



City of Homer, Alaska

Comprehensive Annual Financial Report

Year Ended December 31, 2014

Mary E. Wythe
Mayor

Mary K. Koester
City Manager

Prepared by the Finance Department

Zhiyong (John) Li
Finance Director

City of Homer, Alaska

Comprehensive Annual Financial Report

Year Ended December 31, 2014

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City of Homer

Homer, Alaska

June 10, 2015

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, 2014. 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 54 as part of the required supplementary information for the governmental funds.

¹ Financial policies can be located beginning on page 17 of the City of Homer Annual 2014 Budget.

Capital Projects

A significant portion of economic activity and growth in Homer is directly related to capital investment in infrastructure. Much of this growth is currently fueled by public sector spending. The private sector economy shows signs of recovery and growth, particularly in the marine trades, tourism, and residential construction.

Major capital projects that are planned, or in progress in 2014 and 2015 include the following:

City of Homer Special Assessment District (SAD) Projects

A very significant portion of the City of Homer's financing 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).

In 2012 the Homer City Council approved a natural gas distribution system (SAD). In 2014, the City completed the project, which was financed through the \$12,359,388 loan from Kenai Peninsula Borough. The revenue from the bond sale was used to finance construction of gas mains in approximately 73 miles of road within the City limits. The loan will be paid through a special assessment district with assessments paid by benefited property owners. Construction of Phase I, the downtown core was completed in 2013. The Homer Spit portion of Phase II was completed in May of 2014, and the remainder of Phase II was completed by August 2014.

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 commenced in late 2014 and will continue through 2015.
- **Skyline Drive Fire Station:** At the City's request, the Legislature re-appropriated a \$2 million grant intended for improvements at the Main Street and Sterling Highway intersection to construct the long awaited satellite fire station on Skyline Drive. The new building was complete fall of 2014.
- **Harbormaster's Office:** The legislative re-appropriation described above also provided most of the funding (\$1.5 million) needed for a new harbormaster's office. The necessary \$500,000 match came from the Port Reserve Account. The City General Fund was tapped for the remaining funds in the form of a \$300,000 loan. Ground was broken on the new Harbormaster's Office summer of 2014 with a grand opening June 2015. The old office will be torn down in 2015 and the centrally located space will be used as a parking lot, for the time being.
- **Spit Trail:** The City has received approximately \$2.1 Million in Legislative and Scenic Byways grants to complete the Spit Trail to End of the Road Park. In addition to the paved trail, improvements include timber overlooks, benches, and signage. The improvements were well used during the 2014 visitor season and finishing touches were complete by fall of 2014.

- **Load and Launch Ramp:** The City and the Alaska Department of Fish and Game 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 contribute \$800,000 in local match for construction. Engineering and design was completed in 2013. Construction will commence in September of 2015.
- **Harbor Revenue Bond Projects:** The City Council 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 was approved in the 2014 State Capital Budget and the City raised another \$4.2 million through the sale of revenue bonds through the Alaska Municipal Bond Bank. Most of the improvements, including float replacements, electrical upgrades and replacing Ramp 3, were accomplished in 2014 with the project wrapping up summer of 2015.
- **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 include a pathway around the harbor, a passenger staging area, restrooms at various locations on the spit and downtown, and improvements to the Deep Water Dock that will make docking and movement of passengers easier and more comfortable. Engineering and Design commenced in 2012. Construction began in 2013 and finishing touches, including the installation of a 13 foot high fishing hook sculpture, were complete in 2015.
- **Karen Hornaday Park Improvements:** The City received a Land and Water Conservation Fund grant in the amount of \$75,000. Combined with a local match of \$75,000 trails were constructed around the park, improvements were made to the campground and the old picnic shelter was relocated.
- **Residents of Old Town** successfully applied for grant funding to improve the safety and sense of community in their neighborhood. This funding, combined with \$84,000 in HART funds, implemented traffic calming measures such as crosswalks, a trail along Charles way, paving Bishops Beach, and signage.
- The FY 2015 State Capital Budget contained funding for a new sheet pile dock within the confines of the small boat harbor. Engineering and design work began in early 2015.
- The FY 2015 State Capital Budget contained funding for road improvements at Waddell Way. This is Phase I of the larger East-West corridor project contained on the City Transportation Plan and CIP List. Land Acquisition, engineering, and design are expected in 2015.
- **Natural Gas Conversions:** The City provided funds to convert six City buildings and facilities to natural gas in 2013. The remaining city buildings where conversion to natural gas is cost effective were converted in 2014 including a number of restrooms.

Kenai Peninsula Borough Projects

- The most significant recent Borough project in the Homer area is the closure of the landfill and construction of a transfer site for storing Homer waste awaiting transport to

Soldotna. This \$10 Million dollar project was complete in 2014. Construction began in 2011.

- The 2014 State Capital Budget contained partial funding to install artificial turf at the Homer High School football field and to improve various Borough roads. The turf was put to good use in 2014.
- The boilers at Homer Middle, Paul Banks and West Homer Elementary schools were converted from oil to natural gas in 2014 resulting in significant fuel cost savings for the Homer area schools.
- Kachemak Emergency Service Area is building a 4 bay fire station on Diamond Ridge in phases. The final and second phase was substantially complete in 2014.

State of Alaska Projects

The summer of 2014 was full of road construction delays as the Department of Transportation and Public Facilities made improvements to area roads both big and small.

- East End Road from milepost 3.5 to 5.5 underwent a major rehabilitation in 2014 including widening the road, drainage improvements and a separated bike path. Construction will be complete by fall 2015.
- Phase II of the Homer Sterling Highway repaving project was complete in 2014. The project resurfaced from the Sterling Highway intersection with Pioneer Avenue to the end of the Homer Spit. A portion of the improvements were installing rip rap along Spit Road where serious erosion has occurred.
- The State has made repair and upgrade of Lake Street a priority STIP project and preliminary planning and scoping has begun. A 2015 STIP Amendment added upgrades to Pioneer Ave. Though both of these projects are slated for construction in the near future, current State budget conditions threaten to impact their immediate construction.

Major Private Sector Projects

- The City experienced some private capital investment in 2014 including the construction of an O'Rileys auto parts store, remodel of a hotel and some modest commercial construction. There is evidence that the real estate market is rebounding with access to natural gas on almost all City lots. Overall the slow and steady trend in development that Homer is accustomed to held true for 2014.

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 for years. 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,

natural gas, 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.

A boom in oil and gas exploration in Cook Inlet has increased traffic at the Port and Small Boat Harbor and jobs in the marine trades. Large prospects for the future that could positively impact the local economy include Alaska LNG, a natural gas export line with a terminus and liquid gasification plant in Nikiski, continued interest in Cook Inlet, and development in the Arctic.

The low price of oil that has driven the State of Alaska to implement budget cuts and dip into savings accounts to balance the budget has and will continue to affect Homer. State budget cuts to the Community Jails Program and Revenue Sharing have had an immediate impact on the City's 2015 budget. The restricted state spending will have a long term effect on Homer's budget as the economy begins to contract with less state spending on wages, contracts, and construction. A very minimal FY16 State capital budget will affect construction projects across the state.

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. However, with the added pressure of cuts from the State, this may no longer be possible. 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-round 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 2014 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 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 Financial Report is determined by the criteria set forth in the Codification of Governmental Accounting and Financial Reporting Standard, Section 2100. The criteria deal with the City's responsibility over a governmental organization and the scope of public service. Based on these criteria, the various funds (being all the funds 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, 2013.

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 BDO USA LLP 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,

	
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Mary K. Koester City Manager	Zhiyong Li Finance Director

City of Homer, Alaska

Principal City Officials

Mayor

Mary E. Wythe

City Council

David Lewis
Gus Van Dyke
Bryan Zak

Francie Roberts
Catriona Reynolds
Beauregard Burgess

City Administration

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

Mary K. Koester
Thomas Klinkner
Jo Johnson
Zhiyong (John) Li
Bob Painter
Anne Dixon
Rick Abboud
Mark Robl
Bryan Hawkins
Carey Meyer

City of Homer, Alaska

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

City of Homer, Alaska

GFOA Certificate of Achievement for Excellence in Financial Reporting



Government Finance Officers Association

**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, 2013

A handwritten signature in black ink, reading "Jeffrey R. Egan". The signature is written in a cursive, flowing style.

Executive Director/CEO



Tel: 907-278-8878
Fax: 907-278-5779
www.bdo.com

3601 C Street, Suite 600
Anchorage, AK 99503

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, 2014 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 entity'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 entity'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.

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 8 to the financial statements, in 2014 the City discovered an error relating to a capital grant. A prior period adjustment has been recorded to increase opening fund balance and net position to correct for this item. 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 and the budgetary comparison schedules 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.

Supplementary Information

Our audit for the year ended December 31, 2014 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 Audits*, respectively.

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, 2014 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 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, 2014.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of City of Homer as of and for the year ended December 31, 2013 (not presented herein), and have issued our report thereon dated May 19, 2014, which contained unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. The individual fund financial statements and schedules for the year ended December 31, 2013 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 2013 financial statements. The individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the 2013 basic 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 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, 2013.

The accompanying introductory and statistical sections, as listed in the table of contents, have 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2015 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.

BDO USA, LLP

Anchorage, Alaska
June 10, 2015

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Management's Discussion and Analysis

City of Homer, Alaska

Management's Discussion and Analysis December 31, 2014

The City of Homer management offers readers financial statements, narrative overview, and analysis of the financial activities of the City of Homer for the fiscal year ending December 31, 2014. 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 on December 31, 2014, by \$130,989 (Net Position). Of this amount, unrestricted net position of \$18,990 may be used to meet the City's ongoing obligations to citizens and creditors. The City's total net position increased by \$2,947.

As of December 31, 2014, the City's governmental funds reported combined ending fund balances of \$19,732, a decrease of \$1,910 from the prior year. A combination of factors contributed to the decrease. The Capital Projects (including Gas-Line and HART-Road) resulted in a \$929 decrease to the fund balance; the Utility (Water & Sewer) Special Revenue fund decreased by \$1,205; the General Fund increased by \$521; all other Non-Major Funds have a decrease of \$297.

- At the end of the current year, the fund balance for the General Fund was \$6,569. Of this amount, \$5,735 was unassigned and available for spending.
- At year-end, the City of Homer's outstanding governmental debt totaled \$26,412. Business-type debt outstanding was \$4,050.

Overview of the 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.

City of Homer, Alaska

Management's Discussion and Analysis

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, such as 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.

City of Homer, Alaska

Management's Discussion and Analysis

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 18-19 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 falls 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.

City of Homer, Alaska

Management's Discussion and Analysis

The City of Homer maintains eighteen 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 28-52 of this report.

Government-wide Financial Analysis

At the close of the 2014 fiscal year, the City's net position (assets exceeding liabilities) totaled \$130,989 (see Table A-1). Of this amount \$104,385, or 80%, 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 balance of \$7,614 in the governmental activities is for capital projects. The total unrestricted amount totals \$18,990 and is available to meet the City's ongoing obligations to citizens and creditors.

City of Homer, Alaska

Management's Discussion and Analysis

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

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

	Governmental Activities		Business-type Activities		Total	
	2014	2013 Restated	2014	2013	2014	2013 Restated
Assets						
Current assets	\$ 26,975	\$ 29,304	\$ 5,504	\$ 7,373	\$ 32,479	\$ 36,677
Capital assets	84,034	82,728	49,246	42,890	133,280	125,618
Total Assets	111,009	112,032	54,750	50,263	165,759	162,295
Liabilities						
Noncurrent liabilities	27,141	26,014	4,539	4,665	31,680	30,679
Other liabilities	1,171	2,087	1,919	1,486	3,090	3,573
Total Liabilities	28,312	28,101	6,458	6,151	34,770	34,252
Net Position						
Net investment in capital assets	58,895	66,236	45,490	42,725	104,385	108,961
Restricted	7,614	7,737	-	294	7,614	8,031
Unrestricted	16,188	9,958	2,802	1,093	18,990	11,051
Total Net Position	\$ 82,697	\$ 83,931	\$ 48,292	\$ 44,112	\$ 130,989	\$ 128,043

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

	Governmental Activities		Business-type Activities		Total	
	2014	2013 Restated	2014	2013	2014	2013 Restated
Program Revenues						
Charges for services	\$ 5,118	\$ 7,712	\$ 4,198	\$ 4,452	\$ 9,316	\$ 12,164
Operating grants and contributions	2,231	9,835	299	135	2,530	9,970
Capital grants and contributions	1,844	2,216	4,733	3,523	6,577	5,739
General Revenues						
Property taxes	3,092	3,225	-	-	3,092	3,225
Sales taxes	7,489	7,307	-	-	7,489	7,307
Other	574	573	217	300	790	873
Total Revenues	20,348	30,868	9,447	8,410	29,795	39,278

City of Homer, Alaska

Management's Discussion and Analysis

	Governmental Activities		Business-type Activities		Total	
	2014	2013 Restated	2014	2013	2014	2013 Restated
Expenses						
General						
government	\$ 2,337	\$ 3,509	\$ -	\$ -	\$ 2,337	\$ 3,509
Public safety	4,161	4,802	-	-	4,161	4,802
Public works	2,403	2,920	-	-	2,403	2,920
Library	1,027	1,038	-	-	1,027	1,038
Airport	282	267	-	-	282	267
Parks and recreation	760	577	-	-	760	577
Community services	253	7,801	-	-	253	7,801
Water and sewer	4,848	4,607			4,848	4,607
Unallocated interest	367	441	-	-	367	441
Port and harbor	-	-	5,267	5,286	5,267	5,286
Total Expenses	16,438	25,962	5,267	5,286	21,705	31,248
Increase (decrease) in net position before transfers and special item						
	3,910	4,906	4,180	3,124	8,090	8,030
Transfers	-	128	-	(128)	-	-
Special item	(5,144)	(7,193)	-	-	(5,144)	(7,193)
Increase (Decrease) In Net Position	(1,234)	(2,159)	4,180	2,996	2,946	837
Net Position, beginning	83,931	86,090	44,112	41,116	128,043	127,206
Net Position, ending \$	\$ 82,697	\$ 83,931	\$ 48,292	\$ 44,112	\$ 130,989	\$ 128,043

As reflected in Table A-2, the City's net position increased by \$2,946. Expenses exceeded revenues in the governmental activities by \$1,234 and in the business-type activities revenues exceeded expenses by \$4,180. Key elements of the increases and decreases follow:

- Revenues in the governmental activities decreased by approximately \$10,520 in 2014 from 2013. This is mainly due to (1) \$2,948 of special assessments coming from Kachemak Drive Phase II Water & Sewer Project, (2) \$7,491 dollars of legislative grant for the South Peninsula Natural Gas pipeline.
- Expenses in the governmental activities also decreased by \$9,524 for 2014 for the reason stated above.
- Property taxes decreased by \$133.
- Capital grants and contributions decreased by \$371

City of Homer, Alaska

Management's Discussion and Analysis

- Sales Taxes reflect an increase from 2013. This breakdown shows the Sales Taxes by fund to receive them. Changes in sales tax dollars from 2014 to 2013 are as follows:

Sales Taxes	2014	2013	Increase
Fund			
General	\$ 4,994	\$ 4,873	\$ 121
HART - Road	1,123	1,096	27
HART-Trail	125	122	3
Utility(Water & Sewer - HAWSP)	1,248	1,217	31
Total	\$ 7,490	\$ 7,308	\$ 182

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, 2014, the City's governmental funds reported combined ending fund balances of \$19,732, a decrease of \$1,910 compared to balances a year earlier. Of the ending balance, \$5,372, or 27% is unassigned and is available to the City for future spending. Most of the remaining fund balance is restricted for Roads \$7,538, Permanent Fund, \$2,032, or assigned for future capital projects and other purposes \$3,898; and non-spendable in the form of inventory, inter-fund loan and prepaid items \$892. The decrease of total fund balance during the year is attributed to:

- Utility Special Revenue Fund's fund balance reduced by \$1,205. This mainly due to debt de-obligation of \$1,580.
- Construction of gas-line on behalf of third party caused \$1,898 decrease in total governmental funds' balance.
- In the Non-major funds category, the City maintains six capital project funds (see page 59, 60) that account for the use of intergovernmental grants, dedicated sales tax, and department transfers to support the construction of capital improvements. Financial resources in these funds are intended to eventually be totally expended once the capital improvements have been completed. The Non-major funds category in which expenditures exceeded revenues for 2014, this category as a whole underwrote a \$297 decrease in total fund balance.
- In the General Fund, expenditures and transfers-out to other funds totaled \$12,438 compared to revenues and transfers-in of \$12,960. The increase of \$521 in the General Fund balance was mainly due to three reasons: (1) \$207 higher than budgeted revenue increases, excluding PERS (budgeted Special Assessments of \$60, higher than expected property tax of \$50; sales tax was \$40 more than budgeted; and remaining increases scattered among other revenue line items), (2) total general fund expenditures, excluding PERS was \$225 less than budgeted, and (3) \$90 budgeted transfers-out did not take place.
- The \$225 less than budgeted expenditures is primarily attributed to \$81 in Information System projects that did not take place, with smaller differences among all departments.

City of Homer, Alaska

Management's Discussion and Analysis

Government Funds (General and Utility Special Revenue) Budgetary Highlights

- There were no differences between the original and final budgets for the General and Utility Special Revenue funds.

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, 2014, totals \$133,278 (net of accumulated depreciation). This amount represents a \$7,660 increase over the previous year.

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

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 10,676	\$ 10,676	\$ 15,254	\$ 15,254	\$ 25,930	\$ 25,930
Buildings	49,647	49,622	13,035	13,035	62,682	62,657
Improvements other than buildings	49,269	45,043	39,553	37,696	88,822	82,739
Machinery and equipment	14,795	14,591	3,167	3,176	17,962	17,767
Infrastructure	33,961	30,771	-	-	33,961	30,771
Construction in progress	1,611	4,077	10,578	4,639	12,189	8,716
Accumulated depreciation	(75,927)	(72,052)	(32,341)	(30,910)	(108,268)	(102,962)
Total Capital Assets	\$ 84,032	\$ 82,728	\$ 49,246	\$ 42,890	\$ 133,278	\$ 125,618

Major capital asset events during the 2014 year included:

Capital projects completed:

General Fund:

- Spit Trail Extension
- End of the Road Park Improvements
- Down Town Restrooms
- Spit Trail Boardwalk Replacement Project
- Skyline Satellite Fire Station
- Karen Hornaday Park Shelter Replacement
- Karen Hornaday Park Campground/Trail Improvements
- Bishop's Beach Parking Lot Paving
- Crittenden Road Improvements

Utility Fund (Special Revenue Fund):

- Sewer Treatment Plant Headworks Intake Screen Replacement
- Wastewater Treatment Plant Headworks Improvements

City of Homer, Alaska

Management's Discussion and Analysis

Port & Harbor (Enterprise Fund):

- Ramp 3 Replacement
- DWD Trail/Cruise Ship Bus Staging Area
- Harbor Entrance Shore Protection Improvements

On-Going Projects:

General Fund:

- Waddell Way Road Improvements
- New Ramp 5 Restroom
- Homer Middle School Access Trail
- Public Works Storage Building

Utility Fund (Special Revenue Fund):

- Water System/Storage Improvements (Phase I)
- Water Treatment Plant Clarifier Skimmer Rehabilitation
- Water Treatment Plant Paving

Port & Harbor (Enterprise Fund):

- New Harbormaster's Office Building
- Small Boat Harbor Float Replacement
- Small Boat Harbor Load/Launch Ramp Replacement
- System 5 Electrical Improvement
- Deep Water Dock Expansion Feasibility Study
- Demolition of Old Harbormaster's Office Building

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	
	2014	2013	2014	2013	2014	2013
Notes payable - library	\$ 1,280	\$ 1,325	-	-	\$ 1,280	\$ 1,325
Notes payable - utility	12,773	15,167	-	-	12,773	15,167
Special assessment bond with government commitment	12,359	8,809	-	-	12,359	8,809
General obligation bond payable	-	-	3,605	3,735	3,605	3,735
Unamortized bond premium	-	-	445	470	445	470
Total	26,412	25,301	4,050	4,205	30,462	29,506
Compensated absences	729	713	199	186	928	899
Total Long-Term Debt	\$ 27,141	\$ 26,014	\$ 4,249	\$ 4,391	\$ 31,390	\$ 30,405

City of Homer, Alaska

Management's Discussion and Analysis

Long-term debt - At the end of the 2014 year, the City of Homer had total debt outstanding of \$30,462 as detailed in Table A-4. This excludes \$928 related to the 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 41-44 of this report.

Economic Factors and Next Year's Budgets and Rates

The number of vacant and unfunded positions continues to be a problem. The uncertainty about the economy and the loss of revenue associated with the sales tax exemption for unprepared foods casts doubt over future revenues. The State's uncertain fiscal situation will affect the City of Homer both in direct cuts and a contracting Alaskan economy that will be a result of reduced state spending.

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 \$1,887 before capital outlays of \$672 and debt services of \$1,000 and the de-obligation of \$1,580 loan causing a net decrease in Fund Balance of \$1,365 before transfers. 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 \$804 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)

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Basic Financial Statements

City of Homer, Alaska
Statement of Net Position

<i>December 31, 2014</i>	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments	\$ 12,242,808	\$ 1,588,696	\$ 13,831,504
Receivables, net of allowance for doubtful accounts:			
Accounts	185,523	187,104	372,627
Sales and property taxes	1,216,489	-	1,216,489
State and federal grants and loans	3,550,020	3,660,958	7,210,978
Assessments	5,221,628	-	5,221,628
Other	271,583	-	271,583
Internal balances	288,921	(288,921)	-
Inventory	306,694	14,431	321,125
Prepaid items	389,155	48,251	437,406
Restricted cash and investments	3,302,991	293,697	3,596,688
Capital assets not being depreciated - land and construction in progress	12,287,464	25,832,002	38,119,466
Other capital assets, net of accumulated depreciation	71,746,210	23,414,054	95,160,264
Total Assets	\$ 111,009,486	\$ 54,750,272	\$ 165,759,758
Liabilities			
Accounts payable	\$ 738,217	\$ 1,024,248	\$ 1,762,465
Accrued payroll and related liabilities	236,953	39,368	276,321
Accrued interest payable	87,174	-	87,174
Prepaid rentals and deposits	59,856	837,534	897,390
Unearned revenue	48,947	18,000	66,947
Noncurrent liabilities:			
Due within one year:			
Accrued leave	20,000	14,398	34,398
Notes payable	915,622	-	915,622
General obligation bonds payable	-	130,000	130,000
Due in more than one year:			
Accrued leave	708,707	184,781	893,488
Notes payable	13,137,391	-	13,137,391
General obligation bonds payable including bond premium	-	3,920,054	3,920,054
Special assessment bond payable with government commitment to Kenai Peninsula Borough	12,359,388	-	12,359,388
Unearned revenue	-	289,657	289,657
Total Liabilities	28,312,255	6,458,040	34,770,295
Net Position			
Net investment in capital assets	58,894,875	45,489,699	104,384,574
Restricted for:			
Roads and trails	7,538,071	-	7,538,071
Special service district	76,421	-	76,421
Unrestricted	16,187,864	2,802,533	18,990,397
Total Net Position	82,697,231	48,292,232	130,989,463
Total Liabilities and Net Position	\$ 111,009,486	\$ 54,750,272	\$ 165,759,758

See accompanying notes to basic financial statements.

City of Homer, Alaska
Statement of Activities
Year Ended December 31, 2014

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Fees, Fines & Charges for Services	Operating Grants & Contri- butions	Capital Grants & Contri- butions	Govern- mental Activities	Business- type Activities	
Activities							
Governmental:							
General government	\$ 2,337,006	\$ 675,783	\$ 394,781	\$ 302,864	\$ (963,578)	\$ -	\$ (963,578)
Public safety	4,160,799	351,816	1,362,721	-	(2,446,262)	-	(2,446,262)
Public works	2,402,560	-	382,204	-	(2,020,356)	-	(2,020,356)
Library	1,026,662	-	75,670	1,226,416	275,424	-	275,424
Airport	282,404	126,774	-	-	(155,630)	-	(155,630)
Parks and recreation	760,178	156,574	13,302	-	(590,302)	-	(590,302)
Community services	252,833	40,280	2,533	-	(210,020)	-	(210,020)
Water	2,660,899	2,023,009	-	157,570	(480,320)	-	(480,320)
Sewer	2,187,873	1,743,301	-	157,570	(287,002)	-	(287,002)
Unallocated interest	366,493	-	-	-	(366,493)	-	(366,493)
Total Governmental Activities	16,437,707	5,117,537	2,231,211	1,844,420	(7,244,539)	-	(7,244,539)
Business-type - Port and harbor	5,266,806	4,197,852	299,245	4,732,718	-	3,963,009	3,963,009
Total	\$ 21,704,513	\$ 9,315,389	\$ 2,530,456	\$ 6,577,138	(7,244,539)	3,963,009	(3,281,530)
General Revenues							
Property taxes					\$ 3,091,791	-	3,091,791
Sales taxes					7,488,925	-	7,488,925
Grants and entitlements not restricted to a specific purpose					392,232	58,621	450,853
Investment income					144,146	28,690	172,836
Other					37,511	130,406	167,917
Total General Revenues					11,154,605	217,717	11,372,322
Special item - construction of gas pipeline on behalf of third parties					(5,143,546)	-	(5,143,546)
Change in Net Position					(1,233,480)	4,180,726	2,947,246
Net Position, beginning, as restated					83,930,711	44,111,506	128,042,217
Net Position, ending					\$ 82,697,231	\$ 48,292,232	\$ 130,989,463

See accompanying notes to basic financial statements.

City of Homer, Alaska

Governmental Funds
Balance Sheet

	Major Funds					Nonmajor Funds	Total Governmental Funds
	General	Utility Special Revenue	Gas Line Capital Project	HART Roads Capital Project			
<i>December 31, 2014</i>							
Assets							
Cash and investments	\$ 386,625	\$ 1,380,183	\$ -	\$ 6,823,357	\$ 2,739,904	\$ 11,330,069	
Receivables, net of allowance:							
Accounts	-	185,523	-	-	-	185,523	
Property taxes	77,008	-	-	-	-	77,008	
Sales taxes	759,645	189,919	-	170,922	18,995	1,139,481	
Assessments	407,314	4,814,314	-	-	-	5,221,628	
State and federal grants and loans	-	-	3,550,020	-	-	3,550,020	
Other	37,262	-	-	-	234,321	271,583	
Interfund loan	300,000	-	-	-	19,420	319,420	
Due from other funds	5,240,998	-	-	-	-	5,240,998	
Inventory	52,312	254,382	-	-	-	306,694	
Prepaid items	234,289	31,712	-	-	-	266,001	
Restricted cash and investments	-	-	1,273,602	-	2,029,389	3,302,991	
Total Assets	\$ 7,495,453	\$ 6,856,033	\$ 4,823,622	\$ 6,994,279	\$ 5,042,029	\$ 31,211,416	
Liabilities							
Accounts payable	\$ 213,661	\$ 148,806	\$ 117	\$ -	\$ 220,097	\$ 582,681	
Accrued payroll and related liabilities	196,132	40,821	-	-	-	236,953	
Customer deposits	16,204	43,652	-	-	-	59,856	
Unearned revenue	5,414	-	-	-	43,533	48,947	
Due to other funds	-	-	5,104,918	-	136,080	5,240,998	
Total Liabilities	431,411	233,279	5,105,035	-	399,710	6,169,435	
Deferred Inflows							
Deferred property taxes	78,695	-	-	-	-	78,695	
Deferred assessments	416,314	4,814,887	-	-	-	5,231,201	
Total Deferred Inflows	495,009	4,814,887	-	-	-	5,309,896	
Total Liabilities and Deferred Inflows	926,420	5,048,166	5,105,035	-	399,710	11,479,331	
Fund Balances							
Nonspendable:							
Inventory	52,312	254,382	-	-	-	306,694	
Prepaid items	234,289	31,712	-	-	-	266,001	
Interfund loan	300,000	-	-	-	19,420	319,420	
Restricted - roads and trails							
Roads and trails	-	-	-	6,994,279	543,792	7,538,071	
Special service district	76,421	-	-	-	-	76,421	
Committed - Permanent fund	-	-	-	-	2,031,828	2,031,828	
Assigned:							
Library	-	-	-	-	32,593	32,593	
Public Safety	-	-	-	-	97,530	97,530	
Community schools	-	-	-	-	492	492	
Sustainability	-	-	-	-	14,780	14,780	
Water and sewer	-	1,521,773	-	-	-	1,521,773	
PERS benefits	171,314	-	-	-	14,665	185,979	
Capital and land	-	-	-	-	1,968,241	1,968,241	
Unassigned (deficit)	5,734,697	-	(281,413)	-	(81,022)	5,372,262	
Total Fund Balances	6,569,033	1,807,867	(281,413)	6,994,279	4,642,319	19,732,085	
Total Liabilities, Deferred Inflows and Fund Balances	\$ 7,495,453	\$ 6,856,033	\$ 4,823,622	\$ 6,994,279	\$ 5,042,029	\$ 31,211,416	

See accompanying notes to basic financial statements.

City of Homer, Alaska
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Position
December 31, 2014

Total fund balances for governmental funds		\$ 19,732,085
<p>Total net position reported for governmental activities in the Statement of Net Position is different because:</p>		
<p>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:</p>		
Land and land improvements	\$ 10,676,104	
Construction in progress	1,611,360	
Buildings	49,647,339	
Improvements other than buildings	49,269,066	
Machinery and equipment	14,795,594	
Infrastructure	33,961,628	
Accumulated depreciation	<u>(75,927,417)</u>	
Total Capital Assets		84,033,674
<p>Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.</p>		
Delinquent property taxes receivable	78,695	
Special assessments not yet due	<u>5,231,201</u>	
Total Other Long-Term Assets		5,309,896
<p>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.</p>		
		849,858
<p>Long-term liabilities, including notes payable, bonds payable, and accrued leave, are not due and payable in the current period and therefore are not reported as fund liabilities. These liabilities consist of:</p>		
Accrued interest	(87,174)	
Note payable to Kenai Peninsula Borough	(12,359,388)	
Notes payable	(14,053,013)	
Accrued leave	<u>(728,707)</u>	
Total Long-Term Liabilities		<u>(27,228,282)</u>
Total Net Position of Governmental Activities		<u>\$ 82,697,231</u>

See accompanying notes to basic financial statements.

City of Homer, Alaska

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)

Year Ended December 31, 2014	Major Funds					Nonmajor Funds	Total Governmental Funds
	General	Utility Special Revenue	Gas Line Capital Project	HART Roads Capital Project			
Revenues							
Property taxes	\$ 3,119,599	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,119,599
Sales taxes	4,993,941	1,247,502	-	1,122,738	124,744	-	7,488,925
Licenses and permits	27,931	-	-	-	-	-	27,931
Intergovernmental	2,580,068	618,004	-	-	1,230,067	-	4,428,139
Charges for services	2,125,051	3,623,327	-	-	-	-	5,748,378
Special assessments	59,740	438,088	-	-	-	-	497,828
Investment income	30,830	3,845	3,505	18,071	87,895	-	144,146
Fines and forfeitures	20,142	-	-	-	-	-	20,142
Donations	-	-	-	-	9,524	-	9,524
Other	2,368	37,511	-	-	30,200	-	70,079
Total Revenues	12,959,670	5,968,277	3,505	1,140,809	1,482,430	-	21,554,691
Expenditures							
Current:							
General government	3,507,640	-	-	93,476	105,671	-	3,706,787
Public safety	4,708,617	-	-	-	9,356	-	4,717,973
Public works	2,183,582	-	-	-	-	-	2,183,582
Library	847,655	-	-	-	-	-	847,655
Airport	221,302	-	-	-	-	-	221,302
Parks and recreation	409,211	-	-	-	-	-	409,211
Community services	237,507	-	-	-	15,326	-	252,833
Water	-	2,283,417	-	-	-	-	2,283,417
Sewer	-	1,798,228	-	-	-	-	1,798,228
Debt service:							
Principal	45,149	812,933	-	-	-	-	858,082
Interest	54,675	186,987	307,933	-	-	-	549,595
Debt deobligation	-	1,580,014	-	-	-	-	1,580,014
Capital outlay	-	671,683	-	78,845	1,711,859	-	2,462,387
Total Expenditures	12,215,338	7,333,262	307,933	172,321	1,842,212	-	21,871,066
Excess of Revenues Over (Under)							
Expenditures	744,332	(1,364,985)	(304,428)	968,488	(359,782)	-	(316,375)
Other Financing Sources (Uses)							
Issuance of special assessment bond							
Kenai Peninsula Borough	-	-	3,550,020	-	-	-	3,550,020
Transfers in	-	180,499	-	-	62,884	-	243,383
Transfers out	(223,083)	(20,300)	-	-	-	-	(243,383)
Net Other Financing Sources (Uses)	(223,083)	160,199	3,550,020	-	62,884	-	3,550,020
Special item - construction of gas pipeline on behalf of third parties							
	-	-	5,143,546	-	-	-	5,143,546
Net Change in Fund Balances	521,249	(1,204,786)	(1,897,954)	968,488	(296,898)	-	(1,909,901)
Fund Balances, beginning, as restated	6,047,784	3,012,653	1,616,541	6,025,791	4,939,217	-	21,641,986
Fund Balances (Deficit), ending	\$ 6,569,033	\$ 1,807,867	\$ (281,413)	\$ 6,994,279	\$ 4,642,319	\$ -	\$ 19,732,085

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, 2014

Net change in fund balances - total governmental funds	\$ (1,909,901)
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 (\$5,229,738) exceeded depreciation (\$3,875,745) and loss on disposal (\$47,819).	
	1,306,170
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.	
	(325,281)
Issuance of long-term debt (\$3,550,020) provides current financial resources to governmental funds, while the repayment of the principal of the long-term debt (\$2,438,739) consumes current financial resources in governmental funds. Neither of these transactions has any effect on net position.	
	(1,111,081)
Accrued interest on long-term debt is not reported in the funds until the liability matures. This is the decrease in accrued interest payable.	
	182,259
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.	
	(15,988)
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 income of these activities is reported with governmental activities.	
	<u>640,342</u>
Change in Net Position of Governmental Activities	<u>\$ (1,233,480)</u>

See accompanying notes to basic financial statements.

City of Homer, Alaska
Proprietary Funds
Statement of Net Position

<i>December 31, 2014</i>	Major Enterprise Fund Port of Homer	Internal Service Funds
Assets		
Current Assets		
Cash and investments	\$ 1,588,696	\$ 912,739
Accounts receivable, net of allowance for doubtful accounts	187,104	-
State and federal grants receivable	3,660,958	-
Inventory	14,431	-
Prepaid items	48,251	123,154
Total Current Assets	5,499,440	1,035,893
Noncurrent Assets		
Capital assets, net of accumulated depreciation	49,246,056	-
Restricted cash and investments	293,697	-
Total Noncurrent Assets	49,539,753	-
Total Assets	\$ 55,039,193	\$ 1,035,893
Liabilities		
Current Liabilities		
Accounts payable	\$ 1,024,248	\$ 155,536
Accrued payroll and related liabilities	39,368	-
Accrued leave	14,398	-
General obligation bonds payable	130,000	-
Prepaid rentals and deposits	837,534	-
Unearned lease revenue	18,000	-
Unearned grant revenue	55,657	-
Interfund loan	3,291	-
Total Current Liabilities	2,122,496	155,536
Noncurrent Liabilities, Net of Current Portion		
Unearned lease revenue	234,000	-
Interfund loan	316,129	-
General obligation bonds payable including bond premium	3,920,054	-
Accrued leave	184,781	-
Total Noncurrent Liabilities	4,654,964	-
Total Liabilities	6,777,460	155,536
Net Position		
Net investment in capital assets	45,489,699	-
Unrestricted	2,772,034	880,357
Total Net Position	48,261,733	880,357
Total Liabilities and Net Position	\$ 55,039,193	\$ 1,035,893
Adjustment to reflect the consolidation of internal service fund activities related to enterprise fund	<u>30,499</u>	
Net Position of Business-Type Activities	\$ 48,292,232	

See accompanying notes to basic financial statements.

City of Homer, Alaska
Proprietary Funds
Statement of Revenues, Expenses and Changes in Net Position

<i>Year Ended December 31, 2014</i>	Major Enterprise Fund Port of Homer	Internal Service Funds
Operating Revenues		
Port and harbor charges for services	\$ 4,197,852	\$ -
Interfund charges	-	1,992,762
Employee health contributions	-	217,613
Refunds and reinsurance	-	394,578
Total Operating Revenues	4,197,852	2,604,953
Operating Expenses		
Operations	2,425,244	151,406
Administration	1,484,844	93,418
Depreciation	1,489,777	-
Claims	-	1,216,168
Employee incentive fees	-	68,287
Insurance premiums	-	301,444
Total Operating Expenses	5,399,865	1,830,723
Operating income (loss)	(1,202,013)	774,230
Nonoperating Revenues (Expenses)		
Investment income	28,690	-
State PERS relief	299,245	-
Other income	129,956	-
Cruise ship tax	450	-
Fish tax	58,621	-
Miscellaneous repairs	(829)	-
Net Nonoperating Revenues (Expenses)	516,133	-
Income (loss) before capital contributions	(685,880)	774,230
Capital contributions	4,732,718	-
Change in net position	4,046,838	774,230
Net Position, beginning	44,214,895	106,127
Net Position, ending	48,261,733	\$ 880,357
Adjustment to reflect the consolidation of internal service fund activities related to enterprise fund	133,888	
Change in Net Position of Business-Type Activities	\$ 4,180,726	

See accompanying notes to basic financial statements.

City of Homer, Alaska

Proprietary Funds
Statement of Cash Flows

<i>Year Ended December 31, 2014</i>	Major Enterprise Fund Port of Homer	Internal Service Funds
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 4,418,382	\$ -
Receipts from interfund services provided and employee contributions	-	2,210,375
Receipt of refunds and reinsurance payments	-	394,578
Payments to suppliers	(1,726,502)	-
Payments to employees	(1,487,223)	(219,693)
Payments for insurance, claims, and administration	-	(1,829,755)
Net cash flows from operating activities	1,204,657	555,505
Cash Flows from (for) Noncapital Financing Activities		
Decrease in due to other funds	-	(15,140)
Nonoperating grants, cruise ship tax, and fish tax received	59,071	-
Net cash flows from noncapital financing activities	59,071	(15,140)
Cash Flows for Capital and Related Financing Activities		
Principal paid on long-term debt	(130,000)	-
Interest paid on long-term debt	(158,650)	-
Capital contributions received	2,180,971	-
Acquisition of property, plant and equipment	(7,711,704)	-
Decrease in interfund loan	296,708	-
Net cash flows for capital and related financing activities	(5,522,675)	-
Cash Flows from Investing Activities		
Investment income received	28,690	-
Net Increase (Decrease) in Cash and Investments	(4,230,257)	540,365
Cash and Investments, beginning	6,112,650	372,374
Cash and Investments, ending	\$ 1,882,393	\$ 912,739

See accompanying notes to basic financial statements.

City of Homer, Alaska
Proprietary Funds
Statement of Cash Flows, continued

	Major Enterprise Fund	Internal Service Funds
<i>Year Ended December 31, 2014</i>	<i>Port of Homer</i>	
Reconciliation of Operating Income (Loss) to Net Cash		
Flows from (for) Operating Activities		
Operating Income (loss)	\$ (1,202,013)	\$ 774,230
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:		
Depreciation	1,489,777	-
Noncash expense - PERS relief	299,245	-
Decrease in allowance for doubtful accounts	(12,518)	-
Amortization of deferred lease revenue	(18,000)	-
Miscellaneous nonoperating revenues	129,127	-
(Increase) decrease in assets:		
Accounts receivable	37,337	-
Inventory	1,216	-
Prepaid items	356	(123,154)
Increase (decrease) in liabilities:		
Accounts payable	379,317	(95,571)
Accrued payroll and related liabilities	3,065	-
Unearned grant revenue	33,947	-
Accrued leave	13,164	-
Prepaid rentals and deposits	50,637	-
Net Cash Flows from Operating Activities	\$ 1,204,657	\$ 555,505
Interest capitalized	\$ 133,924	\$ -
Capital contributions receivable at year end	\$ 3,660,958	\$ 1,109,211

See accompanying notes to basic financial statements.

City of Homer, Alaska

Notes to Basic Financial Statements

December 31, 2014

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.

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.

City of Homer, Alaska

Notes to Basic Financial Statements

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 *Gas Line Capital Project Fund* accounts for all activities related to the construction of the gas line.

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.

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.

City of Homer, Alaska

Notes to Basic Financial Statements

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.

Revenues reported in the Utility Special Revenue Fund are comprised primarily of user charges for services. However, the fund also receives significant funding from sales tax. Lesser amounts are reflected from grants and local assessments. All revenues reported in the fund are committed to the Utility service, including operations, maintenance, and debt service.

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.

As shown in Exhibits D-1 and D-2, for 2014 the General Fund and the Utility Special Revenue Fund reported expenditures in excess of the amounts appropriated. For the General Fund, the excess expenditures are tied almost exclusively to the PERS on-behalf amount which has no effect on fund balance (see Pension Footnote for additional information). For the Utility Fund, the excess expenditures is tied primarily to the deobligation of loan funding (essentially, a write off of loans receivable) recognized as expenditure in the current year, along with no budget reported for capital activity. The PERS on-behalf amount is also affecting this schedule.

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.

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.

City of Homer, Alaska

Notes to Basic Financial Statements

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 inflows 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.

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.

City of Homer, Alaska

Notes to Basic Financial Statements

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. Interest capitalized in 2014 was \$133,924.

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:

	Years
Buildings and improvements	30-40
System infrastructure	15-40
Machinery and equipment	5
Infrastructure	20-30

Accrued Leave

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

Long-Term Debt

In the government-wide and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net 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.

City of Homer, Alaska

Notes to Basic Financial Statements

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.

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.

City of Homer, Alaska

Notes to Basic Financial Statements

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, 2014.

Bank deposits	\$ 1,320,732
Investments	16,107,460
	<hr/>
	\$ 17,428,192
	<hr/>
Cash and investments	\$ 13,831,504
Restricted cash and investments	3,596,688
	<hr/>
	\$ 17,428,192
	<hr/>

Restricted cash and investments primarily represent funds set aside for capital projects, including unspent bond proceeds, or mandatory bond reserve accounts.

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.

City of Homer, Alaska

Notes to Basic Financial Statements

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, 2014 are as follows:

<i>Investment Type</i>	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 - 5	5 - 10
U.S. government agencies:				
FHLB	\$ 101,616	\$ -	\$ 101,616	\$ -
FHLM	1,983,397	-	1,983,397	-
FNMA	76,290	25,419	50,871	-
<hr/>				
Total U.S. government agencies	2,161,303	25,419	2,135,884	-
Corporate bonds	232,633	-	179,214	53,419
Foreign bonds	76,267	50,820	25,447	-
Pooled investments (AMLIP)	6,463,860	6,463,860	-	-
<hr/>				
Total Subject to Interest Rate Risk	8,934,063	\$ 6,540,099	\$ 2,340,545	\$ 53,419
Certificates of deposit	5,075,428			
Money market	639,142			
Mutual funds	1,458,827			
<hr/>				
Total Investments	\$ 16,107,460			

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, 2014, the share value of investments in the AML pool is approximately equal to fair value.

City of Homer, Alaska

Notes to Basic Financial Statements

3. Accounts Receivable, Valuation Allowances, Deferred Inflows and Unearned Revenues

The City maintains accounts receivable balances of which a portion is reserved as an allowance for doubtful accounts. At December 31, 2014, receivables for the City's individual major funds and nonmajor and internal service funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	General	Utility Special Revenue	Gas Line Capital Project	HART Roads Capital Project	Port of Homer Enterprise	Nonmajor and Other Funds	Totals
Receivables:							
Accounts	\$ -	\$ 260,955	\$ -	\$ -	\$ 215,238	\$ -	\$ 476,193
Sales taxes	759,645	189,919	-	170,922	-	18,995	1,139,481
Property taxes	82,243	-	-	-	-	-	82,243
State and federal grants and loans	-	-	3,550,020	-	3,660,958	-	7,210,978
Special assessments	407,314	4,814,314	-	-	-	-	5,221,628
Other	366,466	-	-	-	-	253,741	620,207
Total receivables	1,615,668	5,265,188	3,550,020	170,922	3,876,196	272,736	14,750,730
Less allowance for uncollectibles	(34,439)	(75,432)	-	-	(28,134)	-	(138,005)
Net Receivables	\$1,581,229	\$5,189,756	\$3,550,020	\$ 170,922	\$ 3,848,062	272,736	\$ 14,612,725

At December 31, 2014, 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	\$ 78,695
Special assessments not yet due:	
General Fund	416,314
Utility Special Revenue Fund	4,814,887
Total Deferred Inflows	\$ 5,309,896

Unearned Revenue

Grant drawdowns prior to meeting all eligibility requirements:	
General Fund	\$ 5,414
Other funds	28,970
Other unearned revenue	14,563
Total Unearned Revenue	\$ 48,947

City of Homer, Alaska

Notes to Basic Financial Statements

4. Interfund Receivables, Payables, and Transfers

A schedule of interfund balances and transfers for the year ended December 31, 2014 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 General Fund from:	
Gas Line Capital Project Fund	\$ 5,104,918
Nonmajor governmental funds	136,080
<hr/>	
Total Due from Other Funds	\$ 5,240,998

Transfers

From General Fund to:	
Utility Special Revenue Fund	\$ 180,499
Nonmajor governmental funds	42,584
From Utility Special Revenue Fund to	
Nonmajor governmental funds	20,300
<hr/>	
Total Transfers to Other Funds	\$ 243,383

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 \$19,420 as of December 31, 2014.

In 2014 the General Fund loaned \$300,000 to the Port Fund in order to complete the financing package related to the Port and Harbor Building upgrade project. The loan bears interest at 2% per year payable over five years. At December 31, 2014 the outstanding balance was \$300,000.

City of Homer, Alaska

Notes to Basic Financial Statements

5. Capital Assets

Capital asset activity for the year ended December 31, 2014 follows:

	Balance January 1, 2014	Additions and Reclas- sifications	Deletions and Reclas- sifications	Balance December 31, 2014
Governmental activities				
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 10,676,104	\$ -	\$ -	\$ 10,676,104
Construction in progress	4,076,617	2,123,510	(4,588,767)	1,611,360
Total assets not being depreciated	14,752,721	2,123,510	(4,588,767)	12,287,464
<i>Capital assets being depreciated:</i>				
Buildings	49,621,871	25,468	-	49,647,339
Improvements other than buildings	45,042,794	4,226,272	-	49,269,066
Machinery and equipment	14,591,184	204,410	-	14,795,594
Infrastructure	30,770,602	3,238,845	(47,819)	33,961,628
Total assets being depreciated	140,026,451	7,694,995	(47,819)	147,673,627
Less accumulated depreciation for:				
Buildings	28,102,380	756,358	-	28,858,738
Improvements other than buildings	19,901,355	1,554,303	-	21,455,658
Machinery and equipment	8,934,522	723,707	-	9,658,229
Infrastructure	15,113,412	841,380	-	15,954,792
Total accumulated depreciation	72,051,669	3,875,748	-	75,927,417
Total assets being depreciated, net	67,974,782	3,819,247	(47,819)	71,746,210
Governmental Activities				
Capital Assets, Net	\$ 82,727,503	\$ 5,942,757	\$ (4,636,586)	\$ 84,033,674

City of Homer, Alaska

Notes to Basic Financial Statements

	Balance January 1, 2014	Additions and Reclass- ifications	Deletions and Reclass- ifications	Balance December 31, 2014
Business-type activities				
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 15,254,041	\$ -	\$ -	\$ 15,254,041
Construction in progress	4,639,411	6,493,707	(555,157)	10,577,961
Total assets not being depreciated	19,893,452	6,493,707	(555,157)	25,832,002
<i>Capital assets being depreciated:</i>				
Buildings	13,034,836	-	-	13,034,836
Improvements other than buildings	37,695,709	1,857,149	-	39,552,858
Machinery and equipment	3,176,133	49,929	(58,846)	3,167,216
Total assets being depreciated	53,906,678	1,907,078	(58,846)	55,754,910
Less accumulated depreciation for:				
Buildings	8,460,697	293,349	-	8,754,046
Improvements other than buildings	19,594,478	1,120,037	-	20,714,515
Machinery and equipment	2,854,750	76,391	(58,846)	2,872,295
Total accumulated depreciation	30,909,925	1,489,777	(58,846)	32,340,856
Total capital assets being depreciated, net	22,996,753	417,301	-	23,414,054
Business-Type Activities				
Capital Assets, Net	\$ 42,890,205	\$ 6,911,008	\$ (555,157)	\$ 49,246,056

City of Homer, Alaska

Notes to Basic Financial Statements

<i>Year Ended December 31, 2014</i>	Depreciation
Governmental activities	
General government	\$ 191,662
Public safety	307,627
Public works	1,028,881
Library	233,895
Airport	72,096
Parks and recreation	398,176
Water utility	1,071,213
Sewer utility	572,198
Total Depreciation Expense - Governmental Activities	\$ 3,875,748
Total Depreciation Expense - Business-type activities	
Port and harbor	\$ 1,489,777

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	(378,000)
	\$ 252,000
Current unearned revenue	\$ 18,000
Noncurrent unearned revenue	234,000
Total Unearned Lease Revenue	\$ 252,000

City of Homer, Alaska

Notes to Basic Financial Statements

6. Long-Term Debt

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2014:

Governmental activities	Balance January 1, 2014	Additions	Retired	Balance December 31, 2014	Due Within One Year
Notes payable:					
\$1,700,000 USDA library note payable, due in annual installments of \$99,824, including interest at 4.125% through September 2033	\$ 1,325,451	\$ -	\$ 45,149	\$ 1,280,302	\$ 47,012
\$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	1,463,668	-	121,973	1,341,695	121,973
\$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	1,716,930	-	143,077	1,573,853	143,078
\$2,100,000 (maximum) 2012 Sewer Utility Alaska Clean Water loan, due in annual installments of \$79,587 plus interest at 1.5%	1,512,145	-	79,586	1,432,559	79,587
\$3,250,000 (reduced to \$1,086,870 in 2014) Sewer Utility Alaska Clean Water loan, \$1,158,446 deobligated in 2014; due in annual installments of \$54,344 plus interest at 1.5%	2,245,316	-	1,158,446	1,086,870	54,344
\$2,150,000 (maximum) 2012 Water Utility Alaska Drinking Water loan, due in annual installments of \$117,832 including interest at 1.5% through August 18, 2032	1,935,520	-	88,799	1,846,721	90,131

City of Homer, Alaska

Notes to Basic Financial Statements

Governmental activities	Balance January 1, 2014	Additions	Retired	Balance December 31, 2014	Due Within One Year
Notes payable, continued:					
\$470,000 (maximum) 2006 Water Utility Alaska Drinking Water loan, this loan was deobligated in 2014	\$ 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	5,824,024	-	364,002	5,460,022	364,001
\$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	46,487	-	15,496	30,991	15,496
\$12,700,000 (maximum) special assessment bond payable to the Kenai Peninsula Borough in two payments of interest only April 1, 2014 and April 1, 2015 and ten equal principal and interest payments beginning April 1, 2016, interest at 4% through April 1, 2025	8,809,368	3,550,020	-	12,359,388	-
Accrued leave **	712,719	15,988	-	728,707	20,000
Total Governmental Activities					
Long-Term Liabilities	\$ 26,014,040	\$ 3,566,008	\$ 2,438,940	\$ 27,141,108	\$ 935,620

** Due to a computer processing error, the amount of leave earned and used during 2014 is not available so the net difference has been reported.

City of Homer, Alaska

Notes to Basic Financial Statements

Business-type Activities	Balance January 1, 2014	Additions	Retired	Balance December 31, 2014	Due Within One Year
\$3,375,000 Series 2013 Harbor General Obligation Bonds, due in annual installments of \$130,000 plus interest at 2% through June of 2033.	\$ 3,735,000	\$ -	\$ 130,000	\$ 3,605,000	\$ 130,000
Unamortized bond premium	469,780	-	24,726	445,054	-
Accrued leave **	186,015	13,164	-	199,179	14,398
Total Business-type Activities Long-Term Liabilities	\$ 4,390,795	\$ 13,164	\$ 154,726	\$ 4,249,233	\$ 144,398

** Due to a computer processing error, the amount of leave earned and used during 2014 is not available so the net difference has been reported.

Annual debt service requirements to maturity for long-term debt exclusive of the notes for the Clean Water loans and Drinking Water loans that are not yet in repayment status follow:

Governmental Activities <i>Year Ending December 31,</i>	<u>Notes Payable</u>			<u>Special Assessment Bond Payable (KPB Loan)</u>		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 915,622	\$ 342,132	\$ 1,257,754	\$ -	\$ -	-
2016	918,910	229,435	1,148,345	1,025,890	503,541	1,529,431
2017	906,808	214,366	1,121,174	1,067,687	461,744	1,529,431
2018	910,303	199,427	1,109,730	1,111,186	418,245	1,529,431
2019	913,906	184,378	1,098,284	1,156,457	372,974	1,529,431
2020-2024	4,627,618	692,128	5,319,746	6,528,609	1,118,546	7,647,155
2025-2029	3,676,053	321,220	3,997,273	1,469,559	59,872	1,529,431
2030-2033	1,183,793	62,286	1,246,079	-	-	-
	\$ 14,053,013	\$ 2,245,372	\$ 16,298,385	\$ 12,359,388	\$ 2,934,922	\$ 15,294,310

City of Homer, Alaska

Notes to Basic Financial Statements

Annual debt service requirements to maturity for the bonds follow:

Business-type Activities <i>Year Ending December 31,</i>	G. O. Bonds Payable		
	Principal	Interest	Total
2015	\$ 130,000	\$ 156,050	\$ 286,050
2016	135,000	153,400	288,400
2017	140,000	149,950	289,950
2018	140,000	145,750	285,750
2019	145,000	141,475	286,475
2020-2024	825,000	615,900	1,440,900
2025-2029	1,050,000	396,250	1,446,250
2030-2033	1,040,000	107,250	1,147,250
	\$ 3,605,000	\$ 1,866,025	\$ 5,471,025

In 2013, the City entered into a loan agreement with the Kenai Peninsula Borough to borrow up to \$12,700,000 for the design and construction of natural gas distribution improvements in the City. At December 31, 2014, the City had drawn \$12,359,388 on the loan.

Concurrent with the issuance of the loan with the Borough, the City issued a \$12,700,000 natural gas distribution special assessment bond. The bond proceeds are to be used for the design and construction of natural gas distribution improvements in the City. After completion of the project, the City will establish an assessment district. This bond will be repaid from amounts to be levied against the property owners benefited by this construction in the assessment district. Those amounts, including interest, are 100 percent pledged to pay the scheduled principal and interest payments on the special assessment bonds. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government must provide resources to cover the deficiency until other resources, for example, foreclosure proceeds, are received.

Debt Covenants

The Kenai Peninsula Borough gasline loan required that a reserve account be established in the amount of \$1,270,000 from the date of the first drawdown. The city has complied with this covenant through the establishment of a dedicated investment account (reported as restricted cash and investments) in the Gas line Capital Projects Fund.

The 2013 Harbor bonds required that a reserve account be established in the amount of the largest annual debt service payment (\$290,100). The City has complied with this covenant through the establishment of a dedicated investment account (reported as restricted cash and investments) in the Port enterprise fund. In addition, these bond established a rate covenant that requires the Port to establish and charge fees sufficient to produce 120% of the annual debt service amount. The rate covenant test was met in 2014.

City of Homer, Alaska

Notes to Basic Financial Statements

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:

	General	Utility Special Revenue	Gas Line Capital Project	HART Roads Capital Project	Nonmajor Funds	Totals
Nonspendable:						
Inventory	\$ 52,312	\$ 254,382	-	-	-	\$ 306,694
Prepaid items	234,289	31,712	-	-	-	266,001
Interfund loans	300,000	-	-	-	19,420	319,420
Total nonspendable	586,601	286,094	-	-	19,420	892,115
Restricted:						
Roads and trails	-	-	-	6,994,279	543,792	7,538,071
Special service district	76,421	-	-	-	-	76,421
Total Restricted	76,421	-	-	6,994,279	543,792	7,614,492
Committed -						
Permanent fund	-	-	-	-	2,031,828	2,031,828
Assigned:						
Library	-	-	-	-	32,593	32,593
Public safety	-	-	-	-	97,530	97,530
Community schools	-	-	-	-	492	492
Sustainability	-	-	-	-	14,780	14,780
Water and sewer	-	1,521,773	-	-	-	1,521,773
PERS benefits	171,314	-	-	-	14,665	185,979
Capital and land	-	-	-	-	1,968,241	1,968,241
Total assigned	171,314	1,521,773	-	-	2,128,301	3,821,388
Unassigned (deficit)	5,734,697	-	(281,413)	-	(81,022)	5,372,262
Total Fund Balances	\$ 6,569,033	\$ 1,807,807	\$ (281,413)	\$ 6,994,279	\$ 4,642,319	\$19,732,085

At December 31, 2014, the following nonmajor funds had a fund deficit:

Non-capital Projects Special Revenue Fund	\$ (80,753)
City Facilities Capital Project Fund	(43,227)
Land Reserve Capital Project Fund	(269)

As discussed in note one, expenditures in the Utility Special Revenue Fund exceed appropriations by \$2,729,594. The General Fund expenditures exceeded appropriations by \$458,388.

City of Homer, Alaska

Notes to Basic Financial Statements

8. Restatement

In 2014, the City discovered that it had underreported capital contributions associated with a State of Alaska TORA in the amount of \$1,872,622. The correction of the error resulted in the following adjustments to the prior period balances as follows:

	As Reported	Adjustment	As Restated
Fund Balance/Net Position			
Governmental Activities	\$ 82,058,089	\$ 1,872,622	\$ 83,930,711
Governmental Funds	19,769,364	1,872,622	21,641,986
City Facilities Capital Projects Fund	(1,737,914)	1,872,622	134,708
Change in Net Position/Fund Balance			
Governmental Activities	(637,948)	1,872,622	1,234,674
Governmental Funds	(4,031,471)	1,872,622	(2,158,849)
City Facilities Capital Projects Fund	(1,934,867)	1,872,622	(62,245)

9. Accounting for Health Self-Insurance

The City provides health insurance on a self-insured basis up to \$90,000 each occurrence or \$1,707,414 in aggregate for all medical claims during the year. Coverage in excess of these amounts is insured by a private carrier up to lifetime claims of \$1,000,000 per each individual.

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

A schedule of the changes in the claims liability for the years ended December 31, 2014 and 2013 follows:

		Balance at Beginning of Year		Claims Expense		Claims Paid		Balance at End of Year
2014 Health Insurance	\$	251,107	\$	1,216,168	\$	1,311,739	\$	155,536
2013 Health Insurance	\$	128,435	\$	1,978,754	\$	1,856,082	\$	251,107

Effective January 1, 2015, the City terminated its self-insurance plan in favor of commercial health insurance policies.

10. Risk Management

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

City of Homer, Alaska

Notes to Basic Financial Statements

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, 2014.

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

11. 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.

City of Homer, Alaska

Notes to Basic Financial Statements

Employee Contribution Rates

Regular employees are required to contribute 6.75% of their annual covered salary (3.26% for pension and 3.49% for healthcare). Police and firefighters are required to contribute 7.5% of their annual covered salary (3.62% for pension and 3.88% for healthcare).

Employer and Other Contribution Rates

There are several contribution rates associated with the pension and healthcare contributions and related liabilities. These amounts are calculated on an annual basis.

Employer Effective Rate: This is the required funding rate for participating employers. The contractual rate is statutorily capped at 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.

ARM Board Adopted Rate: This is the rate formally adopted by the Alaska Retirement Management Board. This rate is actuarially determined to calculate annual funding requirements of the Plan, without regard to the statutory rate cap.

State Contribution Rate: This is the rate actually paid by the State as an on-behalf payment.

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 State fiscal year FY15 (six months ended December 2014), the rate uses an 8.00% pension discount rate and a 4.90% healthcare discount rate. Additionally, the GASB 43 rate disregards all future Medicare Part D payments.

From 2008 through June 30, 2014, legislation provided that the State of Alaska contribute the difference between the ARM Board adopted rate and the employer effective (statutory) rate. These additional contributions are recognized by each employer as an on-behalf payment and are reflected as revenue and expense/expenditures within the financial statements.

Effective beginning July 1, 2014, the State passed additional legislation appropriating a one-time funding contribution to the Plan in the amount of \$1 billion. This \$1 billion is allocated among all participating employers and will be recorded as an on-behalf payment. This amount significantly exceeds the required on-behalf payment established as the difference between the ARM Board rate and the employer effective rate. In addition, prior to July 1, 2015, there are no constraints or restrictions on the actuarial cost method or other assumptions used in the ARM Board valuation. Effective July 1, 2015, the Legislature requires the ARM Board to adopt employer contribution rates for past service liabilities using a level percent of pay method over a closed 25 year term which ends in 2039, resulting in lower ARM Board rates. As a result of these changes, the State fiscal year 2015 on-behalf payment will be significantly higher than under previous calculations, and in State fiscal year 2016, the on-behalf amounts will be lower than under previous calculations.

City of Homer, Alaska

Notes to Basic Financial Statements

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, 2014 were determined as part of the June 30, 2011 actuarial valuation. Rates for the six months ended December 31, 2014 (State FY15) were determined in the June 30, 2012 valuation.

<i>January to June 2014</i>	Employer Effective Rate	ARM Board Adopted Rate	State Contribution Rate	GASB 43 Rate
Pension	10.64%	18.38%	7.74%	27.94%
Postemployment healthcare	11.36%	17.30%	5.94%	52.55%
Total Contribution Rate	22.00%	35.68%	13.68%	80.49%

July to December 2014

Pension	12.54%	25.09%	42.41%	33.05%
Postemployment healthcare	9.46%	18.94%	-	55.07%
Total Contribution Rate	22.00%	44.03%	42.41%	88.12%

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 has also made additional contributions to the Plan as noted above. In accordance with the provisions of GASB Statement Number 24, these additional contributions are considered on-behalf payments and are recorded as revenue and expense/expenditures in these financial statements. However, because the City is not statutorily obligated for these payments, the State's contributions, in the amounts of \$1,867,591, \$915,801, and \$812,525 for 2014, 2013, and 2012, respectively, have been excluded from pension and OPEB cost as shown below.

<i>Year Ended December 31,</i>	Annual Pension Cost	Annual OPEB Cost	Total Benefit Cost (TBC)	City Contributions	% of TBC Contributed
2014	\$ 663,150	\$ 500,271	\$ 1,163,421	\$ 1,163,421	100%
2013	606,589	571,025	1,177,614	1,177,614	100%
2012	526,358	671,272	1,197,630	1,197,630	100%

City of Homer, Alaska

Notes to Basic Financial Statements

12. 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. 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's account.

Employer Contribution Rates

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

<i>January to June 2014</i>	Other Tier IV	Police/Fire Tier IV
Individual account	5.00%	5.00%
Retiree medical plan	0.48%	0.48%
Occupational death and disability benefits	0.20%	1.14%
Total Contribution Rate	5.68%	6.62%

July to December 2014

Individual account	5.00%	5.00%
Retiree medical plan	1.66%	1.66%
Occupational death and disability benefits	0.22%	1.06%
Total Contribution Rate	6.88%	7.72%

In addition, the employer must contribute to the Health Reimbursement Arrangement. AS 39.30.370 establishes this contribution amount as "three percent of the average annual employee compensation of *all employees of all employers* in the plan". As of July 1, 2014, for actual remittance, this amount is calculated as a flat rate for each full time or part-time employee per pay period and approximates \$1,961 per year for each full-time employee, and \$1.26 per hour for part-time employees.

The total employer contribution must equal 22% of covered payroll. After subtracting the defined contribution (DC) rates and the HRA contribution, any residual amount of the 22% will be deposited into the defined benefit (DB) plan. Known as the Defined Benefit Unfunded Liability (DBUL) payment, this amount is intended to mitigate reduced contributions in the DB plan due to the declining payroll base that resulted from the creation of the DC plan.

City of Homer, Alaska

Notes to Basic Financial Statements

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 December 31, 2014 were \$257,622 and \$208,016, respectively.

13. Deferred Compensation Plan

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

14. Contingencies

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

Grants

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

15. Designated Sales Tax

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

Water, sewer, and related debt service	0.75%
Road and trail projects	0.75%
General Fund - undesignated	3.00%
Kenai Peninsula Borough	3.00%
<hr/>	
Total Sales Tax Percentage	7.50%

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

City of Homer, Alaska

Notes to Basic Financial Statements

16. Homer Natural Gasline Project

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. In connection with the project, a special assessment district was authorized. The City's share of the Homer Natural Gasline project is being financed through a \$12.7 million loan obtained from Kenai Peninsula Borough. The project was substantially complete in 2014 and the City is in the process of establishing the local assessments to the benefiting property owners. All assessment revenues will be dedicated to repayment of the loan.

17. New Accounting Pronouncements

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates. Management has not fully evaluated the potential effects of these statements, but believes that that GASB Statement 68 will result in the biggest reporting change. Actual impacts have not yet been determined:

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

GASB 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date - Effective for year-end December 31, 2015 - This statement is a companion to GASB Statement 68 and clarifies treatment of contributions made by a contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

GASB 72 - Fair Value Disclosures - Effective for year-end December 31, 2016 - This statement defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements.

Required Supplementary Information

City of Homer, Alaska
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual

<i>Year Ended December 31, 2014</i>	Budget		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 8,019,406	\$ 8,019,406	\$ 8,115,908	\$ 96,502
Licenses and permits	33,300	33,300	27,931	(5,369)
Intergovernmental	1,786,069	1,786,069	2,580,068	793,999
Charges for services	2,104,326	2,104,326	2,125,051	20,725
Special assessments	-	-	59,740	59,740
Investment income	27,000	27,000	30,830	3,830
Fines and forfeitures	10,000	10,000	20,142	10,142
Total Revenues	11,980,101	11,980,101	12,959,670	979,569
Expenditures				
General government	3,246,418	3,246,418	3,507,640	(261,222)
Public safety	4,503,415	4,503,415	4,708,617	(205,202)
Public works	2,087,224	2,087,224	2,183,582	(96,358)
Library	848,808	848,808	847,655	1,153
Airport	212,405	212,405	221,302	(8,897)
Parks and recreation	429,929	429,929	409,211	20,718
Community services	238,930	238,930	237,507	1,423
Debt service:				
Principal	41,478	41,478	45,149	(3,671)
Interest	58,346	58,346	54,675	3,671
Total Expenditures	11,666,953	11,666,953	12,215,338	(548,385)
Excess of Revenues Over Expenditures	313,148	313,148	744,332	431,184
Other Financing Uses - transfers out	(313,080)	(313,080)	(223,083)	89,997
Net Change in Fund Balance	\$ 68	\$ 68	521,249	\$ 521,181
Fund Balance, beginning			<u>6,047,784</u>	
Fund Balance, ending			<u>\$ 6,569,033</u>	

City of Homer, Alaska
Utility Special Revenue Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual

<i>Year Ended December 31, 2014</i>	Budget		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Sales taxes	\$ 1,200,000	\$ 1,200,000	\$ 1,247,502	\$ 47,502
Intergovernmental	112,810	112,810	618,004	505,194
Charges for services	3,694,763	3,694,763	3,623,327	(71,436)
Special assessments	-	-	438,088	438,088
Investment income	-	-	3,845	3,845
Other	180,499	180,499	37,511	(142,988)
Total Revenues	5,188,072	5,188,072	5,968,277	780,205
Expenditures				
Water	1,988,660	1,988,660	2,283,417	(294,757)
Sewer	1,686,133	1,686,133	1,798,228	(112,095)
Debt service:				
Principal	859,226	859,226	812,933	46,293
Interest	194,647	194,647	186,987	7,660
Debt deobligated	-	-	1,580,014	(1,580,014)
Total debt service	1,053,873	1,053,873	2,579,934	(1,526,061)
Capital outlay	-	-	671,683	(671,683)
Total Expenditures	4,728,666	4,728,666	7,333,262	(2,604,596)
Excess of Revenues Over (Under)				
Expenditures	459,406	459,406	(1,364,985)	(1,824,391)
Other Financing Sources (Uses)				
Transfers in	-	-	180,499	180,499
Transfers out	(20,300)	(20,300)	(20,300)	-
Net Change in Fund Balance	\$ 439,106	\$ 439,106	(1,204,786)	\$ (1,643,892)
Fund Balance, beginning			3,012,653	
Fund Balance, ending			\$ 1,807,867	

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Supplementary Information

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.

Animal Shelter Donations - This fund accounts for donations made to the animal shelter 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.

City Facilities - This fund accounts for various facility improvements.

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, 2014	Special Revenue Funds										Capital Project Funds						Total Nonmajor Governmental Funds	
	Library Donations	Fire Depart- ment Donations	Animal Shelter 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	City Facilities	Fleet Reserve Allocation		Total Capital Project Funds
Assets																		
Cash and investments	\$ 32,593	\$ 97,195	\$ 335	\$ 13,363	\$ 492	\$ 14,780	\$ -	\$ 2,439	\$ 14,665	\$ 175,862	\$ 524,797	\$ 1,402,456	\$ -	\$ 87,626	\$ -	\$ 549,163	\$ 2,564,042	\$ 2,739,904
Receivables, net:																		
Sales taxes	-	-	-	-	-	-	-	-	-	-	18,995	-	-	-	-	-	18,995	18,995
Interfund loan	-	-	-	-	-	-	-	-	-	-	-	-	19,420	-	-	-	19,420	19,420
Other	-	-	-	1,266	-	-	-	2,738	-	4,004	-	-	-	230,317	-	-	230,317	234,321
Restricted cash and investments	-	-	-	-	-	-	-	-	2,029,389	-	2,029,389	-	-	-	-	-	-	2,029,389
Total Assets	\$ 32,593	\$ 97,195	\$ 335	\$ 14,629	\$ 492	\$ 14,780	\$ 2,738	\$ 2,031,828	\$ 14,665	\$ 2,209,255	\$ 543,792	\$ 1,402,456	\$ -	\$ 107,046	\$ 230,317	\$ 549,163	\$ 2,832,774	\$ 5,042,029
Liabilities																		
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,843	\$ -	\$ 192,254	\$ -	\$ 220,097	\$ 220,097	\$ 220,097
Unearned revenue	-	-	-	14,563	-	-	-	-	-	14,563	-	-	-	28,970	-	-	28,970	43,533
Due to other funds	-	-	-	-	-	-	83,491	-	-	83,491	-	-	269	52,320	-	-	52,589	136,080
Total Liabilities	-	-	-	14,563	-	-	83,491	-	-	98,054	-	27,843	269	273,544	-	301,656	399,710	
Fund Balances																		
Nonspendable - Interfund loan	-	-	-	-	-	-	-	-	-	-	-	-	19,420	-	-	-	19,420	19,420
Restricted - roads and trails	-	-	-	-	-	-	-	-	-	-	543,792	-	-	-	-	-	543,792	543,792
Committed - Permanent fund	-	-	-	-	-	-	-	2,031,828	-	2,031,828	-	-	-	-	-	-	-	2,031,828
Assigned:																		
Library	32,593	-	-	-	-	-	-	-	-	32,593	-	-	-	-	-	-	-	32,593
Public safety	-	97,195	335	-	-	-	-	-	-	97,530	-	-	-	-	-	-	-	97,530
Community schools	-	-	-	-	492	-	-	-	-	492	-	-	-	-	-	-	-	492
Sustainability	-	-	-	-	-	14,780	-	-	-	14,780	-	-	-	-	-	-	-	14,780
PERS benefits	-	-	-	-	-	-	-	-	14,665	14,665	-	-	-	-	-	-	-	14,665
Capital and land	-	-	-	66	-	-	-	-	-	66	-	1,374,613	-	87,626	(43,227)	549,163	1,968,175	1,968,241
Unassigned (deficit)	-	-	-	-	-	-	(80,753)	-	-	(80,753)	-	-	(269)	-	-	-	(269)	(81,022)
Total Fund Balances (Deficits)	32,593	97,195	335	66	492	14,780	(80,753)	2,031,828	14,665	2,111,201	543,792	1,374,613	(269)	107,046	(43,227)	549,163	2,531,118	4,642,319
Total Liabilities and Fund Balances	\$ 32,593	\$ 97,195	\$ 335	\$ 14,629	\$ 492	\$ 14,780	\$ 2,738	\$ 2,031,828	\$ 14,665	\$ 2,209,255	\$ 543,792	\$ 1,402,456	\$ -	\$ 107,046	\$ 230,317	\$ 549,163	\$ 2,832,774	\$ 5,042,029

City of Homer, Alaska
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits)

Year Ended December 31, 2014	Special Revenue Funds									Capital Project Funds							Total Nonmajor Governmental Funds	
	Library Donations	Fire Department Donations	Animal Shelter Donations	Retainage Reimbursements	Community Schools	Sustainability	Non-capital Projects	Permanent Fund	PERS Funding	Total Special Revenue Funds	HART Trails	Depreciation Reserves	Land Reserve	Energy Revolving Loan	City Facilities	Fleet Reserve Allocation		Total Capital Project Funds
Revenues																		
Sales taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 124,744	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 124,744	\$ 124,744
Intergovernmental	-	-	-	-	-	-	11,286	-	-	11,286	-	-	-	1,218,781	-	-	1,218,781	1,230,067
Investment income	8	4	-	-	-	-	-	80,723	26	80,761	1,391	3,798	-	476	1,469	-	7,134	87,895
Donations	61	9,128	335	-	-	-	-	-	-	9,524	-	-	-	-	-	-	-	9,524
Other	-	-	-	-	-	-	7,146	-	-	7,146	-	6,180	-	-	-	16,874	23,054	30,200
Total Revenues	69	9,132	335	-	-	-	18,432	80,723	26	108,717	126,135	9,978	-	-	1,219,257	18,343	1,373,713	1,482,430
Expenditures																		
Current:																		
General government	-	-	-	-	-	-	-	-	-	-	10,386	29,483	-	-	53,923	11,879	105,671	105,671
Public safety	-	-	-	-	-	-	9,356	-	-	9,356	-	-	-	-	-	-	-	9,356
Public works	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Community services	-	-	-	-	400	-	-	14,926	-	15,326	-	-	-	-	-	-	-	15,326
Parks and recreation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	2,691	-	-	2,691	13,579	295,657	-	-	1,365,150	34,782	1,709,168	1,711,859
Total Expenditures	-	-	-	-	400	-	12,047	14,926	-	27,373	23,965	325,140	-	-	1,419,073	46,661	1,814,839	1,842,212
Excess of Revenues Over (Under)																		
Expenditures	69	9,132	335	-	(400)	-	6,385	65,797	26	81,344	102,170	(315,162)	-	-	(199,816)	(28,318)	(441,126)	(359,782)
Other Financing Sources																		
Transfers in	-	-	-	-	-	-	-	-	-	-	-	10,000	-	31,003	21,881	-	62,884	62,884
Net Change in Fund Balances	69	9,132	335	-	(400)	-	6,385	65,797	26	81,344	102,170	(305,162)	-	31,003	(177,935)	(28,318)	(378,242)	(296,898)
Fund Balances (Deficits), beginning, as restated	32,524	88,063	-	66	892	14,780	(87,138)	1,966,031	14,639	2,029,857	441,622	1,679,775	(269)	76,043	134,708	577,481	2,909,360	4,939,217
Fund Balances (Deficits), ending	\$ 32,593	\$ 97,195	\$ 335	\$ 66	\$ 492	\$ 14,780	\$ (80,753)	\$ 2,031,828	\$ 14,665	\$ 2,111,201	\$ 543,792	\$ 1,374,613	\$ (269)	\$ 107,046	\$ (43,227)	\$ 549,163	\$ 2,531,118	\$ 4,642,319

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

<i>December 31,</i>	2014	2013
Assets		
Cash and investments	\$ 386,625	\$ 3,569,630
Receivables		
Property taxes - delinquent, net of allowance for doubtful accounts of \$5,235 (\$6,866 in 2013)	77,008	112,310
Sales taxes	759,645	768,292
Assessments	407,314	348,605
Other, net of allowance for doubtful accounts of \$29,204 (\$80,996 in 2013)	37,262	102,588
Total Receivables	1,281,229	1,331,795
Due from other funds	5,240,998	1,963,406
Interfund loan receivable	300,000	-
Inventory	52,312	76,245
Prepaid items	234,289	206,415
Total Assets	\$ 7,495,453	\$ 7,147,491
Liabilities		
Accounts payable	\$ 213,661	\$ 182,458
Accrued payroll and related liabilities	196,132	248,497
Unearned revenue	5,414	194,674
Customer deposits	16,204	16,602
Total Liabilities	431,411	642,231
Deferred Inflows		
Deferred property taxes	78,695	108,871
Deferred assessments	416,314	348,605
Total Deferred Inflows	495,009	457,476
Total Liabilities and Deferred Inflows	926,420	1,099,707
Fund Balance		
Restricted - Special service district	76,421	41,245
Nonspendable	586,601	282,660
Assigned - PERS benefits	171,314	171,314
Unassigned	5,734,697	5,552,565
Total Fund Balance	6,569,033	6,047,784
Total Liabilities, Deferred Inflows and Fund Balance	\$ 7,495,453	\$ 7,147,491

City of Homer, Alaska

General Fund

Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual

Year Ended December 31,	2014			2013
	Budget	Actual	Variance	Actual
Revenues				
Taxes:				
Property taxes	\$ 3,047,880	\$ 3,119,599	\$ 71,719	\$ 3,209,009
Sales taxes	4,953,526	4,993,941	40,415	4,872,983
Penalties and interest	18,000	2,368	(15,632)	11,850
Total taxes	8,019,406	8,115,908	96,502	8,093,842
Licenses and permits	33,300	27,931	(5,369)	35,706
Intergovernmental:				
Revenue - sharing	341,000	341,037	37	341,161
State PERS relief	480,159	1,253,205	773,046	630,058
Utility cooperative	49,000	26,845	(22,155)	49,343
Alcohol beverage tax	22,000	24,350	2,350	22,450
Public safety	840,410	859,073	18,663	782,674
Library grant	6,500	7,558	1,058	278
Public works	34,000	68,000	34,000	-
Other grants	13,000	-	(13,000)	600
Total intergovernmental	1,786,069	2,580,068	793,999	1,826,564
Charges for services:				
Administrative services	1,482,726	1,482,726	-	1,320,955
Ambulance services	175,000	203,253	28,253	194,877
Fire contracts	70,000	68,681	(1,319)	70,800
Camping fees	140,000	156,574	16,574	140,960
Rents and leases	7,000	30	(6,970)	9,000
Airport services	141,000	126,774	(14,226)	137,177
Community school fees	33,000	40,280	7,280	33,565
Miscellaneous services	55,600	46,733	(8,867)	84,175
Total charges for services	2,104,326	2,125,051	20,725	1,991,509
Special assessments	-	59,740	59,740	52,875

City of Homer, Alaska
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual, continued

<i>Year Ended December 31,</i>	2014			2013
	Budget	Actual	Variance	Actual
Revenues, continued				
Investment income (loss)	\$ 27,000	\$ 30,830	\$ 3,830	\$ (108,152)
Fines and forfeitures	10,000	20,142	10,142	10,469
Total Revenues	11,980,101	12,959,670	979,569	11,902,813
Expenditures				
General government:				
City council/mayor:				
Salaries and benefits	4,910	5,194	(284)	4,757
Supplies	2,500	1,779	721	2,001
Other services and charges	365,340	365,522	(182)	366,983
Total city council/mayor	372,750	372,495	255	373,741
City clerk:				
Salaries and benefits	349,533	377,114	(27,581)	335,383
Supplies	3,900	2,277	1,623	2,946
Other services and charges	56,884	41,154	15,730	40,292
Total city clerk	410,317	420,545	(10,228)	378,621
City manager:				
Salaries and benefits	228,905	262,099	(33,194)	231,333
Supplies	4,000	4,110	(110)	4,209
Other services and charges	30,135	21,682	8,453	16,147
Total city manager	263,040	287,891	(24,851)	251,689
Administrative services:				
Salaries and benefits	1,197,718	1,297,006	(99,288)	1,195,124
Supplies	10,750	7,802	2,948	8,515
Other services and charges	386,973	287,506	99,467	246,543
Total administrative services	1,595,441	1,592,314	3,127	1,450,182

City of Homer, Alaska
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual, continued

<i>Year Ended December 31,</i>	2014			2013
	Budget	Actual	Variance	Actual
Expenditures, continued				
General government, continued:				
Planning and zoning/property management:				
Salaries and benefits	\$ 435,847	\$ 465,374	\$ (29,527)	\$ 412,429
Supplies	2,900	1,502	1,398	1,588
Other services and charges	28,102	20,759	7,343	20,611
Total planning and zoning/ property management	466,849	487,635	(20,786)	434,628
City hall complex:				
Supplies	22,300	12,330	9,970	21,163
Other services and charges	115,721	222,552	(106,831)	111,250
Total city hall complex	138,021	234,882	(96,861)	132,413
Non-departmental - salaries and benefit	-	111,878	(111,878)	141,655
Total general government	3,246,418	3,507,640	(261,222)	3,162,929
Public safety:				
Police department:				
Salaries and benefits	2,213,529	2,410,638	(197,109)	2,162,510
Supplies	43,350	43,713	(363)	32,159
Other services and charges	309,819	310,699	(880)	313,455
Total police department	2,566,698	2,765,050	(198,352)	2,508,124
Jail:				
Salaries and benefits	564,750	575,346	(10,596)	573,037
Supplies	27,500	32,443	(4,943)	37,979
Other services and charges	125,695	120,620	5,075	111,245
Total jail	717,945	728,409	(10,464)	722,261
Animal control:				
Supplies	13,700	8,379	5,321	24,631
Other services and charges	148,916	144,638	4,278	137,329
Total animal control	162,616	153,017	9,599	161,960

City of Homer, Alaska
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual, continued

<i>Year Ended December 31,</i>	2014			2013
	Budget	Actual	Variance	Actual
Expenditures, continued				
Public safety, continued:				
Emergency services:				
Salaries and benefits	\$ 746,989	\$ 807,465	\$ (60,476)	\$ 687,070
Supplies	50,500	35,296	15,204	40,446
Other services and charges	258,667	219,380	39,287	184,786
Total emergency services	1,056,156	1,062,141	(5,985)	912,302
Total public safety	4,503,415	4,708,617	(205,202)	4,304,647
Public works:				
Administration:				
Salaries and benefits	358,869	436,651	(77,782)	287,591
Supplies	6,350	8,445	(2,095)	8,207
Other services and charges	80,149	92,499	(12,350)	80,380
Total administration	445,368	537,595	(92,227)	376,178
Maintenance:				
Salaries and benefits	199,234	205,974	(6,740)	209,701
Supplies	18,250	13,483	4,767	17,300
Other services and charges	105,186	97,870	7,316	89,078
Total maintenance	322,670	317,327	5,343	316,079
Streets:				
Salaries and benefits	221,126	212,067	9,059	219,708
Supplies	183,000	168,334	14,666	183,389
Other services and charges	64,300	49,994	14,306	41,075
Total streets	468,426	430,395	38,031	444,172
Motor pool:				
Salaries and benefits	165,569	169,674	(4,105)	156,181
Supplies	116,910	99,004	17,906	101,492
Other services and charges	205,500	284,541	(79,041)	204,031
Total motor pool	487,979	553,219	(65,240)	461,704

City of Homer, Alaska

General Fund

Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual, continued

Year Ended December 31,	2014			2013
	Budget	Actual	Variance	Actual
Expenditures, continued				
Public works, continued:				
Engineer/inspector:				
Salaries and benefits	\$ 311,031	\$ 298,388	\$ 12,643	\$ 296,229
Supplies	17,000	14,575	2,425	14,397
Other services and charges	34,750	32,083	2,667	30,174
Total engineer/inspector	362,781	345,046	17,735	340,800
Total public works	2,087,224	2,183,582	(96,358)	1,938,933
Library:				
Salaries and benefits	629,359	644,773	(15,414)	575,921
Supplies	30,356	26,281	4,075	40,722
Other services and charges	189,093	176,601	12,492	154,995
Total library	848,808	847,655	1,153	771,638
Airport:				
Salaries and benefits	61,457	89,164	(27,707)	74,857
Supplies	25,000	20,295	4,705	25,694
Other services and charges	125,948	111,843	14,105	94,558
Total airport	212,405	221,302	(8,897)	195,109
Parks and recreation:				
Salaries and benefits	259,149	244,158	14,991	239,333
Supplies	45,800	40,933	4,867	36,923
Other services and charges	124,980	124,120	860	89,574
Total parks and recreation	429,929	409,211	20,718	365,830
Community services:				
Community service contributions:				
Museum	66,500	69,000	(2,500)	69,054
Homer Foundation Non-Profit	19,000	19,000	-	19,000
Tidal energy project	-	8,916	(8,916)	-
Other	14,850	15,050	(200)	14,631
Total community service contributions	100,350	111,966	(11,616)	102,685

City of Homer, Alaska

General Fund

Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual, continued

Year Ended December 31,	2014			2013
	Budget	Actual	Variance	Actual
Expenditures, continued				
Community services, continued:				
Community schools:				
Salaries and benefits	\$ 105,474	\$ 102,529	\$ 2,945	\$ 100,387
Supplies	3,000	2,534	466	1,752
Other services and charges	30,106	20,478	9,628	21,977
Total community schools	138,580	125,541	13,039	124,116
Total community services	238,930	237,507	1,423	226,801
Debt service on loans:				
Principal	41,478	45,149	(3,671)	43,361
Interest	58,346	54,675	3,671	56,463
Total debt service	99,824	99,824	-	99,824
Total Expenditures	11,666,953	12,215,338	(548,385)	11,065,711
Excess of Revenues Over Expenditures	313,148	744,332	431,184	837,102
Other Financing Uses - transfers out	(313,080)	(223,083)	89,997	(877,930)
Net Change in Fund Balance	\$ 68	521,249	\$ 521,181	(40,828)
Fund Balance, beginning		6,047,784		6,088,612
Fund Balance, ending		\$ 6,569,033		\$ 6,047,784

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

<i>Year Ended December 31, 2014</i>	Budget	Actual	Variance
Revenues			
Sales taxes	\$ 1,200,000	\$ 1,247,502	\$ 47,502
Intergovernmental:			
Capital grants	-	302,864	302,864
State of Alaska PERS relief	112,810	315,140	202,330
Total intergovernmental	112,810	618,004	505,194
Charges for services:			
Water charges and connection fees	1,768,622	1,951,517	182,895
Sewer charges and connection fees	1,926,141	1,671,810	(254,331)
Total charges for services	3,694,763	3,623,327	(71,436)
Water and sewer special assessments		438,088	438,088
Investment income	-	3,845	3,845
Other	180,499	37,511	(142,988)
Total Revenues	5,188,072	5,968,277	780,205
Expenditures			
Water:			
Pumping system	101,262	63,396	37,866
Treatment plant and operations testing	568,708	560,888	7,820
Distribution system and reservoir	330,117	394,190	(64,073)
Water meters	139,995	132,675	7,320
Water hydrants	180,499	153,700	26,799
Adminstration	668,079	978,568	(310,489)
Total water	1,988,660	2,283,417	(294,757)
Sewer:			
Pumping system	839,949	889,621	(49,672)
Collection system	175,919	157,053	18,866
Administration	670,265	751,554	(81,289)
Total sewer	1,686,133	1,798,228	(112,095)
Debt service:			
Principal	859,226	812,933	46,293
Interest	194,647	186,987	7,660
Debt deobligated	-	1,580,014	(1,580,014)
Total debt service	1,053,873	2,579,934	(1,526,061)
Capital outlay	-	671,683	(671,683)
Total Expenditures	4,728,666	7,333,262	(2,604,596)
Excess of Revenues Over (Under) Expenditures	459,406	(1,364,985)	(1,824,391)
Other Financing Sources (Uses)			
Transfers in	-	180,499	180,499
Transfers out	(20,300)	(20,300)	-
Change in Fund Balance	\$ 439,106	(1,204,786)	\$ (1,643,892)
Fund Balance, beginning		3,012,653	
Fund Balance, ending		\$ 1,807,867	

City of Homer, Alaska
Utility Special Revenue Fund
Combining Balance Sheet

<i>December 31, 2014</i>	Utility Operations	HAWSP Debt Service	Utility Capital Projects	Utility Reserves	Total Utility Fund
Assets					
Cash and investments	\$ 2,692,066	\$ (4,371,033)	\$ (1,034,427)	\$ 4,093,577	\$ 1,380,183
Receivables					
Accounts	185,523	-	-	-	185,523
Sales taxes	-	189,919	-	-	189,919
Assessments	-	4,814,314	-	-	4,814,314
Total Receivables	185,523	5,004,233	-	-	5,189,756
Inventory	254,382	-	-	-	254,382
Prepaid items	31,712	-	-	-	31,712
Total Assets	\$ 3,163,683	\$ 633,200	\$ (1,034,427)	\$ 4,093,577	\$ 6,856,033
Liabilities					
Accounts payable	\$ 135,560	\$ -	\$ -	\$ 13,246	\$ 148,806
Accrued payroll and related liabilities	40,821	-	-	-	40,821
Customer deposits	43,652	-	-	-	43,652
Total Liabilities	220,033	-	-	13,246	233,279
Deferred Inflows					
Deferred assessments	-	4,814,887	-	-	4,814,887
Total Liabilities and Deferred Inflows	220,033	4,814,887	-	13,246	5,048,166
Fund Balances (Deficits)					
Nonspendable - inventory and prepaid items	286,094	-	-	-	286,094
Assigned - water and sewer	2,657,556	(4,181,687)	(1,034,427)	4,080,331	1,521,773
Total Fund Balances (Deficits)	2,943,650	(4,181,687)	(1,034,427)	4,080,331	1,807,867
Total Liabilities, Deferred Inflows and Fund Balances (Deficits)	\$ 3,163,683	\$ 633,200	\$ (1,034,427)	\$ 4,093,577	\$ 6,856,033

City of Homer, Alaska
Utility Special Revenue Fund
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances (Deficits)

<i>Year Ended December 31, 2014</i>	Utility Operations	HAWSP Debt Service	Utility Capital Projects	Utility Reserves	Total Utility Fund
Revenues					
Sales taxes	\$ -	\$ 1,247,502	\$ -	\$ -	\$ 1,247,502
Intergovernmental:					
Capital grants	-	-	302,864	-	302,864
State of Alaska PERS relief	315,140	-	-	-	315,140
Total intergovernmental	315,140	-	302,864	-	618,004
Charges for services:					
Water charges and connection fees	1,951,517	-	-	-	1,951,517
Sewer charges and connection fees	1,671,810	-	-	-	1,671,810
Total charges for services	3,623,327	-	-	-	3,623,327
Water and sewer special assessments	-	438,088	-	-	438,088
Investment income	3,845	-	-	-	3,845
Other	37,511	-	-	-	37,511
Total Revenues	3,979,823	1,685,590	302,864	-	5,968,277
Expenditures					
Water:					
Pumping system	63,396	-	-	-	63,396
Treatment plant and operations testing	560,888	-	-	-	560,888
Distribution system and reservoir	394,190	-	-	-	394,190
Water meters	132,675	-	-	-	132,675
Water hydrants	153,700	-	-	-	153,700
Administration	759,332	219,236	-	-	978,568
Total water	2,064,181	219,236	-	-	2,283,417
Sewer:					
Pumping system	889,621	-	-	-	889,621
Collection system	157,053	-	-	-	157,053
Administration	751,554	-	-	-	751,554
Total sewer	1,798,228	-	-	-	1,798,228
Debt service:					
Principal	-	812,933	-	-	812,933
Interest	497	186,490	-	-	186,987
Debt deobligated	-	1,580,014	-	-	1,580,014
Total debt service	497	2,579,437	-	-	2,579,934
Capital outlay	-	2,975	553,356	115,352	671,683
Total Expenditures	3,862,906	2,801,648	553,356	115,352	7,333,262
Excess of Revenues Over (Under)					
Expenditures	116,917	(1,116,058)	(250,492)	(115,352)	(1,364,985)
Other Financing Sources (Uses)					
Eliminating transfers	(213,184)	(277,421)	277,421	213,184	-
Transfers in	180,499	-	-	-	180,499
Transfers out	(20,300)	-	-	-	(20,300)
Change in Fund Balances	63,932	(1,393,479)	26,929	97,832	(1,204,786)
Fund Balances (Deficits), beginning	2,879,718	(2,788,208)	(1,061,356)	3,982,499	3,012,653
Fund Balances (Deficits), ending	\$ 2,943,650	\$ (4,181,687)	\$ (1,034,427)	\$ 4,080,331	\$ 1,807,867

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

<i>December 31,</i>	2014	2013
Assets		
Current Assets		
Cash and investments	\$ 1,588,696	\$ 1,779,297
Receivables:		
Accounts, net of allowance for doubtful accounts of \$28,134 (\$40,652 in 2013)	187,104	211,923
State and federal grants	3,660,958	1,109,211
Inventory	14,431	15,647
Prepaid items	48,251	48,607
Total Current Assets	5,499,440	3,164,685
Restricted Cash and Investments		
Unspent bond proceeds	-	4,039,656
Bond reserves	293,697	293,697
Total Restricted Cash and Investments	293,697	4,333,353
Property, Plant and Equipment		
Property, plant and equipment in service	55,754,910	53,906,678
Land and land improvements	15,254,041	15,254,041
Construction work in progress	10,577,961	4,639,411
Less accumulated depreciation	(32,340,856)	(30,909,925)
Net Property, Plant and Equipment	49,246,056	42,890,205
Total Assets	\$ 55,039,193	\$ 50,388,243
Liabilities		
Current Liabilities		
Accounts payable	\$ 1,024,248	\$ 644,931
Accrued payroll and related liabilities	39,368	36,303
Accrued leave	14,398	14,398
General obligation bonds payable	130,000	130,000
Prepaid berth rentals and deposits	837,534	786,897
Unearned lease revenue	18,000	18,000
Unearned grant revenue	55,657	21,710
Interfund loan	3,291	3,291
Total Current Liabilities	2,122,496	1,655,530
Noncurrent Liabilities, net of current portion:		
Unearned lease revenue	234,000	252,000
Accrued leave	184,781	171,617
Interfund loan	316,129	19,421
General obligation bonds payable including bond premium	3,920,054	4,074,780
Total Noncurrent Liabilities	4,654,964	4,517,818
Total Liabilities	6,777,460	6,173,348
Net Position		
Net investment in capital assets	45,489,699	43,018,778
Unrestricted	2,772,034	1,196,117
Total Net Position	48,261,733	44,214,895
Total Liabilities and Net Position	\$ 55,039,193	\$ 50,388,243

City of Homer, Alaska
Port of Homer Enterprise Fund
Statement of Revenues, Expenses and Changes in Net Position

<i>Year Ended December 31,</i>	2014	2013
Operating Revenues		
Harbor	\$ 2,347,880	\$ 2,235,358
Main dock	362,070	398,581
Fish dock	553,100	731,751
Deep water dock	467,584	652,166
Rents, leases and storage	459,939	425,168
Fish grinder	7,279	8,815
Total Operating Revenues	4,197,852	4,451,839
Operating Expenses		
Harbor	1,564,027	1,448,251
Main dock	86,475	74,159
Fish dock	632,669	628,882
Deep water dock	141,670	136,225
Fish grinder	403	12,226
Administration	1,484,844	1,345,200
Depreciation	1,489,777	1,386,053
Total Operating Expenses	5,399,865	5,030,996
Operating Loss	(1,202,013)	(579,157)
Nonoperating Revenues (Expenses)		
Investment income	28,690	9,799
State PERS relief	299,245	134,811
Other income	129,956	289,765
Cruise ship tax	450	-
Fish tax	58,621	-
Miscellaneous repairs	(829)	(161,394)
Bond issuance costs	-	(37,807)
Net Nonoperating Revenues (Expenses)	516,133	235,174
Loss before Capital Contributions and Transfers	(685,880)	(343,983)
Capital contributions	4,732,718	3,523,302
Transfers out	-	(128,000)
Change in Net Position	4,046,838	3,051,319
Net Position, beginning	44,214,895	41,163,576
Net Position, ending	48,261,733	\$ 44,214,895

City of Homer, Alaska
Port of Homer Enterprise Fund
Statement of Cash Flows

<i>Year Ended December 31,</i>	2014	2013
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 4,418,382	\$ 4,880,427
Payments to suppliers	(1,726,502)	(2,076,537)
Payments to employees	(1,487,223)	(1,454,879)
Net cash flows from operating activities	1,204,657	1,349,011
Cash Flows from (for) Noncapital Financing Activities		
Transfer out	-	(128,000)
Nonoperating grants, cruise ship tax, and fish tax received	59,071	117,149
Net cash flows from (for) noncapital financing activities	59,071	(10,851)
Cash Flows from (for) Capital and Related Financing Activities		
Principal paid on long-term debt	(130,000)	-
Interest paid on long-term debt	(158,650)	-
Proceeds from bond issuance	-	4,166,973
Capital contributions received	2,180,971	3,076,932
Acquisition of property, plant and equipment	(7,711,704)	(4,016,361)
Increase (decrease) in interfund loan	296,708	(3,291)
Net cash flows from capital and related financing activities	(5,522,675)	3,224,253
Cash Flows from Investing Activities		
Investment income received	28,690	-
Net Increase (Decrease) in Cash and Investments	(4,230,257)	4,562,413
Cash and Investments, beginning	6,112,650	1,550,237
Cash and Investments, ending	\$ 1,882,393	\$ 6,112,650

City of Homer, Alaska
Port of Homer Enterprise Fund
Statement of Cash Flows

<i>Year Ended December 31,</i>	2014	2013
Reconciliation of Operating Loss to Net Cash		
Flows from Operating Activities		
Operating loss	\$ (1,202,013)	\$ (579,157)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation	1,489,777	1,386,053
Noncash expense - PERS relief	299,245	134,811
Increase (decrease) in allowance for doubtful accounts	(12,518)	4,579
Amortization of deferred lease revenue	(18,000)	(18,000)
Miscellaneous nonoperating revenues and expense, net	129,127	138,170
(Increase) decrease in assets:		
Accounts receivable	37,337	129,043
Inventory	1,216	(935)
Prepaid items	356	(626)
Increase (decrease) in liabilities:		
Accounts payable	379,317	52,249
Accrued payroll and related liabilities	3,065	200
Unearned grant revenue	33,947	21,710
Accrued leave	13,164	30,975
Prepaid berth rentals and deposits	50,637	49,939
Net Cash Flows from Operating Activities	\$ 1,204,657	\$ 1,349,011
Interest capitalized	\$ 133,924	\$ -

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

<i>December 31, 2014</i>	Health Insurance	Leave Cash-out	Total
Assets			
Cash and investments	\$ 905,353	\$ 7,386	\$ 912,739
Prepaid items	123,154	-	123,154
Total Assets	\$ 1,028,507	\$ 7,386	\$ 1,035,893
Liabilities			
Current Liabilities			
Accounts payable	\$ 155,536	\$ -	\$ 155,536
Net Position			
Unrestricted	872,971	7,386	880,357
Total Liabilities and Net Position	\$ 1,028,507	\$ 7,386	\$ 1,035,893

City of Homer, Alaska

Internal Service Funds

Combining Statement of Revenues, Expenses and Changes in Net Position

<i>Year Ended December 31, 2014</i>	Health Insurance	Leave Cash-out	Total
Operating Revenues			
Interfund charges	\$ 1,818,830	\$ 173,932	\$ 1,992,762
Employee health contributions	217,613	-	217,613
Refunds and reinsurance	394,578	-	394,578
Total Operating Revenues	2,431,021	173,932	2,604,953
Operating Expenses			
Personnel	-	151,406	151,406
Claims	1,216,168	-	1,216,168
Insurance premiums	301,444	-	301,444
Administration	93,418	-	93,418
Employee incentive fees	68,287	-	68,287
Total Operating Expenses	1,679,317	151,406	1,830,723
Change in Net Position	751,704	22,526	774,230
Net Position (Deficit), beginning	121,267	(15,140)	106,127
Net Position, ending	\$ 872,971	\$ 7,386	\$ 880,357

City of Homer, Alaska
Internal Service Funds
Combining Statement of Cash Flows

<i>Year Ended December 31, 2014</i>	Health Insurance	Leave Cash-out	Total
Cash Flows from Operating Activities			
Receipts from interfund services provided and employee contributions	\$ 2,036,443	\$ 173,932	\$ 2,210,375
Receipts for refunds and reinsurance payments	394,578	-	394,578
Payments to employees	(68,287)	(151,406)	(219,693)
Payments for insurance claims and administration	(1,829,755)	-	(1,829,755)
Net cash flows from operating activities	532,979	22,526	555,505
Cash Flows for Noncapital Financing Activities			
Decrease in due to other funds	-	(15,140)	(15,140)
Net Increase in Cash and Investments	532,979	7,386	540,365
Cash and Investments, beginning	372,374	-	372,374
Cash and Investments, ending	\$ 905,353	\$ 7,386	\$ 912,739
Reconciliation of Operating Income (Loss) to Net Cash			
Flows from for Operating Activities			
Operating income	\$ 751,704	\$ 22,526	\$ 774,230
Adjustments to reconcile operating income to net cash flows from operating activities:			
Increase in prepaid items	(123,154)	-	(123,154)
Decrease in accounts payable	(95,571)	-	(95,571)
Net Cash Flows from Operating Activities	\$ 532,979	\$ 22,526	\$ 555,505

City of Homer, Alaska
Health Insurance Internal Service Fund
Statement of Net Position

<i>December 31,</i>	2014	2013
Assets		
Cash and investments	\$ 905,353	\$ 372,374
Prepaid items	123,154	-
Total Assets	\$ 1,028,507	\$ 372,374
Liabilities		
Current Liabilities		
Accounts payable	\$ 155,536	\$ 251,107
Net Position		
Unrestricted	872,971	121,267
Total Liabilities and Net Position	\$ 1,028,507	\$ 372,374

City of Homer, Alaska
Health Insurance Internal Service Fund
Statement of Revenues, Expenses and Changes in Net Position

<i>Year Ended December 31,</i>	2014	2013
Operating Revenues		
Interfund insurance charges	\$ 1,818,830	\$ 1,866,304
Employee health contributions	217,613	144,483
Refunds and reinsurance	394,578	-
Total Operating Revenues	2,431,021	2,010,787
Operating Expenses		
Claims	1,216,168	1,978,754
Insurance premiums	301,444	394,881
Administration	93,418	89,059
Employee incentive fees	68,287	-
Total Operating Expenses	1,679,317	2,462,694
Operating Income (Loss)	751,704	(451,907)
Transfers in	-	800,000
Change in Net Position	751,704	348,093
Net Position (Deficit), beginning	121,267	(226,826)
Net Position, ending	\$ 872,971	\$ 121,267

City of Homer, Alaska
Health Insurance Internal Service Fund
Statement of Cash Flows

<i>Year Ended December 31,</i>	2014	2013
Cash Flows from (for) Operating Activities		
Receipts from interfund services provided and employee contributions	\$ 2,036,443	\$ 2,010,787
Receipt of refunds and reinsurance payments	394,578	-
Payments for insurance, claims, and administration	(1,829,755)	(2,340,022)
Payments to employees for incentive fees	(68,287)	-
Net cash flows from (for) operating activities	532,979	(329,235)
Cash Flows from Noncapital Financing Activities		
Transfers in	-	800,000
Decrease in due to other funds	-	(98,391)
Net cash flows from noncapital financing activities	-	701,609
Net Increase in Cash and Investments	532,979	372,374
Cash and Investments, beginning	372,374	-
Cash and Investments, ending	\$ 905,353	\$ 372,374
Reconciliation of Operating Income (Loss) to Net Cash		
Flows from (for) by Operating Activities		
Operating income (loss)	\$ 751,704	\$ (451,907)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:		
Increase in prepaid items	(123,154)	-
Increase (decrease) in accounts payable	(95,571)	122,672
Net Cash Flows from (for) Operating Activities	\$ 532,979	\$ (329,235)

City of Homer, Alaska
Leave Cash-out Internal Service Fund
Statement of Net Position

<i>December 31,</i>	2014	2013
Assets		
Cash and investments	\$ 7,386	\$ -
Liabilities		
Current Liabilities - due to other funds	\$ -	\$ 15,140
Net Position		
Unrestricted (deficit)	7,386	(15,140)
Total Liabilities and Net Position	\$ 7,386	\$ -

City of Homer, Alaska
Leave Cash-out Internal Service Fund
Statement of Revenues, Expenses and Changes in Net Position

<i>Year Ended December 31,</i>	2014	2013
Operating Revenues - interfund leave cash-out charges	\$ 173,932	\$ 231,216
Operating Expenses - salaries and benefits	151,406	250,228
Change in Net Position	22,526	(19,012)
Net Position (Deficit), beginning	(15,140)	3,872
Net Position (Deficit), ending	\$ 7,386	\$ (15,140)

City of Homer, Alaska
Leave Cash-out Internal Service Fund
Statement of Cash Flows

<i>Year Ended December 31,</i>	2014	2013
Cash Flows from (for) Operating Activities		
Receipts from interfund services provided	\$ 173,932	\$ 231,216
Payments to employees	(151,406)	(250,228)
Net cash flows from (for) operating activities	22,526	(19,012)
Cash Flows from (for) Noncapital Financing Activities		
Increase (decrease) in due to other funds	(15,140)	15,140
Net Increase (Decrease) in Cash and Investments	7,386	(3,872)
Cash and Investments, beginning	-	3,872
Cash and Investments, ending	\$ 7,386	\$ -
Reconciliation of Operating Income (Loss) to Net Cash		
Flows from (for) Operating Activities		
Operating income (loss)	\$ 22,526	\$ (19,012)

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Schedule of State Financial Assistance

City of Homer, Alaska
Schedule of State Financial Assistance
Year Ended December 31, 2014

State Grant Title	Grant Number	Total Grant Award	January 1, 2014 Receivable (Unearned)	State Share of Expenditures	State Receipts	December 31, 2014 Receivable (Unearned)
DEPARTMENT OF ADMINISTRATION						
* PERS Relief	N/A	\$ 1,867,581	\$ -	\$ 1,867,591	\$ 1,867,591	\$ -
DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT						
Karen Hornaday Park Improvements	11-DC-234	250,000	81,657	-	81,657	-
Fire Department Equipment Upgrades	15-DC-060	350,000	-	53,236	-	53,236
Spit Trail Completion/Harbor Pathway	09-DC-210	150,000	133,472	-	133,472	-
* Port and Harbor Building & Skyline Fire Station	14-RR-052	2,000,000	76,492	1,918,049	967,722	1,026,819
* Cruise Ship Dock and Passenger Facility Improvements	12-DC-609	6,000,000	1,121,027	764,548	1,571,658	313,917
* Revenue sharing	N/A	341,037	-	341,037	341,037	-
Total Department of Commerce, Community, and Economic Development			1,412,648	3,076,870	3,095,546	1,393,972
DEPARTMENT OF REVENUE						
Fish Tax	N/A	54,283	-	54,283	54,283	-
Fish Business Landing Tax	N/A	4,338	-	4,338	4,338	-
Electric and Telephone Co-op Tax	N/A	26,845	-	26,845	26,845	-
Liquor Licenses	N/A	24,350	-	24,350	24,350	-
Total Department of Revenue			-	109,816	109,816	-
DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT						
Public Library Assistance	PLA-14-738-32	6,600	(6,322)	6,322	-	-
Public Library Assistance	PLA-15-738-32	6,650	-	1,236	6,650	(5,414)
Total Department of Education and Early Development			(6,322)	7,558	6,650	(5,414)
DEPARTMENT OF ENVIRONMENTAL CONSERVATION						
East End Road Sewer Main Extension	40905	41,776	41,776	-	41,776	-
DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES						
* Homer Spit Pathway (Note 2)	54597	2,500,000	-	2,471,031	2,500,000	(28,969)
* Homer Spit Pathway - Donated Roads	54597	3,160,000	-	3,160,000	3,160,000	-
Click it or Ticket Enforcement Mobilization	N/A	1,588	-	1,588	1,588	-
* Homer Harbor Improvements	14-HG-001	2,855,018	189,850	2,433,726	175,500	2,448,076
Total Department of Transportation			189,850	8,066,345	5,837,088	2,419,107
Total State Financial Assistance			\$ 1,637,952	\$ 13,128,180	\$ 10,958,467	\$ 3,807,665

* Major Program

City of Homer, Alaska

Notes to the Schedule of State Financial Assistance Year Ended December 31, 2014

1. Basis of Presentation

The accompanying Schedule of State Financial Assistance include the grant activity of City of Homer and are presented on the modified accrual basis of accounting. The information in the schedules is presented in accordance with the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.

2. Homer Spit Pathway

In 2014, the City discovered that it had failed to report expenditures associated with this program on the Schedule of State Financial Assistance. The 2014 Schedule of State Financial Assistance is reporting \$2,471,030 in expenditures. Of this amount, \$1,872,622 was actually incurred in 2013. This amount has been included in the 2014 expenditure population for major program testing.

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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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Financial Trends

These tables contain trend information that may assist the reader in assessing the City's current financial performance by placing it in historical perspective.

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Revenue Capacity

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Debt Capacity

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Demographic and Economic Information

These tables offer economic and demographic indicators that are commonly used for financial analysis and that can inform one's understanding of the City's present and ongoing financial status.

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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.

Table 15	City Employees by Function / Program	109
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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)

<i>Fiscal Year</i>	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Governmental Activities										
Net investment in										
capital assets	\$ 58,894,875	\$ 66,235,552	\$ 63,752,627	\$ 63,616,675	\$ 62,427,809	\$ 43,615,673	\$ 43,848,027	\$ 43,879,310	\$ 42,266,274	\$ 39,633,946
Restricted	7,614,492	7,737,510	6,691,992	7,284,209	5,610,035	3,350,187	4,334,477	3,350,187	3,601,605	3,768,592
Unrestricted	16,187,864	8,085,027	15,644,941	15,774,292	16,833,035	10,482,882	8,149,368	6,014,887	4,932,592	3,919,540
Total Governmental										
Activities Net Position	\$ 82,697,231	\$ 82,058,089	\$ 86,089,560	\$ 86,675,176	\$ 84,870,879	\$ 57,448,742	\$ 56,331,872	\$ 53,244,384	\$ 50,800,471	\$ 47,322,078
Business-type Activities										
Net investment in										
capital assets	\$ 45,489,699	\$ 42,725,081	\$ 40,259,897	\$ 40,597,366	\$ 41,762,236	\$ 63,567,468	\$ 65,571,218	\$ 62,275,608	\$ 63,457,140	\$ 65,800,613
Restricted	-	293,697	-	-	-	4,347,509	7,677,436	7,736,778	3,583,803	2,870,245
Unrestricted	2,802,533	1,092,728	856,101	112,282	(186,693)	1,448,400	(1,289,199)	(806,158)	3,406,230	1,486,971
Total Business-type										
Activities Net Position	\$ 48,292,232	\$ 44,111,506	\$ 41,115,998	\$ 40,709,648	\$ 41,575,543	\$ 69,363,377	\$ 71,959,455	\$ 69,206,228	\$ 70,447,173	\$ 70,157,829
Primary government										
Net investment in										
capital assets	\$ 104,384,574	\$ 108,960,633	\$ 104,012,524	\$ 104,214,041	\$ 104,190,045	\$ 107,183,141	\$ 109,419,245	\$ 106,154,918	\$ 105,723,414	\$ 105,434,559
Restricted	7,614,492	8,031,207	6,691,992	7,284,209	5,610,035	7,697,696	12,011,913	11,086,965	7,185,408	6,638,837
Unrestricted	18,990,397	9,177,755	16,501,042	15,886,574	16,646,342	11,931,282	6,860,169	5,208,729	8,338,822	5,406,511
Total Primary Government										
Net Position	\$ 130,989,463	\$ 126,169,595	\$ 127,205,558	\$ 127,384,824	\$ 126,446,422	\$ 126,812,119	\$ 128,291,327	\$ 122,450,612	\$ 121,247,644	\$ 117,479,907

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
Governmental Activities Tax Revenues by Source
Last Ten Fiscal Years
(accrual basis of accounting)

Fiscal Year	Property Tax	Sales Tax	Total
2014	\$ 3,091,791	\$ 7,488,925	\$ 10,580,716
2013	3,224,520	7,307,475	10,531,995
2012	2,999,341	7,031,266	10,030,607
2011	2,999,341	7,031,266	10,030,607
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

Source: A2 pg 19

City of Homer, Alaska
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

<i>Fiscal Year</i>	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General Fund										
Nondspendable	\$ 586,601	\$ 282,660	\$ 256,265	\$ 244,317	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	76,421	-	-	-	-	-	-	-	-	-
Assigned	171,314	171,314	171,314	171,314	-	-	-	-	-	-
Unassigned	5,734,697	5,593,810	5,661,033	6,312,215	-	-	-	-	-	-
Total General Fund	\$ 6,569,033	\$ 6,047,784	\$ 6,088,612	\$ 6,727,846	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Governmental Funds										
Nondspendable	\$ 305,514	\$ 290,498	\$ 250,313	\$ 334,666	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	7,538,071	6,467,413	6,691,992	7,284,209	-	-	-	-	-	-
Committed	2,031,828	1,966,031	1,648,032	-	-	-	-	-	-	-
Assigned	3,650,074	6,822,959	5,790,954	5,987,998	-	-	-	-	-	-
Unassigned	(362,435)	(1,825,321)	(62,591)	(97,653)	-	-	-	-	-	-
Total Other governmental Funds	\$ 13,163,052	\$ 13,721,580	\$ 14,318,700	\$ 13,509,220	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
General Fund										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ 255,883	\$ 297,291	\$ 353,901	\$ 296,910	\$ 260,274	\$ 280,743
Unreserved, designated:										
Interfund Loan Animal Shelter	-	-	-	-	-	200,000	250,000	300,000	350,000	400,000
PERS	-	-	-	-	171,314	171,314	171,314	171,314	-	-
Designated for subsequent year's expenditures	-	-	-	-	-	-	-	-	-	-
Undesignated	-	-	-	-	5,146,617	4,226,615	3,825,104	4,230,983	3,282,823	2,186,409
Total Unreserved General Fund	-	-	-	-	5,317,931	4,597,929	4,246,418	4,702,297	3,632,823	2,586,409
Total General Fund	-	-	-	-	5,573,814	4,895,220	4,600,319	4,999,207	3,893,097	2,867,152
Other Governmental Funds										
Reserved	-	-	-	-	5,929,657	4,367,506	4,334,477	3,350,187	3,601,605	3,768,592
Unreserved:										
Library	-	-	-	-	31,519	31,501	31,326	29,289	27,750	8,982
Fire Department	-	-	-	-	68,324	64,110	62,965	53,948	11,482	15,522
Animal Shelter	-	-	-	-	-	7,382	7,352	7,173	6,796	10,088
Community Schools	-	-	-	-	1,136	1,792	509	699	197	-
Sustainability Global Warming	-	-	-	-	14,774	15,257	15,162	107	-	-
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
Capital Project Deficit	-	-	-	-	-	(47,379)	(20,873)	(3,744)	(31,147)	(455,223)
Total Unreserved Other Governmental Funds	-	-	-	-	7,641,400	4,210,594	3,212,823	1,945,344	1,800,043	1,015,292
Total Other Governmental Funds	-	-	-	-	13,571,057	8,578,100	7,547,300	5,295,531	5,401,648	4,783,884
Total General Fund and Other Governmental Funds	\$ 19,732,085	\$ 19,769,364	\$ 20,407,312	\$ 20,237,066	\$ 19,144,871	\$ 13,473,320	\$ 12,147,619	\$ 10,294,738	\$ 9,294,745	\$ 7,651,036
Change in Fund Balances	(37,279)	(637,948)	170,246	1,092,195	2,031,354	1,325,701	1,852,881	999,993	1,643,709	1,567,558
Percentage of Change	-0.2%	-3.1%	0.8%	5.7%	11.9%	10.9%	18.0%	10.8%	21.5%	25.8%

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)

<i>Fiscal Year</i>	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues										
Property taxes	\$ 3,119,599	\$ 3,209,009	\$ 2,991,230	\$ 2,916,176	\$ 2,954,829	\$ 2,930,696	\$ 2,975,448	\$ 2,501,693	\$ 2,382,936	\$ 2,102,170
Sales taxes	7,488,925	7,307,475	7,031,266	7,059,404	6,613,640	5,361,109	6,334,758	6,173,478	5,670,638	5,119,528
Licenses and permits	27,931	35,706	22,248	25,040	22,965	19,614	26,219	43,765	46,096	42,717
Intergovernmental	4,428,139	10,472,084	3,573,807	4,779,839	2,937,975	1,854,305	1,778,519	1,873,233	2,247,343	3,740,329
Charges for services	5,748,378	5,414,421	5,246,446	5,202,621	5,139,533	2,629,639	2,337,323	2,382,465	2,136,838	2,183,048
Special assessments	497,828	296,699	329,958	308,497	415,625	110,543	127,876	14,802	11,180	15,462
Investment income	144,146	149,444	240,083	115,862	162,146	82,117	156,429	290,987	233,998	150,223
Fines and forfeitures	20,142	10,469	8,065	17,460	15,551	16,065	34,193	19,941	19,435	23,269
Contributions and donations	9,524	1,189	19,044	6,516	4,224	2,910	9,181	42,256	64,412	1,362,374
Legal settlement	-	-	-	-	266,027	1,150,878	-	-	740,404	-
Sale of property and equipment	-	-	-	-	4,917	4,869	499,189	-	-	-
Other	70,079	139,176	56,825	41,080	199,703	45,092	170,538	19,970	24,207	23,362
Total Revenues	21,554,691	27,035,672	19,518,972	20,472,495	18,737,135	14,207,837	14,449,673	13,362,590	13,577,487	14,762,482
Expenditures										
General government	3,706,787	3,251,596	3,533,983	3,639,834	3,010,375	3,380,193	2,964,905	2,585,147	2,220,086	2,689,530
Public safety	4,717,973	4,319,418	4,212,716	3,989,471	3,939,507	4,096,996	4,189,377	3,622,296	3,549,911	3,053,686
Public works	2,183,582	1,956,933	1,944,267	1,905,736	1,822,923	2,023,907	2,108,115	1,750,045	1,688,688	1,491,893
Library	847,655	771,638	707,603	705,152	716,824	724,150	681,983	593,027	449,289	374,932
Airport	221,302	195,109	209,859	216,035	201,118	230,934	228,720	196,710	179,504	146,221
Parks and recreation	409,211	383,439	347,107	299,631	377,280	359,683	422,251	384,697	367,027	338,359
Community services	252,833	7,800,998	899,357	586,195	261,435	266,144	321,970	235,831	211,894	582,677
Water	2,283,417	1,862,937	1,951,063	1,894,144	1,697,751	-	-	-	-	-
Sewer	1,798,228	1,773,753	1,745,959	1,650,640	1,647,605	-	-	-	-	-
Debt service:										
Principal retirement	858,082	854,981	876,324	1,017,807	1,049,248	57,934	470,615	608,431	655,016	513,640
Interest and fiscal charges	549,595	203,557	218,679	229,263	225,553	63,870	75,812	113,536	64,676	70,829
Debt deobligation	1,580,014	-	-	-	-	-	-	-	-	-
Capital outlay	2,462,387	5,243,705	4,267,539	5,540,169	2,265,965	1,612,185	1,103,044	2,421,941	5,153,413	4,043,157
Total Expenditures	21,871,066	28,618,064	20,914,456	21,674,077	17,215,584	12,815,996	12,566,792	12,511,661	14,539,504	13,304,924
Excess (Deficiency) of Revenues										
Over (Under) Expenditures	(316,375)	(1,582,392)	(1,395,484)	(1,201,582)	1,521,551	1,391,841	1,882,881	850,929	(962,017)	1,457,558
Special item - construction of gas pipeline	5,143,546	7,192,924	-	-	-	-	-	-	-	-
Other Financing Sources (Uses)										
Proceeds from long-term debt	3,550,020	8,809,368	1,565,730	2,162,442	534,728	14,536	-	-	2,146,601	-
Transfers in	243,383	327,412	1,359,935	1,440,006	434,460	413,609	2,183,992	2,499,222	2,160,007	2,498,261
Transfers out	(243,383)	(999,412)	(1,359,935)	(1,308,671)	(459,385)	(494,285)	(2,213,992)	(2,350,158)	(1,700,882)	(2,388,261)
Net Other Financing Sources (Uses)	3,550,020	8,137,368	1,565,730	2,293,777	509,803	(66,140)	(30,000)	149,064	2,605,726	110,000
Net Change in Fund Balance	\$ (1,909,901)	\$ (637,948)	\$ 170,246	\$ 1,092,195	\$ 2,031,354	\$ 1,325,701	\$ 1,852,881	\$ 999,993	\$ 1,643,709	\$ 1,567,558
Debt service as a % of noncapital expenditures	8.49%	4.54%	6.58%	7.70%	8.40%	1.06%	4.78%	7.37%	8.03%	7.65%

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

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
2005	\$ 399,827,162	\$ 26,893,341	\$ 426,720,503	4.50%	\$ 587,914,700	71.00%
2006	461,018,162	24,598,683	485,616,845	4.50%	646,448,500	72.58%
2007	489,448,562	22,811,263	512,259,825	4.50%	717,875,400	75.12%
2008	588,595,562	24,988,891	613,584,453	4.50%	777,118,400	71.36%
2009	631,527,262	31,030,146	662,557,408	4.50%	850,068,000	78.96%
2010	606,704,342	38,412,787	645,117,129	4.50%	850,068,600	77.94%
2011	603,338,212	25,118,151	628,456,363	4.50%	987,433,007	75.89%
2012	691,321,600	186,215,500	877,537,100	4.50%	983,993,300	89.18%
2013	615,478,812	25,948,461	641,427,273	4.50%	1,046,894,294	61.27%
2014	624,656,144	23,695,000	648,351,144	4.50%	1,046,894,294	61.93%

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	
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	
2009	4.50	2.30	4.50	0.00	(1)
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	
2013	4.50	2.30	4.50	0.00	
2014	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, 2014
and December 31, 2005

Owner	2014			2005		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Value
Homer Spit Properties, LLC	\$ 10,634,700	1	0.22	\$ 6,592,300	2	0.15
Lands End Acquisition Corp.	6,224,200	2	0.13	4,204,100	5	0.09
Alaska Growth Properties LLC	6,096,800	3	0.13	-		0.00
CGF Properties, Inc	4,517,800	4	0.10	2,256,000	9	0.05
Homer Hotels LLC	4,420,900	5	0.09	-		0.00
Moore Kenneth & Roseleen Trust	4,192,700	6	0.09	2,668,900	7	0.06
Wells Fargo (National Bank of AK)	4,143,700	7	0.09	3,382,696	6	0.08
Alaska USA Federal Credit Union	4,668,100	8	0.00			0.00
First National Bank Alaska	3,864,000	9	0.08			0.00
Valentin Caspaar LLC	3,451,700	10	0.07	2,382,700	8	0.05
ACS of the Northland Inc			0.00	10,629,557	1	0.24
Johnson John R & Judith E			0.00	5,483,200	3	0.12
Tulin Charles E & Helen			0.00	4,796,400	4	0.11
Maritime Helicopters			0.00		10	0.00
Harbor Enterprises			0.00	-		0.00
Ramos Jose & Maria			0.00	2,045,800		0.05
Total	\$ 52,214,600		100%	\$ 44,441,653		100%

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

<i>Fiscal Year Ended December 31,</i>	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collected in Subsequent Years Amount	Total Tax Collected to Date	
		Amount	% of Levy		Amount	% of Levy
2005	\$ 2,013,518	\$ 1,989,890	98.83%	\$ 23,628	\$ 2,013,518	98.51%
2006	2,342,439	2,299,478	98.17%	32,081	2,331,559	100.00%
2007	2,383,617	2,339,720	98.16%	10,970	2,350,690	99.54%
2008	2,678,567	2,678,150	99.97%	417	2,678,567	98.62%
2009	2,678,567	2,658,526	99.25%	6,959	2,665,485	99.51%
2010	2,862,172	2,815,749	98.38%	41,043	2,856,792	99.52%
2011	2,869,743	2,764,751	96.34%	100,863	2,865,614	99.81%
2012	2,858,559	2,718,294	95.09%	19,748	2,738,041	95.78%
2013	2,806,719	2,719,474	96.89%	44,370	2,763,845	98.47%
2014	2,845,241	2,780,555	97.73%	11,552	2,792,107	98.13%

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	General Obligation Bonds	Notes Payable	Capital Leases			
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
2013	-	8,809,368	16,491,952	-	-	4,204,780	-	-	29,506,100	28.17%	5,674
2014	-	12,359,388	14,053,013	-	-	3,605,000	-	-	30,017,401	26.34%	5,050

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
2014	5153	\$ 624,656	\$ 3,605	\$ 294	\$ 3,311	0.53%	-
2013	5153	615,479	3,735	294	3,441	0.56%	668
2012	5239	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

Note: Population per Alaska Department of Community and Economic Development

Gross Bonded Debt includes all long-term general obligation bonded debt. It excludes special assessment bonds. Beginning in 2013, the General Obligation debt is in the Harbor Enterprise Fund.

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
2014	\$ -	\$ -	\$ -	\$ 12,215,338	0.00%
2013	-	-	-	11,065,711	0.00%
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%

Note: Principal and interest does not include debt service paid by the Water & Sewer, and Port Enterprise Funds. The City had no bonded debt payable from the general fund in 2014.

City of Homer, Alaska
Demographic and Economic Statistics
Last Ten Fiscal Years

Year	(1) Population	(2) Annual Average Wage Per Worker	Per Capita Income	(1) Median Age	(3) School Enrollment	(2) Unemployment Rate
2014	5,099	\$ 36,000	\$ 33,469	44.0	1,407	8.8%
2013	5,153	36,000	20,330	44.0	1,427	9.0%
2012	5,239	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%

Sources:

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

City of Homer, Alaska

Principal Employers - Lower Kenai Peninsula

Employer	2014		Percentage of Total Employment
	Number of Employees	Rank	

* 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

<i>Fiscal Year</i>	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Function/Program										
Administration	29	30	30	30	29	30	29	29	34	27
Public Safety:										
Fire Department	6	5	5	5	5	6	6	6	6	6
Police Department	25	24	24	24	24	26	21	24	27	26
Public Works:										
PW General Fund	20	22	22	21	15	17	16	13	11	14
PW Water/Sewer	16	11	11	11	17	18	18	19	23	25
Port and Harbor	20	20	20	20	20	20	13	11	13	18
Total	116	112	112	111	110	117	103	102	114	116

Notes: Above statistical information taken directly from the 2013 City of Homer Adopted Budget

City of Homer, Alaska
Operating Indicators by Function
Last Ten Fiscal Years

<i>Fiscal Year</i>	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Function/Program										
General Government										
Registered voters	4,463	4,337	4,436	4,277	4,289	4,270	4,161	4,172	4,073	4,022
Building permits issued	62	63	49	40	45	55	62	87	83	103
Police										
Requests for service	7,193	7,067	5,604	6,584	6,661	6,139	7,532	6,052	5,987	5,878
Physical arrests	603	662	619	712	572	471	391	425	428	507
Traffic citations	113	194	204	650	660	662	731	515	450	464
Animal control impounds	46	44	66	65	361	3	415	864	1,048	1,065
Fire										
Emergency responses	483	526	523	438	536	641	599	566	472	469
Fires calls	112	74	73	75	combined	combined	83	100	79	111
Parks & Recreation										
Camping permits - Tents	4,000	3,878	3,386	3,778	9,145	9,172	3,852	3,934	3,830	3,888
Camping permits - RV's	4,110	3,631	3,668	4,090	combined	combined	4,988	5,621	5,250	5,515
Library										
Number of Visitors	129,600	124,102	115,118	123,015	126,030	125,441	132,402	133,186	91,301	88,372
Number of Library cards	652	852	793	10,695	11,717	10,720	10,405	10,055	9,812	9,073
Internet Users	47,229	48,184	49,640	48,270	45,887	44,987	-	40,041	-	19,145
Public Works										
Work orders	6,641	6,975	7,737	7,426	7,509	6,573	6,553	6,761	6,852	6,758
Water										
Number of Consumers	1,643	1,780	1,585	1,559	1,541	1,450	1,445	1,406	1,406	1,373
Water usage in millions gal	139.6	129.9	121.9	135	1,308.0	1,503.0	142.2	145.1	137.5	179.0
Wastewater										
Number of Consumers	1,698	1,657	1,513	1,490	1,445	1,444	1,432	1,354	1,354	1,280
Port & Harbor										
Harbor Assists	361	698	253	333	196	150	143	197	220	298
Dock Landings	1,344	1,669	911	843	150	421	226	202	162	139
Ice sales (ton)	2,045	2,723	2,584	3,182	4,385	4,434	3,776	3,826	3,333	4,261
Crane hours billed	2,157	2,599	2,270	2,364	2,795	3,134	2,672	2,574	2,535	2,819
Halibut landings (million tons)	4	7	4	6	11	12	9	10	10	10

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

<i>Fiscal Year</i>	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Function by Program										
Emergency Services										
Number of Stations	2	2	1	1	1	1	1	1	1	1
Number of Fire Trucks	3	5	4	4	4	4	4	3	3	2
Number of Ambulances	2	2	2	2	2	2	2	2	2	2
Number of Employees/ Volunteers	6 41	5 38	5 43	5 46	5 41	5 39	5 39	5 39	5 38	5 37
Police Protection										
Number of Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units	12	12	13	0	12	12	12	11	10	9
Number of Employees	25	24	22	24	26	26	21	24	27	28
Public Works										
Miles of City-maintained streets	45.4	48.75	48.75	47.1	47.1	46.5	46.5	46.9	46.9	46.5
Water/ Sewer										
Miles of Water Lines	46.37	51.53	46.37	42.5	42.5	42.4	42.4	42.4	42.3	42.1
Miles of Sewer Lines	54.98	60.3	54.98	49.2	49.2	49.2	49.2	49.2	49.2	48.7
Parks & Recreation										
Number of Parks	23	23	18	18	18	18	18	18	18	18
Acres	518.6	518.6	285.9	285.9	285.9	518.2	518.2	518.2	267.4	267.4
Library										
Volumes	45,375	43,424	49,609	47,748	44,072	43,148	42,812	40,181	36,984	34,791
Circulation	130,039	108,146	105,387	104,299	108,166	101,290	99,511	98,815	99,020	89,964
Public use computers	50	20	19	20	18	18	18	18	6	6
Port & Harbor										
Small Boat Harbor - stalls	920	105	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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Single Audit



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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, 2014, 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 June 10, 2015.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-001 and 2014-002 to be material weaknesses.

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.

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*.

City of Homer's Response to Findings

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

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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

Anchorage, Alaska
June 10, 2015



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Independent Auditor's Report on Compliance For Each Major State Program and Report on Internal Control Over Compliance 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, 2014. 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.

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, 2014.

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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompany schedule of findings and questioned costs as item 2014-002 to be a material weakness.

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.

City of Homer's response to the internal control over compliance 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 the 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 the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Accordingly, this report is not suitable for any other purpose.

BDO USA, LLP

Anchorage, Alaska
June 10, 2015

City of Homer, Alaska

Schedule of Findings and Questioned Costs Year Ended December 31, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	<u> X </u> yes	<u> </u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u> X </u> (none reported)
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> no

State Financial Assistance

Internal control over major programs:		
Material weakness(es) identified?	<u> X </u> yes	<u> </u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u> X </u> (none reported)
Type of auditor's report issued on compliance for major programs:	Unmodified	
Dollar threshold used to distinguish a major state program:		\$ 100,000

Section II - Financial Statement Findings Required to be Reported in Accordance with <i>Government Auditing Standards</i>
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Finding 2014-001 Material Weakness - Financial Reporting

Criteria: Financial reporting should be done in accordance with the financial reporting framework of U.S. Generally Accepted Accounting Principles (GAAP) and in accordance with pronouncements issued by GASB.

Condition: We identified a number of accounts that were not fully reconciled or presented in accordance with U.S. GAAP. Journal entries were identified that needed to be made to correct the accounts to be reported fairly under U.S. GAAP.

Context: There were adjustments made to accrued leave, prepaids, capital assets, unearned revenue, accounts receivable, grant revenue, bond premiums, cash, long term liabilities, transfers, and expenditures.

Effect: Items reported in the financial statements were not presented in accordance with U.S. GAAP, particularly with areas associated with external financial reporting.

Cause: A shortage of staff and experience led to accounts not being closed in a timely manner.

Recommendation: It is recommended that the City monitor the year-end closing process more closely.

City of Homer, Alaska

Schedule of Findings and Questioned Costs, continued Year Ended December 31, 2014

*Views of Responsible
Officials and Planned*

Corrective Actions: See the corrective action plan.

Finding 2014-002 **Material Weakness - Grants Management - Preparation of the State and Federal Expenditure Schedules**

Criteria: Internal controls should be established to ensure proper and accurate financial reporting in accordance with generally accepted accounting principles (GAAP). State and federal financial assistance schedules should reflect expenditures incurred in the current year associated with active grants.

Condition: The schedules of state and federal financial assistance and were not fully reconciled at year end. In addition, a prior period adjustment was recorded to the financial statements in connection with the State TORA revenue not being properly reported on the state schedule in the prior year. This item alone was a \$1,872,622 adjustment. Other material adjustments were required to the state and federal schedules.

Context: The schedule of federal awards and the schedule of state financial assistance were incomplete and did not contain all financial assistance received. Although the City did not meet the threshold for a federal single audit in 2014, the federal schedule still needs to be completed in an accurate manner in order to facilitate that determination.

Effect: Several material adjustments were required to complete the year-end financial statements in accordance with GAAP and the single audit requirements.

Cause: The state and federal revenue accounts were not fully closed prior to the audit. There was insufficient communication between the program personnel and the finance office with regards to the TORA activity. Turnover in personnel at year end contributed to the errors.

Recommendation: We recommend the City should reconcile and adjust the general ledger to match the financial reports submitted for reimbursement. Open communications between the program managers and the finance office should be maintained. Reconciliation and closing functions should be performed timely at month-end, quarter-end, and at year-end to allow for financial statement preparation.

*Views of Responsible
Officials and Planned*

Corrective Actions: See the corrective action plan.

City of Homer, Alaska

Schedule of Findings and Questioned Costs, continued Year Ended December 31, 2014

Section III State of Alaska Award Findings and Questioned Costs

Finding 2014-002 **Material Weakness - Grants Management - Preparation of the Schedule of State Financial Assistance**

Program State of Alaska, Department of Transportation and Public Facilities
TORA - Homer Spit Pathway

See Finding 2014-002 at Section II - Financial Statement Findings above.

Questioned costs: None reported.

City of Homer, Alaska

Summary Schedule of Prior Audit Findings Year Ended December 31, 2014

Financial Statement Findings

Finding 2013-001 Significant Deficiencies - Financial Reporting

Status This finding has been revised as item 2014-001. The item has been elevated to material weakness status.

State of Alaska Award Findings

There were no prior year audit findings.

City of Homer, Alaska
Corrective Action Plan
Year Ended December 31, 2014

Persons Responsible: Zhiyong Li, Finance Director
Laurie Moore, Accounting Supervisor
907-235-3140

Financial Statement Findings

Finding 2014-001 Significant Deficiency - Financial Reporting

Corrective Action: The cross training is ongoing; however, it has been progressing in a much slower pace than anticipated. More efforts and targeted training will be implemented to emphasize on teamwork and shared responsibilities. These kind problems (unreconciled accounts) can be eliminated or detected at an early stage.

Expected Completion: The initial phase will be done in 2015. The effort will be ongoing.

Finding 2014-002 Material Weakness - Grants Management - Preparation of the State and Federal Expenditure Schedules

Corrective Action: Previously, there were unsuccessful measures implemented to address the insufficient communication issue. Started in November 2014, Finance Department and Human Resources worked together to investigate the problem and determined to find a solution. The issue has been resolved.

Expected Completion: Completed

State of Alaska Award Findings

Finding 2014-002 Material Weakness - Grants Management - Preparation of the Schedule of State Financial Assistance

Corrective Action: Previously, there were unsuccessful measures implemented to address the insufficient communication issue. Started in November 2014, Finance Department and Human Resources worked together to investigate the problem and determined to find a solution. The issue has been resolved.

Expected Completion: Completed