



City of Homer

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Finance Department

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Memorandum 19-149

TO: Mayor Castner and Homer City Council
THROUGH: Katie Koester, City Manager
FROM: Elizabeth Walton, Finance Director
DATE: November 8, 2019
SUBJECT: Finance Response to Questions Issued to BDO

The purpose of this memo is to provide the Finance Department's response to the list of questions that were submitted to our auditors, BDO.

Question 1: On page 14 of the audit, 4 projects are listed as having been completed in 2018. Did the auditors track the projects from appropriation to return of excess funds? (See attached Chart 1 for typical path of project funding.)

Finance Response: Management created the list of projects referenced on pages 14 under the title "Capital Projects Completed" to detail those projects that experienced significant capital asset events and were completed within fiscal year 2018. BDO can respond on their process for walking through a capital project within a fund, but it is our understanding that they review any ordinances/resolutions that passed within the fiscal year in question to confirm that the directions contained in those documents were followed.

Please reference the following context from page 2 of our financial statements for specific language on what the scope of work is for the auditors on the Management's Discussion and Analysis section.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 16, the budgetary comparison schedules on pages 64 and 65, and the schedules of the city's information on the net pension and OPEB liability and City contributions to the pension and OPEB plans on pages 66-69, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Question 2: Also beginning on page 14, and continuing on to page 15, there is a list of “On-Going Projects”. The assumption would be made that any project that has not been closed out, would be open and on-going. Is this a complete list of open (and on-going projects)?

Finance Response: Management created the list of “On-Going Projects” referenced on pages 14 and 15 to detail those projects that experienced significant capital asset events during fiscal year 2018. These lists do not detail all of the projects we have open in our books, as not all of them experienced activity within FY18. This list represents the list of active (on-going) projects and does not provide reference to the projects that are open in our books that should be closed.

Please reference the aforementioned context from page 2 of our financial statements for specific language on what the scope of work is for the auditors on the Management’s Discussion and Analysis section.

Question 3: Why have you continued to combine the Water and Sewer Enterprise Fund with the Homer Accelerated Water/Sewer Projects (HAWSP) Fund?

Finance Response: This was a management decision made several years ago to include HAWSP as part of the Water and Sewer Special Revenue Fund. The Utility Fund is no longer considered an Enterprise Fund, but even when it was classified as such the HAWSP fund was included within. The primary reason for including HAWSP in the utility fund is due to the fact that the projects pursued within HAWSP create assets (infrastructure) that belongs to the water and sewer fund. It would not seem appropriate to classify HAWSP in any other manner. It is important to note that even though HAWSP is grouped within the Utility Fund, it is accounted for individually and separately from the other components of the fund.

Question 4: On page 90, Exhibit H-3 indicates the fund took in \$1,788,095 and paid out \$1,180,999 leaving a balance of \$607,096. The balance was transferred out of the HAWSP Fund to reduce some prior debt; where were those funds transferred to? (See attached Chart 2 for HAWSP Fund annual accounting).

Finance Response: Page 90 of the financial statements does indeed show total revenues of \$1,788,095 and total expenditures of \$1,180,999 for the HAWSP fund. The net change in fund balance for FY18 was \$607,096. This amount was not transferred out and the “surplus” remained within the fund, thus improving HAWSP fund balance. Council can make the decision to utilize this “surplus” in a different manner, but without such direction the excess revenue remains within the fund and contributes to fund balance.

Question 5: Why is the HAWSP Fund not listed as a special revenue fund on page 72?

Finance Response: Page 72 of the financial statements provides a list of Nonmajor Governmental Funds with the classification of Special Revenue Funds. HAWSP is a part of the Governmental Funds at the major level (rolled into the Utility Special Revenue fund). If you look at our combining governmental statements you will see a

column representing the Utility Special Revenue fund and these figures include HAWSP. If you are interested in seeing HAWSP's share of the overall fund, you will need to reference Exhibit H-1 (page 88) and Exhibit H-3 (page 90) of our financial statements.

Question 6: Why is the HAWSP Fund not listed as a capital project fund on page 73?

Finance Response: Page 73 of the financial statements provides a list of Nonmajor Governmental Funds with the classification of Capital Project Funds. HAWSP is a part of the Governmental Funds at the major level (rolled into the Utility Special Revenue fund). If you look at our combining governmental statements you will see a column representing the Utility Special Revenue fund and these figures include HAWSP. If you are interested in seeing HAWSP's share of the overall fund, you will need to reference Exhibit H-1 (page 88) and Exhibit H-3 (page 90) of our financial statements.

Question 7: Please identify the locations of the \$4,507,855 of assigned non-major funds shown on page 49.

Finance Response: Page 49 of the financial statements contains a chart illustrating fund balances for our major and nonmajor governmental funds. The \$4,507,855 is the fund balance for nonmajor funds within the capital and land assigned constraint. To find more detail on what this number represents, you will need to reference the Nonmajor Governmental Funds section of our statements beginning on page 74. Page 74 represents the balance sheet for the Nonmajor Special Revenues Funds and page 75 represents the balance sheet for the Nonmajor Capital Project Funds. If you add the total capital and land constraint from the Special Revenue Fund (\$27,686) to the Capital Project Fund (\$4,480,169) you get a total of \$4,507,855. The detail of what makes up this total is provided on pages 74 and 75.