



City of Homer, Alaska

Basic Financial Statements, Required
Supplementary Information, Supplementary
Information, and Single Audit Reports
Year Ended December 31, 2015

City of Homer, Alaska

Basic Financial Statements, Required Supplementary Information,
Supplementary Information, and Single Audit Reports
Year Ended December 31, 2015

City of Homer, Alaska

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Homer, Alaska, as of and for the year ended December 31, 2015 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, 2015, 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 - Change in Accounting Principle

As described in Note 15 to the financial statements, in 2015 the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement Number 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Correction of an Error

As described in Note 15 to the financial statements, in 2015 the City discovered an error relating to the self-insurance claims bank reconciliation. A prior period adjustment has been recorded to decrease 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 the Management's Discussion and Analysis on pages 6 through 16, the budgetary comparison schedules on pages 60 and 61, and the Public Employees Retirement System Schedules of Net Pension Liability and Pension Contributions on pages 62 and 63, 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, 2015 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, 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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, 2015 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, 2015.

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, 2014 (not presented herein), and have issued our report thereon dated June 10, 2015, 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, 2014 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 2014 financial statements. The individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the 2014 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, 2014.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2016 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
October 25, 2016

Management's Discussion and Analysis

City of Homer, Alaska

Management's Discussion and Analysis December 31, 2015

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, 2015. 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*.

Financial Highlights

- The assets of the City of Homer exceeded its liabilities on December 31, 2015, by \$135,493,950 (Net Position). Of this amount, unrestricted net position of \$5,222,794 may be used to meet the City's ongoing obligations to citizens and creditors. The City's total net position increased by \$4,504,487 from current year activity, excluding the effect of GASB 68 adoption.

As of December 31, 2015, the City's governmental funds reported combined ending fund balances of \$21,708,803, an increase of \$1,976,718 from the prior year. A combination of factors contributed to the increase. The Capital Projects, Gas-Line and HART-Road, resulted increases of \$458,282 and \$460,026 respectively to the fund balance; the Utility (Water & Sewer) Special Revenue fund increased by \$726,205; the General Fund decreased by \$48,033; all other Non-Major Funds have an increase of \$380,238.

- At the end of the current year, the fund balance for the General Fund was \$6,521,000. Of this amount, \$5,719,316 was unassigned and available for spending.
- At year-end, the City of Homer's outstanding governmental debt totaled \$31,948,148. Business-type debt outstanding was \$5,861,660. These figures include both external debt (bonds, loans, capital leases) as well as accrued leave and net pension obligation.
- The City adopted the provisions of GASB 68 during 2015. This new accounting rule results in the recognition of a new Net pension Liability in the amount of \$10,912,909.

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.

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 nineteen 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 28-58 of this report.

Government-wide Financial Analysis

At the close of the 2015 fiscal year, the City's net position (assets exceeding liabilities) totaled \$135,494 (see Table A-1). Of this amount \$119,872, or 88%, 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 \$10,400 in the governmental activities is for capital projects. The total unrestricted amount totals \$5,222 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
(Amounts reported in thousands)

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Assets						
Current assets	\$ 36,615	\$ 26,975	\$ 1,325	\$ 5,504	\$ 37,940	\$ 32,479
Capital assets	81,878	84,034	55,364	49,246	137,242	133,280
Deferred outflows	1,491	-	282	-	1,773	-
Total Assets and Deferred Outflow	119,984	111,009	56,971	54,750	176,955	165,759
Liabilities						
Noncurrent liabilities	31,948	27,141	6,077	4,539	38,025	31,680
Other liabilities	2,086	1,171	1,157	1,919	3,243	3,090
Deferred inflows	162	-	31	-	193	-
Total Liabilities and Deferred Inflows	34,196	28,312	7,265	6,458	41,461	34,770
Net Position						
Net investment in capital assets	68,109	58,895	51,763	45,490	119,872	104,385
Restricted	10,400	7,614	-	-	10,400	7,614
Unrestricted	7,279	16,188	(2,057)	2,802	5,222	18,990
Total Net Position	\$ 85,788	\$ 82,697	\$ 49,706	\$ 48,292	\$ 135,494	\$ 130,989

Table A-2
City of Homer's Changes in Net Position
(Amounts reported in thousands)

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Program Revenues						
Charges for services	\$ 17,342	\$ 5,118	\$ 4,159	\$ 4,198	\$ 21,501	\$ 9,316
Operating grants and contributions	1,155	2,231	72	299	1,227	2,530
Capital grants and contributions	1,006	1,844	5,437	4,733	6,443	6,577
General Revenues						
Property taxes	3,178	3,092	-	-	3,178	3,092
Sales taxes	7,537	7,489	-	-	7,537	7,489
Other	487	574	45	217	532	790
Total Revenues	30,705	20,348	9,713	9,447	40,418	29,795

City of Homer, Alaska

Management's Discussion and Analysis

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Expenses						
General government	\$ 3,575	\$ 2,337	\$ -	\$ -	\$ 3,575	\$ 2,337
Public safety	5,914	4,161	-	-	5,914	4,161
Public works	3,558	2,403	-	-	3,558	2,403
Library	916	1,027	-	-	916	1,027
Airport	179	282	-	-	179	282
Parks and recreation	809	760	-	-	809	760
Community services	289	253	-	-	289	253
Water and sewer	4,587	4,848	-	-	4,587	4,848
Unallocated interest	1,000	367	-	-	1,000	367
Port and harbor	-	-	7,046	5,267	7,046	5,267
Total Expenses	20,827	16,438	7,046	5,267	27,873	21,705
Increase (decrease) in net position before transfers and special item						
	9,877	3,910	2,692	4,180	12,569	8,090
Transfers	-	-	-	-	-	-
Special item	(68)	(5,144)	-	-	(68)	(5,144)
Increase (Decrease) In Net Position	9,809	(1,234)	2,692	4,180	12,501	2,946
Net Position, beginning, original						
	82,697	83,931	48,292	44,112	130,989	128,043
Restatement (Note 15)	(6,718)	-	(1,278)	-	(7,996)	-
Net position, beginning, restated	75,979	83,931	47,014	44,112	122,993	128,043
Net Position, ending	\$ 85,788	\$ 82,697	\$ 49,706	\$ 48,292	\$ 135,494	\$ 130,989

As reflected in Table A-2, the City's net position increased by \$12,501. Revenues exceeded expenses in the governmental activities by \$9,809 and in the business-type activities revenues exceeded expenses by \$2,692. Key elements of the increases and decreases follow:

- Revenues in the governmental activities increased by approximately \$10,357 in 2015 from 2014. This is mainly due to special assessments coming from Natural Gas pipeline.
- Expenses in the governmental activities also increased by \$4,389 for 2015 for the reason stated above.
- Property taxes increased by \$86.
- Capital grants and contributions decreased by \$134.

City of Homer, Alaska

Management's Discussion and Analysis

- Sales Taxes reflect an increase from 2014. This breakdown shows the Sales Taxes by fund to receive them. Changes in sales tax dollars from 2015 to 2014 are as follows:

Sales Taxes	2015	2014	Increase
Fund			
General	\$ 5,026	\$ 4,994	\$ 32
HART - Road	1,130	1,123	7
HART-Trail	125	125	0
Utility(Water & Sewer - HAWSP)	1,256	1,247	9
Total	\$ 7,537	\$ 7,489	\$ 47

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, 2015, the City's governmental funds reported combined ending fund balances of \$21,709, an increase of \$1,977 compared to balances a year earlier. Of the ending balance, \$5,719, or 26% is unassigned and is available to the City for future spending. Most of the remaining fund balance is restricted for Roads \$8,079, Permanent Fund, \$2,043, or assigned for future capital projects and other purposes \$4,997; and non-spendable in the form of inventory, inter-fund loan and prepaid items \$871. The increase of total fund balance during the year is attributed to:

- Utility Special Revenue Fund's fund balance increased by \$726. This mainly due to of reduction in expenses as the result of the reorganization of Public Works and Water & Sewer.
- In 2015, there is a net increase of \$458 to fund balance due to the net effect of Gas Line assessment revenues and the debt services. HART-Road Fund netted a \$460 increase to the fund balance.
- In the Non-major funds category, the City maintains six capital project funds (see pages 67-68) 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 revenues exceeded expenditures for 2015, this category as a whole underwrote a \$380 increase in total fund balance.
- In the General Fund, expenditures and transfers-out to other funds totaled \$12,867 compared to revenues and transfers-in of \$12,819. This resulted a decrease of \$48 in the General Fund balance.

City of Homer, Alaska

Management's Discussion and Analysis

Government Funds (General and Utility Special Revenue) Budgetary Highlights

- General Fund Revenue: Final Budget decreased is due to the PERS Relief estimates was in the original budget but was excluded in the final projected figures.
- General Fund Expenditures: Final Budget decreased from the Original Budget is due to the mid-year budget revision (including reduction of personnel) in anticipation of the shortfalls of revenues (sales taxes, jail contract, and State Shared Revenues, etc.)
- Utility Fund Expenditure:
 - Final Operating Budget decreased from the original budget is due to the PERS Relief estimates was in the original budget but was excluded in the final projected figures.
 - Final Debt Services Budget was increased from the original budget due to an error correction.

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, 2015, totals \$137,240 (net of accumulated depreciation). This amount represents a \$3,962 increase over the previous year.

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

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 11,441	\$ 10,676	\$ 15,254	\$ 15,254	\$ 26,695	\$ 25,930
Buildings	50,259	49,647	15,321	13,035	65,580	62,682
Improvements other than buildings	49,363	49,269	39,569	39,553	88,932	88,822
Machinery and equipment	15,261	14,795	3,167	3,167	18,428	17,962
Infrastructure	33,962	33,961	-	-	33,962	33,961
Construction in progress	1,124	1,611	15,836	10,578	16,960	12,189
Accumulated depreciation	(79,532)	(75,927)	(33,783)	(32,341)	(113,315)	(108,268)
Total Capital Assets	\$ 81,878	\$ 84,032	\$ 55,364	\$ 49,246	\$ 137,242	\$ 133,278

Major Capital Asset Events During the 2015 Year Included

Capital projects Completed

General Fund:

- Waddell Way Road Improvements
- New Ramp 5 Restroom
- Public Works Storage Building

City of Homer, Alaska

Management's Discussion and Analysis

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
- Demolition of Old Harbormaster's Office Building

On-Going Projects

General Fund:

- Homer Middle School Access Trail

Utility Fund (Special Revenue Fund):

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

Port & Harbor (Enterprise Fund):

- Deep Water Dock Expansion Feasibility Study

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	
	2015	2014	2015	2014	2015	2014
Notes payable - library	\$ 1,233	\$ 1,280	-	-	\$ 1,233	\$ 1,280
Notes payable - utility	12,268	12,773	-	-	12,268	12,773
Capital Leases	268	-	-	-	268	-
Special assessment bond with government commitment	8,265	12,359	-	-	8,265	12,359
General obligation bond payable	-	-	3,475	3,605	3,475	3,605
Unamortized bond premium	-	-	420	445	420	445
Total	22,034	26,412	3,895	4,050	25,929	30,462
Net pension liability	-	-	1,738	-	1,738	-
Compensated absences	739	729	228	199	967	928
Total Long-term Debt	\$ 22,773	\$ 27,141	\$ 5,861	\$ 4,249	\$ 28,634	\$ 31,390

Long-term debt - At the end of the 2015 year, the City of Homer had total debt outstanding of \$25,929 as detailed in Table A-4. This excludes \$1,738 related to net pension liability and \$967 related to the compensated absences.

City of Homer, Alaska

Management's Discussion and Analysis

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

Additional information on the City's long-term debt can be found in note 6 on pages 40-45 of this report.

Economic Factors and Next Year's Budgets and Rates

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 sales tax revenue is showing a slight increase in the first half of the 2016. However, 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 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). The past two years City Council has made continuous efforts to address the inadequate funds (user fees) to maintain sufficient operating expenditures. The Water/Sewer fund shows an excess of revenue over expenditures in the amount of \$572 after capital outlays of \$181 and debt services of \$1,160.

The Port and Harbor Enterprise Fund is showing an excess in revenues over expenditures of \$107 before depreciation.

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

December 31, 2015	Governmental Activities	Business-type Activities	Total
Assets and Deferred Outflows of Resources			
Assets			
Cash and investments	\$ 16,992,666	\$ -	\$ 16,992,666
Receivables, net of allowance for doubtful accounts:			
Accounts	338,813	152,790	491,603
Sales and property taxes	1,245,051	-	1,245,051
State and federal grants and loans	971,140	1,571,369	2,542,509
Assessments	11,898,276	-	11,898,276
Other	136,935	-	136,935
Internal balances	787,421	(787,421)	-
Inventory	338,904	14,431	353,335
Prepaid items	289,422	67,121	356,543
Restricted cash and investments	3,616,457	306,074	3,922,531
Capital assets not being depreciated - land and construction in progress	12,565,472	31,090,240	43,655,712
Other capital assets, net of accumulated depreciation	69,312,762	24,273,969	93,586,731
Total Assets	118,493,319	56,688,573	175,181,892
Deferred Outflows of Resources - related to pensions	1,491,149	282,529	1,773,678
Total Assets and Deferred Outflows of Resources	\$ 119,984,468	\$ 56,971,102	\$ 176,955,570
Liabilities, Deferred Inflows of Resources, and Net Position			
Liabilities			
Accounts payable	\$ 237,037	\$ 120,524	\$ 357,561
Enstar FMA refunds	1,370,803	-	1,370,803
Accrued payroll and related liabilities	156,719	21,475	178,194
Accrued interest payable	234,979	-	234,979
Prepaid rentals and deposits	56,901	913,490	970,391
Unearned revenue	29,135	101,507	130,642
Noncurrent liabilities:			
Due within one year:			
Accrued leave	300,000	75,000	375,000
Notes payable	1,282,912	-	1,282,912
Capital leases	90,615	-	90,615
General obligation bonds payable	-	135,000	135,000
Special assessment bond payable with government commitment to Kenai Peninsula Borough	778,636	-	778,636
Due in more than one year:			
Accrued leave	438,902	153,017	591,919
Notes payable	12,218,481	-	12,218,481
Capital leases	177,419	-	177,419
General obligation bonds payable including bond premium	-	3,760,328	3,760,328
Special assessment bond payable with government commitment to Kenai Peninsula Borough	7,486,589	-	7,486,589
Unearned revenue	-	216,000	216,000
Net pension liability	9,174,594	1,738,315	10,912,909
Total Liabilities	34,033,722	7,234,656	41,268,378
Deferred Inflows of Resources - related to pensions	162,460	30,782	193,242
Net Position			
Net investment in capital assets	68,108,807	51,762,578	119,871,385
Restricted for:			
Roads and trails	8,079,071	-	8,079,071
Special service district	278,092	-	278,092
Permanent fund	2,042,608	-	2,042,608
Unrestricted (deficit)	7,279,708	(2,056,914)	5,222,794
Total Net Position	85,788,286	49,705,664	135,493,950
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 119,984,468	\$ 56,971,102	\$ 176,955,570

See accompanying notes to basic financial statements.

City of Homer, Alaska
Statement of Activities
Year Ended December 31, 2015

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines & Charges for Services	Operating Grants & Contri- butions	Capital Grants & Contri- butions	Govern- mental Activities	Business- type Activities	Total
Governmental Activities							
General government	\$ 3,574,943	\$ 769,680	\$ 139,301	\$ 1,005,842	\$ (1,660,120)	\$ -	\$ (1,660,120)
Public safety	5,913,847	271,064	842,408	-	(4,800,375)	-	(4,800,375)
Public works	3,557,714	11,877,674	47,511	-	8,367,471	-	8,367,471
Library	916,231	-	44,007	-	(872,224)	-	(872,224)
Airport	179,088	128,748	2,151	-	(48,189)	-	(48,189)
Parks and recreation	809,427	166,028	8,686	-	(634,713)	-	(634,713)
Community services	288,948	36,768	4,745	-	(247,435)	-	(247,435)
Water	2,659,275	2,234,246	37,312	-	(387,717)	-	(387,717)
Sewer	1,927,419	1,857,380	28,701	-	(41,338)	-	(41,338)
Unallocated interest	1,000,179	-	-	-	(1,000,179)	-	(1,000,179)
Total Governmental Activities	20,827,071	17,341,588	1,154,822	1,005,842	(1,324,819)	-	(1,324,819)
Business-type Activities							
Port and harbor	7,045,968	4,159,365	72,180	5,436,689	-	2,622,266	2,622,266
Total	\$ 27,873,039	\$ 21,500,953	\$ 1,227,002	\$ 6,442,531	(1,324,819)	2,622,266	1,297,447
General Revenues							
Property taxes					3,177,768	-	3,177,768
Sales taxes					7,536,678	-	7,536,678
Grants and entitlements not restricted to a specific purpose					370,845	24,184	395,029
Investment income					116,134	45,111	161,245
Total General Revenues					11,201,425	69,295	11,270,720
Special Item - construction of gas pipeline on behalf of third parties					(67,891)	-	(67,891)
Change in Net Position					9,808,715	2,691,561	12,500,276
Beginning Net Position, as restated (Note 15)					75,979,571	47,014,103	122,993,674
Ending Net Position					\$ 85,788,286	\$ 49,705,664	\$ 135,493,950

See accompanying notes to basic financial statements.

City of Homer, Alaska

Governmental Funds
Balance Sheet

	Major Funds					Total Governmental Funds
	General	Utility Special Revenue	Gas Line Capital Project	HART Roads Capital Project	Nonmajor Funds	
<i>December 31, 2015</i>						
Assets						
Cash and investments	\$ 4,189,551	\$ 2,272,626	\$ -	\$ 7,186,061	\$ 2,617,120	\$ 16,265,358
Receivables, net of allowance:						
Accounts	-	273,832	64,981	-	-	338,813
Property taxes	71,798	-	-	-	-	71,798
Sales taxes	782,484	195,529	-	175,990	19,250	1,173,253
Assessments	382,025	4,398,291	7,117,960	-	-	11,898,276
State and federal grants and loans	-	-	-	-	971,140	971,140
Other	135,669	-	-	-	1,266	136,935
Interfund loan	242,352	-	-	-	16,129	258,481
Due from other funds	1,150,932	-	-	92,253	-	1,243,185
Inventory	28,810	310,094	-	-	-	338,904
Prepaid items	257,985	31,437	-	-	-	289,422
Restricted cash and investments	-	-	1,576,288	-	2,040,169	3,616,457
Total Assets	\$ 7,241,606	\$ 7,481,809	\$ 8,759,229	\$ 7,454,304	\$ 5,665,074	\$ 36,602,022
Liabilities						
Accounts payable	\$ 113,543	\$ 41,254	\$ 523	\$ -	\$ 81,717	\$ 237,037
Accrued payroll and related liabilities	135,126	21,593	-	-	-	156,719
Customer deposits	16,204	40,697	-	-	-	56,901
Unearned revenue	1,910	-	-	-	27,225	29,135
Matured debt service	-	445,902	-	-	-	445,902
Enstar FMA refunds	-	-	1,370,803	-	-	1,370,803
Due to other funds	-	-	93,074	-	533,574	626,648
Total Liabilities	266,783	549,446	1,464,400	-	642,516	2,923,145
Deferred Inflows of Resources						
Deferred property taxes	71,798	-	-	-	-	71,798
Deferred assessments	382,025	4,398,291	7,117,960	-	-	11,898,276
Total Deferred Inflows of Resources	453,823	4,398,291	7,117,960	-	-	11,970,074
Total Liabilities and Deferred Inflows of Resources	720,606	4,947,737	8,582,360	-	642,516	14,893,219
Fund Balances						
Nonspendable:						
Inventory	28,810	310,094	-	-	-	338,904
Prepaid items	257,985	31,437	-	-	-	289,422
Interfund loan	242,352	-	-	-	-	242,352
Restricted:						
Roads and trails	-	-	-	7,454,304	624,767	8,079,071
Special service district	101,223	-	176,869	-	-	278,092
Permanent fund	-	-	-	-	2,042,608	2,042,608
Assigned:						
Library	-	-	-	-	32,723	32,723
Public safety	-	-	-	-	102,423	102,423
Community schools	-	-	-	-	517	517
Sustainability	-	-	-	-	14,781	14,781
Water and sewer	-	2,192,541	-	-	-	2,192,541
PERS benefits	171,314	-	-	-	14,688	186,002
Capital and land	-	-	-	-	2,190,051	2,190,051
Unassigned	5,719,316	-	-	-	-	5,719,316
Total Fund Balances	6,521,000	2,534,072	176,869	7,454,304	5,022,558	21,708,803
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 7,241,606	\$ 7,481,809	\$ 8,759,229	\$ 7,454,304	\$ 5,665,074	\$ 36,602,022

See accompanying notes to basic financial statements.

City of Homer, Alaska
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Position
December 31, 2015

Total fund balances for governmental funds		\$ 21,708,803
Total net position reported for governmental activities in the Statement of Net Position is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets, net of accumulated depreciation consist of:		
Land and land improvements	\$ 11,441,119	
Construction in progress	1,008,647	
Buildings	50,258,511	
Improvements other than buildings	49,363,306	
Machinery and equipment	14,875,732	
Infrastructure	34,462,457	
Accumulated depreciation	<u>(79,531,538)</u>	
Total Capital Assets		81,878,234
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Delinquent property taxes receivable	71,798	
Special assessments not yet due	<u>11,898,276</u>	
Total Other Long-term Assets		11,970,074
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.		
		639,711
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:		
Accrued interest	(153,078)	
Note payable to Kenai Peninsula Borough	(8,265,225)	
Notes payable, less matured debt payable recorded in the fund	(13,137,392)	
Capital leases	(268,034)	
Accrued leave	(738,902)	
Net pension liability	<u>(9,174,594)</u>	
Total Long-term Liabilities		(31,737,225)
Certain changes in net pension liabilities are deferred rather than recognized immediately. These items are amortized over time.		
Deferred outflows of resources related to pensions	1,491,149	
Deferred inflows of resources related to pensions	<u>(162,460)</u>	
Total Deferred Pension Items		<u>1,328,689</u>
Total Net Position of Governmental Activities		<u>\$ 85,788,286</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, 2015	Major Funds					Total Governmental Funds
	General	Utility Special Revenue	Gas Line Capital Project	HART Roads Capital Project	Nonmajor Funds	
Revenues						
Property taxes	\$ 3,179,852	\$ -	\$ -	\$ -	\$ -	\$ 3,179,852
Sales taxes	5,025,763	1,255,611	-	1,130,052	125,252	7,536,678
Licenses and permits	27,625	-	-	-	-	27,625
Intergovernmental	2,328,251	257,253	-	-	1,027,511	3,613,015
Charges for services	2,122,768	3,614,055	-	-	-	5,736,823
Special assessments	63,207	477,571	5,210,599	-	-	5,751,377
Investment income (loss)	38,808	8,457	(3,136)	42,519	29,486	116,134
Fines and forfeitures	28,291	-	-	-	-	28,291
Donations	-	-	-	-	5,013	5,013
Other grants	-	-	-	-	930	930
Other	4,813	-	-	-	16,211	21,024
Total Revenues	12,819,378	5,612,947	5,207,463	1,172,571	1,204,403	26,016,762
Expenditures						
Current:						
General government	3,355,698	-	-	115,365	48,369	3,519,432
Public safety	4,807,568	-	-	-	31,343	4,838,911
Public works	2,189,728	-	-	-	-	2,189,728
Library	871,729	-	-	-	-	871,729
Airport	189,030	-	-	-	-	189,030
Parks and recreation	421,565	-	-	-	-	421,565
Community services	284,675	-	-	-	-	284,675
Water	-	2,032,600	-	-	-	2,032,600
Sewer	-	1,666,894	-	-	-	1,666,894
Debt service:						
Principal	47,012	868,608	4,094,163	-	7,342	5,017,125
Interest	52,812	291,076	587,127	-	3,260	934,275
Capital outlay	-	181,366	-	262,877	1,561,946	2,006,189
Total Expenditures	12,219,817	5,040,544	4,681,290	378,242	1,652,260	23,972,153
Excess of Revenues Over (Under)						
Expenditures	599,561	572,403	526,173	794,329	(447,857)	2,044,609
Other Financing Sources (Uses)						
Issuance of capital lease	-	-	-	-	275,375	275,375
Capital lease purchase	-	-	-	-	(275,375)	(275,375)
Transfers in	-	174,101	-	23,197	938,788	1,136,086
Transfers out	(647,594)	(20,299)	-	(357,500)	(110,693)	(1,136,086)
Net Other Financing Sources (Uses)	(647,594)	153,802	-	(334,303)	828,095	-
Special Item - construction of gas pipeline on behalf of third parties						
	-	-	(67,891)	-	-	(67,891)
Net Change in Fund Balances	(48,033)	726,205	458,282	460,026	380,238	1,976,718
Beginning Fund Balances (Deficit)	6,569,033	1,807,867	(281,413)	6,994,278	4,642,320	19,732,085
Ending Fund Balances	\$ 6,521,000	\$ 2,534,072	\$ 176,869	\$ 7,454,304	\$ 5,022,558	\$ 21,708,803

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, 2015

Net change in fund balances - total governmental funds		\$ 1,976,718
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 recongized to allocate the cost of these items over their estimated useful lives. This is the amount by which depreciation (\$3,784,121) and net loss on disposals and other capital transactions (\$110,472) exceeded capital outlays (\$1,649,358).		(2,430,815)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This is the amount of the increase in other long-term assets.		6,660,178
Issuance of long-term debt provides current financial resouces in the governmental funds, while the repayment of the long-term debt consumes current financial resources in governmental funds. These transactions have not effect on net postion. This is the amount of reduction in long-term debt.		5,017,125
Accrued interest on long-term debt is not reported in the funds until the liability matures. This is the increase in accrued interest payable.		(65,904)
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.		
Increase in accrued leave	\$ (10,195)	
Increase in net pension obligation and related deferred accounts	<u>(1,352,869)</u>	
		(1,363,064)
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>14,477</u>
Change in Net Position of Governmental Activities		<u>\$ 9,808,715</u>

See accompanying notes to basic financial statements.

City of Homer, Alaska

Proprietary Funds
Statement of Net Position

December 31, 2015	Major Enterprise Fund Port of Homer	Internal Service Funds
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and investments	\$ -	\$ 727,308
Accounts receivable, net of allowance for doubtful accounts	152,790	-
State and federal grants receivable	1,571,369	-
Inventory	14,431	-
Prepaid items	67,121	-
Total Current Assets	1,805,711	727,308
Noncurrent Assets		
Capital assets, net of accumulated depreciation	55,364,209	-
Restricted cash and investments	306,074	-
Total Noncurrent Assets	55,670,283	-
Total Assets	57,475,994	727,308
Deferred Outflows of Resources - related to pensions	282,529	-
Total Assets and Deferred Outflows of Resources	\$ 57,758,523	\$ 727,308
Liabilities, Deferred Inflows of Resources, and Net Position		
Liabilities		
Current Liabilities		
Accounts payable	\$ 72,160	\$ -
Accounts payable for capital assets	48,364	-
Accrued payroll and related liabilities	21,475	-
Accrued leave	75,000	-
General obligation bonds payable	135,000	-
Prepaid rentals and deposits	913,490	-
Unearned lease revenue	18,000	-
Unearned grant revenue	83,507	-
Interfund loan	62,091	-
Due to other funds	502,221	114,316
Total Current Liabilities	1,931,308	114,316
Noncurrent Liabilities, Net of Current Portion		
Unearned lease revenue	216,000	-
Interfund loan	196,390	-
General obligation bonds payable including bond premium	3,760,328	-
Accrued leave	153,017	-
Net pension liability	1,738,315	-
Total Noncurrent Liabilities	6,064,050	-
Total Liabilities	7,995,358	114,316
Deferred Inflows of Resources - related to pensions	30,782	-
Net Position		
Net investment in capital assets	51,762,578	-
Unrestricted (deficit)	(2,030,195)	612,992
Total Net Position	49,732,383	612,992
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 57,758,523	\$ 727,308
Adjustment to reflect the consolidation of internal service fund activities related to enterprise fund	(26,719)	
Net Position of Business-type Activities	\$ 49,705,664	

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, 2015</i>	Major Enterprise Fund	Internal Service Funds
	Port of Homer	
Operating Revenues		
Port and harbor charges for services	\$ 4,068,204	\$ -
Interfund charges	-	1,596,779
Employee health contributions	-	169,215
Total Operating Revenues	4,068,204	1,765,994
Operating Expenses		
Operations	2,621,377	307,277
Administration	1,339,737	55,140
Depreciation	1,520,825	-
Employee incentive fees	-	62,466
Insurance premiums	-	1,335,962
Total Operating Expenses	5,481,939	1,760,845
Operating income (loss)	(1,413,735)	5,149
Nonoperating Revenues (Expenses)		
Investment income	45,111	-
State PERS relief	72,180	-
Other income	91,161	-
Fish tax	24,184	-
Loss on disposal of capital assets	(1,252,308)	-
Miscellaneous repairs	(302,393)	-
Net Nonoperating Revenues (Expenses)	(1,322,065)	-
Income (loss) before capital contributions	(2,735,800)	5,149
Capital contributions	5,436,689	-
Change in net position	2,700,889	5,149
Beginning Net Position, as restated (Note 15)	47,031,494	607,843
Ending Net Position	49,732,383	\$ 612,992
Adjustment to reflect the consolidation of internal service fund activities related to enterprise fund	(9,328)	
Change in Net Position of Business-type Activities	\$ 2,691,561	

See accompanying notes to basic financial statements.

City of Homer, Alaska
Proprietary Funds
Statement of Cash Flows

<i>Year Ended December 31, 2015</i>	Major Enterprise Fund Port of Homer	Internal Service Funds
Cash Flows from (for) Operating Activities		
Receipts from customers and users	\$ 4,279,485	\$ -
Receipts from interfund services provided and employee contributions	-	1,765,994
Receipt of refunds and reinsurance payments	-	-
Payments to suppliers	(2,514,087)	-
Payments to employees	(1,473,623)	(369,743)
Payments for insurance, claims, and administration	-	(1,695,998)
Net cash flows from (for) operating activities	291,775	(299,747)
Cash Flows from Noncapital Financing Activities		
Increase in due to other funds	502,221	114,316
Fish tax received	24,184	-
Net cash flows from noncapital financing activities	526,405	114,316
Cash Flows for Capital and Related Financing Activities		
Principal paid on long-term debt	(130,000)	-
Interest paid on long-term debt	(156,050)	-
Capital contributions received	7,526,278	-
Acquisition of property, plant and equipment	(9,618,899)	-
Decrease in interfund loan	(60,939)	-
Net cash flows for capital and related financing activities	(2,439,610)	-
Cash Flows from Investing Activities		
Investment income received	45,111	-
Net Increase (Decrease) in Cash and Investments	(1,576,319)	(185,431)
Beginning Cash and Investments	1,882,393	912,739
Ending Cash and Investments	\$ 306,074	\$ 727,308

See accompanying notes to basic financial statements.

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

<i>Year Ended December 31, 2015</i>	Major Enterprise Fund Port of Homer	Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash		
Flows from (for) Operating Activities		
Operating Income (loss)	\$ (1,413,735)	\$ 5,149
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:		
Depreciation	1,520,825	-
Noncash expense - PERS relief	72,180	-
Amortization of deferred lease revenue	(18,000)	-
Miscellaneous nonoperating expenses	(211,232)	-
Prior period adjustment affecting cash	-	(272,514)
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable	34,314	-
Prepaid items	(18,870)	123,154
Deferred outflows of resources related to pensions	(226,903)	-
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable	(44,787)	(155,536)
Accrued payroll and related liabilities	(17,893)	-
Unearned grant revenue	27,850	-
Accrued leave	28,838	-
Prepaid rentals and deposits	75,956	-
Net pension liability	585,649	-
Deferred inflows of resources related to pensions	(102,417)	-
Net Cash Flows from (for) Operating Activities	\$ 291,775	\$ (299,747)
Interest capitalized	\$ 131,324	\$ -
Capital assets acquired on account	\$ 48,364	\$ -

See accompanying notes to basic financial statements.

City of Homer, Alaska

Notes to Basic Financial Statements

December 31, 2015

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 compensate 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.

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.

In the originally adopted version of the 2015 budget, the City included the PERS relief payment for the General Fund. However, in the final approved budget for the General Fund, the PERS relief payment was removed. As a result, the City is reporting a budgetary to GAAP basis reconciliation.

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 2015 was \$131,324.

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	15-45
Improvements other than buildings	3-45
Machinery and equipment	3-25
Infrastructure	10-50

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 or discount, as applicable.

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and additions to/from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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, 2015.

Bank deposits	\$ 1,939,033
Investments	18,976,164
<hr/>	
Total Cash and Investments	\$ 20,915,197
<hr/>	
Cash and investments	\$ 16,992,666
Restricted cash and investments	3,922,531
<hr/>	
Total Cash and Investments	\$ 20,915,197

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;

City of Homer, Alaska

Notes to Basic Financial Statements

- 8. Commercial paper; graded A1 or higher;
- 9. Bankers' acceptances; rated at least AA; and
- 10. Money market mutual funds.

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

Interest Rate Risk

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

Investment maturities at December 31, 2015 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	\$ 75,523	\$ 75,523	\$ -	\$ -
FHLM	6,036,515	-	6,036,515	-
FNMA	25,090	25,090	-	-
Total U.S. government agencies	6,137,128	100,613	6,036,515	-
Corporate bonds	204,784	49,305	155,479	-
Foreign bonds	25,069	-	25,069	-
Pooled investments (AMLIP)	9,174,517	9,174,517	-	-
Total Subject to Interest Rate Risk	15,541,498	\$ 9,324,435	\$ 6,217,063	\$ -
Certificates of deposit	1,366,750			
Money market	634,540			
Mutual funds	1,433,376			
Total Investments	\$ 18,976,164			

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, 2015, the share value of investments in the AML pool is approximately equal to fair value.

City of Homer, Alaska

Notes to Basic Financial Statements

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The City has no specific policy addressing foreign currency risk. The City's investment in foreign bonds exposes it to exchange risk in foreign currency. At December 31, 2015, this investment totaled \$25,069 and represented less than one percent of the City's investments.

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, 2015, 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	\$ -	\$ 290,910	\$ 64,981	\$ -	\$ 180,924	\$ -	\$ 536,815
Sales taxes	782,484	195,529	-	175,990	-	19,250	1,173,253
Property taxes	76,216	-	-	-	-	-	76,216
State and federal grants and loans	-	-	-	-	1,571,369	971,140	2,542,509
Special assessments	382,025	4,398,291	7,117,960	-	-	-	11,898,276
Other	191,203	-	-	-	-	1,266	192,469
Total receivables	1,431,928	4,884,730	7,182,941	175,990	1,752,293	991,656	16,419,538
Less allowance for uncollectibles	(59,952)	(17,078)	-	-	(28,134)	-	(105,164)
Net Receivables	\$ 1,371,976	\$4,867,652	\$7,182,941	\$ 175,990	\$ 1,724,159	\$ 991,656	\$ 16,314,374

At December 31, 2015, 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	\$ 71,798
Special assessments not yet due:	
General Fund	382,025
Utility Special Revenue Fund	4,398,291
Gas Line Capital Project Fund	7,117,960
Total Deferred Inflows	\$ 11,970,074

City of Homer, Alaska

Notes to Basic Financial Statements

Unearned Revenue

Grant drawdowns prior to meeting all eligibility requirements:	
General Fund	\$ 1,910
Other funds	12,662
Other unearned revenue	14,563
<hr/>	
Total Unearned Revenue	\$ 29,135

4. Interfund Receivables, Payables, and Transfers

A schedule of interfund balances and transfers for the year ended December 31, 2015 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

To General Fund from:	
Port of Homer Enterprise Fund	\$ 502,221
City Facilities Capital Project Fund	533,574
Gas Line Capital Project Fund	821
Internal Service Fund	114,316
To HART Roads Capital Project Fund from Gas Line Capital Project Fund	92,253
<hr/>	
Total Due from Other Funds	\$ 1,243,185

Transfers

From General Fund to:	
HART Roads Capital Project Fund	\$ 23,197
Utility Special Revenue Fund	174,101
Nonmajor governmental funds	450,296
From Utility Special Revenue Fund to nonmajor governmental funds	20,299
HART Roads Capital Project Fund to nonmajor governmental funds	357,500
From nonmajor governmental funds to other nonmajor governmental funds	110,693
<hr/>	
Total Transfers to Other Funds	\$ 1,136,086

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 \$16,129 as of December 31, 2015.

City of Homer, Alaska

Notes to Basic Financial Statements

In 2014, the General Fund loaned \$300,000 to the Port of Homer Enterprise Fund in order to complete the financing package related to the Port and Harbor Building upgrade project. The loan is due in annual payment of \$63,648 including interest at 2% per year payable over five years. At December 31, 2015 the outstanding balance was \$242,352.

5. Capital Assets

Capital asset activity for the year ended December 31, 2015 follows:

	Balance January 1, 2015	Additions and Reclas- sifications	Deletions and Reclas- sifications	Balance December 31, 2015
Governmental Activities				
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 10,676,104	\$ 765,015	\$ -	\$ 11,441,119
Construction in progress	1,611,360	327,427	(814,434)	1,124,353
Total assets not being depreciated	12,287,464	1,092,442	(814,434)	12,565,472
<i>Capital assets being depreciated:</i>				
Buildings	49,647,339	611,172	-	50,258,511
Improvements other than buildings	49,269,066	94,240	-	49,363,306
Machinery and equipment	14,795,594	645,261	(180,000)	15,260,855
Infrastructure	33,961,628	-	-	33,961,628
Total assets being depreciated	147,673,627	1,350,673	(180,000)	148,844,300
Less accumulated depreciation for:				
Buildings	28,858,738	770,093	-	29,628,831
Improvements other than buildings	21,455,658	1,540,074	-	22,995,732
Machinery and equipment	9,658,229	634,019	(180,000)	10,112,248
Infrastructure	15,954,792	839,935	-	16,794,727
Total accumulated depreciation	75,927,417	3,784,121	(180,000)	79,531,538
Total assets being depreciated, net	71,746,210	(2,433,448)	-	69,312,762
Governmental Activities Capital Assets, Net	\$ 84,033,674	\$ (1,341,006)	\$ (814,434)	\$ 81,878,234

City of Homer, Alaska

Notes to Basic Financial Statements

	Balance January 1, 2015	Additions and Reclas- sifications	Deletions and Reclas- sifications	Balance December 31, 2015
Business-type Activities				
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 15,254,041	\$ -	\$ -	\$ 15,254,041
Construction in progress	10,577,961	7,649,042	(2,390,804)	15,836,199
Total assets not being depreciated	25,832,002	7,649,042	(2,390,804)	31,090,240
<i>Capital assets being depreciated:</i>				
Buildings	13,034,836	2,371,015	(84,735)	15,321,116
Improvements other than buildings	39,552,858	16,575	-	39,569,433
Machinery and equipment	3,167,216	-	-	3,167,216
Total assets being depreciated	55,754,910	2,387,590	(84,735)	58,057,765
Less accumulated depreciation for:				
Buildings	8,754,046	351,940	(77,885)	9,028,101
Improvements other than buildings	20,714,515	1,099,442	-	21,813,957
Machinery and equipment	2,872,295	69,443	-	2,941,738
Total accumulated depreciation	32,340,856	1,520,825	(77,885)	33,783,796
Total capital assets being depreciated, net	23,414,054	866,765	(6,850)	24,273,969
Business-Type Activities Capital Assets, Net	\$ 49,246,056	\$ 8,515,807	\$ (2,397,654)	\$ 55,364,209

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City of Homer, Alaska

Notes to Basic Financial Statements

<i>Year Ended December 31, 2015</i>	Depreciation
Governmental Activities	
General government	\$ 183,281
Public safety	314,438
Public works	1,057,126
Library	231,355
Airport	70,551
Parks and recreation	397,739
Water utility	970,319
Sewer utility	559,312
Total Depreciation Expense - Governmental Activities	\$ 3,784,121
Total Depreciation Expense - Business-type Activities	
Port and harbor	\$ 1,520,825

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 is as follows:

Original cost assigned to building	\$ 630,000
Revenue recognized on cumulative basis	(396,000)
	\$ 234,000
Current unearned revenue	\$ 18,000
Noncurrent unearned revenue	216,000
Total Unearned Lease Revenue	\$ 234,000

6. Long-term Debt

In 2015 the City entered into two separate capital leases for the purpose of funding capital equipment. The City acquired a Dump Truck with a cost of \$185,966 and made a down payment of \$36,367 resulting in long-term financing in the amount of \$149,599. The City also acquired a sweeper truck with a cost of \$190,579 and made a down payment of \$64,803 resulting in long-term financing in the amount of \$125,776.

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City of Homer, Alaska

Notes to Basic Financial Statements

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2015:

Governmental Activities	Balance January 1, 2015	Additions	Retired	Balance December 31, 2015	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	\$ 1,280,302	\$ -	\$ 47,012	\$ 1,233,290	\$ 48,951
\$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	1,341,695	-	121,973	1,219,722	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	1,573,853	-	143,077	1,430,776	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%	1,432,559	-	79,587	1,352,972	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%	1,086,870	-	54,344	1,032,526	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	1,846,721	-	90,131	1,756,590	91,482

City of Homer, Alaska

Notes to Basic Financial Statements

Governmental Activities	Balance January 1, 2015	Additions	Retired	Balance December 31, 2015	Due Within One Year
\$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	\$ 5,460,022	\$ -	\$ -	\$ 5,460,022	\$ 728,002
\$148,047 2003 Sewer Utility Alaska Clean Water loan, due in final payment of \$15,495 plus interest at 1.5% on August 28, 2016	30,991	-	15,496	15,495	15,495
\$12,359,388 special assessment bond payable to the Kenai Peninsula Borough in nine equal principal and interest payments beginning September 1, 2016, interest at 4% through September 1, 2024. Additional principal payments made in 2015 based on early assessment collections.	12,359,388	-	4,094,163	8,265,225	778,636
Capital Leases:					
\$149,599 dump truck capital lease payable in equal monthly installments of \$2,650 including interest through September 2020	-	149,599	7,342	142,257	28,562
\$190,579 sweeper capital lease payable in annual installments of \$65,449 including interest through March 2017	-	125,776	-	125,776	62,053
Accrued leave	728,707	606,210	596,015	738,902	300,000
Total Governmental Activities					
Long-term Liabilities	\$ 27,141,108	\$ 881,585	\$ 5,249,140	\$ 22,773,553	\$ 2,452,163

City of Homer, Alaska

Notes to Basic Financial Statements

The \$8,000,000 2006 Drinking water loan payment is due on December 28 of each year. In 2015, the debt service payment was inadvertently missed, and paid in January of 2016. As a result, no payment was made in 2015 and the amount due in one year reflects two years of principal payments. Both principal and interest on the missed payment are reflected in the Utility Special Revenue Fund balance sheet as current liabilities and are reported as matured debt service.

Business-type Activities	Balance January 1, 2015	Additions	Retired	Balance December 31, 2015	Due Within One Year
\$3,375,000 Series 2013 Harbor General Obligation Bonds, due in annual installments of \$135,000-\$280,000 plus interest at 2% through June of 2033.	\$ 3,605,000	\$ -	\$ 130,000	\$ 3,475,000	\$ 135,000
Unamortized bond premium	445,054	-	24,726	420,328	-
Accrued leave	199,179	91,392	62,554	228,017	75,000
Total Business-type Activities					
Long-term Liabilities	\$ 4,249,233	\$ 91,392	\$ 217,280	\$ 4,123,345	\$ 210,000

Annual debt service requirements to maturity for long-term debt, all apparent to be repayment status follow:

Governmental Activities <i>Year Ending December 31,</i>	Notes Payable			Special Assessment Bond Payable (KPB Loan)(see note a below)		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 1,282,912	\$ 311,335	\$ 1,594,247	\$ 778,636	\$ 336,738	\$ 1,115,374
2017	906,808	214,366	1,121,174	810,359	305,015	1,115,374
2018	910,303	199,427	1,109,730	843,374	272,000	1,115,374
2019	913,906	184,378	1,098,284	877,735	237,639	1,115,374
2020	917,619	169,219	1,086,838	913,495	201,879	1,115,374
2021-2025	4,648,008	614,511	5,262,519	4,041,626	419,870	4,461,496
2026-2030	3,070,861	256,041	3,326,902	-	-	-
2031-2033	850,976	35,862	886,838	-	-	-
	\$ 13,501,393	\$ 1,985,139	\$ 15,486,532	\$ 8,265,225	\$ 1,773,141	\$ 10,038,366

Assets acquired under capital leases during 2015 include a dump truck and a sweeper truck. These assets have a recorded cost of \$376,545 and a net book value (net of depreciation) at December 31, 2015 of \$338,890. Both assets have an expected useful life of 10 years. Future minimum payments under the capital lease agreements are as follows:

City of Homer, Alaska

Notes to Basic Financial Statements

Governmental Activities <i>Year Ending December 31,</i>	Capital Leases Payable		
	Principal	Interest	Total
2016	\$ 90,615	\$ 6,640	\$ 97,255
2017	93,011	4,244	97,255
2018	30,031	1,775	31,806
2019	30,794	1,012	31,806
2020	23,582	247	23,829
	\$ 268,033	\$ 13,918	\$ 281,951

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
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	150,000	136,300	286,300
2021-2025	865,000	579,350	1,444,350
2026-2030	1,100,000	342,500	1,442,500
2031-2033	800,000	61,250	861,250
	\$ 3,475,000	\$ 1,709,975	\$ 5,184,975

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. 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.

At December 31, 2014, the City had drawn \$12,359,388 on the loan to cover substantial completion of the project. In 2015, the City levied the customer special assessments, which requires the individuals pay the assessment over a period of 20 years. Certain customers elected to pay the entire assessment up front. The City then used these funds to reduce the outstanding debt on the loan by approximately \$4.1 million. Because of the large reduction on the debt, the loan was reamortized by management as noted on the payment schedule above and is now expected to be paid in full one year earlier than originally planned. The repayment schedule here is management's best estimate of required amounts due. Note that the City anticipates making additional advance principal payments in 2016 and will request a formal reamortization of the loan at that time.

City of Homer, Alaska

Notes to Basic Financial Statements

Debt Covenants

The Kenai Peninsula Borough gasoline 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 Project 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 of Homer Enterprise Fund. In addition, these bonds 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 2015.

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	\$ 28,810	\$ 310,094	\$ -	\$ -	\$ -	\$ 338,904
Prepaid items	257,985	31,437	-	-	-	289,422
Interfund loans	242,352	-	-	-	-	242,352
Total nonspendable	529,147	341,531	-	-	-	870,678
Restricted:						
Roads and trails	-	-	-	7,454,304	624,767	8,079,071
Special service district	101,223	-	176,869	-	-	278,092
Permanent Fund	-	-	-	-	2,042,608	2,042,608
Total restricted	101,223	-	176,869	7,454,304	2,667,375	10,399,771
Assigned:						
Library	-	-	-	-	32,723	32,723
Public safety	-	-	-	-	102,423	102,423
Community schools	-	-	-	-	517	517
Sustainability	-	-	-	-	14,781	14,781
Water and sewer	-	2,192,541	-	-	-	2,192,541
PERS benefits	171,314	-	-	-	14,688	186,002
Capital and land	-	-	-	-	2,190,051	2,190,051
Total assigned	171,314	2,192,541	-	-	2,355,183	4,719,038
Unassigned (deficit)	5,719,316	-	-	-	-	5,719,316
Total Fund Balances	\$ 6,521,000	\$ 2,534,072	\$ 176,869	\$ 7,454,304	\$ 5,022,558	\$ 21,708,803

Expenditures in the Utility Special Revenue Fund exceed appropriations by \$808,749.

City of Homer, Alaska

Notes to Basic Financial Statements

8. Risk Management

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

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

The JIA is a public entity risk pool organized to share risks among its members. The Association's bylaws provide for the assessment of supplemental contributions from members in the event that losses and expenses for any coverage year exceed the annual contributions and income earned on such contributions for the year. Such supplemental contributions shall be based upon each member's deposit contribution in comparison to the aggregate deposit contributions of all members. The Association made no supplemental assessments during the year ended December 31, 2015.

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.

Previously, the City was self-insured for employee medical insurance costs. The self-insurance plan was terminated effective December 31, 2014 and commercial coverage was obtained beginning January 1, 2015.

9. Defined Benefit (DB) Pension Plan

General Information About the Plan

The City participates in the Alaska 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. 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. That report is available via the internet at <http://doa.alaska.gov/drb/pers>. Actuarial valuation reports, audited financial statements, and other detailed plan information are also available on this website.

City of Homer, Alaska

Notes to Basic Financial Statements

The Plan provides for retirement, death and disability, and post-employment health care benefits. There are three tiers of employees, based on entry date. For all tiers within the Defined Benefit (DB) plan, full retirement benefits are generally calculated using a formula comprised of a multiplier times the average monthly salary (AMS) times the number of years of service. The multiplier is increased at longevity milestone markers for most employees. Police/Fire employees accrue benefits at an accelerated rate. The tiers within the Plan establish differing criteria regarding normal retirement age, early retirement age, and the criteria for calculation of AMS, COLA adjustments, and other OPEB benefits. A complete benefit comparison chart is available at the website noted above.

The PERS DB Plan was closed to new entrants effective June 30, 2006. New employees hired after that date participate in the PERS Defined Contribution (DC) Plan described later in these notes.

Historical Context and Special Funding Situation

In April 2008, the Alaska Legislature passed legislation converting the previously existing PERS plan from an agent-multiple employer plan to a cost-sharing plan with an effective date of July 1, 2008. In connection with this conversion, the State of Alaska passed additional legislation which statutorily capped the employer contribution rate, established a state funded “on-behalf” contribution (subject to funding availability), and required that employer contributions be calculated against *all* PERS eligible wages, including wages paid to participants of the PERS Tier IV defined contribution plan described later in these notes.

Alaska Statute 39.35.255 requires the State of Alaska to contribute to the Plan an amount such that, when combined with the employer contribution, is sufficient to pay the Plan’s past service liability contribution rate as adopted by the Alaska Retirement Management Board.

Although current statutes call for the State of Alaska to contribute to the Plan, the Alaska Department of Law determined that the statute does not create a legal obligation to assume the liabilities of the Plan; rather it establishes a contribution mechanism to provide employer relief against the rising contribution rates. This relief payment is subject to funding availability, and therefore not legally mandated. As a result, the State initially determined that the Plan is *not* in a special funding situation. Following much discussion with various stakeholders, participant communities, attorneys, auditors, and the GASB, itself the State has subsequently reversed its position on this matter, and as of June 30, 2015. The State did record the liability presuming that the current statute does constitute a special funding situation as the legislation is currently written. It is important to note that the Alaska Legislature has the power and authority to change the aforementioned statute through the legislative process, and it is likely that the State will pursue efforts to do so in a future legislative session.

For the current year financial statements, management has treated AS 39.35.255 as constituting a special funding situation under GASB 68 rules and has recorded all pension related liabilities, deferred inflows/outflows, and disclosures on this basis.

The City records these on-behalf contributions as revenue and expense/expenditures as dictated by the governing GAAP for each basis of accounting depending on fund type.

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. Police and firefighters are required to contribute 7.5% of their annual covered salary.

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 contractual employer pay-in rate. Under current legislation, this rate is statutorily capped at 22% of eligible wages, subject to a wage floor, and other termination events. This 22% rate is calculated on *all* PERS participating wages, including those wages attributable to employees in the defined contribution plan. Contributions derived from the defined contribution employees are referred to as the Defined Benefit Unfunded Liability or DBUL contribution.

ARM Board Adopted Rate: This is the rate formally adopted by the Alaska Retirement Management Board. This rate is actuarially determined and used to calculate annual Plan funding requirements, without regard to the statutory rate cap or the GASB accounting rate. Prior to July 1, 2015, there were 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. This will result in lower ARM Board Rates in future years (as demonstrated in the contribution rate tables below).

On-behalf Contribution Rate: This is the rate paid in by the State as an on-behalf payment under the current statute. The statute requires the State to contribute, based on funding availability, an on-behalf amount equal to the difference between the ARM Board Rate and the Employer Effective Rate. However, in state fiscal year 2015, the State Legislature appropriated a one-time contribution to the Plan in the amount of \$1 billion. As a result, the On-behalf Contribution Rate for State Fiscal Year 2015 (July 1, 2014 - June 30, 2015) significantly exceeds the statutory amount. In the governmental fund financial statements, on-behalf contribution amounts have been recognized as additional revenues and expenditures. On the enterprise fund and government-wide financial statements, the on-behalf amounts are included in revenue and expense only to the extent they are applicable to the measurement period.

GASB 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. Additionally, the GASB Rate disregards all future Medicare Part D payments. For FY15, the rate uses an 8.00% pension discount rate and a 4.90% healthcare discount rate.

The GASB Rate and the ARM Board Adopted Rate differ significantly as a direct result of variances in the actuarial methods and assumptions used.

City of Homer, Alaska

Notes to Basic Financial Statements

Contribution rates for the years ended June 30, 2015 and June 30, 2016 were determined in the June 30, 2012 and June 30, 2013 actuarial valuations, respectively. City contribution rates for the 2015 calendar year were as follows:

<i>January 1, 2015 to June 30, 2015</i>	Employer Effective Rate	ARM Board Adopted Rate	State Contribution Rate	GASB Rate
Pension	12.54%	25.09%	42.41%	33.05%
Postemployment healthcare (see Note 11)	9.46%	18.94%	- %	55.07%
Total Contribution Rates	22.00%	44.03%	42.41%	88.12%

<i>July 1, 2015 to December 31, 2015</i>	Employer Effective Rate	ARM Board Adopted Rate	State Contribution Rate	GASB Rate
Pension	13.25%	16.38%	3.63%	37.79%
Postemployment healthcare (see Note 11)	8.75%	10.81%	1.56%	58.73%
Total Contribution Rates	22.00%	27.19%	5.19%	96.52%

In 2015, the City was credited with the following contributions into the pension plan.

	Measurement Period July 1, 2014 to June 30, 2015	City Fiscal Year January 1, 2015 to December 31, 2015
Employer contributions (including DBUL)	\$ 667,470	\$ 644,805
Nonemployer contributions (on-behalf)	2,989,270	1,716,394
Total Contributions	\$ 3,656,740	\$ 2,361,199

In addition, employee contributions to the Plan totaled \$243,194 during the City's fiscal year.

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City of Homer, Alaska

Notes to Basic Financial Statements

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2015, the City reported a liability for its proportionate share of the net pension liability (NPL) that reflected a reduction for State pension support provided to the City. The amount recognized by the City for its proportional share, the related State proportion, and the total were as follows:

	2015
City proportionate share of NPL	\$ 10,912,909
State's proportionate share of NPL associated with the City	2,922,750
Total Net Pension Liability	\$ 13,835,659

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 to calculate the net pension liability as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, including the State, actuarially determined. At the June 30, 2015 measurement date, the City's proportion was 0.22501 percent, which was an increase of 0.06986 from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$2,634,463. Of this amount, \$403,623 was recorded as on-behalf revenue and expense for additional contributions paid by the State. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 12,720	\$ -
Changes in assumptions	638,089	-
Net difference between projected and actual earnings on pension plan investments	-	(193,204)
Changes in proportion and differences between City contributions and proportionate share of contributions	796,322	(38)
City contributions subsequent to the measurement date	326,547	-
Total Deferred Outflows and Deferred Inflows Related to Pensions	\$ 1,773,678	\$ (193,242)

City of Homer, Alaska

Notes to Basic Financial Statements

The \$326,547 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,

2016	\$	908,253
2017		14,581
2018		(83,946)
2019		121,128
<hr/>		
Total Amortization	\$	960,016

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement period, and rolled forward to the measurement date of June 30, 2015. The actuarial valuation for the year ended June 30, 2014 (latest available) was prepared by Buck Consultants. The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2005 to June 30, 2009, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect expected future experience.

Inflation	3.12%
Salary Increases	Graded by service, from 9.66% to 4.92% for Peace Officers/Firefighters. Graded by age and service, from 8.55% to 4.34% for all others.
Investment Return / Discount Rate	8.00% net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and real rate of return over 4.88%.
Mortality	Rates based on the 1994 Group Annuity Mortality Table, sex distinct, 1994 Base year without margin projected to 2013 using Projection Scale AA, 80% of the male table and 60% of the female table for pre-termination mortality for Peace officers/fire fighters. 75% for male and 55% for female for pre-termination for all others; and 100% for males and 1-year set-forward for females for post-termination.

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City of Homer, Alaska

Notes to Basic Financial Statements

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The best estimates of arithmetic real rates of return for each major asset class are summarized in the following table (note that the rates shown below exclude the inflation component):

<i>Asset Class</i>	<i>Long-term Expected Real Rate of Return</i>
Domestic equity	5.35%
Global equity (non-US)	5.55%
Private equity	6.25%
Fixed income composite	0.80%
Real estate	3.65%
Alternative equity	4.70%

Discount Rate

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that Employer and State contributions will continue to follow the current funding policy which meets State statutes. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Discount Rate Sensitivity

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 8.00 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00 percent) or 1-percentage-point higher (9.00 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$ 14,507,789	\$ 10,912,909	\$ 7,886,392

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

City of Homer, Alaska

Notes to Basic Financial Statements

10. Defined Contribution (DC) Pension Plan

Employees hired after July 1, 2006 participate in PERS Tier IV, a defined contribution plan. This Plan is administered by the State of Alaska, Department of Administration in conjunction with the defined benefit plan noted above. 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. This Plan is included in the comprehensive annual financial report for PERS, and at the following website, as noted above. <http://doa.alaska.gov/drb/pers>.

Contributions to the DC plan consist solely of employer and employee contributions with no special funding or other nonemployer contributions. In addition, actual remittances to the PERS system require that the City contribute at 22%. After deducting the DC plan contributions (and related OPEB contributions), the remaining remittance (the DBUL) is deposited into the DB plan as noted earlier.

Benefit Terms

Employees are immediately vested in their own contributions and vest 25% with two years of service, plus an additional 25% per year thereafter for full vesting at five years of service.

Employee Contribution Rate

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

Employer Contribution Rate

For the year ended December 31, 2015, the City was required to contribute 5% of covered salary into the Plan.

The City and employee contributions to PERS for pensions for the year ended December 31, 2015 were \$146,252 and \$234,003, respectively. The City contribution amount was recognized as pension expense/expenditures.

11. Other Post-Employment Benefit (OPEB) Plans

Defined Benefit OPEB

As part of its participation in the PERS DB Plan (Tiers I, II, III), the City participates in the Alaska Retiree Healthcare Trust (ARHCT). The ARHCT is self-funded and provides major medical coverage to retirees of the System. Benefits vary by Tier level. The Plan is administered by the State of Alaska, Department of Administration. Employer contribution rates are established in concert with the Defined Benefit Pension Plan described earlier in these notes.

City of Homer, Alaska

Notes to Basic Financial Statements

Employer Contribution Rate

For the six months ended June 30, 2015, the City was required to contribute 9.46% of covered payroll into the OPEB plan. That rate changed to 8.75% of covered payroll as of July 1, 2015. Employees do not contribute.

Annual Postemployment Healthcare Cost

Actual contributions into the Plan for the last three years were as follows. The amounts reported here include only the employer required contributions and do not include any amounts attributed to the on-behalf contributions by the State. On-behalf contributions to the OPEB Plan in 2015, 2014, and 2013 were \$49,513, \$216,658 and \$370,137, respectively.

<i>Years Ended December 31,</i>	Annual OPEB Costs	City Contributions	% of Costs Contributed
2015	\$ 455,735	\$ 455,735	100 %
2014	537,843	537,843	100 %
2013	621,804	621,804	100 %

Defined Contribution OPEB

Defined Contribution Pension Plan participants (PERS Tier IV) participate in the Occupational Death and Disability Plan (ODD), and the Retiree Medical Plan. Information on these plans is included in the comprehensive annual financial report for the PERS Plan noted above. These plans provide for death, disability, and post-employment health care benefits.

Employer Contribution Rates

Employees do not contribute to the DC OPEB plans. Employer contribution rates for the year ended December 31, 2015 were as follows:

	Other Tier IV	Police/Fire Tier IV
Retiree medical plan	1.66%	1.66%
Occupational death and disability benefits	0.22%	1.06%
Total Contribution Rates	1.88%	2.72%

In addition, PERS defined contribution members also participate in 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.

City of Homer, Alaska

Notes to Basic Financial Statements

Annual Postemployment Healthcare Cost

In 2015, the City contributed \$162,002 in DC OPEB costs. These amounts have been recognized as expense/expenditures.

12. Deferred Compensation Plan

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

13. Contingencies

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

Grants

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

14. Designated Sales Tax

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

Water, sewer, and related debt service	0.75%
Road and trail projects	0.75%
General Fund - undesignated	3.00%
Kenai Peninsula Borough	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.

15. Prior Period Adjustment and Change in Accounting Principle

In 2015, the City discovered that it had underreported health insurance expense and overreported cash in connection with its self-insurance health plan that terminated at December 31, 2014. The City has recorded a prior period adjustment in the amount of \$272,514 to reduce opening net position at January 1, 2015.

City of Homer, Alaska

Notes to Basic Financial Statements

In addition, as discussed in Note 9 to the financial statements, the City participates in the Alaska Public Employees Retirement System (PERS) plan. In 2015 the City adopted the provisions of GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*, which, among other accounting and reporting criteria, requires the City to recognize its proportional share of the Net Pension Liability (and related deferred inflow/outflow accounts), as of the beginning of the City's fiscal year. As a result of the implementation of this statement, the City has recorded an opening balance adjustment to reflect opening balance pension liabilities and related accounts and to decrease opening net position as follows:

	Opening Net Position, as Originally Presented	Prior Period Adjustment	Change in Accounting Principle Adjustment	Opening Net Position, as Restated
Governmental Activities	\$ 82,697,231	\$ (224,624)	\$ (6,493,036)	\$ 75,979,571
Business-type Activities	48,292,232	(47,890)	(1,230,239)	47,014,103
Port of Homer Enterprise Fund	48,261,733	-	(1,230,239)	47,031,494
Internal Service Fund	880,357	(272,514)	-	607,843

16. Subsequent Events

On February 22, 2016, the City entered into a loan agreement with the State of Alaska Department of Environmental Conservation to borrow up to \$817,000 for Water Distribution/Storage Improvements (Phase I). Of the amount, \$612,750 is eligible as a subsidy (principal forgiveness). The loan is to be repaid within 20 years following initiation of the operation of the facility and bears interest at 1.5%.

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 GASB Statement 75 will result in the biggest reporting change. However, actual impacts have not yet been determined.

GASB 72 - Fair Value Measurement and Application - 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. This statement is expected to primarily affect investment disclosures.

GASB 73 - Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 - This statement contains certain clarifications and amendments to GASB 67 and 68 as well as establishing requirements for both defined benefit and defined contribution pension plans not within the scope of GASB 68. Effective for fiscal year-end December 31, 2016—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for financial statements for year-end December 31, 2017, with earlier application encouraged.

City of Homer, Alaska

Notes to Basic Financial Statements

GASB 74 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans - Effective for year-end December 31, 2017, with earlier application encouraged - This statement contains financial reporting guidelines for Postemployment Benefit Plans. This is the Plan side requirements applicable to OPEB benefits and generally brings the OPEB reporting rules into alignment with the new GASB 67 Pension rules.

GASB 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions - Effective for year-end December 31, 2018, with earlier application encouraged - This statement contains accounting and financial reporting guidelines for OPEB related activities at the participating employer level and generally brings the OPEB reporting rules into alignment with the new GASB 68 Pension rules.

GASB 76 - The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments - Effective for year-end December 31, 2016 - This statement clarifies the hierarchy of generally accepted accounting principles to be used in the preparation of state and local government financial statements. This statement supersedes the previous hierarchy established in GASB 55.

GASB 77 - Tax Abatement Disclosures - Effective for year-end December 31, 2016 - This statement requires local governments to provide financial disclosures relating to tax abatements affecting the government. This includes information about abatement agreements entered into directly by the government, including conditions and criteria under which taxes can be abated, and the type and dollar amount of the tax. In addition, the statement requires disclosure of tax abatements issued by other governments that affect the local government's revenue recognition and reporting.

GASB 78 - Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans - Effective for year-end December 31, 2016 - This statement amends the scope and applicability of GASB 68 to exclude pensions provided to employees through a cost-sharing multiple-employer defined benefit pension plan that is (1) not a state or local government pension plan, (2) used to provide defined benefit pensions to employees of both government and non-government employers, and (3) has no predominant state or local government employer, either individually or collectively with other governmental employers providing pensions in the plan.

GASB 79 - Certain External Investment Pools and Pool Participants - Effective for year-end December 31, 2016 - This statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes.

GASB 80 - Blending Requirements for Certain Component Units - Effective for year-end December 31, 2017, with earlier application encouraged - This statement requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. This statement amends the previous requirements established in paragraph 53 of GASB 14. The criterion specified in GASB 80 does not apply to component units included in the financial reporting entity pursuant to GASB 39.

City of Homer, Alaska

Notes to Basic Financial Statements

GASB 81 - Irrevocable Split-Interest Agreements - Effective for year-end December 31, 2017, with earlier application encouraged - This statement establishes recording and recognition criteria for governments who receive resources pursuant to an irrevocable split-interest agreement.

GASB 82 - Pension-Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73 - Effective for year-end December 31, 2017, with earlier application encouraged - This statement further amends prior pension reporting to redefine “covered payroll” for required supplementary information, clarifies deviations from actuarial standards, and clarifies the classification of employer-paid member contributions.

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, 2015</i>	Budget		Actual GAAP Basis	Budget to GAAP Difference	Actual Budget Basis	Variance with Final Budget
	Original	Final				
Revenues						
Taxes	\$ 8,245,241	\$ 8,173,541	\$ 8,210,428	\$ -	\$ 8,210,428	\$ 36,887
Licenses and permits	35,600	35,600	27,625	-	27,625	(7,975)
Intergovernmental	1,852,455	1,294,097	2,328,251	(1,227,364)	1,100,887	(193,210)
Charges for services	1,996,539	1,996,538	2,122,768	-	2,122,768	126,230
Special assessments	-	-	63,207	-	63,207	63,207
Investment income	33,000	33,000	38,808	-	38,808	5,808
Fines and forfeitures	10,300	10,300	28,291	-	28,291	17,991
Total Revenues	12,173,135	11,543,076	12,819,378	(1,227,364)	11,592,014	48,938
Expenditures						
General government	3,358,958	3,173,747	3,355,698	(339,560)	3,016,138	157,609
Public safety	4,521,141	4,225,144	4,807,568	(558,626)	4,248,942	(23,798)
Public works	2,244,266	2,139,285	2,189,728	(185,154)	2,004,574	134,711
Library	861,511	826,723	871,729	(83,301)	788,428	38,295
Airport	212,171	206,779	189,030	(8,383)	180,647	26,132
Parks and recreation	422,823	410,564	421,565	(33,849)	387,716	22,848
Community services	252,638	269,137	284,675	(18,491)	266,184	2,953
Debt service:						
Principal	41,478	41,478	47,012	-	47,012	(5,534)
Interest	58,346	58,346	52,812	-	52,812	5,534
Total Expenditures	11,973,332	11,351,203	12,219,817	(1,227,364)	10,992,453	358,750
Excess of Revenues Over Expenditures	199,803	191,873	599,561	-	599,561	407,688
Other Financing Uses - transfers out	(199,803)	(199,804)	(647,594)	-	(647,594)	(447,790)
Net Change in Fund Balance	\$ -	\$ (7,931)	(48,033)	\$ -	(48,033)	\$ (40,102)
Fund Balance, beginning			6,569,033		6,569,033	
Fund Balance, ending			\$ 6,521,000		\$ 6,521,000	

See accompanying notes to Required Supplementary Information.

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, 2015</i>	Budget		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Sales taxes	\$ 1,262,726	\$ 1,262,726	\$ 1,255,611	\$ (7,115)
Intergovernmental	150,932	150,932	257,253	106,321
Charges for services	3,612,549	3,619,984	3,614,055	(5,929)
Special assessments	-	-	477,571	477,571
Investment income	-	-	8,457	8,457
Total Revenues	5,026,207	5,033,642	5,612,947	579,305
Expenditures				
Water	1,998,797	1,785,391	2,032,600	(247,209)
Sewer	1,442,760	1,384,044	1,666,894	(282,850)
Debt service:				
Principal	814,265	884,265	868,608	15,657
Interest	177,433	177,433	291,076	(113,643)
Total debt service	991,698	1,061,698	1,159,684	(97,986)
Capital outlay	-	-	181,366	(181,366)
Total Expenditures	4,433,255	4,231,133	5,040,544	(809,411)
Excess of Revenues Over Expenditures	592,952	802,509	572,403	(230,106)
Other Financing Sources (Uses)				
Transfers in	174,101	174,101	174,101	-
Transfers out	(56,499)	(56,499)	(20,299)	36,200
Net Change in Fund Balance	\$ 710,554	\$ 920,111	726,205	\$ (193,906)
Fund Balance, beginning			<u>1,807,867</u>	
Fund Balance, ending			<u>\$ 2,534,072</u>	

See accompanying notes to Required Supplementary Information.

City of Homer, Alaska
 Public Employees Retirement System
 Schedule of the City's Information on the Net Pension Liability

Last Fiscal Year

Year Ended December 31,	Measurement Period Ended June 30,	City's	City's	State of	Total	City's Covered Payroll	City's	Plan Fiduciary
		Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Alaska			Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability
2015	2015	0.22501%	\$ 10,912,909	\$ 2,922,750	\$ 13,835,659	\$ 6,455,186	169.06%	63.96%

See accompanying notes to Required Supplementary Information.

City of Homer, Alaska
Public Employees Retirement System
Schedule of City Contributions

Last Fiscal Year

<i>Year Ended December 31,</i>	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 644,804	\$ 644,804	\$ -	\$ 6,402,816	10.071%

See accompanying notes to Required Supplementary Information.

City of Homer, Alaska

Notes to Required Supplementary Information

1. Budgetary Comparison Schedules

An operating budget is adopted each fiscal year for the General Fund and Utility Special Revenue Fund on the modified accrual basis used to reflect actual revenues and expenditures.

The City follows these procedures in establishing the budgetary data reflected in the required budgetary comparison Schedules:

- a. By the third Friday in October, the City Manager presents the budget proposal for the next fiscal year, including additional information.
- b. Public hearings are conducted by the City to obtain taxpayer comments.
- c. At a regular Council meeting no less than 10 days before the end of the fiscal year, the Council shall appropriate the funds.
- d. The Council may increase or decrease appropriations during the course of the year and may amend the budget using the same method as for initial adoption.
- e. The City Manager is authorized to transfer budgeted amounts within a department; however, any revisions that result in permanent staffing level revisions, require Council approval. Expenditures may not exceed appropriations at the fund level.
- f. Appropriations lapse at the end of the fiscal year to the extent they have not been fully expended or fully encumbered. Capital appropriations remain in force until the project is finished or abandoned.

The City publishes its annual budget document and it is available on the City's website at: www.cityofhomer-ak.gov

2. Pension Disclosures

In accordance with GASB Statement 82, "Covered Payroll" is defined as payroll on which contributions to the pension plan are based. Because a portion of the City's contributions to the Plan (the DBUL) are based on Defined Contribution Wages, covered payroll reported here includes all PERS participating wages (both DB and DC).

Both pension tables are intended to present 10 years of information. Additional year's information will be added to the schedules as it becomes available.

Schedule of City's Information on the Net Pension Liability

- This table is presented based on the Plan measurement date. For December 31, 2015, the Plan measurement date is June 30, 2015.
- There were no changes in benefit terms from the prior measurement period.
- There were no changes in assumptions from the prior measurement period.

Schedule of City Contributions

- This table is based on the City's contributions during calendar year 2015. A portion of these contributions are included in the plan measurement results, while a portion of the contributions are reported as a deferred outflow on the December 31, 2015 basic financial statements.

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, 2015	Special Revenue Funds										Capital Project Funds						Total Nonmajor Govern- mental 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	Energy Revolving Loan	City Facilities	Fleet Reserve Allocation	Total Capital Project Funds	
Assets																	
Cash and investments	\$ 32,723	\$ 102,088	\$ 335	\$ 13,363	\$ 517	\$ 14,781	\$ 28,135	\$ 2,439	\$ 14,688	\$ 209,069	\$ 605,517	\$ 1,179,694	\$ 121,920	\$ -	\$ 500,920	\$ 2,408,051	\$ 2,617,120
Receivables, net:																	
Sales taxes	-	-	-	-	-	-	-	-	-	-	19,250	-	-	-	19,250	19,250	
Interfund loan	-	-	-	-	-	-	-	-	-	-	-	16,129	-	-	16,129	16,129	
State and federal grants	-	-	-	-	-	1,642	-	-	1,642	-	-	-	969,498	-	969,498	971,140	
Other	-	-	-	1,266	-	-	-	-	1,266	-	-	-	-	-	-	1,266	
Restricted cash and investments	-	-	-	-	-	-	2,040,169	-	2,040,169	-	-	-	-	-	-	2,040,169	
Total Assets	\$ 32,723	\$ 102,088	\$ 335	\$ 14,629	\$ 517	\$ 14,781	\$ 29,777	\$ 2,042,608	\$ 14,688	\$ 2,252,146	\$ 624,767	\$ 1,179,694	\$ 138,049	\$ 969,498	\$ 500,920	\$ 3,412,928	\$ 5,665,074
Liabilities																	
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 556	\$ -	\$ -	\$ 556	\$ -	\$ 1,802	\$ -	\$ 76,709	\$ 2,650	\$ 81,161	\$ 81,717
Unearned revenue	-	-	-	14,563	-	-	-	-	14,563	-	-	-	12,662	-	12,662	27,225	
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	-	533,574	-	533,574	533,574	
Total Liabilities	-	-	-	14,563	-	-	556	-	-	15,119	-	1,802	-	622,945	2,650	627,397	642,516
Fund Balances																	
Restricted:																	
Roads and trails	-	-	-	-	-	-	-	-	-	-	624,767	-	-	-	-	624,767	624,767
Permanent fund	-	-	-	-	-	-	2,042,608	-	2,042,608	-	-	-	-	-	-	-	2,042,608
Assigned:																	
Library	32,723	-	-	-	-	-	-	-	32,723	-	-	-	-	-	-	-	32,723
Public safety	-	102,088	335	-	-	-	-	-	102,423	-	-	-	-	-	-	-	102,423
Community schools	-	-	-	-	517	-	-	-	517	-	-	-	-	-	-	-	517
Sustainability	-	-	-	-	-	14,781	-	-	14,781	-	-	-	-	-	-	-	14,781
PERS benefits	-	-	-	-	-	-	-	14,688	14,688	-	-	-	-	-	-	-	14,688
Capital and land	-	-	-	66	-	-	29,221	-	29,287	-	1,177,892	138,049	346,553	498,270	2,160,764	2,190,051	
Total Fund Balances	32,723	102,088	335	66	517	14,781	29,221	2,042,608	14,688	2,237,027	624,767	1,177,892	138,049	346,553	498,270	2,785,531	5,022,558
Total Liabilities and Fund Balances	\$ 32,723	\$ 102,088	\$ 335	\$ 14,629	\$ 517	\$ 14,781	\$ 29,777	\$ 2,042,608	\$ 14,688	\$ 2,252,146	\$ 624,767	\$ 1,179,694	\$ 138,049	\$ 969,498	\$ 500,920	\$ 3,412,928	\$ 5,665,074

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

Year Ended December 31, 2015	Special Revenue Funds									Capital Project Funds							Total Nonmajor Governmental Funds		
	Library Donations	Fire Department 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	
Revenues																			
Sales taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 125,252	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 125,252	\$ 125,252
Intergovernmental	-	-	-	-	-	-	-	-	21,670	-	-	-	-	-	1,005,841	-	-	1,005,841	1,027,511
Investment income	6	4	-	-	-	-	-	-	10,780	23	10,813	3,270	4,800	-	7,611	2,992	18,673	29,486	29,486
Donations	124	4,889	-	-	-	-	-	-	-	-	5,013	-	-	-	-	-	-	-	5,013
Other grants	-	-	-	-	-	-	-	-	-	-	-	930	-	-	-	-	-	930	930
Other	-	-	-	-	25	-	12,956	-	-	-	12,981	-	3,230	-	-	-	-	3,230	16,211
Total Revenues	130	4,893	-	-	25	-	34,626	10,780	23	50,477	128,522	8,960	-	-	1,013,452	2,992	1,153,926	1,204,403	
Expenditures																			
Current:																			
General government	-	-	-	-	-	-	-	-	-	-	28,841	19,528	-	-	-	-	-	48,369	48,369
Public safety	-	-	-	-	-	-	-	-	31,343	-	-	-	-	-	-	-	-	31,343	31,343
Debt service principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,342	7,342	7,342	7,342
Debt service interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,260	3,260	3,260	3,260
Capital outlay	-	-	-	-	-	-	928	-	-	928	18,707	445,460	2,805	-	1,050,763	43,283	1,561,018	1,561,946	1,561,946
Total Expenditures	-	-	-	-	-	-	32,271	-	-	32,271	47,548	464,988	2,805	-	1,050,763	53,885	1,619,989	1,652,260	
Excess of Revenues Over (Under)																			
Expenditures	130	4,893	-	-	25	-	2,355	10,780	23	18,206	80,974	(456,028)	(2,805)	-	(37,311)	(50,893)	(466,063)	(447,857)	
Other Financing Sources (Uses)																			
Issuance of capital lease	-	-	-	-	-	-	-	-	-	-	-	125,776	-	-	-	149,599	275,375	275,375	275,375
Capital lease purchase	-	-	-	-	-	-	-	-	-	-	-	(125,776)	-	-	-	(149,599)	(275,375)	(275,375)	(275,375)
Transfers in	-	-	-	-	-	-	107,619	-	-	107,619	-	370,000	3,074	31,003	427,092	-	831,169	938,788	938,788
Transfers out	-	-	-	-	-	-	-	-	-	-	-	(110,693)	-	-	-	-	(110,693)	(110,693)	(110,693)
Net Change in Fund Balances	130	4,893	-	-	25	-	109,974	10,780	23	125,825	80,974	(196,721)	269	31,003	389,781	(50,893)	254,413	380,238	
Fund Balances (Deficits), beginning	32,593	97,195	335	66	492	14,781	(80,753)	2,031,828	14,665	2,111,202	543,793	1,374,613	(269)	107,046	(43,228)	549,163	2,531,118	4,642,320	
Fund Balances, ending	\$ 32,723	\$ 102,088	\$ 335	\$ 66	\$ 517	\$ 14,781	\$ 29,221	\$ 2,042,608	\$ 14,688	\$ 2,237,027	\$ 624,767	\$ 1,177,892	\$ -	\$ 138,049	\$ 346,553	\$ 498,270	\$ 2,785,531	\$ 5,022,558	

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>	2015	2014
Assets		
Cash and investments	\$ 4,189,551	\$ 386,625
Receivables		
Property taxes - delinquent, net of allowance for doubtful accounts of \$4,418 (\$5,235 in 2014)	71,798	77,008
Sales taxes	782,484	759,645
Assessments	382,025	407,314
Other, net of allowance for doubtful accounts of \$55,534 (\$29,204 in 2014)	135,669	37,262
Total Receivables	1,371,976	1,281,229
Due from other funds	1,150,932	5,240,998
Interfund loan receivable	242,352	300,000
Inventory	28,810	52,312
Prepaid items	257,985	234,289
Total Assets	\$ 7,241,606	\$ 7,495,453
Liabilities		
Accounts payable	\$ 113,543	\$ 213,661
Accrued payroll and related liabilities	135,126	196,132
Unearned revenue	1,910	5,414
Customer deposits	16,204	16,204
Total Liabilities	266,783	431,411
Deferred Inflows of Resources		
Deferred property taxes	71,798	78,695
Deferred assessments	382,025	416,314
Total Deferred Inflows of Resources	453,823	495,009
Total Liabilities and Deferred Inflows of Resources	720,606	926,420
Fund Balance		
Nonspendable	529,147	586,601
Restricted - Special service district	101,223	76,421
Assigned - PERS benefits	171,314	171,314
Unassigned	5,719,316	5,734,697
Total Fund Balance	6,521,000	6,569,033
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 7,241,606	\$ 7,495,453

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

<i>Year Ended December 31,</i>	2015					2014
	Final Budget	Actual GAAP Basis	Budget to GAAP Difference	Actual Budget Basis	Variance	Actual GAAP Basis
Revenues						
Taxes:						
Property taxes	\$ 3,106,836	\$ 3,179,852	\$ -	\$ 3,179,852	\$ 73,016	\$ 3,119,599
Sales taxes	5,054,905	5,025,763	-	5,025,763	(29,142)	4,993,941
Penalties and interest	11,800	4,813	-	4,813	(6,987)	2,368
Total taxes	8,173,541	8,210,428	-	8,210,428	36,887	8,115,908
Licenses and permits	35,600	27,625	-	27,625	(7,975)	27,931
Intergovernmental:						
Revenue - sharing	341,037	322,339	-	322,339	(18,698)	341,037
State PERS relief	-	1,227,364	(1,227,364)	-	-	1,253,205
Utility cooperative	49,300	25,306	-	25,306	(23,994)	26,845
Alcohol beverage tax	22,400	23,200	-	23,200	800	24,350
Public safety	840,710	685,888	-	685,888	(154,822)	859,073
Library grant	6,650	10,154	-	10,154	3,504	7,558
Public works	34,000	34,000	-	34,000	-	68,000
Total intergovernmental	1,294,097	2,328,251	(1,227,364)	1,100,887	(193,210)	2,580,068
Charges for services:						
Administrative services	1,382,738	1,385,810	-	1,385,810	3,072	1,482,726
Ambulance services	194,800	109,054	-	109,054	(85,746)	203,253
Fire contracts	70,700	70,512	-	70,512	(188)	68,681
Camping fees	154,000	166,028	-	166,028	12,028	156,574
Rents and leases	9,000	-	-	-	(9,000)	30
Airport services	96,900	128,748	-	128,748	31,848	126,774
Community school fees	33,500	36,768	-	36,768	3,268	40,280
Miscellaneous services	54,900	225,848	-	225,848	170,948	46,733
Total charges for services	1,996,538	2,122,768	-	2,122,768	126,230	2,125,051
Special assessments	-	63,207	-	63,207	63,207	59,740

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>	2015					2014	
	Final Budget	Actual GAAP Basis	Budget to GAAP Difference	Actual Budget Basis	Variance	Actual GAAP Basis	
Revenues, continued							
Investment income	\$ 33,000	\$ 38,808	\$ -	\$ 38,808	\$ 5,808	\$ 30,830	
Fines and forfeitures	10,300	28,291	-	28,291	17,991	20,142	
Total Revenues	11,543,076	12,819,378	(1,227,364)	11,592,014	48,938	12,959,670	
Expenditures							
General government:							
City council/mayor:							
Salaries and benefits	14,056	11,930	-	11,930	2,126	5,194	
Supplies	2,600	1,235	-	1,235	1,365	1,779	
Other services and charges	361,497	357,593	-	357,593	3,904	365,522	
Total city council/mayor	378,153	370,758	-	370,758	7,395	372,495	
City clerk:							
Salaries and benefits	323,310	391,239	(58,060)	333,179	(9,869)	377,114	
Supplies	3,900	3,649	-	3,649	251	2,277	
Other services and charges	78,542	66,056	-	66,056	12,486	41,154	
Total city clerk	405,752	460,944	(58,060)	402,884	2,868	420,545	
City manager:							
Salaries and benefits	205,926	167,428	(18,936)	148,492	57,434	262,099	
Supplies	5,000	5,013	-	5,013	(13)	4,110	
Other services and charges	17,699	11,968	-	11,968	5,731	21,682	
Total city manager	228,625	184,409	(18,936)	165,473	63,152	287,891	
Administrative services:							
Salaries and benefits	1,009,041	1,162,325	(197,528)	964,797	44,244	1,297,006	
Supplies	12,500	7,263	-	7,263	5,237	7,802	
Other services and charges	431,747	435,975	-	435,975	(4,228)	287,506	
Total administrative services	1,453,288	1,605,563	(197,528)	1,408,035	45,253	1,592,314	

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>	2015					2014	
Final Budget	Actual GAAP Basis	Budget to GAAP Difference	Actual Budget Basis	Variance	Actual GAAP Basis		
Expenditures, continued							
General government, continued:							
Planning and zoning/property management:							
Salaries and benefits	\$ 400,866	\$ 431,587	\$ (65,036)	\$ 366,551	\$ 34,315	\$ 465,374	
Supplies	2,900	2,149	-	2,149	751	1,502	
Other services and charges	27,586	22,021	-	22,021	5,565	20,759	
Total planning and zoning/ property management	431,352	455,757	(65,036)	390,721	40,631	487,635	
City hall complex:							
Supplies	16,000	12,102	-	12,102	3,898	12,330	
Other services and charges	121,055	126,643	-	126,643	(5,588)	222,552	
Total city hall complex	137,055	138,745	-	138,745	(1,690)	234,882	
Non-departmental - salaries and benefits	139,522	139,522	-	139,522	-	111,878	
Total general government	3,173,747	3,355,698	(339,560)	3,016,138	157,609	3,507,640	
Public safety:							
Police department:							
Salaries and benefits	1,926,960	2,434,520	(349,329)	2,085,191	(158,231)	2,410,638	
Supplies	46,600	35,766	-	35,766	10,834	43,713	
Other services and charges	312,315	287,860	-	287,860	24,455	310,699	
Total police department	2,285,875	2,758,146	(349,329)	2,408,817	(122,942)	2,765,050	
Jail:							
Salaries and benefits	651,913	674,599	(89,199)	585,400	66,513	575,346	
Supplies	27,500	29,422	-	29,422	(1,922)	32,443	
Other services and charges	130,444	118,642	-	118,642	11,802	120,620	
Total jail	809,857	822,663	(89,199)	733,464	76,393	728,409	
Animal control:							
Supplies	13,700	8,950	-	8,950	4,750	8,379	
Other services and charges	148,614	144,607	-	144,607	4,007	144,638	
Total animal control	162,314	153,557	-	153,557	8,757	153,017	

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>	2015					2014	
	Final Budget	Actual GAAP Basis	Budget to GAAP Difference	Actual Budget Basis	Variance	Actual GAAP Basis	
Expenditures, continued							
Public safety, continued:							
Emergency services:							
Salaries and benefits	\$ 651,929	\$ 820,202	\$ (120,098)	\$ 700,104	\$ (48,175)	\$ 807,465	
Supplies	49,000	40,365	-	40,365	8,635	35,296	
Other services and charges	266,169	212,635	-	212,635	53,534	219,380	
Total emergency services	967,098	1,073,202	(120,098)	953,104	13,994	1,062,141	
Total public safety	4,225,144	4,807,568	(558,626)	4,248,942	(23,798)	4,708,617	
Public works:							
Administration:							
Salaries and benefits	101,476	102,473	(10,542)	91,931	9,545	436,651	
Supplies	6,550	5,190	-	5,190	1,360	8,445	
Other services and charges	72,724	71,131	-	71,131	1,593	92,499	
Total administration	180,750	178,794	(10,542)	168,252	12,498	537,595	
Maintenance:							
Salaries and benefits	177,988	223,937	(31,922)	192,015	(14,027)	205,974	
Supplies	20,250	9,769	-	9,769	10,481	13,483	
Other services and charges	126,686	109,744	-	109,744	16,942	97,870	
Total maintenance	324,924	343,450	(31,922)	311,528	13,396	317,327	
Streets:							
Salaries and benefits	421,841	538,347	(126,284)	412,063	9,778	212,067	
Supplies	185,000	186,205	-	186,205	(1,205)	168,334	
Other services and charges	64,500	50,576	-	50,576	13,924	49,994	
Total streets	671,341	775,128	(126,284)	648,844	22,497	430,395	
Motor pool:							
Salaries and benefits	166,487	174,955	-	174,955	(8,468)	169,674	
Supplies	116,910	72,325	-	72,325	44,585	99,004	
Other services and charges	232,000	285,173	-	285,173	(53,173)	284,541	
Total motor pool	515,397	532,453	-	532,453	(17,056)	553,219	

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>	2015					2014
	Final Budget	Actual GAAP Basis	Budget to GAAP Difference	Actual Budget Basis	Variance	Actual GAAP Basis
Expenditures, continued						
Public works, continued:						
Engineer/inspector:						
Salaries and benefits	\$ 394,123	\$ 313,514	\$ (16,406)	\$ 297,108	\$ 97,015	\$ 298,388
Supplies	17,000	17,377	-	17,377	(377)	14,575
Other services and charges	35,750	29,012	-	29,012	6,738	32,083
Total engineer/inspector	446,873	359,903	(16,406)	343,497	103,376	345,046
Total public works	2,139,285	2,189,728	(185,154)	2,004,574	134,711	2,183,582
Library:						
Salaries and benefits	604,436	674,325	(83,301)	591,024	13,412	644,773
Supplies	29,356	19,329	-	19,329	10,027	26,281
Other services and charges	192,931	178,075	-	178,075	14,856	176,601
Total library	826,723	871,729	(83,301)	788,428	38,295	847,655
Airport:						
Salaries and benefits	69,710	65,661	(8,383)	57,278	12,432	89,164
Supplies	21,000	12,357	-	12,357	8,643	20,295
Other services and charges	116,069	111,012	-	111,012	5,057	111,843
Total airport	206,779	189,030	(8,383)	180,647	26,132	221,302
Parks and recreation:						
Salaries and benefits	239,784	277,030	(33,849)	243,181	(3,397)	244,158
Supplies	45,800	31,012	-	31,012	14,788	40,933
Other services and charges	124,980	113,523	-	113,523	11,457	124,120
Total parks and recreation	410,564	421,565	(33,849)	387,716	22,848	409,211
Community services:						
Community service contributions:						
Museum	66,500	69,000	-	69,000	(2,500)	69,000
Homer Foundation Non-Profit	24,000	19,000	-	19,000	5,000	19,000
Tidal energy project	-	-	-	-	-	8,916
Other	40,500	39,695	-	39,695	805	15,050
Total community service contributions	131,000	127,695	-	127,695	3,305	111,966

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>	2015					2014
Final Budget	Actual GAAP Basis	Budget to GAAP Difference	Actual Budget Basis	Variance	Actual GAAP Basis	
Expenditures, continued						
Community services, continued:						
Community schools:						
Salaries and benefits	\$ 109,039	\$ 124,547	\$ (18,491)	\$ 106,056	\$ 2,983	\$ 102,529
Supplies	3,000	1,420	-	1,420	1,580	2,534
Other services and charges	26,098	31,013	-	31,013	(4,915)	20,478
Total community schools	138,137	156,980	(18,491)	138,489	(352)	125,541
Total community services	269,137	284,675	(18,491)	266,184	2,953	237,507
Debt service on loans:						
Principal	41,478	47,012	-	47,012	(5,534)	45,149
Interest	58,346	52,812	-	52,812	5,534	54,675
Total debt service	99,824	99,824	-	99,824	-	99,824
Total Expenditures	11,351,203	12,219,817	(1,227,364)	10,992,453	358,750	12,215,338
Excess of Revenues Over Expenditures	191,873	599,561	-	599,561	407,688	744,332
Other Financing Uses - transfers out	(199,804)	(647,594)	-	(647,594)	(447,790)	(223,083)
Net Change in Fund Balance	\$ (7,931)	(48,033)	\$ -	(48,033)	\$ (40,102)	521,249
Fund Balance, beginning		6,569,033		6,569,033		6,047,784
Fund Balance, ending		\$ 6,521,000		\$ 6,521,000		\$ 6,569,033

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, 2015</i>	Budget	Actual	Variance
Revenues			
Sales taxes	\$ 1,262,726	\$ 1,255,611	\$ (7,115)
Intergovernmental - State of Alaska PERS relief	150,932	257,253	106,321
Charges for services:			
Water charges and connection fees	1,924,472	1,995,460	70,988
Sewer charges and connection fees	1,695,512	1,618,595	(76,917)
Total charges for services	3,619,984	3,614,055	(5,929)
Water and sewer special assessments	-	477,571	477,571
Investment income	-	8,457	8,457
Total Revenues	5,033,642	5,612,947	579,305
Expenditures			
Water:			
Pumping system	108,799	66,922	41,877
Treatment plant and operations testing	541,105	588,260	(47,155)
Distribution system and reservoir	317,773	393,565	(75,792)
Water meters	179,774	144,792	34,982
Water hydrants	166,668	186,369	(19,701)
Adminstration	471,272	652,692	(181,420)
Total water	1,785,391	2,032,600	(247,209)
Sewer:			
Pumping system	757,767	1,017,799	(260,032)
Collection system	240,484	268,823	(28,339)
Administration	385,793	380,272	5,521
Total sewer	1,384,044	1,666,894	(282,850)
Debt service:			
Principal	884,265	868,608	15,657
Interest	177,433	291,076	(113,643)
Total debt service	1,061,698	1,159,684	(97,986)
Capital outlay	-	181,366	(181,366)
Total Expenditures	4,231,133	5,040,544	(809,411)
Excess of Revenues Over (Under) Expenditures	802,509	572,403	(230,106)
Other Financing Sources (Uses)			
Transfers in	174,101	174,101	-
Transfers out	(56,499)	(20,299)	36,200
Net Change in Fund Balance	\$ 920,111	726,205	\$ (193,906)
Fund Balance, beginning		<u>1,807,867</u>	
Fund Balance, ending		<u>\$ 2,534,072</u>	

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

<i>December 31, 2015</i>	Utility Operations	HAWSP Debt Service	Utility Capital Projects	Utility Reserves	Total Utility Fund
Assets					
Cash and investments	\$ 2,695,189	\$ (4,394,408)	\$ (140,305)	\$ 4,112,150	\$ 2,272,626
Receivables					
Accounts	273,832	-	-	-	273,832
Sales taxes	(20)	195,549	-	-	195,529
Assessments	-	4,398,291	-	-	4,398,291
Total Receivables	273,812	4,593,840	-	-	4,867,652
Inventory	310,094	-	-	-	310,094
Prepaid items	31,437	-	-	-	31,437
Total Assets	\$ 3,310,532	\$ 199,432	\$ (140,305)	\$ 4,112,150	\$ 7,481,809
Liabilities					
Accounts payable	\$ 41,254	\$ -	\$ -	\$ -	\$ 41,254
Accrued payroll and related liabilities	21,593	-	-	-	21,593
Customer deposits	40,697	-	-	-	40,697
Matured debt service	-	445,902	-	-	445,902
Total Liabilities	103,544	445,902	-	-	549,446
Deferred Inflows of Resources					
Deferred assessments	-	4,398,291	-	-	4,398,291
Total Liabilities and Deferred Inflows of Resources	103,544	4,844,193	-	-	4,947,737
Fund Balances (Deficits)					
Nonspendable - inventory and prepaid items	341,531	-	-	-	341,531
Assigned - water and sewer	2,865,457	(4,644,761)	(140,305)	4,112,150	2,192,541
Total Fund Balances (Deficits)	3,206,988	(4,644,761)	(140,305)	4,112,150	2,534,072
Total Liabilities, Deferred Inflows of Resources and Fund Balances (Deficits)	\$ 3,310,532	\$ 199,432	\$ (140,305)	\$ 4,112,150	\$ 7,481,809

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

<i>Year Ended December 31, 2015</i>	Utility Operations	HAWSP Debt Service	Utility Capital Projects	Utility Reserves	Total Utility Fund
Revenues					
Sales taxes	\$ -	\$ 1,255,611	\$ -	\$ -	\$ 1,255,611
Intergovernmental:					
State of Alaska PERS relief	257,253	-	-	-	257,253
Charges for services:					
Water charges and connection fees	1,995,460	-	-	-	1,995,460
Sewer charges and connection fees	1,618,595	-	-	-	1,618,595
Total charges for services	3,614,055	-	-	-	3,614,055
Water and sewer special assessments	-	477,571	-	-	477,571
Investment income	8,457	-	-	-	8,457
Total Revenues	3,879,765	1,733,182	-	-	5,612,947
Expenditures					
Water:					
Pumping system	66,922	-	-	-	66,922
Treatment plant and operations testing	588,260	-	-	-	588,260
Distribution system and reservoir	393,565	-	-	-	393,565
Water meters	144,792	-	-	-	144,792
Water hydrants	186,369	-	-	-	186,369
Administration	508,486	144,206	-	-	652,692
Total water	1,888,394	144,206	-	-	2,032,600
Sewer:					
Pumping system	1,017,799	-	-	-	1,017,799
Collection system	268,823	-	-	-	268,823
Administration	380,272	-	-	-	380,272
Total sewer	1,666,894	-	-	-	1,666,894
Debt service:					
Principal	-	868,608	-	-	868,608
Interest	1,756	289,320	-	-	291,076
Total debt service	1,756	1,157,928	-	-	1,159,684
Capital outlay	-	-	-	181,366	181,366
Total Expenditures	3,557,044	1,302,134	-	181,366	5,040,544
Excess of Revenues Over (Under)					
Expenditures	322,721	431,048	-	(181,366)	572,403
Other Financing Sources (Uses)					
Eliminating transfers	(233,484)	(894,122)	914,421	213,185	-
Transfers in	174,101	-	-	-	174,101
Transfers out	-	-	(20,299)	-	(20,299)
Net Change in Fund Balances	263,338	(463,074)	894,122	31,819	726,205
Fund Balances (Deficits), beginning	2,943,650	(4,181,687)	(1,034,427)	4,080,331	1,807,867
Fund Balances (Deficits), ending	\$ 3,206,988	\$ (4,644,761)	\$ (140,305)	\$ 4,112,150	\$ 2,534,072

Port of Homer 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>	2015	2014
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and investments	\$ -	\$ 1,588,696
Receivables:		
Accounts, net of allowance for doubtful accounts of \$28,134 (\$28,134 in 2014)	152,790	187,104
State and federal grants	1,571,369	3,660,958
Inventory	14,431	14,431
Prepaid items	67,121	48,251
Total Current Assets	1,805,711	5,499,440
Restricted Cash and Investments		
Bond reserves	306,074	293,697
Property, Plant and Equipment		
Property, plant and equipment in service	58,057,765	55,754,910
Land and land improvements	15,254,041	15,254,041
Construction work in progress	15,836,199	10,577,961
Less accumulated depreciation	(33,783,796)	(32,340,856)
Net Property, Plant and Equipment	55,364,209	49,246,056
Total Assets	57,475,994	55,039,193
Deferred Outflows of Resources - related to pensions	282,529	-
Total Assets and Deferred Outflows of Resources	\$ 57,758,523	\$ 55,039,193
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Due to other funds	\$ 502,221	\$ -
Accounts payable	72,160	116,947
Accounts payable for capital assets	48,364	907,301
Accrued payroll and related liabilities	21,475	39,368
Accrued leave	75,000	14,398
General obligation bonds payable	135,000	130,000
Prepaid berth rentals and deposits	913,490	837,534
Unearned lease revenue	18,000	18,000
Unearned grant revenue	83,507	55,657
Interfund loan	62,091	3,291
Total Current Liabilities	1,931,308	2,122,496
Noncurrent Liabilities, net of current portion:		
Unearned lease revenue	216,000	234,000
Accrued leave	153,017	184,781
Interfund loan	196,390	316,129
General obligation bonds payable including bond premium	3,760,328	3,920,054
Net pension liability	1,738,315	-
Total Noncurrent Liabilities	6,064,050	4,654,964
Total Liabilities	7,995,358	6,777,460
Deferred Inflows of Resources - related to pensions	30,782	-
Net Position		
Net investment in capital assets	51,762,578	45,489,699
Unrestricted (deficit)	(2,030,195)	2,772,034
Total Net Position	49,732,383	48,261,733
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 57,758,523	\$ 55,039,193

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

<i>Year Ended December 31,</i>	2015	2014
Operating Revenues		
Harbor	\$ 2,394,979	\$ 2,347,880
Main dock	303,168	362,070
Fish dock	503,553	553,100
Deep water dock	389,308	467,584
Rents, leases and storage	470,056	459,939
Fish grinder	7,140	7,279
Total Operating Revenues	4,068,204	4,197,852
Operating Expenses		
Harbor	1,681,245	1,564,027
Main dock	95,671	86,475
Fish dock	702,484	632,669
Deep water dock	131,851	141,670
Fish grinder	10,126	403
Administration	1,339,737	1,484,844
Depreciation	1,520,825	1,489,777
Total Operating Expenses	5,481,939	5,399,865
Operating Loss	(1,413,735)	(1,202,013)
Nonoperating Revenues (Expenses)		
Investment income	45,111	28,690
State PERS relief	72,180	299,245
Other income	91,161	129,956
Cruise ship tax	-	450
Fish tax	24,184	58,621
Loss on disposal of capital assets	(1,252,308)	-
Miscellaneous repairs	(302,393)	(829)
Net Nonoperating Revenues (Expenses)	(1,322,065)	516,133
Loss Before Capital Contributions	(2,735,800)	(685,880)
Capital contributions	5,436,689	4,732,718
Change in Net Position	2,700,889	4,046,838
Beginning Net Position, as restated (Note 15)	47,031,494	44,214,895
Ending Net Position	\$ 49,732,383	\$ 48,261,733

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

<i>Year Ended December 31,</i>	2015	2014
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 4,279,485	\$ 4,418,382
Payments to suppliers	(2,514,087)	(1,726,502)
Payments to employees	(1,473,623)	(1,487,223)
Net cash flows from operating activities	291,775	1,204,657
Cash Flows from (for) Noncapital Financing Activities-		
Increase in due to other funds	502,221	-
Cruise ship tax and fish tax received	24,184	59,071
Net cash flows from noncapital financing activities	526,405	59,071
Cash Flows from (for) Capital and Related Financing Activities		
Principal paid on long-term debt	(130,000)	(130,000)
Interest paid on long-term debt	(156,050)	(158,650)
Capital contributions received	7,526,278	2,180,971
Acquisition of property, plant and equipment	(9,618,899)	(7,711,704)
Increase (decrease) in interfund loan	(60,939)	296,708
Net cash flows for capital and related financing activities	(2,439,610)	(5,522,675)
Cash Flows from Investing Activities		
Investment income received	45,111	28,690
Net Decrease in Cash and Investments	(2,078,540)	(4,230,257)
Beginning Cash and Investments	1,882,393	6,112,650
Ending Cash and Investments	\$ (196,147)	\$ 1,882,393

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

<i>Year Ended December 31,</i>	2015	2014
Reconciliation of Operating Loss to Net Cash		
Flows from Operating Activities		
Operating loss	\$ (1,413,735)	\$ (1,202,013)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation	1,520,825	1,489,777
Noncash expense - PERS relief	72,180	299,245
Decrease in allowance for doubtful accounts	-	(12,518)
Amortization of deferred lease revenue	(18,000)	(18,000)
Miscellaneous nonoperating revenues and expense, net	(211,232)	129,127
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable	34,314	37,337
Inventory	-	1,216
Prepaid items	(18,870)	356
Deferred outflows of resources related to pensions	(226,903)	-
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable	(44,787)	379,317
Accrued payroll and related liabilities	(17,893)	3,065
Unearned grant revenue	27,850	33,947
Accrued leave	28,838	13,164
Prepaid berth rentals and deposits	75,956	50,637
Net pension liability	585,649	-
Deferred inflows of resources related to pensions	(102,417)	-
Net Cash Flows from Operating Activities	\$ 291,775	\$ 1,204,657
Interest capitalized	\$ 131,324	\$ 133,924
Capital assets acquired on account	\$ 48,364	\$ 907,301

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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 insurance activities.

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, 2015</i>	Health Insurance	Leave Cash-out	Total
Assets			
Cash and investments	\$ 727,308	\$ -	\$ 727,308
Liabilities and Net Position			
Current Liabilities			
Due to other funds	\$ -	\$ 114,316	\$ 114,316
Net Position			
Unrestricted (deficit)	727,308	(114,316)	612,992
Total Liabilities and Net Position	\$ 727,308	\$ -	\$ 727,308

City of Homer, Alaska

Internal Service Funds

Combining Statement of Revenues, Expenses, and Changes in Net Position

<i>Year Ended December 31, 2015</i>	Health Insurance	Leave Cash-out	Total
Operating Revenues			
Interfund charges	\$ 1,411,204	\$ 185,575	\$ 1,596,779
Employee health contributions	169,215	-	169,215
Total Operating Revenues	1,580,419	185,575	1,765,994
Operating Expenses			
Salaries and benefits	-	307,277	307,277
Insurance premiums	1,335,962	-	1,335,962
Administration	55,140	-	55,140
Employee incentive fees	62,466	-	62,466
Total Operating Expenses	1,453,568	307,277	1,760,845
Change in Net Position	126,851	(121,702)	5,149
Beginning Net Position, as originally presented	872,971	7,386	880,357
Prior Period Adjustment (Note 15)	(272,514)	-	(272,514)
Beginning Net Position, as restated	600,457	7,386	607,843
Ending Net Position (Deficit)	\$ 727,308	\$ (114,316)	\$ 612,992

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

<i>Year Ended December 31, 2015</i>	Health Insurance	Leave Cash-out	Total
Cash Flows for Operating Activities			
Receipts for interfund services provided and employee contributions	\$ 1,580,419	\$ 185,575	\$ 1,765,994
Payments to employees	(62,466)	(307,277)	(369,743)
Payments for insurance, claims, and administration	(1,695,998)	-	(1,695,998)
Net cash flows for operating activities	(178,045)	(121,702)	(299,747)
Cash Flows from Noncapital Financing Activities			
Increase in due to other funds	-	114,316	114,316
Net Decrease in Cash and Investments	(178,045)	(7,386)	(185,431)
Cash and Investments, beginning	905,353	7,386	912,739
Cash and Investments, ending	\$ 727,308	\$ -	\$ 727,308
Reconciliation of Operating Income (Loss) to Net Cash Flows for Operating Activities			
Operating income (loss)	\$ 126,851	\$ (121,702)	\$ 5,149
Adjustments to reconcile operating income (loss) to net cash flows for operating activities:			
Prior period adjustment affecting cash	(272,514)	-	(272,514)
Decrease in prepaid items	123,154	-	123,154
Decrease in accounts payable	(155,536)	-	(155,536)
Net Cash Flows for Operating Activities	\$ (178,045)	\$ (121,702)	\$ (299,747)

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

<i>December 31,</i>	2015	2014
Assets		
Cash and investments	\$ 727,308	\$ 905,353
Prepaid items	-	123,154
Total Assets	\$ 727,308	\$ 1,028,507
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ -	\$ 155,536
Net Position		
Unrestricted	727,308	872,971
Total Liabilities and Net Position	\$ 727,308	\$ 1,028,507

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

<i>Year Ended December 31,</i>	2015	2014
Operating Revenues		
Interfund insurance charges	\$ 1,411,204	\$ 1,818,830
Employee health contributions	169,215	217,613
Refunds and reinsurance	-	394,578
Total Operating Revenues	1,580,419	2,431,021
Operating Expenses		
Claims	-	1,216,168
Insurance premiums	1,335,962	301,444
Administration	55,140	93,418
Employee incentive fees	62,466	68,287
Total Operating Expenses	1,453,568	1,679,317
Change in Net Position	126,851	751,704
Beginning Net Position, as originally presented	872,971	121,267
Prior Period Adjustment (Note 15)	(272,514)	-
Beginning Net Position, as restated	600,457	121,267
Ending Net Position	\$ 727,308	\$ 872,971

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

<i>Year Ended December 31,</i>	2015	2014
Cash Flows from (for) Operating Activities		
Receipts from interfund services provided and employee contributions	\$ 1,580,419	\$ 2,036,443
Receipt of refunds and reinsurance payments	-	394,578
Payments for insurance, claims, and administration	(1,695,998)	(1,829,755)
Payments to employees for incentive fees	(62,466)	(68,287)
Net cash flows from (for) operating activities	(178,045)	532,979
Net Increase in Cash and Investments	(178,045)	532,979
Cash and Investments, beginning as originally presented	905,353	372,374
Cash and Investments, ending	\$ 727,308	\$ 905,353
Reconciliation of Operating Income (Loss) to Net Cash		
Flows from (for) by Operating Activities		
Operating income (loss)	\$ 126,851	\$ 751,704
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:		
Prior period adjustment affecting cash	(272,514)	-
Increase in prepaid items	123,154	(123,154)
Increase (decrease) in accounts payable	(155,536)	(95,571)
Net Cash Flows from (for) Operating Activities	\$ (178,045)	\$ 532,979

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

<i>December 31,</i>	2015	2014
Assets		
Cash and investments	\$ -	\$ 7,386
Liabilities and Net Position		
Current Liabilities		
Due to other funds	\$ 114,316	\$ -
Net Position		
Unrestricted (deficit)	(114,316)	7,386
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>	2015	2014
Operating Revenues - interfund leave cash-out charges	\$ 185,575	\$ 173,932
Operating Expenses - salaries and benefits	307,277	151,406
Change in Net Position	(121,702)	22,526
Beginning Net Position (Deficit)	7,386	(15,140)
Ending Net Position (Deficit)	\$ (114,316)	\$ 7,386

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

<i>Year Ended December 31,</i>	2015	2014
Cash Flows from (for) Operating Activities		
Receipts from interfund services provided	\$ 185,575	\$ 173,932
Payments to employees	(307,277)	(151,406)
Net cash flows from (for) operating activities	(121,702)	22,526
Cash Flows from (for) Noncapital Financing Activities		
Increase (decrease) in due to other funds	114,316	(15,140)
Net Increase (Decrease) in Cash and Investments	(7,386)	7,386
Cash and Investments, beginning	7,386	-
Cash and Investments, ending	\$ -	\$ 7,386
Reconciliation of Operating Income (Loss) to Net Cash		
Flows from (for) Operating Activities		
Operating income (loss)	\$ (121,702)	\$ 22,526

Schedules of Federal and State Financial Assistance

City of Homer, Alaska
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2015

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Total Grant Award	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
DEPARTMENT OF THE INTERIOR					
Beluga Slough Trail Rehabilitation	15.654	\$ 87,500	n/a	\$ -	\$ 13,401
Karen Hornady Park Learning Landscape	15.631	25,000	n/a	-	24,717
Passed through the State of Alaska Department of Commerce, Community, and Economic Development:					
Beluga Slough Trail Reconstruction to Restore Wetlands	15.668	448,116	10-CIAP-017	-	(1,350)
Passed through the State of Alaska Department of Fish and Game:					
Fish and Wildlife Cluster - Homer Harbor Boat Launch Facility Renovation	15.605	2,237,475	(COOP #) 12-085	-	1,625,536
Total Department of the Interior					<u>1,662,304</u>
DEPARTMENT OF HOMELAND SECURITY					
Passed through the State of Alaska Department of Commerce, Community, and Economic Development:					
Travel/Training Grant	97.023	1,200	CAP-SSSE Program	-	1,029
DEPARTMENT OF TRANSPORTATION					
Passed through the State of Alaska Department of Transportation and Public Facilities:					
Highway Safety Cluster:					
Police Department Project Drive	20.600	38,691	402PT-15-06-00(B)	-	25,692
High Visibility Enforcement	20.600	5,187	402PT-15-06-00E-5	-	2,933
Total CFDA 20.600					28,625
Highway Safety Cluster- High Visibility Enforcement	20.616	8,864	405d M5HVE-16-01-00(A)-5	-	4,503
Total Highway Safety Cluster					<u>33,128</u>
High Visibility Enforcement	20.608	6,104	164AL-15-01-00(A)-5	-	851
Highway Planning and Construction Cluster - Deep Water Feasibility Study	20.205	1,549,943	54392	-	1,062,351
Total Department of Transportation					<u>1,096,330</u>
DENALI COMMISSION					
Small Boat Harbor Float Replacement Design	90.100	440,000	n/a	-	61,520
INSTITUTE OF MUSEUM AND LIBRARY SERVICES					
Passed through the State of Alaska Department of Education and Early Development					
Early Literacy Mini Grant	45.310	4,362	None	-	4,362
Total Federal Financial Assistance					<u>\$ 2,825,545</u>

See accompanying notes to the federal schedule.

City of Homer, Alaska
Schedule of State Financial Assistance
Year Ended December 31, 2015

State Grant Title	Grant Number	Total Grant Award	State Share of Expenditures
Department of Administration			
* PERS Relief	N/A	\$ 1,765,907	<u>\$ 1,765,907</u>
Department of Commerce, Community, and Economic Development			
* Fire Department Equipment Upgrades	15-DC-060	350,000	174,424
* Waddell Way Road Improvements	15-DC-062	1,405,000	756,956
Harbor Sheet Pile Loading Dock	15-DC-061	350,000	10,280
Deep Water Dock Expansion, Phase I	11-DC-233	10,000,000	49,642
* Cruise Ship Dock and Passenger Facility Improvements	12-DC-609	6,000,000	585,561
* Revenue Sharing	N/A	322,339	<u>322,339</u>
Total Department of Commerce, Community, and Economic Development			<u>1,899,202</u>
Department of Revenue			
Fish Tax	N/A	21,004	21,004
Fish Business Landing Tax	N/A	3,179	3,179
Electric and Telephone Co-op Tax	N/A	25,306	25,306
Liquor Licenses	N/A	23,200	<u>23,200</u>
Total Department of Revenue			<u>72,689</u>
Department of Education and Early Development			
Early Literacy Mini Grant	ELM157388	492	492
Public Library Assistance	PLA-15-738-32	6,650	5,414
Public Library Assistance	PLA-16-738-01	6,650	<u>4,740</u>
Total Department of Education and Early Development			<u>10,646</u>
Department of Transportation and Public Facilities			
Homer Spit Pathway	54597	2,500,000	16,308
* Homer Harbor Improvements	14-HG-001	4,123,529	<u>1,499,954</u>
Total Department of Transportation and Public Facilities			<u>1,516,262</u>
Department of Fish and Game			
* Homer Harbor Boat Launch Facility Renovation	12-085	745,825	<u>541,845</u>
Total State Financial Assistance			<u>\$ 5,806,551</u>

See accompanying notes to the state schedule.

* Major Program

City of Homer, Alaska

Notes to Schedules of Expenditures of Federal Awards and State Financial Assistance

Year Ended December 31, 2015

1. Basis of Presentation

The accompanying schedules of expenditures of federal awards and state financial assistance (the "Schedules") includes the federal and state grant activity of City of Homer under programs of the federal and state government for the year ended December 31, 2015. The information in the Schedules is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Because the Schedules present only a selected portion of the operations of City of Homer, they are not intended to and do not present the financial position, changes in net position or cash flows of City of Homer.

All of City of Homer's federal awards were in the form of cash assistance for the year ended December 31, 2015.

The City of Homer had no federally funded insurance programs or loan guarantees during the year ended December 31, 2015.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedules are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. City of Homer has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. PERS On-behalf

The City has recorded \$1,765,907 in PERS On-behalf payments in the schedule of state financial assistance. This represents the PERS relief payments appropriated and transferred into the plan during calendar year 2015 and related to both pension and OPEB contributions.

In the governmental fund financial statements, on-behalf revenue and expenditures have been recognized in their proportional share of payroll within the calendar year under audit.

City of Homer, Alaska

Notes to Schedules of Expenditures of Federal Awards and State Financial Assistance, continued *Year Ended December 31, 2015*

However, in the full accrual financial statements (the government-wide and enterprise fund financial statements), GASB 68 provisions prescribe that on-behalf *pension* contributions in a special funding situation may only be recognized during the *measurement period* in which the plan recognizes the contributions. For the City of Homer, the PERS plan measurement period is July 1, 2014 through June 30, 2015, creating a six-month timing difference between the on-behalf cash contribution and revenue and expense recognition in the full accrual funds.

As a result of these perspective and timing differences, amounts reported on the financial statements do not agree to the amount reported on the schedule of state financial assistance.

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Single Audit Reports



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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, 2015, 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 October 25, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2015-001 and 2015-002 that we consider to be material weaknesses.

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 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 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
October 25, 2016



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3601 C Street, Suite 600
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Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited City of Homer's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Homer's major federal programs for the year ended December 31, 2015. City of Homer's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Homer's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Homer's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Homer's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Homer complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

Report on Internal Control Over Compliance

Management of City of Homer is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Homer's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 City of Homer's internal control over compliance.

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

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

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

BDO USA, LLP

Anchorage, Alaska
October 25, 2016



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3601 C Street, Suite 600
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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 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 City of Homer's major state programs for the year ended December 31, 2015. City of Homer'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 City of Homer's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of City of Homer'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, 2015.

Report on Internal Control over Compliance

Management of City of Homer is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Homer's internal control over compliance with the types of requirements that could have a direct and material effect on each major 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 City of Homer's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-003 that we consider to be a significant deficiency.

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
October 25, 2016

City of Homer, Alaska

Schedule of Findings and Questioned Costs Year Ended December 31, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP Unmodified

Internal control over financial reporting:
 Material weakness(es) identified? X yes no
 Significant deficiency(ies) identified? yes X (none reported)

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major federal programs:
 Material weakness(es) identified? yes X no
 Significant deficiency(ies) identified? yes X (none reported)

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes X no

Identification of major federal programs:

<i>CFDA Number</i>	<i>Name of Federal Program or Cluster</i>	<i>Agency</i>
15.605	Sport Fish Restoration Program	Department of the Interior
20.205	Highway Planning and Construction	Department of Transportation Federal Highway Administration

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as a low-risk auditee? yes X no

State Financial Assistance

Internal control over major state programs:
 Material weakness(es) identified? yes X no
 Significant deficiency(ies) identified? X yes (none reported)

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

Dollar threshold used to distinguish a major state program: \$ 75,000

City of Homer, Alaska

Schedule of Findings and Questioned Costs, continued Year Ended December 31, 2015

Section II - Financial Statement Findings Required to be Reported in Accordance with Government Auditing Standards

Finding 2015-001	Financial Reporting - Material Weakness in Internal Control
<i>Criteria:</i>	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.
<i>Condition:</i>	We identified a number of accounts that were not fully reconciled or presented in accordance with U.S. GAAP. Additionally, several general ledger accounts were not reconciled until after BDO left the field. Journal entries were identified that needed to be made to correct the accounts to be reported fairly under U.S. GAAP.
<i>Context:</i>	Adjustments were required to several general ledger accounts: transfers, accounts receivable, expenditures, inventory, accounts payable, loans payable, capital leases, investments, taxes receivable, deferred revenue, revenue, cash, capital assets, depreciation, grant revenue, grant receivables and special assessments.
<i>Effect:</i>	Items reported in the financial statements were not presented in accordance with U.S. GAAP, particularly with areas associated with external financial reporting.
<i>Cause:</i>	Inadequate staff experience and training led to accounts not being closed in a timely manner.
<i>Recommendation:</i>	It is recommended that the City monitor the year-end closing process more closely.
<i>Views of Responsible Officials and Planned Corrective Actions:</i>	See the corrective action plan.
Finding 2015-002	Bank and Investment Reconciliations - Material Weakness in Internal Control
<i>Criteria:</i>	Internal controls and procedures should be established to ensure proper and accurate financial reporting in accordance with generally accepted accounting principles (GAAP).
<i>Condition:</i>	Bank and investment accounts were not consistently reconciled timely throughout the year, were not always reviewed and were not always prepared correctly. Additionally, following changes in City personnel, the City discovered that there were errors in its self-insurance bank reconciliation dating bank to 2012.
<i>Context:</i>	The City has four bank accounts and eleven investment accounts. Almost all of the accounts were either not reconciled or not reconciled correctly.

City of Homer, Alaska

Schedule of Findings and Questioned Costs, continued Year Ended December 31, 2015

Effect: The City's general ledger during the year did not accurately reflect the City's bank and investment account balances. They recorded a prior period adjustment to correct for the error in its 2014 self-insurance bank reconciliation.

Cause: Inadequate experience and training contributed to the accounts not being reconciled timely and accurately. With regards to the self-insurance bank reconciliation, it was determined that the reconciliation process was flawed, staff did not fully understand the reconciliation and activity related to this particular account, and due to the sensitive nature of the medical information involved, finance was not provided with all of the underlying source detail to properly reconcile the account.

Recommendation: Bank reconciliations should be performed completely and accurately on a monthly basis to ensure the City's financial systems accurately reflect available cash at all times.

*Views of Responsible
Officials and Planned*

Corrective Actions: See the corrective action plan.

Section III Federal Award Findings and Questioned Costs

There were no findings and questioned costs required to be reported for federal awards under 2 CFR 200.516 (a).

City of Homer, Alaska

Schedule of Findings and Questioned Costs, continued Year Ended December 31, 2015

Section IV State of Alaska Award Findings and Questioned Costs
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Finding 2015-003 Timely Grant Reporting - Significant Deficiency in Internal Control over Compliance

State Agency: Department of Commerce, Community, and Economic Development

Grant Name, Number, and Award Year: Cruise Ship Dock, 12-DC-609, 2015
Fire Department Equipment Upgrades, 15-DC-060, 2015
Waddell Way Road Improvements, 15-DC-062, 2015

Criteria: Reports should be submitted within the time frame established by the grant or required by the applicable compliance supplement.

Condition: Reports were not submitted within the established time frames.

Questioned Costs: None noted.

Context: Multiple reports were not submitted within the days required by the grant or compliance supplement, or they were not submitted at all.

Effect: By not submitting the reports in a timely manner, the City of Homer is not in compliance with the reporting requirements.

Cause: Changes in personnel have contributed to delays in submission of required reports.

Recommendation: We suggest that controls are put in place to assist in the timely submission of required state reports.

Views of Responsible Officials and Planned

Corrective Actions: See the corrective action plan.

Single Audit Reports (Unaudited)



City of Homer

www.cityofhomer-ak.gov

Finance Department

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(p) 907-235-8121

(f) 907-235-3140

City of Homer, Alaska Summary Schedule of Prior Audit Findings Year Ended December 31, 2015	
Financial Statement Findings	
Finding 2014-001	Financial Reporting
<i>Status</i>	<i>This finding has been repeated as item 2015-001.</i>
Finding 2014-002	Grants Management – Preparation of the State and Federal Expenditure Schedules
<i>Status</i>	<i>This finding has been resolved.</i>
Federal Award Findings	
<i>There was no federal single audit in 2014.</i>	
State of Alaska Award Findings	
Finding 2014-002	Grants Management – Preparation of the Schedule of State Financial Assistance
<i>Status</i>	<i>This finding has been resolved.</i>



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Corrective Action Plan Year Ended December 31, 2015

Persons Responsible: Zhiyong Li, Finance Director
Jenna deLumeau, Accounting Supervisor

Finding 2015-001 Financial Reporting – Material Weakness in Internal Control

Corrective Action:

1. Finance Department has completed its reorganization. We had two new hires that replaced three vacant positions (due to retirements) and a newly appointed Accounting Supervisor who has strong accounting training and experiences.
2. The shortage of staff and staff lack of adequate training has been the cause. The staff reduction due to budget cuts has made training ever more urgent. We have already begun training and cross training our finance/accounting staff. In addition to the on-the-job training, we have scheduled and dedicated time for web based and classroom based training.

Expected Completion: By the end of 2016, the initial round of trainings will be completed. This is to address the audit finding 2015-001. We are committed to continuous improvement. The process requires continued training and cross training.

Finding 2015-002 Bank and Investment Reconciliations – Material Weakness in Internal Control

Corrective Action:

1. The corrective action is already completed. This problem was discovered internally before the auditor's arrival. Most of the accounts were not properly reconciled for more than two years. We consulted our Auditor (BDO) to address the finding before the 2015 audit took place. We reconciled all investments accounts but one inactive Self-Insurance Account, which was not done before Auditor's field work started.
2. Timely reconciliation and review has been put in place and the problem is no longer an issue.

Finding 2015-003 Timely Grant Reporting – Significant Deficiency in Internal Control over Compliance

Corrective Action: We have changed job duties around to better suit staff and time demands.

Expected Completion: This has been completed. All grants are now timely filed.