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November 15, 2019

Ken Castner
Mayor, City of Homer, Alaska

Dear Mr. Castner,

In response to the questions stated in the letter from you to BDO USA, LLP dated October 29, 2019, please see our answers below:

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.)

The Management Discussion and Analysis is developed and is the representation of management, it is not subject to auditing procedures as noted in the audit opinion. As part of the audit, we do compare the information to the financial statements and make inquiries of management to ensure it does not directly contradict the audited financial statements. Our audit procedures does not involve tracking the projects from appropriation to return of excess funds since the excess amounts would result in an increase in fund balance in the capital projects funds where all the projects are tracked.

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?

See discussion of Management Discussion and Analysis in question 1. As part of the audit, we compare the information to the financial statements and make inquiries of management. Generally Accepted Accounting Principles (GAAP) does not require financial reporting on project-specific basis. We did audit both additions to and deletions from construction in progress and found the amounts to be materially correct.

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

Decisions about combining funds and presentations are made by management. Our responsibility is to audit the information as provided. We do not determine which funds are combined or presented separately, as long as the presentation is in accordance with Generally Accepted Accounting Principles (GAAP). The breakout of the information is presented in Exhibit H-1, H-2 and H-3 as supplementary information by management.

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.)

The City did not report an accounting transfer out from the debt service fund to another fund. The \$1,180,999 comprised of \$137,309 water hydrant expenditures and debt service in the amount of \$1,043,690 paid directly to the State of Alaska Department of Environmental Conservation (please see exhibit H-3 column 2 in the audited financial statements).

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

Page 72 only lists out the nonmajor special revenue funds. HAWSP is included in the Utility Special Revenue Fund which is presented as a major fund as it meets the definition of a major fund in accordance with GASB Statement 34. See page 31 of the financial statements for listing of major funds.

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

HAWSP is reported as part of the Utility Special Revenue fund and was not classified as a capital project fund.

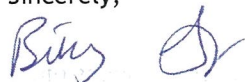
Question 7: Please identify the locations of the \$4,507,855 of assigned non-major funds shown on page 49.

GAAP requires presentation of the assigned fund balance in the notes to the financial statements by major funds. All nonmajor funds are combined together and presented as one line item. The funds that makeup the balance of \$4,507,855 do not meet the criteria for presentation as major funds. As such, page 74-75 Exhibit F-1 of the financial statements shows the combining balance sheet for the nonmajor funds which does breakout the assigned fund balance by fund.

If you have any questions concerning this letter, please feel free to call or email me. My office number is (907) 770-2234. My email address is bshrestha@bdo.com.

Thank you,

Sincerely,



Bikky Shrestha,
Assurance Partner