

CITY OF NORTH POLE, ALASKA

ANNUAL FINANCIAL REPORT

December 31, 2013



# CITY OF NORTH POLE, ALASKA

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and  
Members of the City Council  
City of North Pole, Alaska

### *Report on the Financial Statements*

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Prior Year Audit*

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements were audited by another auditor who expressed an unmodified opinion on the financial statements in their report dated April 29, 2013. The report contained an emphasis of matter paragraph noting the adoption by the City of North Pole of the provisions of Governmental Accounting Standards Board (GASB) Statement number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and the provisions of GASB Statement number 65, *Items Previously Reported as Assets and Liabilities*. Their opinion was not modified with respect to this matter.

### *Required Supplementary Information*

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### *Other Information*

Our audit for the year ended December 31, 2013 was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of North Pole, Alaska's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, the Schedule of State Financial Assistance, and the combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards and the Schedule of State Financial Assistance are required by OMB Circular A-133 and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, respectively.

The accompanying Schedule of Expenditures of Federal Awards, the Schedule of State Financial Assistance, the combining and individual fund financial statements and schedules listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole for the year ended December 31, 2013.

The individual fund financial statements and schedules related to the December 31, 2012 financial statements were audited by other auditors. These statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. We do not express an opinion or provide any assurance on the individual fund statements and schedules related to the December 31, 2012 financial statements.

***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated June 10, 2014, on our consideration of the City of North Pole, Alaska'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 on internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of North Pole, Alaska's internal control over financial reporting and compliance.

Fairbanks, Alaska  
June 10, 2014

*Wohler, Schmitt & Hutcheson PC*

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## BASIC FINANCIAL STATEMENTS

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CITY OF NORTH POLE  
STATEMENT OF NET POSITION  
December 31, 2013

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Current assets			
Cash and cash equity	\$ 2,198,239	972,316	3,170,555
Receivables, net of allowance for doubtful accounts of \$5,636	483,260	654,865	1,138,125
Special assessments, net of allowance for doubtful accounts of \$6,236	893,247	-	893,247
Other assets	9,274	-	9,274
Total current assets	<u>3,584,020</u>	<u>1,627,181</u>	<u>5,211,201</u>
Restricted cash and investments	-	200,213	200,213
Capital Assets			
Land and construction in progress	365,316	3,319,360	3,684,676
Other capital assets, net of depreciation	3,902,564	17,078,527	20,981,091
Total noncurrent assets	<u>4,267,880</u>	<u>20,397,887</u>	<u>24,665,767</u>
Total assets	<u>7,851,900</u>	<u>22,225,281</u>	<u>29,876,968</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Unamortized loss on refunding	73,828	-	73,828
Total assets and deferred outflows of resources	<u>\$ 7,925,728</u>	<u>22,225,281</u>	<u>30,151,009</u>
<u>LIABILITIES</u>			
Current liabilities			
Accounts payable	110,286	121,382	231,668
Accrued liabilities	278,392	13,053	291,445
Customer deposits	-	29,849	29,849
Unearned revenue	134,038	106,836	240,874
Total current liabilities	<u>522,716</u>	<u>271,120</u>	<u>793,836</u>
Noncurrent liabilities			
Due within one year:			
Accrued vacation and sick leave	172,421	27,008	199,429
Bonds and loan	72,707	36,520	109,227
Capital leases	54,732	-	54,732
Due in more than one year:			
Loans	-	976,724	976,724
General obligation bond	885,000	-	885,000
Special assessment bonds	75,367	-	75,367
Revenue bonds	-	512,916	512,916
Unamortized bond premium	92,509	-	92,509
Capital leases	86,192	-	86,192
Total liabilities	<u>1,961,644</u>	<u>1,824,288</u>	<u>3,785,932</u>
<u>NET POSITION</u>			
Net investment in capital assets	3,001,373	18,871,727	21,873,100
Restricted for:			
Public safety	19,726	-	19,726
Unrestricted	2,942,985	1,529,266	4,472,251
Total net position	<u>5,964,084</u>	<u>20,400,993</u>	<u>26,365,077</u>
Total liabilities and net position	<u>\$ 7,925,728</u>	<u>22,225,281</u>	<u>30,151,009</u>

See notes to financial statements.

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CITY OF NORTH POLE  
STATEMENT OF ACTIVITIES  
Year ended December 31, 2013

Functions/programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services and Other	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental activities:</b>							
General government	\$ 879,484	18,465	72,803	8,181	(780,035)	-	(780,035)
Public safety	3,909,271	448,417	307,382	1,013,874	(2,139,598)	-	(2,139,598)
Public works	751,078	-	-	-	(751,078)	-	(751,078)
Community services	74,277	-	6,505	14,641	(53,131)	-	(53,131)
Debt service:							
Principal	133,331	-	-	-	(133,331)	-	(133,331)
Interest	49,162	-	-	-	(49,162)	-	(49,162)
Total governmental activities	5,796,603	466,882	386,690	1,036,696	(3,906,335)	-	(3,906,335)
<b>Business-type activities:</b>							
Water and sewer utility	2,780,296	1,748,625	48,069	1,839,173	855,571	855,571	855,571
Total business-type activities	2,780,296	1,748,625	48,069	1,839,173	855,571	855,571	855,571
<b>General revenues:</b>							
Taxes, grants and revenues not restricted to specific purposes:							
Sales tax					2,980,798	-	2,980,798
Property tax					1,030,386	-	1,030,386
Grants					556,903	-	556,903
Interest					56,157	-	56,157
Other					371,861	-	371,861
Transfers					(36,965)	36,965	-
Total general revenues					4,959,140	36,965	4,996,105
Changes in net position					1,052,805	892,536	1,945,341
Beginning net position					4,911,279	19,508,457	24,419,736
Ending net position					\$ 5,964,084	20,400,993	26,365,077

See notes to financial statements.

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CITY OF NORTH POLE  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
December 31, 2013

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>					
Cash and cash equity	\$ 1,743,029	191,739	80,337	183,134	2,198,239
Receivables (net)					
Accounts, net of allowance for doubtful accounts of \$-0-	402,991	-	54,784	25,485	483,260
Special assessments, net of allowance for doubtful accounts of \$6,236	-	893,247	-	-	893,247
Other governments	-	-	-	-	-
Other prepaid expenses	9,274	-	-	-	9,274
	<u>2,155,294</u>	<u>1,084,986</u>	<u>135,121</u>	<u>208,619</u>	<u>3,584,020</u>
Total assets	\$				
<u>LIABILITIES</u>					
Accounts payable	101,918	-	1,083	7,285	110,286
Accrued liabilities	261,165	-	-	-	261,165
Unearned revenue	-	-	134,038	-	134,038
Total liabilities	<u>363,083</u>	<u>-</u>	<u>135,121</u>	<u>7,285</u>	<u>505,489</u>
Deferred inflows - deferred assessments	-	893,014	-	-	893,014
<u>FUND EQUITY</u>					
Fund balances:					
Restricted-public safety	-	-	-	61,626	61,626
Committed-debt service	-	191,971	-	-	191,971
Assigned:					
General government	59,615	-	-	111,211	170,826
Public safety	28,704	-	-	8,774	37,478
Community services	-	-	-	19,726	19,726
Unassigned	1,703,898	-	-	-	1,703,898
Total fund balances	<u>1,792,217</u>	<u>191,971</u>	<u>-</u>	<u>201,337</u>	<u>2,185,525</u>
Total liabilities, deferred inflows, and fund balances	\$	<u>2,155,294</u>	<u>135,121</u>	<u>208,619</u>	<u>3,584,020</u>

See notes to financial statements.

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CITY OF NORTH POLE  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
December 31, 2013

Total fund balances for governmental funds \$ 2,185,525

Total net position reported for governmental activities in the  
Statement of Net Position 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		3,835,942	
Office furniture and equipment		1,685,387	
Vehicles and equipment		3,640,762	
Infrastructure		1,733,206	
Accumulated depreciation		<u>(6,992,733)</u>	4,267,880

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. 893,014

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	\$	(1,033,074)	
Capital leases		(140,924)	
Unamortized bond premium		(92,509)	
Unamortized loss on refunding		73,828	
Accrued interest on bonds		(17,235)	
Accrued leave		<u>(172,421)</u>	<u>(1,382,335)</u>

Net assets of governmental activities \$ 5,964,084

See notes to financial statements.

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CITY OF NORTH POLE  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
Year ended December 31, 2013

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes	\$ 4,011,184	-	-	-	4,011,184
Special assessments	-	77,612	-	-	77,612
Intergovernmental	643,442	-	-	-	643,442
Charges for services	448,417	-	1,036,696	200,492	1,880,630
Interest income	2,312	-	-	93,154	541,571
Other	312,714	53,845	-	-	56,157
	<u>5,418,069</u>	<u>131,457</u>	<u>1,036,696</u>	<u>6,505</u>	<u>319,219</u>
<b>EXPENDITURES</b>					
Current:					
General government	788,275	-	-	-	788,275
Public safety	3,533,874	-	-	-	3,533,874
Public works	626,714	-	-	-	626,714
Community services	45,347	-	-	-	45,347
Debt service	-	-	-	-	-
Principal	61,194	72,137	-	-	133,331
Interest	134	49,028	-	-	49,162
Special revenue	-	-	-	217,781	217,781
Capital outlay	-	-	1,036,696	-	1,036,696
	<u>5,055,538</u>	<u>121,165</u>	<u>1,036,696</u>	<u>217,781</u>	<u>6,431,180</u>
Excess (deficiency) of revenues over expenditures	362,531	10,292	-	82,370	455,193
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers (to) from other funds	31,130	(36,965)	-	(31,130)	(36,965)
Total other financing sources(uses)	<u>31,130</u>	<u>(36,965)</u>	<u>-</u>	<u>(31,130)</u>	<u>(36,965)</u>
Net change in fund balances	393,661	(26,673)	-	51,240	418,228
Beginning fund balances	1,398,556	218,644	-	150,097	1,767,297
Ending fund balances	<u>\$ 1,792,217</u>	<u>191,971</u>	<u>-</u>	<u>201,337</u>	<u>2,185,525</u>

See notes to financial statements.

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CITY OF NORTH POLE  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
Year ended December 31, 2013

Net change in fund balances - total governmental funds	\$	418,228
The change in net position 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 capital outlays exceeded depreciation.		
		582,103
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.		
		(66,023)
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 no effect on net position. 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 Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:		
Payments on bonds	\$ 72,137	
Payments on capital leases	55,154	
Amortization of bond premium and loss on refunding	<u>(12,293)</u>	114,998
Interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This amount is the decrease in accrued interest payable.		
		2,861
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 increase in accrued leave.		
		<u>638</u>
Changes in net position of governmental activities	\$	<u><u>1,052,805</u></u>

See notes to financial statements.

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CITY OF NORTH POLE  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
Year ended December 31, 2013

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenues:				
Taxes	\$ 3,981,505	4,027,035	4,011,184	(15,851)
Licenses and permits	15,500	17,000	18,466	1,466
Charges for services - ambulance service	375,000	448,469	448,417	(52)
Intergovernmental:				
Federal government	-	96,301	95,392	(909)
State of Alaska	441,300	515,830	556,903	41,073
Investment income	3,000	3,000	2,312	(688)
Other revenues	258,750	281,110	285,395	4,285
Total revenues	<u>5,075,055</u>	<u>5,388,745</u>	<u>5,418,069</u>	<u>29,324</u>
Expenditures:				
General government	783,095	802,642	788,275	14,367
Public safety	3,504,892	3,593,635	3,533,874	59,761
Public works	664,822	657,199	626,714	30,485
Community services	70,551	56,949	45,347	11,602
Debt service:				-
Capital lease principal	61,195	61,195	61,194	1
Capital lease interest	500	500	134	366
Total expenditures	<u>5,085,055</u>	<u>5,172,120</u>	<u>5,055,538</u>	<u>116,582</u>
Excess of revenues over (under) expenditures	(10,000)	216,625	362,531	145,906
Other financing sources (uses):				
Transfers in	10,000	47,288	31,130	(16,158)
Net other financing sources (uses)	<u>10,000</u>	<u>47,288</u>	<u>31,130</u>	<u>(16,158)</u>
Net change in fund balance	<u>\$ -</u>	<u>169,337</u>	393,661	<u>129,748</u>
Beginning fund balance			<u>1,398,556</u>	
Ending fund balance			<u>\$ 1,792,217</u>	

See notes to financial statements.

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CITY OF NORTH POLE  
WATER AND SEWER ENTERPRISE FUND  
STATEMENT OF NET POSITION  
December 31, 2013

	<u>2013</u>
<u>ASSETS</u>	
CURRENT ASSETS	
Cash and cash equity	\$ 972,316
Receivables	
Grants	522,698
Accounts	137,803
Allowance for doubtful accounts	<u>(5,636)</u>
Total current assets	<u>1,627,181</u>
NONCURRENT ASSETS	
Property, plant and equipment	46,183,706
Less accumulated depreciation	<u>(25,785,819)</u>
Total property, plant and equipment	<u>20,397,887</u>
Restricted cash	<u>200,213</u>
Total assets	<u>\$ 22,225,281</u>
<u>LIABILITIES</u>	
CURRENT LIABILITIES	
Accounts payable	121,382
Accrued liabilities	40,061
Customer deposits	29,849
Unearned revenues	106,836
Current portion of bond and note payable	<u>36,520</u>
Total current liabilities	<u>334,648</u>
BOND AND NOTES PAYABLE, less current portion	<u>1,489,640</u>
Total liabilities	<u>1,824,288</u>
<u>NET POSITION</u>	
Net investment in capital assets	18,871,727
Unrestricted	<u>1,529,266</u>
Total net position	<u>20,400,993</u>
Total liabilities and net position	<u>\$ 22,225,281</u>

See notes to financial statements.

CITY OF NORTH POLE  
WATER AND SEWER ENTERPRISE FUND  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
Year ended December 31, 2013

	2013
OPERATING REVENUES-charges for services	\$ 1,748,625
OPERATING EXPENSES	
Water	
Salaries and benefits	261,725
Other operating expenses	325,603
Depreciation	522,984
	1,110,312
Sewer	
Salaries and benefits	339,282
Materials and supplies	328,218
Depreciation	971,256
	1,638,756
Operating loss	(1,000,443)
NONOPERATING REVENUES (EXPENSES)	
State of Alaska PERS relief	48,069
Interest expense	(31,228)
	16,841
Loss before contributions and transfers	(983,602)
Interfund transfer in (out)	36,965
Capital contributions	1,839,173
	892,536
Changes in net position	892,536
Beginning net position	19,508,457
Ending net position	\$ 20,400,993

See notes to financial statements.

CITY OF NORTH POLE  
WATER AND SEWER ENTERPRISE FUND  
STATEMENT OF CASH FLOWS  
Year ended December 31, 2013

	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 1,707,863
Cash paid to suppliers	(796,846)
Cash paid to employees	(601,007)
Net cash provided (used) by operating activities	310,010
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers in	36,965
	36,965
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Additions to property, plant, and equipment	(2,620,802)
Proceeds from debt	676,724
Capital contributions received	1,839,173
Payment of revenue bond principal and interest	(67,215)
Net cash provided (used) by capital and related financing activities	(172,120)
 Net increase (decrease) in cash	 174,855
CASH AND CASH EQUIVALENTS, January 1	997,674
CASH AND CASH EQUIVALENTS, December 31	\$ 1,172,529
Cash and cash equivalents at end of year:	
Cash and cash equity	972,316
Restricted cash	200,213
	1,172,529
Operating loss	(1,000,443)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation	1,494,241
Noncash expense - PERS relief	48,069
Decrease (increase) in:	
Receivables	(88,831)
Inventory	-
Increase (decrease) in:	
Accounts payable	(119,217)
Accrued liabilities	4,108
Customer deposits	2,475
Unearned revenue	(30,392)
Net cash provided (used) by operating activities	\$ 310,010

See notes to financial statements.

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## CITY OF NORTH POLE, ALASKA

### Notes to Basic Financial Statements

#### 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 position 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. 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.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

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

Major proprietary fund:

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

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. 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 Water and Sewer 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 General Capital Project Fund has 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.

## CITY OF NORTH POLE, ALASKA

### Notes to Basic Financial Statements, Continued

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 Water and Sewer 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 Water and Sewer 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.

*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.

## CITY OF NORTH POLE, ALASKA

### Notes to Basic Financial Statements, Continued

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

*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.

*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

## CITY OF NORTH POLE, ALASKA

### Notes to Basic Financial Statements, Continued

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

*Unearned 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 unearned revenue.

*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 position. Bond premiums and discounts, 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

1. 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.

*Deferred inflows and outflows*-- The City has adopted GASB pronouncements 63 and 65, resulting in a change in presentation of the government-wide and fund level financial statements. The pronouncements require reporting two categories of accounts. A *deferred outflow* represents the consumption of the government's net assets or fund balance that is applicable to a future reporting period. A *deferred inflow* represents the acquisition of net assets or fund balance that is applicable to a future reporting period. For example, revenues that have been earned but are not yet available in the governmental funds are now reported as *deferred inflows*.

*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 CASH EQUITY

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 cash equity" 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, 2013.

Bank deposits	\$ 3,370,568
Other	<u>200</u>
	\$ <u>3,370,768</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

2. CASH AND CASH EQUITY, CONTINUED

Reconciliation to the basic financial statements:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
Cash and cash equity	\$ 2,198,239	972,316	3,170,555
Restricted cash	-	200,213	200,213
	<u>\$ 2,198,239</u>	<u>1,172,529</u>	<u>3,370,768</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, 2013 was as follows:

	Balance January 1, 2013	Additions	Deletions	Balance December 31, 2013
<b>Governmental activities</b>				
<i>Capital assets not being depreciated:</i>				
Construction in progress	\$ 301,933	41,084	343,017	-
Land and land improvements	365,316	-	-	365,316
Total assets not being depreciated	<u>667,249</u>	<u>41,084</u>	<u>343,017</u>	<u>365,316</u>
<i>Capital assets being depreciated:</i>				
Buildings	3,540,662	295,280	-	3,835,942
Office furniture and equipment	1,581,568	103,819	-	1,685,387
Vehicles and equipment	2,743,132	928,807	31,177	3,640,762
Infrastructure	1,733,206	-	-	1,733,206
Total assets being depreciated	<u>9,598,568</u>	<u>1,327,906</u>	<u>31,177</u>	<u>10,895,297</u>
Less accumulated depreciation for:				
Buildings	2,585,413	124,381	-	2,709,794
Office furniture and equipment	1,164,266	69,056	-	1,233,322
Vehicles and equipment	2,329,766	163,773	31,177	2,462,362
Infrastructure	500,595	86,660	-	587,255
Total accumulated depreciation	<u>6,580,040</u>	<u>443,870</u>	<u>31,177</u>	<u>6,992,733</u>
Total capital assets being depreciated, net	<u>3,018,528</u>	<u>884,036</u>	<u>-</u>	<u>3,902,564</u>
Governmental activity capital assets, net	<u>\$ 3,685,777</u>	<u>925,120</u>	<u>343,017</u>	<u>4,267,880</u>
<b>Business-type activities</b>				
<i>Capital assets not being depreciated:</i>				
Land and land improvements	390,415	7,770	-	398,185
Construction in progress	4,737,883	2,610,141	4,426,848	2,921,175
Total capital assets not being depreciated	<u>5,128,298</u>	<u>2,617,911</u>	<u>4,426,848</u>	<u>3,319,360</u>
<i>Capital assets being depreciated:</i>				
Sewer and water system	36,657,528	4,429,739	-	41,087,267
Machinery and equipment	1,777,078	-	-	1,777,078
Total assets being depreciated	<u>38,434,606</u>	<u>4,429,739</u>	<u>-</u>	<u>42,864,345</u>
Less accumulated depreciation for:				
Sewer and water system	23,534,746	1,388,739	-	24,923,485
Machinery and equipment	756,832	105,502	-	862,334
Total accumulated depreciation	<u>24,291,578</u>	<u>1,494,241</u>	<u>-</u>	<u>25,785,819</u>
Total capital assets being depreciated, net	<u>14,143,028</u>	<u>2,935,498</u>	<u>-</u>	<u>17,078,526</u>
Business-type activity capital assets, net	<u>\$ 19,271,326</u>	<u>5,553,409</u>	<u>4,426,848</u>	<u>20,397,887</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

3. CAPITAL ASSETS, CONTINUED

Depreciation expense was charged to the functions as follows:

<b>Governmental activities</b>	
General government	\$ 35,857
Public safety	269,719
Public works	127,472
Community services	<u>10,822</u>
Total depreciation - governmental activities	<u>\$ 443,870</u>
<b>Business-type activities</b>	
Water	522,984
Sewer	<u>971,256</u>
Total depreciation expense - business-type activities	<u>\$ 1,494,241</u>

4. LONG-TERM DEBT

*Advance Refunding* - In 2012, the City issued \$835,000 in 2012 Series II General Obligation Refunding Bonds with interest rates of 2 percent to 5 percent to advance refund General Obligation Bonds of \$835,000. The new bonds were issued at a premium of \$137,568 and after paying issuance and other costs of \$20,438, the net proceeds were \$952,130. The net proceeds from the issuance were deposited into an irrevocable trust with an escrow agent to provide debt service payments on the old bonds. The advance refunding met the requirements of an in-substance defeasance of a portion of the old bonds and \$835,000 was removed from the City's government-wide financial statements. The remaining liability on the old bonds at December 31, 2013 is \$125,000. At December 31, 2013, \$820,000 of the deferred bonds remain outstanding and payable by the escrow account paying agent. As a result of the advance refunding in 2012, the City recorded a deferred loss of \$110,742. The balance remaining in the deferred loss as of December 31, 2013 is \$73,828.

*Alaska Clean Water Loan*- In 2011, the City entered into a loan agreement with the Alaska Department of Environmental Conservation for an additional Alaska Clean Water Fund loan in the amount of \$1,416,500 with a loan term of 20 years at a rate of 1.5 percent per annum. Construction on this project to reduce inflow and infiltration in the City sewer system was still in progress at December 31, 2013 so no repayment schedule for this debt has been determined. The note payable at December 31, 2013 consists of loan advances received by the City.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

4. LONG-TERM DEBT, CONTINUED

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2013:

	Balance January 1, 2013	Additions	Retired	Balance December 31, 2013	Due Within One Year
<b>Governmental activities</b>					
General Obligation Bonds - \$1,350,000 2005 Series B bonds, due in annual installments of \$55,000 to \$105,000 through May 1, 2015; including interest at 5%.	\$ 180,000	-	55,000	125,000	60,000
General Obligations Refunding Bonds - \$835,000 2012 Series 2 bonds, due in annual installments of \$5,000 to \$100,000 through September 1, 2025; plus variable interest at 2% to 5%.	825,000	-	5,000	820,000	-
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%.	100,211	-	12,137	88,074	12,707
Capital lease obligation for a copier, payable in various monthly amounts including interest at 10.49%.	3,368	-	3,108	260	260
Capital lease obligation for a fire pumper truck, payable in annual installments of \$46,944 including interest at 4.615% through 2016.	166,522	-	39,259	127,263	41,071
Capital lease obligation for a police vehicle, payable in annual install- ments of \$14,384 including interest at 6.5% through 2014.	26,188	-	12,787	13,401	13,401
Accrued leave	<u>173,059</u>	<u>206,433</u>	<u>207,071</u>	<u>172,421</u>	<u>172,421</u>
Total governmental activities	1,474,348	<u>206,433</u>	<u>334,362</u>	<u>1,346,419</u>	<u>299,860</u>
Unamortized bond premium	<u>117,130</u>		24,621	<u>92,509</u>	
	<u>\$ 1,591,478</u>			<u>1,438,928</u>	

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

4. LONG-TERM DEBT, CONTINUED

	Balance January 1, 2013	Additions	Retired	Balance December 31, 2013	Due Within One Year
<b>Business-type activities</b>					
Revenue bonds-					
\$647,600 1998 utility revenue bonds, due in semi-annual installments of \$18,483 including interest at 4.875% through March 1, 2036.	\$ 535,423	-	10,987	524,436	11,520
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.	350,000	-	25,000	325,000	25,000
Note payable - construction in progress \$1,416,500 Alaska Clean Water Fund Loan	-	-	-	676,724	-
Accrued leave	22,900	35,581	31,473	27,008	27,008
Total business-type activities	<u>\$ 908,323</u>	<u>35,581</u>	<u>67,460</u>	<u>1,553,168</u>	<u>63,528</u>

**Governmental activities**

The annual debt service requirements of the general obligation bonds and loans outstanding at December 31, 2013 that are in repayment status follow:

Year Ending December 31,	General Obligation Bonds			Special Assessment Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 60,000	41,300	101,300	12,707	4,184	16,891
2015	65,000	38,175	103,175	13,310	3,580	16,890
2016	65,000	36,650	101,650	13,942	2,948	16,890
2017	70,000	33,950	103,950	14,605	2,285	16,890
2018	70,000	31,150	101,150	15,298	1,592	16,890
2019-2023	420,000	99,950	519,950	18,212	865	19,077
2024-2025	195,000	10,250	205,250	-	-	-
	<u>\$ 945,000</u>	<u>291,425</u>	<u>1,236,425</u>	<u>88,074</u>	<u>15,454</u>	<u>103,528</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

4. LONG-TERM DEBT, CONTINUED

Business type activities

Year Ending December 31,	Revenue Bonds			Note Payable		
	Principal	Interest	Total	Principal	Interest	Total
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	13,310	23,655	36,965	25,000	3,750	28,750
2018	13,967	22,998	36,965	25,000	3,375	28,375
2019-2023	80,881	103,944	184,825	125,000	11,250	136,250
2024-2028	102,904	81,922	184,826	75,000	2,250	77,250
2029-2033	130,924	53,901	184,825	-	-	-
2034-2036	146,157	15,796	161,953	-	-	-
	<u>\$ 524,436</u>	<u>376,818</u>	<u>901,254</u>	<u>325,000</u>	<u>34,125</u>	<u>359,125</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, 2013:

	<u>General Fund</u>
Machinery and equipment	\$ 470,716
Less accumulated depreciation	<u>(308,067)</u>
Carrying value	<u>\$ 162,649</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

5. 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, 2013:

<u>Year Ending</u> <u>December 31,</u>	<u>General Fund</u>
2014	\$ 61,423
2015	46,944
2016	<u>45,220</u>
Total minimum lease payments	153,587
Less interest portion	<u>12,663</u>
Present value of future minimum lease payments	140,924
Less current portion	<u>54,732</u>
Long-term portion	<u><u>\$ 86,192</u></u>

6. INTERFUND BALANCES AND TRANSFERS

There were no interfund balances at December 31, 2013. A schedule of interfund transfers for the year ended December 31, 2013, follows:

Transfers:

From non-major governmental funds to the General Fund	\$ 31,130
From Debt Service fund to Water and Sewer Enterprise Fund for short-term capital costs	\$ 36,965

## CITY OF NORTH POLE, ALASKA

### Notes to Basic Financial Statements, Continued

#### 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

#### Conversion to Cost Sharing

In April 2008, the Alaska Legislature passed legislation 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.

That same year, the State of Alaska passed additional legislation which statutorily capped the employer contribution, established a state funded "on-behalf" contribution, and required that employer contributions be calculated against all PERS eligible wages, including wages attributable to the defined contribution plan described later in these footnotes.

#### Defined Benefit Plan (Tiers I, II, and III)

##### Funding Policy

Regular employees are required to contribute 6.75 percent of their annual covered salary (2.97 percent for pension and 3.78 percent for healthcare). Police and firefighters are required to contribute 7.5 percent of their annual covered salary (3.29 percent for pension and 4.21 percent for healthcare). The PERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate the funds necessary to meet both pension and post-employment healthcare benefit obligations when due. The PERS average employer contribution rates for January through June 2013 were 35.84 percent (8.67 percent normal cost plus 24.16 percent past service rate, plus a 3.01 percent defined contribution retirement rate), an increase of 7.01 percent from the state's prior fiscal year. The PERS average employer contribution rates for July through December 2013 were 35.68 percent (8.12 percent normal cost plus 24.19 percent past service rate, plus a 3.37 percent defined contribution retirement rate), a decrease of .4 percent.

Effective July 1, 2007, the Alaska legislature set the effective employer rate at 22 percent for all employers with the difference between the effective rate and the actuarially determined rate (if greater than 22 percent) to be paid by the State on behalf of the municipal employer.

## CITY OF NORTH POLE, ALASKA

### Notes to Basic Financial Statements, Continued

#### 7. DEFINED BENEFIT PENSION PLAN, CONTINUED

##### Plan Contributions

The City contributed \$ 300,431, \$324,958, and \$339,883 in 2013, 2012, and 2011, respectively, to the PERS cost sharing defined benefit plan. This amount is equal to the mandatory employer contributions for the year.

On behalf payments made by the State for the years ending 2013, 2012, and 2011 were \$357,646, \$322,550 and \$285,843. On-behalf payments are recorded in the financial statements as revenue and expense/expenditures.

##### Defined Contribution Plan (Tier IV)

##### Funding Policy

Employee contribution rates for the defined contribution plan are 8 percent of eligible compensation. Calendar year 2013 employer contributions are 22 percent, the same as the defined benefit tiers.

For January through June 2013 the employers are required to contribute 5 percent to each member's individual pension account, 0.48 percent in the retiree medical plan and a flat dollar amount per employee based on 3 percent of the employer's average annual employee compensation into the employee's health reimbursement account and a residual contribution to pay down the defined benefit plan's unfunded liability. The employer also contributes 0.99 percent for occupational death and disability benefits for peace officers and firefighters and 0.14 percent for all others.

For July through December 2013 the employers are required to contribute 5 percent to each member's individual pension account, 0.48 percent into the retiree medical plan and a flat dollar amount per employee based on 3 percent of the employer's average annual employee compensation into the employee's health reimbursement account and a residual contribution to pay down the defined benefit's plan unfunded liability. The employer also contributes 1.14 percent for occupational death and disability benefits for peace officers and firefighters and 0.20 percent for all others.

##### Plan Contributions

City contributions to the PERS defined contribution plan for years ended 2013, 2012, and 2011 was \$266,060, \$241,572, and \$210,314, respectively, and the employee contributions to the plan were \$96,672, \$87,879, and \$76,538, respectively.

#### 8. 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 plans require that all assets and income of the plan be held in trust for the exclusive benefit of participants and their beneficiaries.

## CITY OF NORTH POLE, ALASKA

### Notes to Basic Financial Statements, Continued

#### 9. 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.

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 percent 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.

#### 10. 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.

#### 11. SUBSEQUENT EVENT

In February 2014, Flint Hills announced that refinery operations would cease as of June 2, 2014, resulting in a layoff of 80 employees. They announced that they would continue to retain 30 employees to continue their retail operation; however the Refinery is up for sale. Most of the 80 employees have found other employment, either with Flint Hills operations in the States or around Alaska. There is the possibility of having the value of the property and equipment devalued for assessment purposes, beginning with the 2015 assessment year. The City of North Pole estimates that this could result in a decrease of \$84,000 in property taxes.

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**SUPPLEMENTARY FINANCIAL INFORMATION**

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## 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.

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CITY OF NORTH POLE  
GENERAL FUND  
BALANCE SHEET  
December 31, 2013  
with comparative data for 2012

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
Cash and cash equity	\$ 1,743,029	1,206,655
Receivables (net of allowance for doubtful accounts of \$-0-)		
Sales taxes	364,633	356,064
Property taxes	11,166	6,126
Business taxes	15,344	8,125
Grants	4,624	6,775
Other	7,224	414
	<u>402,991</u>	<u>377,504</u>
Other prepaid assets	9,274	-
Due from other funds	-	118,320
	<u>9,274</u>	<u>118,320</u>
Total assets	\$ <u>2,155,294</u>	<u>1,702,479</u>
 <u>LIABILITIES AND FUND BALANCE</u>  		
Liabilities		
Accounts payable	101,918	111,588
Accrued payroll and related liabilities	261,165	192,335
Unearned revenue	-	-
	<u>363,083</u>	<u>303,923</u>
Fund balance-assigned	88,319	-
Fund balance - unassigned	1,703,898	1,398,556
	<u>1,792,217</u>	<u>1,398,556</u>
Total liabilities and fund balance	\$ <u>2,155,294</u>	<u>1,702,479</u>

CITY OF NORTH POLE  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
Year ended December 31, 2013  
with comparative data for 2012

	2013		Variance Favorable (Unfavorable)	2012
	Final	Actual		Actual
<b>REVENUES</b>				
Taxes				
Sales, alcohol, and use taxes	\$ 3,002,105	2,980,798	(21,307)	2,874,657
Property taxes	1,024,930	1,030,386	5,456	954,545
Total taxes	<u>4,027,035</u>	<u>4,011,184</u>	<u>(15,851)</u>	<u>3,829,202</u>
Business licenses	<u>17,000</u>	<u>18,465</u>	<u>1,465</u>	<u>14,830</u>
Charges for services - ambulance service	<u>448,469</u>	<u>448,417</u>	<u>(52)</u>	<u>415,095</u>
Federal government				
DOT commercial vehicle safety	4,301	4,301	-	3,255
Alaska Highway Safety Office	7,000	5,427	(1,573)	9,297
Corps of Engineers	80,000	72,652	(7,348)	67,388
IRS reimbursements	5,000	4,159	(841)	5,320
Total Federal government	<u>96,301</u>	<u>86,539</u>	<u>(9,762)</u>	<u>85,260</u>
State of Alaska				
State revenue sharing	256,585	256,584	(1)	343,801
PERS relief	259,245	300,319	41,074	253,763
Total State of Alaska	<u>515,830</u>	<u>556,903</u>	<u>41,073</u>	<u>597,564</u>
Investment Income	<u>3,000</u>	<u>2,312</u>	<u>(688)</u>	<u>2,621</u>
Other revenues				
Citation revenues	62,300	61,304	(996)	76,790
Fingerprinting	12,000	10,620	(1,380)	11,495
Police reports	2,810	2,612	(198)	3,015
Other public safety revenues	6,000	15,801	9,801	13,571
Miscellaneous	198,000	203,912	5,912	32,113
Total other revenues	<u>281,110</u>	<u>294,249</u>	<u>13,139</u>	<u>136,984</u>
Total revenues	<u>5,388,745</u>	<u>5,418,069</u>	<u>29,324</u>	<u>5,081,556</u>

See notes to financial statements.

CITY OF NORTH POLE  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND - CONTINUED  
Year ended December 31, 2013  
with comparative data for 2012

	2013		Variance Favorable (Unfavorable)	2012
	Final	Actual		Actual
<b>EXPENDITURES</b>				
General government				
Administration				
Salaries and benefits	\$ 475,259	480,966	(5,707)	487,635
Materials and supplies	53,900	44,651	9,249	84,430
Purchased services	172,001	161,262	10,739	170,126
Vehicle expenses	2,200	1,074	1,126	2,674
Insurance	23,030	23,026	4	20,770
Repairs and maintenance	38,102	39,933	(1,831)	35,665
Total administration	<u>764,492</u>	<u>750,912</u>	<u>13,580</u>	<u>801,300</u>
Municipal building				
Purchased services	32,750	31,715	1,035	32,755
Repairs and maintenance	5,400	5,648	(248)	-
Total municipal building	<u>38,150</u>	<u>37,363</u>	<u>787</u>	<u>32,755</u>
Total general government	<u>802,642</u>	<u>788,275</u>	<u>14,367</u>	<u>834,055</u>
Public safety				
Police department				
Salaries and benefits	1,384,489	1,388,612	(4,123)	1,358,635
Materials and supplies	36,657	35,437	1,220	31,039
Purchased services	79,603	66,449	13,154	68,381
Vehicle expenses	57,190	57,763	(573)	69,235
Insurance	125,000	103,938	21,062	99,343
Repairs and maintenance	15,500	10,542	4,958	13,953
Total police department	<u>1,698,439</u>	<u>1,662,741</u>	<u>35,698</u>	<u>1,640,586</u>
Fire department				
Salaries and benefits	1,696,226	1,677,198	19,028	1,715,453
Materials and supplies	30,060	28,672	1,388	29,705
Purchased services	61,830	65,552	(3,722)	77,625
Vehicle expenses	31,000	31,127	(127)	31,105
Insurance	55,080	48,938	6,142	47,498
Repairs and maintenance	21,000	19,646	1,354	22,172
Total fire department	<u>1,895,196</u>	<u>1,871,133</u>	<u>24,063</u>	<u>1,923,558</u>
Total public safety	<u>\$ 3,593,635</u>	<u>3,533,874</u>	<u>59,761</u>	<u>3,564,144</u>

See notes to financial statements.

CITY OF NORTH POLE  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND - CONTINUED  
Year ended December 31, 2013  
with comparative data for 2012

	2013		Variance Favorable (Unfavorable)	2012
	Final	Actual		Actual
<b>EXPENDITURES, CONTINUED</b>				
Public works				
Salaries and benefits	\$ 286,753	282,777	3,976	269,863
Materials and supplies	34,100	28,882	5,218	24,088
Purchased services	177,764	164,512	13,252	175,548
Vehicle expenses	36,500	32,011	4,489	27,341
Insurance	14,500	13,242	1,258	13,242
Repairs and maintenance	107,582	105,290	2,292	92,572
Total public works	<u>657,199</u>	<u>626,714</u>	<u>30,485</u>	<u>602,654</u>
Debt service				
Capital lease principal	61,195	61,194	1	86,030
Capital lease interest	500	134	366	9,027
Total debt service	<u>61,695</u>	<u>61,328</u>	<u>367</u>	<u>95,057</u>
Community services				
North Pole Christmas on Ice	8,542	7,047	1,495	10,951
North Pole Chamber of Commerce	17,085	14,095	2,990	21,903
Convention and Visitors	2,847	2,349	498	3,651
North Pole Economic Development Council	28,475	21,856	6,619	36,505
	<u>56,949</u>	<u>45,347</u>	<u>11,602</u>	<u>73,010</u>
Capital outlay - police vehicle	-	-	-	40,573
Total expenditures	<u>5,172,120</u>	<u>5,055,538</u>	<u>116,582</u>	<u>5,209,493</u>
Excess of revenues over (under) expenditures	216,625	362,531	145,906	(127,937)
Other financing sources (uses)				
Issuance of capital lease	-	-	-	40,573
Transfers in	47,288	31,130	(16,158)	(3,631)
Net other financing sources (uses)	<u>47,288</u>	<u>31,130</u>	<u>(16,158)</u>	<u>36,942</u>
Net change in fund balance	<u>\$ 169,337</u>	393,661	<u>129,748</u>	(90,995)
Beginning fund balance		<u>1,398,556</u>		<u>1,489,551</u>
Ending fund balance		<u>\$ 1,792,217</u>		<u>1,398,556</u>

See notes to financial statements.

## NON-MAJOR 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.

### IRS Forfeitures

This fund is used to record other 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.

### Impound Lot

This fund is used to account for monies collected from impound fees.

### Buck Nystrom Fund

This fund is used to account for donations for high school football.

CITY OF NORTH POLE  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
December 31, 2013

	Building Department	Fire Department	North Pole Community Ice Rink	North Pole Festival	Abade	Abade - State Forfeitures	IRS Forfeitures	AHSO	JAG	Impound Lot	Buck Nystrom Memorial	Total
Cash and cash equity	\$ 118,494	3,567	10,973	8,252	17,296	37,963	6,367	(16,658)	(3,620)	-	500	183,134
Accounts receivable	-	-	-	-	-	-	-	21,865	3,620	-	-	25,485
	<u>\$ 118,494</u>	<u>3,567</u>	<u>10,973</u>	<u>8,252</u>	<u>17,296</u>	<u>37,963</u>	<u>6,367</u>	<u>5,207</u>	<u>-</u>	<u>-</u>	<u>500</u>	<u>208,619</u>
ASSETS												
LIABILITIES												
Accounts payable	7,285	-	-	-	-	-	-	-	-	-	-	7,285
	<u>7,285</u>											<u>7,285</u>
FUND BALANCES												
Restricted-public safety	-	-	-	-	17,296	37,963	6,367	-	-	-	-	61,626
Assigned	-	-	-	-	-	-	-	-	-	-	-	-
General government	111,211	-	-	-	-	-	-	-	-	-	-	111,211
Public safety	-	3,567	-	-	-	-	-	5,207	-	-	-	8,774
Community services	-	-	10,973	8,253	-	-	-	-	-	-	500	19,726
Total fund balances	<u>111,211</u>	<u>3,567</u>	<u>10,973</u>	<u>8,253</u>	<u>17,296</u>	<u>37,963</u>	<u>6,367</u>	<u>5,207</u>	<u>-</u>	<u>-</u>	<u>500</u>	<u>201,337</u>
Total liabilities and fund balances	<u>\$ 118,494</u>	<u>3,567</u>	<u>10,973</u>	<u>8,252</u>	<u>17,296</u>	<u>37,963</u>	<u>6,367</u>	<u>5,207</u>	<u>-</u>	<u>-</u>	<u>500</u>	<u>208,619</u>

See notes to financial statements.

CITY OF NORTH POLE  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
Year ended December 31, 2013

	Building Department	Fire Department	North Pole Community Ice Rink	North Pole Festival	Abade	Abade - State Forfeitures	IRS Forfeitures	AHSO	JAG	Impound Lot	Buck Nystrom Memorial	Total
<b>REVENUES</b>												
Intergovernmental	-	-	-	-	26,748	34,273	-	91,510	47,961	-	-	200,492
Charges for services	72,802	-	-	-	-	-	-	-	-	20,352	-	93,154
Other	-	-	-	6,005	-	-	-	-	-	-	500	6,505
	72,802	-	-	6,005	26,748	34,273	-	91,510	47,961	20,352	500	300,151
<b>EXPENDITURES</b>												
	44,490	9,828	-	5,563	10,931	4,776	-	91,510	47,961	2,722	-	217,781
Excess (deficiency) of revenues over expenditures	28,312	(9,828)	-	442	15,817	29,497	-	-	-	17,630	500	82,370
<b>OTHER FINANCING SOURCES (USES)</b>												
Interfund transfers in (out)	-	(13,500)	-	-	(3,646)	3,696	(50)	-	-	(17,630)	-	(31,130)
Total other financing sources (uses)	-	(13,500)	-	-	(3,646)	3,696	(50)	-	-	(17,630)	-	(31,130)
Net change in fund balances	28,312	(23,328)	-	442	12,171	33,193	(50)	-	-	-	500	51,240
Beginning fund balances	82,899	26,895	10,973	7,811	5,125	4,770	6,417	5,207	-	-	-	150,097
Ending fund balances	111,211	3,567	10,973	8,253	17,296	37,963	6,367	5,207	-	-	500	201,337

See notes to financial statements.

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### 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  
DEBT SERVICE FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
Year ended December 31, 2013  
with comparative data for 2012

	<u>2013</u>	<u>2012</u>
Revenues		
Special assessments	77,612	73,040
Investment income	53,845	41,301
	<u>\$ 131,457</u>	<u>114,341</u>
Expenditures - debt service		
2005 Series B - G.O. bonds		
Principal	55,000	65,000
Interest	4,500	41,257
Total 2005 Series B-G.O. bonds	<u>59,500</u>	<u>106,257</u>
2002 special assessment bonds		
Principal	12,137	11,586
Interest	4,753	5,304
Total 2002 special assessment bonds	<u>16,890</u>	<u>16,890</u>
2012 Series 2 refunding bonds		
Debt issuance cost	-	20,438
Principal	5,000	-
Interest	39,775	-
Total 2012 Series 2 refunding bonds	<u>44,775</u>	<u>20,438</u>
Other	-	704
	<u>-</u>	<u>704</u>
Total expenditures	<u>121,165</u>	<u>144,289</u>
Excess of revenues over (under) expenditures	<u>10,292</u>	<u>(29,948)</u>
Other financing sources (uses)		
Transfers out	(36,965)	(36,965)
Refunding bond issuance - par value	-	835,000
Refunding bond issuance - premium on bond issuance	-	137,568
Payment to refunding bond escrow agent	-	(952,130)
	<u>(36,965)</u>	<u>(16,527)</u>
Net changes in fund balance	(26,673)	(46,475)
Beginning fund balance	<u>218,644</u>	<u>265,119</u>
Ending fund balance	<u>\$ 191,971</u>	<u>218,644</u>

## MAJOR ENTERPRISE FUND

An 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 Enterprise Fund

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

CITY OF NORTH POLE  
WATER AND SEWER ENTERPRISE FUND  
STATEMENTS OF NET POSITION  
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
<b>CURRENT ASSETS</b>		
Cash and cash equity	\$ 972,316	748,516
Receivables		
Grants	522,698	445,985
Accounts	137,803	125,685
Allowance for doubtful accounts	(5,636)	(5,636)
Total current assets	<u>1,627,181</u>	<u>1,314,550</u>
<b>NONCURRENT ASSETS</b>		
Property, plant and equipment	46,183,706	43,562,904
Less accumulated depreciation	(25,785,819)	(24,291,578)
Total property, plant and equipment	<u>20,397,887</u>	<u>19,271,326</u>
Restricted cash	<u>200,213</u>	<u>249,158</u>
	200,213	249,158
 Total assets	 <u>\$ 22,225,281</u>	 <u>20,835,034</u>
<u>LIABILITIES</u>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	121,382	240,599
Accrued liabilities	40,061	35,953
Customer deposits	29,849	27,374
Unearned revenues	106,836	137,228
Current portion of bond and note payable	36,520	35,978
Total current liabilities	<u>334,648</u>	<u>477,132</u>
BOND AND NOTES PAYABLE, less current portion	<u>1,489,640</u>	<u>849,445</u>
Total liabilities	<u>1,824,288</u>	<u>1,326,577</u>
<u>NET POSITION</u>		
Net investment in capital assets	18,871,727	18,385,903
Unrestricted	1,529,266	1,122,554
Total net position	<u>20,400,993</u>	<u>19,508,457</u>
Total liabilities and net position	<u>\$ 22,225,281</u>	<u>20,835,034</u>

See notes to financial statements.

CITY OF NORTH POLE  
WATER AND SEWER ENTERPRISE FUND  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
Years ended December 31, 2013 and 2012

	2013	2012
OPERATING REVENUES	\$ 857,920	806,614
Water	890,705	1,054,308
Sewer	1,748,625	1,860,922
OPERATING EXPENSES		
Water		
Salaries and benefits	261,725	430,421
Materials and supplies	66,584	74,973
Purchased services	235,594	236,132
Vehicle expense	5,549	8,302
Insurance	17,684	19,288
Repairs and maintenance	192	765
Depreciation	522,984	389,612
Bad debt expense	-	260
	1,110,312	1,159,753
Sewer		
Salaries and benefits	339,282	146,626
Materials and supplies	46,107	33,035
Purchased services	259,053	294,758
Vehicle expense	7,024	10,062
Insurance	16,034	10,461
Repairs and maintenance	-	-
Depreciation	971,256	723,565
Bad debt expense	-	86
	1,638,756	1,218,593
Operating loss	(1,000,443)	(517,424)
NONOPERATING REVENUES (EXPENSES)		
State of Alaska PERS relief	48,069	39,522
Interest expense	(31,228)	(32,120)
	16,841	7,402
Loss before contributions and transfers	(983,602)	(510,022)
Interfund transfer in (out)	36,965	36,965
Capital contributions	1,839,173	1,088,885
Changes in net position	892,536	615,828
Beginning net position	19,508,457	18,892,629
Ending net position	\$ 20,400,993	19,508,457

See notes to financial statements.

CITY OF NORTH POLE  
WATER AND SEWER ENTERPRISE FUND  
STATEMENTS OF CASH FLOWS  
Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 1,707,863	1,847,769
Cash paid to suppliers	(796,846)	(596,075)
Cash paid to employees	(601,007)	(537,751)
Net cash provided (used) by operating activities	<u>310,010</u>	<u>713,943</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers in	<u>36,965</u>	<u>36,965</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Additions to property, plant, and equipment	(2,620,802)	(1,575,135)
Proceeds of long term debt	676,724	-
Capital contributions received	1,839,173	835,407
Payment of revenue bond principal and interest	(67,215)	(67,589)
Net cash provided (used) by capital and related financing activities	<u>(172,120)</u>	<u>(807,317)</u>
Net increase (decrease) in cash	174,855	(56,409)
CASH AND CASH EQUIVALENTS, January 1	<u>997,674</u>	<u>1,054,083</u>
CASH AND CASH EQUIVALENTS, December 31	<u>\$ 1,172,529</u>	<u>997,674</u>
Cash and cash equivalents at end of year:		
Cash and cash equity	972,316	748,516
Restricted cash	200,213	249,158
	<u>1,172,529</u>	<u>997,674</u>
Operating loss	(1,000,443)	(517,424)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	1,494,241	1,113,177
Noncash expense - PERS relief	48,069	39,522
Decrease (increase) in:		
Receivables	(88,831)	(226)
Inventory	-	17,264
Increase (decrease) in:		
Accounts payable	(119,217)	74,783
Accrued liabilities	4,108	(226)
Customer deposits	2,475	5,824
Unearned revenue	(30,392)	(18,751)
Net cash provided (used) by operating activities	<u>\$ 310,010</u>	<u>713,943</u>

See notes to financial statements.

**SINGLE AUDIT SECTION**

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**FEDERAL SINGLE AUDIT  
REPORTS AND SCHEDULES**

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and  
Members of the City Council  
City of North Pole, Alaska

We have audited, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise City of North Pole, Alaska's basic financial statements and have issued our report thereon dated June 10, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered City of North Pole, Alaska's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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, Alaska's internal control. Accordingly, we do not express an opinion on the effectiveness of City of North Pole, Alaska's internal control.

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 a 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. A significant deficiency is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. [F2013-01, F2013-02]

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of North Pole, Alaska'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*.

**City of North Pole, Alaska's Response to Findings**

City of North Pole, Alaska's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of North Pole, Alaska's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fairbanks, Alaska  
June 10, 2014

A handwritten signature in black ink, appearing to read "Wolter, Harold & Catherine PC". The signature is written in a cursive style.



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
OMB CIRCULAR A-133**

Honorable Mayor and  
Members of the City Council  
City of North Pole, Alaska

**Report on Compliance for Each Major Federal Program**

We have audited City of North Pole, Alaska'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, Alaska's major federal programs for the year ended December 31, 2013. City of North Pole, Alaska's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of City of North Pole, Alaska's major federal programs based on our audit of the types of compliance requirements referred to above. 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, Alaska'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 on compliance for each major federal program. However, our audit does not provide a legal determination of City of North Pole, Alaska's compliance.

**Opinion on Each Major Federal Program**

In our opinion, City of North Pole, Alaska complied, in all material respects, with the types of 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, 2013.

## Report on Internal Control Over Compliance

Management of City of North Pole, Alaska is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of North Pole, Alaska's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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, Alaska'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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Fairbanks, Alaska  
June 10, 2014



**CITY OF NORTH POLE, ALASKA**  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2013

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<b>Direct Program</b>			
Water and Waste Disposal Systems for Rural Communities	10.760	60-002-1585	\$ 171,188
<b>Passed through Program from:</b>			
State of Alaska Department of Natural Resources Volunteer Fire Assistance Grant 2010	10.664	38133	<u>5,427</u>
<b>Total U.S. Department of Agriculture</b>			<b>\$ <u>176,615</u></b>
<b>ENVIRONMENTAL PROTECTION AGENCY</b>			
<b>Passed through Program from:</b>			
State of Alaska Department of Environmental Conservation: Capitalization Grants for Clean Water State Revolving Funds- Alaska Clean Water Fund Inflow and Infiltration Reduction Loan	66.458	633291	<u>570,751</u>
<b>Total Environmental Protection Agency</b>			<b>\$ <u>570,751</u></b>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
<b>Passed through Programs from:</b>			
Alaska Division of Homeland Security and Emergency Management Emergency Management Performance Grant 12	97.042	GR35585	5,000
Emergency Management Performance Grant 13	97.042	GR34457	3,854
State Homeland Security Program 2012	97.067	GR34077	<u>39,561</u>
<b>Total U.S. Department of Homeland Security</b>			<b>\$ <u>48,415</u></b>
<b>U.S. DEPARTMENT OF JUSTICE</b>			
<b>Direct Program</b>			
Equitable Sharing Program	16.000		<u>10,931</u>
<b>Total U.S. Department of Justice</b>			<b>\$ <u>10,931</u></b>
<b>U. S. DEPARTMENT OF TRANSPORTATION</b>			
<b>Passed through Programs from:</b>			
State of Alaska Department of Transportation and Public Facilities National Motor Carrier Safety	20.218		4,301
High Visibility Enforcement DUI 2013	20.600	154 AL 13-01-00(B)-6	2,763
High Visibility Enforcement CIOT 2013	20.607	402 PT 13-06-00(A)-7	1,802
ASTEP DUI Enforcement HVE 2014	20.607	154 AL 14-01-00(A)-7	861
Traffic Enforcement Officer 2013	20.607	154 AL 13-01-00(D)	62,685
Traffic Enforcement Officer 2014	20.607	154-AL 14-01-00( C)	<u>21,865</u>
<b>Total U.S. Department of Transportation</b>			<b>\$ <u>94,277</u></b>
<b>U. S. DEPARTMENT OF TREASURY</b>			
<b>Direct Program</b>			
Treasury Forfeiture Fund-Currency Crimes Task Force	21.TFF		<u>4,159</u>
<b>Total U.S. Department of Treasury</b>			<b>\$ <u>4,159</u></b>
<b>Grand Total- Federal Financial Assistance</b>			<b>\$ <u>905,148</u></b>

See Notes to Schedule of Expenditures of Federal Awards.

CITY OF NORTH POLE, ALASKA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of City of North Pole, Alaska under programs of the federal government for the year ended December 31, 2013. The information in this schedule is presented in accordance with the requirement of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operation of the City of North Pole, Alaska, it is not intended to and does not present the financial position, changes in net position, or cash flows of City of North Pole, Alaska.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

CITY OF NORTH POLE  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year ended December 31, 2013

**SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements*

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified?	_____ Yes	_____ <u>X</u> No
Significant deficiencies identified that are not considered to be material weaknesses?	_____ <u>X</u> Yes	_____ None Reported
Noncompliance material to financial statements noted?	_____ Yes	_____ <u>X</u> No

*Federal Awards*

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

Internal control over major programs:

Material weaknesses identified?	_____ Yes	_____ <u>X</u> No
Significant deficiencies identified that are not considered to be material weaknesses?	_____ Yes	_____ <u>X</u> None Reported
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133:	_____ Yes	_____ <u>X</u> No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
66.458	Capitalization Grants for Clean Water State Revolving Funds

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  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED  
Year ended December 31, 2013

**FINDINGS – FINANCIAL STATEMENTS AUDIT**

F2013-01 City personnel did not prepare fixed asset records, debt schedules and reconciliations of grant receivables.

**Condition:** In order for the City to produce financial statements in accordance with generally accepted accounting principles, fixed asset records must be prepared that tie to the prior year audit, and reflect current year transactions. Also long-term debt, including capital leases, and reconciliations of grants receivable are necessary schedules for the closing of the books.

**Criteria:** Strong internal controls require adequately trained staff.

**Context:** An objective of internal control is to ensure that transactions are properly recorded and accounted for to permit the preparation of reliable financial statements.

**Cause:** The City of North Pole may need to train or provide assistance to staff to prepare these financial statement records.

**Effect:** This condition resulted in the following:

- Grant accounts receivables and fixed assets were not reconciled to the prior year audited balances.
- Current year additions and deletions to capital assets along with depreciation were not recorded.
- Information needed for proper financial statement presentation and note preparation for the debt liabilities was not readily available.

**Recommendation:** Management should ensure that assistance or training is provided to City personnel so that these records are properly prepared.

**Grantee response:** See corrective action plan

F2013-02 General ledger chart of accounts

**Condition:** The general ledger chart of accounts of the City of North Pole, Alaska is not utilized in a manner that efficiently presents the information displayed in the annual financial statement, causing a risk of misclassification and misstatement.

**Criteria:** Management is responsible for maintaining adequate internal control over financial reporting including the design of the chart of accounts.

**Context:** The design of the chart of accounts affects the manner in which financial information is combined.

**Cause:** The condition has developed over a number of years and the exact cause is not determinable.

CITY OF NORTH POLE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED  
Year ended December 31, 2013

***Effect:*** The design of the chart of accounts has resulted in the following risks of misclassifications and misstatements:

- The chart of account does not label all identical activities with the same number in different funds.
- The chart of accounts does not have a format that allows condensing and reporting of the general fund and other fund expenditures in program/function formats.
- Funds reported in the financial statements consist of other separate funds that need to be added together in a worksheet in order to derive the presentation required for financial statement presentation.

***Recommendation:*** We recommend that the City consider consulting with their software vendor for assistance and recommendations on improving the chart of accounts.

***Grantee response:*** See corrective action plan

**FINDINGS AND QUESTIONED COST - MAJOR AWARD PROGRAMS AUDIT.**

None.

CITY OF NORTH POLE, ALASKA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2013

There were no prior year federal award findings and questioned costs.

CITY OF NORTH POLE. ALASKA  
CORRECTIVE ACTION PLAN  
Year ended December 31, 2013

**FINANCIAL STATEMENT FINDINGS**

**Finding: F2013-01** – City personnel did not prepare fixed asset records, debt schedules and reconciliations of grant receivables.

**Recommendation:** Management should ensure that assistance or training is provided to City personnel so that these records are properly prepared.

**Name of Contact Person:** Bryce Ward, Mayor

**Corrective Action:** Management will work to ensure that the fixed assets, debt schedules and grant receivable reconciliations are completed prior to the audit.

**Proposed Completion Date:** December 31, 2014

**Finding: F2013-02** General ledger chart of accounts

**Recommendation:** The City should consider consulting with their software vendor for assistance and recommendations on improving the chart of accounts.

**Name of Contact Person:** Bryce Ward, Mayor

**Corrective Action:** Management will explore options to bring clarity and efficiency to the City's chart of accounts and will continue to ensure consistency among all new accounts created.

**Proposed Completion Date:** Fiscal year 2015

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STATE SINGLE AUDIT  
REPORTS AND SCHEDULES

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and  
Members of the City Council  
City of North Pole, Alaska

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of North Pole, Alaska, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise City of North Pole, Alaska's basic financial statements, and have issued our report thereon dated June 10, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered City of North Pole, Alaska's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of North Pole, Alaska's internal control. Accordingly, we do not express an opinion on the effectiveness of City of North Pole, Alaska's internal control.

*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 a 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. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

*A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies. [S2013-01, S2013-02]

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of North Pole, Alaska's financial statements are free from 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*.

### City of North Pole, Alaska's Response to Findings

City of North Pole, Alaska's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of North Pole, Alaska's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fairbanks, Alaska  
June 10 2014





**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE STATE OF ALASKA  
AUDIT GUIDE AND COMPLIANCE SUPPLEMENT FOR STATE SINGLE AUDITS**

Honorable Mayor and  
Members of the City Council  
City of North Pole, Alaska

**Report on Compliance for Each Major State Program**

We have audited the City of North Pole, Alaska'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 the City of North Pole's major state programs for the year ended December 31, 2013. The City of North Pole, Alaska's major state programs are identified in the accompanying schedule of state financial assistance.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City of North Pole, Alaska's major state programs based on our audit of the types of compliance requirements referred to above. 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 the *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 the City of North Pole, Alaska'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 on compliance for each major state program. However our audit does not provide a legal determination of the City of North Pole, Alaska's compliance.

**Opinion on Each Major State Program**

In our opinion, the City of North Pole, Alaska complied, in all material respects, with the types of 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, 2013.

## Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.

## Report on Internal Control Over Compliance

Management of the City of North Pole, Alaska is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of North Pole, Alaska's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program 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 the City of North Pole, Alaska'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. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Accordingly, this report is not suitable for any other purpose.

Fairbanks, Alaska  
June 10, 2014

*Hollen, Schmidt & Huthorn PC*

**CITY OF NORTH POLE, ALASKA**  
Schedule of State Financial Assistance  
For the Year Ended December 31, 2013

<u>State Grantor / Pass Through Grantor / Program Title</u>	<u>Grant ID Number</u>	<u>Expenditures</u>
<u>Alaska Department of Administration</u>		
Public employees retirement system on behalf payment*	N/A	\$ 357,646
Total Alaska Department of Administration		<u>357,646</u>
<u>Alaska Department of Commerce, Community &amp; Economic Development</u>		
Community Revenue Sharing Program*	N/A	198,860
North Pole Archival System	14-DC-112	8,181
Fire Department Equipment Upgrades and Replacement	11-DC-314	38,998
100 Foot Aerial Platform*	14-DC-109	928,807
Senior Center Equipment Upgrades	11-DC-315	2,193
Water Treatment Plant Roof Improvements	08-DC-471	2,799
Rehabilitate North Pole Utility Well and Adjustment Control Panel	09-DC-505	35,174
Total Alaska Department of Commerce, Community & Economic Development		<u>1,215,012</u>
<u>Alaska Department of Environmental Conservation</u>		
Wastewater Plant Engineering and Design	63320	21,915
Wastewater Plant Engineering and Design	63321	34,909
Techite Sewer Main and Manhole Rehabilitation*	63322	1,573,189
Alaska Clean Water Fund-Inflow and Infiltration Reduction Loan*	633291	105,973
Total Alaska Department of Environmental Conservation		<u>1,735,986</u>
<u>Alaska Department of Revenue</u>		
Electric and Telephone Co-op Tax*	N/A	53,124
Liquor Licenses	N/A	4,600
Total Alaska Department of Revenue		<u>57,724</u>
<u>Alaska Department of Public Safety</u>		
Asset Forfeitures		4,775
Justice Assistance Grant 13	13-023D	20,662
Justice Assistance Grant 14	14-204	25,000
Total Alaska Department of Public Safety		<u>50,437</u>
Total State Financial Assistance		<u>\$ 3,416,805</u>

\* Denotes Major Program

See Notes to Schedule of State Financial Assistance.

CITY OF NORTH POLE, ALASKA  
NOTES TO SCHEDULE OF STATE FINANCIAL ASSISTANCE

1. BASIS OF PRESENTATION

The accompanying schedule of state financial assistance (Schedule) includes the state grant activity of City of North Pole, Alaska under programs of the state government for the year ended December 31, 2013. The information in this schedule is presented in accordance with the requirements of *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Because the Schedule presents only a selected portion of the operations of the City of North Pole, Alaska, it is not intended to and does not present the financial position, changes in net position, or cash flows of City of North Pole, Alaska.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting.

CITY OF NORTH POLE  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year ended December 31, 2013

**SECTION 1 - SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements*

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weaknesses identified?	_____ Yes	___X___ No
Significant deficiencies identified that are not considered to be material weaknesses?	___X___ Yes	_____ None reported
Noncompliance material to financial statements noted?	_____ Yes	___X___ No

*State Financial Assistance*

Type of auditor's report issued on compliance for major programs:	Unmodified	
Internal control over major programs:		
Material weaknesses identified?	_____ Yes	___X___ No
Significant deficiencies identified that are not considered to be material weaknesses?	_____ Yes	___X___ None reported

Dollar threshold used to distinguish a state major program:   \$ 50,000

CITY OF NORTH POLE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED  
Year ended December 31, 2013

**SECTION II - FINANCIAL STATEMENT FINDINGS**

S2013-01 City personnel did not prepare fixed asset records, debt schedules and reconciliations of grant receivables.

**Condition:** In order for the City to produce financial statements in accordance with generally accepted accounting principles, fixed asset records must be prepared that tie to the prior year audit, and reflect current year transactions. Also long-term debt, including capital leases, and reconciliations of grants receivable are necessary schedules for the closing of the books.

**Criteria:** Strong internal controls require adequately trained staff.

**Context:** An objective of internal control is to ensure that transactions are properly recorded and accounted for to permit the preparation of reliable financial statements.

**Cause:** The City of North Pole may need to train or provide assistance to staff to prepare these financial statement records.

**Effect:** This condition resulted in the following:

- Grant accounts receivables and fixed assets were not reconciled to the prior year audited balances.
- Current year additions and deletions to capital assets along with depreciation were not recorded.
- Information needed for proper financial statement presentation and note preparation for the debt liabilities was not readily available.

**Recommendation:** Management should ensure that assistance or training is provided to City personnel so that these records are properly prepared.

**Grantee response:** See corrective action plan

S2013-02 General ledger chart of accounts

**Condition:** The general ledger chart of accounts of the City of North Pole, Alaska is not utilized in a manner that efficiently presents the information displayed in the annual financial statement, causing a risk of misclassification and misstatement.

**Criteria:** Management is responsible for maintaining adequate internal control over financial reporting including the design of the chart of accounts.

**Context:** The design of the chart of accounts affects the manner in which financial information is combined.

**Cause:** The condition has developed over a number of years and the exact cause is not determinable.

CITY OF NORTH POLE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED  
Year ended December 31, 2013

***Effect:*** The design of the chart of accounts has resulted in the following risks of misclassifications and misstatements:

- The chart of account does not label all identical activities with the same number in different funds.
- The chart of accounts does not have a format that allows condensing and reporting of the general fund and other fund expenditures in program/function formats.
- Funds reported in the financial statements consist of other separate funds that need to be added together in a worksheet in order to derive the presentation required for financial statement presentation.

***Recommendation:*** We recommend that the City consider consulting with their software vendor for assistance and recommendations on improving the chart of accounts.

***Grantee response:*** See corrective action plan

### SECTION III – STATE AWARD FINDINGS AND QUESTIONED COSTS

The City of North Pole, Alaska did not have any findings that are required to be reported in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.

CITY OF NORTH POLE, ALASKA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2013

There were no prior year financial statement findings or state award findings and questioned costs.

CITY OF NORTH POLE. ALASKA  
CORRECTIVE ACTION PLAN  
Year ended December 31, 2013

**FINANCIAL STATEMENT FINDINGS**

**Finding: S2013-01** – City personnel did not prepare fixed asset records, debt schedules and reconciliations of grant receivables.

**Name of Contact Person:** Bryce Ward, Mayor

**Corrective Action:** Management will work to ensure that the fixed assets, debt schedules and grant receivable reconciliations are completed prior to the audit.

**Proposed Completion Date:** December 31, 2014

**Finding: S2013-02** General ledger chart of accounts

**Name of Contact Person:** Bryce Ward, Mayor

**Corrective Action:** Management will explore options to bring clarity and efficiency to the City's chart of accounts and will continue to ensure consistency among all new accounts created.

**Proposed Completion Date:** Fiscal year 2015





