

COMPREHENSIVE ANNUAL FINANCIAL REPORT

OF THE

CITY OF HOMER, ALASKA

Year Ended December 31, 2010

James C. Hornaday
Mayor

Walt Wrede
City Manager

Prepared By
Finance Department

Regina Mauras, CPA, CFE, EA
Finance Director

CITY OF HOMER, ALASKA

Comprehensive Annual Financial Report

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City of Homer

Homer, Alaska

June 13, 2011

To the Honorable Mayor James C. Hornaday
Members of the City Council,
The Citizens of the City of Homer:

The Finance Department of the City of Homer is pleased to submit the Comprehensive Annual Financial Report of the City of Homer, for the fiscal year ended December 31, 2010. The purpose of the report is to provide the council, management, staff, the public, and other interested parties with detailed information reflecting the City's financial condition.

THE REPORT

This report satisfies Title 29 of the Alaska Statutes requiring annual audits of all municipalities. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data is accurate in all material respects and is presented in a manner that fairly sets forth the financial position and results of the City. We also believe all disclosures necessary to enable the reader to gain an understanding of the City's financial affairs have been included. To provide a reasonable basis for making these representations, management of the City of Homer has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Homer's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City of Homer's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The comprehensive annual financial report (CAFR) is organized into major Introductory, Financial, Statistical, and Single Audit Sections. The Introductory Section provides general information on the government's structure and personnel as well as information useful in assessing the government's financial condition.

The Financial Section contains the opinion of the City's independent auditor. The City of Homer's financial statements have been audited by Mikunda Cottrell & Co., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Homer for the fiscal year ended December 31, 2010, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;

assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Homer's financial statements for the fiscal year ended December 31, 2010, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

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

THE REPORTING ENTITY AND ITS SERVICES

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



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

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

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

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

Capital Projects

Although the area's economy is struggling, there are still visible signs of growth in Homer. The growth is spearheaded by both the public and private sectors. In the 2010 and 2011 construction season, capital projects that are planned, completed, or in progress include the following.

City of Homer LID Projects:

A very significant portion of the City of Homer's financing (and debt) for capital project activity involves carrying out the City's commitment to provide basic water, sewer, and road services to community residents through the Homer Accelerated Water and Sewer Program (HAWSP) and the Homer Accelerated Roads and Trails Program (HART). Funding for projects under these programs are generally initiated through local improvement districts. Local Improvement Districts currently in the planning, design, or construction phase include:

- Kachemak Drive Water and Sewer Improvements (Phase II). This project will extend water and sewer service to eighty-eight properties along Kachemak Drive beginning at East End Road. Design work began in 2006. The design, engineering, environmental research, and permitting phases was complete in June 2010. It is anticipated that the project contract will be awarded in the summer of 2011.

¹ Financial policies can be located beginning on page 15 of the City of Homer Annual 2011 Budget.

Other City Capital Projects

- **Water Treatment Plant:** A new, state of the art, 8.5 million dollar water treatment plant was completed and became operational in 2009. In 2010 the plant successfully passed its performance testing and the existing plant building is prepared for demolition.
- **The City completed an energy audit of existing public buildings in 2010.** Recommended energy conservation improvements were identified and the funding to complete the work was authorized. All energy conservation improvements will be completed in 2011.
- **Parks and Recreation:** In 2010, the City provided funds to upgrade the third ball field at Jack Gist Park. The City Council has appropriated additional funds for improvements there this year. The Council has also appropriated funds and received a legislative grant to implement Phase I of the Karen Homaday Park Master Plan and the City plans to begin limited construction in 2011.
- **Deep Water Dock:** Preparations for completing feasibility study and design work for upgrades at the Deep Water Dock commenced in 2010. The City proposes to strengthen the approach trestle and lengthen the face of the dock as part of Phase I improvements. Problems accessing a 2006 \$2 Million dollar federal earmark have been resolved and the City received another \$1 Million for the project in 2009 from the Alaska legislature.
- **Main St:** The City has a \$2 Million legislative grant to upgrade Main St. and / or make intersection and traffic control improvements at the intersection of Main St. and the Sterling Highway. The planning and design phase and coordination with DOT/PF is expected to take place in 2010.
- **City Hall Renovation:** The City was successful in getting the state funding originally appropriated for a new City Hall re-appropriated for upgrades and expansion of the existing City Hall. Planning and design was initiated in 2010 and construction is expected to begin in the Summer of 2011.
- **Natural Gas Transmission Line:** In 2009, the City received \$525,000 in grant funds from the Alaska legislature to build a regulation station in Anchor Point and the first segment of 8 inch line for transportation of the gas to Homer. Construction was completed in 2010. Funds to extend the line all the way to Homer are expected in 2011.
- **Using economic stimulus funding, the City completed several projects in 2010.** The new vacuum street sweeper began operations in 2010. A new pressure reducing station was installed in Mattox Street to reduce high water pressures to the neighborhood below. 13,500 linear feet of 40 year old asbestos cement sanitary sewer line was slip-lined to reduce infiltration and improve structural integrity, mainly in the central business district. Economic stimulus monies paid 90% of the cost associated with these projects.
- **Design of the replacement of the Woodard Creek culvert crossing at Soundview Avenue** was completed in 2010. Replacement of this culvert with a "bridge", repair of crushed sanitary sewer, and replacement of the water main at the creek crossing is expected to be completed in 2011.

Kenai Peninsula Borough Projects

- **The South Peninsula Hospital Expansion Phase II** was completed in the spring of 2011.

State of Alaska Projects

- **A major airport improvement and expansion project** is scheduled within the next few years pending the availability of funds.
- **Funding to proceed with planned East End Road Improvements (beyond M.P. 3.5)** is expected to be established within the State legislative capital budget in 2011.

Major Private Sector Projects

- The City of Homer did not review or approve any new, large subdivisions in 2010. This activity has slowed considerably due to the national economic downturn.
- The City Planning Department issued 45 zoning permits in 2010. This continues a downward trend in recent years. The number of permits issued in 2009 was 55 and in 2008 it was 62.

FACTORS AFFECTING FINANCIAL CONDITION

Economy

Homer's economy is relatively diverse for a community of its size. Major seasonal components of the economy include commercial fishing, sport fishing, recreation, and the visitor industry. The primary employers include the South Peninsula Hospital, Homer Electric Association, arts and music, independent entrepreneurs, small locally owned businesses, and the federal, state, borough, and local governments. Homer is the number one commercial halibut port in the state in terms of pounds landed. It also has the largest single basin boat harbor in the state, a year around ice free port, and an excellent airport. Besides recreation and wildlife viewing, major visitor attractions include the Pratt Museum, the Islands and Ocean Center, and the many art galleries.

The City Economic Development Commission is currently working on an update to the City's Comprehensive Economic Development Strategy (CEDS). One of the objectives is to define and articulate what types of economic development the community supports and how to stimulate it. Prospects for the future that could affect the local economy include green technology and energy development, a proposed airport improvement project, proposed expansions at the Deep Water Dock and Boat Harbor, renovation and expansion of the Pratt Museum, efforts to bring natural gas to Homer, and the Pebble Mine.

Economic growth in Homer has slowed over the past year much as it has in the rest of the Country. Economy activity in most sectors appears to have declined. Tax revenues are projected to be on the decline in coming years. In addition, Borough voters recently voted to exempt unprocessed foods from the local sales tax. This measure, unless it is reversed by local voters, will result in a decline in sales taxes of up to \$1 Million dollars. This will affect the City's ability to finance projects.

Long-Term Financial Planning

Users of this document as well as others interested in the programs and services offered by the City of Homer are encouraged to read the City's 2011 Annual Budget. The document details the City's long-term goals and financial policies, describes program accomplishments and initiatives, and outlines the City's capital improvement program. The City's Annual Budget also includes long-term financial plans for the major operating funds that forecast revenues and expenditures over a ten -year horizon. The document can be obtained from the City of Homer's Finance Department by calling (907) 235-8121. The Annual Budget can also be accessed through the City's web site at www.ci.homer.ak.us and selecting the Finance Department.

FINANCIAL INFORMATION

Single Audit

As a recipient of federal and state assistance, the City is responsible for providing an

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

ACCOUNTING SYSTEM AND BUDGETARY CONTROLS

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

Cash Management

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

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

Risk Management

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

Awards and Acknowledgements

Certification of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Homer for its comprehensive annual financial report for the fiscal year ended December 31, 2009.

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

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

Acknowledgements

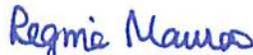
The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the City of Homer. We would like to particularly express our appreciation to Laurel Moore, Jo Earls, Jenna deLumeau, Joanne Perret, Lori Sorrows, and Juli Swisher of the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

We would also like to thank the Mayor and City Council for their interest and support in planning and conducting the financial operations of the City in a responsible manner.

Respectfully submitted,



Mark Robl
Acting City Manager



Regha Mauras, CPA, CFE, EA
Finance Director

CITY OF HOMER
Principal City Officials

Mayor

James C. Hornaday

City Council

David Lewis
Mary E. (Beth) Wythe
Bryan Zak

Francie Roberts
Barbara Howard
Kevin Hogan

City Administration

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

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

City of Homer Organizational Chart

People of Homer

Mayor & City Council

Attorney

Auditor

Council Task Forces
and Committees

Advisory Commissions

City Manager

Public Safety
Police and Fire

Public Works

Port and Harbor

Administration
and Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Homer
Alaska

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

Independent Auditor's Report

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

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, 2010 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 the City of Homer, Alaska, as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and Utility Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, in 2010 the City converted its Water and Sewer Utility from an enterprise fund to a special revenue fund. This conversion results in changes to the governmental fund financial statements, the proprietary fund financial statements, and the government-wide financial statements. In addition, due to the change in measurement focus and basis of accounting, this conversion results in a restatement of opening balance equity in each financial statement and opinion unit.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2011 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

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

matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Homer's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, and 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 is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other data included in this report, designated as the "statistical section" in the table of contents, has not been audited by us and, accordingly, we express no opinion on such data.

Mikunda, Cottrell & Co.

Anchorage, Alaska
June 7, 2011

MANAGEMENT DISCUSSION AND ANALYSIS

CITY OF HOMER

Management's Discussion and Analysis

December 31, 2010

As management of the City of Homer, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the City of Homer for the fiscal year ended December 31, 2010. Readers are encouraged to read this narrative in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this *section*. *All amounts reported in this MD&A, unless otherwise indicated, are expressed in thousands of dollars.*

Financial Highlights

- The assets of the City of Homer exceeded its liabilities at December 31, 2010, by \$126,446 (Net Assets). Of this amount, unrestricted net assets of \$16,646 may be used to meet the City's ongoing obligations to citizens and creditors. The City's total net assets decreased by \$366.
- As of December 31, 2010, the City's governmental funds reported combined ending fund balances of \$19,145, an increase of \$2,031 after restatement for conversion of the Utility Enterprise Fund to a Special Revenue Fund. In addition, HART Roads and Non-major Funds retained fund balance due to not completing major capital projects during the year.
- At the end of the current year, the fund balance for the General Fund was \$5,574. Of this amount, \$5,147 was unreserved, undesignated, and available for spending.
- At year-end, the City of Homer's outstanding debt totals \$15,490, a decrease of \$548 from the previous year. This includes an increase in Alaska Clean Water/Drinking Water loans for the new water treatment plant.

Overview of Financial Statements

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

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

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

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

Illustration A-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 and public works	Activities the City operates similar to private businesses; port and harbor
Required financial statements	*Statement of net assets *Statement of activities	*Balance sheet *Statement of revenues, expenditures and changes in fund balance	*Statement of net assets *Statement of revenues, expenses and changes in net assets *Statement of cash flows
Accounting basis and measurement focus	Accrual accounting	Modified accrual accounting and current financial resources focus	Accrual accounting
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Financial Statements

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

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

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

- **Governmental activities** - These are functions such as public safety and public works 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 and harbor system fall within this category.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Homer, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds - Governmental funds are used to account for essentially the same functions reported as governmental activities. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Homer maintains seventeen 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. A budgetary comparison statement is provided for the General Fund to demonstrate compliance with this budget.

Proprietary funds - Services for which the City charges customers a fee are generally reported in the proprietary funds. Proprietary funds provide the same type of information as the government-wide statements, only in more detail. The City maintains two different types of proprietary funds:

- Enterprise funds - Are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its port & harbor 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, accrued leave cash-outs, and PERS funding.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data presented in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28 - 49 of this report.

Government-wide Financial Analysis

At the close of the 2010 fiscal year, the City's net assets (assets exceeding liabilities) totaled \$126,446 (see Table A-1). Of this amount \$104,190, or 82%, represents the City's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related outstanding debt used to acquire those assets. Because the City of Homer uses these capital assets to provide services to the community, these assets are not available for future spending. The remaining amount of net assets, are labeled as restricted or unrestricted.

The restricted balances of \$5,610 in the governmental activities is for debt service and capital projects. There is no debt service for the business-type activities. The total unrestricted amount totals \$16,646 and is available to meet the City's ongoing obligations to citizens and creditors.

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

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

	Governmental Activities		Business-Type Activities		Total Activities	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 24,245	14,906	1,058	7,700	25,303	22,606
Capital assets	<u>77,917</u>	<u>45,129</u>	<u>41,762</u>	<u>78,091</u>	<u>119,679</u>	<u>123,221</u>
Total assets	<u>102,162</u>	<u>60,035</u>	<u>42,820</u>	<u>85,791</u>	<u>144,982</u>	<u>145,826</u>
Non-Current liabilities	15,150	2,001	804	15,180	15,954	17,181
Other liabilities	<u>2,141</u>	<u>585</u>	<u>441</u>	<u>1,247</u>	<u>2,582</u>	<u>1,832</u>
Total liabilities	<u>17,291</u>	<u>2,586</u>	<u>1,245</u>	<u>16,427</u>	<u>18,536</u>	<u>19,013</u>
Net Assets:						
Invested in capital assets, net of related debt	62,428	43,616	41,762	63,567	104,190	107,183
Restricted	5,610	3,350	-	4,348	5,610	7,698
Unrestricted	<u>16,833</u>	<u>10,483</u>	<u>(187)</u>	<u>1,448</u>	<u>16,646</u>	<u>11,931</u>
Total net assets	\$ <u>84,871</u>	<u>57,449</u>	<u>41,575</u>	<u>69,363</u>	<u>126,446</u>	<u>126,812</u>

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Activities</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Program revenues:						
Charges for services	\$ 4,348	1,246	3,504	6,387	7,852	7,633
Operating grant and contributions	665	607	49	-	714	607
Capital grants and contributions	1,632	376	-	317	1,632	693
General revenues:						
Property taxes	3,052	2,890	-	-	3,052	2,890
Sales taxes	6,614	5,361	-	1,072	6,614	6,433
Other	<u>1,272</u>	<u>2,113</u>	<u>235</u>	<u>453</u>	<u>1,507</u>	<u>2,566</u>
Total revenues	<u>17,583</u>	<u>12,593</u>	<u>3,788</u>	<u>8,229</u>	<u>21,371</u>	<u>20,822</u>
Expenses:						
General government	3,723	2,066	-	-	3,723	2,066
Public safety	4,168	4,410	-	-	4,168	4,410
Public works	2,677	2,956	-	-	2,677	2,956
Library	931	933	-	-	931	933
Airport	208	239	-	-	208	239
Parks and recreation	469	427	-	-	469	427
Community services	263	266	-	-	263	266
Unallocated interest	226	64	-	-	226	64
Port and harbor	-	-	4,501	4,794	4,501	4,794
Water and sewer	<u>4,571</u>	<u>-</u>	<u>-</u>	<u>6,146</u>	<u>4,571</u>	<u>6,146</u>
Total expenses	<u>17,236</u>	<u>11,361</u>	<u>4,501</u>	<u>10,940</u>	<u>21,737</u>	<u>22,301</u>
Increase (decrease) in net assets before transfers	347	1,232	(713)	(2,711)	(366)	(1,479)
Transfers	<u>(25)</u>	<u>(115)</u>	<u>25</u>	<u>115</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	322	1,117	(688)	(2,596)	(366)	(1,479)
Beginning net assets	57,449	56,332	69,363	71,959	126,812	128,291
Reclassification of water/sewer to Special Revenue	<u>27,100</u>	<u>-</u>	<u>(27,100)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Ending net assets	<u>\$ 84,871</u>	<u>57,449</u>	<u>41,575</u>	<u>69,363</u>	<u>126,446</u>	<u>126,812</u>

As reflected in Table A-2, the City's total net assets decreased by \$366. Revenues exceeded expenses in the governmental activities by \$322, and in the business-type activities expenses exceeded revenues by \$688. Key elements of the increases and decreases follow:

- Revenues increased substantially, by approximately \$4,990 in 2010 from 2009.
 - A large factor in the increase is the conversion of the Utility Enterprise Fund into a special revenue fund.
 - Sales taxes reflect an increase from 2010. For 2010 the governmental activities include the sales taxes from the Utility Fund, which were previously reported with the business-type activities. \Changes in sales tax dollars by fund from 2009 to 2010 are as follows:

Fund Type	2010	2009	Increase in 2010
General	\$4,411	4,289	122
HART – Roads	990	966	24
HART – Trails	112	106	6
Utility(Water/Sewer-HAWSP)	1,102	1,072	30
Total	\$6,615	\$6,433	\$182

- Property taxes remained relatively flat, with a moderate increase of \$164.
- Expenditures in the governmental activities increased by \$5,875 for 2010, of which \$4571 is the result of the Utility fund conversion.

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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending following the end of the fiscal year.

As of December 31, 2010, the City's governmental funds reported combined ending fund balances of \$19,145, an increase of \$2,031 after restatement for the Utility fund conversion. Of the ending balance, \$8,581, or 45% is unreserved and undesignated and is available to the City for future spending. Most of the remaining fund balance is reserved for debt service and capital projects (\$5,610); reserved for inventory and prepaid items (\$576); or designated for future capital projects (\$2,560);. The increase of total fund balance during the year is attributed to:

- In the General Fund, expenditures and transfers out to other funds totaled \$10,066 compared to revenues and transfers in of \$10,744. The \$678 change in the General Fund balance was actually more than the final budgeted net change in fund balance of \$68. This was primarily due to the reduction of expenditures.

- In the Utility (Water/Sewer) Special Fund fund balance increased by \$17 in 2010. Charges for services were \$3,177 in 2010, an increase of \$138 from the previous year while current expenditures were \$3,345 in 2010. As a special revenue fund, the Utility Fund no longer records depreciation expense as it did when reported as an enterprise. The depreciation expense in 2009 was \$2,226. Fund balance in this fund is \$3,338 and is unreserved. Included within the Utility Special Revenue Fund is the HAWSP (Homer Accelerated Water Sewer Projects). This subfund was originally set up in 1999 and is a combined local funding source of unexpended dedicated sales tax and dedicated sales tax, to improve the health and welfare of the Citizens of Homer by connecting residents to the City Water and/or Sewer. The dedicated sales tax (3/4 of 1% sales tax revenues), is segregated for the specific purpose of the installation of new infrastructure. The fund also includes a subfund for LIDs (Land Improvement Districts) that were set up for areas that requested water/sewer infrastructure. The City obtains 1.5% interest loans through the Alaska Clean Water/Drinking Water Fund to build the infrastructure. The owners of properties in the LID's are responsible for 75% of the costs for the infrastructure and pay the City back over a 20 year period for their portion of the cost. The HAWSP fund is responsible for the full payments of the loans and is in part reimbursed by the owners of the properties in the LID's.
- In the Nonmajor funds category the City maintains eight 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 General Fund Capital Projects is utilized for the acquisition, construction, or repair of major capital facilities.
 - The Streets and Sidewalks (HART) Project Funds are used for the repair and replacement of streets and sidewalks. The voters designated ¾ of all sales tax revenue received to go towards the improvement of streets and sidewalks. In 2010, \$990 was received from sales taxes and \$9 was received from interest earned on this revenue. Council designated 10% of sales tax revenue earmarked for HART is designated specifically for trails. In 2010, \$112 was put aside for trails.
 - The Depreciation Reserves was set up for the replacement of aged equipment and buildings. Funds are transferred annually from individual departments to keep in savings until equipment/buildings are replaced. In 2010 \$31 was transferred into this fund, \$53 was used to replace/purchase new equipment.
 - The Fleet Reserve Account is used for the planned rotation basis of the City's fleet of vehicles. Funds are transferred from individual departments to keep in savings until vehicles are replaced or purchased. In 2010, \$30 was transferred in and \$0 was expended.

General Fund Budgetary Highlights

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

- Original expenditures budget was amended to pay for the purchase of computer equipment of \$11 and for the disposal of junk cars for \$10.
- The most significant changes were in the general government and community services categories as well as a reduction in the transfers out.

The Utility Special Revenue Fund budget changed most significantly in the category of transfers out which was to account for a transfer to the newly created Energy Revolving Loan Capital Projects Fund.

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, 2010, totals \$119,680 (net of accumulated depreciation). This amount represents a \$3,540 increase over the previous year

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Activities</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Land	\$ 10,499	9,478	15,254	15,950	25,753	25,428
Buildings	46,885	17,847	13,035	42,073	59,920	59,920
Improvements other than buildings	37,471	2,349	37,207	71,877	74,678	74,226
Machinery and equipment	13,396	6,226	2,931	9,357	16,327	15,583
Infrastructure	29,373	29,373	0	616	29,373	29,989
Construction in progress	2,031	259	0	564	2,031	805
Accumulated depreciation	<u>(61,737)</u>	<u>(20,403)</u>	<u>(26,665)</u>	<u>(62,328)</u>	<u>(88,402)</u>	<u>(82,731)</u>
Total capital assets	<u>\$ 77,918</u>	<u>45,129</u>	<u>41,762</u>	<u>78,091</u>	<u>119,680</u>	<u>123,220</u>

Major capital asset events during the 2010 year included:

- General Fund:
 - Airport Rollup Baggage Door
 - City Hall Web Design
 - Animal Shelter Fence
 - Police Phase II Renovations

- Utility (Water/Sewer) Special Revenue:
 - Telemetry Panel
 - WTP Improvements

- Port & Harbor:
 - DWD Improvements
 - Pickup with snowblade

Construction in progress associated with the Utility Special Revenue Fund activities includes Kachemak Drive Phase II, Pressure Reducing Station, Soundview/Woodland Sewer and the Sanitary Sewer Rehab.

Additional information on the City's capital assets can be found in note 6 on pages 38-40 of this report.

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

	Governmental Activities		Business-Type Activities		Total Activities	
	2010	2009	2010	2009	2010	2009
Notes payable	\$ 1,454	1,493	-	-	1,454	15,983
Notes payable – Utility	14,036	-	-	11,490	14,036	11,490
Capital leases	-	21	-	34	-	55
Total	15,490	1,514	-	14,524	15,490	16,038
Compensated absences	676	488	152	332	828	820
Total long-term debt	\$ 16,166	2,002	152	14,856	16,318	16,858

Long-term debt - At the end of the 2010 year, the City of Homer had total debt outstanding of \$15,490 as detailed in Table A-4. This excludes \$828 related to compensated absences.

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

Additional information on the City's long-term debt can be found in note 6 on pages 38-42 of this report.

Economic Factors and Next Year's Budgets and Rates

The FY 2011 Operating Budget is essentially a "maintenance" budget. It sustains the level of services provided in the previous year however, it contains no transfers to depreciation funds and little or no expenditures for capital projects, building repairs, or equipment repair and replacement. Seven full-time equivalent staff positions remain unfilled. This is the second "maintenance" budget in a row and this style of budgeting is not sustainable for long. The overall goal of the City continues to be providing quality services in a fiscally responsible manner.

The economic recession and the exemption of non-prepared foods from the municipal sales tax continues to create significant challenges for budgeting and the delivery of services. The costs associated with equipment, supplies, and labor continues to rise. Public expectations regarding City services have not declined during this period of revenue shortfall. If anything, they have increased. Striking a balance between the level of services residents desire and the amount of taxes and fees they are willing to support to provide those services will be very important going forward. It is recommended that the City Council review and revise as appropriate its adopted Long Term Fiscal Plan and further, that it take steps to engage the public on the level of services it desires and is willing to pay for.

The City changed the "Water/Sewer Enterprise Fund" into a Special Revenue Fund. The Water/Sewer Fund was not operating as a true enterprise fund because capital costs, replacement and depreciation costs are paid for by grants or sales tax revenues through the Homer Accelerated Water/Sewer Program (HAWSP), and then become assets of the Water/Sewer Fund. It is common for municipally owned utilities that operate with mixed revenue sources to establish Special Revenue Funds.

The Water and Sewer Special Revenue Fund continues to struggle. The most prominent of these problems is that the City has expensive treatment systems and complicated and expansive distribution and collection systems with relatively few customers to bear the cost.

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

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BASIC FINANCIAL STATEMENTS

CITY OF HOMER, ALASKA
Statement of Net Assets
December 31, 2010

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and investments	\$ 14,373,449	746,125	15,119,574
Receivables, net of allowance for doubtful accounts:			
Accounts	327,274	161,364	488,638
Sales and property taxes	1,156,201	-	1,156,201
State and federal grants and loans	2,886,461	-	2,886,461
Assessments	3,293,699	-	3,293,699
Other	205,027	-	205,027
Internal balances	(103,407)	103,407	-
Inventory	323,380	11,527	334,907
Prepaid items	252,125	35,441	287,566
Restricted cash and investments	1,531,315	-	1,531,315
Capital assets not being depreciated - land and construction in progress	12,530,009	15,254,041	27,784,050
Other capital assets, net of accumulated depreciation	<u>65,386,824</u>	<u>26,508,195</u>	<u>91,895,019</u>
 Total assets	 \$ <u>102,162,357</u>	 <u>42,820,100</u>	 <u>144,982,457</u>
<u>Liabilities</u>			
Accounts payable	721,979	50,664	772,643
Accrued payroll and related liabilities	327,000	51,212	378,212
Accrued leave	-	17,467	17,467
Prepaid rentals and deposits	35,939	666,244	702,183
Unearned revenue	41,040	18,000	59,040
Current portion long-term notes payable	1,015,550	-	1,015,550
Noncurrent liabilities, net of current portion:			
Long-term notes payable	14,473,474	-	14,473,474
Accrued leave	676,496	134,970	811,466
Unearned revenue	-	306,000	306,000
Total liabilities	<u>17,291,478</u>	<u>1,244,557</u>	<u>18,536,035</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	62,427,809	41,762,236	104,190,045
Restricted - capital projects	5,610,035	-	5,610,035
Unrestricted (deficit)	<u>16,833,035</u>	<u>(186,693)</u>	<u>16,646,342</u>
Total net assets	<u>84,870,879</u>	<u>41,575,543</u>	<u>126,446,422</u>
 Total liabilities and net assets	 \$ <u>102,162,357</u>	 <u>42,820,100</u>	 <u>144,982,457</u>

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA
Statement of Activities
Year Ended December 31, 2010

Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Fees, Fines & Charges for Services	Operating Grants & Contri- butions	Capital Grants & Contri- butions	Govern- mental Activities	Business- type Activities	Total
Governmental:							
General government	\$ 3,722,993	211,625	-	303,693	(3,207,675)	-	(3,207,675)
Public safety	4,168,529	198,119	603,650	25,187	(3,341,573)	-	(3,341,573)
Public works	2,676,839	12,090	34,000	86,234	(2,544,515)	-	(2,544,515)
Library	931,139	-	27,500	1,250	(902,389)	-	(902,389)
Airport	207,701	166,666	-	-	(41,035)	-	(41,035)
Parks and recreation	468,782	175,859	-	161,980	(130,943)	-	(130,943)
Community services	263,224	32,292	-	-	(230,932)	-	(230,932)
Water	2,231,144	2,067,751	-	1,053,890	890,497	-	890,497
Sewer	2,339,709	1,483,423	-	-	(856,286)	-	(856,286)
Unallocated interest	225,553	-	-	-	(225,553)	-	(225,553)
Total governmental activities	17,235,613	4,347,825	665,150	1,632,234	(10,590,404)	-	(10,590,404)
Business-type - Port and harbor	4,501,480	3,504,442	48,469	-	-	(948,569)	(948,569)
Total	\$ 21,737,093	7,852,267	713,619	1,632,234	(10,590,404)	(948,569)	(11,538,973)
General revenues:							
Property taxes				\$ 3,051,919	-		3,051,919
Sales taxes				6,613,640	-		6,613,640
Grants and entitlements not restricted to a specific purpose				440,924	2,898		443,822
Investment income				150,798	53,821		204,619
Legal settlement				277,375	-		277,375
Other				403,176	178,725		581,901
Transfers				(24,925)	24,925		-
Total general revenues and transfers				10,912,907	260,369		11,173,276
Change in net assets				322,503	(688,200)		(365,697)
Beginning net assets, restated				84,548,376	42,263,743		126,812,119
Ending net assets				\$ 84,870,879	41,575,543		126,446,422

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA

Governmental Funds

Balance Sheet

December 31, 2010

Assets	Major Funds				Total Governmental Funds
	General	Utility Special Revenue	HART Roads Capital Project	Nonmajor Funds	
Cash and investments	\$ 4,773,696	887,667	4,520,336	3,425,592	13,607,291
Receivables, net of allowance:					
Accounts	-	327,274	-	-	327,274
Property taxes	102,372	-	-	-	102,372
Sales taxes	714,285	169,772	152,805	16,967	1,053,829
Assessments	444,763	2,848,936	-	-	3,293,699
State and federal grants and loans	-	2,582,445	-	304,016	2,886,461
Other	203,761	-	-	1,266	205,027
Due from other funds	18,264	-	-	-	18,264
Inventory	40,273	283,107	-	-	323,380
Prepaid items	215,610	36,515	-	-	252,125
Restricted cash and investments	-	-	-	1,531,315	1,531,315
Total assets	\$ 6,513,024	7,135,716	4,673,141	5,279,156	23,601,037
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	85,494	542,755	-	14,918	643,167
Accrued payroll and related liabilities	276,125	50,875	-	-	327,000
Customer utility deposits	-	35,939	-	-	35,939
Deferred revenue	132,912	-	-	23,607	156,519
Deferred assessments	444,679	2,848,862	-	-	3,293,541
Total liabilities	939,210	3,478,431	-	38,525	4,456,166
Fund balances:					
Reserved:					
Debt service and capital projects	-	-	4,673,141	936,894	5,610,035
Inventory and prepaid items	255,883	319,622	-	-	575,505
Unreserved:					
Designated:					
PERS	171,314	-	-	-	171,314
Special revenue funds:					
Library	-	-	-	31,519	31,519
Fire department	-	-	-	68,324	68,324
Community schools	-	-	-	1,136	1,136
Sustainability global warming	-	-	-	14,774	14,774
Permanent Fund	-	-	-	1,531,315	1,531,315
Capital project funds - capital outlay/land	-	-	-	2,560,121	2,560,121
Undesignated:					
General Fund	5,146,617	-	-	-	5,146,617
Special revenue funds	-	3,337,663	-	96,548	3,434,211
Total fund balances	5,573,814	3,657,285	4,673,141	5,240,631	19,144,871
Total liabilities and fund balances	\$ 6,513,024	7,135,716	4,673,141	5,279,156	23,601,037

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Assets
December 31, 2010

Total fund balances for governmental funds \$ 19,144,871

Total net assets reported for governmental activities in the
Statement of Net Assets is different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in in the funds.

These assets, net of accumulated depreciation consist of:

Land and land improvements	\$	10,498,770	
Buildings		46,884,553	
Improvements other than buildings		37,470,979	
Machinery and equipment		13,395,906	
Infrastructure		29,372,807	
Construction in progress		2,031,239	
Accumulated depreciation		<u>(61,737,421)</u>	
Total capital assets			77,916,833

Other long-term assets are not available to pay for current period
expenditures and therefore are deferred in the funds.

Delinquent property taxes receivable		115,479	
Special assessments not yet due		<u>3,293,541</u>	
Total other long-term assets			3,409,020

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 Assets.

565,675

Long-term liabilities, including notes payable and accrued leave,
are not due and payable in the current period and therefore are
not reported as fund liabilities. These liabilities consist of:

Notes payable		(15,489,024)	
Accrued leave		<u>(676,496)</u>	
Total long term liabilities			<u>(16,165,520)</u>

Total net assets of governmental activities \$ 84,870,879

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended December 31, 2010

	<u>Major Funds</u>				<u>Total Governmental Funds</u>
	<u>General</u>	<u>Utility Special Revenue</u>	<u>HART Roads Capital Project</u>	<u>Nonmajor Funds</u>	
Revenues:					
Property taxes	\$ 2,954,829	-	-	-	2,954,829
Sales taxes	4,410,514	1,101,563	989,932	111,631	6,613,640
Licenses and permits	22,965	-	-	-	22,965
Intergovernmental	1,305,741	1,053,890	-	578,344	2,937,975
Charges for services	1,961,887	3,177,646	-	-	5,139,533
Special assessments	42,097	373,528	-	-	415,625
Investment income	15,600	11,348	9,149	126,049	162,146
Fines and forfeitures	15,551	-	-	-	15,551
Donations	-	-	-	4,224	4,224
Sales of property and equipment	4,917	-	-	-	4,917
Other	5,335	172,338	-	288,057	465,730
Total revenues	<u>10,739,436</u>	<u>5,890,313</u>	<u>999,081</u>	<u>1,108,305</u>	<u>18,737,135</u>
Expenditures:					
Current:					
General government	2,757,206	-	-	253,169	3,010,375
Public safety	3,875,735	-	-	63,772	3,939,507
Public works	1,731,939	-	-	90,984	1,822,923
Library	716,824	-	-	-	716,824
Airport	201,118	-	-	-	201,118
Parks and recreation	377,280	-	-	-	377,280
Community services	222,683	-	-	38,752	261,435
Water	-	1,697,751	-	-	1,697,751
Sewer	-	1,647,605	-	-	1,647,605
Debt service:					
Principal	44,960	989,752	-	14,536	1,049,248
Interest	61,710	163,843	-	-	225,553
Capital outlay	<u>-</u>	<u>1,731,052</u>	<u>144,858</u>	<u>390,055</u>	<u>2,265,965</u>
Total expenditures	<u>9,989,455</u>	<u>6,230,003</u>	<u>144,858</u>	<u>851,268</u>	<u>17,215,584</u>
Excess of revenues over (under) expenditures	749,981	(339,690)	854,223	257,037	1,521,551
Other financing sources (uses):					
Issuance of long term debt	-	534,728	-	-	534,728
Transfers in	5,000	-	-	429,460	434,460
Transfers out	(76,387)	(177,950)	-	(205,048)	(459,385)
Net other financing sources (uses)	<u>(71,387)</u>	<u>356,778</u>	<u>-</u>	<u>224,412</u>	<u>509,803</u>
Net change in fund balances	678,594	17,088	854,223	481,449	2,031,354
Beginning fund balances, restated	<u>4,895,220</u>	<u>3,640,197</u>	<u>3,818,918</u>	<u>4,759,182</u>	<u>17,113,517</u>
Ending fund balances	\$ <u>5,573,814</u>	<u>3,657,285</u>	<u>4,673,141</u>	<u>5,240,631</u>	<u>19,144,871</u>

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA

Reconciliation of the Change in Fund Balances of Governmental Funds
to Statement of Activities
Year Ended December 31, 2010

Net change in fund balances - total governmental funds	\$ 2,031,354
The change in net assets reported for governmental activities in the Statement of Activities is different because:	
Governmental funds report capital outlays as expenditures. However on the Statement of Activities, depreciation expense is recognized to allocate the cost of these items over their estimated useful lives. This is the amount by which depreciation (\$4,225,076) exceeded capital outlays (\$2,052,516).	(2,172,560)
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.	(248,505)
Issuance of long-term debt (\$534,727) provides current financial resources to governmental funds, while the repayment of the principal of the long-term debt (\$1,049,249) consumes current financial resources in governmental funds. Neither of these transactions has any effect on net assets.	514,522
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This is the amount of increase in accrued leave.	(29,356)
An internal service fund is used by management to charge the cost of health insurance to individual funds. A portion of the net loss of this activity is reported with governmental activities.	<u>227,048</u>
Change in net assets of governmental activities	\$ <u><u>322,503</u></u>

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA
General Fund
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
Year Ended December 31, 2010

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 7,255,278	7,202,696	7,370,678	167,982
Licenses and permits	29,000	29,000	22,965	(6,035)
Intergovernmental	970,699	1,023,281	1,305,741	282,460
Charges for services	2,041,374	2,044,874	1,961,887	(82,987)
Special assessments	-	-	42,097	42,097
Investment income	35,000	35,000	15,600	(19,400)
Fines and forfeitures	24,090	24,090	15,551	(8,539)
Sales of property and equipment	3,500	-	4,917	4,917
Total revenues	<u>10,358,941</u>	<u>10,358,941</u>	<u>10,739,436</u>	<u>380,495</u>
Expenditures:				
General government	2,689,489	2,815,290	2,757,206	58,084
Public safety	3,999,199	3,986,198	3,875,735	110,463
Public works	1,780,291	1,780,292	1,731,939	48,353
Library	726,714	726,713	716,824	9,889
Airport	236,256	236,257	201,118	35,139
Parks and recreation	416,935	416,935	377,280	39,655
Community services	191,668	207,168	222,683	(15,515)
Debt service:				
Principal	44,960	44,960	44,960	-
Interest	61,710	61,710	61,710	-
Total expenditures	<u>10,147,222</u>	<u>10,275,523</u>	<u>9,989,455</u>	<u>286,068</u>
Excess of revenues over expenditures	211,719	83,418	749,981	666,563
Other financing sources (uses):				
Transfers in	-	-	5,000	5,000
Transfers out	(177,356)	(72,754)	(76,387)	(3,633)
Net other financing sources (uses)	<u>(177,356)</u>	<u>(72,754)</u>	<u>(71,387)</u>	<u>1,367</u>
Net change in fund balance	\$ <u>34,363</u>	<u>10,664</u>	678,594	<u>667,930</u>
Beginning fund balance			<u>4,895,220</u>	
Ending fund balance			\$ <u>5,573,814</u>	

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA
Utility Special Revenue Fund
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
Year Ended December 31, 2010

	<u>Budget</u>		<u>Actual</u>	Variance with Final Budget Positive <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Sales taxes	\$ 1,044,963	1,044,963	1,101,563	56,600
Intergovernmental	1,188,015	1,188,015	1,053,890	(134,125)
Charges for services	3,481,615	3,549,500	3,177,646	(371,854)
Special assessments	61,886	61,886	373,528	311,642
Investment income	61,000	61,000	11,348	(49,652)
Other	45,000	45,000	172,338	127,338
Total revenues	<u>5,882,479</u>	<u>5,950,364</u>	<u>5,890,313</u>	<u>(60,051)</u>
Expenditures:				
Water	1,897,136	1,853,852	1,697,751	156,101
Sewer	1,609,937	1,652,731	1,647,605	5,126
Debt service:				
Principal	1,031,909	1,031,909	989,752	42,157
Interest	195,486	195,486	163,843	31,643
Total debt service	<u>1,227,395</u>	<u>1,227,395</u>	<u>1,153,595</u>	<u>73,800</u>
Capital outlay	<u>1,541,740</u>	<u>1,541,740</u>	<u>1,731,052</u>	<u>(189,312)</u>
Total expenditures	<u>6,276,208</u>	<u>6,275,718</u>	<u>6,230,003</u>	<u>45,715</u>
Excess of revenues over (under) expenditures	(393,729)	(325,354)	(339,690)	(14,336)
Other financing sources (uses):				
Issuance of long-term debt	-	-	534,728	534,728
Transfers out	-	(177,950)	(177,950)	-
Net other financing sources (uses)	<u>-</u>	<u>(177,950)</u>	<u>356,778</u>	<u>534,728</u>
Net change in fund balance	\$ <u>(393,729)</u>	<u>(503,304)</u>	17,088	<u>520,392</u>
Beginning fund balance, as restated			<u>3,640,197</u>	
Ending fund balance			\$ <u>3,657,285</u>	

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA
Proprietary Funds
Statement of Net Assets
December 31, 2010

<u>Assets</u>	<u>Major Enterprise Fund Port of Homer</u>	<u>Internal Service Funds</u>
Current assets:		
Cash and investments	\$ 746,125	766,158
Accounts receivable, net of allowance for doubtful accounts	161,364	-
Inventory	11,527	-
Prepaid items	35,441	-
Total current assets	<u>954,457</u>	<u>766,158</u>
Noncurrent assets - capital assets, net of accumulated depreciation	<u>41,762,236</u>	<u>-</u>
Total assets	<u>\$ 42,716,693</u>	<u>766,158</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	50,664	78,812
Accrued payroll and related liabilities	51,212	-
Accrued leave	17,467	-
Prepaid rentals and deposits	666,244	-
Due to other funds	-	18,264
Unearned lease revenue	18,000	-
Total current liabilities	<u>803,587</u>	<u>97,076</u>
Noncurrent liabilities, net of current portion:		
Unearned lease revenue	306,000	-
Accrued leave	134,970	-
Total noncurrent liabilities	<u>440,970</u>	<u>-</u>
Total liabilities	<u>1,244,557</u>	<u>97,076</u>
Net Assets:		
Invested in capital assets	41,762,236	-
Unrestricted (deficit)	<u>(290,100)</u>	<u>669,082</u>
Total net assets	<u>41,472,136</u>	<u>669,082</u>
Total liabilities and net assets	<u>42,716,693</u>	<u>766,158</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise fund	<u>103,407</u>	
Net assets of business-type activities	<u>\$ 41,575,543</u>	

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA
Proprietary Funds
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended December 31, 2010

	<u>Major Enterprise Fund</u>	<u>Internal Service Funds</u>
	<u>Port of Homer</u>	
Operating revenues - charges for services:		
Port and harbor	\$ 3,504,442	-
Interfund charges	<u>-</u>	<u>1,975,275</u>
Total operating revenues	<u>3,504,442</u>	<u>1,975,275</u>
Operating expenses:		
Operations	2,021,201	130,713
Administration	1,095,497	50,044
Depreciation	1,446,555	-
Claims	-	1,090,563
Insurance premiums	<u>-</u>	<u>412,148</u>
Total operating expenses	<u>4,563,253</u>	<u>1,683,468</u>
Operating income (loss)	(1,058,811)	291,807
Nonoperating revenues (expenses):		
Investment income	53,821	-
Interest expense	(142)	-
State PERS relief	48,469	-
Cruise ship tax	2,898	-
Cruise ship security	(2,844)	-
Other income	<u>178,725</u>	<u>-</u>
Net nonoperating revenues (expenses)	<u>280,927</u>	<u>-</u>
Income (loss) before transfers	(777,884)	291,807
Transfers in	103,545	-
Transfers out	<u>(78,620)</u>	<u>-</u>
Net transfers	<u>24,925</u>	<u>-</u>
Change in net assets	(752,959)	291,807
Beginning net assets, restated	<u>42,225,095</u>	<u>377,275</u>
Ending net assets	41,472,136	<u>669,082</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise fund	<u>64,759</u>	
Change in net assets of business-type activities	\$ <u>(688,200)</u>	

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA
Proprietary Funds
Statement of Cash Flows
Year Ended December 31, 2010

	<u>Major Enterprise Fund</u>	<u>Internal Service Funds</u>
	<u>Port of Homer</u>	
Cash flows from operating activities:		
Receipts from customers and users	\$ 3,692,038	-
Receipts from interfund services provided	-	1,996,169
Payments to suppliers	(1,400,164)	-
Payments to employees	(1,711,256)	(130,713)
Payments for insurance claims and administration	-	(1,586,841)
Net cash flows from operating activities	<u>580,618</u>	<u>278,615</u>
Cash flows from noncapital financing activities:		
Decrease in due to other funds	-	(54,287)
Transfers out	(78,620)	-
Net cash flows from noncapital financing activities	<u>(78,620)</u>	<u>(54,287)</u>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(9,578)	-
Interest payments on long-term debt	(142)	-
Acquisition of property, plant and equipment	(77,303)	-
Transfers in	103,545	-
Net cash flows from capital and related financing activities	<u>16,522</u>	<u>-</u>
Cash flows from investing activities - investment income received	<u>53,821</u>	<u>-</u>
Net increase in cash and investments	572,341	224,328
Beginning cash and investments	<u>173,784</u>	<u>541,830</u>
Ending cash and investments	\$ <u><u>746,125</u></u>	<u><u>766,158</u></u>

See accompanying notes to basic financial statements.

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

	Major Enterprise Fund	Internal Service Funds
	Port of Homer	Funds
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (1,058,811)	291,807
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:		
Depreciation	1,446,555	-
Noncash expense - PERS relief	48,469	-
Decrease in allowance for doubtful accounts	(19,729)	-
Amortization of deferred lease revenue	(18,000)	-
Miscellaneous nonoperating revenues	178,779	-
(Increase) decrease in assets:		
Accounts receivable	23,990	20,894
Inventory	2,893	-
Prepaid items	11,565	-
Increase (decrease) in liabilities:		
Accounts payable	(49,291)	(34,086)
Accrued payroll and related liabilities	14,306	-
Accrued leave	(19,820)	-
Prepaid rentals and deposits	19,712	-
Net cash flows from operating activities	\$ 580,618	278,615

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements

December 31, 2010

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

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

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

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

The City reports the following major funds --

Major governmental funds:

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

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

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

Major proprietary fund:

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

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Port of Homer Enterprise Fund are charges to customers for sales and services. Operating expenses for the enterprise fund include the costs of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Budgets and Budgetary Accounting

The City Council is required to pass an appropriation ordinance for the General Fund and Utility Fund which becomes the expenditure budget for each fund for the fiscal year. The City Council may pass subsequent supplemental appropriations which are added to the expenditure budget. Expenditures may not legally exceed the fund appropriations. The City Manager may transfer amounts between departments within a fund or between cost centers within a department's budget classification. Appropriations on annual budgets lapse at year-end. The City's legally prescribed budgetary basis of accounting is consistent with generally accepted accounting principles and, accordingly, where budgetary data are presented, the budget and actual information conform to the same basis of accounting.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Budgets and Budgetary Accounting, continued

Encumbrance accounting is employed during the year under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year-end are reported as reservations of fund balances and are charged to the subsequent year appropriations.

Cash and Investments

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

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

Investments are recorded at fair value.

Receivables and Payables

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

Property Taxes

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

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

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Unbilled Service Revenues

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

Inventory

Inventory of 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 a fund balance reserve.

Prepaid Items

Prepaid items primarily represent costs of insurance and similar services allocated to succeeding periods and rents paid in advance of the period to which they apply. The City's policy is to charge such costs to the period benefited. Accordingly, reported prepaid items for governmental fund types are equally offset by a fund balance reserve.

Capital Assets

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

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

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

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

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Capital Assets, continued

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

Accrued Leave

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

Long-Term Debt

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

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

Fund Equity

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

Comparative Data

Comparative 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, continued

- (2) **Restatement – Conversion of Water and Sewer Enterprise to Utility Special Revenue Fund**
 Effective January 1, 2010, the City converted its Water and Sewer Utility from an enterprise fund to a special revenue fund. This conversion results in a change in both measurement focus and basis of accounting as described in Note 1. Therefore, beginning fund balance and net assets, at the fund level and at the government-wide financial statement levels, have been restated for these differences which includes capital assets, long-term debt and accrued interest, accrued leave balances, long-term receivables (such as assessments) and internal service fund allocations. The net restatement amounts of these items are as follows:

Fund Financial Statements

<u>Fund Balance</u>	<u>General Fund</u>	<u>Utility Special Revenue</u>	<u>Hart Roads Capital Project</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Beginning fund balance	\$ 4,895,220	-	3,818,918	4,759,182	13,473,320
Adjustment from conversion	<u>-</u>	<u>3,640,197</u>	<u>-</u>	<u>-</u>	<u>3,640,197</u>
Beginning fund balance, restated	<u>\$ 4,895,220</u>	<u>3,640,197</u>	<u>3,818,918</u>	<u>4,759,182</u>	<u>17,113,517</u>

<u>Net Assets</u>	<u>Water/Sewer Enterprise</u>	<u>Port Enterprise</u>	<u>Total Enterprise</u>
Beginning net assets	\$ 27,055,532	42,225,095	69,280,627
Adjustment from conversion	<u>(27,055,532)</u>	<u>-</u>	<u>(27,055,532)</u>
Beginning net assets, restated	<u>\$ -</u>	<u>42,225,095</u>	<u>42,225,095</u>

Government-wide Financial Statements

<u>Net Assets</u>	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
Beginning net assets	\$ 57,448,742	69,363,377	126,812,119
Adjustment from conversion	<u>27,099,634</u>	<u>(27,099,634)</u>	<u>-</u>
Beginning net assets, restated	<u>\$ 84,548,376</u>	<u>42,263,743</u>	<u>126,812,119</u>

- (3) **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 included in "due to other funds."

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Cash and Investments, continued

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, 2010.

Bank deposits	\$ (589,260)
Investments	<u>17,240,149</u>
	\$ <u>16,650,889</u>
Cash and investments	\$ 15,119,574
Restricted cash and investments	<u>1,531,315</u>
	\$ <u>16,650,889</u>

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

General Investments

Investment Policy

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

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

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Cash and Investments, continued

Investment maturities at December 31, 2010 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>5-10</u>
FNMA	\$ 844,804	-	844,804	-
Federal Home Mtg. Corp	494,230	-	494,230	-
Federal Farm Credit Bank	798,472	-	798,472	-
Federal Home Loan Bank	614,275	-	614,275	-
Federal Financing Corp	522,657	-	522,657	-
US Treasury	<u>49,875</u>	<u>-</u>	<u>49,875</u>	<u>-</u>
Total U.S. government agencies	3,324,313	-	3,324,313	-
Corporate bonds	226,377	-	102,978	123,399
Foreign bonds	99,843	-	75,401	24,442
Repurchase agreement	<u>844,443</u>	<u>844,443</u>	<u>-</u>	<u>-</u>
Total subject to interest rate risk	<u>4,494,976</u>	<u>844,443</u>	<u>3,502,692</u>	<u>147,841</u>
Money market	1,337,057			
Certificates of deposit	3,858,423			
Pooled investments	<u>7,549,693</u>			
Total investments	<u>\$ 17,240,149</u>			

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. 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, 2010, the share value of investments in the AML pool is approximately equal to fair value.

(4) **Accounts Receivable and Valuation Allowances**

The City maintains accounts receivable balances of which a portion is reserved as an allowance for doubtful accounts. At December 31, 2010, receivables for the City's individual major funds and nonmajor and internal service funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Accounts Receivable and Valuation Allowances, continued

	<u>General</u>	<u>Utility</u>	<u>HART Roads</u>	<u>Port of Homer</u>	<u>Nonmajor and other funds</u>	<u>Total</u>
Receivables:						
Accounts	\$ -	375,541	-	226,407	-	601,948
Taxes	833,416	169,772	152,805	-	16,967	1,172,960
State and federal grants and loans	-	2,582,445	-	-	304,016	2,886,461
Special assessments	444,763	2,848,936	-	-	-	3,293,699
Other	<u>334,185</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,266</u>	<u>335,451</u>
Total receivables	1,612,364	5,976,694	152,805	226,407	322,249	8,290,519
Less allowance for uncollectibles	<u>(147,183)</u>	<u>(48,267)</u>	<u>-</u>	<u>(65,043)</u>	<u>-</u>	<u>(260,493)</u>
Net receivables	\$ <u>1,465,181</u>	<u>5,928,427</u>	<u>152,805</u>	<u>161,364</u>	<u>322,249</u>	<u>8,030,026</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At December 31, 2010, the various components of *deferred revenue* reported in the governmental funds were as follows:

Delinquent property taxes receivable - General Fund	\$ 115,479
Special assessments not yet due:	
General Fund	444,679
Utility Special Revenue Fund	2,848,862
Airport deposits - General Fund	16,817
Grant drawdowns prior to meeting all eligibility requirements	1,260
Other deferred revenue	<u>22,963</u>
Total deferred/unearned revenue for governmental funds	\$ <u>3,450,060</u>

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

A schedule of interfund balances and transfers for the year ended December 31, 2010, follows:

Due from other funds:

Due to the General Fund from Leave Cash-Out Internal Service Fund for advances to cover operating costs	\$ <u>18,264</u>
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CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Interfund Receivables, Payables, and Transfers, continued

Transfers:

From General Fund to nonmajor governmental funds for capital costs and depreciation reserves	\$ 76,387
From the Utility Special Revenue Fund to nonmajor governmental fund to establish revolving loans	177,950
From the Port of Homer Enterprise Fund to nonmajor governmental funds to establish revolving loans	48,620
From nonmajor governmental fund to the Port of Homer Enterprise Fund for depreciation reserves	103,545
From Port Homer Enterprise Fund to nonmajor governmental funds for depreciation reserves	30,000
From nonmajor governmental funds to nonmajor governmental funds to close out funds	7,382
From nonmajor governmental funds to the General Fund for operating costs	5,000
From nonmajor governmental funds to nonmajor governmental fund to establish revolving loans	<u>89,121</u>
 Total transfers to other funds	 <u>\$ 538,005</u>

(6) **Capital Assets**

Capital asset activity for the year ended December 31, 2010 follows:

	Balance January 1, 2010 <u>as restated*</u>	Additions and Reclass- ifications	Deletions and Reclass- ifications	Balance December 31, 2010
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land and land improvements	\$ 10,174,492	324,278	-	10,498,770
Construction in progress	<u>805,870</u>	<u>1,225,369</u>	-	<u>2,031,239</u>
Total assets not being depreciated	<u>10,980,362</u>	<u>1,549,647</u>	-	<u>12,530,009</u>
Capital assets being depreciated:				
Buildings	46,884,553	-	-	46,884,553
Improvements other than buildings	37,061,700	409,279	-	37,470,979
Machinery and equipment	13,302,316	93,590	-	13,395,906
Infrastructure	<u>29,372,807</u>	-	-	<u>29,372,807</u>
Total assets being depreciated	\$ <u>126,621,376</u>	<u>502,869</u>	-	<u>127,124,245</u>

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Capital Assets, continued

	Balance January 1, 2010 <u>as restated*</u>	Additions and <u>Reclass- ifications</u>	Deletions and <u>Reclass- ifications</u>	Balance December 31, <u>2010</u>
<u>Governmental activities, continued</u>				
Capital assets being depreciated, continued:				
Less accumulated depreciation for:				
Buildings	\$ 24,669,617	1,231,836	-	25,901,453
Improvements other than buildings	15,232,123	1,000,815	-	16,232,938
Machinery and equipment	5,857,597	681,420	-	6,539,017
Infrastructure	<u>11,753,008</u>	<u>1,311,005</u>	-	<u>13,064,013</u>
Total accumulated depreciation	<u>57,512,345</u>	<u>4,225,076</u>	-	<u>61,737,421</u>
Total assets being depreciated, net	<u>69,109,031</u>	<u>(3,722,207)</u>	-	<u>65,386,824</u>
Governmental activity capital assets, net	\$ <u>80,089,393</u>	<u>(2,172,560)</u>	-	<u>77,916,833</u>
<u>Business-type activities</u>				
Capital assets not being depreciated:				
Land and land improvements	\$ 15,254,041	-	-	<u>15,254,041</u>
Capital assets being depreciated:				
Buildings	13,034,836	-	-	13,034,836
Improvements other than buildings	37,164,316	42,555	-	37,206,871
Machinery and equipment	<u>2,897,034</u>	<u>34,749</u>	-	<u>2,931,783</u>
Total assets being depreciated	<u>53,096,186</u>	<u>77,304</u>	-	<u>53,173,490</u>
Less accumulated depreciation for:				
Buildings	7,287,301	293,349	-	7,580,650
Improvements other than buildings	15,359,596	1,102,301	-	16,461,897
Machinery and equipment	<u>2,571,843</u>	<u>50,905</u>	-	<u>2,622,748</u>
Total accumulated depreciation	<u>25,218,740</u>	<u>1,446,555</u>	-	<u>26,665,295</u>
Total capital assets being depreciated, net	<u>27,877,446</u>	<u>(1,369,251)</u>	-	<u>26,508,195</u>
Business-type activity capital assets, net	\$ <u>43,131,487</u>	<u>(1,369,251)</u>	-	<u>41,762,236</u>

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Capital Assets, continued

*The beginning balances for capital assets and accumulated depreciation have changed from the prior year due to the conversion of the Water and Sewer Enterprise Fund to a special revenue fund effective January 1, 2010. See Note 2.

Depreciation expense was charged to the functions as follows:

Governmental activities

General government	\$ 774,938
Public safety	273,421
Public works	832,110
Library	231,051
Airport	7,786
Parks and recreation	88,941
Water utility	1,022,322
Sewer utility	994,507
Total depreciation expense -- governmental activities	\$ <u>4,225,076</u>

Business-type activities

Port and harbor	\$ <u>1,446,555</u>
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The Port of Homer Enterprise Fund received a building from the State of Alaska in 1993 in exchange for the use of land by the State Ferry System until the year 2031. The building houses the Port Maintenance Shop. The value of the building and related unearned revenue are as follows:

Original cost assigned to building	\$ 630,000
Revenue recognized on cumulative basis	<u>(306,000)</u>
	\$ <u>324,000</u>
Current unearned revenue	\$ 18,000
Noncurrent unearned revenue	<u>306,000</u>
Total unearned lease revenue	\$ <u>324,000</u>

(7) Long-Term Debt

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2010:

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Long-Term Debt, continued

<u>Governmental activities</u>	Balance January 1, 2010, as restated*	<u>Additions</u>	<u>Retired</u>	Balance December 31, 2010	Due Within <u>One Year</u>
Notes payable:					
\$1,700,000 USDA library note payable, due in annual installments of \$99,824, including interest at 4.125% through September 2033	\$ 1,492,395	-	38,257	1,454,138	39,835
\$14,536 2009 American Recovery and Reinvestment Act loan	14,536	-	14,536	-	-
\$5,064,500 1989 Sewer Utility Alaska Clean Water loan, due in annual installments of \$341,024 including interest at 1.5% through September 30, 2011	667,003	-	331,020	335,983	335,983
\$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	1,951,560	-	121,973	1,829,587	121,973
\$3,389,321 2002 Water Utility Alaska Drinking Water loan, due in annual installments of \$143,077 plus interest at 1.5% through August 18, 2025	2,289,240	-	143,078	2,146,162	143,077
\$148,047 2003 Sewer Utility Alaska Clean Water loan, due in annual installments of \$15,496 plus interest at 1.5% through August 28, 2016	108,390	-	15,496	92,894	15,496
\$3,250,000 (maximum) 2006 Sewer Utility Alaska Clean Water loan, terms not yet established; interest at 1.5%	2,193,904	39,475	-	2,233,379	-

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Long-Term Debt, continued

<u>Governmental activities, continued</u>	Balance January 1, 2010, as restated*	<u>Additions</u>	<u>Retired</u>	Balance December 31, 2010	Due Within <u>One Year</u>
Notes payable, continued:					
\$470,000 (maximum) 2006 Water Utility Alaska Drinking Water loan, terms not yet established; interest at 1.5%	\$ 388,138	26,317	-	414,455	-
\$8,000,000 (maximum) 2006 Water Utility Alaska Drinking Water loan, due in annual installments of \$359,186, plus interest at 1.5% through December 28, 2029	6,866,159	357,374	359,186	6,864,347	359,186
\$140,465 (maximum) 2009 American Recovery and Reinvestment Act loan, terms not yet established; interest at 1%	4,454	97,262	-	101,716	-
\$21,500 (maximum) 2009 American Recovery and Reinvestment Act loan, terms not yet established; interest at 1%	2,064	14,299	-	16,363	-
\$19,000 2009 American Recovery and Reinvestment Act loan, interest at 0.5%	19,000	-	19,000	-	-
Capital lease payable in quarterly installments of \$3,422, including interest at 5.65% through May 2010	6,703	-	6,703	-	-
Accrued leave	<u>647,140</u>	<u>425,913</u>	<u>396,557</u>	<u>676,496</u>	<u>116,799</u>
Total governmental activities long-term liabilities*	<u>\$ 16,650,686</u>	<u>960,640</u>	<u>1,445,806</u>	<u>16,165,520</u>	<u>1,132,349</u>

*The beginning balances have changed from the prior year due to the conversion of the Water and Sewer Enterprise Fund to a special revenue fund effective January 1, 2010. See Note 2. The accrued leave related to governmental activities is generally liquidated by the General Fund.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Long-Term Debt, continued

	Balance January 1, 2010 as restated*	<u>Additions</u>	<u>Retired</u>	Balance December 31, 2010	Due Within One Year
<u>Business-type activities</u>					
Capital lease payable in quarterly installments of \$16,426, including interest at 5.65% through May 2010	\$ 34,045	-	34,045	-	-
Accrued leave	<u>172,257</u>	<u>82,059</u>	<u>101,879</u>	<u>152,347</u>	<u>17,467</u>
Total business-type activities long-term liabilities	\$ <u>206,302</u>	<u>82,059</u>	<u>135,924</u>	<u>152,347</u>	<u>17,467</u>

*The beginning balances have changed from the prior year due to the conversion of the Water and Sewer Enterprise Fund to a special revenue fund effective January 1, 2010. See Note 2.

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

Governmental activities

<u>Year Ending December 31,</u>	<u>Notes Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,015,550	228,428	1,243,978
2012	681,210	212,148	893,358
2013	682,921	200,843	883,764
2014	684,703	189,464	874,167
2015	686,558	178,013	864,571
2016-2020	3,401,338	716,905	4,118,243
2021-2025	3,445,222	423,286	3,868,508
2026-2030	1,873,178	102,498	1,975,676
2031-2033	<u>252,431</u>	<u>20,040</u>	<u>272,471</u>
	12,723,111	<u>2,271,625</u>	<u>14,994,736</u>
Payment terms not yet established	<u>2,765,913</u>		
	\$ <u>15,489,024</u>		

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

The City provides health insurance on a self-insured basis up to \$50,000 each occurrence or \$1,668,409 in aggregate for all medical claims during the year. Coverage in excess of these amounts is insured by a private carrier up to lifetime claims of \$1,000,000 per each individual.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Accounting for Health Self-Insurance, continued

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

A schedule of the changes in the claims liability for the years ended December 31, 2010 and 2009 follows:

	Balance at Beginning of Year	Claims Expense	Claims Paid	Balance at End of Year
2009 health insurance	\$ <u>152,651</u>	<u>1,118,734</u>	<u>1,158,487</u>	<u>112,898</u>
2010 health insurance	\$ <u>112,898</u>	<u>992,726</u>	<u>1,026,812</u>	<u>78,812</u>

(10) **Risk Management**

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

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

The JIA is a public entity risk pool organized to share risks among its members. The Association's bylaws provide for the assessment of supplemental contributions from members in the event that losses and expenses for any coverage year exceed the annual contributions and income earned on such contributions for the year. Such supplemental contributions shall be based upon each member's deposit contribution in comparison to the aggregate deposit contributions of all members. The Association made no supplemental assessments during the year ended December 31, 2010.

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

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

(11) Defined Benefit Pension Plan

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

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

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

Conversion to Cost Sharing

In April 2008, the Alaska Legislature passed Senate Bill (SB) 125 which converted the existing Public Employees Retirement System (PERS) from an agent-multiple employer plan to a cost-sharing plan with an effective date of July 1, 2008. Under the cost-sharing arrangement, the State of Alaska Division of Retirement and Benefits no longer tracks individual employer assets and liabilities. Rather, all plan costs and past service liabilities are shared among all participating employers. The cost-sharing plan requires a uniform employer contribution rate of 22% of active member wages, subject to a wage floor. Legislation provides for State contributions to meet the annually calculated and board adopted rate for all amounts in excess of 22%. Such additional contributions (on-behalf payments) are recognized in these financial statements as revenue and expenditure/expense.

In addition, in fiscal year 2008, the State of Alaska passed legislation (SB 123) which requires that the employer contribution be calculated on all PERS eligible wages, including wages attributable to the Tier IV defined contribution plan, described later in these footnotes.

Funding Policy

Regular employees are required to contribute 6.75% of their annual covered salary (2.41% for pension and 4.34% for healthcare). Police and firefighters are required to contribute 7.5% of their annual covered salary (2.67% for pension and 4.83% for healthcare).

The funding policy provides for periodic contributions based on actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay both pension and postemployment healthcare benefits when due.

Under current legislation the employer contribution rate is statutorily capped at 22%, however, the State of Alaska will contribute any amount over 22% such that the total contribution equals the Alaska Retirement Management Board adopted rate, generally consistent with the actuarially determined rate.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Defined Benefit Pension Plan, continued

Funding Policy, continued

The City's contribution rates for 2010 were as follows:

	<u>Employer Rate</u>	<u>Actuarial Rate</u>	<u>GASB 45 Rate*</u>
<u>January to June</u>			
Pension	8.16%	10.25%	10.72%
Postemployment healthcare	<u>13.84%</u>	<u>17.40%</u>	<u>53.96%</u>
Total contribution rate	<u>22.00%</u>	<u>27.65%</u>	<u>64.68%</u>

	<u>Employer Rate</u>	<u>Actuarial Rate</u>	<u>GASB 45 Rate*</u>
<u>July to December</u>			
Pension	7.85%	9.98%	13.49%
Postemployment healthcare	<u>14.15%</u>	<u>17.98%</u>	<u>55.87%</u>
Total contribution rate	<u>22.00%</u>	<u>27.96%</u>	<u>69.36%</u>

* The GASB 45 rate uses a 4.5% OPEB discount rate and disregards all future Medicare Part D payments.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the plan members at that point.

Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial values of assets.

Projected benefits for financial reporting purposes do not incorporate any potential effects of legal or contractual funding limitations.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Defined Benefit Pension Plan, continued

Annual Pension and Postemployment Healthcare Cost

The City is required to contribute 22% of covered payroll, subject to a wage floor. In addition, State of Alaska contributions totaled approximately 5.65% and 5.96% of covered wages for the January to June and July to December timeframes, respectively. In accordance with the provisions of GASB Statement Number 24, the City has recorded the State on-behalf payment in the amount of \$317,197 as revenue and expenditure/expense in these financial statements. However, because the City is not statutorily responsible for these payments, this amount is excluded from pension and OPEB cost as described here. Only two years of information are available at this time.

<u>Year Ended</u> <u>December 31</u>	<u>Annual</u> <u>Pension</u> <u>Cost</u>	<u>Annual</u> <u>OPEB</u> <u>Cost</u>	<u>Total</u> <u>Benefit</u> <u>Cost</u> <u>(TBC)</u>	<u>City</u> <u>Contri-</u> <u>butions</u>	<u>% of</u> <u>TBC</u> <u>Contributed</u>
2010	\$ 503,833	\$ 658,566	\$ 1,162,399	\$ 1,162,399	100%
2009	\$ 410,225	\$ 796,361	\$ 1,206,586	\$ 1,206,586	100%

(12) **Defined Contribution Pension Plan**

The State of Alaska Legislature approved Senate Bill 141 to create the Public Employees' Retirement System (PERS) Tier IV for employees hired after July 1, 2006 or for employees converting from the PERS Tier I, II or III defined benefit plans. The plan is administered by the State of Alaska, Department of Administration, and benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Alaska Retirement Management Board may also amend contribution requirements. Included in the plan are individual pension accounts, retiree medical insurance plan and a separate health reimbursement arrangement account that will help retired members pay medical premiums and other eligible medical expenses not covered by the medical plan. Employees are required to contribute 8.0% of their annual covered salary, and the City is required to make the following contributions:

	<u>Others</u> <u>Tier IV</u>	<u>Police/Fire</u> <u>Tier IV</u>
Individual account	5.00%	5.00%
Health reimbursement arrangement (HRA) *	3.00	3.00
Retiree medical plan	0.99	0.99
Occupational death and disability benefits	<u>0.58</u>	<u>1.33</u>
	<u>9.57%</u>	<u>10.32%</u>

*Health Reimbursement Arrangement – AS 39.30.370 requires that the employer contribute “an amount equal to three percent of the employer’s average annual employee compensation.” For actual remittance, this amount is calculated as a flat rate for each full time or part-time employee per pay period.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Defined Contribution Pension Plan, continued

Employees are immediately vested in their own contributions, and after two years of service, vest 25% per year in employer contributions. The City and employee contributions to PERS including the HRA contribution for the year ended December 31, 2010 were \$111,208 and \$91,992, respectively.

(13) **Deferred Compensation Plan**

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

(14) **Contingencies**

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

Grants

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

(15) **Designated Sales Tax**

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

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

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

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

(16) **New Accounting Pronouncements**

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

- GASB 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*
- GASB 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*
- GASB 58 – *Accounting and Financial Reporting for Chapter 9 Bankruptcies*
- GASB 59 – *Financial Instruments Omnibus*

Of these statements, GASB 54 – *Fund Balance Reporting and Governmental Fund Type Definitions* will have a significant impact on the City's future financial reporting presentation. This statement will recategorize all existing fund balance classifications into five new categories:

- ✓ Nonspendable
- ✓ Restricted
- ✓ Committed
- ✓ Assigned
- ✓ Unassigned

The statement will require an analysis of all funds of the City to determine ongoing compliance with fund type categories as defined in the statement. GASB Statement 54 will be in effect for the City's financial statements for the year ended December 31, 2011.

Statements 57 through 59 are not expected to have any material impact on the City's financial statements.

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

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

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 Global Warming – 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.

City Facilities – This fund accounts for capital improvement projects for buildings and other facilities.

City Hall Complex – This fund accounts for the design of a new City hall and town center.

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

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

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

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

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

CITY OF HOMER, ALASKA

Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2010

	Special Revenue Funds								Capital Project Funds								Total Nonmajor Governmental Funds	
	Library Donations	Fire Department Donations	Retainage Reimbursements	Community Schools	Sustainability Global Warming	Non-capital Projects	Permanent Fund	PERS Funding	Total Special Revenue Funds	City Facilities	City Hall Complex	HART Trails	Depreciation Reserves	Land Reserve	Energy Revolving Loan	Fleet Reserve Allocation		Total Capital Project Funds
Assets																		
Cash and investments	\$ 31,519	68,324	21,147	1,136	14,774	27,966	-	14,534	179,400	210,435	395,328	209,255	1,391,733	39,586	315,691	684,164	3,246,192	3,425,592
Receivables, net:																		
Sales taxes	-	-	-	-	-	-	-	-	-	-	-	16,967	-	-	-	-	16,967	16,967
State and federal grants	-	-	-	-	-	55,350	-	-	55,350	248,666	-	-	-	-	-	-	248,666	304,016
Other	-	-	1,266	-	-	-	-	-	1,266	-	-	-	-	-	-	-	-	1,266
Restricted cash and investments	-	-	-	-	-	-	1,531,315	-	1,531,315	-	-	-	-	-	-	-	-	1,531,315
Total assets	\$ 31,519	68,324	22,413	1,136	14,774	83,316	1,531,315	14,534	1,767,331	459,101	395,328	226,222	1,391,733	39,586	315,691	684,164	3,511,825	5,279,156
Liabilities and Fund Balances																		
Liabilities:																		
Accounts payable	-	-	-	-	-	108	-	-	108	13,463	347	-	1,000	-	-	-	14,810	14,918
Deferred revenue	-	-	22,347	-	-	1,260	-	-	23,607	-	-	-	-	-	-	-	-	23,607
Total liabilities	-	-	22,347	-	-	1,368	-	-	23,715	13,463	347	-	1,000	-	-	-	14,810	38,525
Fund balances:																		
Reserved for debt service and capital projects	-	-	-	-	-	-	-	-	-	-	394,981	226,222	-	-	315,691	-	936,894	936,894
Unreserved - designated:																		
Library	31,519	-	-	-	-	-	-	-	31,519	-	-	-	-	-	-	-	-	31,519
Fire department	-	68,324	-	-	-	-	-	-	68,324	-	-	-	-	-	-	-	-	68,324
Land	-	-	-	-	-	-	-	-	-	-	-	-	-	39,586	-	-	39,586	39,586
Capital outlay	-	-	-	-	-	-	-	-	-	445,638	-	-	1,390,733	-	-	684,164	2,520,535	2,520,535
Community schools	-	-	-	1,136	-	-	-	-	1,136	-	-	-	-	-	-	-	-	1,136
Sustainability global warming	-	-	-	-	14,774	-	-	-	14,774	-	-	-	-	-	-	-	-	14,774
Permanent Fund	-	-	-	-	-	-	1,531,315	-	1,531,315	-	-	-	-	-	-	-	-	1,531,315
Unreserved - undesignated	-	-	66	-	-	81,948	-	14,534	96,548	-	-	-	-	-	-	-	-	96,548
Total fund balances	31,519	68,324	66	1,136	14,774	81,948	1,531,315	14,534	1,743,616	445,638	394,981	226,222	1,390,733	39,586	315,691	684,164	3,497,015	5,240,631
Total liabilities and fund balances	\$ 31,519	68,324	22,413	1,136	14,774	83,316	1,531,315	14,534	1,767,331	459,101	395,328	226,222	1,391,733	39,586	315,691	684,164	3,511,825	5,279,156

CITY OF HOMER, ALASKA

Nonmajor Governmental Funds
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)
 Year Ended December 31, 2010

	Special Revenue Funds									Capital Project Funds							Total Nonmajor Governmental Funds	
	Library Donations	Fire Department Donations	Animal Shelter	Retainage Reimburse- ments	Com- munity Schools	Sustain- ability Global Warming	Non- capital Projects	Permanent Fund	PERS Funding	Total Special Revenue Funds	City Facilities	City Hall Complex	HART Trails	Depre- ciation Reserves	Land Reserve	Energy Revolving Loan		Fleet Reserve Allocation
Revenues:																		
Sales taxes	\$ -	-	-	-	-	-	-	-	-	-	-	111,631	-	-	-	-	-	111,631
Intergovernmental	-	-	-	-	-	-	274,651	-	274,651	303,693	-	-	-	-	-	-	-	303,693
Investment income	18	18	-	-	-	5	194	118,223	98	118,556	2,473	-	522	3,507	50	-	941	7,493
Donations	28	4,196	-	-	-	-	-	-	-	4,224	-	-	-	-	-	-	-	-
Other	-	-	-	1,084	-	-	20,900	266,027	-	288,011	-	-	-	46	-	-	-	46
Total revenues	46	4,214	-	1,084	-	5	295,745	384,250	98	685,442	306,166	-	112,153	3,553	50	-	941	422,863
Expenditures:																		
Current:																		
General government	-	-	-	-	-	-	-	-	-	-	-	16,095	237,074	-	-	-	-	253,169
Public safety	-	-	-	1,018	-	-	62,754	-	63,772	-	-	-	-	-	-	-	-	63,772
Public works	-	-	-	-	-	-	87,834	-	87,834	-	-	3,150	-	-	-	-	-	3,150
Community services	28	-	-	-	656	488	15,830	3,312	20,314	-	-	-	18,438	-	-	-	-	18,438
Debt service	-	-	-	-	-	-	-	-	-	-	-	-	14,536	-	-	-	-	14,536
Capital outlay	-	-	-	-	-	-	-	-	-	-	336,498	520	53,037	-	-	-	-	390,055
Total expenditures	28	-	-	1,018	656	488	166,418	3,312	-	171,920	336,498	520	323,085	-	-	-	-	679,348
Excess of revenues over (under) expenditures	18	4,214	-	66	(656)	(483)	129,327	380,938	98	513,522	(30,332)	(520)	92,908	(319,532)	50	-	941	(256,485)
Other financing sources (uses):																		
Transfers in	-	-	-	-	-	-	-	-	-	-	52,754	-	-	31,015	-	315,691	30,000	429,460
Transfers out	-	-	(7,382)	-	-	-	-	-	(7,382)	-	(19,773)	-	(74,348)	-	-	-	(103,545)	(197,666)
Net other financing sources (uses)	-	-	(7,382)	-	-	-	-	-	(7,382)	52,754	(19,773)	-	(43,333)	-	315,691	(73,545)	231,794	
Net change in fund balances	18	4,214	(7,382)	66	(656)	(483)	129,327	380,938	98	506,140	22,422	(20,293)	92,908	(362,865)	50	315,691	(72,604)	(24,691)
Beginning fund balances (deficit)	31,501	64,110	7,382	-	1,792	15,257	(47,379)	1,150,377	14,436	1,237,476	423,216	415,274	133,314	1,753,598	39,536	-	756,768	3,521,706
Ending fund balances	\$ 31,519	68,324	-	66	1,136	14,774	81,948	1,531,315	14,534	1,743,616	445,638	394,981	226,222	1,390,733	39,586	315,691	684,164	3,497,015

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GENERAL FUND

The General Fund accounts for the financial operations of the City of Homer which are not accounted for in any other fund. Principal sources of revenues are sales taxes, property taxes, charges for services, and intergovernmental revenues. Primary expenditures in the General Fund are for general government, public safety, and public works.

CITY OF HOMER, ALASKA
General Fund
Balance Sheet
December 31, 2010
(With Comparative Amounts for 2009)

<u>Assets</u>	<u>2010</u>	<u>2009</u>
Cash and investments	\$ <u>4,773,696</u>	<u>3,965,900</u>
Receivables:		
Property taxes - delinquent, net of allowance for doubtful accounts of \$16,759 (\$17,582 in 2009)	102,372	60,576
Sales taxes	714,285	708,997
Assessments	444,763	479,323
State and federal grants	-	36,250
Other, net of allowance for doubtful accounts of \$130,424 (\$123,984 in 2009)	<u>203,761</u>	<u>181,127</u>
Total receivables	<u>1,465,181</u>	<u>1,466,273</u>
Due from other funds	18,264	130,643
Inventory	40,273	30,830
Prepaid items	<u>215,610</u>	<u>266,461</u>
 Total assets	 \$ <u>6,513,024</u>	 <u>5,860,107</u>
 <u>Liabilities and Fund Balance</u> 		
Liabilities:		
Accounts payable	85,494	160,348
Accrued payroll and related liabilities	276,125	228,075
Deferred revenue	132,912	97,225
Deferred assessments	<u>444,679</u>	<u>479,239</u>
Total liabilities	<u>939,210</u>	<u>964,887</u>
Fund balance:		
Reserved for inventory and prepaid items	255,883	297,291
Unreserved:		
Designated:		
Interfund loan for animal shelter	-	200,000
PERS	171,314	171,314
Undesignated	<u>5,146,617</u>	<u>4,226,615</u>
Total fund balance	<u>5,573,814</u>	<u>4,895,220</u>
 Total liabilities and fund balance	 \$ <u>6,513,024</u>	 <u>5,860,107</u>

CITY OF HOMER, ALASKA
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
Year Ended December 31, 2010
(With Comparative Amounts for 2009)

	2010		Variance Positive (Negative)	2009
	Budget	Actual		Actual
Revenues:				
Taxes:				
Property taxes	\$ 3,016,093	2,954,829	(61,264)	2,930,696
Sales taxes	4,181,603	4,410,514	228,911	4,288,887
Penalties and interest	5,000	5,335	335	3,935
Total taxes	<u>7,202,696</u>	<u>7,370,678</u>	<u>167,982</u>	<u>7,223,518</u>
 Licenses and permits	<u>29,000</u>	<u>22,965</u>	<u>(6,035)</u>	<u>19,614</u>
 Intergovernmental:				
Revenue - sharing	375,000	374,392	(608)	370,967
State PERS relief	-	218,891	218,891	372,845
Utility cooperative	28,582	27,582	(1,000)	28,452
Alcohol beverage tax	24,000	25,450	1,450	19,550
Public safety	555,349	599,426	44,077	538,184
Library grant	6,350	12,500	6,150	6,350
Public works	34,000	34,000	-	34,000
Reimbursements	-	-	-	11,614
Other grants	-	13,500	13,500	71,047
Total intergovernmental	<u>1,023,281</u>	<u>1,305,741</u>	<u>282,460</u>	<u>1,453,009</u>
 Charges for services:				
Administrative services	1,251,184	1,251,184	-	1,490,831
Ambulance services	225,000	114,318	(110,682)	205,110
Fire contracts	65,000	68,250	3,250	412,197
Camping fees	160,000	175,859	15,859	165,849
Airport services	170,010	166,666	(3,344)	165,781
Community school fees	37,500	32,292	(5,208)	28,166
Miscellaneous services	136,180	153,318	17,138	161,705
Total charges for services	<u>2,044,874</u>	<u>1,961,887</u>	<u>(82,987)</u>	<u>2,629,639</u>
 Special assessments	<u>-</u>	<u>42,097</u>	<u>42,097</u>	<u>110,543</u>

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

	2010		Variance Positive (Negative)	2009
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Revenues, continued:				
Investment income	\$ 35,000	15,600	(19,400)	29,654
Fines and forfeitures	24,090	15,551	(8,539)	16,065
Donations	-	-	-	605
Sales of property and equipment	-	4,917	4,917	4,869
Total revenues	<u>10,358,941</u>	<u>10,739,436</u>	<u>380,495</u>	<u>11,487,516</u>
Expenditures:				
General government:				
City council/mayor:				
Salaries and benefits	9,859	9,734	125	18,337
Supplies	3,500	1,055	2,445	2,013
Other services and charges	261,493	269,760	(8,267)	376,091
Total city council/mayor	<u>274,852</u>	<u>280,549</u>	<u>(5,697)</u>	<u>396,441</u>
City clerk:				
Salaries and benefits	273,149	278,505	(5,356)	300,756
Supplies	2,450	2,109	341	4,415
Other services and charges	38,105	22,474	15,631	28,231
Total city clerk	<u>313,704</u>	<u>303,088</u>	<u>10,616</u>	<u>333,402</u>
City manager:				
Salaries and benefits	245,416	264,233	(18,817)	265,481
Supplies	5,000	2,779	2,221	3,730
Other services and charges	23,205	15,159	8,046	24,099
Total city manager	<u>273,621</u>	<u>282,171</u>	<u>(8,550)</u>	<u>293,310</u>
Administrative services:				
Salaries and benefits	1,002,000	1,041,078	(39,078)	1,072,494
Supplies	12,030	7,598	4,432	66,771
Other services and charges	271,921	201,768	70,153	215,553
Total administrative services	<u>1,285,951</u>	<u>1,250,444</u>	<u>35,507</u>	<u>1,354,818</u>

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

	2010		Variance Positive (Negative)	2009
	Budget	Actual		Actual
Expenditures, continued:				
General government, continued:				
Planning and zoning/property management:				
Salaries and benefits	\$ 368,389	379,664	(11,275)	373,595
Supplies	3,900	2,775	1,125	4,276
Other services and charges	33,080	20,813	12,267	27,686
Total planning and zoning/ property management	405,369	403,252	2,117	405,557
City hall complex:				
Supplies	13,426	8,990	4,436	11,625
Other services and charges	133,765	114,046	19,719	138,229
Capital outlay	-	64	(64)	65,684
Total city hall complex	147,191	123,100	24,091	215,538
Non-departmental - salaries and benefits	114,602	114,602	-	138,222
Total general government	2,815,290	2,757,206	58,084	3,137,288
Public safety:				
Police department:				
Salaries and benefits	1,813,277	1,837,882	(24,605)	1,912,186
Supplies	44,950	40,968	3,982	68,120
Other services and charges	354,195	308,242	45,953	253,079
Total police department	2,212,422	2,187,092	25,330	2,233,385
Jail:				
Salaries and benefits	495,547	532,935	(37,388)	584,392
Supplies	26,200	23,072	3,128	20,516
Other services and charges	115,471	127,311	(11,840)	132,186
Total jail	637,218	683,318	(46,100)	737,094
Animal control:				
Supplies	25,500	18,345	7,155	15,254
Other services and charges	139,347	130,556	8,791	126,305
Total animal control	164,847	148,901	15,946	141,559

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

	2010		Variance Positive (Negative)	2009
	Budget	Actual		Actual
Expenditures, continued:				
Public safety, continued:				
Emergency services:				
Salaries and benefits	\$ 627,500	639,572	(12,072)	712,389
Supplies	64,000	33,091	30,909	36,799
Other services and charges	<u>280,211</u>	<u>183,761</u>	<u>96,450</u>	<u>213,293</u>
Total emergency services	<u>971,711</u>	<u>856,424</u>	<u>115,287</u>	<u>962,481</u>
Total public safety	<u>3,986,198</u>	<u>3,875,735</u>	<u>110,463</u>	<u>4,074,519</u>
Public works:				
Administration:				
Salaries and benefits	165,899	206,807	(40,908)	255,335
Supplies	4,000	3,832	168	6,188
Other services and charges	<u>86,574</u>	<u>80,771</u>	<u>5,803</u>	<u>114,946</u>
Total administration	<u>256,473</u>	<u>291,410</u>	<u>(34,937)</u>	<u>376,469</u>
Maintenance:				
Salaries and benefits	196,828	189,692	7,136	192,196
Supplies	19,872	17,954	1,918	19,283
Other services and charges	<u>98,533</u>	<u>54,741</u>	<u>43,792</u>	<u>108,000</u>
Total maintenance	<u>315,233</u>	<u>262,387</u>	<u>52,846</u>	<u>319,479</u>
Janitorial:				
Salaries and benefits	121,607	130,708	(9,101)	126,922
Supplies	12,000	11,423	577	12,519
Other services and charges	<u>21,500</u>	<u>18,854</u>	<u>2,646</u>	<u>17,983</u>
Total janitorial	<u>155,107</u>	<u>160,985</u>	<u>(5,878)</u>	<u>157,424</u>
Streets:				
Salaries and benefits	213,936	243,876	(29,940)	228,133
Supplies	157,340	130,325	27,015	184,636
Other services and charges	<u>51,756</u>	<u>31,173</u>	<u>20,583</u>	<u>48,481</u>
Total streets	<u>423,032</u>	<u>405,374</u>	<u>17,658</u>	<u>461,250</u>

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

	2010		Variance Positive (Negative)	2009
	Budget	Actual		Actual
Expenditures, continued:				
Public works, continued:				
Motor pool:				
Salaries and benefits	\$ 191,417	183,846	7,571	192,014
Supplies	91,160	85,913	5,247	90,209
Other services and charges	<u>170,578</u>	<u>162,168</u>	<u>8,410</u>	<u>175,777</u>
Total motor pool	<u>453,155</u>	<u>431,927</u>	<u>21,228</u>	<u>458,000</u>
Engineer/inspector:				
Salaries and benefits	164,962	168,546	(3,584)	160,767
Supplies	3,780	6,471	(2,691)	5,494
Other services and charges	<u>8,550</u>	<u>4,839</u>	<u>3,711</u>	<u>5,596</u>
Total engineer/inspector	<u>177,292</u>	<u>179,856</u>	<u>(2,564)</u>	<u>171,857</u>
Total public works	<u>1,780,292</u>	<u>1,731,939</u>	<u>48,353</u>	<u>1,944,479</u>
Library:				
Salaries and benefits	529,269	558,872	(29,603)	554,417
Supplies	51,510	29,113	22,397	36,609
Other services and charges	<u>145,934</u>	<u>128,839</u>	<u>17,095</u>	<u>133,124</u>
Total library	<u>726,713</u>	<u>716,824</u>	<u>9,889</u>	<u>724,150</u>
Airport:				
Salaries and benefits	90,153	86,844	3,309	89,626
Supplies	30,965	23,626	7,339	31,938
Other services and charges	<u>115,139</u>	<u>90,648</u>	<u>24,491</u>	<u>109,370</u>
Total airport	<u>236,257</u>	<u>201,118</u>	<u>35,139</u>	<u>230,934</u>
Parks and recreation:				
Salaries and benefits	247,163	256,450	(9,287)	234,963
Supplies	34,521	30,715	3,806	25,653
Other services and charges	<u>135,251</u>	<u>90,115</u>	<u>45,136</u>	<u>99,067</u>
Total parks and recreation	<u>416,935</u>	<u>377,280</u>	<u>39,655</u>	<u>359,683</u>

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

	2010		Variance Positive (Negative)	2009
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Expenditures, continued:				
Community services:				
Community service contributions:				
Museum	\$ 70,000	70,000	-	85,000
Homer Foundation Non-Profit	20,000	20,000	-	25,000
Junk cars	-	7,083	(7,083)	-
Haven House	13,000	13,000	-	-
Other	2,500	2,010	490	-
Total community service contributions	<u>105,500</u>	<u>112,093</u>	<u>(6,593)</u>	<u>110,000</u>
Community recreation program:				
Salaries and benefits	82,167	87,572	(5,405)	90,614
Supplies	3,500	1,782	1,718	1,633
Other services and charges	16,001	21,236	(5,235)	12,717
Total community schools	<u>101,668</u>	<u>110,590</u>	<u>(8,922)</u>	<u>104,964</u>
Total community services	<u>207,168</u>	<u>222,683</u>	<u>(15,515)</u>	<u>214,964</u>
Debt service on loans and capital leases:				
Principal	44,960	44,960	-	57,934
Interest	61,710	61,710	-	63,870
Total debt service	<u>106,670</u>	<u>106,670</u>	<u>-</u>	<u>121,804</u>
Total expenditures	<u>10,275,523</u>	<u>9,989,455</u>	<u>286,068</u>	<u>10,807,821</u>
Excess of revenues over expenditures	83,418	749,981	666,563	679,695
Other financing sources (uses):				
Transfers in	-	5,000	5,000	-
Transfers out	(72,754)	(76,387)	(3,633)	(384,794)
Net other financing sources (uses)	<u>(72,754)</u>	<u>(71,387)</u>	<u>1,367</u>	<u>(384,794)</u>
Net change in fund balance	\$ <u>10,664</u>	678,594	<u>667,930</u>	294,901
Beginning fund balance		<u>4,895,220</u>		<u>4,600,319</u>
Ending fund balance	\$	<u>5,573,814</u>		<u>4,895,220</u>

CITY OF HOMER, ALASKA
Utility Special Revenue Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
Year Ended December 31, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Taxes - sales tax	\$ 1,044,963	1,101,563	56,600
Intergovernmental:			
Capital grants	1,138,015	1,004,052	(133,963)
State of Alaska PERS relief	50,000	49,838	(162)
Total intergovernmental	<u>1,188,015</u>	<u>1,053,890</u>	<u>(134,125)</u>
Charges for services:			
Water charges and connection fees	1,677,940	1,694,223	16,283
Sewer charges and connection fees	<u>1,871,560</u>	<u>1,483,423</u>	<u>(388,137)</u>
Total charges for services	<u>3,549,500</u>	<u>3,177,646</u>	<u>(371,854)</u>
Water and sewer special assessments	61,886	373,528	311,642
Investment income	61,000	11,348	(49,652)
Other	<u>45,000</u>	<u>172,338</u>	<u>127,338</u>
Total revenues	<u>5,950,364</u>	<u>5,890,313</u>	<u>(60,051)</u>
Expenditures:			
Water:			
Pumping system	106,656	84,340	22,316
Treatment plant and operations testing	355,148	379,796	(24,648)
Distribution system and reservoir	367,667	357,432	10,235
Water meters	104,593	122,108	(17,515)
Water hydrants	93,733	90,364	3,369
Administration	<u>826,055</u>	<u>663,711</u>	<u>162,344</u>
Total water	<u>1,853,852</u>	<u>1,697,751</u>	<u>156,101</u>
Sewer:			
Pumping system	765,703	762,470	3,233
Collection system	142,976	152,916	(9,940)
Administration	<u>744,052</u>	<u>732,219</u>	<u>11,833</u>
Total sewer	<u>1,652,731</u>	<u>1,647,605</u>	<u>5,126</u>
Debt service:			
Principal	1,031,909	989,752	42,157
Interest	<u>195,486</u>	<u>163,843</u>	<u>31,643</u>
Total debt service	<u>1,227,395</u>	<u>1,153,595</u>	<u>73,800</u>
Capital outlay	<u>1,541,740</u>	<u>1,731,052</u>	<u>(189,312)</u>
Total expenditures	<u>6,275,718</u>	<u>6,230,003</u>	<u>45,715</u>
Excess of revenues over (under) expenditures	(325,354)	(339,690)	(14,336)
Other financing sources (uses):			
Issuance of long-term debt	-	534,728	534,728
Transfers out	<u>(177,950)</u>	<u>(177,950)</u>	<u>-</u>
Net other financing sources (uses)	<u>(177,950)</u>	<u>356,778</u>	<u>534,728</u>
Change in fund balance	\$ <u>(503,304)</u>	17,088	<u>520,392</u>
Beginning fund balance, as restated		<u>3,640,197</u>	
Ending fund balance		\$ <u>3,657,285</u>	

CITY OF HOMER, ALASKA
Utility Special Revenue Fund
Combining Balance Sheet
December 31, 2010

<u>Assets</u>	<u>Utility Operations</u>	<u>HAWSP Debt Service</u>	<u>Utility CIP</u>	<u>Utility Reserves</u>	<u>Total Utility Fund</u>
Cash and investments	\$ 3,131,059	(6,026,339)	(466,596)	4,249,543	887,667
Receivables:					
Accounts	327,274	-	-	-	327,274
Sales tax	-	169,772	-	-	169,772
Assessments	-	2,848,936	-	-	2,848,936
State and federal grants and loans	-	2,340,820	241,625	-	2,582,445
Total receivables	<u>327,274</u>	<u>5,359,528</u>	<u>241,625</u>	<u>-</u>	<u>5,928,427</u>
Inventory	283,107	-	-	-	283,107
Prepaid items	<u>36,515</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,515</u>
Total assets	\$ <u>3,777,955</u>	<u>(666,811)</u>	<u>(224,971)</u>	<u>4,249,543</u>	<u>7,135,716</u>
<u>Liabilities and Fund Balance</u>					
Liabilities:					
Accounts payable	77,337	446,187	19,231	-	542,755
Accrued payroll and related liabilities	50,875	-	-	-	50,875
Customer utility deposits	35,939	-	-	-	35,939
Deferred assessments	-	2,848,862	-	-	2,848,862
Total liabilities	<u>164,151</u>	<u>3,295,049</u>	<u>19,231</u>	<u>-</u>	<u>3,478,431</u>
Fund balances (deficits):					
Reserved for inventory and prepaid items	319,622	-	-	-	319,622
Unreserved and undesignated (deficits)	<u>3,294,182</u>	<u>(3,961,860)</u>	<u>(244,202)</u>	<u>4,249,543</u>	<u>3,337,663</u>
Total fund balances (deficits)	<u>3,613,804</u>	<u>(3,961,860)</u>	<u>(244,202)</u>	<u>4,249,543</u>	<u>3,657,285</u>
Total liabilities and fund equity	\$ <u>3,777,955</u>	<u>(666,811)</u>	<u>(224,971)</u>	<u>4,249,543</u>	<u>7,135,716</u>

CITY OF HOMER, ALASKA
Utility Special Revenue Fund
Combining Schedule of Revenues, Expenses and Changes in Fund Balances (Deficits)
Year Ended December 31, 2010

	Utility Operations	HAWSP Debt Service	Utility CIP	Utility Reserves	Total Utility Fund
Revenues:					
Sales tax	\$ -	1,101,563	-	-	1,101,563
Intergovernmental:					
Capital grants	-	-	1,004,052	-	1,004,052
State of Alaska PERS relief	49,838	-	-	-	49,838
Total intergovernmental	49,838	-	1,004,052	-	1,053,890
Charges for services:					
Water charges and connection fees	1,693,833	-	390	-	1,694,223
Sewer charges and connection fees	1,483,423	-	-	-	1,483,423
Total charges for services	3,177,256	-	390	-	3,177,646
Water and sewer special assessments	-	373,528	-	-	373,528
Investment income	4,566	2,746	-	4,036	11,348
Other	147,491	24,847	-	-	172,338
Total revenues	3,379,151	1,502,684	1,004,442	4,036	5,890,313
Expenditures:					
Water:					
Pumping system	83,346	-	994	-	84,340
Treatment plant and operations testing	379,796	-	-	-	379,796
Distribution system and reservoir	357,432	-	-	-	357,432
Water meters	122,108	-	-	-	122,108
Water hydrants	90,364	-	-	-	90,364
Administration	535,278	128,433	-	-	663,711
Total water	1,568,324	128,433	994	-	1,697,751
Sewer:					
Pumping system	762,470	-	-	-	762,470
Collection system	152,916	-	-	-	152,916
Administration	603,786	128,433	-	-	732,219
Total sewer	1,519,172	128,433	-	-	1,647,605
Debt service:					
Principal	-	989,752	-	-	989,752
Interest	1,597	162,246	-	-	163,843
Total debt service	1,597	1,151,998	-	-	1,153,595
Capital outlay	7,933	-	1,576,824	146,295	1,731,052
Total expenditures	3,097,026	1,408,864	1,577,818	146,295	6,230,003
Excess of revenues over (under) expenditures	282,125	93,820	(573,376)	(142,259)	(339,690)
Other financing sources (uses):					
Issuance of long term debt	-	534,728	-	-	534,728
Eliminating transfers	(500,000)	(534,728)	534,728	500,000	-
Transfers out	-	-	-	(177,950)	(177,950)
Net other financing sources (uses)	(500,000)	-	534,728	322,050	356,778
Change in fund balances	(217,875)	93,820	(38,648)	179,791	17,088
Beginning fund balances (deficits), as restated	3,831,679	(4,055,680)	(205,554)	4,069,752	3,640,197
Ending fund balances (deficits)	\$ 3,613,804	(3,961,860)	(244,202)	4,249,543	3,657,285

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 Assets
December 31, 2010
(With Comparative Amounts for 2009)

	<u>Assets</u>	<u>2010</u>	<u>2009</u>
Current assets:			
Cash and investments		\$ 746,125	173,784
Accounts receivable, net of allowance for doubtful accounts of \$65,043 (\$84,772 in 2009)		161,364	165,625
Inventory		11,527	14,420
Prepaid items		35,441	47,006
Total current assets		<u>954,457</u>	<u>400,835</u>
Property, plant and equipment:			
Property, plant and equipment in service		53,173,490	53,096,187
Land and land improvements		15,254,041	15,254,041
Less accumulated depreciation		<u>(26,665,295)</u>	<u>(25,218,740)</u>
Net property, plant and equipment		<u>41,762,236</u>	<u>43,131,488</u>
Total assets		<u>\$ 42,716,693</u>	<u>43,532,323</u>
	<u>Liabilities and Net Assets</u>		
Liabilities:			
Current liabilities:			
Accounts payable		50,664	99,955
Accrued payroll and related liabilities		51,212	36,906
Accrued leave		17,467	48,889
Current portion of capital lease		-	9,578
Prepaid berth rentals and deposits		666,244	646,532
Unearned lease revenue		18,000	18,000
Total current liabilities		<u>803,587</u>	<u>859,860</u>
Noncurrent liabilities, net of current portion:			
Unearned lease revenue		306,000	324,000
Accrued leave		134,970	123,368
Total noncurrent liabilities		<u>440,970</u>	<u>447,368</u>
Total liabilities		<u>1,244,557</u>	<u>1,307,228</u>
Net assets:			
Invested in capital assets		41,762,236	43,121,910
Deficit		<u>(290,100)</u>	<u>(896,815)</u>
Total net assets		<u>41,472,136</u>	<u>42,225,095</u>
Total liabilities and net assets		<u>\$ 42,716,693</u>	<u>43,532,323</u>

CITY OF HOMER, ALASKA
Port of Homer Enterprise Fund
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended December 31, 2010
(With Comparative Amounts for 2009)

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Harbor	\$ 1,866,841	1,813,917
Main dock	173,112	156,999
Fish dock	941,895	986,295
Deep water dock	153,878	58,820
Rents, leases and storage	357,397	318,519
Fish grinder	<u>11,319</u>	<u>13,188</u>
Total operating revenues	<u>3,504,442</u>	<u>3,347,738</u>
Operating expenses:		
Harbor	1,275,450	1,237,455
Main dock	62,959	61,856
Fish dock	592,330	673,125
Deep water dock	81,338	131,725
Fish grinder	9,124	29,196
Administration	1,095,497	1,197,902
Depreciation	<u>1,446,555</u>	<u>1,462,396</u>
Total operating expenses	<u>4,563,253</u>	<u>4,793,655</u>
Operating loss	<u>(1,058,811)</u>	<u>(1,445,917)</u>
Nonoperating revenues (expenses):		
Investment income	53,821	21,261
Interest expense	(142)	(13,411)
Amortization of bond issuance costs	-	(5,331)
State PERS relief	48,469	89,029
Other income	178,725	117,749
Cruise ship tax	2,898	616
Cruise ship security	<u>(2,844)</u>	<u>-</u>
Net nonoperating revenues (expenses)	<u>280,927</u>	<u>209,913</u>
Loss before transfers	(777,884)	(1,236,004)
Transfers in	103,545	25,593
Transfers out	<u>(78,620)</u>	<u>(30,000)</u>
Net transfers	<u>24,925</u>	<u>(4,407)</u>
Change in net assets	(752,959)	(1,240,411)
Beginning net assets	<u>42,225,095</u>	<u>43,465,506</u>
Ending net assets	\$ <u>41,472,136</u>	<u>42,225,095</u>

CITY OF HOMER, ALASKA
Port of Homer Enterprise Fund
Statement of Cash Flows
Year Ended December 31, 2010
(With Comparative Amounts for 2009)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 3,692,038	3,502,623
Payments to suppliers	(1,400,164)	(1,549,306)
Payments to employees	(1,711,256)	(1,689,468)
Litigation settlements	-	100,000
Net cash flows from operating activities	<u>580,618</u>	<u>363,849</u>
Cash flows from noncapital financing activities - transfers out	<u>(78,620)</u>	<u>(30,000)</u>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(9,578)	(203,248)
Interest payments on long-term debt	(142)	(9,518)
Acquisition of property, plant and equipment	(77,303)	(133,738)
Decrease in due to other funds	-	(3,242)
Transfers in	103,545	-
Net cash flows from capital and related financing activities	<u>16,522</u>	<u>(349,746)</u>
Cash flows from investing activities - investment income received	<u>53,821</u>	<u>21,261</u>
Net increase in cash and investments	572,341	5,364
Beginning cash and investments	<u>173,784</u>	<u>168,420</u>
Ending cash and investments	\$ <u>746,125</u>	<u>173,784</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (1,058,811)	(1,445,917)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation	1,446,555	1,462,396
Noncash expense - PERS relief	48,469	89,029
Increase (decrease) in allowance for doubtful accounts	(19,729)	6,025
Amortization of deferred lease revenue	(18,000)	(18,000)
Miscellaneous nonoperating revenues	178,779	118,365
(Increase) decrease in assets:		
Accounts receivable	23,990	25,303
Inventory	2,893	(995)
Prepaid items	11,565	(1,027)
Litigation settlement receivable	-	100,000
Increase (decrease) in liabilities:		
Accounts payable	(49,291)	(20,179)
Accrued payroll and related liabilities	14,306	1,214
Accrued leave	(19,820)	24,443
Prepaid berth rentals and deposits	19,712	23,192
Net cash flows from operating activities	\$ <u>580,618</u>	<u>363,849</u>

See accompanying notes to basic financial statements.

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 money received from other City funds to pay for the cost of medical, dental, vision and weekly income benefits self-insurance claims.

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

CITY OF HOMER, ALASKA
Internal Service Funds
Combining Statement of Net Assets
December 31, 2010

<u>Assets</u>	<u>Health Insurance</u>	<u>Leave Cash-out</u>	<u>Total</u>
Cash and investments	\$ <u>766,158</u>	<u>-</u>	<u>766,158</u>
 <u>Liabilities and Net Assets</u> 			
Current liabilities:			
Accounts payable	78,812	-	78,812
Due to other funds	<u>-</u>	<u>18,264</u>	<u>18,264</u>
Total current liabilities	<u>78,812</u>	<u>18,264</u>	<u>97,076</u>
Net assets - unrestricted (deficit)	<u>687,346</u>	<u>(18,264)</u>	<u>669,082</u>
Total liabilities and net assets	\$ <u>766,158</u>	<u>-</u>	<u>766,158</u>

CITY OF HOMER, ALASKA
Internal Service Funds
Combining Statement of Revenues, Expenses and Changes in Net Assets (Deficit)
Year Ended December 31, 2010

	<u>Health Insurance</u>	<u>Leave Cash-out</u>	<u>Total</u>
Operating revenues - interfund charges	\$ <u>1,790,275</u>	<u>185,000</u>	<u>1,975,275</u>
Operating expenses:			
Personnel	-	130,713	130,713
Claims	1,090,563	-	1,090,563
Insurance premiums	412,148	-	412,148
Administration	<u>50,044</u>	<u>-</u>	<u>50,044</u>
Total operating expenses	<u>1,552,755</u>	<u>130,713</u>	<u>1,683,468</u>
Change in net assets	237,520	54,287	291,807
Beginning net assets (deficit)	<u>449,826</u>	<u>(72,551)</u>	<u>377,275</u>
Ending net assets (deficit)	\$ <u><u>687,346</u></u>	<u><u>(18,264)</u></u>	<u><u>669,082</u></u>

CITY OF HOMER, ALASKA
Internal Service Funds
Combining Statement of Cash Flows
Year Ended December 31, 2010

	<u>Health Insurance</u>	<u>Leave Cash-out</u>	<u>Total</u>
Cash flows from operating activities:			
Receipts from interfund services provided	\$ 1,811,169	185,000	1,996,169
Payments to employees	-	(130,713)	(130,713)
Payments for insurance claims and administration	<u>(1,586,841)</u>	<u>-</u>	<u>(1,586,841)</u>
Net cash flows from operating activities	<u>224,328</u>	<u>54,287</u>	<u>278,615</u>
Cash flows from noncapital financing activities - decrease in due to other funds			
	<u>-</u>	<u>(54,287)</u>	<u>(54,287)</u>
Net increase in cash and cash and investments	224,328	-	224,328
Beginning cash and investments	<u>541,830</u>	<u>-</u>	<u>541,830</u>
Ending cash and investments	\$ <u><u>766,158</u></u>	<u>-</u>	<u><u>766,158</u></u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 237,520	54,287	291,807
Adjustments to reconcile operating income to net cash flows from operating activities:			
Decrease in accounts receivable	20,894	-	20,894
Decrease in accounts payable	<u>(34,086)</u>	<u>-</u>	<u>(34,086)</u>
Net cash flows from operating activities	\$ <u><u>224,328</u></u>	<u><u>54,287</u></u>	<u><u>278,615</u></u>

CITY OF HOMER, ALASKA
Health Insurance Internal Service Fund
Statement of Net Assets
December 31, 2010
(With Comparative Amounts for 2009)

<u>Assets</u>	<u>2010</u>	<u>2009</u>
Cash and investments	\$ 766,158	541,830
Accounts receivable	<u>-</u>	<u>20,894</u>
Total assets	<u>\$ 766,158</u>	<u>562,724</u>
<u>Liabilities and Net Assets</u>		
Current liabilities - accounts payable	<u>78,812</u>	<u>112,898</u>
Net assets - unrestricted	<u>687,346</u>	<u>449,826</u>
Total liabilities and net assets	<u>\$ 766,158</u>	<u>562,724</u>

CITY OF HOMER, ALASKA
Health Insurance Internal Service Fund
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended December 31, 2010
(With Comparative Amounts for 2009)

	<u>2010</u>	<u>2009</u>
Operating revenues - interfund insurance charges	\$ <u>1,790,275</u>	<u>1,838,510</u>
Operating expenses:		
Claims	1,090,563	1,118,734
Insurance premiums	412,148	389,730
Administration	<u>50,044</u>	<u>98,290</u>
Total operating expenses	<u>1,552,755</u>	<u>1,606,754</u>
Change in net assets	237,520	231,756
Beginning net assets	<u>449,826</u>	<u>218,070</u>
Ending net assets	\$ <u><u>687,346</u></u>	<u><u>449,826</u></u>

CITY OF HOMER, ALASKA
Health Insurance Internal Service Fund
Statement of Cash Flows
Year Ended December 31, 2010
(With Comparative Amounts for 2009)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Receipts from interfund services provided	\$ 1,811,169	2,010,391
Payments for insurance claims and administration	<u>(1,586,841)</u>	<u>(1,646,507)</u>
Net cash flows from operating activities	224,328	363,884
Beginning cash and investments	<u>541,830</u>	<u>177,946</u>
Ending cash and investments	\$ <u><u>766,158</u></u>	<u><u>541,830</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 237,520	231,756
Adjustments to reconcile operating income to net cash flows from operating activities:		
Decrease in accounts receivable	20,894	171,881
Decrease in accounts payable	<u>(34,086)</u>	<u>(39,753)</u>
Net cash flows from operating activities	\$ <u><u>224,328</u></u>	<u><u>363,884</u></u>

CITY OF HOMER, ALASKA
Leave Cash-out Internal Service Fund
Statement of Net Assets (Deficit)
December 31, 2010
(With Comparative Amounts for 2009)

	<u>Assets</u>	<u>2010</u>	<u>2009</u>
Cash and investments		\$ <u>-</u>	<u>-</u>
 <u>Liabilities and Net Assets</u> 			
Current liabilities - due to other funds		<u>18,264</u>	<u>72,551</u>
Deficit		<u>(18,264)</u>	<u>(72,551)</u>
Total liabilities and net assets		\$ <u>-</u>	<u>-</u>

CITY OF HOMER, ALASKA
Leave Cash-out Internal Service Fund
Statement of Revenues, Expenses and Changes in Deficit
Year Ended December 31, 2010
(With Comparative Amounts for 2009)

	<u>2010</u>	<u>2009</u>
Operating revenues - interfund leave cash-out charges	\$ 185,000	225,000
Operating expenses - salaries and benefits	<u>130,713</u>	<u>279,354</u>
Change in net assets	54,287	(54,354)
Beginning deficit	<u>(72,551)</u>	<u>(18,197)</u>
Ending deficit	\$ <u>(18,264)</u>	<u>(72,551)</u>

CITY OF HOMER, ALASKA
Leave Cash-out Internal Service Fund
Statement of Cash Flows
Year Ended December 31, 2010
(With Comparative Amounts for 2009)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Receipts from interfund services provided	\$ 185,000	225,000
Payments to employees	<u>(130,713)</u>	<u>(279,354)</u>
Net cash flows from operating activities	54,287	(54,354)
 Cash flows from noncapital financing activities - increase (decrease) in due to other funds	 <u>(54,287)</u>	 <u>54,354</u>
 Net increase in cash and investments	 -	 -
 Beginning cash and investments	 <u>-</u>	 <u>-</u>
 Ending cash and investments	 \$ <u><u>-</u></u>	 <u>-</u>
 Reconciliation of operating income to net cash provided by operating activities - operating income (loss)	 \$ <u><u>54,287</u></u>	 <u><u>(54,354)</u></u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY OF HOMER, ALASKA

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2010

Federal Grant Title	Grant Number	Catalog of Federal Domestic Assistance Number	Total Grant Award	January 1, 2010 Receivable (Deferred)	Federal Share of Expenditures	Federal Receipts	December 31, 2010 Receivable (Deferred)
DEPARTMENT OF COMMERCE							
Passed through the State of Alaska Department of Military and Veteran Affairs - 2007 Public Safety Interoperable Communications	07PSIC-GR34037	11.555	\$ 112,721	1,225	-	1,225	-
DEPARTMENT OF HOMELAND SECURITY							
Assistance to Firefighters Program- Live Fire Training Trailer	EMW-2009-FO-02404	97.044	194,275	-	8,075	8,075	-
Passed through the State of Alaska Department of Military and Veteran Affairs - Homeland Security Program - Radio Replacement	07SHSP-GR34054	97.073	35,000	7,636	-	7,636	-
DEPARTMENT OF JUSTICE							
Edward Byrne Memorial Justice Assistance Program- Active Shooter Training and Equipment	2009-DJ-BX-1502	16.738	11,778	-	11,778	11,778	-
Passed through the City of Kenai - Justice Assistance Program - Radio System Improvements (ARRA)	Ordinance 2442-2009	16.804	48,412	-	46,952	46,952	-
INSTITUTE OF MUSEUM AND LIBRARY SERVICES							
Passed through the State of Alaska Department of Education and Early Development - Continuing Education	CED-10-738-178	45.310	984	-	984	984	-
ENVIRONMENTAL PROTECTION AGENCY							
Passed through the State of Alaska Department of Environmental Conservation:							
Water Storage Reservoir Construction (75% Federal)	40906	66.606	252,000	25,200	-	25,200	-
Clean Water Loan (83% Federal)	409081	66.458	2,697,500	918,898	32,765	-	951,663
Clean Water Loan (ARRA)	409141	66.458	1,800,000	44,540	972,312	382,926	633,926
Clean Water Loan (ARRA)	409181	66.458	145,355	45,355	-	45,355	-
Total CFDA 66.458				1,008,793	1,005,077	428,281	1,585,589
Drinking Water Loan (82% Federal)	409101	66.468	385,400	318,213	21,580	-	339,793
Drinking Water Loan (77.5% Federal)	409131	66.468	5,711,862	190,451	228,855	387,847	31,459
Drinking Water Loan (ARRA)	409211	66.468	190,000	891	-	891	-
Drinking Water Loan (ARRA)	409221	66.468	215,000	20,635	142,991	57,432	106,194
Total CFDA 66.468				530,190	393,426	446,170	477,446
DEPARTMENT OF TRANSPORTATION							
Passed through the State of Alaska Department of Transportation and Public Facilities:							
ASTEP Summit	154AL 09-01-05	20.607	421	-	421	421	-
ASTEP DUI Enforcement	154AL 10-01-01	20.607	10,000	941	1,245	2,186	-
Total CFDA 20.607				941	1,666	2,607	-
ASTEP Seat Belt Enforcement	402PT 11-06-01	20.609	416	-	350	-	350
ASTEP Seat Belt Enforcement	402PT 10-06-09	20.609	1,215	131	517	648	-
Total CFDA 20.609				131	867	648	350
National Motor Carrier Safety	10-PD-003	20.218	5,734	2,415	3,319	5,734	-
DEPARTMENT OF ENERGY							
Passed through the Alaska Energy Authority - Energy Efficient Appliance Rebate Program- Energy Efficiency Audits and Upgrades (ARRA)	7510020	81.127	227,800	-	23,666	-	23,666
DEPARTMENT OF EDUCATION							
Passed through the State of Alaska Department of Commerce, Community and Economic Development - Community Economic Stimulus Grant	800170	84.397	161,980	-	161,980	161,980	-
Total Federal Financial Assistance			\$	1,576,531	1,657,790	1,147,270	2,087,051

CITY OF HOMER, ALASKA

Notes to the Schedule of Expenditures of Federal Awards

Year Ended December 31, 2010

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the grant activity of City of Homer and is presented on the modified accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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CITY OF HOMER, ALASKA
Statistical Section
(Unaudited)

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

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Financial Trends

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

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

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Source:

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

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

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

Notes:

The City implemented GASB 34 in 2003.

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

CITY OF HOMER, ALASKA

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

	Fiscal Year							
	2010	2009	2008	2007	2006	2005	2004	2003
Expenses								
Governmental Activities:								
General government	\$ 3,722,993	2,066,529	1,761,505	1,621,298	1,453,282	1,800,060	1,870,428	1,040,890
Public safety	4,168,529	4,409,769	4,546,766	3,989,765	3,912,322	3,322,075	3,101,937	3,128,167
Public works	2,676,839	2,955,896	2,637,639	2,422,038	2,405,097	1,066,319	2,136,469	1,979,338
Library	931,139	932,552	890,800	805,570	370,404	293,831	473,298	370,272
Airport	207,701	239,214	233,176	200,331	152,414	149,341	173,258	174,868
Parks & recreation	468,782	427,271	494,083	410,556	391,303	356,721	377,010	397,241
Water	2,231,144	-	-	-	-	-	-	-
Sewer	2,339,709	-	-	-	-	-	-	-
Community services	263,224	266,144	321,970	235,831	211,894	582,677	180,964	147,891
Unallocated interest	225,553	63,870	141,014	113,536	64,676	70,829	90,915	100,910
Total Governmental Activities Expenses	17,235,613	11,361,245	11,026,953	9,798,925	8,961,392	7,641,853	8,404,279	7,339,577
Business-type Activities:								
Port & Harbor	4,501,480	4,794,367	4,529,886	4,406,311	4,075,045	3,885,187	3,709,842	3,561,815
Water & Sewer	-	6,145,835	5,820,558	5,318,033	4,737,887	4,615,144	4,250,305	3,889,601
Total Business-type Activities Expenses	4,501,480	10,940,202	10,350,444	9,724,344	8,812,932	8,500,331	7,960,147	7,451,416
Total Activities Expenses	\$ 21,737,093	22,301,447	21,377,397	19,523,269	17,774,324	16,142,184	16,364,426	14,790,993
Program Revenues								
Governmental Activities:								
Charges for services								
General Government	\$ 211,625	185,215	116,606	290,197	437,696	433,860	377,892	297,629
Public Safety	198,119	633,372	317,835	462,050	323,916	389,826	815,935	920,648
Public Works	12,090	62,544	34,715	71,864	62,633	61,572	90,436	99,941
Library	-	4,869	499,189	-	-	-	-	-
Airport	166,666	165,781	169,196	170,944	143,604	125,316	131,072	95,918
Parks and Recreation	175,859	165,849	157,264	183,310	173,204	181,924	157,362	139,003
Community Services	32,292	28,166	27,058	38,696	18,549	-	-	-
Water	2,067,751	-	-	-	-	-	-	-
Sewer	1,483,423	-	-	-	-	-	-	-
Operating grants & contributions	665,150	607,284	697,372	638,290	640,601	729,240	401,998	589,364
Capital grants & contributions	1,632,234	376,375	746,803	339,482	1,616,075	4,361,468	1,273,362	325,481
Total Governmental Activities Revenues	6,645,209	2,229,455	2,766,038	2,194,833	3,416,278	6,283,206	3,248,057	2,467,984
Business-type Activities:								
Charges for services Port&Harbor	3,504,442	3,347,738	3,288,715	2,791,713	2,632,892	2,507,815	2,679,831	2,789,364
Charges for services Water/Sewer	-	3,039,391	3,023,126	2,734,564	2,745,335	2,605,377	2,569,494	2,281,614
Operating grants & contributions P&H	48,469	-	-	-	-	-	-	-
Capital grants & contributions P&H	-	-	-	55,187	-	68,090	723,375	1,428,887
Capital grants & contributions W/S	-	317,159	4,571,058	1,333,867	2,274,619	221,412	227,808	1,842,866
Total Business-type Activities Revenues	3,552,911	6,704,288	10,882,899	6,915,331	7,652,846	5,402,694	6,200,508	8,342,731
Total Primary Government Program Revenues	\$ 10,198,120	8,933,743	13,648,937	9,110,164	11,069,124	11,685,900	9,448,565	10,810,715
Net (Expense)Revenue								
Governmental Activities	(10,590,404)	(9,131,790)	(8,260,915)	(7,604,092)	(5,545,114)	(1,358,647)	(5,156,222)	(4,871,593)
Business-type Activities	(948,569)	(4,235,914)	532,455	(2,809,013)	(1,160,086)	(3,097,637)	(1,759,639)	891,315
Total Primary Government Net Expenses	\$ (11,538,973)	(13,367,704)	(7,728,460)	(10,413,105)	(6,705,200)	(4,456,284)	(6,915,861)	(3,980,278)
General Revenues and Other								
Changes in Net Assets								
Governmental Activities:								
Taxes								
Property Taxes	\$ 3,051,919	2,889,856	2,976,794	2,529,614	2,406,263	2,091,977	1,888,761	1,785,092
Sales Taxes	6,613,640	5,361,109	6,334,758	6,173,478	5,670,638	5,119,528	3,770,288	3,506,170
Other	1,272,273	2,113,103	967,635	1,195,849	487,481	376,102	207,628	489,857
Transfers	(24,925)	(115,408)	(30,000)	149,064	459,125	110,000	50,685	(199,442)
Special item write-off NPO	-	-	1,099,216	-	-	-	-	-
Total Governmental Activities Revenue	10,912,907	10,248,660	11,348,403	10,048,005	9,023,507	7,697,607	5,917,362	5,581,677
Business-type Activities:								
Sales tax	-	1,072,222	1,266,790	1,235,022	1,134,096	1,031,167	1,019,645	956,353
Other	235,444	452,206	409,544	482,110	774,459	303,140	214,766	418,591
Transfers	24,925	115,408	30,000	(149,064)	(459,125)	(110,000)	(50,685)	199,442
Special item write-off NPO	-	-	514,438	-	-	-	-	-
Total Business-type Activities Revenue	260,369	1,639,836	2,220,772	1,568,068	1,449,430	1,224,307	1,183,726	1,574,386
Total Primary Government Revenue	\$ 11,173,276	11,888,496	13,569,175	11,616,073	10,472,937	8,921,914	7,101,088	7,156,063
Changes in Net Assets								
Governmental Activities	\$ 322,503	1,116,870	3,087,488	2,443,913	3,478,393	6,338,960	761,140	710,084
Business-type Activities	(688,200)	(2,596,078)	2,753,227	(1,240,945)	289,344	(1,873,330)	(575,913)	2,465,701
Total Primary Government	\$ (365,697)	(1,479,208)	5,840,715	1,202,968	3,767,737	4,465,630	185,227	3,175,785

Notes:

The City implemented GASB 34 in 2003.

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

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

<u>Fiscal Year</u>	<u>Property Tax</u>	<u>Sales Tax</u>	<u>Total</u>
2010	\$ 3,051,919	\$ 6,613,640	\$ 9,665,559
2009	2,889,856	5,361,109	8,250,965
2008	2,976,794	6,334,758	9,311,552
2007	2,501,693	6,173,478	8,675,171
2006	2,382,936	5,670,638	8,053,574
2005	2,102,170	5,119,528	7,221,698
2004	1,888,761	3,737,944	5,626,705
2003	1,811,202	3,506,170	5,317,372
2002	1,603,317	3,243,410	4,846,727
2001	1,434,826	2,846,372	4,281,198

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

	Fiscal Year									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
General Fund										
Reserved	\$ 255,883	297,291	353,901	296,910	260,274	280,743	313,959	268,279	223,973	167,374
Unreserved, designated:										
Interfund Loan Animal Shelter	-	200,000	250,000	300,000	350,000	400,000	450,000	-	-	-
PERS	171,314	171,314	171,314	171,314	-	-	-	-	-	-
Designated for subsequent year's expenditures	-	-	-	-	-	-	-	256,682	-	-
Undesignated	5,146,617	4,226,615	3,825,104	4,230,983	3,282,823	2,186,409	1,248,052	1,994,577	2,382,709	1,919,436
Total Unreserved General Fund	5,317,931	4,597,929	4,246,418	4,702,297	3,632,823	2,586,409	1,698,052	2,251,259	2,382,709	1,919,436
Total General Fund	5,573,814	4,895,220	4,600,319	4,999,207	3,893,097	2,867,152	2,012,011	2,519,538	2,606,682	2,086,810
Other Governmental Funds										
Reserved	5,929,657	4,367,506	4,334,477	3,350,187	3,601,605	3,768,592	3,237,361	2,743,871	271,328	-
Unreserved:										
Library	31,519	31,501	31,326	29,289	27,750	8,982	471,148	309,698	177,575	-
Fire Department	68,324	64,110	62,965	53,948	11,482	15,522	11,697	7,170	20,217	-
Animal Shelter	-	7,382	7,352	7,173	6,796	10,088	-	-	-	-
Community Schools	1,136	1,792	509	699	197	-	-	-	-	-
Sustainability Global Warming	14,774	15,257	15,162	107	-	-	-	-	-	-
PERS	-	14,436	-	-	-	-	-	-	-	-
Permanent Fund	1,531,315	1,150,377	-	-	-	-	-	-	-	-
Special Revenue Funds	3,434,211	-	-	-	-	-	-	-	-	-
Capital Project Funds/land	2,560,121	2,973,118	3,116,382	1,857,872	1,784,965	1,435,923	421,066	651,221	3,497,206	3,837,188
Capital Project Deficit	-	(47,379)	(20,873)	(3,744)	(31,147)	(455,223)	(69,805)	-	-	-
Total Unreserved Other Governmental Funds	7,641,400	4,210,594	3,212,823	1,945,344	1,800,043	1,015,292	834,106	968,089	3,694,998	3,837,188
Total Other Governmental Funds	13,571,057	8,578,100	7,547,300	5,295,531	5,401,648	4,783,884	4,071,467	3,711,960	3,966,326	3,837,188
Total General Fund and Other Governmental Funds	\$ 19,144,871	13,473,320	12,147,619	10,294,738	9,294,745	7,651,036	6,083,478	6,231,498	6,573,008	5,923,998
Change in Fund Balances	2,031,354	1,325,701	1,852,881	999,993	1,643,709	1,567,558	(148,020)	(341,510)	407,467	234,489
Percentage of Change	11.9%	10.9%	18.0%	10.8%	21.5%	25.8%	-2.4%	-5.2%	11.0%	4.1%

Notes:

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

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

	Fiscal Year									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Revenues:										
Property taxes	\$ 2,954,829	2,930,696	2,975,448	2,501,693	2,382,936	2,102,170	1,888,761	1,811,202	1,603,317	1,434,826
Sales taxes	6,613,640	5,361,109	6,334,758	6,173,478	5,670,638	5,119,528	3,737,944	3,506,170	3,243,410	2,846,372
Licenses and permits	22,965	19,614	26,219	43,765	46,096	42,717	88,411	18,930	17,000	12,520
Intergovernmental	2,937,975	1,854,305	1,778,519	1,873,233	2,247,343	3,740,329	1,966,565	1,354,063	1,574,238	1,038,386
Charges for services	5,139,533	2,629,639	2,337,323	2,382,465	2,136,838	2,183,048	2,028,181	1,991,495	2,045,851	1,393,570
Special assessments	415,625	110,543	127,876	14,802	11,180	15,462	16,517	39,571	43,412	59,189
Investment income	162,146	82,117	156,429	290,987	233,998	150,223	47,793	66,649	119,310	204,527
Fines and forfeitures	15,551	16,065	34,193	19,941	19,435	23,269	24,444	36,321	35,577	19,489
Contributions and donations	4,224	2,910	9,181	42,256	64,412	1,362,374	170,864	140,794	77,081	-
Legal settlement	266,027	1,150,878	-	-	740,404	-	-	-	-	91,930
Sale of property and equipment	4,917	4,869	499,189	-	-	-	-	-	-	-
Other	199,703	45,092	170,538	19,970	24,207	23,362	172,876	68,973	369,881	129,507
Total revenues	18,737,135	14,207,837	14,449,673	13,362,590	13,577,487	14,762,482	10,142,356	9,034,168	9,129,077	7,230,316
Expenditures:										
General government	3,010,375	3,380,193	2,964,905	2,585,147	2,220,086	2,689,530	2,554,078	1,759,588	1,724,904	1,685,478
Public safety	3,939,507	4,096,996	4,189,377	3,622,296	3,549,911	3,053,686	2,894,621	2,837,662	2,527,104	2,165,322
Public works	1,822,923	2,023,907	2,108,115	1,750,045	1,688,688	1,491,893	1,350,580	1,593,608	1,620,633	803,036
Library	716,824	724,150	681,983	593,027	449,289	374,932	341,287	352,380	333,982	298,541
Airport	201,118	230,934	228,720	196,710	179,504	146,221	128,278	169,211	124,311	107,541
Parks and recreation	377,280	359,683	422,251	384,697	367,027	338,359	340,471	353,548	407,982	342,943
Community services	261,435	266,144	321,970	235,831	211,894	582,677	180,964	147,891	294,809	109,796
Water	1,697,751	-	-	-	-	-	-	-	-	-
Sewer	1,647,605	-	-	-	-	-	-	-	-	-
Debt service:										
Principal retirement	1,049,248	57,934	470,615	608,431	655,016	513,640	479,979	409,761	487,905	495,117
Interest and fiscal charges	225,553	63,870	75,812	113,536	64,676	70,829	90,915	100,910	126,462	136,602
Capital outlay	2,265,965	1,612,185	1,103,044	2,421,941	5,153,413	4,043,157	1,976,460	1,161,677	1,565,695	643,259
Total expenditures	17,215,584	12,815,996	12,566,792	12,511,661	14,539,504	13,304,924	10,337,633	8,886,236	9,213,787	6,787,635
Excess (deficiency) of revenues over (under) expenditures	1,521,551	1,391,841	1,882,881	850,929	(962,017)	1,457,558	(195,277)	147,932	(84,710)	442,681
Other financing sources (uses):										
Proceeds from long-term debt	534,728	14,536	-	-	2,146,601	-	-	-	300,000	-
Transfers in	434,460	413,609	2,183,992	2,499,222	2,160,007	2,498,261	879,211	1,585,122	762,026	629,234
Transfers out	(459,385)	(494,285)	(2,213,992)	(2,350,158)	(1,700,882)	(2,388,261)	(828,526)	(2,074,564)	(729,406)	(570,539)
Net other financing sources (uses)	509,803	(66,140)	(30,000)	149,064	2,605,726	110,000	50,685	(489,442)	332,620	58,695
Net change in fund balance	\$ 2,031,354	1,325,701	1,852,881	999,993	1,643,709	1,567,558	(144,592)	(341,510)	247,910	501,376
Debt service as a % of noncapital expenditures	1.06%	1.06%	4.78%	7.37%	8.03%	7.65%	6.79%	6.96%	8.50%	-

Notes:

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

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

Fiscal Year	Real Property Less Tax Exempt Property	Personal Property Less Tax Exempt Property	Total Taxable Assessed Value	Tax Direct Rate	Estimated Full Value	Assessed Value as a Percent of Actual Value
2001	\$ 221,752,012	\$ 16,401,954	\$ 238,153,966	5.50%	\$ 321,539,100	74.07%
2002	295,979,412	21,458,976	317,438,388	5.00%	397,449,200	79.87%
2003	312,647,212	19,978,948	332,626,160	5.05%	448,443,700	74.17%
2004	333,843,562	19,148,462	352,992,024	5.00%	497,201,500	71.00%
2005	399,827,162	26,893,341	426,720,503	4.50%	587,914,700	72.58%
2006	461,018,162	24,598,683	485,616,845	4.50%	646,448,500	75.12%
2007	489,448,562	22,811,263	512,259,825	4.50%	717,875,400	71.36%
2008	588,595,562	24,988,891	613,584,453	4.50%	777,118,400	78.96%
2009	631,527,262	31,030,146	662,557,408	4.50%	850,068,000	77.94%
2010	606,704,342	38,412,787	645,117,129	4.50%	850,068,600	75.89%

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

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

<u>Fiscal Year</u>	Direct Rate	Overlapping Rates			Total
	City of Homer	Kenai Peninsula Borough	South Peninsula Hospital Service Area	Kenai Peninsula College	
2001	5.50	7.00	1.75	0.10	14.35
2002	5.00	6.50	1.75	0.10	13.35
2003	5.00	6.50	1.75	0.10	13.35
2004	5.00	6.50	1.75	0.10	13.35
2005	4.50	6.50	1.75	0.10	12.85
2006	4.50	6.50	1.00	0.10	12.10
2007	4.50	6.50	1.00	0.00	12.00
2008	4.50	6.50	2.30	0.00	13.30
2009	4.50	6.50	2.30	0.00	13.30
2010	4.50	6.50	1.75	0.10	12.85

Notes: Overlapping rates are those of the City of Homer, Kenai Peninsula Borough, South Peninsula Hospital Service Area (a component unit of KPB), and Kenai Peninsula College that apply to property owners within the City of Homer.

Restrictions: Tax rates can only be changed by the vote of the people.

Table 8

CITY OF HOMER, ALASKA
Principal Property Taxpayers
December 31, 2010
and December 31, 2001

Owner	2010			2001		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Value
ACS	\$ 15,076,562	1	2.34%	8,527,984	1	3%
Homer Spit Properties, LLC	10,102,500	2	1.57%	-		0%
Tulin Charles E & Helen L	7,487,500	3	1.16%	-		0%
Lands End Acquisition Corp.	5,956,535	4	0.92%	3,631,440	2	1%
Alaska USA Federal Credit Union	4,508,536	5	0.70%	-		0%
Lehner Devony L & Taffe Thomas	3,355,900	9	0.52%	-		0%
CGF Properties, Inc	4,043,900	6	0.63%	1,833,300	6	1%
Moore Kenneth & Roseleen Trust	3,423,600	8	0.53%	-		0%
Wells Fargo Bank	3,448,313	7	0.53%	1,695,100	7	1%
GCI	3,220,365	10	0.50%			0%
The English Bay Corporation				2,779,800	3	
Spenard Builders Supply				2,212,739	4	
Johnson, John R. and Ruth E				2,113,400	5	
Gates Construction Inc.				1,460,200	8	
Era Helicopters				1,286,760	9	
Maritime Helicopters				1,181,225	10	
Total	\$ <u>60,623,711</u>		<u>9.40%</u>	<u>26,721,948</u>		<u>6.35%</u>

Source: Kenai Peninsula Borough

Century Telephone Enterprises was acquired by ACS of the Northland Inc
National Bank of Alaska was acquired by Wells Fargo
The Bidarka Inn & Hunter Investments are owned by John R & Judith E Johnson

Note: Total Taxable Assessed Values are utilized from Table 6

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

Fiscal Year Ended December 31,	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collected in Subsequent Years Amount	Total Tax Collected to Date	
		Amount	% of Levy		Amount	% of Levy
2001	\$ 1,359,737	\$ 1,304,217	95.92%	\$ 66,615	\$ 1,370,832	100.82%
2002	1,634,651	1,491,221	91.23%	53,515	1,544,736	94.50%
2003	1,715,697	1,672,366	97.47%	51,033	1,723,399	100.45%
2004	1,829,389	1,768,120	96.65%	34,012	1,802,132	98.51%
2005	2,013,518	1,989,890	98.83%	53,009	2,042,899	101.46%
2006	2,342,439	2,299,478	98.17%	32,081	2,331,559	99.54%
2007	2,383,617	2,339,720	98.16%	10,970	2,350,690	98.62%
2008	2,823,552	2,822,660	99.97%	93,274	2,915,935	103.27%
2009	2,678,567	2,658,526	99.25%	52,712	2,711,238	101.22%
2010	2,862,172	2,815,749	98.38%	41,043	2,856,792	99.81%

Source: Kenai Peninsula Borough

Note: Prior years over 100% of Levy were not restated - Penalties and interest were included in the prior years over 100% of tax levy.

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

	Governmental Activities				Business-Type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Special Assessment Bonds	Notes Payable	Capital Leases	Revenue Bonds	Notes Payable	Capital Leases			
2001	\$ 2,440,000	\$ 31,647	\$ -	\$ 262,226	\$ 1,890,000	\$ 3,132,195	\$ -	\$ 7,756,068	8.83%	\$ 1,966
2002	2,095,000	26,367	-	424,601	1,620,000	3,807,372	-	7,973,340	7.51%	1,689
2003	1,730,000	21,087	-	385,316	1,335,000	5,279,514	-	8,750,917	6.57%	1,492
2004	1,340,000	15,807	-	300,617	1,105,000	5,388,839	-	8,150,263	6.66%	1,529
2005	920,000	10,527	-	212,257	870,000	7,479,081	-	9,491,865	7.50%	1,746
2006	475,000	5,280	1,992,753	163,044	620,000	9,539,106	208,909	13,004,092	10.09%	2,384
2007	-	-	1,955,878	71,768	365,000	10,160,611	153,810	12,707,067	9.63%	2,310
2008	-	-	1,529,282	27,749	185,000	11,567,201	95,720	13,404,952	10.12%	2,487
2009	-	-	1,507,077	6,703	-	14,489,912	34,045	16,037,737	13.24%	2,889
2010	-	-	15,489,024	-	-	-	-	15,489,024	11.70%	3,096

Population per Alaska Department of Community and Economic Development

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

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

<u>Fiscal Year</u>	<u>Population</u>	<u>Assessed Value</u>	<u>Gross Bonded Debt</u>	<u>Debt Service Funds Available</u>	<u>Net Bonded Debt</u>	<u>Percent of Net Bonded Debt to Assessed Value</u>	<u>Net Bonded Debt Per Capita</u>
2010	5003	\$ 662,557	\$ -	\$ -	\$ -	0.00%	\$ -
2009	5551	631,527	-	-	-	0.00%	-
2008	5390	588,595	-	-	-	0.00%	-
2007	5502	551,814	-	-	-	0.00%	-
2006	5454	520,542	475	307	168	0.03%	31
2005	5435	447,448	920	281	639	0.14%	118
2004	5332	365,877	1,340	269	1,071	0.29%	201
2003	4893	343,139	1,730	268	1,462	0.43%	299
2002	4721	326,930	2,095	259	1,836	0.56%	389
2001	3946	247,225	2,440	237	2,203	0.89%	558

Note: Population per Alaska Department of Community and Economic Development
Gross Bonded Debt includes all long-term general obligation bonded debt.

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

Fiscal Year	Principal	Interest	Total Debt Service	Total General Fund Expenditures	Percent of Debt Service to General Fund Expenditures
2010	\$ -	\$ -	\$ -	\$ 9,989,455	0.00%
2009	-	-	-	10,807,821	0.00%
2008	-	-	-	11,046,268	0.00%
2007	475,000	21,082	496,082	9,356,829	5.30%
2006	445,000	39,916	484,916	8,414,502	5.76%
2005	420,000	57,766	477,766	8,018,872	5.96%
2004	390,000	73,854	463,854	7,474,417	6.21%
2003	365,000	88,734	453,734	6,594,445	6.88%
2002	345,000	101,831	446,831	6,287,847	7.11%
2001	320,000	115,054	435,054	5,700,565	7.63%
2000	300,000	127,054	427,054	5,213,935	8.19%

Note: Principal and interest does not include debt service paid by the Water & Sewer, and Port Enterprise Funds.

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

Year	(1) Population	(2) Annual Average Wage Per Worker	Per Capita Income	(1) Median Age	(3) School Enrollment	(2) Unemployment Rate
2010	5,003	\$ 32,120	\$ 21,823	38.8	1,329	11.5%
2009	5,551	31,601	21,823	38.8	1,462	14.8%
2008	5,390	31,625	24,565	38.8	1,445	7.5%
2007	5,502	30,795	23,985	39.7	1,135	6.7%
2006	5,454	31,164	23,630	38.8	1,119	8.6%
2005	5,435	30,696	23,280	38.8	1,248	8.6%
2004	5,332	34,663	22,936	38.8	1,238	11.1%
2003	5,865	33,069	22,709	38.8	1,250	12.1%
2002	4,721	34,032	22,484	38.8	1,284	12.0%
2001	3,946	34,584	22,262	38.8	1,276	10.6%
2000	4,205	32,275	22,041	32.4	1,311	10.2%

Sources:

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

**CITY OF HOMER, ALASKA
Principal Employers - Lower Kenai Peninsula**

<u>Employer</u>	<u>2010</u>		<u>Percentage of Total Employment</u>
	<u>Number of Employees</u>	<u>Rank</u>	
Kenai Peninsula Borough School District	313	1	14.09%
South Peninsula Hospital	313	2	14.09%
South Peninsula Behavioral Health Services	148	3	6.66%
City of Homer	103	4	4.64%
Safeway	98	5	4.41%
State of AK-Excludes University	97	6	4.37%
Lands End Resort	85	7	3.83%
University of Alaska	69	8	3.11%
Homer Electric Association	66	9	2.97%
Homer Senior Citizens	64	10	2.88%
Total Employees (Top Ten)	1,356		61.03%
Average Employees Per Month	2,222		

Source:
Alaska Department of Labor and Workforce Development

Note:
Comparative principal employers for 2001 is not available.

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

<u>Function/program</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Administration	29	30	29	29	34	27	27	26	26	26
Public Safety:										
Fire Department	5	6	6	6	6	6	6	6	6	6
Police Department	24	26	21	24	27	26	27	26	26	22
Public Works:										
PW General Fund	15	17	16	13	11	14	14	15	14	1
PW Water/Sewer	17	18	18	19	23	25	25	25	25	36
Port and Harbor	<u>20</u>	<u>20</u>	<u>13</u>	<u>11</u>	<u>13</u>	<u>18</u>	<u>18</u>	<u>18</u>	<u>18</u>	<u>18</u>
Total	<u>110</u>	<u>117</u>	<u>103</u>	<u>102</u>	<u>114</u>	<u>116</u>	<u>117</u>	<u>116</u>	<u>115</u>	<u>109</u>

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

	Fiscal Year									
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Function/Program										
General Government										
Registered voters	4,289	4,270	4,161	4,172	4,073	4,022	4,098	4,146	4,000	3,332
Building permits issued	45	55	62	87	83	103	109	86	74	72
Police										
Requests for service	6,661	6,139	7,532	6,052	5,987	5,878	6,141	7,552	4,265	6,242
Physical arrests	572	471	391	425	428	507	429	480	589	604
Traffic citations	660	662	731	515	450	464	525	807	1,033	835
Animal control impounds	361	3	415	864	1,048	1,065	967	2,139	2,139	2,452
Fire										
Emergency responses	536	641	599	566	472	469	439	457	478	359
Fires calls	combined	combined	83	100	79	111	107	103	109	138
Parks & Recreation										
Camping permits - Tents	9,145	9,172	3,852	3,934	3,830	3,888	4,559	4,144	3,291	3,570
Camping permits - RV's	combined	combined	4,988	5,621	5,250	5,515	6,662	6,466	5,905	5,609
Library										
Number of Visitors	126,030	125,441	132,402	133,186	91,301	88,372	88,136	88,810	90,529	98,099
Number of Library cards	11,717	10,720	10,405	10,055	9,812	9,073	9,013	8,713	8,544	8,444
Internet Users	45,887	44,987	-	40,041	-	19,145	18,359	-	-	-
Public Works										
Work orders	7,509	6,573	6,553	6,761	6,852	6,758	6,573	6,438	6,036	5,543
Water										
Number of Consumers	1,541	1,450	1,445	1,406	1,406	1,373	1,337	1,297	1,269	1,229
Water usage in millions gal	1,308	1,503	142.2	145.1	137.5	179.0	161.0	132.5	132.8	133.9
Wastewater										
Number of Consumers	1,445	1,444	1,432	1,354	1,354	1,280	1,374	1,197	1,153	1,117
Port & Harbor										
Harbor Assists	196	150	143	197	220	298	302	378	249	
Dock Landings	150	421	226	202	162	139	113	126	155	161
Ice sales (ton)	4,385	4,434	3,776	3,826	3,333	4,261	3,869	3,744	3,896	4,029
Crane hours billed	2,795	3,134	2,672	2,574	2,535	2,819	2,979	3,187	3,492	3,162
Halibut landings (million tons)	13	12	10	10	10	10	10	12	12	11

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

		Fiscal Year									
		<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Function by Program											
Emergency Services											
	Number of Stations	1	1	1	1	1	1	1	1	1	1
	Number of Fire Trucks	4	4	4	3	3	2	2	2	2	2
	Number of Ambulances	2	2	2	2	2	2	2	2	2	1
	Number of Employees/ Volunteers	41	39	39	39	38	37	54	48	52	40
Police Protection											
	Number of Stations	1	1	1	1	1	1	1	1	1	1
	Patrol Units	12	12	12	11	10	9	9	9	8	7
	Number of Employees	26	26	21	24	27	28	27	26	27	26
Public Works											
	Miles of City-maintained streets	47.1	46.5	46.5	46.9	46.9	46.5	45.0	44.0	41.0	22.6
Water/ Sewer											
	Miles of Water Lines	42.5	42.4	42.4	42.4	42.3	42.1	46.5	36.41	36.41	36
	Miles of Sewer Lines	49.2	49.2	49.2	49.2	49.2	48.7	39.5	42.8	42.8	43
Parks & Recreation											
	Number of Parks	18	18	18	18	18	18	18	18	18	18
	Acres	285.9	518.2	518.2	518.2	267.4	267.4	267.4	267.4	267.4	267.4
Library											
	Volumes	44,072	43,148	42,812	40,181	36,984	34,791	34,080	34,080	34,080	34,080
	Circulation	108,166	101,290	99,511	98,815	99,020	89,964	91,886	89,617	95,051	96,490
	Public use computers	18	18	18	18	6	6	6	6	6	6
Port & Harbor											
	Small Boat Harbor - stalls	920	920	920	920	920	920	920	920	772	772
	Transient space square feet	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	4,000	4,000

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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 City Council
City of Homer, Alaska

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Homer, Alaska, as of and for the year ended December 31, 2010 which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated June 7, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Honorable Mayor and City Council
City of Homer, Alaska

Compliance and Other Matters

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

This report is intended solely for the information and use of City of Homer's management, Honorable Mayor and City Council, others within the entity, federal and state awarding agencies and, if applicable, pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Mikunda, Cottrell & Co.

Anchorage, Alaska
June 7, 2011

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Honorable Mayor and City Council
City of Homer, Alaska

Compliance

We have audited the compliance of City of Homer, with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. The 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Homer's management. Our responsibility is to express an opinion on City of Homer's compliance based on our audit.

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

In our opinion, City of Homer complied, in all material respects, with the 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, 2010.

Honorable Mayor and City Council
City of Homer, Alaska

Internal Control Over Compliance

The management of City of Homer is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Homer's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City 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 compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Mikunda, Cottrell & Co.

Anchorage, Alaska
June 7, 2011

CITY OF HOMER, ALASKA

Schedule of Findings and Questioned Costs

Year Ended December 31, 2010

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes ___X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes ___X none reported
- Noncompliance material to financial statements noted? _____ yes ___X no

Federal Financial Assistance

Internal control over major programs:

- Material weakness(es) identified? _____ yes ___X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes ___X none reported

Type of auditor's report issued on compliance for major programs?

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

_____ yes ___X no

Identification of major programs:

<u>Agency</u>	<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Environmental Protection Agency	66.458	Clean Water Loan: Sewer Service Extensions, Phase II
Environmental Protection Agency	66.468	Drinking Water Loan: Water Service Extensions, Phase II

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

\$300,000

Auditee qualified as low-risk auditee?

___X yes _____ no

CITY OF HOMER, ALASKA

Schedule of Findings and Questioned Costs, continued

II. Financial Statement Findings

None noted.

III. Federal Award Findings and Questioned Costs

None noted.

CITY OF HOMER, ALASKA

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2010

Federal

There were no prior year audit findings.

CITY OF HOMER, ALASKA

Corrective Action Plan

Year Ended December 31, 2010

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