

CITY OF NORTH POLE, ALASKA

Basic Financial Statements,
Supplementary Information, and
Single Audit Reports

Year Ended December 31, 2011

(This page left blank intentionally)

CITY OF NORTH POLE, ALASKA

Table of Contents

	<u>Exhibit</u>	<u>Page</u>
<u>FINANCIAL SECTION</u>		
<u>Independent Auditor's Report</u>		1-2
<u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Assets	A-1	4
Statement of Activities	A-2	5
Fund Financial Statements:		
Governmental Funds:		
Balance Sheet	B-1	6
Reconciliation of Governmental Funds		
Balance Sheet to Statement of Net Assets	B-2	7
Statement of Revenues, Expenditures and Changes in Fund Balances	B-3	8
Reconciliation of Change in Fund Balances of Governmental Funds to Statement of Activities	B-4	9
General Fund - Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	C-1	10
Water and Sewer Enterprise Fund:		
Statement of Net Assets	D-1	11
Statement of Revenues, Expenses and Changes in Net Assets	D-2	12
Statement of Cash Flows	D-3	13
 Notes to Basic Financial Statements		 14-30
<u>Supplementary Financial Information</u>		
Combining and Individual Fund Financial Statements and Schedules:		
General Fund:		
Balance Sheet	E-1	33
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	E-2	34-37
 Nonmajor Governmental Funds:		
Combining Balance Sheet	F-1	40
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	F-2	41

CITY OF NORTH POLE, ALASKA

Table of Contents, continued

	<u>Exhibit</u>	<u>Page</u>
<u>FINANCIAL SECTION, continued</u>		
<u>Supplementary Financial Information, continued</u>		
Combining and Individual Fund Financial Statements and Schedules, continued:		
Debt Service Fund – Statement of Revenues, Expenditures and Changes in Fund Balance	G-1	43
Water and Sewer Enterprise Fund – Statement of Revenues, Expenses and Changes in Net Assets	H-1	45
Schedule of Expenditures of Federal Awards	I-1	46
Schedule of State Financial Assistance	J-1	47
<u>SINGLE AUDIT SECTION</u>		
Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		49-50
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		51-52
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 the <i>State of Alaska Audit Guide and Compliance Supplement for State Single Audits</i>		53-54
Schedule of Findings and Questioned Costs		55-56
Summary Schedule of Prior Audit Findings		57
Corrective Action Plan		58

Independent Auditor's Report

Honorable Mayor and City Council
City of North Pole, 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 the City of North Pole, Alaska, as of and for the year ended December 31, 2011 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 of North Pole'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 North Pole, Alaska, as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2012 on our consideration of City of North Pole's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

Honorable Mayor and City Council
City of North Pole, Alaska

City of North Pole has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of North Pole's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, Schedule of State Financial Assistance, and the combining and individual fund financial statements and schedules, listed in the table of contents as supplementary information, 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 State, Local Governments, and Non-Profit Organizations* and the Schedule of State Financial Assistance is required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the City of North Pole's basic financial statements for the year ended December 31, 2010 which are not presented with the accompanying financial statements. In our report dated May 11 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of North Pole's financial statements as a whole. The individual fund financial statements and schedules related to the December 31, 2010 financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the December 31, 2010 financial statements. The information has been subjected to the auditing procedures applied in the audit of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2010 individual fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Mikunda, Cottrell & Co.

Anchorage, Alaska
May 15, 2012

BASIC FINANCIAL STATEMENTS

CITY OF NORTH POLE, ALASKA
Statement of Net Assets
December 31, 2011

<u>Assets</u>	Governmental <u>Activities</u>	Business- type <u>Activities</u>	<u>Total</u>
Cash and investments	\$ 2,078,769	786,340	2,865,109
Receivables:			
Sales and property taxes	329,511	-	329,511
Accounts	6,390	125,459	131,849
Grants and shared revenues	50,804	192,507	243,311
Assessments	1,032,156	-	1,032,156
Other	9,511	-	9,511
Allowance for doubtful accounts	(6,236)	(5,636)	(11,872)
Inventory	-	17,264	17,264
Restricted cash and investments	40,843	267,743	308,586
Unamortized bond issuance costs	-	5,389	5,389
Capital assets:			
Land and construction in progress	365,316	3,553,163	3,918,479
Other capital assets, net of depreciation	3,345,998	15,256,205	18,602,203
 Total assets	 \$ <u>7,253,062</u>	 <u>20,198,434</u>	 <u>27,451,496</u>
	<u>Liabilities</u>		
Accounts payable	194,030	165,816	359,846
Accrued payroll and related liabilities	141,168	-	141,168
Customer deposits	-	21,550	21,550
Accrued interest payable	21,746	13,053	34,799
Unearned revenue	185,353	155,979	341,332
Noncurrent liabilities:			
Due within one year:			
Accrued vacation and sick leave	171,172	23,126	194,298
Bonds and loan	66,440	35,461	101,901
Capital leases	69,634	-	69,634
Due in more than one year:			
Loan	-	350,000	350,000
General obligation bonds	1,015,000	-	1,015,000
Special assessment bonds	100,357	-	100,357
Revenue bonds	-	535,431	535,431
Unamortized bond premium	15,971	-	15,971
Capital leases	171,901	-	171,901
Total liabilities	<u>2,152,772</u>	<u>1,300,416</u>	<u>3,453,188</u>
	<u>Net Assets</u>		
Invested in capital assets, net of related debt	2,272,011	17,888,476	20,160,487
Unrestricted	2,828,279	1,009,542	3,837,821
Total net assets	<u>5,100,290</u>	<u>18,898,018</u>	<u>23,998,308</u>
Total liabilities and net assets	\$ <u>7,253,062</u>	<u>20,198,434</u>	<u>27,451,496</u>

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA
Statement of Activities
Year Ended December 31, 2011

Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Fees, Fines and Charges for Services	Operating Grants and Contri- butions	Capital Grants and Contri- butions	Govern- mental Activities	Business- type Activities	Total
Governmental:							
General government	\$ 837,455	75,252	-	-	(762,203)	-	(762,203)
Public safety	4,132,263	602,855	317,700	-	(3,211,708)	-	(3,211,708)
Public works	493,980	-	917	4,209	(488,854)	-	(488,854)
Community services	99,103	-	8,522	-	(90,581)	-	(90,581)
Interest	70,758	-	-	-	(70,758)	-	(70,758)
Total governmental activities	<u>5,633,559</u>	<u>678,107</u>	<u>327,139</u>	<u>4,209</u>	<u>(4,624,104)</u>	<u>-</u>	<u>(4,624,104)</u>
Business-type - water and sewer	<u>2,971,707</u>	<u>1,604,577</u>	<u>403,564</u>	<u>7,280,384</u>	<u>-</u>	<u>6,316,818</u>	<u>6,316,818</u>
Totals	\$ <u>8,605,266</u>	<u>2,282,684</u>	<u>730,703</u>	<u>7,284,593</u>	<u>(4,624,104)</u>	<u>6,316,818</u>	<u>1,692,714</u>
General revenues:							
Sales and use taxes					\$ 2,854,936	-	2,854,936
Property taxes					959,554	-	959,554
Grants and entitlements not restricted to a specific purpose					574,242	36,965	611,207
Investment income					61,468	-	61,468
Other					103,720	-	103,720
Transfers					(103,124)	103,124	-
Total general revenues and transfers					<u>4,450,796</u>	<u>140,089</u>	<u>4,590,885</u>
Change in net assets					(173,308)	6,456,907	6,283,599
Net assets at beginning of year					<u>5,273,598</u>	<u>12,441,111</u>	<u>17,714,709</u>
Net assets at end of year					\$ <u>5,100,290</u>	<u>18,898,018</u>	<u>23,998,308</u>

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA

Governmental Funds

Balance Sheet

December 31, 2011

<u>Assets</u>	<u>Major Funds</u>			Total Govern- mental Funds
	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	
Cash and investments	\$ 1,622,311	224,043	232,415	2,078,769
Receivables, net of allowance:				
Sales and property taxes	329,511	-	-	329,511
Accounts	-	6,390	-	6,390
Grants and shared revenues	2,026	-	48,778	50,804
Assessments	-	1,032,156	-	1,032,156
Other	9,511	-	-	9,511
Allowance for doubtful accounts	-	(6,236)	-	(6,236)
Restricted cash - bond reserve	-	40,843	-	40,843
Due from other funds	33,895	-	-	33,895
Total assets	\$ <u>1,997,254</u>	<u>1,297,196</u>	<u>281,193</u>	<u>3,575,643</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	186,649	-	7,381	194,030
Accrued payroll and related liabilities	141,168	-	-	141,168
Due to other funds	-	-	33,895	33,895
Deferred revenue	179,886	1,032,077	5,467	1,217,430
Total liabilities	<u>507,703</u>	<u>1,032,077</u>	<u>46,743</u>	<u>1,586,523</u>
Fund balances:				
Restricted		40,843	78,087	118,930
Committed	-	224,276	-	224,276
Assigned	-	-	156,363	156,363
Unassigned	1,489,551	-	-	1,489,551
Total fund balances	<u>1,489,551</u>	<u>265,119</u>	<u>234,450</u>	<u>1,989,120</u>
Total liabilities and fund balances	\$ <u>1,997,254</u>	<u>1,297,196</u>	<u>281,193</u>	<u>3,575,643</u>

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA
 Reconciliation of Governmental Funds Balance Sheet
 to Statement of Net Assets
 December 31, 2011

Total fund balances for governmental funds \$ 1,989,120

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 and related accumulated depreciation are as follows:

Land and land improvements	\$	365,316	
Buildings		3,540,662	
Office furniture and equipment		1,513,230	
Vehicles and equipment		2,772,717	
Infrastructure		1,733,206	
Accumulated depreciation		<u>(6,213,817)</u>	
			3,711,314

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

1,032,077

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

Bonds payable		(1,181,797)	
Capital leases		(241,535)	
Unamortized bond premium		(15,971)	
Accrued interest on bonds		(21,746)	
Accrued leave		<u>(171,172)</u>	
			<u>(1,632,221)</u>

Net assets of governmental activities \$ 5,100,290

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA
 Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Year Ended December 31, 2011

	Major Funds			Total Govern- mental Funds
	General	Debt Service	Nonmajor Funds	
Revenues:				
Taxes	\$ 3,814,490	-	-	3,814,490
Licenses and permits	15,495	-	-	15,495
Charges for services	386,747	-	59,757	446,504
Intergovernmental:				
Federal government	152,640	-	200,530	353,170
State of Alaska	574,242	-	30,485	604,727
Investment income	3,183	58,285	-	61,468
Special assessments	-	74,925	-	74,925
Other revenues	224,926	-	42,595	267,521
Total revenues	5,171,723	133,210	333,367	5,638,300
Expenditures:				
Current:				
General government	761,658	-	47,679	809,337
Public safety	3,629,301	-	158,350	3,787,651
Public works	392,117	-	-	392,117
Community services	70,834	-	8,925	79,759
Debt service:				
Principal	67,461	61,062	-	128,523
Interest	13,212	60,733	-	73,945
Capital outlay	-	-	30,046	30,046
Total expenditures	4,934,583	121,795	245,000	5,301,378
Excess of revenues over expenditures	237,140	11,415	88,367	336,922
Other financing uses - transfers out	-	-	(103,124)	(103,124)
Net change in fund balances	237,140	11,415	(14,757)	233,798
Beginning fund balances	1,252,411	253,704	249,207	1,755,322
Ending fund balances	\$ 1,489,551	265,119	234,450	1,989,120

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA
 Reconciliation of Change in Fund Balances of Governmental Funds
 to Statement of Activities
 Year Ended December 31, 2011

Net change in fund balances - total governmental funds		\$ 233,798
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 (\$486,717) exceeded capital outlays (\$4,209).		(482,508)
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 deferred assessments.		(74,925)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statements of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:		
Payments on bonds	\$ 61,062	
Payments on capital leases	67,460	
Amortization of bond premium	9,583	
		138,105
Interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This is the amount of the decrease in accrued interest payable.		3,188
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 amount represents the net decrease in accrued leave.		9,034
Change in net assets of governmental activities		\$ <u><u>(173,308)</u></u>

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA
 General Fund
 Statement of Revenues, Expenditures, and
 Changes in Fund Balance - Budget and Actual
 Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 3,896,862	3,962,862	3,814,490	(148,372)
Licenses and permits	12,150	12,150	15,495	3,345
Charges for services - ambulance service	376,127	379,772	386,747	6,975
Intergovernmental:				
Federal government	98,500	98,500	152,640	54,140
State of Alaska	369,560	421,473	574,242	152,769
Investment income	6,500	6,500	3,183	(3,317)
Other revenues	224,650	163,593	224,926	61,333
Total revenues	<u>4,984,349</u>	<u>5,044,850</u>	<u>5,171,723</u>	<u>126,873</u>
Expenditures:				
General government	741,098	748,063	761,658	(13,595)
Public safety	3,506,364	3,469,839	3,629,301	(159,462)
Public works	605,978	582,707	392,117	190,590
Community services	50,236	50,236	70,834	(20,598)
Debt service:				
Principal	76,723	76,723	67,461	9,262
Interest	3,950	3,950	13,212	(9,262)
Total expenditures	<u>4,984,349</u>	<u>4,931,518</u>	<u>4,934,583</u>	<u>(3,065)</u>
Excess of revenues over expenditures	-	113,332	237,140	123,808
Other financing sources uses - transfers out	<u>-</u>	<u>(113,332)</u>	<u>-</u>	<u>113,332</u>
Net change in fund balance	\$ <u>-</u>	<u>-</u>	237,140	<u>237,140</u>
Beginning fund balance			<u>1,252,411</u>	
Ending fund balance			\$ <u>1,489,551</u>	

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA
Water and Sewer Enterprise Fund
Statement of Net Assets
December 31, 2011
With Comparative Amounts for 2010

	<u>2011</u>	<u>2010</u>
<u>Assets</u>		
Current assets:		
Cash and investments	\$ 786,340	718,935
Receivables:		
Grants	192,507	-
Accounts	125,459	141,715
Allowance for doubtful accounts	(5,636)	(5,636)
Inventory	17,264	17,264
Total current assets	<u>1,115,934</u>	<u>872,278</u>
Noncurrent assets:		
Restricted cash	267,743	285,917
Unamortized bond issuance costs	<u>5,389</u>	<u>5,597</u>
Property, plant and equipment	41,987,769	34,653,884
Less accumulated depreciation	<u>(23,178,401)</u>	<u>(22,116,996)</u>
Net property, plant and equipment	<u>18,809,368</u>	<u>12,536,888</u>
Total noncurrent assets	<u>19,082,500</u>	<u>12,828,402</u>
Total assets	<u>\$ 20,198,434</u>	<u>13,700,680</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Current liabilities:		
Accounts payable	165,816	63,693
Accrued vacation and sick leave	23,126	18,511
Customer deposits	21,550	16,665
Accrued interest payable	13,053	14,402
Deferred revenue	155,979	190,428
Current portion of bonds and loan payable	<u>35,461</u>	<u>34,970</u>
Total current liabilities	<u>414,985</u>	<u>338,669</u>
Noncurrent liabilities, net of current portion:		
Revenue bonds	535,431	545,900
ADEC loan	<u>350,000</u>	<u>375,000</u>
Total noncurrent liabilities	<u>885,431</u>	<u>920,900</u>
Total liabilities	<u>1,300,416</u>	<u>1,259,569</u>
Net assets:		
Invested in capital assets, net of related debt	17,888,476	11,581,018
Unrestricted	<u>1,009,542</u>	<u>860,093</u>
Total net assets	<u>18,898,018</u>	<u>12,441,111</u>
Total liabilities and net assets	<u>\$ 20,198,434</u>	<u>13,700,680</u>

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA
 Water and Sewer Enterprise Fund
 Statement of Revenues, Expenses and Changes in Net Assets
 Year Ended December 31, 2011
 With Comparative Amounts for 2010

	<u>2011</u>	<u>2010</u>
Operating revenues - charges for services	\$ <u>1,604,577</u>	<u>1,774,714</u>
Operating expenses:		
Water:		
Salaries and benefits	240,982	225,713
Other operating expenses	342,606	430,988
Depreciation	<u>371,492</u>	<u>263,116</u>
Total water	<u>955,080</u>	<u>919,817</u>
Sewer:		
Salaries and benefits	323,322	314,498
Other operating expenses	390,021	376,323
Depreciation	<u>689,913</u>	<u>488,645</u>
Total sewer	<u>1,403,256</u>	<u>1,179,466</u>
Total operating expenses	<u>2,358,336</u>	<u>2,099,283</u>
Loss from operations	(753,759)	(324,569)
Nonoperating revenues (expenses):		
Interest expense	(31,639)	(35,305)
Sludge removal grant revenue	403,564	-
Sludge removal grant expenses	(581,732)	-
State of Alaska PERS relief	<u>36,965</u>	<u>19,478</u>
Net nonoperating revenues (expenses)	<u>(172,842)</u>	<u>(15,827)</u>
Loss before contributions and transfers	(926,601)	(340,396)
Capital contributions	7,280,384	2,819,779
Transfers in	<u>103,124</u>	<u>-</u>
Change in net assets	6,456,907	2,479,383
Beginning net assets	<u>12,441,111</u>	<u>9,961,728</u>
Ending net assets	\$ <u>18,898,018</u>	<u>12,441,111</u>

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA

Water and Sewer Enterprise Fund

Statement of Cash Flows

Year Ended December 31, 2011

With Comparative Amounts for 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 1,591,269	1,844,165
Payments to suppliers	(630,296)	(850,479)
Payments to employees	(522,724)	(522,581)
Net cash flows from operating activities	<u>438,249</u>	<u>471,105</u>
Cash flows from noncapital financing activities:		
Transfers in	103,124	-
Nonoperating grants received	403,564	-
Nonoperating grants expended	(581,732)	-
Net cash flows from noncapital financing activities	<u>(75,044)</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Additions to property, plant and equipment	(2,885,122)	(1,369,955)
Capital contributions received	2,639,114	1,080,530
Principal and interest paid on long-term debt	(67,966)	(69,921)
Net cash flows from capital and related financing activities	<u>(313,974)</u>	<u>(359,346)</u>
Net increase in cash and investments	49,231	111,759
Beginning cash and investments	<u>1,004,852</u>	<u>893,093</u>
Ending cash and investments	\$ <u>1,054,083</u>	<u>1,004,852</u>
Cash and investments at end of year:		
Cash and investments	\$ 786,340	718,935
Restricted cash	<u>267,743</u>	<u>285,917</u>
	\$ <u>1,054,083</u>	<u>1,004,852</u>
Reconciliation of loss from operations to net cash flows from operating activities:		
Loss from operations	\$ (753,759)	(324,569)
Adjustments to reconcile loss from operations to net cash provided (used) by operating activities:		
Depreciation	1,061,405	751,761
Noncash expense - PERS relief	36,965	19,478
Amortization of bond issuance costs	208	207
Decrease in allowance for doubtful accounts	-	(52,656)
(Increase) decrease in assets:		
Accounts receivable	16,256	154,187
Increase (decrease) in liabilities:		
Accounts payable	102,123	(43,375)
Accrued vacation and sick leave	4,615	(1,848)
Customer deposits	4,885	11,250
Deferred revenue	(34,449)	(43,330)
Net cash flows from operating activities	\$ <u>438,249</u>	<u>471,105</u>
Noncash capital and related financing activities - Capital assets were donated to the City	\$ <u>4,448,763</u>	<u>1,739,249</u>

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements

December 31, 2011

(1) **Summary of Significant Accounting Policies**

Reporting Entity

The City of North Pole was formed by a Home Rule Charter on September 28, 1970 under the provisions of Alaska Statute, Title 29, as amended. The legislative branch of the government is comprised of a mayor and six council members. Individual departments are under the direction of the mayor, with the exception of the city clerk, who is under the direction of the City Council. There are no other entities considered for possible inclusion in the City's financial reporting entity.

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 is 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. Sales taxes, property taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

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

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 and sales taxes, charges for services, leases, 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. All 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 *Debt Service Fund* accounts for the proceeds from water and sewer special assessments and the payment of general obligation and special assessment debt principal and interest.

Major proprietary fund -

The *Water and Sewer Enterprise Fund* is used to account for the operations of the City water and sewer systems.

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.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

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

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. Internally dedicated resources are reported as *general revenues* rather than as program revenues. In addition, general revenues include all 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 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

The annual City operating budget is prepared by management by the eighth week of the preceding year to which it relates. All funds are budgeted on an annual basis encompassing a fiscal year. The Capital Project Funds have project-length budgets. The budget is then submitted to the City Council for review and approval. Amendments to the budget can occur any time during the fiscal year through City Council action. The legal level of budgetary control for all funds is at the function or activity level. Unencumbered funds remaining at the end of the current fiscal year may be reallocated for the purposes set forth in the budget proposal.

An annual budget for the General Fund is legally adopted on the same modified accrual basis used to reflect actual revenues and expenditures.

Annual budgets are also adopted for the Enterprise Fund. However, generally accepted accounting principles do not require the adoption of budgets for Enterprise Funds, and budgetary comparisons are not included for this fund since the measurement focus is upon determination of net income and financial position.

Central Treasury

A central treasury is used to account for cash from the funds of the City to maximize interest income. Investments are stated at fair value. Investment earnings are allocated to the funds based on their respective cash balances.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Enterprise Fund considers all cash accounts to be cash and cash equivalents. The central treasury, which holds cash and investments, is used essentially as a cash management pool by each fund.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Inventory

Inventories are valued at the lower of cost or market in the Enterprise Fund, and consist primarily of chemicals for the water and sewer utility.

Interfund 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.”

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include sales taxes, special assessment receivables, and state and federal grants. Business-type activities report fees for water and sewer services and other receivables from customers as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals for sales taxes, special assessment receivables, and grants and other similar intergovernmental revenues, since they are usually both measurable and available. Nonexchange transactions measurable but not available are deferred in the fund financial statements in accordance with the modified accrual basis, but not deferred in the government-wide financial statements in accordance with the accrual basis. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Fees for water and sewer services and other receivables from customers compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Grants and Other Intergovernmental Revenues

In applying the measurable and available concepts to grants and intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts are considered “earned”; therefore, revenues are recognized based upon expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the measurable and available criteria are met.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Compensated Absences

The City allows employees to accumulate earned but unused vacation and sick leave benefits. All vacation and sick leave 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).

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Infrastructure assets (e.g. roads, sidewalks, etc.) have been capitalized on a prospective basis. 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.

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 are depreciated using the straight line method over the following estimated useful lives:

Buildings	15-37 years
Vehicles	5-20 years
Equipment	5-20 years
Infrastructure	20 years
Sewer and water system	20-30 years

Deferred Grant Revenue

Amounts received from grantor agencies, which are restricted as to use and have not been expended for the intended uses are shown as deferred revenue.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

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.

Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form—prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balances comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the City Council—the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the City Council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance. This classification reflects the amounts constrained by the City’s “intent” to be used for specific purposes, but are neither restricted nor committed. The City Council and Mayor have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use externally restricted resources first, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. Any encumbrances outstanding at year end are reported as appropriate constraints of fund balances if they meet the definitions and criteria as outlined above.

Pension Plan

Substantially all employees of the City participate in the Public Employees' Retirement System (PERS) administered by the State of Alaska.

(2) **Cash and Investments**

The City of North Pole 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."

Investment Policy

The City does not have formal policies governing the types of investments it is authorized to hold.

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, 2011.

Bank deposits	\$ 3,173,445
Other	<u>250</u>
	<u>\$ 3,173,695</u>

Reconciliation to the basic financial statements:

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Totals</u>
Cash and investments	\$ 2,078,769	786,340	2,865,109
Restricted cash	<u>40,843</u>	<u>267,743</u>	<u>308,586</u>
	<u>\$ 2,119,612</u>	<u>1,054,083</u>	<u>3,173,695</u>

Custodial credit risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. To limit its exposure to custodial credit risk, City policy requires that all deposits be fully insured or collateralized.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

(3) **Capital Assets**

Capital asset activity for the year ended December 31, 2011 was as follows:

	Balance January 1, <u>2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2011</u>
<u>Governmental activities</u>				
<i>Capital assets not being depreciated –</i>				
Land and land improvements	\$ <u>365,316</u>	<u>-</u>	<u>-</u>	<u>365,316</u>
<i>Capital assets being depreciated:</i>				
Buildings	3,540,662	-	-	3,540,662
Office furniture and equipment	1,513,230	-	-	1,513,230
Vehicles and equipment	2,768,508	4,209	-	2,772,717
Infrastructure	<u>1,733,206</u>	<u>-</u>	<u>-</u>	<u>1,733,206</u>
Total assets being depreciated	<u>9,555,606</u>	<u>4,209</u>	<u>-</u>	<u>9,559,815</u>
Less accumulated depreciation for:				
Buildings	2,361,742	115,722	-	2,477,464
Office furniture and equipment	962,579	100,550	-	1,063,129
Vehicles and equipment	2,075,504	183,785	-	2,259,289
Infrastructure	<u>327,275</u>	<u>86,660</u>	<u>-</u>	<u>413,935</u>
Total accumulated depreciation	<u>5,727,100</u>	<u>486,717</u>	<u>-</u>	<u>6,213,817</u>
Total capital assets being depreciated, net	<u>3,828,506</u>	<u>(482,508)</u>	<u>-</u>	<u>3,345,998</u>
Governmental activity capital assets, net	\$ <u>4,193,822</u>	<u>(482,508)</u>	<u>-</u>	<u>3,711,314</u>
<u>Business-type activities</u>				
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 378,415	12,000	-	390,415
Construction in progress	<u>967,608</u>	<u>2,794,939</u>	<u>599,799</u>	<u>3,162,748</u>
Total capital assets not being depreciated	<u>1,346,023</u>	<u>2,806,939</u>	<u>599,799</u>	<u>3,553,163</u>
<i>Capital assets being depreciated:</i>				
Sewer and water system	32,130,582	4,526,946	-	36,657,528
Machinery and equipment	<u>1,177,279</u>	<u>599,799</u>	<u>-</u>	<u>1,777,078</u>
Total assets being depreciated	<u>33,307,861</u>	<u>5,126,745</u>	<u>-</u>	<u>38,434,606</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Capital Assets, continued

	Balance January 1, <u>2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2011</u>
<u>Business-type activities, continued</u>				
Less accumulated depreciation for:				
Sewer and water system	\$ 21,562,853	964,218	-	22,527,071
Machinery and equipment	<u>554,143</u>	<u>97,187</u>	-	<u>651,330</u>
Total accumulated depreciation	<u>22,116,996</u>	<u>1,061,405</u>	<u>-</u>	<u>23,178,401</u>
 Total capital assets being depreciated, net	 <u>11,190,865</u>	 <u>4,065,340</u>	 <u>-</u>	 <u>15,256,205</u>
 Business-type activity capital assets, net	 <u>\$ 12,536,888</u>	 <u>6,872,279</u>	 <u>599,799</u>	 <u>18,809,368</u>

Depreciation expense was charged to the functions as follows:

Governmental activities

General government	\$ 36,070
Public safety	327,895
Public works	111,930
Community services	<u>10,822</u>
Total depreciation expense - governmental activities	\$ <u>486,717</u>

Business-type activities

Water	\$ 371,492
Sewer	<u>689,913</u>
Total depreciation expense - business-type activities	\$ <u>1,061,405</u>

(4) **Long-Term Debt**

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2011:

	Balance January 1, <u>2011</u>	<u>Additions</u>	<u>Retired</u>	Balance December 31, <u>2011</u>	Due Within <u>One Year</u>
<u>Governmental activities</u>					
General Obligation Bonds -					
\$1,350,000 2005 Series B bonds, due in annual installments of \$50,000 to \$105,000 through May 1, 2025; plus variable interest at 4.00% to 5.25%	\$ 1,120,000	-	50,000	1,070,000	55,000

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Long-Term Debt, continued

	Balance January 1, <u>2011</u>	<u>Additions</u>	<u>Retired</u>	Balance December 31, <u>2011</u>	Due Within <u>One Year</u>
<u>Governmental activities, continued</u>					
Special Assessment Bonds - \$300,000 2002 utility special assessment bonds, due in annual installments of \$16,890 through June 20, 2019; including interest at 4.75%	\$ 122,859	-	11,062	111,797	11,440
Capital lease obligation for police vehicle, payable in annual install- ments of \$16,824 including interest at 6.10%	30,801	-	14,945	15,856	15,856
Capital lease obligation for police vehicle, payable in annual install- ments of \$16,904 including interest at 6.75%	30,670	-	14,834	15,836	15,836
Capital lease obligation for a copier, payable in various monthly amounts including interest at 10.49%	8,157	-	2,363	5,794	2,624
Capital lease obligation for a fire pumper truck, payable in annual installments of \$46,944 including interest at 4.615% through 2016	239,367	-	35,318	204,049	35,318
Accrued leave	<u>180,206</u>	<u>252,288</u>	<u>261,322</u>	<u>171,172</u>	<u>171,172</u>
Total governmental activities	1,732,060	<u>252,288</u>	<u>389,844</u>	1,594,504	<u>307,246</u>
Unamortized bond premium	<u>25,554</u>			<u>15,971</u>	
	<u>\$ 1,757,614</u>			<u>1,610,475</u>	

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Long-Term Debt, continued

	Balance January 1, <u>2011</u>	<u>Additions</u>	<u>Retired</u>	Balance December 31, <u>2011</u>	Due Within <u>One Year</u>
<u>Business-type activities</u>					
Revenue bonds –					
\$647,600 1998 utility revenue bonds, due in semi-annual installments of \$18,483 including interest at 4.875% through March 1, 2038	\$ 555,870	-	9,978	545,892	10,461
Note payable –					
\$500,000 2007 Water Utility Alaska Drinking Water loan, due in annual installments of \$25,000 plus interest at 1.5% through April 1, 2026	400,000	-	25,000	375,000	25,000
Accrued leave	<u>18,511</u>	<u>14,206</u>	<u>9,591</u>	<u>23,126</u>	<u>23,126</u>
Total business-type activities	<u>\$ 974,381</u>	<u>14,206</u>	<u>44,569</u>	<u>944,018</u>	<u>58,587</u>

Governmental activities

The annual debt service requirements of the general obligation bonds and loans outstanding at December 31, 2011 that are in repayment status follow:

<u>Year Ending December 31,</u>	<u>General Obligation Bonds</u>			<u>Special Assessment Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 55,000	52,280	107,280	11,440	5,450	16,890
2013	55,000	49,530	104,530	11,995	4,895	16,890
2014	60,000	46,655	106,655	12,577	4,313	16,890
2015	65,000	43,530	108,530	13,188	3,702	16,890
2016	65,000	40,280	105,280	13,828	3,062	16,890
2017-2021	380,000	146,691	526,691	48,769	5,200	53,969
2022-2025	<u>390,000</u>	<u>39,506</u>	<u>429,506</u>	-	-	-
	<u>\$ 1,070,000</u>	<u>418,472</u>	<u>1,488,472</u>	<u>111,797</u>	<u>26,622</u>	<u>138,419</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Long-Term Debt, continued

Business-type activities

<u>Year Ending</u> <u>December 31,</u>	<u>Revenue Bonds</u>			<u>Note Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 10,461	26,504	36,965	25,000	5,625	30,625
2013	10,978	25,987	36,965	25,000	5,250	30,250
2014	11,520	25,445	36,965	25,000	4,875	29,875
2015	12,088	24,877	36,965	25,000	4,500	29,500
2016	12,685	24,280	36,965	25,000	4,125	29,125
2017-2021	73,452	111,373	184,825	125,000	15,000	140,000
2022-2026	93,454	91,371	184,825	125,000	5,625	130,625
2027-2031	118,901	65,924	184,825	-	-	-
2032-2036	<u>202,353</u>	<u>33,546</u>	<u>235,899</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 545,892</u>	<u>429,307</u>	<u>975,199</u>	<u>375,000</u>	<u>45,000</u>	<u>420,000</u>

(5) **Capital Leases**

The City has entered into lease agreements as lessee for financing the acquisition of three police vehicles, a fire engine, and a copier. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments. The following is a summary of the assets acquired with the capital leases that have an outstanding balance as of December 31, 2011:

	<u>General Fund</u>
Machinery and equipment	\$ 528,083
Less accumulated depreciation	(232,823)
Carrying value	<u>\$ 295,260</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Capital Leases, continued

The following is a schedule of future minimum lease payments under these capital leases and the present value of the net minimum lease payments at December 31, 2011:

<u>Year Ending December 31,</u>	<u>General Fund</u>
2012	\$ 83,781
2013	50,052
2014	47,203
2015	46,944
2016	<u>46,944</u>
Total minimum lease payments	274,924
Less interest portion	<u>(33,389)</u>
Present value of future minimum lease payments	241,535
Less current portion	<u>(69,634)</u>
Long-term portion	<u>\$ 171,901</u>

(6) **Interfund Balances and Transfers**

A schedule of interfund balances and transfers for the year ended December 31, 2011, follows:

Due to other funds:

Due to the General Fund from nonmajor funds for short-term advances to cover operating costs	\$ <u>33,895</u>
---	------------------

Transfers:

From nonmajor governmental fund to Water and Sewer Enterprise Fund to convert fund to enterprise capital project fund	\$ <u>103,124</u>
--	-------------------

(7) **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

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Defined Benefit Pension Plan, continued

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 in the event that the annually calculated and board adopted rate, which includes a provision to pay down the past-service liability, exceeds 22%. Any such additional contributions are recognized in these financial statements as an on-behalf 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 defined contribution plan described later in these footnotes.

Funding Policy

Regular employees are required to contribute 6.75% of their annual covered salary (3.21% for pension and 3.54% for healthcare). Police and firefighters are required to contribute 7.5% of their annual covered salary (3.57% for pension and 3.93% for healthcare).

The funding policy provides for periodic employer contributions based on actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate 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 contributes any amount over 22% such that the total contribution equals the Alaska Retirement Management Board adopted rate, generally consistent with the actuarially determined rate.

The City's contribution rates for 2011 were as follows:

	Employer <u>Rate</u>	Actuarial <u>Rate</u>	GASB 43/45 <u>Rate*</u>
<u>January to June</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>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Defined Benefit Pension Plan, continued

Funding Policy, continued

	<u>Employer Rate</u>	<u>Actuarial Rate</u>	<u>GASB 43/45 Rate*</u>
<u>July to December</u>			
Pension	10.48%	14.65%	13.72%
Postemployment healthcare	<u>11.52%</u>	<u>16.11%</u>	<u>49.98%</u>
Total contribution rate	<u>22.00%</u>	<u>30.76%</u>	<u>63.70%</u>

* This 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.

Annual Pension and Postemployment Healthcare Cost

The City is required to contribute 22% of covered payroll, subject to a wage floor. In addition, the State of Alaska contributed approximately 8.76% of covered payroll to the Plan for the July to December period. In accordance with the provisions of GASB Statement Number 24, the City has recorded the State on behalf contribution in the amount of \$285,843 as revenue and expenditure/expense in these financial statements. However, because the City is not statutorily obligated for these payments, this amount is excluded from pension and OPEB cost as described here.

<u>Year Ended December 31</u>	<u>Annual Pension Cost</u>	<u>Annual OPEB Cost</u>	<u>Total Benefit Cost (TBC)</u>	<u>City Contri- butions</u>	<u>% of TBC Contributed</u>
2011	\$ 196,159	\$ 277,933	\$ 474,892	\$ 474,892	100%
2010	198,562	255,343	453,905	453,905	100%
2009	147,573	300,522	448,095	448,095	100%

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

(8) **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	0.51	0.51
Occupational death and disability benefits	<u>0.11</u>	<u>0.97</u>
	<u>8.62</u> %	<u>9.48</u> %

*Health Reimbursement Arrangement – AS 39.30.370 requires that the employer contribute “an amount equal to three percent of the average 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.

Employees are immediately vested in their own contributions and vest 25% per year in employer contributions. The City and employee contributions to PERS including the HRA contribution for the year ended December 31, 2011 were \$98,149 and \$79,964, respectively.

(9) **Deferred Compensation Plan**

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

(10) **Risk Management**

The City faces a considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability; i.e., errors and omissions, (d) environmental damage, (e) workers' compensation; i.e., employee injuries, and (f) medical insurance costs of employees.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Risk Management, continued

The City is self-insured for employee health benefits and group life insurance. An umbrella policy covers individual claims in excess of \$25,000 and liabilities are recorded for all claims when they are reported to the City. The self-insurance plan is administered by Great West Life and Annuity Insurance Company and the expenditures are recorded in the General Fund. The City accrues estimated costs of health care based on plan maximums.

The City maintains third party insurance coverage for property and liability risks. Coverage for property insurance exceeds \$7.5 million with 90% coinsurance and a \$10,000 deductible per incident. Liability coverage includes \$2 million in liability insurance and \$3 million in umbrella insurance with a \$10,000 deductible. Workers compensation insurance is in accordance with Alaska statutes. Additionally, the City has \$4 million in emergency medical services professional liability, public officials, and employment practices liability insurance, and auto and other equipment coverage.

(11) **Contingencies**

Grants

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, would become a liability.

SUPPLEMENTARY FINANCIAL INFORMATION

GENERAL FUND

The General Fund is established to account for the revenues and expenditures necessary to carry out basic governmental activities of the City such as police and fire protection, public works, planning, legal services, administrative services, etc. Appropriations are made from the fund annually. The fund will continue to exist indefinitely.

Revenue, for this and other funds, is recorded by source, i.e., taxes, State of Alaska, etc. Expenditures are recorded first by function, then by activity and object of the expenditure.

General Fund expenditures are made primarily for current day-to-day operating expenditures and operating equipment. Capital expenditures for large-scale public improvements, such as buildings, are accounted for elsewhere in the Capital Project or Enterprise Funds.

CITY OF NORTH POLE, ALASKA
 General Fund
 Balance Sheet
 December 31, 2011
 With Comparative Amounts for 2010

<u>Assets</u>	<u>2011</u>	<u>2010</u>
Cash and investments	\$ <u>1,622,311</u>	<u>1,105,655</u>
Receivables:		
Sales taxes	328,183	334,939
Property taxes	1,328	2,052
Business licenses	6,620	7,700
Grants	2,026	2,326
Other	<u>2,891</u>	<u>886</u>
Total receivables	<u>341,048</u>	<u>347,903</u>
Due from other funds	<u>33,895</u>	<u>46,975</u>
Total assets	\$ <u><u>1,997,254</u></u>	<u><u>1,500,533</u></u>
<u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	186,649	97,677
Accrued payroll and related liabilities	141,168	150,445
Deferred revenue	<u>179,886</u>	<u>-</u>
Total liabilities	<u>507,703</u>	<u>248,122</u>
Fund balance - unassigned	<u>1,489,551</u>	<u>1,252,411</u>
Total liabilities and fund balance	\$ <u><u>1,997,254</u></u>	<u><u>1,500,533</u></u>

CITY OF NORTH POLE, ALASKA

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance -
 Budget and Actual
 Year Ended December 31, 2011
 With Comparative Amounts for 2010

	2011		Variance Positive (Negative)	2010
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Revenues:				
Taxes:				
Sales, alcohol and use taxes	\$ 3,009,992	2,854,936	(155,056)	2,793,448
Property taxes	<u>952,870</u>	<u>959,554</u>	<u>6,684</u>	<u>913,593</u>
Total taxes	<u>3,962,862</u>	<u>3,814,490</u>	<u>(148,372)</u>	<u>3,707,041</u>
Business licenses	<u>12,150</u>	<u>15,495</u>	<u>3,345</u>	<u>10,025</u>
Charges for services - ambulance service	<u>379,772</u>	<u>386,747</u>	<u>6,975</u>	<u>376,262</u>
Federal government:				
DOT commercial vehicle safety	10,000	3,360	(6,640)	4,220
Alaska Highway Safety Office	18,500	14,173	(4,327)	13,776
DEA Task Force equipment grant	-	81,133	81,133	-
Corps of Engineers	70,000	52,307	(17,693)	68,476
IRS reimbursements	-	1,667	1,667	-
Economic stimulus grant	-	-	-	15,128
Total Federal government	<u>98,500</u>	<u>152,640</u>	<u>54,140</u>	<u>101,600</u>
State of Alaska:				
State revenue sharing	267,649	268,329	680	206,334
Telephone and electric cooperative taxes	59,264	59,264	-	67,145
Fisheries business taxes	-	89	89	-
Liquor licenses	5,200	5,200	-	4,200
PERS relief	<u>89,360</u>	<u>241,360</u>	<u>152,000</u>	<u>118,698</u>
Total State of Alaska	<u>421,473</u>	<u>574,242</u>	<u>152,769</u>	<u>396,377</u>
Interest income	<u>6,500</u>	<u>3,183</u>	<u>(3,317)</u>	<u>5,121</u>

CITY OF NORTH POLE, ALASKA

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual, continued

	2011		Variance Positive (Negative)	2010
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Revenues, continued:				
Other revenues:				
Candy cane donations	\$ -	800	800	1,200
Citation revenues	107,000	110,665	3,665	145,220
Fingerprinting	8,650	10,295	1,645	8,226
Police reports	5,543	6,368	825	938
Other public safety revenues	21,400	36,473	15,073	21,687
Miscellaneous	21,000	60,325	39,325	-
Total other revenues	<u>163,593</u>	<u>224,926</u>	<u>61,333</u>	<u>177,271</u>
Total revenues	<u>5,044,850</u>	<u>5,171,723</u>	<u>126,873</u>	<u>4,773,697</u>
Expenditures:				
General government:				
Administration:				
Salaries and benefits	452,578	464,966	(12,388)	430,530
Materials and supplies	60,300	60,235	65	69,019
Purchased services	153,785	145,081	8,704	162,779
Vehicle expense	3,600	1,924	1,676	77
Insurance	22,800	19,997	2,803	21,364
Repairs and maintenance	35,000	41,377	(6,377)	35,212
Total administration	<u>728,063</u>	<u>733,580</u>	<u>(5,517)</u>	<u>718,981</u>
Municipal building II:				
Purchased services	20,000	26,521	(6,521)	32,866
Repairs and maintenance	-	1,557	(1,557)	15,121
Total municipal building II	<u>20,000</u>	<u>28,078</u>	<u>(8,078)</u>	<u>47,987</u>
Total general government	<u>748,063</u>	<u>761,658</u>	<u>(13,595)</u>	<u>766,968</u>

CITY OF NORTH POLE, ALASKA

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual, continued

	2011		Variance Positive (Negative)	2010
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Expenditures, continued:				
Public safety:				
Police department:				
Salaries and benefits	\$ 1,260,261	1,360,007	(99,746)	1,199,799
Materials and supplies	47,000	27,490	19,510	41,442
Purchased services	106,580	104,537	2,043	98,649
Vehicle expense	57,000	57,355	(355)	49,235
Insurance	125,000	98,383	26,617	122,359
Repairs and maintenance	14,500	14,028	472	14,197
Task force equipment grant expenditures	-	81,133	(81,133)	-
Total police department	<u>1,610,341</u>	<u>1,742,933</u>	<u>(132,592)</u>	<u>1,525,681</u>
Fire department:				
Salaries and benefits	1,613,096	1,645,209	(32,113)	1,516,904
Materials and supplies	35,957	36,826	(869)	23,957
Purchased services	114,894	110,568	4,326	106,712
Vehicle expense	28,951	33,251	(4,300)	47,541
Insurance	54,000	47,230	6,770	50,498
Repairs and maintenance	12,600	13,284	(684)	15,732
Total fire department	<u>1,859,498</u>	<u>1,886,368</u>	<u>(26,870)</u>	<u>1,761,344</u>
Total public safety	<u>3,469,839</u>	<u>3,629,301</u>	<u>(159,462)</u>	<u>3,287,025</u>
Public works:				
Salaries and benefits	234,247	194,624	39,623	234,485
Materials and supplies	16,000	11,385	4,615	14,196
Purchased services	175,960	67,854	108,106	42,400
Vehicle expense	7,500	7,923	(423)	7,568
Insurance	14,000	11,966	2,034	13,661
Repairs and maintenance	135,000	98,365	36,635	186,894
Total public works	<u>582,707</u>	<u>392,117</u>	<u>190,590</u>	<u>499,204</u>
Debt service:				
Capital lease principal	76,723	67,461	9,262	111,334
Capital lease interest	3,950	13,212	(9,262)	13,230
Total debt service	<u>80,673</u>	<u>80,673</u>	<u>-</u>	<u>124,564</u>

CITY OF NORTH POLE, ALASKA

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual, continued

	2011		Variance Positive (Negative)	2010
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Expenditures, continued:				
Community service - contributions:				
North Pole Christmas on Ice	\$ 4,109	10,605	(6,496)	12,195
North Pole Chamber of Commerce	11,015	21,209	(10,194)	24,390
Convention and Visitors	5,099	3,535	1,564	4,065
North Pole Economic				
Development Council	30,013	35,348	(5,335)	40,650
Other	-	137	(137)	40
Total community service - contributions	<u>50,236</u>	<u>70,834</u>	<u>(20,598)</u>	<u>81,340</u>
Capital expenditures:				
Police vehicles	-	-	-	95,199
Fire department copier	-	-	-	10,117
Total capital expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>105,316</u>
Total expenditures	<u>4,931,518</u>	<u>4,934,583</u>	<u>(3,065)</u>	<u>4,864,417</u>
Excess of revenues over (under) expenditures	113,332	237,140	123,808	(90,720)
Other financing sources:				
Proceeds from capital leases	-	-	-	105,316
Transfers in	-	-	-	7,688
Transfers out	<u>(113,332)</u>	<u>-</u>	<u>113,332</u>	<u>-</u>
Net other financing sources (uses)	<u>(113,332)</u>	<u>-</u>	<u>113,332</u>	<u>113,004</u>
Net change in fund balance	\$ <u>-</u>	237,140	<u>237,140</u>	22,284
Beginning fund balance		<u>1,252,411</u>		<u>1,230,127</u>
Ending fund balance		\$ <u>1,489,551</u>		<u>1,252,411</u>

(This page left blank intentionally)

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds are established to finance particular activities and are created from receipts of designated revenues.

Building Department

This fund is used to accumulate moneys from the building permits and inspections.

Fire Department

This fund is used to account for the maintenance and improvement of the fire department.

North Pole Community Ice Rink

This fund accounts for the activities related to the development of the community ice rink project.

North Pole Festival

This fund is used to record donations and expenditures for summer and winter festivals and the Mayor's picnic.

Abade

This fund is used to accumulate monies for the multi-jurisdictional task force grant.

Abade State Forfeitures

This fund is used to record state public safety forfeitures and expenditures for public safety

AHSO

This fund is used to account for the Alaska Highway Safety traffic inspection grants.

JAG

This fund is used to account for the State Department of Public Safety JAG grant.

Capital Project Funds are established to account for the resources expended to acquire or construct assets of a relatively permanent nature.

General Capital Projects

This fund is used to account for the City's various capital improvement projects that are not included in the Water and Sewer Enterprise Fund.

CITY OF NORTH POLE, ALASKA

Nonmajor Governmental Funds

Combining Balance Sheet

December 31, 2011

	Special Revenue Funds							General Capital Projects Fund	Totals		
	Building Depart- ment	Fire Depart- ment	North Pole Community Ice Rink	North Pole Festival	Abade	Abade State Forfeitures	AHSO			JAG	
Cash and investments	\$ 91,100	47,704	11,163	4,361	76,731	1,356	-	-	-	232,415	
Grants receivable	-	-	-	-	-	-	21,299	16,101	-	11,378	48,778
Total assets	\$ 91,100	47,704	11,163	4,361	76,731	1,356	21,299	16,101	-	11,378	281,193
Liabilities and Fund Balances											
Liabilities:											
Accounts payable	2,028	1,144	-	-	-	-	-	-	-	4,209	7,381
Deferred revenue	-	-	-	-	-	-	-	-	-	5,467	5,467
Due to other funds	-	-	-	-	-	-	16,092	16,101	-	1,702	33,895
Total liabilities	2,028	1,144	-	-	-	-	16,092	16,101	-	11,378	46,743
Fund balances:											
Restricted	-	-	-	-	76,731	1,356	-	-	-	-	78,087
Assigned	89,072	46,560	11,163	4,361	-	-	5,207	-	-	-	156,363
Total fund balances	89,072	46,560	11,163	4,361	76,731	1,356	5,207	-	-	-	234,450
Total liabilities and fund balances	\$ 91,100	47,704	11,163	4,361	76,731	1,356	21,299	16,101	-	11,378	281,193

CITY OF NORTH POLE, ALASKA

Nonmajor Governmental Funds
 Combining Statement of Revenues, Expenditures and Changes in
 Fund Balances
 Year Ended December 31, 2011

	Special Revenue Funds										Capital Project Funds		
	Building Department	Fire Department	North Pole Community Ice Rink	North Pole Festival	Abade State Forfeitures		AHSO	JAG	General Capital Projects Fund		Capital Projects Fund	Totals	
					Abade	State			Projects Fund	Projects Fund			
Revenues:													
Intergovernmental Charges for services	\$ -	-	-	-	60,384	1,356	95,613	43,616	30,046	-	-	231,015	
Other revenues	59,757	-	-	-	-	-	-	-	-	-	-	59,757	
Total revenues	<u>59,757</u>	<u>31,897</u>	<u>50</u>	<u>10,648</u>	<u>60,384</u>	<u>1,356</u>	<u>95,613</u>	<u>43,616</u>	<u>30,046</u>	<u>-</u>	<u>-</u>	<u>42,595</u>	
Expenditures:													
General government	47,679	-	-	-	-	-	-	-	-	-	-	47,679	
Public safety	-	15,126	-	-	3,995	-	95,613	43,616	-	-	-	158,350	
Community services	-	-	-	8,925	-	-	-	-	-	-	-	8,925	
Capital outlay	-	-	-	-	-	-	-	-	30,046	-	-	30,046	
Total expenditures	<u>47,679</u>	<u>15,126</u>	<u>-</u>	<u>8,925</u>	<u>3,995</u>	<u>-</u>	<u>95,613</u>	<u>43,616</u>	<u>30,046</u>	<u>-</u>	<u>-</u>	<u>245,000</u>	
Excess of revenues over expenditures	12,078	16,771	50	1,723	56,389	1,356	-	-	-	-	-	88,367	
Other financing uses - transfers out	-	-	-	-	-	-	-	-	-	(103,124)	-	(103,124)	
Net change in fund balances	12,078	16,771	50	1,723	56,389	1,356	-	-	-	(103,124)	-	(14,757)	
Beginning fund balances	76,994	29,789	11,113	2,638	20,342	-	5,207	-	-	103,124	-	249,207	
Ending fund balances	<u>\$ 89,072</u>	<u>46,560</u>	<u>11,163</u>	<u>4,361</u>	<u>76,731</u>	<u>1,356</u>	<u>5,207</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>234,450</u>	

DEBT SERVICE FUND

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general obligation bond, and special assessment debt principal, interest and related costs for issuances that are not accounted for in the Enterprise Fund.

CITY OF NORTH POLE, ALASKA
 Debt Service Fund
 Statement of Revenues, Expenditures
 and Changes in Fund Balance
 Year Ended December 31, 2011
 With Comparative Amounts for 2010

	<u>2011</u>	<u>2010</u>
Revenues:		
Special assessments	\$ 74,925	94,922
Investment income	<u>58,285</u>	<u>90,553</u>
Total revenues	<u>133,210</u>	<u>185,475</u>
Expenditures - debt service:		
2005 Series B G.O. bonds:		
Principal	50,000	50,000
Interest	<u>54,905</u>	<u>57,155</u>
Total 2005 series B G.O. bonds	<u>104,905</u>	<u>107,155</u>
2002 special assessment bonds:		
Principal	11,062	10,560
Interest	<u>5,828</u>	<u>6,330</u>
Total 2002 special assessment bonds	<u>16,890</u>	<u>16,890</u>
Other	<u>-</u>	<u>810</u>
Total expenditures	<u>121,795</u>	<u>124,855</u>
Net change in fund balance	11,415	60,620
Beginning fund balance	<u>253,704</u>	<u>193,084</u>
Ending fund balance	\$ <u><u>265,119</u></u>	<u><u>253,704</u></u>

MAJOR ENTERPRISE FUND

The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprise – where the intent of the government’s council is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the government’s council has decided that periodic determination of net income is appropriate for accountability purposes.

Water and Sewer

This fund accounts for the operations of the water and sewer system.

CITY OF NORTH POLE, ALASKA
 Water and Sewer Enterprise Fund
 Statement of Revenues, Expenses and Changes in Net Assets
 Year Ended December 31, 2011
 With Comparative Amounts for 2010

	<u>2011</u>	<u>2010</u>
Operating revenues - charges for services:		
Water	\$ 813,736	862,783
Sewer	790,841	911,931
Total operating revenues	<u>1,604,577</u>	<u>1,774,714</u>
Operating expenses:		
Water:		
Salaries and benefits	240,982	225,713
Materials and supplies	42,339	79,220
Purchased services	270,054	308,924
Vehicle expense	9,925	5,671
Insurance	17,017	31,707
Repairs and maintenance	365	444
Depreciation	371,492	263,116
Bad debt expense	2,906	5,022
Total water	<u>955,080</u>	<u>919,817</u>
Sewer:		
Salaries and benefits	323,322	314,498
Materials and supplies	81,897	28,573
Purchased services	280,415	309,154
Vehicle expense	8,040	7,742
Insurance	17,256	30,012
Repairs and maintenance	273	220
Depreciation	689,913	488,645
Bad debt expense	2,140	622
Total sewer	<u>1,403,256</u>	<u>1,179,466</u>
Total operating expenses	<u>2,358,336</u>	<u>2,099,283</u>
Loss from operations	(753,759)	(324,569)
Nonoperating revenues (expenses):		
State of Alaska PERS relief	36,965	19,478
Sludge removal grant revenue	403,564	-
Sludge removal grant expenses	(581,732)	-
Interest expense	(31,639)	(35,305)
Net nonoperating revenues (expenses)	<u>(172,842)</u>	<u>(15,827)</u>
Loss before contributions and transfers	(926,601)	(340,396)
Capital contributions	7,280,384	2,819,779
Transfers in	103,124	-
Change in net assets	6,456,907	2,479,383
Beginning net assets	<u>12,441,111</u>	<u>9,961,728</u>
Ending net assets	\$ <u>18,898,018</u>	<u>12,441,111</u>

CITY OF NORTH POLE, ALASKA
 Schedule of Expenditures of Federal Awards
 Year Ended December 31, 2011

<u>Federal Grant Title</u>	<u>Grant Number</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Total Grant Award</u>	<u>Federal Share of Expenditures</u>
Department of Agriculture				
Direct Program - Water and Waste Disposal Systems for Rural Communities	60-002-1585	10.760	\$ 750,000	<u>93,847</u>
Department of Justice				
Direct program - Organized Crime Drug Enforcement Task Force	PA-OR-0004-10	16.OCDETF	81,133	<u>81,133</u>
Passed through State of Alaska Department of Public Safety:				
Edward Byrne Memorial Formula Grant Program:				
Multijurisdictional Task Force 2011	JAG 11-023D	16.738	83,521	24,252
Multijurisdictional Task Force 2012	JAG 12-023D	16.738	75,984	<u>16,101</u>
Total CFDA 16.738				<u>40,353</u>
Equitable Sharing - Seized Assets	-	16.000	60,384	<u>60,384</u>
Total Department of Justice				<u>181,870</u>
Department of the Treasury				
Direct program - Treasury Forfeiture Fund - Currency Crimes Task Force	-	21.TFF	15,000	<u>1,667</u>
Department of Transportation				
Passed through State of Alaska Department of Transportation and Public Facilities:				
Alcohol Open Container Requirements Grant - Impaired Driving 2012	154 AL 12-01-03	20.607	5,983	360
Alcohol Open Container Requirements Grant - Impaired Driving 2011	154 AL 11-01-03	20.607	13,530	10,365
Alcohol Open Container Requirements Grant - Traffic Enforcement Officer 2012	154 AL 10-01-14	20.607	107,176	21,300
Alcohol Open Container Requirements Grant - Traffic Enforcement Officer 2011	154 AL 11-01-15	20.607	156,929	<u>70,057</u>
Total CFDA 20.607				<u>102,082</u>
State and Community Highway Safety - Seatbelt Enforcement 2011	402 PT 11-06-01	20.600	4,017	<u>3,449</u>
Total Department of Transportation				<u>105,531</u>
Department of Energy				
Passed through Alaska Energy Authority -				
ARRA-Energy Efficiency and Conservation Block Grant	7510037	81.128	174,000	<u>917</u>
Environmental Protection Agency				
Direct Program - Congressionally Mandated Projects	XP-00J10701	66.202	970,000	970,000
Passed through the State of Alaska Department of Environmental Conservation -				
ARRA - Capitalization Grants for Clean Water State Revolving Funds - Clean Water Loan -				
Sewer Life Station Renovation - (90% Forgiven)	633151	66.458	1,922,222	<u>69,376</u>
Total Environmental Protection Agency				<u>1,039,376</u>
Total Expenditures of Federal Awards			\$	<u><u>1,423,208</u></u>

Note 1: Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of North Pole and is presented using 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*.

CITY OF NORTH POLE, ALASKA
 Schedule of State Financial Assistance
 Year Ended December 31, 2011

<u>State Grant Title</u>	<u>Grant Number</u>	<u>Grant Award</u>	<u>Expenditures</u>
Department of Commerce, Community and Economic Development			
Fire Department Equipment Upgrades and Replacement	11-DC-314	\$ 95,000	16,398
Water Treatment Plant Roof Improvements	08-DC-471	160,000	5,100
Rehabilitate North Pole Utility Well	09-DC-505	147,500	39,728
Senior Center Equipment Upgrades	11-DC-315	50,000	8,522
* Community Revenue Sharing	-	200,737	268,329
Total Department of Commerce, Community and Economic Development			338,077
Department of Environmental Conservation			
* Sewer Lift Station Renovation	63317	2,204,851	1,612,285
* Wastewater Treatment Plant Sludge Removal	63318	595,000	403,564
Utility Garage Construction	63319	524,977	10,003
Wastewater Plant Engineering and Design	63321	125,000	30,098
Wastewater Plant Engineering and Design	63320	125,000	1,185
Total Department of Environmental Conservation			2,057,135
Department of Public Safety			
Asset Forfeitures	-	1,356	1,356
Department of Administration			
* PERS on Behalf	-	285,843	285,843
Department of Transportation and Public Facilities			
North Pole Equipment	-	50,000	4,209
Department of Revenue			
Electric and Telephone Co-op Tax	-	59,264	59,264
Shared Fisheries Business Taxes	-	89	89
Liquor Licenses	-	5,200	5,200
Total Department of Revenue			64,553
Total State Financial Assistance		\$	2,751,173

*Major program

Note 1: Basis of Presentation

The Schedule of State Financial Assistance includes the State grant activity of the City of North Pole and is presented using the modified accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.

SINGLE AUDIT SECTION

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 North Pole, 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 North Pole, Alaska as of and for the year ended December 31, 2011, which collectively comprise the City of North Pole's basic financial statements and have issued our report thereon dated May 15, 2012. 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

Management of City of North Pole is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of North Pole's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of North Pole's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of North Pole'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 the 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 the 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 North Pole, Alaska

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of North Pole'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 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
May 15, 2012

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 North Pole, Alaska

Compliance

We have audited City of North Pole's compliance 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 City of North Pole's major federal programs for the year ended December 31, 2011. City of North Pole'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 North Pole's management. Our responsibility is to express an opinion on City of North Pole'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 North Pole'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 on City of North Pole's compliance with those requirements.

In our opinion, City of North Pole 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, 2011.

Honorable Mayor and City Council
City of North Pole, Alaska

Internal Control Over Compliance

Management of City of North Pole 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 North Pole's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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 City of North Pole's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 North Pole's management, Honorable Mayor and City Council, others within the entity, 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
May 15, 2012

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 the State of Alaska Audit Guide and Compliance Supplement for State Single Audits

Honorable Mayor and City Council
City of North Pole, Alaska

Compliance

We have audited City of North Pole's compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of City of North Pole's major state programs for the year ended December 31, 2011. City of North Pole's major state programs are identified in the accompanying Schedule of State Financial Assistance. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state programs is the responsibility of City of North Pole's management. Our responsibility is to express an opinion on City of North Pole'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 the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about City of North Pole'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 on City of North Pole's compliance with those requirements.

In our opinion, City of North Pole 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 state programs for the year ended December 31, 2011.

Honorable Mayor and City Council
City of North Pole, Alaska

Internal Control Over Compliance

Management of City of North Pole is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state programs. In planning and performing our audit, we considered City of North Pole's internal control over compliance with the requirements that could have a direct and material effect on a major state program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of North Pole's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis.

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 North Pole's management, Honorable Mayor and City Council, others within the entity, and the State of Alaska, and is not intended to be and should not be used by anyone other than these specified parties.

Mikunda, Cottrell & Co.

Anchorage, Alaska
May 15, 2012

CITY OF NORTH POLE, ALASKA

Schedule of Findings and Questioned Costs

Year Ended December 31, 2011

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? _____ 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? _____ 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	66.202	Congressionally Mandated Projects

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 NORTH POLE, ALASKA

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2011

Financial Statement Findings

There were no prior year audit findings.

Federal Award Findings

There were no prior year audit findings.

State Award Findings

There were no prior year audit findings.

CITY OF NORTH POLE, ALASKA

Corrective Action Plan

Year Ended December 31, 2011

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