



City of Homer, Alaska

Basic Financial Statements, Required
Supplementary Information, Supplementary
Information, and Single Audit Reports
Year Ended December 31, 2016

City of Homer, Alaska

Basic Financial Statements, Required Supplementary Information,
Supplementary Information, and Single Audit Reports
Year Ended December 31, 2016

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, 2016 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, 2016, 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.

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 15, 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 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 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.

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, 2015 (not presented herein), and have issued our report thereon dated October 25, 2016, 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, 2015 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 2015 financial statements. The individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the 2015 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, 2015.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2017 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 effectiveness of the City of Homer's 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
November 21, 2017

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Management's Discussion and Analysis

City of Homer, Alaska

Management's Discussion and Analysis December 31, 2016

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, 2016. 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, 2016, by \$135,443,860 (Net Position). Of this amount, unrestricted net position of \$4,541,995 may be used to meet the City's ongoing obligations to citizens and creditors. The City's total net position decreased by \$50,090 from current year activity.

As of December 31, 2016, the City's governmental funds reported combined ending fund balances of \$20,677,859, a decrease of \$1,030,944 from the prior year. A combination of factors contributed to the decrease, but primarily due to debt service for the Gas-Line Capital Project. The Capital Projects, Gas-Line and HART-Road, resulted in decreases of \$2,410,470 and \$814,256 respectively to the fund balance; the Utility (Water & Sewer) Special Revenue fund increased by \$950,508; the General Fund increased by \$91,768; all other Non-Major Funds have an increase of \$1,151,506.

- At the end of the current year, the fund balance for the General Fund was \$6,612,768. Of this amount, \$5,864,051 was unassigned and available for spending.
- At year-end, the City of Homer's outstanding governmental debt totaled \$30,191,565. Business-type debt outstanding was \$5,593,058. These figures include both external debt (bonds, loans, capital leases) as well as accrued leave and net pension obligation.

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 as listed on the table of contents 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 as listed in the table of contents of this report. Please note, the following financial analysis is reported in thousands.

Government-wide Financial Analysis

At the close of the 2016 fiscal year, the City's net position (assets exceeding liabilities) totaled \$135,444 (see Table A-1). Of this amount \$121,404, or 90%, 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 \$9,498 in the governmental activities is for capital projects. The total unrestricted amount totals \$4,542 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	
	2016	2015	2016	2015	2016	2015
Assets						
Current assets	\$ 33,756	\$ 36,615	\$ 1,742	\$ 1,325	\$ 35,498	\$ 37,940
Capital assets	82,850	81,878	55,011	55,364	137,861	137,242
Deferred outflows	2,123	1,491	415	282	2,538	1,773
Total Assets and Deferred Outflow	118,729	119,984	57,168	56,971	175,897	176,955
Liabilities						
Noncurrent liabilities	30,192	31,948	5,593	6,077	35,785	38,025
Other liabilities	2,263	2,086	2,247	1,157	4,510	3,243
Deferred inflows	133	162	25	31	158	193
Total Liabilities and Deferred Inflows	32,588	34,196	7,865	7,265	40,453	41,461
Net Position						
Net investment in capital assets	69,835	68,109	51,570	51,763	121,405	119,872
Restricted	9,497	10,400	-	-	9,497	10,400
Unrestricted	6,809	7,279	(2,267)	(2,057)	4,542	5,222
Total Net Position	\$ 86,141	\$ 85,788	\$ 49,303	\$ 49,706	\$ 135,444	\$ 135,494

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

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Program Revenues						
Charges for services	\$ 5,379	\$ 17,342	\$ 4,381	\$ 4,159	\$ 9,760	\$ 21,501
Operating grants and contributions	1,050	1,155	55	72	1,105	1,227
Capital grants and contributions	1,837	1,006	2,373	5,437	4,210	6,443
General Revenues						
Property taxes	3,237	3,178	-	-	3,237	3,178
Sales taxes	7,659	7,537	-	-	7,659	7,537
Other	606	487	110	45	716	532
Total Revenues	19,768	30,705	6,919	9,713	26,687	40,418

City of Homer, Alaska

Management's Discussion and Analysis

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Expenses						
General government	\$ 3,435	\$ 3,575	-	-	\$ 3,435	\$ 3,575
Public safety	5,186	5,914	-	-	5,186	5,914
Public works	3,132	3,558	-	-	3,132	3,558
Library	1,133	916	-	-	1,133	916
Airport	254	179	-	-	254	179
Parks and recreation	887	809	-	-	887	809
Community services	431	289	-	-	431	289
Water and sewer	4,493	4,587	-	-	4,493	4,587
Unallocated interest	498	1,000	-	-	498	1,000
Port and harbor	-	-	7,286	7,046	7,286	7,046
Total Expenses	19,449	20,827	7,286	7,046	26,735	27,873
Increase (decrease) in net position before transfers and special item						
	319	9,877	(367)	2,692	(48)	12,569
Transfers	36	-	(36)	-	-	-
Special item	(2)	(68)	-	-	(2)	(68)
Increase (Decrease) In Net Position	353	9,809	(403)	2,692	(50)	12,501
Net Position, beginning	85,788	75,979	49,706	47,014	135,494	122,993
Net Position, ending	\$ 86,141	\$ 85,788	\$ 49,303	\$ 49,706	\$ 135,444	\$ 135,494

As reflected in Table A-2, the City's net position decreased by \$50. Revenues exceeded expenses in the governmental activities by \$319 and in the business-type activities expenses exceeded revenues by \$367. Key elements of the increases and decreases follow:

- Revenues in the governmental activities decreased by approximately \$10,937 in 2016 from 2015. This is mainly due to special assessments coming from the Natural Gas pipeline in 2015.
- Expenses in the governmental activities also decreased by \$1,378 for 2016 for the reason stated above.
- Property taxes increased by \$59.
- Capital grants and contributions decreased by \$2,233.

City of Homer, Alaska

Management's Discussion and Analysis

- Sales Taxes reflect an increase from 2015. This breakdown shows the Sales Taxes by fund to receive them. Changes in sales tax dollars from 2016 to 2015 are as follows:

Sales Taxes	2016	2015	Increase
Fund			
General	\$ 6,384	\$ 5,026	\$ 1,358
HART - Road	-	1,130	(1,130)
HART-Trail	-	125	(125)
Utility(Water & Sewer - HAWSP)	1,275	1,256	19
Total	\$ 7,659	\$ 7,537	\$ 122

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, 2016, the City's governmental funds reported combined ending fund balances of \$20,678, a decrease of \$1,031 compared to balances a year earlier. Of the ending balance, \$3,630, or 18% is unassigned. Most of the remaining fund balance is restricted for Roads \$7,201, Special Service District \$126, Permanent Fund, \$2,170, or assigned for future capital projects and other purposes \$6,737; and non-spendable in the form of inventory, inter-fund loan and prepaid items \$813. The decrease of total fund balance during the year is attributed to:

- Utility Special Revenue Fund's fund balance increased by \$951. This mainly due proceeds from issuance of long-term debt.
- In 2016, there is a net decrease of \$2,410 to fund balance due to the net effect of Gas Line assessment revenues and the debt services. HART-Road Fund netted a decrease of \$814 to the fund balance.
- In the Non-major funds category, the City maintains six capital project funds that account for the use of intergovernmental grants, dedicated sales tax, and department transfers to support the construction of capital improvements. Financial resources in these funds are intended to eventually be totally expended once the capital improvements have been completed. The Non-major funds category in which revenues exceeded expenditures for 2016, this category as a whole underwrote a \$1,152 increase in total fund balance.
- In the General Fund, expenditures and transfers-out to other funds totaled \$12,794 compared to revenues and transfers-in of \$12,886. This resulted an increase of \$92 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 Operating Budget and Original Budget excluded shared revenue from the State of Alaska and incoming grant funding.
 - Tax Revenue, ambulance fees, camping fees, airport revenue, and assessment revenue all experienced an increase over the Final Budget.
- General Fund Expenditures: Final Budget was in line with original and actual expenditures.
- Utility Fund Expenditures and Revenue: Final Operating Budget and original budget excluded intergovernmental and special assessments revenues and their corresponding expenditures.

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, 2016, totals \$137,862 (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	
	2016	2015	2016	2015	2016	2015
Land	\$ 11,505	\$ 11,441	\$ 15,254	\$ 15,254	\$ 26,759	\$ 26,695
Buildings	50,957	50,259	16,361	15,321	67,318	65,580
Improvements other than buildings	51,132	49,363	51,836	39,569	102,968	88,932
Machinery and equipment	15,680	15,261	3,317	3,167	18,997	18,428
Infrastructure	33,962	33,962	-	-	33,962	33,962
Construction in progress	2,848	1,124	1,161	15,836	4,009	16,960
Accumulated depreciation	(83,234)	(79,532)	(32,917)	(33,783)	(116,151)	(113,315)
Total Capital Assets	\$ 82,850	\$ 81,878	\$ 55,012	\$ 55,364	\$ 137,862	\$ 137,242

Major Capital Asset Events During the 2016 Year Included

Capital projects Completed

- Port & Harbor (Enterprise Fund):
- Float Replacement
 - Cruise Ship - Deep Water Dock Improvements
 - Harbor Trails
 - Cruise Ship Restrooms/Guard Shack
 - Harbor Load/Launch Ramp
 - Waddell Way Road Improvements

City of Homer, Alaska

Management's Discussion and Analysis

On-Going Projects

Governmental Funds:

- Bunnell Street Storm Drainage
- Public Works Storage Shed
- Water Storage Distribution
- Old Cast Iron Water Main Replacement

Port & Harbor (Enterprise Fund):

- Deep Water Dock Expansion Feasibility Study

Additional information on the City's capital assets can be found in note 6 to the basic financial statements.

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

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Notes payable - library	\$ 1,184	\$ 1,233	-	-	\$ 1,184	\$ 1,233
Notes payable - utility	11,653	12,278	-	-	11,653	12,278
Capital Leases	178	268	-	-	178	268
Special assessment bond with government commitment	4,579	8,265	-	-	4,579	8,265
General obligation bond payable	-	-	3,340	3,475	3,340	3,475
Unamortized bond premium	-	-	396	420	396	420
Total	17,594	22,044	3,736	3,895	21,330	25,939
Net pension liability	11,891	9,175	2,325	1,738	14,216	10,913
Compensated absences	707	729	233	228	940	957
Total Long-term Debt	\$ 30,192	\$ 31,948	\$ 6,294	\$ 5,861	\$ 36,486	\$ 37,809

Long-term debt - At the end of the 2016 year, the City of Homer had total debt outstanding of \$21,330 as detailed in Table A-4. This excludes \$14,216 related to net pension liability and \$940 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.

Economic Factors and Next Year's Budgets and Rates

The State's fiscal situation remains uncertain. However, it's expected that the City of Homer revenue and expenditure activities will remain stable and comparable to 2016.

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 three years City Council has made continuous efforts to address the inadequate funds (user fees) to maintain sufficient operating expenditures.

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, 2016	Governmental Activities	Business-type Activities	Total
Assets and Deferred Outflows of Resources			
Assets			
Cash and investments	\$ 16,114,957	\$ 839,847	\$ 16,954,804
Receivables, net of allowance for doubtful accounts:			
Accounts	249,191	229,177	478,368
Sales and property taxes	1,248,249	-	1,248,249
State and federal grants and loans	1,386,559	533,821	1,920,380
Assessments	9,990,040	-	9,990,040
Other	84,150	-	84,150
Internal balances	216,027	(216,027)	-
Inventory	410,816	11,046	421,862
Prepaid items	217,408	33,638	251,046
Restricted cash and investments	3,839,603	309,779	4,149,382
Capital assets not being depreciated - land and construction in progress	14,352,921	16,415,476	30,768,397
Other capital assets, net of accumulated depreciation	68,496,823	38,596,045	107,092,868
Total Assets	116,606,744	56,752,802	173,359,546
Deferred Outflows of Resources - related to pensions	2,122,738	415,030	2,537,768
Total Assets and Deferred Outflows of Resources	\$ 118,729,482	\$ 57,167,832	\$ 175,897,314
Liabilities, Deferred Inflows of Resources, and Net Position			
Liabilities			
Accounts payable	\$ 452,098	\$ 266,339	\$ 718,437
Enstar FMA refunds	1,475,820	-	1,475,820
Accrued payroll and related liabilities	180,922	31,264	212,186
Accrued interest payable	101,273	12,671	113,944
Prepaid rentals and deposits	52,101	923,346	975,447
Unearned revenue	1,989	18,000	19,989
Unearned grant revenue	-	96,553	96,553
Noncurrent liabilities:			
Due within one year:			
Accrued leave	300,000	75,000	375,000
Notes payable	906,808	-	906,808
Capital leases	93,010	-	93,010
General obligation bonds payable	-	140,000	140,000
Special assessment bond payable with government commitment to Kenai Peninsula Borough	495,612	-	495,612
Due in more than one year:			
Accrued leave	407,226	157,642	564,868
Notes payable	11,930,716	-	11,930,716
Capital leases	84,408	-	84,408
General obligation bonds payable including bond premium	-	3,595,602	3,595,602
Special assessment bond payable with government commitment to Kenai Peninsula Borough	4,083,154	-	4,083,154
Unearned revenue	-	198,000	198,000
Net pension liability	11,890,631	2,324,814	14,215,445
Total Liabilities	32,455,768	7,839,231	40,294,999
Deferred Inflows of Resources - related to pensions	132,541	25,914	158,455
Net Position			
Net investment in capital assets	69,834,802	51,569,616	121,404,418
Restricted for:			
Roads and trails	7,201,257	-	7,201,257
Special service district	125,982	-	125,982
Permanent fund	2,170,208	-	2,170,208
Unrestricted (deficit)	6,808,924	(2,266,929)	4,541,995
Total Net Position	86,141,173	49,302,687	135,443,860
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 118,729,482	\$ 57,167,832	\$ 175,897,314

See accompanying notes to basic financial statements.

City of Homer, Alaska
Statement of Activities
Year Ended December 31, 2016

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Fees, Fines & Charges for Services	Operating Grants & Contri- butions	Capital Grants & Contri- butions	Govern- mental Activities	Business- type Activities	
Governmental Activities							
General government	\$ 3,435,518	\$ 692,090	\$ 279,768	\$ 916,571	\$ (1,547,089)	\$ -	\$ (1,547,089)
Public safety	5,186,433	409,472	630,076	-	(4,146,885)	-	(4,146,885)
Public works	3,132,046	210,609	46,757	-	(2,874,680)	-	(2,874,680)
Library	1,132,641	-	39,277	-	(1,093,364)	-	(1,093,364)
Airport	253,617	131,051	1,708	-	(120,858)	-	(120,858)
Parks and recreation	887,200	179,034	6,474	-	(701,692)	-	(701,692)
Community services	430,606	38,773	480	-	(391,353)	-	(391,353)
Water	2,671,550	1,980,581	25,174	920,254	254,459	-	254,459
Sewer	1,821,490	1,737,401	19,957	-	(64,132)	-	(64,132)
Unallocated interest	498,190	-	-	-	(498,190)	-	(498,190)
Total Governmental Activities	19,449,291	5,379,011	1,049,671	1,836,825	(11,183,784)	-	(11,183,784)
Business-type Activities							
Port and harbor	7,286,104	4,381,168	54,946	2,372,711	-	(477,279)	(477,279)
Total	\$ 26,735,395	\$ 9,760,179	\$ 1,104,617	\$ 4,209,536	(11,183,784)	(477,279)	(11,661,063)
General Revenues							
Property taxes					3,236,849	-	3,236,849
Sales taxes					7,659,214	-	7,659,214
Grants and entitlements not restricted to a specific purpose					361,104	64,353	425,457
Investment income					244,997	46,361	291,358
Transfers					36,412	(36,412)	-
Total General Revenues and Transfers					11,538,576	74,302	11,612,878
Special Item - construction of gas pipeline on behalf of third parties							
					(1,905)	-	(1,905)
Change in Net Position					352,887	(402,977)	(50,090)
Beginning Net Position					85,788,286	49,705,664	135,493,950
Ending Net Position					\$ 86,141,173	\$ 49,302,687	\$ 135,443,860

See accompanying notes to basic financial statements.

City of Homer, Alaska

Governmental Funds

Balance Sheet

	Major Funds					Nonmajor Funds	Total Governmental Funds
	General	Utility Special Revenue	Gas Line Capital Project	HART Roads Capital Project			
<i>December 31, 2016</i>							
Assets							
Cash and investments	\$ 2,935,291	\$ 1,751,258	\$ -	\$ 6,640,048	\$ 3,905,318	\$ 15,231,915	
Receivables, net of allowance:							
Accounts	-	249,191	-	-	-	249,191	
Property taxes	97,490	-	-	-	-	97,490	
Sales taxes	958,795	191,964	-	-	-	1,150,759	
Assessments	333,908	3,865,756	5,790,376	-	-	9,990,040	
State and federal grants and loans	-	1,183,846	-	-	202,713	1,386,559	
Other	82,113	-	-	-	2,037	84,150	
Interfund loan	184,704	-	-	-	12,837	197,541	
Due from other funds	2,509,537	-	-	-	-	2,509,537	
Inventory	49,309	361,507	-	-	-	410,816	
Prepaid items	217,408	-	-	-	-	217,408	
Restricted cash and investments	-	-	1,671,872	-	2,167,731	3,839,603	
Total Assets	\$ 7,368,555	\$ 7,603,522	\$ 7,462,248	\$ 6,640,048	\$ 6,290,636	\$ 35,365,009	
Liabilities							
Accounts payable	\$ 150,124	\$ 185,402	\$ -	\$ -	\$ 116,572	\$ 452,098	
Accrued payroll and related liabilities	149,535	31,387	-	-	-	180,922	
Customer deposits	15,704	36,397	-	-	-	52,101	
Unearned revenue	1,989	-	-	-	-	1,989	
Enstar FMA refunds	-	-	1,475,820	-	-	1,475,820	
Due to other funds	-	-	2,429,653	-	-	2,429,653	
Total Liabilities	317,352	253,186	3,905,473	-	116,572	4,592,583	
Deferred Inflows of Resources							
Deferred property taxes	104,527	-	-	-	-	104,527	
Deferred assessments	333,908	3,865,756	5,790,376	-	-	9,990,040	
Total Deferred Inflows of Resources	438,435	3,865,756	5,790,376	-	-	10,094,567	
Total Liabilities and Deferred Inflows of Resources	755,787	4,118,942	9,695,849	-	116,572	14,687,150	
Fund Balances							
Nonspendable:							
Inventory	49,309	361,507	-	-	-	410,816	
Prepaid items	217,408	-	-	-	-	217,408	
Interfund loan	184,704	-	-	-	-	184,704	
Restricted:							
Roads and trails	-	-	-	6,640,048	561,209	7,201,257	
Special service district	125,982	-	-	-	-	125,982	
Permanent fund	-	-	-	-	2,170,208	2,170,208	
Assigned:							
Library	-	-	-	-	33,971	33,971	
Public safety	-	-	-	-	42,629	42,629	
Community schools	-	-	-	-	520	520	
Sustainability	-	-	-	-	14,826	14,826	
Water and sewer	-	3,123,073	-	-	-	3,123,073	
PERS benefits	171,314	-	-	-	15,357	186,671	
Capital and land	-	-	-	-	3,335,344	3,335,344	
Unassigned (deficit)	5,864,051	-	(2,233,601)	-	-	3,630,450	
Total Fund Balances (Deficit)	6,612,768	3,484,580	(2,233,601)	6,640,048	6,174,064	20,677,859	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 7,368,555	\$ 7,603,522	\$ 7,462,248	\$ 6,640,048	\$ 6,290,636	\$ 35,365,009	

See accompanying notes to basic financial statements.

City of Homer, Alaska
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Position
December 31, 2016

Total fund balances for governmental funds		\$ 20,677,859
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	\$ 11,504,585	
Construction in progress	2,848,336	
Buildings	50,956,989	
Improvements other than buildings	51,132,315	
Machinery and equipment	15,679,803	
Infrastructure	33,961,628	
Accumulated depreciation	<u>(83,233,912)</u>	
Total Capital Assets		82,849,744
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Delinquent property taxes receivable	104,527	
Special assessments not yet due	<u>9,990,040</u>	
Total Other Long-term Assets		10,094,567
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.		
		821,644
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	(101,273)	
Note payable to Kenai Peninsula Borough	(4,578,766)	
Notes payable	(12,837,524)	
Capital leases	(177,418)	
Accrued leave	(707,226)	
Net pension liability	<u>(11,890,631)</u>	
Total Long-term Liabilities		(30,292,838)
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	2,122,738	
Deferred inflows of resources related to pensions	<u>(132,541)</u>	
Total Deferred Pension Items		<u>1,990,197</u>
Total Net Position of Governmental Activities		<u>\$ 86,141,173</u>

See accompanying notes to basic financial statements.

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

	Major Funds					Total Governmental Funds
	General	Utility Special Revenue	Gas Line Capital Project	HART Roads Capital Project	Nonmajor Funds	
<i>Year Ended December 31, 2016</i>						
Revenues						
Property taxes	\$ 3,199,487	\$ -	\$ -	\$ -	\$ -	\$ 3,199,487
Sales taxes	6,383,660	1,275,554	-	-	-	7,659,214
Licenses and permits	30,209	-	-	-	-	30,209
Intergovernmental	1,154,105	965,385	-	-	938,240	3,057,730
Charges for services	1,990,476	3,649,926	-	-	-	5,640,402
Special assessments	47,940	600,591	1,586,310	-	-	2,234,841
Investment income	47,028	10,998	5,125	39,003	142,843	244,997
Fines and forfeitures	18,029	-	-	-	-	18,029
Donations	-	-	-	-	5,299	5,299
Other grants	-	-	-	-	23,691	23,691
Other	4,633	-	-	-	160,880	165,513
Total Revenues	12,875,567	6,502,454	1,591,435	39,003	1,270,953	22,279,412
Expenditures						
Current:						
General government	2,816,762	-	-	-	17	2,816,779
Public safety	4,150,861	-	-	-	30,623	4,181,484
Public works	1,932,326	-	-	-	-	1,932,326
Library	797,087	-	-	-	-	797,087
Airport	171,358	-	-	-	-	171,358
Parks and recreation	448,974	-	-	-	-	448,974
Community services	427,489	-	-	-	-	427,489
Water	-	1,872,252	-	-	-	1,872,252
Sewer	-	1,524,843	-	-	-	1,524,843
Debt service:						
Principal	48,951	859,415	3,686,459	-	87,957	4,682,782
Interest	50,873	178,938	313,541	-	6,643	549,995
Capital outlay	-	1,862,118	-	4,259	2,587,221	4,453,598
Total Expenditures	10,844,681	6,297,566	4,000,000	4,259	2,712,461	23,858,967
Excess of Revenues Over (Under)						
Expenditures	2,030,886	204,888	(2,408,565)	34,744	(1,441,508)	(1,579,555)
Other Financing Sources (Uses)						
Proceeds from issuance of long term debt	-	608,498	-	-	-	608,498
Transfers in	10,000	152,122	-	-	2,657,817	2,819,939
Transfers out	(1,949,118)	(15,000)	-	(849,000)	(64,803)	(2,877,921)
Net Other Financing Sources (Uses)	(1,939,118)	745,620	-	(849,000)	2,593,014	550,516
Special Item - construction of gas pipeline on behalf of third parties	-	-	(1,905)	-	-	(1,905)
Net Change in Fund Balances	91,768	950,508	(2,410,470)	(814,256)	1,151,506	(1,030,944)
Beginning Fund Balances	6,521,000	2,534,072	176,869	7,454,304	5,022,558	21,708,803
Ending Fund Balances (Deficit)	\$ 6,612,768	\$ 3,484,580	\$ (2,233,601)	\$ 6,640,048	\$ 6,174,064	\$ 20,677,859

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, 2016

Net change in fund balances - total governmental funds		\$ (1,030,944)
The change in net position reported for governmental activities in the Statement of Activities is different because:		
Governmental funds report capital outlays as expenditures. However, on the Statement of Activities, depreciation expense is recognized to allocate the cost of these items over their estimated useful lives. This is the amount by which capital outlays (\$4,679,722) exceeded depreciation (\$3,702,374) and loss on disposal of capital assets (\$5,838).		971,510
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This is the amount of the decrease in other long-term assets.		(1,875,507)
Issuance of long-term debt (\$608,498) provides current financial resources to governmental funds, while the repayment of the principal of the long-term debt (\$5,049,441) consumes current financial resources in governmental funds. Neither of these transaction has any effect on the net position.		4,076,943
Accrued interest on long-term debt is not reported in the funds until the liability matures. This is the decrease in accrued interest payable.		51,805
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Decrease in accrued leave	\$ 31,676	
Increase in net pension obligation and related deferred accounts	<u>(2,054,529)</u>	(2,022,853)
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>181,933</u>
Change in Net Position of Governmental Activities		<u>\$ 352,887</u>

See accompanying notes to basic financial statements.

City of Homer, Alaska

Proprietary Funds
Statement of Net Position

December 31, 2016	Major Enterprise Fund Port of Homer	Internal Service Funds
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and investments	\$ 839,847	\$ 883,042
Accounts receivable, net of allowance for doubtful accounts	229,177	-
State and federal grants receivable	533,821	-
Inventory	11,046	-
Prepaid items	33,638	-
Total Current Assets	1,647,529	883,042
Noncurrent Assets		
Capital assets, net of accumulated depreciation	55,011,521	-
Restricted cash and investments	309,779	-
Total Noncurrent Assets	55,321,300	-
Total Assets	56,968,829	883,042
Deferred Outflows of Resources - related to pensions	415,030	-
Total Assets and Deferred Outflows of Resources	\$ 57,383,859	\$ 883,042
Liabilities, Deferred Inflows of Resources, and Net Position		
Liabilities		
Current Liabilities		
Accounts payable	\$ 160,399	\$ -
Accounts payable for capital assets	105,940	-
Accrued payroll and related liabilities	31,264	-
Accrued leave	75,000	-
Accrued interest payable	12,671	-
General obligation bonds payable	140,000	-
Prepaid rentals and deposits	923,346	-
Unearned lease revenue	18,000	-
Unearned grant revenue	96,553	-
Interfund loan	62,091	-
Due to other funds	-	79,884
Total Current Liabilities	1,625,264	79,884
Noncurrent Liabilities, Net of Current Portion		
Unearned lease revenue	198,000	-
Interfund loan	135,450	-
General obligation bonds payable including bond premium	3,595,602	-
Accrued leave	157,642	-
Net pension liability	2,324,814	-
Total Noncurrent Liabilities	6,411,508	-
Total Liabilities	8,036,772	79,884
Deferred Inflows of Resources - related to pensions	25,914	-
Net Position		
Net investment in capital assets	51,569,616	-
Unrestricted (deficit)	(2,248,443)	803,158
Total Net Position	49,321,173	803,158
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 57,383,859	\$ 883,042
Adjustment to reflect the consolidation of internal service fund activities related to enterprise fund	(18,486)	
Net Position of Business-type Activities	\$ 49,302,687	

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, 2016</i>	Major Enterprise Fund	Internal Service Funds
	Port of Homer	
Operating Revenues		
Port and harbor charges for services	\$ 4,245,021	\$ -
Interfund charges	-	1,675,402
Employee health contributions	-	161,366
Total Operating Revenues	4,245,021	1,836,768
Operating Expenses		
Operations	2,653,403	172,352
Administration	1,707,209	25,827
Depreciation	2,318,895	-
Employee incentive fees	-	102,050
Insurance premiums	-	1,440,767
Total Operating Expenses	6,679,507	1,740,996
Operating income (loss)	(2,434,486)	95,772
Nonoperating Revenues (Expenses)		
Investment income	46,361	-
State PERS relief	54,946	-
Other income	136,147	-
Cruise ship tax	41,064	-
Fish tax	23,289	-
Abandonment of various projects	(614,830)	-
Net Nonoperating Revenues (Expenses)	(313,023)	-
Income (loss) before transfers and capital contributions	(2,747,509)	95,772
Transfers in (out)	(36,412)	94,394
Capital contributions	2,372,711	-
Change in net position	(411,210)	190,166
Beginning Net Position	49,732,383	612,992
Ending Net Position	49,321,173	\$ 803,158
Adjustment to reflect the consolidation of internal service fund activities related to enterprise fund	8,233	
Change in Net Position of Business-type Activities	\$ (402,977)	

See accompanying notes to basic financial statements.

City of Homer, Alaska
Proprietary Funds
Statement of Cash Flows

<i>Year Ended December 31, 2016</i>	Major Enterprise Fund Port of Homer	Internal Service Funds
Cash Flows from (for) Operating Activities		
Receipts from customers and users	\$ 4,309,683	\$ -
Receipts from interfund services provided and employee contributions	-	1,836,768
Payments to suppliers	(3,033,276)	-
Payments to employees	(1,298,569)	(274,402)
Payments for insurance, claims, and administration	-	(1,466,594)
Net cash flows from (for) operating activities	(22,162)	95,772
Cash Flows from (for) Noncapital Financing Activities		
Decrease in due to other funds	(502,221)	(34,432)
Transfers in (out)	(36,412)	94,394
Cruise ship tax and fish tax received	64,353	-
Net cash flows from (for) noncapital financing activities	(474,280)	59,962
Cash Flows from Capital and Related Financing Activities		
Principal paid on long-term debt	(135,000)	-
Interest paid on long-term debt	(153,400)	-
Capital contributions received	3,410,259	-
Acquisition of property, plant and equipment	(1,767,286)	-
Decrease in interfund loan	(60,940)	-
Net cash flows from capital and related financing activities	1,293,633	-
Cash Flows from Investing Activities		
Investment income received	46,361	-
Net Increase in Cash and Investments	843,552	155,734
Beginning Cash and Investments	306,074	727,308
Ending Cash and Investments	\$ 1,149,626	\$ 883,042

See accompanying notes to basic financial statements.

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

<i>Year Ended December 31, 2016</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)	\$ (2,434,486)	\$ 95,772
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:		
Depreciation	2,318,895	-
Noncash expense - PERS relief	54,946	-
Increase in allowance for doubtful accounts	5,550	-
Amortization of deferred lease revenue	(18,000)	-
Miscellaneous nonoperating revenues	136,147	-
Abandonment of various projects	(614,830)	-
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable	(81,937)	-
Inventory	3,385	-
Prepaid items	33,483	-
Deferred outflows of resources related to pensions	(132,501)	-
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable	88,239	-
Accrued payroll and related liabilities	9,789	-
Unearned grant revenue	13,046	-
Accrued leave	4,625	-
Prepaid rentals and deposits	9,856	-
Net pension liability	586,499	-
Deferred inflows of resources related to pensions	(4,868)	-
Net Cash Flows from (for) Operating Activities	\$ (22,162)	\$ 95,772
Noncash Capital and Related Financing Activities		
Interest capitalized	\$ 141,345	\$ 131,324
Capital assets acquired on account	\$ 105,940	\$ -

See accompanying notes to basic financial statements.

City of Homer, Alaska

Notes to Basic Financial Statements

December 31, 2016

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 differs with generally accepted accounting principles in that it did not budget any PERS relief payments and, accordingly, where budgetary data are presented, the City reports a budgetary to GAAP basis reconciliation. 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.

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 2016 was \$141,345.

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, 2016.

Bank deposits	\$ (134,047)
Investments	21,238,233
<hr/>	
Total Cash and Investments	\$ 21,104,186
<hr/>	
Cash and investments	\$ 16,954,804
Restricted cash and investments	4,149,382
<hr/>	
Total Cash and Investments	\$ 21,104,186

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, 2016 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	\$ 711,150	\$ -	\$ 711,150	\$ -
FHLM	1,008,665	-	1,008,665	-
Total U.S. government agencies	1,719,815	-	1,719,815	-
Pooled investments (AMLIP)	11,178,908	11,178,908	-	-
Total Subject to Interest Rate Risk	12,898,723	\$ 11,178,908	\$ 1,719,815	\$ -
Certificates of deposit	6,770,221			
Money market	142,578			
Mutual funds	1,426,711			
Total Investments	\$ 21,238,233			

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, 2016, the share value of investments in the AML pool is approximately equal to fair value.

City of Homer, Alaska

Notes to Basic Financial Statements

Fair Value Measurement

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of December 31, 2016:

- U.S. government agency securities of \$1,719,815 are valued using information for market sources, integrated relative credit information, observed market movements, and sector news into the evaluated pricing applications and models (Level 2 inputs)
- Mutual funds of \$1,426,711 are valued using information for market sources, integrated relative credit information, observed market movements, and sector news into the evaluated pricing applications and models (Level 2 inputs)

The City has investments in money market funds and certificates of deposits totaling \$6,912,799 that are not held at fair value, but instead recorded at amortized cost, as of December 31, 2016. The City's investment in AMLIP is measured at net asset value, as of December 31, 2016. Management believes that these values approximate fair value.

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, 2016, receivables for the City's individual major funds and nonmajor in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	General	Utility Special Revenue	Gas Line Capital Project	Port of Homer Enterprise	Nonmajor and Other Funds	Totals
Receivables:						
Accounts	\$ -	\$ 260,607	-	\$ 262,861	-	\$ 523,468
Sales taxes	958,795	191,964	-	-	-	1,150,759
Property taxes	103,056	-	-	-	-	103,056
State and federal grants and loans	-	1,183,846	-	533,821	202,713	1,920,380
Special assessments	333,908	3,865,756	5,790,376	-	-	9,990,040
Other	110,157	-	-	-	2,037	112,194
Total receivables	1,505,916	5,502,173	5,790,376	796,682	204,750	13,799,897
Less allowance for uncollectibles	(33,610)	(11,416)	-	(33,684)	-	(78,710)
Net Receivables	\$ 1,472,306	\$ 5,490,757	\$ 5,790,376	\$ 762,998	\$ 204,750	\$ 13,721,187

City of Homer, Alaska

Notes to Basic Financial Statements

At December 31, 2016, the various components of *deferred inflows of resources and unearned revenue* reported in the governmental funds were as follows:

Deferred Inflows of Resources

Delinquent property taxes receivable - General Fund	\$ 104,527
Special assessments not yet due:	
General Fund	333,908
Utility Special Revenue Fund	3,865,756
Gas Line Capital Project Fund	5,790,376
Total Deferred Inflows of Resources	\$ 10,094,567

Unearned Revenue

Grant drawdowns prior to meeting all eligibility requirements:	
General Fund	\$ 1,989
Total Unearned Revenue	\$ 1,989

4. Interfund Receivables, Payables, and Transfers

A schedule of interfund balances and transfers for the year ended December 31, 2016 follows:

Due from Other Funds

Due to General Fund from:	
Gas Line Capital Project Fund	\$ 2,429,653
Internal Service Fund	79,884
Total Due from Other Funds	\$ 2,509,537

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City of Homer, Alaska

Notes to Basic Financial Statements

Transfers

From General Fund to:	
Utility Special Revenue Fund	\$ 152,122
Nonmajor governmental funds	1,735,755
Internal Service Fund	61,241
From nonmajor governmental funds to:	
General Fund	10,000
Internal Service Fund	16,095
Nonmajor governmental funds	38,708
From Utility Special Revenue Fund to nonmajor governmental funds	15,000
From Port of Homer Enterprise Fund to:	
Internal Service Fund	17,058
Nonmajor governmental funds	19,354
HART Roads Capital Project Fund to nonmajor governmental funds	849,000
Total Transfers to Other Funds	\$ 2,914,333

Interfund transfers are routinely recorded throughout the year and are typically to fund capital depreciation reserves and other operating subsidies.

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 \$12,837 as of December 31, 2016.

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, 2016 the outstanding balance was \$184,704.

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City of Homer, Alaska

Notes to Basic Financial Statements

5. Capital Assets

Capital asset activity for the year ended December 31, 2016 follows:

Governmental Activities	Balance January 1, 2016	Additions and Reclass- ifications	Deletions and Reclass- ifications	Balance December 31, 2016
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 11,441,119	\$ 63,466	\$ -	\$ 11,504,585
Construction in progress	1,124,353	3,083,185	(1,359,202)	2,848,336
Total assets not being depreciated	12,565,472	3,146,651	(1,359,202)	14,352,921
<i>Capital assets being depreciated:</i>				
Buildings	50,258,511	698,478	-	50,956,989
Improvements other than buildings	49,363,306	1,769,009	-	51,132,315
Machinery and equipment	15,260,855	424,786	(5,838)	15,679,803
Infrastructure	33,961,628	-	-	33,961,628
Total assets being depreciated	148,844,300	2,892,273	(5,838)	151,730,735
Less accumulated depreciation for:				
Buildings	29,628,831	775,249	-	30,404,080
Improvements other than buildings	22,995,732	1,475,150	-	24,470,882
Machinery and equipment	10,112,248	537,523	-	10,649,771
Infrastructure	16,794,727	914,452	-	17,709,179
Total accumulated depreciation	79,531,538	3,702,374	-	83,233,912
Total assets being depreciated, net	69,312,762	(810,101)	(5,838)	68,496,823
Governmental Activities Capital Assets, net	\$ 81,878,234	\$ 2,336,550	\$ (1,365,040)	\$ 82,849,744

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City of Homer, Alaska

Notes to Basic Financial Statements

Business-type Activities	Balance January 1, 2016	Additions and Reclass- ifications	Deletions and Reclass- ifications	Balance December 31, 2016
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 15,254,041	\$ -	\$ -	\$ 15,254,041
Construction in progress	15,836,199	1,927,136	(16,601,900)	1,161,435
Total assets not being depreciated	31,090,240	1,927,136	(16,601,900)	16,415,476
<i>Capital assets being depreciated:</i>				
Buildings	15,321,116	1,039,532	-	16,360,648
Improvements other than buildings	39,569,433	15,452,033	(3,185,467)	51,835,999
Machinery and equipment	3,167,216	149,406	-	3,316,622
Total assets being depreciated	58,057,765	16,640,971	(3,185,467)	71,513,269
Less accumulated depreciation for:				
Buildings	9,028,101	377,928	-	9,406,029
Improvements other than buildings	21,813,957	1,872,024	(3,185,467)	20,500,514
Machinery and equipment	2,941,738	68,943	-	3,010,681
Total accumulated depreciation	33,783,796	2,318,895	(3,185,467)	32,917,224
Total capital assets being depreciated, net	24,273,969	14,322,076	-	38,596,045
Business-Type Activities Capital Assets, net	\$ 55,364,209	\$ 16,249,212	\$ (16,601,900)	\$ 55,011,521

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City of Homer, Alaska

Notes to Basic Financial Statements

Depreciation expense was charged to the functions as follows for the year ended December 31, 2016:

	Depreciation
Governmental Activities	
General government	\$ 177,199
Public safety	284,979
Public works	1,111,211
Library	229,489
Airport	70,551
Parks and recreation	398,270
Water utility	956,673
Sewer utility	474,002
Total Depreciation Expense - Governmental Activities	\$ 3,702,374
Total Depreciation Expense - Business-type Activities	
Port and harbor	\$ 2,318,895

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	(414,000)
	\$ 216,000
Current unearned revenue	\$ 18,000
Noncurrent unearned revenue	198,000
Total Unearned Lease Revenue	\$ 216,000

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City of Homer, Alaska

Notes to Basic Financial Statements

6. Long-term Debt

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2016:

Governmental Activities	Balance January 1, 2016	Additions	Retired	Balance December 31, 2016	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	\$ 1,233,290	\$ -	\$ 48,951	\$ 1,184,339	\$ 50,970
\$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	1,219,722	-	121,972	1,097,750	121,972
\$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	1,430,776	-	143,078	1,287,698	143,078
\$1,591,733 2012 Sewer Utility Alaska Clean Water loan, due in annual installments of \$79,587 plus interest at 1.5% through August 6, 2032	1,352,972	-	69,043	1,283,929	79,587
\$1,086,870 Sewer Utility Alaska Clean Water loan, due in annual installments of \$54,344 plus interest at 1.5% through November 14, 2027	1,032,526	-	54,344	978,182	54,344
\$2,023,006 2012 Water Utility Alaska Drinking Water loan, due in annual installments of \$117,832 including interest at 1.5% through August 18, 2032	1,756,590	-	91,482	1,665,108	92,855

City of Homer, Alaska

Notes to Basic Financial Statements

Governmental Activities	Balance January 1, 2016	Additions	Retired	Balance December 31, 2016	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	\$ -	728,002	\$ 4,732,020	\$ 364,002
\$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	15,495	-	15,495	-	-
\$255,000 (maximum) Water Utility Alaska Drinking Water loan, terms not yet established; interest at 1.5%	-	52,029	-	52,029	-
\$817,000 (maximum) Water Utility Alaska Drinking Water loan, terms not yet established; interest at 1.5%	-	128,339	-	128,339	-
\$600,000 (maximum) Water Utility Alaska Drinking Water loan, terms not yet established; interest at 1.5%	-	428,130	-	428,130	-
\$12,359,388 special assessment bond payable to the Kenai Peninsula Borough in eight equal principal and interest payments beginning September 1, 2016, interest at 4% through September 1, 2024. Additional principal payments made in 2016 based on early assessment collections.	8,265,225	-	3,686,459	4,578,766	495,612

City of Homer, Alaska

Notes to Basic Financial Statements

Governmental Activities	Balance January 1, 2016	Additions	Retired	Balance December 31, 2016	Due Within One Year
Capital Leases:					
\$149,599 dump truck capital lease payable in equal monthly installments of \$2,650 including interest through September 2020	\$ 142,257	\$ -	\$ 28,562	\$ 113,695	\$ 29,287
\$190,579 sweeper capital lease payable in annual installments of \$65,449 including interest through March 2017	125,776	-	62,053	63,723	63,723
Accrued leave	738,902	540,847	572,523	707,226	300,000
Net pension liability	9,174,594	2,716,037	-	11,890,631	-
<hr/>					
Total Governmental Activities Long-Term Liabilities	\$ 31,948,147	\$ 3,865,382	\$ 5,621,964	\$ 30,191,565	\$ 1,795,430
<hr/>					
Business-type Activities	Balance January 1, 2016	Additions	Retired	Balance December 31, 2016	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.	\$ 3,475,000	\$ -	\$ 135,000	\$ 3,340,000	\$ 140,000
Unamortized bond premium	420,328	-	24,726	395,602	-
Accrued leave	228,017	101,765	97,140	232,642	75,000
Net pension liability	1,738,315	586,499	-	2,324,814	-
<hr/>					
Total Business-type Activities Long-Term Liabilities	\$ 5,861,660	\$ 688,264	\$ 256,866	\$ 6,293,058	\$ 215,000

City of Homer, Alaska

Notes to Basic Financial Statements

Annual debt service requirements to maturity for long-term debt, and the loans not yet in repayment status, exclusive of accrued leave follow:

Governmental Activities <i>Year Ending December 31,</i>	Notes Payable			Special Assessment Bond Payable (KPB Loan)		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 906,808	\$ 214,366	\$ 1,121,174	\$ 495,612	\$ 186,546	\$ 682,158
2018	910,303	199,427	1,109,730	515,804	166,354	682,158
2019	913,906	184,378	1,098,284	536,819	145,339	682,158
2020	917,619	169,219	1,086,838	558,690	123,468	682,158
2021	921,450	153,945	1,075,395	581,451	100,707	682,158
2022-2026	4,403,992	536,250	4,940,242	1,890,390	156,085	2,046,475
2027-2031	2,731,491	199,527	2,931,018	-	-	-
2032-2034	1,131,955	16,692	1,148,647	-	-	-
	<u>\$ 12,837,524</u>	<u>\$ 1,673,804</u>	<u>\$ 14,511,328</u>	<u>\$ 4,578,766</u>	<u>\$ 878,499</u>	<u>\$ 5,457,265</u>

Assets acquired under capital leases 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, 2016 of \$301,235. Both assets have an expected useful life of 10 years. Future minimum payments under the capital lease agreements are as follows:

Governmental Activities <i>Year Ending December 31,</i>	Capital Leases Payable		
	Principal	Interest	Total
2017	\$ 93,010	\$ 4,244	\$ 97,254
2018	30,032	1,775	31,807
2019	30,794	1,012	31,806
2020	23,582	247	23,829
	<u>\$ 177,418</u>	<u>\$ 7,278</u>	<u>\$ 184,696</u>

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City of Homer, Alaska

Notes to Basic Financial Statements

Annual debt service requirements to maturity for the bonds follow:

<i>Business-type Activities</i> <i>Year Ending December 31,</i>	G. O. Bonds Payable		
	Principal	Interest	Total
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	160,000	130,100	290,100
2022-2026	905,000	539,250	1,444,250
2027-2031	1,155,000	286,125	1,441,125
2032-2033	545,000	27,625	572,625
	\$ 3,340,000	\$ 1,556,575	\$ 4,896,575

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 to 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, and subsequent additional payments made on the loan, the loan has reamortized as noted on the payment schedule on the previous page and is expected to be paid in full in September 2024.

Debt Covenants

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

City of Homer, Alaska

Notes to Basic Financial Statements

The 2013 Harbor bonds require that a reserve account be established in the amount of the largest annual debt service payment (\$290,100) or the Port to establish and charge fees sufficient to produce 120% of the annual debt service amount. 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.

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	\$ 49,309	\$ 361,507	-	-	-	\$ 410,816
Prepaid items	217,408	-	-	-	-	217,408
Interfund loans	184,704	-	-	-	-	184,704
Total nonspendable	451,421	361,507	-	-	-	812,928
Restricted:						
Roads and trails	-	-	-	6,640,048	561,209	7,201,257
Special service district	125,982	-	-	-	-	125,982
Permanent Fund	-	-	-	-	2,170,208	2,170,208
Total restricted	125,982	-	-	6,640,048	2,731,417	9,497,447
Assigned:						
Library	-	-	-	-	33,971	33,971
Public safety	-	-	-	-	42,629	42,629
Community schools	-	-	-	-	520	520
Sustainability	-	-	-	-	14,826	14,826
Water and sewer	-	3,123,073	-	-	-	3,123,073
PERS benefits	171,314	-	-	-	15,357	186,671
Capital and land	-	-	-	-	3,335,344	3,335,344
Total assigned	171,314	3,123,073	-	-	3,442,647	6,737,034
Unassigned (deficit)	5,864,051	-	(2,233,601)	-	-	3,630,450
Total Fund Balances	\$ 6,612,768	\$ 3,484,580	\$(2,233,601)	\$ 6,640,048	\$ 6,174,064	\$ 20,677,859

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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, 2016.

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.

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. As such, the Plan is considered to be in a special funding situation as defined by GASB, and management has recorded all pension related liabilities, deferred inflows and outflows of resources, and disclosures on this basis.

It is important to note that the Alaska Legislature has the power and authority to change the aforementioned statute through the legislative process.

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.

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.

City of Homer, Alaska

Notes to Basic Financial Statements

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. In 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 in 2015 was significantly higher than the statutory amount. In 2016, the on-behalf contribution has returned to “normal” levels and generally equals the statutory calculation. In the governmental fund financial statements, on-behalf contribution amounts have been recognized as additional revenues and expenditures. On the 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 FY16, the rate uses an 8.00% pension discount rate and a 4.30% 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.

Contribution rates for the years ended June 30, 2016 and June 30, 2017 were determined in the June 30, 2013 and June 30, 2014 actuarial valuations, respectively. City contribution rates for the 2016 calendar year were as follows:

<i>January 1, 2016 to June 30, 2016</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%

City of Homer, Alaska

Notes to Basic Financial Statements

<i>July 1, 2016 to December 31, 2016</i>	Employer Effective Rate	ARM Board Adopted Rate	State Contribution Rate	GASB Rate
Pension	14.96%	19.10%	4.14%	24.49%
Postemployment healthcare (see Note 11)	7.04%	7.04%	-%	56.64%
Total Contribution Rates	22.00%	26.14%	4.14%	81.13%

In 2016, the City was credited with the following contributions into the pension plan.

	Measurement Period July 1, 2015 to June 30, 2016	City Fiscal Year January 1, 2016 to December 31, 2016
Employer contributions (including DBUL)	\$ 682,781	\$ 1,031,207
Nonemployer contributions (on-behalf)	357,071	275,279
Total Contributions	\$ 1,039,852	\$ 1,306,486

In addition, employee contributions to the Plan totaled \$233,405 during the City's fiscal year.

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

At December 31, 2016, 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:

	2016
City proportionate share of NPL	\$ 14,215,445
State's proportionate share of NPL associated with the City	1,792,202
Total Net Pension Liability	\$ 16,007,647

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2106 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, 2016 measurement date, the City's proportion was .25432 percent, which was an increase of 0.02931 from its proportion measured as of June 30, 2015.

City of Homer, Alaska

Notes to Basic Financial Statements

For the year ended December 31, 2016, the City recognized pension expense of \$3,449,167. Of this amount, \$241,591 was recorded as on-behalf revenue and expense for additional contributions paid by the State. At December 31, 2016, 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	\$ 1,307	\$ (158,455)
Changes in assumptions	65,565	-
Net difference between projected and actual earnings on pension plan investments	1,397,310	-
Changes in proportion and differences between City contributions and proportionate share of contributions	696,564	-
City contributions subsequent to the measurement date	377,022	-
Total Deferred Outflows and Deferred Inflows of Resources Related to Pensions	\$ 2,537,768	\$ (158,455)

The \$377,022 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, 2017. 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,

2017	\$	791,256
2018		270,951
2019		571,224
2020		368,860
Total Amortization		\$ 2,002,291

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City of Homer, Alaska

Notes to Basic Financial Statements

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement period, and rolled forward to the measurement date of June 30, 2016. The actuarial valuation for the year ended June 30, 2015 (latest available) was prepared by Conduent HR Services. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2009 to June 30, 2013, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect expected future experience.

Actuarial Cost Method	Entry Age Normal - Level Percentage of Payroll
Asset Valuation Method	Invested assets are reported at fair value.
Allocation Methodology	Amounts were allocated to employers based on the projected present value of contributions for FY2017-FY2039. The liability is expected to go to zero at 2039.
Investment Return / Discount Rate	8.00% per year (geometric), compounded annually, net of expenses
Salary Scale	Inflation - 3.12% per year Productivity - 0.50% per year Peace Officer/Firefighter - graded by years of service from 9.66% to 4.92% All others - graded by age and years of service from 8.55% to 4.34%
Total Inflation	Measured by the consumer price index for urban and clerical workers for Anchorage and is assumed to increase 3.12% annually.
Mortality	Pre-termination - Based on the 2010-2013 actual mortality experience Post-termination - 96% of all rates of the RP-2000 table, 2000 base year projected to 2018 with projection scale BB.

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):

City of Homer, Alaska

Notes to Basic Financial Statements

<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	\$ 18,308,772	\$ 14,215,445	\$ 10,762,911

Pension Plan Fiduciary Net Position

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

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/dr/pers>.

City of Homer, Alaska

Notes to Basic Financial Statements

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, 2016, 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, 2016 were \$153,776 and \$246,042, 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.

Employer Contribution Rate

For the year ended December 31, 2016, the City was required to contribute 8.75% of covered payroll into the OPEB plan. 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 2016, 2015, and 2014 were \$60,696, \$49,513 and \$216,658, respectively.

City of Homer, Alaska

Notes to Basic Financial Statements

<i>Year Ended December 31,</i>	Annual OPEB Costs	City Contributions	% of Costs Contributed
2016	\$ 393,427	\$ 393,427	100 %
2015	455,735	455,735	100 %
2014	537,843	537,843	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, 2016 were as follows:

	Other Tier IV	Police/Fire Tier IV
Retiree medical plan	1.18%	1.18%
Occupational death and disability benefits	0.17%	0.49%
Total Contribution Rates	1.35%	1.67%

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, 2016, for actual remittance, this amount is calculated as a flat rate for each full time or part-time employee per pay period and approximates \$2,049 per year for each full-time employee, and \$1.31 per hour for part-time employees.

Annual Postemployment Healthcare Cost

In 2016, the City contributed \$160,379 in DC OPEB costs. This amount has 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.

City of Homer, Alaska

Notes to Basic Financial Statements

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. 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 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.

City of Homer, Alaska

Notes to Basic Financial Statements

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.

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.

GASB 83 - Certain Asset Retirement Obligations - Effective for year-end December 31, 2019, with earlier application encouraged - This statement addresses accounting and financial reporting for certain asset retirement obligations that are legally enforceable liabilities associated with the retirement of a tangible capital asset.

GASB 84 - Fiduciary Activities - Effective for year-end December 31, 2019, with earlier application encouraged - This statement addresses criteria for identifying and reporting fiduciary activities.

GASB 85 - Omnibus - Effective for year-end December 31, 2018, with earlier application encouraged - This statement addresses practice issues that have been identified during implementation and application of certain GASB statements. Issues covered include blending of component units, goodwill, fair value measurement and application, and postemployment benefits.

GASB 86 - Certain Debt Extinguishment Issues - Effective for year-end December 31, 2018, with earlier application encouraged - This statement addresses accounting and financial reporting for in-substance defeasance of debt when only existing resources are used, as well as accounting and financial reporting for prepaid insurance on extinguished debt.

GASB 87 - Leases - Effective for year-end December 31, 2020, with earlier application encouraged - This statement addresses accounting and financial reporting for certain lease assets and liabilities for leases that previously were classified as operating leases. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

Required Supplementary Information

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

Year Ended December 31, 2016	Budget		Actual GAAP Basis	Budget to GAAP Difference	Actual Budget Basis	Variance with Final Budget
	Original	Final				
Revenues						
Taxes	\$ 9,297,024	\$ 9,245,527	\$ 9,587,780	\$ -	\$ 9,587,780	\$ 342,253
Licenses and permits	35,600	35,600	30,209	-	30,209	(5,391)
Intergovernmental	551,950	603,450	1,154,105	(235,899)	918,206	314,756
Charges for services	1,743,519	1,733,519	1,990,476	-	1,990,476	256,957
Special assessments	-	-	47,940	-	47,940	47,940
Investment income	20,000	20,000	47,028	-	47,028	27,028
Fines and forfeitures	10,000	10,000	18,029	-	18,029	8,029
Total Revenues	11,658,093	11,648,096	12,875,567	(235,899)	12,639,668	991,572
Expenditures						
General government	2,711,591	2,751,074	2,816,762	(65,263)	2,751,499	(425)
Public safety	4,181,524	4,181,524	4,150,861	(107,367)	4,043,494	138,030
Public works	2,014,957	2,014,957	1,932,326	(35,586)	1,896,740	118,217
Library	816,159	816,659	797,087	(16,010)	781,077	35,582
Airport	200,222	200,222	171,358	(1,611)	169,747	30,475
Parks and recreation	442,527	442,527	448,974	(6,506)	442,468	59
Community services	218,790	218,790	427,489	(3,556)	423,933	(205,143)
Debt service:						
Principal	41,478	41,478	48,951	-	48,951	(7,473)
Interest	58,346	58,346	50,873	-	50,873	7,473
Total Expenditures	10,685,594	10,725,577	10,844,681	(235,899)	10,608,782	116,795
Excess of Revenues Over (under) Expenditures	972,499	922,519	2,030,886	-	2,030,886	1,108,367
Other Financing Sources (Uses)						
Transfers in	10,000	24,000	10,000	-	10,000	(14,000)
Transfers out	(792,377)	(939,869)	(1,949,118)	-	(1,949,118)	(1,009,249)
Net Change in Fund Balance	\$ 190,122	\$ 6,650	91,768	\$ -	91,768	\$ 85,118
Fund Balance, beginning			6,521,000		6,521,000	
Fund Balance, ending			\$ 6,612,768		\$ 6,612,768	

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

Year Ended December 31, 2016	Budget		Actual	Budget	Actual	Variance with Final Budget
	Original	Final	GAAP Basis	to GAAP Difference	Budget Basis	
Revenues						
Sales taxes	\$ 1,217,763	\$ 1,284,071	\$ 1,275,554	\$ -	\$ 1,275,554	\$ (8,517)
Intergovernmental	-	-	965,385	(45,131)	920,254	920,254
Charges for services	3,560,500	3,560,500	3,649,926	-	3,649,926	89,426
Special assessments	-	-	600,591	-	600,591	600,591
Investment income	1,000	1,003	10,998	-	10,998	9,995
Total Revenues	4,779,263	4,845,574	6,502,454	(45,131)	6,457,323	1,611,749
Expenditures						
Water	1,998,172	2,623,005	1,872,252	(25,174)	1,847,078	775,927
Sewer	1,468,427	1,641,501	1,524,843	(19,957)	1,504,886	136,615
Debt service:						
Principal	868,608	859,415	859,415	-	859,415	-
Interest	289,320	177,053	178,938	-	178,938	(1,885)
Total debt service	1,157,928	1,036,468	1,038,353	-	1,038,353	(1,885)
Capital outlay	-	-	1,862,118	-	1,862,118	(1,862,118)
Total Expenditures	4,624,527	5,300,974	6,297,566	(45,131)	6,252,435	(951,461)
Excess of Revenues Over (Under) Expenditures	154,736	(455,400)	204,888	-	204,888	(660,288)
Other Financing Sources (Uses)						
Proceeds from issuance of long term debt	-	-	608,498	-	608,498	608,498
Transfers in	170,246	170,246	152,122	-	152,122	(18,124)
Transfers out	(63,191)	-	(15,000)	-	(15,000)	(15,000)
Net Change in Fund Balance	\$ 261,791	\$ (285,154)	950,508	\$ -	\$ 950,508	\$ 1,235,662
Fund Balance, beginning			2,534,072			
Fund Balance, ending			\$ 3,484,580			

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

<i>Years Ended December 31,</i>	<i>Measurement Period Ended June 30,</i>	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	State of Alaska Proportionate Share of the Net Pension Liability	Total Net Pension Liability	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability as a Percentage of Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	2016	0.25432%	\$ 14,215,445	\$ 1,792,202	\$ 16,007,647	\$ 6,372,455	223.08%	59.55%
2015	2015	0.22501%	10,912,909	2,922,750	13,835,659	6,455,186	169.06%	63.96%
2014	*	*	*	*	*	*	*	*
2013	*	*	*	*	*	*	*	*
2012	*	*	*	*	*	*	*	*
2011	*	*	*	*	*	*	*	*
2010	*	*	*	*	*	*	*	*
2009	*	*	*	*	*	*	*	*
2008	*	*	*	*	*	*	*	*
2007	*	*	*	*	*	*	*	*

*GASB requires ten years of information be presented. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See accompanying notes to Required Supplementary Information.

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

<i>Years 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
2016	\$ 1,031,207	\$ 1,031,207	\$ -	\$ 6,414,407	16.076%
2015	\$ 644,804	\$ 644,804	\$ -	\$ 6,402,816	10.071%
2014	*	*	*	*	*
2013	*	*	*	*	*
2012	*	*	*	*	*
2011	*	*	*	*	*
2010	*	*	*	*	*
2009	*	*	*	*	*
2008	*	*	*	*	*
2007	*	*	*	*	*

*GASB requires ten years of information be presented. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

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, 2016, the Plan measurement date is June 30, 2016.
- 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 for each year presented. A portion of these contributions are included in the plan measurement results, while a portion of the contributions have been reported as a deferred outflow on the statement of net position.

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.

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 Reserves - 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

	Special Revenue Funds										Capital Project Funds						Total 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	Land Reserves	Energy Revolving Loan	City Facilities	Fleet Reserve Allocation				
<i>December 31, 2016</i>																				
Assets																				
Cash and investments	\$ 33,971	\$ 42,294	\$ 335	\$ 13,363	\$ 520	\$ 14,826	\$ 33,037	\$ 2,477	\$ 15,357	\$ 156,180	\$ 561,209	\$ 2,304,990	\$ 151,585	\$ 142,173	\$ 73,571	\$ 515,610	\$ 3,749,138	\$ 3,905,318		
Receivables, net:																				
Interfund loan	-	-	-	-	-	-	-	-	-	-	-	-	-	12,837	-	-	12,837	12,837		
State and federal grants	-	-	-	-	-	-	637	-	-	637	-	-	-	-	202,076	-	202,076	202,713		
Other	-	-	-	1,266	-	-	-	-	-	1,266	-	-	-	771	-	-	771	2,037		
Restricted cash and investments	-	-	-	-	-	-	-	2,167,731	-	2,167,731	-	-	-	-	-	-	-	2,167,731		
Total Assets	\$ 33,971	\$ 42,294	\$ 335	\$ 14,629	\$ 520	\$ 14,826	\$ 33,674	\$ 2,170,208	\$ 15,357	\$ 2,325,814	\$ 561,209	\$ 2,304,990	\$ 151,585	\$ 155,781	\$ 275,647	\$ 515,610	\$ 3,964,822	\$ 6,290,636		
Liabilities																				
Accounts payable	\$ -	\$ -	\$ -	\$ 14,563	\$ -	\$ -	\$ 904	\$ -	\$ -	\$ 15,467	\$ -	\$ 79,838	\$ -	\$ -	\$ 7,164	\$ 14,103	\$ 101,105	\$ 116,572		
Fund Balances																				
Restricted:																				
Roads and trails	-	-	-	-	-	-	-	-	-	-	561,209	-	-	-	-	-	561,209	561,209		
Permanent fund	-	-	-	-	-	-	-	2,170,208	-	2,170,208	-	-	-	-	-	-	-	2,170,208		
Assigned:																				
Library	33,971	-	-	-	-	-	-	-	-	33,971	-	-	-	-	-	-	-	33,971		
Public safety	-	42,294	335	-	-	-	-	-	-	42,629	-	-	-	-	-	-	-	42,629		
Community schools	-	-	-	-	520	-	-	-	-	520	-	-	-	-	-	-	-	520		
Sustainability	-	-	-	-	-	14,826	-	-	-	14,826	-	-	-	-	-	-	-	14,826		
PERS benefits	-	-	-	-	-	-	-	-	15,357	15,357	-	-	-	-	-	-	-	15,357		
Capital and land	-	-	-	66	-	-	32,770	-	-	32,836	-	2,225,152	151,585	155,781	268,483	501,507	3,302,508	3,335,344		
Total Fund Balances	33,971	42,294	335	66	520	14,826	32,770	2,170,208	15,357	2,310,347	561,209	2,225,152	151,585	155,781	268,483	501,507	3,863,717	6,174,064		
Total Liabilities and Fund Balances	\$ 33,971	\$ 42,294	\$ 335	\$ 14,629	\$ 520	\$ 14,826	\$ 33,674	\$ 2,170,208	\$ 15,357	\$ 2,325,814	\$ 561,209	\$ 2,304,990	\$ 151,585	\$ 155,781	\$ 275,647	\$ 515,610	\$ 3,964,822	\$ 6,290,636		

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

Year Ended December 31, 2016	Special Revenue Funds									Capital Project Funds							Total Nonmajor Governmental Funds	
	Library Donations	Fire Department Donations	Animal Shelter Donations	Retainage Reimbursements	Community Schools	Sustainability	Non-capital Projects	Permanent Fund	PERS Funding	Total Special Revenue Funds	HART Trails	Depreciation Reserves	Land Reserve	Energy Revolving Loan	City Facilities	Fleet Reserve Allocation		Total Capital Project Funds
Revenues																		
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,354	\$ -	\$ -	\$ 5,354	\$ -	\$ -	\$ -	\$ -	\$ 932,886	\$ -	\$ 932,886	\$ 938,240
Investment income	18	306	-	-	-	45	199	127,600	669	128,837	3,270	7,874	-	-	327	2,535	14,006	142,843
Donations	1,230	4,049	-	-	20	-	-	-	-	5,299	-	-	-	-	-	-	-	5,299
Other grants	-	-	-	-	-	-	23,691	-	-	23,691	-	-	-	-	-	-	-	23,691
Other	-	-	-	-	-	-	5,566	-	-	5,566	-	-	151,585	-	-	3,729	155,314	160,880
Total Revenues	1,248	4,355	-	-	20	45	34,810	127,600	669	168,747	3,270	7,874	151,585	-	933,213	6,264	1,102,206	1,270,953
Expenditures																		
Current:																		
General government	-	-	-	-	17	-	-	-	-	17	-	-	-	-	-	-	-	17
Public safety	-	-	-	-	-	-	30,623	-	-	30,623	-	-	-	-	-	-	-	30,623
Debt service principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	87,957	87,957	87,957
Debt service interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,643	6,643	6,643
Capital outlay	-	64,149	-	-	-	-	638	-	-	64,787	66,828	329,845	-	-	1,879,637	246,124	2,522,434	2,587,221
Total Expenditures	-	64,149	-	-	17	-	31,261	-	-	95,427	66,828	329,845	-	-	1,879,637	340,724	2,617,034	2,712,461
Excess of Revenues Over (Under)																		
Expenditures	1,248	(59,794)	-	-	3	45	3,549	127,600	669	73,320	(63,558)	(321,971)	151,585	-	(946,424)	(334,460)	(1,514,828)	(1,441,508)
Other Financing Sources (Uses)																		
Transfers in	-	-	-	-	-	-	-	-	-	-	-	1,369,231	-	17,732	868,354	402,500	2,657,817	2,657,817
Transfers out	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(64,803)	(64,803)	(64,803)
Net Change in Fund Balances	1,248	(59,794)	-	-	3	45	3,549	127,600	669	73,320	(63,558)	1,047,260	151,585	17,732	(78,070)	3,237	1,078,186	1,151,506
Fund Balances, beginning	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
Fund Balances, ending	\$ 33,971	\$ 42,294	\$ 335	\$ 66	\$ 520	\$ 14,826	\$ 32,770	\$ 2,170,208	\$ 15,357	\$ 2,310,347	\$ 561,209	\$ 2,225,152	\$ 151,585	\$ 155,781	\$ 268,483	\$ 501,507	\$ 3,863,717	\$ 6,174,064

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>	2016	2015
Assets		
Cash and investments	\$ 2,935,291	\$ 4,189,551
Receivables		
Property taxes - delinquent, net of allowance for doubtful accounts of \$5,566 (\$4,418 in 2015)	97,490	71,798
Sales taxes	958,795	782,484
Assessments	333,908	382,025
Other, net of allowance for doubtful accounts of \$28,044 (\$55,534 in 2015)	82,113	135,669
Total Receivables	1,472,306	1,371,976
Due from other funds	2,509,537	1,150,932
Interfund loan receivable	184,704	242,352
Inventory	49,309	28,810
Prepaid items	217,408	257,985
Total Assets	\$ 7,368,555	\$ 7,241,606
Liabilities		
Accounts payable	\$ 150,124	\$ 113,543
Accrued payroll and related liabilities	149,535	135,126
Unearned revenue	1,989	1,910
Customer deposits	15,704	16,204
Total Liabilities	317,352	266,783
Deferred Inflows of Resources		
Deferred property taxes	104,527	71,798
Deferred assessments	333,908	382,025
Total Deferred Inflows of Resources	438,435	453,823
Total Liabilities and Deferred Inflows of Resources	755,787	720,606
Fund Balance		
Nonspendable	451,421	529,147
Restricted - Special service district	125,982	101,223
Assigned - PERS benefits	171,314	171,314
Unassigned	5,864,051	5,719,316
Total Fund Balance	6,612,768	6,521,000
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 7,368,555	\$ 7,241,606

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

Year Ended December 31,	2016					2015
	Final Budget	Actual GAAP Basis	Budget to GAAP Difference	Actual Budget Basis	Variance	Actual GAAP Basis
Revenues						
Taxes:						
Property taxes	\$ 3,151,170	\$ 3,199,487	\$ -	\$ 3,199,487	\$ 48,317	\$ 3,179,852
Sales taxes	6,092,816	6,383,660	-	6,383,660	290,844	5,025,763
Penalties and interest	1,541	4,633	-	4,633	3,092	4,813
Total taxes	9,245,527	9,587,780	-	9,587,780	342,253	8,210,428
Licenses and permits	35,600	30,209	-	30,209	(5,391)	27,625
Intergovernmental:						
Revenue - sharing	-	215,905	-	215,905	215,905	322,339
State PERS relief	-	235,899	(235,899)	-	-	1,227,364
Utility cooperative	27,000	24,878	-	24,878	(2,122)	25,306
Alcohol beverage tax	24,500	24,750	-	24,750	250	23,200
Public safety	511,300	512,880	-	512,880	1,580	685,888
Library grants	6,650	10,222	-	10,222	3,572	10,154
Public works	34,000	34,000	-	34,000	-	34,000
Other grant	-	95,571	-	95,571	95,571	-
Total intergovernmental	603,450	1,154,105	(235,899)	918,206	314,756	2,328,251
Charges for services:						
Administrative services	1,203,719	1,209,925	-	1,209,925	6,206	1,385,810
Ambulance services	130,000	271,872	-	271,872	141,872	109,054
Fire contracts	67,000	71,631	-	71,631	4,631	70,512
Camping fees	154,000	179,034	-	179,034	25,034	166,028
Airport services	90,000	131,051	-	131,051	41,051	128,748
Community school fees	35,300	38,773	-	38,773	3,473	36,768
Miscellaneous services	53,500	88,190	-	88,190	34,690	225,848
Total charges for services	1,733,519	1,990,476	-	1,990,476	256,957	2,122,768
Special assessments	-	47,940	-	47,940	47,940	63,207

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

Year Ended December 31,	2016					2015
	Final Budget	Actual GAAP Basis	Budget to GAAP Difference	Actual Budget Basis	Variance	Actual GAAP Basis
Revenues, continued						
Investment income	\$ 20,000	\$ 47,028	\$ -	\$ 47,028	\$ 27,028	\$ 38,808
Fines and forfeitures	10,000	18,029	-	18,029	8,029	28,291
Total Revenues	11,648,096	12,875,567	(235,899)	12,639,668	991,572	12,819,378
Expenditures						
General government:						
City council/mayor:						
Salaries and benefits	14,056	13,464	-	13,464	592	11,930
Supplies	2,600	1,460	-	1,460	1,140	1,235
Other services and charges	339,945	288,346	-	288,346	51,599	357,593
Total city council/mayor	356,601	303,270	-	303,270	53,331	370,758
City clerk:						
Salaries and benefits	333,258	351,847	(11,159)	340,688	(7,430)	391,239
Supplies	3,500	3,394	-	3,394	106	3,649
Other services and charges	45,790	37,761	-	37,761	8,029	66,056
Total city clerk	382,548	393,002	(11,159)	381,843	705	460,944
City manager:						
Salaries and benefits	182,389	205,566	(3,639)	201,927	(19,538)	167,428
Supplies	4,500	3,729	-	3,729	771	5,013
Other services and charges	18,399	13,497	-	13,497	4,902	11,968
Total city manager	205,288	222,792	(3,639)	219,153	(13,865)	184,409
Administrative services:						
Salaries and benefits	979,902	905,558	(37,965)	867,593	112,309	1,162,325
Supplies	39,400	9,338	-	9,338	30,062	7,263
Other services and charges	293,084	381,153	-	381,153	(88,069)	435,975
Total administrative services	1,312,386	1,296,049	(37,965)	1,258,084	54,302	1,605,563

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

Year Ended December 31,	2016					2015
	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	\$ 333,689	\$ 318,034	\$ (12,500)	\$ 305,534	\$ 28,155	\$ 431,587
Supplies	1,900	1,084	-	1,084	816	2,149
Other services and charges	23,286	15,450	-	15,450	7,836	22,021
Total planning and zoning/ property management	358,875	334,568	(12,500)	322,068	36,807	455,757
City hall complex:						
Salaries and benefits	-	398	-	398	(398)	-
Supplies	9,000	12,532	-	12,532	(3,532)	12,102
Other services and charges	126,376	106,659	-	106,659	19,717	126,643
Total city hall complex	135,376	119,589	-	119,589	15,787	138,745
Non-departmental - salaries and benefits	-	147,492	-	147,492	(147,492)	139,522
Total general government	2,751,074	2,816,762	(65,263)	2,751,499	(425)	3,355,698
Public safety:						
Police department:						
Salaries and benefits	2,062,541	2,169,285	(67,141)	2,102,144	(39,603)	2,434,520
Supplies	27,100	35,664	-	35,664	(8,564)	35,766
Other services and charges	334,615	247,565	-	247,565	87,050	287,860
Total police department	2,424,256	2,452,514	(67,141)	2,385,373	38,883	2,758,146
Jail:						
Salaries and benefits	475,899	485,036	(17,144)	467,892	8,007	674,599
Supplies	27,500	28,190	-	28,190	(690)	29,422
Other services and charges	129,094	92,917	-	92,917	36,177	118,642
Total jail	632,493	606,143	(17,144)	588,999	43,494	822,663
Animal control:						
Supplies	13,700	8,316	-	8,316	5,384	8,950
Other services and charges	147,723	141,625	-	141,625	6,098	144,607
Total animal control	161,423	149,941	-	149,941	11,482	153,557

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

Year Ended December 31,	2016					2015
	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	\$ 670,683	\$ 710,102	\$ (23,082)	\$ 687,020	\$ (16,337)	\$ 820,202
Supplies	39,500	32,391	-	32,391	7,109	40,365
Other services and charges	253,169	199,770	-	199,770	53,399	212,635
Total emergency services	963,352	942,263	(23,082)	919,181	44,171	1,073,202
Total public safety	4,181,524	4,150,861	(107,367)	4,043,494	138,030	4,807,568
Public works:						
Administration:						
Salaries and benefits	83,024	71,958	(2,026)	69,932	13,092	102,473
Supplies	6,250	6,138	-	6,138	112	5,190
Other services and charges	70,413	63,817	-	63,817	6,596	71,131
Total administration	159,687	141,913	(2,026)	139,887	19,800	178,794
Maintenance:						
Salaries and benefits	188,050	207,203	(6,135)	201,068	(13,018)	223,937
Supplies	13,250	11,011	-	11,011	2,239	9,769
Other services and charges	114,800	99,314	-	99,314	15,486	109,744
Total maintenance	316,100	317,528	(6,135)	311,393	4,707	343,450
Streets:						
Salaries and benefits	380,273	401,501	(13,361)	388,140	(7,867)	538,347
Supplies	219,000	212,584	-	212,584	6,416	186,205
Other services and charges	58,000	54,377	-	54,377	3,623	50,576
Total streets	657,273	668,462	(13,361)	655,101	2,172	775,128
Motor pool:						
Salaries and benefits	171,121	169,998	(5,469)	164,529	6,592	174,955
Supplies	101,250	49,918	-	49,918	51,332	72,325
Other services and charges	268,500	244,114	-	244,114	24,386	285,173
Total motor pool	540,871	464,030	(5,469)	458,561	82,310	532,453

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

Year Ended December 31,	2016					2015	
	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	\$ 161,374	\$ 158,117	\$ (5,442)	\$ 152,675	\$ 8,699	\$ 170,850	
Supplies	4,250	2,005	-	2,005	2,245	2,471	
Other services and charges	9,500	6,524	-	6,524	2,976	4,784	
Total engineer/inspector	175,124	166,646	(5,442)	161,204	13,920	178,105	
Janitorial:							
Salaries and benefits	122,252	129,335	(3,153)	126,182	(3,930)	142,664	
Supplies	12,500	13,809	-	13,809	(1,309)	14,905	
Other services and charges	31,150	30,603	-	30,603	547	24,229	
Total engineer/inspector	165,902	173,747	(3,153)	170,594	(4,692)	181,798	
Total public works	2,014,957	1,932,326	(35,586)	1,896,740	118,217	2,189,728	
Library:							
Salaries and benefits	627,986	626,499	(16,010)	610,489	17,497	674,325	
Supplies	29,156	20,019	-	20,019	9,137	19,329	
Other services and charges	159,517	150,569	-	150,569	8,948	178,075	
Total library	816,659	797,087	(16,010)	781,077	35,582	871,729	
Airport:							
Salaries and benefits	67,003	60,627	(1,611)	59,016	7,987	65,661	
Supplies	16,000	12,864	-	12,864	3,136	12,357	
Other services and charges	117,219	97,867	-	97,867	19,352	111,012	
Total airport	200,222	171,358	(1,611)	169,747	30,475	189,030	
Parks and recreation:							
Salaries and benefits	287,547	304,862	(6,506)	298,356	(10,809)	277,030	
Supplies	43,800	32,357	-	32,357	11,443	31,012	
Other services and charges	111,180	111,755	-	111,755	(575)	113,523	
Total parks and recreation	442,527	448,974	(6,506)	442,468	59	421,565	
Community services:							
Community service contributions:							
Museum	66,500	69,000	-	69,000	(2,500)	69,000	
Homer Foundation Non-Profit	19,000	208,000	-	208,000	(189,000)	19,000	
Other	-	17,400	-	17,400	(17,400)	39,695	
Total community service contributions	85,500	294,400	-	294,400	(208,900)	127,695	

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>	2016					2015
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	\$ 110,615	\$ 110,395	\$ (3,556)	\$ 106,839	\$ 3,776	\$ 124,547
Supplies	2,250	1,089	-	1,089	1,161	1,420
Other services and charges	20,425	21,605	-	21,605	(1,180)	31,013
Total community schools	133,290	133,089	(3,556)	129,533	3,757	156,980
Total community services	218,790	427,489	(3,556)	423,933	(205,143)	284,675
Debt service on loans:						
Principal	41,478	48,951	-	48,951	(7,473)	47,012
Interest	58,346	50,873	-	50,873	7,473	52,812
Total debt service	99,824	99,824	-	99,824	-	99,824
Total Expenditures	10,725,577	10,844,681	(235,899)	10,608,782	116,795	12,219,817
Excess of Revenues Over Expenditures	922,519	2,030,886	-	2,030,886	1,108,367	599,561
Other Financing Sources (Uses)						
Transfers in	24,000	10,000	-	10,000	(14,000)	-
Transfers out	(939,869)	(1,949,118)	-	(1,949,118)	(1,009,249)	(647,594)
Net Change in Fund Balance	\$ 6,650	91,768	\$ -	91,768	\$ 85,118	(48,033)
Fund Balance, beginning		6,521,000		6,521,000		6,569,033
Fund Balance, ending		\$ 6,612,768		\$ 6,612,768		\$ 6,521,000

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
Combining Balance Sheet

<i>December 31, 2016</i>	Utility Operations	HAWSP Debt Service	Utility Capital Projects	Utility Reserves	Total Utility Fund
Assets					
Cash and investments	\$ 2,981,246	\$ (4,132,707)	\$ (1,543,856)	\$ 4,446,575	\$ 1,751,258
Receivables					
Accounts	249,191	-	-	-	249,191
Sales taxes	-	191,964	-	-	191,964
Assessments	-	3,865,756	-	-	3,865,756
State and Federal grants and loans	-	-	1,183,846	-	1,183,846
Total Receivables	249,191	4,057,720	1,183,846	-	5,490,757
Inventory	361,507	-	-	-	361,507
Total Assets	\$ 3,591,944	\$ (74,987)	\$ (360,010)	\$ 4,446,575	\$ 7,603,522
Liabilities					
Accounts payable	\$ 177,205	\$ -	\$ 8,197	\$ -	\$ 185,402
Accrued payroll and related liabilities	31,387	-	-	-	31,387
Customer deposits	36,397	-	-	-	36,397
Total Liabilities	244,989	-	8,197	-	253,186
Deferred Inflows of Resources					
Deferred assessments	-	3,865,756	-	-	3,865,756
Total Liabilities and Deferred Inflows of Resources	244,989	3,865,756	8,197	-	4,118,942
Fund Balances (Deficits)					
Nonspendable - inventory	361,507	-	-	-	361,507
Assigned - water and sewer	2,985,448	(3,940,743)	(368,207)	4,446,575	3,123,073
Total Fund Balances (Deficits)	3,346,955	(3,940,743)	(368,207)	4,446,575	3,484,580
Total Liabilities, Deferred Inflows of Resources and Fund Balances (Deficits)	\$ 3,591,944	\$ (74,987)	\$ (360,010)	\$ 4,446,575	\$ 7,603,522

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, 2016</i>	Budget	Actual	Variance
Revenues			
Sales taxes	\$ 1,284,071	\$ 1,275,554	\$ (8,517)
Intergovernmental:			
Federal sources	-	188,707	188,707
State sources	-	776,678	776,678
Total intergovernmental	-	965,385	965,385
Charges for services:			
Water charges and connection fees	1,934,000	1,930,371	(3,629)
Sewer charges and connection fees	1,626,500	1,719,555	93,055
Total charges for services	3,560,500	3,649,926	89,426
Water and sewer special assessments	-	600,591	600,591
Investment income	1,003	10,998	9,995
Total Revenues	4,845,574	6,502,454	1,656,880
Expenditures			
Water:			
Pumping system	500,265	78,345	421,920
Treatment plant and operations testing	523,723	545,550	(21,827)
Distribution system and reservoir	318,884	310,047	8,837
Water meters	181,361	159,429	21,932
Water hydrants	170,246	171,173	(927)
Administration	928,526	607,708	320,818
Total water	2,623,005	1,872,252	750,753
Sewer:			
Pumping system	849,445	871,546	(22,101)
Collection system	244,128	238,758	5,370
Administration	547,928	414,539	133,389
Total sewer	1,641,501	1,524,843	116,658
Debt service:			
Principal	859,415	859,415	-
Interest	177,053	178,938	(1,885)
Total debt service	1,036,468	1,038,353	(1,885)
Capital outlay	-	1,862,118	(1,862,118)
Total Expenditures	5,300,974	6,297,566	(996,592)
Excess of Revenues Over (Under) Expenditures	(455,400)	204,888	660,288
Other Financing Sources (Uses)			
Proceeds from issuance of long term debt	-	608,498	608,498
Transfers in	170,246	152,122	(18,124)
Transfers out	-	(15,000)	(15,000)
Net Change in Fund Balance	\$ (285,154)	950,508	\$ 1,235,662
Fund Balance, beginning		2,534,072	
Fund Balance, ending		\$ 3,484,580	

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

Year Ended December 31, 2016	Utility Operations	HAWSP Debt Service	Utility Capital Projects	Utility Reserves	Total Utility Fund
Revenues					
Sales taxes	\$ -	\$ 1,275,554	\$ -	\$ -	\$ 1,275,554
Intergovernmental:					
Federal sources	-	-	188,707	-	188,707
State sources	45,131	-	731,547	-	776,678
Total intergovernmental	45,131	-	920,254	-	965,385
Charges for services:					
Water charges and connection fees	1,930,221	-	150	-	1,930,371
Sewer charges and connection fees	1,719,555	-	-	-	1,719,555
Total charges for services	3,649,776	-	150	-	3,649,926
Water and sewer special assessments	-	600,591	-	-	600,591
Investment income	8,369	2,629	-	-	10,998
Total Revenues	3,703,276	1,878,774	920,404	-	6,502,454
Expenditures					
Water:					
Pumping system	78,345	-	-	-	78,345
Treatment plant and operations testing	545,550	-	-	-	545,550
Distribution system and reservoir	310,047	-	-	-	310,047
Water meters	159,429	-	-	-	159,429
Water hydrants	171,173	-	-	-	171,173
Administration	469,420	138,288	-	-	607,708
Total water	1,733,964	138,288	-	-	1,872,252
Sewer:					
Pumping system	871,546	-	-	-	871,546
Collection system	238,758	-	-	-	238,758
Administration	414,539	-	-	-	414,539
Total sewer	1,524,843	-	-	-	1,524,843
Debt service:					
Principal	-	859,415	-	-	859,415
Interest	1,885	177,053	-	-	178,938
Total debt service	1,885	1,036,468	-	-	1,038,353
Capital outlay	2,626	-	1,756,803	102,689	1,862,118
Total Expenditures	3,263,318	1,174,756	1,756,803	102,689	6,297,566
Excess of Revenues Over (Under)					
Expenditures	439,958	704,018	(836,399)	(102,689)	204,888
Other Financing Sources (Uses)					
Eliminating transfers	(452,114)	-	-	452,114	-
Proceeds from issuance of long term debt	-	-	608,498	-	608,498
Transfers in	152,122	-	-	-	152,122
Transfers out	-	-	-	(15,000)	(15,000)
Net Change in Fund Balances	139,966	704,018	(227,901)	334,425	950,508
Fund Balances (Deficits), beginning	3,206,989	(4,644,761)	(140,306)	4,112,150	2,534,072
Fund Balances (Deficits), ending	\$ 3,346,955	\$ (3,940,743)	\$ (368,207)	\$ 4,446,575	\$ 3,484,580

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>	2016	2015
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and investments	\$ 839,847	\$ -
Receivables:		
Accounts, net of allowance for doubtful accounts of \$33,684 (\$28,134 in 2015)	229,177	152,790
State and federal grants	533,821	1,571,369
Inventory	11,046	14,431
Prepaid items	33,638	67,121
Total Current Assets	1,647,529	1,805,711
Restricted Cash and Investments		
Bond reserves	309,779	306,074
Property, Plant and Equipment		
Property, plant and equipment in service	71,513,269	58,057,765
Land and land improvements	15,254,041	15,254,041
Construction work in progress	1,161,435	15,836,199
Less accumulated depreciation	(32,917,224)	(33,783,796)
Net Property, Plant and Equipment	55,011,521	55,364,209
Total Assets	56,968,829	57,475,994
Deferred Outflows of Resources - related to pensions	415,030	282,529
Total Assets and Deferred Outflows of Resources	\$ 57,383,859	\$ 57,758,523
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Due to other funds	\$ -	\$ 502,221
Accounts payable	160,399	72,160
Accounts payable for capital assets	105,940	48,364
Accrued payroll and related liabilities	31,264	21,475
Accrued leave	75,000	75,000
Accrued interest payable	12,671	-
General obligation bonds payable	140,000	135,000
Prepaid berth rentals and deposits	923,346	913,490
Unearned lease revenue	18,000	18,000
Unearned grant revenue	96,553	83,507
Interfund loan	62,091	62,091
Total Current Liabilities	1,625,264	1,931,308
Noncurrent Liabilities, net of current portion:		
Unearned lease revenue	198,000	216,000
Accrued leave	157,642	153,017
Interfund loan	135,450	196,390
General obligation bonds payable including bond premium	3,595,602	3,760,328
Net pension liability	2,324,814	1,738,315
Total Noncurrent Liabilities	6,411,508	6,064,050
Total Liabilities	8,036,772	7,995,358
Deferred Inflows of Resources - related to pensions	25,914	30,782
Net Position		
Net investment in capital assets	51,569,616	51,762,578
Unrestricted (deficit)	(2,248,443)	(2,030,195)
Total Net Position	49,321,173	49,732,383
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 57,383,859	\$ 57,758,523

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

<i>Year Ended December 31,</i>	2016	2015
Operating Revenues		
Harbor	\$ 2,704,470	\$ 2,394,979
Main dock	306,652	303,168
Fish dock	573,376	503,553
Deep water dock	237,948	389,308
Rents, leases and storage	413,781	470,056
Fish grinder	8,794	7,140
Total Operating Revenues	4,245,021	4,068,204
Operating Expenses		
Harbor	1,714,762	1,681,245
Main dock	91,237	95,671
Fish dock	637,006	702,484
Deep water dock	188,082	131,851
Fish grinder	22,316	10,126
Administration	1,707,209	1,339,737
Depreciation	2,318,895	1,520,825
Total Operating Expenses	6,679,507	5,481,939
Operating Loss	(2,434,486)	(1,413,735)
Nonoperating Revenues (Expenses)		
Investment income	46,361	45,111
State PERS relief	54,946	72,180
Other income	136,147	91,161
Cruise ship tax	41,064	-
Fish tax	23,289	24,184
Loss on disposal of capital assets	-	(1,252,308)
Abandonment of various projects	(614,830)	-
Miscellaneous repairs	-	(302,393)
Net Nonoperating Revenues (Expenses)	(313,023)	(1,322,065)
Loss Before Transfers and Capital Contributions	(2,747,509)	(2,735,800)
Transfers out	(36,412)	-
Capital contributions	2,372,711	5,436,689
Change in Net Position	(411,210)	2,700,889
Beginning Net Position	49,732,383	47,031,494
Ending Net Position	\$ 49,321,173	\$ 49,732,383

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

<i>Year Ended December 31,</i>	2016	2015
Cash Flows from (for) Operating Activities		
Receipts from customers and users	\$ 4,309,683	\$ 4,279,485
Payments to suppliers	(3,033,276)	(2,514,087)
Payments to employees	(1,298,569)	(1,473,623)
Net cash flows from (for) operating activities	(22,162)	291,775
Cash Flows from (for) Noncapital Financing Activities		
Increase (decrease) in due to other funds	(502,221)	502,221
Transfers out	(36,412)	-
Cruise ship tax and fish tax received	64,353	24,184
Net cash flows from (for) noncapital financing activities	(474,280)	526,405
Cash Flows from (for) Capital and Related Financing Activities		
Principal paid on long-term debt	(135,000)	(130,000)
Interest paid on long-term debt	(153,400)	(156,050)
Capital contributions received	3,410,259	7,526,278
Acquisition of property, plant and equipment	(1,767,286)	(9,618,899)
Decrease in interfund loan	(60,940)	(60,939)
Net cash flows from (for) capital and related financing activities	1,293,633	(2,439,610)
Cash Flows from Investing Activities		
Investment income received	46,361	45,111
Net Increase (Decrease) in Cash and Investments	843,552	(1,576,319)
Beginning Cash and Investments	306,074	1,882,393
Ending Cash and Investments	\$ 1,149,626	306,074

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

<i>Year Ended December 31,</i>	2016	2015
Reconciliation of Operating Loss to Net Cash		
Flows from Operating Activities		
Operating loss	\$ (2,434,486)	\$ (1,413,735)
Adjustments to reconcile operating loss to net cash flows from (for) operating activities:		
Depreciation	2,318,895	1,520,825
Noncash expense - PERS relief	54,946	72,180
Increase in allowance for doubtful accounts	5,550	-
Amortization of deferred lease revenue	(18,000)	(18,000)
Miscellaneous nonoperating revenues and expense, net	136,147	(211,232)
Abandonment of various projects	(614,830)	-
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable	(81,937)	34,314
Inventory	3,385	-
Prepaid items	33,483	(18,870)
Deferred outflows of resources related to pensions	(132,501)	(226,903)
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable	88,239	(44,787)
Accrued payroll and related liabilities	9,789	(17,893)
Unearned grant revenue	13,046	27,850
Accrued leave	4,625	28,838
Prepaid berth rentals and deposits	9,856	75,956
Net pension liability	586,499	585,649
Deferred inflows of resources related to pensions	(4,868)	(102,417)
Net Cash Flows from (for) Operating Activities	\$ (22,162)	\$ 291,775
Noncash Capital and Related Financing Activities		
Interest capitalized	\$ 141,345	\$ 131,324
Capital assets acquired on account	\$ 105,940	\$ 48,364

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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, 2016</i>	Health Insurance	Leave Cash-out	Total
Current Assets			
Cash and investments	\$ 883,042	\$ -	\$ 883,042
Liabilities and Net Position			
Current Liabilities			
Due to other funds	\$ -	\$ 79,884	\$ 79,884
Net Position			
Unrestricted (deficit)	883,042	(79,884)	803,158
Total Liabilities and Net Position	\$ 883,042	\$ -	\$ 883,042

City of Homer, Alaska

Internal Service Funds

Combining Statement of Revenues, Expenses, and Changes in Net Position (Deficit)

<i>Year Ended December 31, 2016</i>	Health Insurance	Leave Cash-out	Total
Operating Revenues			
Interfund charges	\$ 1,468,618	\$ 206,784	\$ 1,675,402
Employee health contributions	161,366	-	161,366
Total Operating Revenues	1,629,984	206,784	1,836,768
Operating Expenses			
Salaries and benefits	-	172,352	172,352
Insurance premiums	1,440,767	-	1,440,767
Administration	25,827	-	25,827
Employee incentive fees	102,050	-	102,050
Total Operating Expenses	1,568,644	172,352	1,740,996
Operating Income	61,340	34,432	95,772
Transfers In	94,394	-	94,394
Change in Net Position	155,734	34,432	190,166
Beginning Net Position (Deficit)	727,308	(114,316)	612,992
Ending Net Position (Deficit)	\$ 883,042	\$ (79,884)	\$ 803,158

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

<i>Year Ended December 31, 2016</i>	Health Insurance	Leave Cash-out	Total
Cash Flows for Operating Activities			
Receipts from interfund services provided and employee contributions	\$ 1,629,984	\$ 206,784	\$ 1,836,768
Payments to employees	(102,050)	(172,352)	(274,402)
Payments for insurance, claims, and administration	(1,466,594)	-	(1,466,594)
Net cash flows from operating activities	61,340	34,432	95,772
Cash Flows from Noncapital Financing Activities			
Decrease in due to other funds	-	(34,432)	(34,432)
Transfers in	94,394	-	94,394
Net cash flows from (for) noncapital financing activities	94,394	(34,432)	59,962
Net Increase in Cash and Investments	155,734	-	155,734
Cash and Investments, beginning	727,308	-	727,308
Cash and Investments, ending	\$ 883,042	\$ -	\$ 883,042
Reconciliation of Operating Income to Net Cash			
Flows from (for) Operating Activities			
Operating income	\$ 61,340	\$ 34,432	\$ 95,772

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

<i>December 31,</i>	2016	2015
Assets		
Cash and investments	\$ 883,042	\$ 727,308
Total Assets	\$ 883,042	\$ 727,308
Net Position		
Unrestricted	\$ 883,042	\$ 727,308

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

<i>Year Ended December 31,</i>	2016	2015
Operating Revenues		
Interfund insurance charges	\$ 1,468,618	\$ 1,411,204
Employee health contributions	161,366	169,215
Total Operating Revenues	1,629,984	1,580,419
Operating Expenses		
Insurance premiums	1,440,767	1,335,962
Administration	25,827	55,140
Employee incentive fees	102,050	62,466
Total Operating Expenses	1,568,644	1,453,568
Operating Income	61,340	126,851
Transfers in	94,394	-
Change in Net Position	155,734	126,851
Beginning Net Position, as originally presented	727,308	872,971
Prior period adjustment	-	(272,514)
Beginning Net Position, as restated	727,308	600,457
Ending Net Position	\$ 883,042	\$ 727,308

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

<i>Year Ended December 31,</i>	2016	2015
Cash Flows from (for) Operating Activities		
Receipts from interfund services provided and employee contributions	\$ 1,629,984	\$ 1,580,419
Payments for insurance, claims, and administration	(1,466,594)	(1,695,998)
Payments to employees for incentive fees	(102,050)	(62,466)
Net cash flows from (for) operating activities	61,340	(178,045)
Cash Flows from Noncapital Financing Activities		
Transfers in	94,394	-
Net Increase (Decrease) in Cash and Investments	155,734	(178,045)
Cash and Investments, beginning	727,308	905,353
Cash and Investments, ending	\$ 883,042	\$ 727,308
Reconciliation of Operating Income to Net Cash		
Flows from (for) Operating Activities		
Operating income	\$ 61,340	\$ 126,851
Adjustments to reconcile operating income to net cash flows from (for) operating activities:		
Prior period adjustment affecting cash	-	(272,514)
Increase in prepaid items	-	123,154
Decrease in accounts payable	-	(155,536)
Net Cash Flows from (for) Operating Activities	\$ 61,340	\$ (178,045)

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

<i>December 31,</i>	2016	2015
Current Assets		
Cash and investments	\$ -	\$ -
Liabilities and Net Position		
Current Liabilities		
Due to other funds	\$ 79,884	\$ 114,316
Net Position		
Unrestricted (deficit)	(79,884)	(114,316)
Total Liabilities and Net Position	\$ -	-

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

<i>Year Ended December 31,</i>	2016	2015
Operating Revenues - interfund leave cash-out charges	\$ 206,784	\$ 185,575
Operating Expenses - salaries and benefits	172,352	307,277
Change in Net Position	34,432	(121,702)
Beginning Net Position (Deficit)	(114,316)	7,386
Ending Net Position (Deficit)	\$ (79,884)	\$ (114,316)

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

<i>Year Ended December 31,</i>	2016	2015
Cash Flows from (for) Operating Activities		
Receipts from interfund services provided	\$ 206,784	\$ 185,575
Payments to employees	(172,352)	(307,277)
Net cash flows from (for) operating activities	34,432	(121,702)
Cash Flows from (for) Noncapital Financing Activities		
Increase (decrease) in due to other funds	(34,432)	114,316
Net Increase (Decrease) in Cash and Investments	-	(7,386)
Cash and Investments, beginning	-	7,386
Cash and Investments, ending	\$ -	\$ -
Reconciliation of Operating Income (Loss) to Net Cash		
Flows from (for) Operating Activities		
Operating income (loss)	\$ 34,432	\$ (121,702)

Schedules of Federal and State Financial Assistance

City of Homer, Alaska
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2016

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					
National Wildlife Refuge System Enhancements	15.654	\$ 87,500		\$ -	\$ 54,344
Passed through the State of Alaska Department of Fish and Game - Fish and Wildlife Cluster:					
Sport Fish Restoration	15.605	60,000	160001777	-	60,000
Sport Fish Restoration	15.605	2,237,475	COOP#12-085	-	303,901
Total Fish and Wildlife Cluster					<u>363,901</u>
Total Department of the Interior					<u>418,245</u>
DEPARTMENT OF HOMELAND SECURITY					
Passed through the State of Alaska Division of Homeland Security and Emergency Management -					
Homeland Security Grant Program	97.067	114,300	20SHSP-GY15	-	<u>94,571</u>
DEPARTMENT OF JUSTICE					
Bulletproof Vest Partnership Program	16.607	983		-	<u>638</u>
DEPARTMENT OF TRANSPORTATION					
Passed through the State of Alaska Department of Transportation and Public Facilities:					
Highway Safety Cluster:					
State and Community Highway Safety	20.600	2,085	402PT-16-06-(A)-5	-	1,462
State and Community Highway Safety	20.600	9,000	402PM-16-25-00	-	<u>3,582</u>
Total CFDA 20.600					<u>5,044</u>
National Priority Safety Programs	20.616	15,021	405d M5X-16-01-00	-	12,178
National Priority Safety Programs	20.616	8,864	405d M5HVE-16-01-00(A)-5	-	<u>3,255</u>
Total CFDA 20.616					<u>15,433</u>
Total Highway Safety Cluster					<u>20,477</u>
Highway Planning and Construction Cluster - Highway Planning and Construction	20.205	1,549,943	54392	-	<u>520,035</u>
Total Department of Transportation					<u>540,512</u>
Environmental Protection Agency					
Passed through State of Alaska Department of Environmental Conservation:					
Clean Water State Revolving Fund Cluster -					
Capitalization Grants for Drinking Water State Revolving Funds -					
- Loan Portion	66.458	356,761	409071	-	<u>356,761</u>
Drinking Water State Revolving Fund Cluster -					
Capitalization Grants for Drinking Water State Revolving Funds:					
- Loan Portion	66.468	61,225	409091	-	61,225
- Subsidy Portion	66.468	183,675	409091	-	<u>183,675</u>
Total Drinking Water State Revolving Fund Cluster					<u>244,900</u>
Total Environmental Protection Agency					<u>601,661</u>
INSTITUTE OF MUSEUM AND LIBRARY SERVICES					
Passed through the State of Alaska Department of Education and					
Early Development - Grants to State	45.310	3,400	None	-	<u>3,400</u>
Total Federal Financial Assistance					<u>\$ 1,659,027</u>

See accompanying notes to the federal schedule.

City of Homer, Alaska
Schedule of State Financial Assistance
Year Ended December 31, 2016

State Grant Title	Grant Number	Total Grant Award	State Share of Expenditures
Department of Administration			
* PERS Relief	N/A	\$ 335,975	<u>\$ 335,975</u>
Department of Commerce, Community, and Economic Development			
* Fire Department Equipment Upgrades	15-DC-060	350,000	107,504
* Waddell Way Road Improvements	15-DC-062	1,405,000	648,044
* Harbor Sheet Pile Loading Dock	15-DC-061	350,000	89,254
* Deep Water Dock Expansion, Phase I	11-DC-233	10,000,000	950,358
* Cruise Ship Dock and Passenger Facility Improvements	12-DC-609	6,000,000	347,862
* Revenue Sharing	N/A	215,905	<u>215,905</u>
Total Department of Commerce, Community, and Economic Development			<u>2,358,927</u>
Department of Environmental Conservation			
* Water Storage and Distribution Improvements	MMG No. 40909	1,922,577	<u>728,034</u>
Department of Revenue			
Fish Tax	N/A	2,834	2,834
Fish Business Landing Tax	N/A	20,456	20,456
Electric and Telephone Co-op Tax	N/A	24,878	24,878
Liquor Licenses	N/A	24,750	24,750
Commercial Passenger Vessel Tax Program	N/A	27,055	<u>14,009</u>
Total Department of Revenue			<u>86,927</u>
Department of Education and Early Development			
Public Library Assistance	PLA-16-738-01	6,650	1,910
Public Library Assistance	PLA-17-738-01	6,900	<u>4,911</u>
Total Department of Education and Early Development			<u>6,821</u>
Department of Transportation and Public Facilities			
Homer Spit Pathway	54597	2,500,000	<u>12,662</u>
Department of Fish and Game			
* Homer Harbor Boat Launch Facility Renovation	12-085	745,825	<u>101,300</u>
Total State Financial Assistance			<u>\$ 3,630,646</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, 2016

1. Basis of Presentation

The accompanying schedules of expenditures of federal awards and state financial assistance (the "Schedules") include the federal and state award activity of City of Homer under programs of the federal and state governments for the year ended December 31, 2016. The information in the Schedules is presented in accordance with the 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) 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.

The City of Homer had no federally funded insurance programs or loan guarantees during the year ended December 31, 2016.

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 Office of Management and Budget 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. 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.

3. Indirect Cost Rate

City of Homer has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. PERS On-behalf

The City has recorded \$335,975 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 2016 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, 2016

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, 2015 through June 30, 2016, 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.

5. Clean Water and Drinking Water Revolving Loans

The Clean Water and Drinking Water Revolving Loans are programs funded through a mix of federal and state funding. The Drinking Water Revolving Loan was offered with a subsidized portion not to exceed \$612,750. The subsidy will be reported on the Schedule of State Financial Assistance or Schedule of Federal Awards, as applicable, when the cash is received. The City is unable to determine the funding split until the drawdowns are processed by the State.

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Single Audit Reports



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3601 C Street, Suite 600
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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, 2016, 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 November 21, 2017.

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 first paragraph of this section 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 a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2016-001 that we consider to be a material weakness.

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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2016-002.

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
November 21, 2017



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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, 2016. 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, 2016.

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
November 21, 2017



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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, 2016. 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, 2016.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

BDO USA, LLP

Anchorage, Alaska
November 21, 2017

City of Homer, Alaska

Schedule of Findings and Questioned Costs Year Ended December 31, 2016

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?

 X yes

 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	Department of the Interior
20.205	Highway Planning and Construction Cluster	Department of Transportation

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?

 yes

 X (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, 2016

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

Finding 2016-001 Timely Reconciliation of Books and Records - Material Weakness in Internal Control over Financial Reporting

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

Condition: We identified a number of accounts that were not fully reconciled or presented in accordance with U.S. GAAP. Bank and investment accounts were not consistently reconciled timely throughout the year, were not always reviewed and were not always prepared correctly. Several general ledger accounts were not reconciled until after BDO left the field. Some of the account reconciliations were received as late as September 2017. Journal entries were identified that needed to be made to correct the accounts to be reported fairly under U.S. GAAP. Activity that occurred in FY17 was incorrectly posted to FY16

Context: Adjustments proposed by BDO as well as those provided to BDO after BDO left the field, included adjustments to transfers, accounts receivable, expenditures, inventory, accounts payable, loans payable, capital leases, investments, taxes receivable, deferred revenue, revenue, cash, capital assets, grant revenue, grant receivables, special assessments, schedule of state financial assistance and schedule of federal awards.

Effect: Items reported in the financial statements were not presented in accordance with U.S. GAAP, particularly with areas associated with external financial reporting. The City's general ledger during the year did not accurately reflect the City's bank and investment account balances.

Cause: A shortage of staff and experience led to accounts not being closed in a timely manner. Review of the postings of activity was not performed in a timely manner to ensure that the activity was posted in the correct period and for the correct amount.

Recommendation: Management should ensure reconciliations are performed accurately and reviewed in a timely manner. All balance sheet accounts should be reconciled, and necessary adjusting entries recorded, at least quarterly.

*Views of Responsible
Officials and Planned*

Corrective Actions: Management concurs. See the corrective action plan.

City of Homer, Alaska

Schedule of Findings and Questioned Costs, continued Year Ended December 31, 2016

Finding 2016-002 **Single Audit Reporting - Material Noncompliance**

Criteria: 2 CFR Chapter I and Chapter II part 200 section 200.512 states that “(1) The audit must be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section must be submitted within the earlier of 30 calendar days after receipt of the auditor’s report(s), or nine months after the end of the audit period. If the due date falls on a Saturday, Sunday, or Federal holiday, the reporting package is due the next business day.”

2 AAC 45.010(b) states an entity that expends a cumulative total of \$750,000 or more shall submit an audit report for the audit period by...” the earlier of 30 days after the entity receives its audit report for the audit period; or nine months after the end of the audit period” or a later date agreed upon in writing and advance of the date in this section.

Condition: The Federal data collection form and reporting package and the state audit report were not filed on time.

Context: The Federal data collection form and reporting package and the state audit report were not filed on time.

Effect: Information necessary to complete the financial statement audit was not available in a timely manner to allow for timely submission of the Federal data collection form and reporting package and the state audit report.

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

Recommendation: Management should ensure reconciliations are performed accurately and reviewed in a timely manner so that the Federal data collection form and reporting package and the state audit report can be filed on time.

*Views of Responsible
Officials and Planned*

Corrective Actions: Management concurs. See the corrective action plan.

Section III Federal Award Findings and Questioned Costs

There were no findings and questioned costs for federal awards (as defined in 2 CFR 200.516(a)) that are required to be reported.

Section IV State of Alaska Award Findings and Questioned Costs

There were no findings and questioned costs for State awards (as defined in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*) that are required to be reported.

Single Audit Responses (Unaudited)



City of Homer

www.cityofhomer-ak.gov

Finance Department

491 East Pioneer Avenue
Homer, Alaska 99603

finance@cityofhomer-ak.gov

(p) 907-235-8121

(f) 907-235-3140

Financial Statement Findings

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

Status This finding has been repeated as item 2016-001.

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

Status This finding has been repeated as a component of item 2016-001.

Federal Award Findings

There was no findings in the prior year.

State of Alaska Award Findings

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

Status This finding has been resolved.



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Corrective Action Plan Year Ended December 31, 2016

Persons Responsible: Elizabeth Walton, Finance Director
Jenna deLumeau, Accounting Supervisor

Finding 2016-001 Timely reconciliation of Books and Records – Material Weakness in Internal Control over Financial Reporting

Corrective Action:

1. Finance Department is again going through a reorganization. We have a new Finance Director and we are working hard to make sure we fit the best staff with the most appropriate tasks. We also have a position open which we hope to fill with a more experienced accountant. We feel there are much higher level duties and we aim to get the right staff.
2. The Finance Department has also contracted with a CPA firm that is being consulted as necessary.

Expected Completion: By the Spring of 2018. We have an open position which we hope to fill by year end. We will need to do some training and transitioning duties. This is to address the audit finding 2015-001. We are committed to continuous improvement. The process requires continued training and cross training.

Finding 2016-002 Single Audit Reporting – Material Noncompliance Timely Grant Reporting – Significant Deficiency in Internal Control over Compliance

Corrective Action: See above. We will have staff in place to complete our books and records timely and as such the Federal Single Audit will be completed on time.

Expected Completion: By the Spring of 2018.