

## BASIC FINANCIAL STATEMENTS

CITY OF HOMER, ALASKA  
Statement of Net Assets  
December 31, 2002

<u>Assets</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Cash and investments	\$ 5,792,747	2,016,136	7,808,883
Receivables, net of allowance for uncollectible amounts:			
Accounts	66,585	259,221	325,806
Sales and property taxes	622,593	152,022	774,615
State and federal grants	539,950	2,295,314	2,835,264
Assessments	75,237	126,781	202,018
Accrued interest		2,409	2,409
Internal balances	364,600	(364,600)	
Inventory	41,650	164,132	205,782
Prepaid items	182,323	78,569	260,892
Restricted cash and investments		573,483	573,483
Bond issuance costs, net		53,708	53,708
Litigation receivable		558,238	558,238
Capital assets, net of accumulated depreciation	35,914,966	72,077,998	107,992,964
Total assets	43,600,651	77,993,411	121,594,062
<u>Liabilities</u>			
Accounts payable	843,312	245,302	1,088,614
Accrued payroll and related liabilities	165,700	62,241	227,941
Accrued interest		34,532	34,532
Prepaid rentals and deposits	8,117	515,428	523,545
Deferred revenue	166,577	468,000	634,577
Noncurrent liabilities:			
Due within one year:			
Accrued leave	60,000	60,000	120,000
Bonds and notes payable	370,280	568,003	938,283
Capital lease obligations	82,685	-	82,685
Due in more than one year:			
Accrued leave	299,083	146,153	445,236
Notes payable		4,475,146	4,475,146
Bonds payable, net of deferred loss	1,751,087	1,277,235	3,028,322
Capital lease obligations	341,916	-	341,916
Total liabilities	4,088,757	7,852,040	11,940,797
<u>Net Assets</u>			
Investment in capital assets, net of related debt	33,368,998	65,757,614	99,126,612
Restricted for endowments	12,300	-	12,300
Unrestricted	6,130,596	4,383,757	10,514,353
Total net assets	\$ 39,511,818	70,141,371	109,653,265

See accompanying notes to basic financial statements. 16

CITY OF HOMER, ALASKA  
Statement of Activities  
Year Ended December 31, 2002

Activities	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines & Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- type Activities	Total
Governmental:							
General government	\$ 988,706	435,825	-	25,215	(527,666)		(527,666)
Public safety	2,670,840	471,059	581,045	132,689	(1,486,047)		(1,486,047)
Public works	2,210,010	75,590	514,522	-	(1,619,898)		(1,619,898)
Library	348,578	-	38,721	-	(309,857)		(309,857)
Airport	128,329	97,404	-	-	(30,925)		(30,925)
Parks and recreation	456,594	136,765	-	15,415	(304,414)		(304,414)
Community service contributions	294,809	-	-	166,056	(128,753)		(128,753)
Unallocated interest	126,462	-	-	-	(126,462)	-	(126,462)
Total governmental activities	7,224,328	1,216,643	1,134,288	339,375	(4,534,022)	-	(4,534,022)
Business-type:							
Port and harbor	3,092,600	2,603,535		2,518,630		2,029,565	2,029,565
Water and sewer utility	3,794,467	2,213,359		51,273		(1,529,835)	(1,529,835)
Total business-type activities	6,887,067	4,816,894	-	2,569,903		499,730	499,730
Total	\$ 14,111,395	6,033,537	1,134,288	2,909,278	(4,534,022)	499,730	(4,034,292)
General revenues:							
Taxes:							
Property taxes				\$	1,601,450	-	1,601,450
Sales taxes					3,243,410	884,600	4,128,010
Grants and entitlements not restricted to a specific purpose					208,589		208,589
Investment earnings					119,310	93,756	213,066
Other					63,154	192,230	255,384
Special items:							
Litigation settlement					268,048		268,048
Annexation (receipt of capital assets)					11,264,053		11,264,053
Transfers					32,620	(32,620)	-
Total general revenues and transfers					16,800,634	1,137,966	17,938,600
Changes in net assets					12,266,612	1,637,696	13,904,308
Net assets at beginning of year, restated					27,245,282	68,503,675	95,748,957
Net assets at end of year					\$ 39,511,894	70,141,371	109,653,265

## CITY OF HOMER, ALASKA

Balance Sheet  
Governmental Funds  
December 31, 2002

Assets	General	City Facilities	Non-major Governmental	Total Governmental Funds
Cash and investments	\$ 1,883,344	568,111	3,341,292	5,792,747
Receivables, net of allowance for uncollectible accounts:				
Property taxes	65,887	-	-	65,887
Sales taxes	404,684	-	152,022	556,706
Assessments	55,387	-	19,850	75,237
State and federal grants	2,562	537,388	-	539,950
Other	54,870	-	-	54,870
Due from other funds	470,222	-	-	470,222
Inventory	41,650	-	-	41,650
Prepaid items	182,323	-	-	182,323
Total assets	\$ 3,160,929	1,105,499	3,513,164	7,779,592
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	217,866	250,930	276,120	744,916
Accrued payroll and related liabilities	165,272	428	-	165,700
Deferred revenues	107,605	105,009	19,850	232,464
Deferred assessments	55,387	-	-	55,387
Deposits	8,117	-	-	8,117
	<u>554,247</u>	<u>356,367</u>	<u>295,970</u>	<u>1,206,584</u>
Fund balances:				
Reserved:				
Endowments	-	-	12,300	12,300
Debt service	-	-	259,028	259,028
Inventory, prepaid items and other assets	223,973	-	-	223,973
Unreserved:				
General Fund	2,382,709	-	-	2,382,709
Special Revenue Funds - designated for library and fire department	-	-	197,792	197,792
Capital Project Funds - designated for capital outlay	-	749,132	2,748,074	3,497,206
Total fund balances	<u>2,606,682</u>	<u>749,132</u>	<u>3,217,194</u>	<u>6,573,008</u>
Total liabilities and fund balances	\$ 3,160,929	1,105,499	3,513,164	7,779,592

CITY OF HOMER, ALASKA  
 Reconciliation of Governmental Funds Balance Sheet  
 to Statement of Net Assets  
 December 31, 2002

Total fund balances for governmental funds \$ 6,573,008

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 the funds. These  
 assets, net of accumulated depreciation consist of:

Land	\$ 8,670,713	
Buildings	6,780,232	
Improvements other than buildings	399,172	
Infrastructure	17,091,510	
<hr/>		
Machinery and equipment	1,935,560	
Construction in progress	1,037,779	
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Total capital assets		35,914,966

Other long-term assets are not available to pay for current-period  
 expenditures and therefore are deferred in the funds. 121,274

Internal service funds are used by the City to charge the cost of certain  
 activities, such as insurance, to individual funds. The assets and liabilities  
 of the internal service funds are included in the governmental activities in  
 the Statement of Net Assets. (192,303)

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

General obligation bonds payable	(2,095,000)	
Capital lease obligations	(424,601)	
Special assessment bonds payable	(26,367)	
Accrued leave	(359,083)	
<hr/>		
Total long term liabilities		(2,905,051)

Total net assets of governmental activities \$ 39,511,894

See accompanying notes to basic financial statements.

## CITY OF HOMER, ALASKA

Statement of Revenues, Expenditures and Changes in Fund Balances  
 Governmental Funds  
 Year Ended December 31, 2002

	General	City Facilities	Non-major Governmental	Total Governmental Funds
<b>Revenues:</b>				
Property taxes	\$ 1,603,317	-	-	1,603,317
Sales taxes	2,358,810	-	884,600	3,243,410
Licenses and permits	17,000	-	-	17,000
Intergovernmental	765,845	808,393	-	1,574,238
Charges for services	2,045,851	-	-	2,045,851
Special assessments	18,197	-	25,215	43,412
Investment and other interest income	45,387	21,807	52,116	119,310
Fines and forfeitures	35,577	-	-	35,577
Donations	-	-	77,081	77,081
Other	-	101,833	268,048	369,881
Total revenues	6,889,984	932,033	1,307,060	9,129,077
<b>Expenditures:</b>				
<b>Current:</b>				
General government	1,688,822	36,082	-	1,724,904
Public safety	2,427,407	57,913	41,784	2,527,104
Public works	1,040,359	503,090	77,184	1,620,633
Library	331,765	2,217	-	333,982
Airport	124,311	-	-	124,311
Parks and recreation	386,188	21,794	-	407,982
Community service contributions	128,757	166,052	-	294,809
<b>Debt service:</b>				
Principal payments	137,625	-	350,280	487,905
Interest	22,613	-	103,849	126,462
Capital projects	-	1,121,035	444,660	1,565,695
Total expenditures	6,287,847	1,908,183	1,017,757	9,213,787
Excess of revenues over (under) expenditures	602,137	(976,150)	289,303	(84,710)
<b>Other financing sources (uses):</b>				
Transfers from other funds	-	153,522	608,504	762,026
Transfers to other funds	(229,522)	-	(499,884)	(729,406)
Proceeds from issuance of capital lease	-	-	300,000	300,000
Net other financing sources (uses)	(229,522)	153,522	408,620	332,620
Net change in fund balances	372,615	(822,628)	697,923	247,910
Fund balances at beginning of year	2,086,810	1,571,760	2,519,271	6,177,841
Cumulative effect of a change in accounting principle	147,257	-	-	147,257
Fund balances at end of year	\$ 2,606,682	749,132	3,217,194	6,573,008

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, 2002

Net change in fund balances - total governmental funds	\$	247,910
<p>The change in net assets reported for governmental activities in the Statement of Activities is different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However on the Statement of Activities, depreciation expense is recognized to allocate the cost of these items over their estimated useful lives. This is the amount by which capital outlays (\$1,667,620) exceeded depreciation (\$979,557).</p>		688,063
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		(20,064)
<p>Issuance of long-term debt (\$300,000) provides current financial resources to governmental funds, while the repayment of the principal of the long-term debt (\$525,643) consumes current financial resources in governmental funds. Neither of these transactions has any effect on net assets.</p>		225,643
<p>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.</p>		(54,695)
<p>Internal service funds are used by management to charge the costs of health insurance to individual funds. Net expense of these activities is reported with governmental activities.</p>		(84,298)
<p>Capital assets, acquired through annexation, are not recorded in the fund financial statements.</p>		<u>11,264,053</u>
Change in net assets of governmental activities		<u>\$ 12,266,612</u>

See accompanying notes to basic financial statements.

CITY OF HOMER, ALASKA  
Statement of Revenues, Expenditures, and  
Changes in Fund Balance - Budget and Actual - General Fund  
Year Ended December 31, 2002

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 3,586,433	3,882,860	3,962,127	79,267
Licenses and permits	6,900	6,900	17,000	10,100
Intergovernmental	695,471	759,437	765,845	6,408
Charges for services	890,635	1,813,380	2,045,851	232,471
Special assessments			18,197	18,197
Investment income	82,200	82,200	45,387	(36,813)
Fines and forfeitures	25,600	25,600	35,577	9,977
Total revenues	5,287,239	6,570,377	6,889,984	319,607
Expenditures:				
General government	1,663,705	1,722,692	1,688,822	33,870
Public safety	2,383,167	2,427,060	2,427,407	(347)
Public works	1,016,932	1,033,445	1,040,359	(6,914)
Library	333,362	333,362	331,765	1,597
Airport	125,255	125,255	124,311	944
Parks and recreation	303,110	378,769	386,188	(7,419)
Community service contributions	128,400	128,400	128,757	(357)
Debt service:				
Principal payments	95,337	137,839	137,625	214
Interest		22,399	22,613	(214)
Total expenditures	6,049,268	6,309,221	6,287,847	21,374
Excess of revenues over (under) expenditures	(762,029)	261,156	602,137	340,981
Other financing sources (uses):				
Operating transfers from other funds	914,746			
Operating transfers to other funds	(172,717)	(229,622)	(229,522)	
Net other financing sources (uses)	742,029	(229,522)	(229,522)	-
Net change in fund balance	(20,000)	31,634	372,615	340,981
Fund balance at beginning of year	1,761,031	2,086,810	2,086,810	
Cumulative effect of a change in accounting principle			147,257	147,257
Fund balance at end of year	\$ 1,741,031	2,118,444	2,606,682	488,238

## CITY OF HOMER, ALASKA

## Statement of Net Assets

## Proprietary Funds

December 31, 2002

Assets	Enterprise Funds			Internal Service Fund
	Port of Homer (Utility)	Water and Sewer	Total	
Current assets:				
Cash and investments	\$ -	2,016,136	2,016,136	
Receivables, net of allowance for uncollectible amounts:				
Accounts	100,173	153,513	253,686	17,251
Sales taxes		152,022	152,022	
Assessments due within one year		28,668	28,668	
State and federal grants	282,042	2,013,272	2,295,314	
Litigation settlement	100,000	-	100,000	
Accrued interest		2,409	2,409	
Inventory	30,491	133,641	164,132	
Prepaid items	33,792	44,777	78,569	
Noncurrent assets:				
Restricted assets - cash and investments	269,612	303,871	573,483	
Assessments due after one year		98,113	98,113	
Bond issuance costs, net	37,316	16,392	53,708	
Litigation settlement, net of current portion	458,238	-	458,238	
Capital assets, net of accumulated depreciation	48,398,584	23,679,414	72,077,998	-
<b>Total assets</b>	<b>49,710,248</b>	<b>28,642,228</b>	<b>78,352,476</b>	<b>17,251</b>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	63,106	135,703	198,809	144,890
Accrued payroll and related liabilities	33,104	29,137	62,241	
Accrued leave	113,881	92,272	206,153	
Accrued interest	12,105	22,427	34,532	
Current portion of long-term debt	145,000	423,003	568,003	
Prepaid rentals and deposits	487,500	27,928	515,428	
Due to other funds	314,693	-	314,693	155,529
Deferred revenue	18,000	-	18,000	-
<b>Total current liabilities</b>	<b>1,187,389</b>	<b>730,470</b>	<b>1,917,859</b>	<b>300,419</b>
Noncurrent liabilities:				
Deferred lease revenue	450,000	-	450,000	-
Long-term debt, net of current portion:				
Notes payable		4,475,146	4,475,146	
Revenue bonds payable, net of deferred loss	962,250	314,985	1,277,235	-
<b>Total liabilities</b>	<b>2,599,639</b>	<b>5,520,601</b>	<b>8,120,240</b>	<b>300,419</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	47,291,334	18,466,280	65,757,614	
Unrestricted (deficit)	(180,725)	4,655,347	4,474,622	(283,168)
<b>Total net assets</b>	<b>\$ 47,110,609</b>	<b>23,121,627</b>	<b>70,232,236</b>	<b>283,168</b>
Some amounts reported in the business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are included in business-type activities			(90,865)	
<b>Net assets of business-type activities</b>			<b>\$ 70,141,371</b>	

See accompanying notes to basic financial statements.

## CITY OF HOMER, ALASKA

## Statement of Revenues, Expenses, and Changes in Fund Net Assets

## Proprietary Funds

Year Ended December 31, 2002

	Enterprise Funds			Internal
	Port of	Water and	Total	Service
	Homer	Sewer		Fund
		Utility		
Operating revenues- charges for services:				
Port	\$ 2,603,535	-	2,603,535	
Water and sewer		2,213,359	2,213,359	
Interfund insurance charges				633,424
Total operating revenues	2,603,535	2,213,359	4,816,894	633,424
Operating expenses:				
Operations	1,355,545	1,039,984	2,395,529	
Administration	724,993	949,020	1,674,013	43,202
Depreciation	925,553	1,610,338	2,535,891	
Claims				513,297
Insurance premiums				199,017
Total operating expenses	3,006,091	3,599,342	6,605,433	755,516
Operating loss	(402,556)	(1,385,983)	(1,788,539)	(122,092)
Nonoperating revenues (expenses):				
Investment income	33,855	59,901	93,756	
Interest expense	(58,950)	(103,454)	(162,404)	
Litigation settlement	58,259	-	58,259	-
Amortization of bond issuance costs	(5,331)	(5,098)	(10,429)	
Sales taxes		884,600	884,600	
Other income	108,874	25,097	133,971	
Other expenses	-	(71,008)	(71,008)	-
Net nonoperating revenues (expenses)	136,707	790,038	926,745	-
Loss before contributions and transfers	(265,849)	(595,945)	(861,794)	(122,092)
Capital contributions	2,518,630	51,273	2,569,903	
Transfers in	82,630	-	82,630	-
Transfers out	-	(115,250)	(115,250)	-
Change in net assets	2,335,411	(659,922)	1,675,489	(122,092)
Net assets (deficit) at beginning of year	44,775,198	23,781,549		(161,076)
Net assets (deficit) at end of year	\$ 47,110,609	23,121,627		283,168
Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities				
			(37,793)	
Change in net assets of business-type activities			\$ 1,637,696	

See accompanying notes to basic financial statements. 24

## CITY OF HOMER, ALASKA

## Statement of Cash Flows

## Proprietary Funds

Year Ended December 31, 2002

	<u>Enterprise Funds</u>			Internal Service Fund
	Port of <u>Homer</u>	Water and Sewer Utility	Total	
Cash flows from operating activities:				
Receipts from customers and users	\$ 2,831,128	2,190,333	5,021,461	
Receipts from interfund services provided	58,259	-	58,259	643,200
Payments to suppliers	(1,832,362)	(1,171,247)	(3,003,609)	
Payments to employees	(1,054,177)	(828,968)	(1,883,145)	
Payments for interfund services used				(692,993)
Net cash provided by operating activities	2,848	190,118	192,966	(49,793)
Cash flows from noncapital financing activities - increase in due to other funds				49,793
Cash flows from capital and related financing activities:				
Principal payments on long-term debt	(148,762)	(429,424)	(578,186)	
Interest payments on long-term debt and interfund borrowing	(54,317)	(100,749)	(155,066)	
Acquisition of property, plant and equipment	(3,688,406)	(2,024,776)	(5,713,182)	
Increase (decrease) in due to other funds	(584,325)	-	(584,325)	
Decrease in deferred revenue	(2,501,997)	-	(2,501,997)	-
Capital contributions received	3,757,009	3,058	3,760,067	
Principal collections on special assessments		90,423	90,423	
Sales tax revenue received		864,639	864,639	
Transfer in	82,630	-	82,630	-
Transfer out		(115,250)	(115,250)	
Refund of deferred charge		75,250	75,250	-
Net cash flows from capital and related financing activities	(3,138,168)	(1,636,829)	(4,774,997)	-
Cash flows from investing activities:				
Investment income received	33,855	60,808	94,663	
Payments received on note		38,929	38,929	-
Net cash flows from investing activities	33,855	99,737	133,592	-
Net decrease in cash and cash equivalents	(3,101,465)	(1,346,974)	(4,448,439)	
Cash and cash equivalents at beginning of year	3,371,077	3,666,981	7,038,058	-
Cash and cash equivalents at end of year	269,612	2,320,007	2,589,619	
Cash and cash equivalents at end of year:				
Cash and investments		2,016,136	2,016,136	
Cash and investments restricted for debt service and capital projects	269,612	303,871	573,483	-
	\$ 269,612	2,320,007	2,589,619	

See accompanying notes to basic financial statements.

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

	Enterprise Funds			
	Port of Homer	Water and Sewer U	Total	Internal Service Fund
Reconciliation of operating loss to net cash provided (used) by operating activities:				
Operating loss	\$ (402,556)	(1,385,983)	(1,788,539)	(122,092)
Adjustments to reconcile operating loss to net cash flows from operating activities:				
Depreciation	925,553	1,610,338	2,535,891	-
Increase (decrease) in allowance for doubtful accounts	(3,430)	2,094	(1,336)	-
Amortization of deferred lease revenue	(18,000)	-	(18,000)	-
Litigation settlement	58,259	-	58,259	-
Miscellaneous nonoperating revenues	108,874	25,097	133,971	-
Miscellaneous nonoperating expenses	-	(71,008)	(71,008)	-
(Increase) decrease in assets:				
Receivables	48,093	(48,123)	(30)	9,776
Inventory	(15,759)	(12,363)	(28,122)	-
Litigation settlement receivable	(10,534)	(21,213)	(31,747)	-
Litigation settlement receivable	62,742	-	62,742	-
Increase (decrease) in liabilities:				
Accounts payable	(824,138)	34,299	(789,839)	62,523
Accrued liabilities	23	2,942	2,965	-
Accrued leave	18,734	51,444	70,178	-
Prepaid rentals and deposits	54,987	2,594	57,581	-
Net cash flows from operating activities	\$ 2,848	190,118	192,966	49,793

See accompanying notes to basic financial statements.

# CITY OF HOMER, ALASKA

## Notes to Basic Financial Statements

December 31, 2002

(1) Summary of Significant Accounting Policies

Organization and Services Provided.

The City of Homer, Alaska was incorporated March 3 as a first-class city. The City operates under a Council-Manager form of government.

The City provides the full range of municipal services as provided for by Alaska Statute. This includes police and fire protection, ambulance and emergency medical service, water and wastewater service, library, parks and recreation, public improvements, planning and zoning, port and harbor, airport facilities, and general administrative services.

Scope and Presentation

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

Reporting Entity

The City has reviewed the standards established by the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and determined that the City has no component units as defined in that statement.

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 cola 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 considers revenues to be available if they are collected within 60 days after year end. 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 taxes, licenses, and interest 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. All other revenue items are considered to be measurable and available only when cash is 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 *City Facilities Capital Project Fund* accounts for operating grants and capital improvement projects for buildings and other facilities.

Major proprietary funds:

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

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

## CITY OF HOMER, ALASKA

### 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 a single Internal Service Fund which accounts for the activities relating to the City's self-insured health benefit plan. This fund reports revenues charged to the other funds based on premiums established 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 dedicated sales taxes), investment income, and State of Alaska 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 water and Sewer Enterprise Fund and the Port of Homer Enterprise Fund are charges to customers for sales and services. Operating expenses for the enterprise funds 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.

## CITY OF HOMER, ALASKA

### Notes to Basic Financial Statements, continued

#### Summary of Significant Accounting Policies, continued

##### Budgets and Budgetary Accounting

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

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

## CITY OF HOMER, ALASKA

### Notes to Basic Financial Statements, continued

#### Summary of Significant Accounting Policies, continued

##### 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 revenues of the General Fund.

##### Unbilled Service Revenues

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

##### Inventory

Inventory of Enterprise Funds are carried at average cost and are 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.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies continued

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.

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.

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.

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

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

Compensated absences

The City allows employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees terminate employment. All vacation pay 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 or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Long-Term Debt, continued.

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 total data for the prior year have been presented in 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.

(2) Interfund Receivables, Payables, and Transfers,

A schedule of interfund balances and transfers for the year ended December 31, 2002, follows:

*Due from other funds:*

Due to the General Fund from the Port of Homer Enterprise Fund for advances to cover the cost of construction	\$314,693
Due to the General Fund from the internal Service Fund for advances to cover the operating costs of the fund	<u>155,529</u>
Total amount due from other funds	<u>\$ 470,222</u>

*Transfers:*

From Reserve Allocation Capital Project Fund to Port Enterprise Fund for fleet purchases	\$ 82,630
From Water and Sewer Enterprise Fund to Reserve Allocation Capital Project Fund for fleet purchases	115,250
From General Fund to City Facilities Capital Project Fund to cover capital costs	153,522
From General Fund to nonmajor governmental funds to cover capital costs	46,000
<del>From General Fund to nonmajor governmental funds to</del> cover debt service costs	<del>30,000</del>
Other transfers between nonmajor governmental funds	<u>417,254</u>
Total transfers to other funds	<u>\$ 844,656</u>

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

(3) Cash and Investments.

The City maintains 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."

Deposits are categorized below to give an indication of the level of risk assumed by the City at year end.

Category 1- Insured or collateralized with securities held by the City or its agent in the City's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 - Uncollateralized, including bank balances collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the City's name.

At December 31, 2002, the City's deposits are categorized as follows:

	Category			Bank Balance	Carrying Amount
	1	2	3		
Petty cash	\$ -	-	-	-	3,840
Checking accounts	45,994	-	-	45,994	(166,410)
Certificates of deposit	3,391,803	14,594	-	3,410,897	3,410,897
Money market account	178 514	5 014	-	183 528	183 527
Totals	<u>\$3,616,311</u>	<u>19,608</u>	<u>-</u>	<u>3,640,419</u>	<u>3,431,854</u>

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.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Cash and Investments, continued

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.

The Alaska Municipal League Investment Pool is an external investment pool which is not SEC registered. Alaska Statute 37.23 establishes regulatory oversight of the pool. The law sets forth numerous requirements regarding authorized investments and reporting. At December 31, 2002, the share value of investments in the AML pool is approximately equal to fair value.

Investments which are carried at fair value are categorized below to give an indication of the level of credit risk assumed by the City at year end.

Category 1- Insured or registered, or securities held by the City or its agent in the City's name.

Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the City's name.

At December 31, 2002, the City's investments are categorized as follows:

	Category			Fair Value,
	1	2	3	
Government securities	\$ 672,450	-	-	672,450
Commercial paper	1,227,822	-	-	1,227,822
Mortgage-backed securities	405,036	-	-	405,036
Corporate bonds	925,453	-	-	925,453
Overnight repurchase agreement	-	658,671	-	658,671
Totals	\$ <u>3,230,761</u>	<u>658,671</u>	<u>-</u>	<u>3,889,432</u>
Alaska Municipal League Investment Pool				<u>1,061,080</u>
Total investments				\$ <u>4,950,512</u>

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Cash and Investments, continued

Restricted Cash

The City maintains bond redemption and reserve accounts as required by the bond covenants and City ordinances. The City has also restricted funds that are earmarked for capital projects. The balances in these accounts at December 31, 2002 totaled \$573,483 and are included in the central treasury.

A reconciliation of cash and investments as shown on the government-wide statement of net assets follows:

Cash and investments	\$ 7,808,883
Restricted assets - cash and investments	573 483
	<u>\$ 8,382,366</u>

(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, 2002, receivables for the government's individual major funds and nonmajor and internal service funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	General	City Facilities	Port of Homer	Water and Sewer	Nonmajor and other funds	Total
Receivables:						
Accounts	\$ 54,870	-	136,625	160,559	17,250	369,304
Taxes	542,634	-	-	152,022	152,022	846,678
State and federal grants	2,562	537,388	282,042	2,013,272	-	2,835,264
Special assessments	55,387	-	-	126,781	19,850	202,018
Interest	-	-	-	2,409	-	2,409
Litigation settlement	-	-	558 238	-	-	558,238
Total receivables	655,453	537,388	976,905	2,455,043	189,122	4,813,911
Less: allowance for uncollectibles	<u>(72,063)</u>	-	<u>(36,452)</u>	<u>(7,046)</u>	-	<u>(115,561)</u>
Net total receivables	<u>\$ 583,390</u>	537,388	940,453	2,447,997	189,122	4,698,350

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, 2002, the various components of *deferred revenue* reported in the governmental funds were as follows:

Delinquent property taxes receivable (General Fund)	\$ 65,887
Delinquent ambulance receivable (General Fund)	33,526
Special assessments not yet due (General Fund)	55,387
Special assessments not yet due (Debt Service Funds)	19,850
Grant drawdowns prior to meeting all eligibility requirements	<u>113 201</u>
Total deferred/unearned revenue for governmental funds	<u>\$287,851</u>

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

(5) Capital Assets

Capital asset activity for the year ended December 31, 2002 follows:

	Balance January 1, 2002	Additions and Reclassifications	Deletions and Reclassifications	Balance December 31, 2002
<u>Governmental activities</u>				
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 1,830,179	6,853,931	13,397	8,670,713
Construction in progress	38,762	999,017	-	1,037,779
Total assets not being depreciated	1,868,941	7,852,948	13,397	9,708,492
<i>Capital assets being depreciated:</i>				
Buildings	8,675,217	496,545	19,079	9,152,683
Improvements other than buildings	1,847,207	-	1,125,963	721,244
Machinery and equipment	3,998,570	668,602	1,310,253	3,356,919
Infrastructure	23,173,863	1,818,592	-	24,992,455
Total assets being depreciated	\$37,694,857	2,983,739	2,455,295	38,223,301
Less accumulated depreciation for:				
Buildings	\$ 2,142,872	229,579	-	2,372,451
Improvements other than buildings	297,194	24,878	-	322,072
Machinery and equipment	1,235,887	185,472	-	1,421,359
Infrastructure	7,361,317	539,628	-	7,900,945
Total accumulated depreciation	11,037,270	979,557	-	12,016,827
Total capital assets being depreciated, net	26,657,587	2,004,182	2,455,295	26,206,474
Governmental activity capital assets, net	\$ 28,526,528	9,857,130	2,468,692	35,914,966
<u>Business-type activities:</u>				
Port and Harbor				
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$15,254,041	-	-	15,254,041
Construction in progress	13,056,134	3,437,525	16,493,659	-
Total assets not being depreciated	28,310,175	3,437,525	16,493,659	15,254,041
<i>Capital assets being depreciated:</i>				
Buildings	12,460,649	20,632	-	12,481,281
Improvements other than buildings	17,165,403	16,507,294	-	33,672,697
Machinery and equipment	2,358,951	213,819	-	2,572,770
Total assets being depreciated	31,985,003	16,741,745	-	48,726,748
Less accumulated depreciation for:				
Buildings	4,979,934	278,979	-	5,258,913
Improvements other than buildings	7,612,453	531,536	-	8,143,989
Machinery and equipment	2,064,265	115,038	-	2,179,303
Total accumulated depreciation	14,656,652	925,553	-	15,582,205
Total capital assets being depreciated, net	\$17,328,351	15,816,192	-	33,144,543

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Capital Assets, continued

	Balance January 1, 2002	Additions	Deletions	Balance December 31, 2002
<u>Business-type activities, continued:</u>				
Water and sewer utility:				
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 107,239	-	-	107,239
Construction in progress	187,584	1,964,610	-	2,152,194
Total assets not being depreciated	294,823	1,964,610	-	2,259,433
<i>Capital assets being depreciated:</i>				
Infrastructure	510,069	5,267	-	515,336
Buildings	21,497,692	-	-	21,497,692
Improvements other than buildings	22,413,957	-	-	22,413,957
Machinery and equipment	953,805	54,900	-	1,008,705
Total assets being depreciated	45,375,523	60,167	-	45,435,690
Less accumulated depreciation for:				
Infrastructure	334,605	14,917	-	349,522
Buildings	12,014,004	1,042,315	-	13,056,319
Improvements other than buildings	9,297,138	516,512	-	9,813,650
Machinery and equipment	759,623	36,595	-	796,218
Total accumulated depreciation	22,405,370	1,610,339	-	24,015,709
Total capital assets being depreciated, net	22,970,153	(1,550,172)	-	21,419,981
Business-type activity capital assets, net	\$ 68,903,502	19,668,155	16,493,659	72,077,998

Depreciation expense was charged to the functions as follows:

General government	\$ 164,245
Public safety	140,602
Public works	626,424
Library	23,460
Airport	1,087
Parks and recreation	23,740
Community service	-
	925,553
Water and sewer utility	1,610,338
Total depreciation expense	\$ 3,515,449

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Capital Assets, continued

The Port of Homer Enterprise Fund received a building from the State of Alaska during 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 deferred revenue is as follows:

Original cost assigned to building	\$ 630,000
Revenue recognized	(162 000)
	\$ 468,000
Current deferred revenue	\$ 18,000
Noncurrent deferred revenue	450 000
	\$ <u>468,000</u>

(6) Lone-Term Obligations.

The following is a summary of long-term obligation transactions of the City for the year ended December 31, 2002:

	Balance January 1, 2002	Additions	Retired	Balance December 31, 2002
<u>Governmental activities:</u>				
General obligation bonds:				
\$3,095,000 1998 street and sidewalk general obligation refunding bonds, due in future annual installments of \$365,000 to \$475,000 plus interest at 4% to 4.375% through January 1, 2008	\$ 2,440,000	-	345,000	2,095,000
Special assessment bonds:				
\$105,567 1987 street special assessment bonds, due in future annual installments of \$5,280 plus interest at 6.375% through 2006, with the balance of \$5,247 due in 2007	31,647	-	5,280	26,367
Capital lease obligations:				
Capital lease obligation payable, (paid off in 2002)	31,191	-	31,191	

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Long-Term Obligations, continued

	Balance January 1, 2002	Additions	Retired	Balance December 31, 2002
<u>Governmental activities, continued:</u>				
Capital lease obligation payable in various monthly amounts including interest at 4.57%	231,035		51,624	179,411
Capital lease obligation payable in quarterly installments of \$16,814, including interest at 4.45% through 2006	-	300,000	54,810	245,190
Compensated absences	304,389	245,960	191,266	359,083
Total governmental activities long-term liabilities	\$ 3,038,262	545,960	679,171	2,905,051
<u>Business-type activities:</u>				
Revenue bonds:				
\$1,595,000 1998 port revenue refunding bonds, due in future annual installments of \$145,000 to \$185,000 plus interest at 4% to 4.5% through October 1, 2009	\$1,290,000	-	140,000	1,150,000
\$225,000 1998 water revenue refunding bonds, due in a future installment of \$60,000 plus interest at 4% in October 1, 2003	115,000	-	55,000	60,000
\$705,000 1998 sewer revenue refunding bonds, due in future annual installments of \$80,000 to \$85,000 plus interest at 4% to 4.3% through October 1, 2007	485,000	-	75,000	410,000
Notes payable:				
\$5,064,500 1989 Sewer Utility Alaska Clean Water loan, due in future annual installments of \$353,433 including interest at 2.5% through September 30, 2011	3,093,265	-	276,101	2,817,164
\$117,015 note payable from Water enterprise fund to Sewer enterprise fund (both funds consolidated in 2002 and loan paid off)	23,403		23,403	

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Long-Term Obligations, continued

	Balance January 1, 2002	Additions	Retired	Balance December 31, 2002
Business-type activities, continued:				
\$77,631 note payable from Sewer Enterprise fund to Water Enterprise Fund (both funds consolidated in 2002 and loan paid off)	\$ 15,527	-	15,527	-
\$3,431,113 (maximum) 2002 Sewer Utility Alaska Clean Water loan, terms not yet established; interest at 2.5%	-	990,208	-	990,208
\$3,416,605 (maximum) 2002 Water Utility Alaska Drinking Water loan, terms not yet established; interest at 2.5%	-	950,778	-	950,778
Compensated absences	135,975	172,207	102,029	206,153
Total business-type activities long-term liabilities	\$ 5,158,170	2,113,193	687,060	6,584,303
Less deferred loss on refunding				<u>(57,766)</u>
				<u>\$ 6,526,537</u>

In November of 2002, the City entered into an agreement with the Alaska Department of Environmental Conservation for a Clean Water Loan and a Drinking Water Loan in the amounts of \$3,431,113 and \$3,416,603, respectively. These loans are a combination of federal and state monies. However, they did not draw down funds on these loans until January 2003, in the amounts of \$821,873 and \$779,638, respectively. Interest does not begin accruing until January 2004 and will be at 2.5%.

Annual debt service requirements to maturity for all of the above obligations except for the 2002 Clean Water loan and Drinking Water loan follow:

Governmental activities:

Year Ending December 31,	General Obligation Bonds			Special Assessment Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2003	\$ 365,000	88,454	453,454	5,280	1,681	6,961
2004	390,000	73,854	463,854	5,280	1,344	6,624
2005	420,000	57,766	477,766	5,280	1,008	6,288
2006	445,000	39,916	484,916	5,280	671	5,951
2007	475,000	20,781	495,781	5,247	334	5,581
	\$ 2,095,000	280,771	2,375,771	26,367	5,038	31,405

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Long-Term Obligations, continued

Business-type activities:

Year Ending December 31,	Revenue Bonds			Notes Payable		
	Principal	Interest	Total	Principal	Interest	Total
2003	\$ 285,000	68,084	353,084	283,003	70,430	353,433
2004	230,000	56,684	286,684	290,079	63,354	353,433
2005	235,000	47,484	282,484	297,331	56,102	353,433
2006	250,000	37,790	287,790	304,764	48,669	353,433
2007	255,000	27,165	282,165	312,383	41,050	353,433
2008-2011	365,000	24,525	389,525	1,329,604	84,125	1,413,729
	\$1,620,000	261,732	1,881,732	2,817,164	363,730	3,180,894

(7) Revenue Bond Requirements

Certain covenants of the revenue bonds require establishment of bond redemption and bond reserve accounts. The balances in these accounts are included as restricted cash in the financial statements.

The Water and Sewer Utility water revenue bond and Port of Homer revenue bond require that rates be maintained at a level that will produce net revenues before depreciation equal to at least 1.25 times the maximum debt service coming due.

The Water and Sewer Utility sewer revenue bond requires that rates be maintained at a level that will produce net revenues before depreciation equal to at least 1.35 times the maximum debt service coming due.

	Port of Homer	Water and Sewer Utility
Operating income before depreciation	\$ 522,997	224,355
Add sales tax revenue dedicated for debt service	-	884,600
Available for debt requirement	522,997	1,108,955
Requirement	(242,145)	(215,146)
Excess of revenue over requirement	\$280,852	893,809

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

(8) Capital Leases

The City leases capital equipment with a historical cost and accumulated depreciation of \$580,366 and \$155,765, respectively, under capital lease arrangements. Future minimum lease payments at December 31, 2002 are as follows:

Year Ending December 31,	
2003	\$100,416
2004	100,416
2005	100,416
2006	100,416
2007	33,162
2008-2009	<u>41,451</u>
Total minimum lease payments	476,277
Less amount representing interest	<u>51,676</u>
Present value of minimum lease payments	<u>\$ 424,601</u>

(9) Accounting for Health Self-Insurance

The City provides health insurance on a self-insured basis up to \$15,000 each occurrence or \$525,635 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. 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, 2001 and 2002 follows:

	Balance at Beginning of Year	Claims Expense	Claims Paid	Balance at End of Year
2001 health insurance	<u>\$ 56,213</u>	444,391	418,237	<u>82,367</u>
2002 health insurance	<u>\$ 82,367</u>	513,297	450,774	<u>144,890</u>

## CITY OF HOMER, ALASKA

### Notes to Basic Financial Statements, continued

(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, 2002.

The JIA provides loss control services and conducts periodic inspections to ensure safe operations. The Finance Director coordinates risk management activities with the other City Directors and City Manager. The General Fund Balance is sufficient to meet potential losses related to the JIA basic core coverage and coverage deductibles.

(11) Defined Benefit Pension Plan.

Description of Plan

The City participates in the Public Employees' Retirement System (PERS), an agent multiple employer plan which covers eligible State and local government employees. The plan was established and is administered by the State of Alaska 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.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Defined Benefit Pension Plan, continued

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, . AK 99811-0203

Funding Policy

For PERS, employees are required to contribute 6.75% (7.5% for peace officers and firefighters) of their annual covered salary. Under the plan, the funding policy provides for periodic employer contributions at 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. The City's contribution rate for PERS for 200 follows:

Pension	1.74%
Postemployment healthcare	0.68%
Total contribution rate	<u>2.42%</u>

Under the plan, employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The plan uses the level dollar method to amortize the unfunded liability over an open, rolling twenty-five year period. Funding surpluses are amortized over five years.

Annual Pension Cost

For the year ended December 31, 2002, the City's annual pension cost of \$99,235 for PERS was equal to its required and actual contributions.

The required contribution was determined as part of the June 30, 1999 actuarial valuation. The significant actuarial assumptions used in the valuation of the plan follow:

1. Investment return of 8.25% per annum, compounded annually, net of expenses;
2. Projected salary increases of 5.5% for the first five years of employment and 4.5% per year thereafter;
3. Health cost inflation of 9.5% in 1999, trending downward 1 % per year through 2003; 5% from 2004 through 2008; and 4.5% thereafter;

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

Defined Benefit Pension Plan, continued

4. Total inflation, as measured by the Consumer Price Index for urban and clerical workers for Anchorage, is assumed to increase 4% annually and
5. Asset valuation - assumes investment return of 8.25% compared to a 5% corridor around the market value of assets. Any differences are amortized and applied to the employer contribution rate. Valuation assets cannot be outside the range of 80% to 120% of market value of assets.

Three-year trend information for PERS follows:

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
December 31, 2000	\$121,762	100%	-
2001	109,588	100%	-
2002	99,235	100%	-

A schedule of funding progress for PERS for the last three actuarial valuations follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded (Assets in Excess of) Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded (Assets in Excess of) Liability as Percentage of Covered Payroll</u>
June 30, 1998:						
Pension	\$11,981,000	\$10,337,000	\$ (1,644,000)	116%	\$ 3,339,000	(49%)
Postemployment healthcare	4,449,000	3,839,000	(610,000)	116%	3,339,000	(18%)
June 30, 1999:						
Pension	13,256,000	11,433,000	(1,823,000)	116%	3,225,000	(57%)
Postemployment healthcare	5,374,000	4,636,000	(738,000)	116%	3,225,000	(23%)
June 30, 2001:						
Pension	15,234,000	14,110,000	(1,124,000)	108%	3,361,000	(33%)
Postemployment healthcare	6,451,000	5,975,000	(476,000)	108%	3,361,000	(14%)

No actuarial valuation was performed for June 30, 2000.

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

(12) Deferred Compensation Plan

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

(13) Retirement Incentive Program

The City has elected to participate in the Public Employees' Retirement System retirement incentive program. The final payment of \$46,468 was paid in 2002.

(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) Litigation Settlement

On January 25, 1988, the City agreed on a settlement of the Tippetts-Abbott-McCarthy-Stratton (TAMS) litigation with the following terms:

1. The City paid TAMS \$300,000 for engineering services provided to the City. The final payment was made for their services in 1999.
2. TAMS paid the City \$500,000 upon execution of the settlement and is paying \$100,000 per year for twenty-one years.

(16) Designated Sales Tax

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

Water, sewer, and related debt service	.75
Road projects	.75
General Fund - undesignated	2.00
Kenai Peninsula Borough	<u>2.00</u>
Total sales tax percentage	<u>5.50</u>

CITY OF HOMER, ALASKA

Notes to Basic Financial Statements, continued

(17) Change in Accounting Principles and Restatement of Fund Balance

For fiscal year 2002, the City has implemented GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; GASB Interpretation No. 6 *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*; GASB Statement No. 36, *Recipient Reporting for Certain Shared Non-Exchange Revenues*; GASB Statement 37, *Basic Financial Statements - and Management's Discussion and Analysis -for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

These statements create new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds as of December 31, 2001, caused by the conversion to the accrual basis of accounting. The beginning fund balance at the fund level has been restated to reflect the adoption of these statements.

Berg fund balance and net assets have been adjusted as follows to reflect these changes:

*Governmental activities:*

General Fund fund balance, December 31, 2001	\$ 2,086,810
Cumulative effect adjustment	147,257
General Fund fund balance, December 31, 2001, as restated	<u>2,234,067</u>
Other governmental fund balances, December 31, 2001	4,091,031
New standards adjustments:	
Capital assets	23,962,850
Long term liabilities	(3,075,999)
Long term receivables	141,338
Internal service funds allocated	<u>(108,005)</u>
Governmental activities net assets, December 31, 2001	<u>\$ 27,245,282</u>

*Business-type activities:*

Enterprise Fund retained earnings and contributed capital December 31, 2001	\$ 68,556,747
Internal service funds allocated	<u>(53,072)</u>
Business-type activities net assets, December 31, 2001	<u>\$ 68,503,675</u>