unassigned	5,661,033	6,312,215	-	-	-	-	-	-	-	-
Total General Fund	<u>6,088,612</u>	<u>6,727,846</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Governmental Funds										
Nonspendable	250,313	334,666	-	-	-	-	-	-	-	-
Restricted	6,691,992	7,284,209	-	-	-	-	-	-	-	-
Committed	1,648,032	-	-	-	-	-	-	-	-	-
Assigned	5,790,954	5,987,998	-	-	-	-	-	-	-	-
Unassigned	(62,591)	(97,653)	-	-	-	-	-	-	-	-
Total Other governmental Funds	<u>14,318,700</u>	<u>13,509,220</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
General Fund										
Reserved	\$ -	-	255,883	297,291	353,901	296,910	260,274	280,743	313,959	268,279
Unreserved, designated:										
Interfund Loan Animal Shelter	-	-	-	200,000	250,000	300,000	350,000	400,000	450,000	-
PERS	-	-	171,314	171,314	171,314	171,314.00	-	-	-	-
Designated for subsequent year's expenditures	-	-	-	-	-	-	-	-	-	256,682
Undesignated	-	-	5,146,617	4,226,615	3,825,104	4,230,983	3,282,823	2,186,409	1,248,052	1,994,577
Total Unreserved General Fund	<u>-</u>	<u>-</u>	<u>5,317,931</u>	<u>4,597,929</u>	<u>4,246,418</u>	<u>4,702,297</u>	<u>3,632,823</u>	<u>2,586,409</u>	<u>1,698,052</u>	<u>2,251,259</u>
Total General Fund	<u>-</u>	<u>-</u>	<u>5,573,814</u>	<u>4,895,220</u>	<u>4,600,319</u>	<u>4,999,207</u>	<u>3,893,097</u>	<u>2,867,152</u>	<u>2,012,011</u>	<u>2,519,538</u>
Other Governmental Funds										
Reserved	-	-	5,929,657	4,367,506	4,334,477	3,350,187	3,601,605	3,768,592	3,237,361	2,743,871
Unreserved:										
Library	-	-	31,519	31,501	31,326	29,289	27,750	8,982	471,148	309,698
Fire Department	-	-	68,324	64,110	62,965	53,948	11,482	15,522	11,697	7,170
Animal Shelter	-	-	-	7,382	7,352	7,173	6,796	10,088.00	-	-
Community Schools	-	-	1,136	1,792	509	699	197.00	-	-	-
Sustainability Global Warming	-	-	14,774	15,257	15,162	107.00	-	-	-	-
PERS	-	-	-	14,436	-	-	-	-	-	-
Permanent Fund	-	-	1,531,315	1,150,377	-	-	-	-	-	-
Special Revenue Funds	-	-	3,434,211	-	-	-	-	-	-	-
Capital Project Funds/land	-	-	2,560,121	2,973,118	3,116,382	1,857,872	1,784,965	1,435,923	421,066	651,221
Capital Project Deficit	-	-	-	(47,379)	(20,873)	(3,744)	(31,147)	(455,223)	(69,805.00)	-
Total Unreserved Other Governmental Funds	<u>-</u>	<u>-</u>	<u>7,641,400</u>	<u>4,210,594</u>	<u>3,212,823</u>	<u>1,945,344</u>	<u>1,800,043</u>	<u>1,015,292</u>	<u>834,106</u>	<u>968,089</u>
Total Other Governmental Funds	<u>-</u>	<u>-</u>	<u>13,571,057</u>	<u>8,578,100</u>	<u>7,547,300</u>	<u>5,295,531</u>	<u>5,401,648</u>	<u>4,783,884</u>	<u>4,071,467</u>	<u>3,711,960</u>
Total General Fund and Other Governmental Funds	\$ 20,407,312	20,237,066	19,144,871	13,473,320	12,147,619	10,294,738	9,294,745	7,651,036	6,083,478	6,231,498
Change in Fund Balances	170,246	1,092,195	2,031,354	1,325,701	1,852,881	999,993	1,643,709	1,567,558	(148,020)	(341,510)
Percentage of Change	0.8%	5.7%	11.9%	10.9%	18.0%	10.8%	21.5%	25.8%	-2.4%	-5.2%

Notes:

In 2010, the City converted its Water and Sewer Utility from an Enterprise Fund to a Special Revenue Fund. Prior years presentation has not been reclassified or restated to reflect this change.

In 2011, the City adopted the provisions of GASB statement 54. Prior year presentation has not been reclassified or restated to reflect the change.

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

	Fiscal Year									
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues:										
Property taxes	\$ 2,991,230	2,916,176	2,954,829	2,930,696	2,975,448	2,501,693	2,382,936	2,102,170	1,888,761	1,811,202
Sales taxes	7,031,266	7,059,404	6,613,640	5,361,109	6,334,758	6,173,478	5,670,638	5,119,528	3,737,944	3,506,170
Licenses and permits	22,248	25,040	22,965	19,614	26,219	43,765	46,096	42,717	88,411	18,930
Intergovernmental	3,573,807	4,779,839	2,937,975	1,854,305	1,778,519	1,873,233	2,247,343	3,740,329	1,966,565	1,354,063
Charges for services	5,246,446	5,202,621	5,139,533	2,629,639	2,337,323	2,382,465	2,136,838	2,183,048	2,028,181	1,991,495
Special assessments	329,958	308,497	415,625	110,543	127,876	14,802	11,180	15,462	16,517	39,571
Investment income	240,083	115,862	162,146	82,117	156,429	290,987	233,998	150,223	47,793	66,649
Fines and forfeitures	8,065	17,460	15,551	16,065	34,193	19,941	19,435	23,269	24,444	36,321
Contributions and donations	19,044	6,516	4,224	2,910	9,181	42,256	64,412	1,362,374	170,864	140,794
Legal settlement	-	-	266,027	1,150,878	-	-	740,404	-	-	-
Sale of property and equipment	-	-	4,917	4,869	499,189	-	-	-	-	-
Other	56,825	41,080	199,703	45,092	170,538	19,970	24,207	23,362	172,876	68,973
Total revenues	19,518,972	20,472,495	18,737,135	14,207,837	14,449,673	13,362,590	13,577,487	14,762,482	10,142,356	9,034,168
Expenditures:										
General government	3,533,983	3,639,834	3,010,375	3,380,193	2,964,905	2,585,147	2,220,086	2,689,530	2,554,078	1,759,588
Public safety	4,212,716	3,989,471	3,939,507	4,096,996	4,189,377	3,622,296	3,549,911	3,053,686	2,894,621	2,837,662
Public works	1,944,267	1,905,736	1,822,923	2,023,907	2,108,115	1,750,045	1,688,688	1,491,893	1,350,580	1,593,608
Library	707,603	705,152	716,824	724,150	681,983	593,027	449,289	374,932	341,287	352,380
Airport	209,859	216,035	201,118	230,934	228,720	196,710	179,504	146,221	128,278	169,211
Parks and recreation	347,107	299,631	377,280	359,683	422,251	384,697	367,027	338,359	340,471	353,548
Community services	899,357	586,195	261,435	266,144	321,970	235,831	211,894	582,677	180,964	147,891
Water	1,951,063	1,894,144	1,697,751	-	-	-	-	-	-	-
Sewer	1,745,959	1,650,640	1,647,605	-	-	-	-	-	-	-
Debt service:										
Principal retirement	876,324	1,017,807	1,049,248	57,934	470,615	608,431	655,016	513,640	479,979	409,761
Interest and fiscal charges	218,679	229,263	225,553	63,870	75,812	113,536	64,676	70,829	90,915	100,910
Capital outlay	4,267,539	5,540,169	2,265,965	1,612,185	1,103,044	2,421,941	5,153,413	4,043,157	1,976,460	1,161,677
Total expenditures	20,914,456	21,674,077	17,215,584	12,815,996	12,566,792	12,511,661	14,539,504	13,304,924	10,337,633	8,886,236
Excess (deficiency) of revenues over (under) expenditures	(1,395,484)	(1,201,582)	1,521,551	1,391,841	1,882,881	850,929	(962,017)	1,457,558	(195,277)	147,932
Other financing sources (uses):										
Proceeds from long-term debt	1,565,730	2,162,442	534,728	14,536	-	-	2,146,601	-	-	-
Transfers in	1,359,935	1,440,006	434,460	413,609	2,183,992	2,499,222	2,160,007	2,498,261	879,211	1,585,122
Transfers out	(1,359,935)	(1,308,671)	(459,385)	(494,285)	(2,213,992)	(2,350,158)	(1,700,882)	(2,388,261)	(828,526)	(2,074,564)
Net other financing sources (uses)	1,565,730	2,293,777	509,803	(66,140)	(30,000)	149,064	2,605,726	110,000	50,685	(489,442)
Net change in fund balance	\$ 170,246	1,092,195	2,031,354	1,325,701	1,852,881	999,993	1,643,709	1,567,558	(144,592)	(341,510)
Debt service as a % of noncapital expenditures	6.58%	7.70%	8.40%	1.06%	4.78%	7.37%	8.03%	7.65%	6.79%	6.96%
Notes:										
In 2010, the City converted its Water and Sewer Utility from an Enterprise Fund to a Special Revenue Fund. Prior years presentation has not been reclassified or restated to reflect this change.										

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

Fiscal Year	Real Property Less Tax Exempt Property	Personal Property Less Tax Exempt Property	Total Taxable Assessed Value	Tax Direct Rate	Estimated Full Value	Assessed Value as a Percent of Actual Value
2003	\$ 312,647,212	\$ 19,978,948	\$ 332,626,160	5.05%	\$ 448,443,700	74.17%
2004	333,843,562	19,148,462	352,992,024	5.00%	497,201,500	71.00%
2005	399,827,162	26,893,341	426,720,503	4.50%	587,914,700	72.58%
2006	461,018,162	24,598,683	485,616,845	4.50%	646,448,500	75.12%
2007	489,448,562	22,811,263	512,259,825	4.50%	717,875,400	71.36%
2008	588,595,562	24,988,891	613,584,453	4.50%	777,118,400	78.96%
2009	631,527,262	31,030,146	662,557,408	4.50%	850,068,000	77.94%
2010	606,704,342	38,412,787	645,117,129	4.50%	850,068,600	75.89%
2011	603,338,212	25,118,151	628,456,363	4.50%	987,433,007	63.65%
2012	691,321,600	186,215,500	877,537,100	4.50%	983,993,300	89.18%

Source: State of Alaska Assessor Office - Taxable Alaska

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

CITY OF HOMER, ALASKA
Property Tax Rates
Direct and Overlapping Government
Last Ten Fiscal Years
Tax Rates (Mils)

Fiscal Year	City of Homer (3)		Kenai Peninsula Borough (2)		
	Operating	Special Districts (4)	Operating	Special Districts	
2003	5.00	1.75	6.50	0.10	
2004	5.00	1.75	6.50	0.10	
2005	4.50	1.75	6.50	0.10	
2006	4.50	1.75	6.50	0.10	
2007	4.50	1.75	6.50	0.00	
2008	4.50	2.00	5.50	0.00	(1)
2009	4.50	2.30	4.50	0.00	
2010	4.50	2.30	4.50	0.00	
2011	4.50	2.30	4.50	0.00	
2012	4.50	2.30	4.50	0.00	

Notes: Overlapping rates are those of the City of Homer and Kenai Peninsula Borough
Restrictions: Tax rates can only be changed by the vote of the people.

- (1) The mill rate for the special district, the Post Secondary Fund, was combined into the Operating Fund mill rate
- (2) Data provided by the Kenai Peninsula Borough Clerk's Office
- (3) Data provided by the City of Homer Clerk's Office
- (4) The Homer Special Districts include fire and emergency response, higher education, and support for hospitals.

CITY OF HOMER, ALASKA
Principal Property Taxpayers
December 31, 2012
and December 31, 2003

Owner	2012			2003		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Value
ACS	\$ 13,396,048	1	1.53%	9,345,179	1	3%
Homer Spit Properties, LLC	10,642,400	2	1.21%	4,086,300	2	1%
Tulin Charles E & Helen L	7,484,300	3	0.85%	4,064,500	3	1%
Lands End Acquisition Corp.	5,687,289	4	0.65%	3,425,200	4	1%
Alaska USA Federal Credit Union	4,565,022	5	0.52%	1,931,900	10	1%
CGF Properties, Inc	4,222,200	6	0.48%	-		0%
Homer Hotels LLC	4,156,000	7	0.47%			0%
Moore Kenneth & Roseleen Trust	3,927,700	8	0.45%	2,275,800	6	1%
Wells Fargo (National Bank of AK)	3,800,199	9	0.43%	2,729,400	5	1%
Harbor Enterprises	3,606,859	10	0.41%	-		0%
Valentin Caspaar LLC	3,269,100	11	0.37%	-		0%
LN Real Estate LLC	3,009,412	12	0.34%	-		0%
Lehner Devony& Taffee, Thomas	2,927,400	13	0.33%	-		0%
Johnson, John R & Judith E				2,166,700	7	1%
Maritime Helicopters				2,158,904	8	1%
Spenard Builders				1,958,512	9	1%
Total	\$ <u>70,693,929</u>		<u>8.06%</u>	<u>34,142,395</u>		10%

Source: Kenai Peninsula Borough

Note: Total Taxable Assessed Values are utilized from Table 6

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

<u>Fiscal Year Ended December 31,</u>	<u>Total Tax Levy for Fiscal Year</u>	<u>Collected within the Fiscal Year of the Levy</u>		<u>Collected in Subsequent Years</u>	<u>Total Tax Collected to Date</u>	
		<u>Amount</u>	<u>% of Levy</u>	<u>Amount</u>	<u>Amount</u>	<u>% of Levy</u>
2003	\$ 1,715,697	\$ 1,672,366	97.47%	\$ 43,331	\$ 1,715,697	100.00%
2004	1,829,389	1,768,120	96.65%	34,012	1,802,132	98.51%
2005	2,013,518	1,989,890	98.83%	23,628	2,013,518	100.00%
2006	2,342,439	2,299,478	98.17%	32,081	2,331,559	99.54%
2007	2,383,617	2,339,720	98.16%	10,970	2,350,690	98.62%
2008	2,678,567	2,678,150	99.97%	417	2,678,567	100.00%
2009	2,678,567	2,658,526	99.25%	6,959	2,665,485	99.52%
2010	2,862,172	2,815,749	98.38%	41,043	2,856,792	99.81%
2011	2,869,743	2,764,751	96.34%	100,863	2,865,614	99.86%
2012	2,858,559	2,718,294	95.09%	19,748	2,738,041	95.78%

Source: Kenai Peninsula Borough

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

	Governmental Activities				Business-Type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Special Assessment Bonds	Notes Payable	Capital Leases	Revenue Bonds	Notes Payable	Capital Leases			
2003	\$ 1,730,000	\$ 21,087	\$ -	\$ 385,316	\$ 1,335,000	\$ 5,279,514	\$ -	\$ 8,750,917	6.57%	1,492
2004	1,340,000	15,807	-	300,617	1,105,000	5,388,839	-	8,150,263	6.66%	1,529
2005	920,000	10,527	-	212,257	870,000	7,479,081	-	9,491,865	7.50%	1,746
2006	475,000	5,280	1,992,753	163,044	620,000	9,539,106	208,909	13,004,092	10.09%	2,384
2007	-	-	1,955,878	71,768	365,000	10,160,611	153,810	12,707,067	9.63%	2,310
2008	-	-	1,529,282	27,749	185,000	11,567,201	95,720	13,404,952	10.12%	2,487
2009	-	-	1,507,077	6,703	-	14,489,912	34,045	16,037,737	13.24%	2,889
2010	-	-	15,489,024	-	-	-	-	15,489,024	11.70%	3,096
2011	-	-	16,629,968	-	-	-	-	16,629,968	15.14%	3,292
2012	-	-	17,319,000	-	-	-	-	17,319,000	15.45%	3,361

Population per Alaska Department of Community and Economic Development

In 2010, the City converted its Water and Sewer Utility from an Enterprise Fund to a Special Revenue Fund. Prior years have not been reclassified or restated.

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

Fiscal Year	Population	Assessed Value	Gross Bonded Debt	Debt Service Funds Available	Net Bonded Debt	Percent of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
2012	-	\$ 626,606	\$ -	\$ -	\$ -	0.00%	\$ -
2011	5051	504,558	-	-	-	0.00%	-
2010	5003	662,557	-	-	-	0.00%	-
2009	5551	631,527	-	-	-	0.00%	-
2008	5390	588,595	-	-	-	0.00%	-
2007	5502	551,814	-	-	-	0.00%	-
2006	5454	520,542	475	307	168	0.03%	31
2005	5435	447,448	920	281	639	0.14%	118
2004	5332	365,877	1,340	269	1,071	0.29%	201
2003	4893	343,139	1,730	268	1,462	0.43%	299

Note: Population per Alaska Department of Community and Economic Development
Gross Bonded Debt includes all long-term general obligation bonded debt. The City had no bonded debt in 2012.

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

Fiscal Year	Principal	Interest	Total Debt Service	Total General Fund Expenditures	Percent of Debt Service to General Fund Expenditures
2012	\$ -	\$ -	\$ -	\$ 11,021,941	0.00%
2011	-	-	-	10,140,595	0.00%
2010	-	-	-	9,989,455	0.00%
2009	-	-	-	10,807,821	0.00%
2008	-	-	-	11,046,268	0.00%
2007	475,000	21,082	496,082	9,356,829	5.30%
2006	445,000	39,916	484,916	8,414,502	5.76%
2005	420,000	57,766	477,766	8,018,872	5.96%
2004	390,000	73,854	463,854	7,474,417	6.21%
2003	365,000	88,734	453,734	6,594,445	6.88%
2002	345,000	101,831	446,831	6,287,847	7.11%

Note: Principal and interest does not include debt service paid by the Water & Sewer, and Port Enterprise Funds. The City had no bonded debt in 2012.

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

	*	*	*		*	
	(1)	(2)	(1)	(3)	(2)	
Year	Population	Annual Average Wage Per Worker	Per Capita Income	Median Age	School Enrollment	Unemployment Rate
2012	5,153	\$ 32,035	\$ 21,750	40.6	1,198	9.9%
2011	5,051	32,035	21,750	40.6	765	9.9%
2010	5,003	32,120	21,823	38.8	1,329	11.5%
2009	5,551	31,601	21,823	38.8	1,462	14.8%
2008	5,390	31,625	24,565	38.8	1,445	7.5%
2007	5,502	30,795	23,985	39.7	1,135	6.7%
2006	5,454	31,164	23,630	38.8	1,119	8.6%
2005	5,435	30,696	23,280	38.8	1,248	8.6%
2004	5,332	34,663	22,936	38.8	1,238	11.1%
2003	5,865	33,069	22,709	38.8	1,250	12.1%

Sources:

(1) Alaska Department of Community and Economic Development

(2) State of Alaska, Department of Labor

(3) Kenai Peninsula Borough School District

* **Note: The average wage, per capita income, median age, and unemployment rate were not available at publication per State of Alaska - 2011 information used.**

CITY OF HOMER, ALASKA
Principal Employers - Lower Kenai Peninsula

Employer	2012	
	Number of Employees	Rank
Kenai Peninsula Borough School District		
South Peninsula Hospital		
South Peninsula Behavioral Health Services		
City of Homer		
Safeway		
State of AK-Excludes University		
Lands End Resort		
University of Alaska		
Homer Electric Association		
Homer Senior Citizens		

* The State of Alaska passed legislation that prevents disclosure of employer ranking and or the the number of employees for each employer.

Source: Alaska Department of Labor and Workforce Development

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

<u>Function/program</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Administration	30	30	29	30	29	29	34	27	27	26
Public Safety:										
Fire Department	5	5	5	6	6	6	6	6	6	6
Police Department	24	24	24	26	21	24	27	26	27	26
Public Works:										
PW General Fund	22	21	15	17	16	13	11	14	14	15
PW Water/Sewer	11	11	17	18	18	19	23	25	25	25
Port and Harbor	<u>20</u>	<u>20</u>	<u>20</u>	<u>20</u>	<u>13</u>	<u>11</u>	<u>13</u>	<u>18</u>	<u>18</u>	<u>18</u>
Total	<u>112</u>	<u>111</u>	<u>110</u>	<u>117</u>	<u>103</u>	<u>102</u>	<u>114</u>	<u>116</u>	<u>117</u>	<u>116</u>

Notes: Above statistical information taken directly from the 2012 City of Homer Adopted Budget

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

Function/Program	Fiscal Year									
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
General Government										
Registered voters	4,436	4,277	4,289	4,270	4,161	4,172	4,073	4,022	4,098	4,146
Building permits issued	49	40	45	55	62	87	83	103	109	86
Police										
Requests for service	5,604	6,584	6,661	6,139	7,532	6,052	5,987	5,878	6,141	7,552
Physical arrests	619	712	572	471	391	425	428	507	429	480
Traffic citations	204	650	660	662	731	515	450	464	525	807
Animal control impounds	66	65	361	3	415	864	1,048	1,065	967	2,139
Fire										
Emergency responses	523	438	536	641	599	566	472	469	439	457
Fires calls	73	75	combined	combined	83	100	79	111	107	103
Parks & Recreation										
Camping permits - Tents	3,386	3,778	9,145	9,172	3,852	3,934	3,830	3,888	4,559	4,144
Camping permits - RV's	3,668	4,090	combined	combined	4,988	5,621	5,250	5,515	6,662	6,466
Library										
Number of Visitors	115,118	123,015	126,030	125,441	132,402	133,186	91,301	88,372	88,136	88,810
Number of Library cards	793	10,695	11,717	10,720	10,405	10,055	9,812	9,073	9,013	8,713
Internet Users	49,640	48,270	45,887	44,987	-	40,041	-	19,145	18,359	-
Public Works										
Work orders	7,737	7,426	7,509	6,573	6,553	6,761	6,852	6,758	6,573	6,438
Water										
Number of Consumers	1,585	1,559	1,541	1,450	1,445	1,406	1,406	1,373	1,337	1,297
Water usage in millions gal	122	134.8	1,308	1,503.0	142.2	145.1	137.5	179.0	161.0	132.5
Wastewater										
Number of Consumers	1,513	1,490	1,445	1,444	1,432	1,354	1,354	1,280	1,374	1,197
Port & Harbor										
Harbor Assists	253	333	196	150	143	197	220	298	302	378
Dock Landings	911	843	150	421	226	202	162	139	113	126
Ice sales (ton)	2,584	3,182	4,385	4,434	3,776	3,826	3,333	4,261	3,869	3,744
Crane hours billed	2,270	2,364	2,795	3,134	2,672	2,574	2,535	2,819	2,979	3,187
Halibut landings (million tons)	4	6	11	12	9	10	10	10	10	12

Notes: Above statistical information received directly from the various City of Homer Departments.

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

	Fiscal Year									
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Function by Program										
Emergency Services										
Number of Stations	1	1	1	1	1	1	1	1	1	1
Number of Fire Trucks	4	4	4	4	4	3	3	2	2	2
Number of Ambulances	2	2	2	2	2	2	2	2	2	2
Number of Employees/ Volunteers	43	46	41	39	39	39	38	37	54	48
Police Protection										
Number of Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units	13	0	12	12	12	11	10	9	9	9
Number of Employees	22	24	26	26	21	24	27	28	27	26
Public Works										
Miles of City-maintained streets	48.75	47.1	47.1	46.5	46.5	46.9	46.9	46.5	45.0	44.0
Water/ Sewer										
Miles of Water Lines	46.37	42.5	42.5	42.4	42.4	42.4	42.3	42.1	46.5	36.41
Miles of Sewer Lines	54.98	49.2	49.2	49.2	49.2	49.2	49.2	48.7	39.5	42.8
Parks & Recreation										
Number of Parks	18	18	18	18	18	18	18	18	18	18
Acres	285.9	285.9	285.9	518.2	518.2	518.2	267.4	267.4	267.4	267.4
Library										
Volumes	49,609	47,748	44,072	43,148	42,812	40,181	36,984	34,791	34,080	34,080
Circulation	105,387	104,299	108,166	101,290	99,511	98,815	99,020	89,964	91,886	89,617
Public use computers	19	20	18	18	18	18	6	6	6	6
Port & Harbor										
Small Boat Harbor - stalls	920	920	920	920	920	920	920	920	920	920
Transient space square feet	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000

Notes: Above statistical information received directly from the various City of Homer Departments.

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

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Homer, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise City of Homer's basic financial statements, and have issued our report thereon dated May 7, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Homer's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Homer's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Homer's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of City of Homer's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Homer's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Homer's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mikunda, Cottrell & Co.

Anchorage, Alaska
May 7, 2013

Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by *OMB Circular A-133*

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

Report on Compliance for Each Major Federal Program

We have audited City of Homer's (the City's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Homer's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the City'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Homer complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

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

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 12-01. Our opinion on each major federal program is not modified with respect to this matter.

City of Homer's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Homer's response was not subjected to auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of City of Homer is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Homer's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 12-01 that we consider to be a significant deficiency.

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

City of Homer's response to the internal control over compliance finding identified in our audit is described in the accompanying scheduled of findings and questioned costs. City of Homer's response was not subjected to auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Mikunda, Cottrell & Co.

Anchorage, Alaska
May 7, 2013

Independent Auditor's Report on Compliance for Each Major State Program; Report on Internal Control Over Compliance; and Report on the Schedule of State Financial Assistance Required by the State of Alaska Audit Guide and Compliance Supplement for State Single Audits

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

Report on Compliance for Each Major State Program

We have audited City of Homer's (the City's) compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of the City's major state programs for the year ended December 31, 2012. The City's major state programs are identified in the accompanying schedule of state financial assistance.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Homer's major state programs based on our audit of the types of compliance requirements referred to above. 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 the City'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 on compliance for each major state program. However, our audit does not provide a legal determination of the City's compliance.

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

Opinion on Each Major State Program

In our opinion, City of Homer, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended December 31, 2012.

Report on Internal Control over Compliance

Management of City of Homer is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Accordingly, this report is not suitable for any other purpose.

Mikunda, Cottrell & Co.

Anchorage, Alaska
May 7, 2013

CITY OF HOMER, ALASKA

Schedule of Findings and Questioned Costs

Year Ended December 31, 2012

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X none reported
- Noncompliance material to financial statements noted? _____ yes X no

Federal Financial Assistance

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? X 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?

 X yes _____ no

Identification of major programs:

<u>Agency</u>	<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Department of Interior	15.668	Beluga Slough Trail Reconstruction to Restore Wetlands
Department of Homeland Security	97.036	State Disaster Public Assistance Grant
Environmental Protection Agency	66.458 66.468	Clean Water Loan Program Drinking Water Loan Program

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

\$300,000

Auditee qualified as low-risk auditee?

 X yes _____ no

CITY OF HOMER, ALASKA

Schedule of Findings and Questioned Costs, continued

Federal Award Findings and Questioned Costs, continued

Finding 12-01: Allowable Costs – Internal Control & Noncompliance, continued

Cause: The grant accountant filed the initial request for reimbursement from the State based on her understanding that the project is 50/50 split. The project manager, who separately identified costs that should not have been split did not advise the grant accountant of these costs until after the pay request was submitted to the granting agency.

Questioned costs: PY – Project Level \$112,455, Federal Portion \$75,518
CY – Project Level \$22,737, Federal Portion \$18,644
(Note these costs are ineligible under CFDA 66.458. They are eligible and have been reassigned to CFDA 66.468). See also Note 2 to the Schedule of Expenditures of Federal Awards.

Recommendation: Internal communications between the Public Works (the project manager) and Finance (the grant accountant) need to be improved, such that costs are properly allocated into the correct program before being requested from the granting agency.

Views of responsible officials and planned corrective actions: Management concurs with this finding. See the corrective action plan.

IV. State Award Findings and Questioned Costs

There are no State award findings or questioned costs.

CITY OF HOMER, ALASKA

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2012

Federal

There were no prior year audit findings.

State of Alaska

There were no prior year audit findings.

CITY OF HOMER, ALASKA

Corrective Action Plan

Year Ended December 31, 2012

Finding 12-01: Allowable Costs – Internal Control & Noncompliance

Agency: Environmental Protection Agency
Passed Through: State of Alaska Department of Environmental Conservation
Program: Clean Water Loan Program CFDA: 66.458
Award No.: 409261

Person responsible: Jo Earls, Project Accountant Carey Meyer
(907)235-8121 Ext. 2231 (907)235-3170
jearls@cityofhomer-ak.us cmeyer@cityofhomer-ak.us

Corrective Action: On March 29, 2013, the project manager, the Interim finance director and the project accountant discussed the lack of communication between the departments and how it significantly impacts the project accountant from completing her work correctly and on-time. The project manager understands the implication of the audit finding and has agreed to:

1. Report any conversation he has with the granting agencies immediately to the project accountant and/or her supervisor.
2. Forward any and all reports to the project accountant from or to the various agencies.

Expected Completion: March 29, 2013 – on-going