

CITY OF NORTH POLE, ALASKA

ANNUAL FINANCIAL REPORT

December 31, 2014

# 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, 2014, and the related notes to the financial statements, which collectively comprise the City of North Pole, Alaska'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 opinions.

### *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, 2014, 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. The prior year partial comparative

information has been derived from the City of North Pole's 2013 financial statements and, in our report dated June 10, 2014, we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

***Other Matters***

***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 the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

***Other Information***

Our audit for the year ended December 31, 2014 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 Schedule of Expenditures of Federal Award, the Schedule of State Financial Assistance, and the combining and individual fund financial statements and schedules as listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with Government Auditing Standards, we have also issued our reports dated June 16, 2015, 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 these reports 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. Those reports are 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 16, 2015

*Hobler, Helmut & Hutcher PC*

## BASIC FINANCIAL STATEMENTS

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CITY OF NORTH POLE  
STATEMENT OF NET POSITION  
December 31, 2014

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Current assets			
Cash and cash equity	\$ 2,495,627	755,075	3,250,702
Receivables, net of allowance for doubtful accounts of \$19,702	589,298	771,892	1,361,190
Special assessments, net of allowance for doubtful accounts of \$6,236	774,884	-	774,884
Total current assets	<u>3,859,809</u>	<u>1,526,967</u>	<u>5,386,776</u>
Restricted cash	-	148,172	148,172
Capital Assets			
Land and construction in progress	370,316	4,230,924	4,601,240
Other capital assets, net of depreciation	3,875,323	17,774,563	21,649,886
Total noncurrent assets	<u>4,245,639</u>	<u>22,005,487</u>	<u>26,251,126</u>
 Total assets	 <u>8,105,448</u>	 <u>23,680,626</u>	 <u>31,637,902</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Unamortized loss on refunding	36,914	-	36,914
Total assets and deferred outflows of resources	<u>\$ 8,142,362</u>	<u>23,680,626</u>	<u>31,822,988</u>
<u>LIABILITIES</u>			
Current liabilities			
Accounts payable	195,182	356,007	551,189
Accrued liabilities	195,725	14,634	210,359
Customer deposits	-	32,927	32,927
Unearned revenue	221,945	78,280	300,225
Total current liabilities	<u>612,852</u>	<u>481,848</u>	<u>1,094,700</u>
Noncurrent liabilities			
Due within one year:			
Accrued vacation and sick leave	173,036	28,649	201,685
Bonds and notes payable	78,310	62,943	141,253
Capital leases	42,967	-	42,967
Due in more than one year:			
Notes payable	-	977,310	977,310
General obligation bond	820,000	-	820,000
Special assessment bonds	62,057	-	62,057
Revenue bonds	-	500,828	500,828
Unamortized bond premium	73,850	-	73,850
Capital lease	43,225	-	43,225
Total noncurrent liabilities	<u>1,293,445</u>	<u>1,569,730</u>	<u>2,863,175</u>
Total liabilities	<u>1,906,297</u>	<u>2,051,578</u>	<u>3,957,875</u>
<u>NET POSITION</u>			
Net investment in capital assets	3,125,230	20,464,406	23,589,636
Restricted for:			
Public safety	145,323	-	145,323
Unrestricted	2,965,512	1,164,642	4,130,154
Total net position	<u>6,236,066</u>	<u>21,629,048</u>	<u>27,865,114</u>
Total liabilities and net position	<u>\$ 8,142,362</u>	<u>23,680,626</u>	<u>31,822,988</u>

See notes to financial statements.

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CITY OF NORTH POLE  
STATEMENT OF ACTIVITIES  
Year ended December 31, 2014

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	\$ 1,244,287	19,490	97,457	59,141	(1,068,199)	-	(1,068,199)
Public safety	4,526,626	573,989	485,696	412,556	(3,054,385)	-	(3,054,385)
Public works	750,012	-	-	-	(750,012)	-	(750,012)
Community services	92,922	-	13,490	-	(79,432)	-	(79,432)
Debt service:							
Interest	52,079	-	-	-	(52,079)	-	(52,079)
<b>Total governmental activities</b>	<b>6,665,926</b>	<b>593,479</b>	<b>596,643</b>	<b>471,697</b>	<b>(5,004,107)</b>	<b>-</b>	<b>(5,004,107)</b>
<b>Business-type activities:</b>							
Water and sewer utility	2,817,018	1,662,414	85,215	2,158,068		1,088,679	1,088,679
<b>Total business-type activities</b>	<b>2,817,018</b>	<b>1,662,414</b>	<b>85,215</b>	<b>2,158,068</b>		<b>1,088,679</b>	<b>1,088,679</b>
<b>General revenues:</b>							
Taxes, grants and revenues not restricted to specific purposes:							
Sales tax					3,102,294	-	3,102,294
Property tax					1,025,108	-	1,025,108
Grants					902,554	-	902,554
Interest					53,841	-	53,841
Other					229,258	102,410	331,668
Transfers					(36,965)	36,965	-
<b>Total general revenues</b>					<b>5,276,090</b>	<b>139,375</b>	<b>5,415,465</b>
Changes in net position					271,983	1,228,054	1,500,037
Beginning net position					5,964,084	20,400,993	26,365,077
Ending net position					\$ 6,236,066	21,629,048	27,865,114

See notes to financial statements.

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CITY OF NORTH POLE  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
December 31, 2014

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equity	\$ 2,011,481	204,422	(19,501)	299,225	2,495,627
Receivables (net)					
Accounts, net of allowance for doubtful accounts of \$-0-	439,533	-	141,119	3,419	584,071
Special assessments, net of allowance for doubtful accounts of \$6,236	-	774,884	-	-	774,884
Other governments	5,227	-	-	-	5,227
Total assets	\$ 2,456,242	979,306	121,618	302,644	3,859,810
<b>LIABILITIES</b>					
Accounts payable	64,506	-	99,165	31,511	195,182
Accrued liabilities	166,083	-	-	-	166,083
Unearned revenue	203,762	-	18,183	-	221,945
Total liabilities	434,351	-	117,348	31,511	583,210
Deferred inflows - deferred assessments	-	701,254	-	-	701,254
<b>FUND BALANCES</b>					
Fund balances:					
Restricted-public safety	-	-	-	145,323	145,323
Committed					
Debt service	-	278,050	-	-	278,050
General government	72,708	-	-	-	72,708
Public safety	63,060	-	-	-	63,060
Public works	12,427	-	-	-	12,427
Assigned:					
General government	-	-	4,270	100,733	105,003
Public safety	-	-	-	5,207	5,207
Community services	-	-	-	19,899	19,899
Unassigned	1,873,704	-	-	(28)	1,873,676
Total fund balances	2,021,899	278,050	4,270	271,136	2,575,353
Total liabilities, deferred inflows, and fund balances	\$ 2,456,242	979,306	121,618	302,644	3,859,810

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, 2014

Total fund balances for governmental funds \$ 2,575,353

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, land improvements and construction in process	\$	370,316	
Buildings		3,952,682	
Office furniture and equipment		1,915,662	
Vehicles and equipment		3,872,933	
Infrastructure		1,733,206	
Accumulated depreciation		<u>(7,599,159)</u>	
			4,245,639

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. 701,254

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	\$	(960,367)	
Capital leases		(86,192)	
Unamortized bond premium		(73,850)	
Unamortized loss on refunding		36,914	
Accrued interest on bonds		(29,650)	
Accrued leave		<u>(173,036)</u>	
			<u>(1,286,181)</u>

Net assets of governmental activities \$ 6,236,066

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, 2014

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes	\$ 4,127,402	-	-	-	4,127,402
Special assessments	-	191,546	-	-	191,546
Intergovernmental	992,116	-	545,885	155,893	1,693,894
Charges for services	468,245	-	-	82,825	551,070
Interest income	2,717	49,688	-	1,436	53,841
Other	162,944	-	-	194,177	357,121
	<u>5,753,424</u>	<u>241,234</u>	<u>545,885</u>	<u>434,331</u>	<u>6,974,874</u>
<b>EXPENDITURES</b>					
Current:					
General government	888,712	-	-	-	888,712
Public safety	3,918,153	-	-	-	3,918,153
Public works	622,927	-	-	-	622,927
Community services	67,942	-	-	-	67,942
Debt service					
Principal	54,732	72,707	-	-	127,439
Interest	6,596	45,483	-	-	52,079
Special revenue	-	-	-	320,012	320,012
Capital outlay	-	-	550,815	-	550,815
	<u>5,559,062</u>	<u>118,190</u>	<u>550,815</u>	<u>320,012</u>	<u>6,548,079</u>
Excess (deficiency) of revenues over expenditures	194,362	123,044	(4,930)	114,319	426,795
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers (to) from other funds	35,320	(36,965)	9,200	(44,520)	(36,965)
Total other financing sources (uses)	<u>35,320</u>	<u>(36,965)</u>	<u>9,200</u>	<u>(44,520)</u>	<u>(36,965)</u>
Net changes in fund balances	229,682	86,079	4,270	69,799	389,830
Beginning fund balances	1,792,217	191,971	-	201,337	2,185,525
Ending fund balances	<u>\$ 2,021,899</u>	<u>278,050</u>	<u>4,270</u>	<u>271,136</u>	<u>2,575,353</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, 2014

Net change in fund balances - total governmental funds	\$	389,830
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.		
		(22,241)
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.		
		(191,760)
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 an 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	\$ 72,707	
Payments on capital leases	54,732	
Amortization of bond premium and loss on refunding	<u>(18,255)</u>	
		109,184
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 increase in accrued interest payable.		
		(12,415)
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>(615)</u>
Changes in net position of governmental activities	\$	<u><u>271,983</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, 2014

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b>Revenues:</b>				
Taxes	\$ 4,039,501	4,039,501	4,127,402	87,901
Licenses and permits	16,500	16,500	19,490	2,990
Charges for services - ambulance service	465,000	465,000	468,245	3,245
<b>Intergovernmental:</b>				
Federal government	111,275	112,075	89,562	(22,513)
State of Alaska	525,651	525,651	902,554	376,903
Investment income	2,750	2,750	2,717	(33)
Other revenues	135,500	134,500	143,454	8,954
Total revenues	<u>5,296,177</u>	<u>5,295,977</u>	<u>5,753,424</u>	<u>457,447</u>
<b>Expenditures:</b>				
General government	821,802	825,802	888,712	(62,910)
Public safety	3,698,878	3,665,127	3,918,153	(253,026)
Public works	624,061	616,201	622,927	(6,726)
Community services	57,374	57,374	67,942	(10,568)
<b>Debt service:</b>				
Capital lease principal	61,195	61,195	54,732	6,463
Capital lease interest	500	500	6,596	(6,096)
Total expenditures	<u>5,263,810</u>	<u>5,226,199</u>	<u>5,559,062</u>	<u>(332,863)</u>
Excess of revenues over (under) expenditures	<u>32,367</u>	<u>69,778</u>	<u>194,362</u>	<u>124,584</u>
<b>Other financing sources (uses):</b>				
Transfers out	(86,000)	(96,000)	(4,200)	91,800
Transfers in	53,632	53,632	39,520	(14,112)
Net other financing sources (uses)	<u>(32,368)</u>	<u>(42,367)</u>	<u>35,320</u>	<u>77,688</u>
Net change in fund balance	<u>\$ 85,999</u>	<u>27,411</u>	229,682	<u>202,272</u>
Beginning fund balance			<u>1,792,217</u>	
Ending fund balance			<u>\$ 2,021,899</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, 2014

<u>ASSETS</u>	
<b>CURRENT ASSETS</b>	
Cash and cash equity	\$ 755,075
Receivables	
Grants	588,907
Accounts	202,687
Allowance for doubtful accounts	(19,702)
Total current assets	<u>1,526,967</u>
<b>NONCURRENT ASSETS</b>	
Property, plant and equipment	49,382,778
Less accumulated depreciation	(27,377,291)
Total property, plant and equipment	<u>22,005,487</u>
Restricted cash	<u>148,172</u>
Total assets	<u>\$ 23,680,626</u>
<u>LIABILITIES</u>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	356,007
Accrued liabilities	43,283
Customer deposits	32,927
Unearned revenues	78,280
Current portion of bond and note payable	62,943
Total current liabilities	<u>573,440</u>
BOND AND NOTES PAYABLE, less current portion	<u>1,478,138</u>
Total liabilities	<u>2,051,578</u>
<u>NET POSITION</u>	
Net investment in capital assets	20,464,406
Unrestricted	1,164,642
Total net position	<u>21,629,048</u>
Total liabilities and net position	<u>\$ 23,680,626</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, 2014

OPERATING REVENUES - charges for services	\$ <u>1,662,414</u>
OPERATING EXPENSES	
Water	
Salaries and benefits	268,175
Other operating expenses	276,641
Depreciation	<u>562,377</u>
	<u>1,107,193</u>
Sewer	
Salaries and benefits	314,888
Other operating expenses	316,289
Depreciation	<u>1,044,414</u>
	<u>1,675,592</u>
Operating loss	<u>(1,120,371)</u>
NONOPERATING REVENUES (EXPENSES)	
Alaska Clean Water Loan debt forgiveness	102,410
State of Alaska PERS relief	85,215
Interest expense	<u>(34,233)</u>
	<u>153,392</u>
Loss before contributions and transfers	(966,978)
Interfund transfer in (out)	36,965
Capital contributions	<u>2,158,068</u>
Changes in net position	1,228,054
Beginning net position	<u>20,400,993</u>
Ending net position	\$ <u><u>21,629,048</u></u>

See notes to financial statements.

CITY OF NORTH POLE  
WATER AND SEWER ENTERPRISE FUND  
STATEMENT OF CASH FLOWS  
Year ended December 31, 2014

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 1,545,387
Cash paid to suppliers	(295,347)
Cash paid to employees	(583,063)
Net cash provided (used) by operating activities	<u>666,977</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	(3,214,390)
Proceeds of long term debt	178,948
Capital contributions received	2,158,068
Payment of revenue bond principal and interest	(95,850)
Net cash provided (used) by capital and related financing activities	<u>(973,224)</u>
Net increase (decrease) in cash	(269,282)
CASH AND CASH EQUIVALENTS, January 1	<u>1,172,529</u>
CASH AND CASH EQUIVALENTS, December 31	<u>\$ 903,247</u>
 Cash and cash equivalents at end of year:	
Cash and cash equity	755,075
Restricted cash	<u>148,172</u>
	<u>\$ 903,247</u>
Operating loss	(1,120,371)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation	1,606,791
Noncash expense - PERS relief	85,215
Decrease (increase) in:	
Receivables	(117,027)
Increase (decrease) in:	
Accounts payable	234,626
Accrued liabilities	3,221
Customer deposits	3,078
Unearned revenue	<u>(28,556)</u>
Net cash provided (used) by operating activities	<u>\$ 666,977</u>
 <b>NONCASH FINANCING ACTIVITIES</b>	
Loan debt forgiveness	<u>\$ 102,410</u>

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, Alaska (City) was incorporated as a Home Rule Charter on January 16, 1953, 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 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 for the subsequent year is prepared by management eight weeks before the end of the current fiscal year. 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. The Capital Projects Fund has project-length budgets.

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.

*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 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 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 Equity* - In the government-wide and proprietary fund financial statements, fund equity is classified as "net position". Net position is further classified as invested in capital assets restricted or unrestricted.

In the fund financial statements, governmental funds report fund equity as "fund balance", and aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources.

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 requirement 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*- 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.

*Use of Estimates* - The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses/expenditures, and the disclosure of contingent assets and liabilities at the date of the basic financial statements. Actual results could differ from those estimates.

*New Accounting Pronouncements* - The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates. Management has not fully evaluated the potential effects of these statements, but believes GASB Statement 68 will result in the biggest reporting change.

*GASB 68 - Accounting and Financial Reporting for Pensions*- Effective for year ending December 31, 2015- This statement changes the reporting and disclosure requirements for governments that participate in pension plans. This statement modifies the participating employer side of reporting in connection with plan reporting in accordance with GASB 67.

*GASB 69 - Government Combinations and Disposal of Government Operations*- Effective for year ending December 31, 2015- This statement contains certain disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and effects of these transactions.

*GASB 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date*- Effective for year ending December 31, 2015- This statement is a companion to GASB 68 and clarifies treatment of contributions made by a contributing entity to a defined benefit pension plan after the measurement date of the government's net pension liability.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

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."

*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, 2014.

Bank deposits and certificates	\$ 3,398,674
Other	<u>200</u>
	<u>\$ 3,398,874</u>

Reconciliation of cash and cash equity to the basic financial statements:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
Cash and cash equity	\$ 2,495,627	755,075	3,250,702
Restricted cash	<u>-</u>	<u>148,172</u>	<u>148,172</u>
	<u>\$ 2,495,627</u>	<u>903,247</u>	<u>3,398,874</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, 2014 was as follows:

	Balance January 1, 2014	Additions	Deletions and Transfers	Balance December 31, 2014
<b>Governmental activities</b>				
<i>Capital assets not being depreciated:</i>				
Construction in progress	\$ -	5,000	-	5,000
Land and land improvements	365,316	-	-	365,316
Total assets not being depreciated	<u>365,316</u>	<u>5,000</u>	<u>-</u>	<u>370,316</u>
<i>Capital assets being depreciated:</i>				
Buildings	3,835,942	116,740	-	3,952,682
Office furniture and equipment	1,685,387	230,275	-	1,915,662
Vehicles and equipment	3,640,762	232,171	-	3,872,933
Infrastructure	1,733,206	-	-	1,733,206
Total assets being depreciated	<u>10,895,297</u>	<u>579,186</u>	<u>-</u>	<u>11,474,483</u>
Less accumulated depreciation for:				
Buildings	2,709,794	131,998	-	2,841,792
Office furniture and equipment	1,233,322	125,896	-	1,359,218
Vehicles and equipment	2,462,362	261,873	-	2,724,235
Infrastructure	587,255	86,660	-	673,915
Total accumulated depreciation	<u>6,992,733</u>	<u>606,427</u>	<u>-</u>	<u>7,599,159</u>
Total capital assets being depreciated, net	<u>3,902,564</u>	<u>(27,241)</u>	<u>-</u>	<u>3,875,323</u>
Governmental activity capital assets, net	<u>\$ 4,267,880</u>	<u>(22,241)</u>	<u>-</u>	<u>4,245,639</u>
<b>Business-type activities</b>				
<i>Capital assets not being depreciated:</i>				
Land and land improvements	398,185	109,630	-	507,815
Construction in progress	2,921,175	3,071,887	2,269,954	3,723,108
Total capital assets not being depreciated	<u>3,319,360</u>	<u>3,181,517</u>	<u>2,269,954</u>	<u>4,230,923</u>
<i>Capital assets being depreciated:</i>				
Sewer and water system	41,087,267	2,269,954	-	43,357,221
Machinery and equipment	1,777,078	32,874	15,318	1,794,634
Total assets being depreciated	<u>42,864,345</u>	<u>2,302,828</u>	<u>15,318</u>	<u>45,151,855</u>
Less accumulated depreciation for:				
Sewer and water system	24,923,485	1,502,381	-	26,425,866
Machinery and equipment	862,334	104,409	15,318	951,425
Total accumulated depreciation	<u>25,785,819</u>	<u>1,606,790</u>	<u>15,318</u>	<u>27,377,291</u>
Total capital assets being depreciated, net	<u>17,078,526</u>	<u>696,038</u>	<u>-</u>	<u>17,774,563</u>
Business-type activity capital assets, net	<u>\$ 20,397,887</u>	<u>3,877,555</u>	<u>2,269,954</u>	<u>22,005,487</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	\$ 46,189
Public safety	416,564
Public works	127,085
Community services	<u>16,589</u>
Total depreciation - governmental activities	<u>\$ 606,427</u>
<b>Business-type activities</b>	
Water	562,377
Sewer	<u>1,044,414</u>
Total depreciation expense - business-type activities	<u>\$ 1,606,791</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, which was a portion of the remaining 2005 Series B general obligation bonds. 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 2005 Series B general obligation bonds at December 31, 2014 is \$65,000. At December 31, 2014, \$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, 2014 is \$36,914.

*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 to reduce inflow and infiltration in the City sewer system. The note payable at December 31, 2013 consisted of loan advances received by the City. Additional expenditures toward this project of \$6,012 were recorded in 2014 and the City received debt forgiveness in the amount of \$102,410. The amount owed as of December 31, 2014 is \$555,229.

*Alaska Clean Water Loan* - In 2013, the City entered into an additional loan agreement with the Alaska Department of Environmental Conservation for \$302,500 with a loan term of 20 years at a rate of 1.5 percent per annum. The project will provide funding for three new emergency generators to be used by the City's wastewater utility in the event of a power failure. This project was still in progress at December 31, 2014, so no repayment schedule for this debt has been determined. The note payable at December 31, 2014, consists of loan advances received by the City in the amount of \$172,936.

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, 2014:

	Balance January 1, 2014	Additions	Retired	Balance December 31, 2014	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 percent.	\$ 125,000	-	60,000	65,000	65,000
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 percent to 5 percent.	820,000	-	-	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 percent.	88,074	-	12,707	75,367	13,310
Capital Lease					
Obligation for a fire pumper truck, payable in annual installments of \$46,944 through 2016 including interest at 4.615 percent.	127,263	-	41,071	86,192	42,967
Accrued leave	<u>172,421</u>	<u>230,167</u>	<u>229,553</u>	<u>173,036</u>	<u>173,036</u>
Total governmental activities	1,332,758	<u>230,167</u>	<u>343,331</u>	1,219,595	<u>294,313</u>
Unamortized bond premium	<u>92,509</u>		<u>18,659</u>	<u>73,850</u>	
	<u>\$ 1,425,267</u>			<u>1,293,445</u>	

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

4. LONG-TERM DEBT, CONTINUED

	Balance January 1, 2014	Additions	Retired	Balance December 31, 2014	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 percent through March 1, 2036.	\$ 524,436	-	11,520	512,916	12,088
Note payables -					
\$500,000 2007 Water Utility Alaska Drinking Water loan, due in annual installments of \$25,000 plus interest at 1.5 percent through April 1, 2026.	325,000	-	25,000	300,000	25,000
\$580,326 Alaska Clean Water loan, due in annual installments of \$33,801 including interest at 1.5 percent through October 1, 2033.	676,724	6,012	127,507	555,229	25,855
Note payable - construction in progress, \$302,500 Alaska Clean Water Loan	-	172,936	-	172,936	-
Accrued leave	27,008	39,388	37,747	28,649	28,649
Total business-type activities	<u>\$ 1,553,168</u>	<u>218,336</u>	<u>201,774</u>	<u>1,569,730</u>	<u>91,592</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

4. LONG-TERM DEBT, CONTINUED

**Governmental activities**

The annual debt service requirements of the general obligation bonds and notes payable at December 31, 2014 that are in repayment status follow:

Year Ending December 31,	General Obligation Bonds			Special Assessment Bonds		
		Interest	Total	Principal	Interest	Total
2015	\$ 65,000	38,175	103,175	13,310	3,580	16,890
2016	65,000	36,550	101,550	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	75,000	27,650	102,650	18,212	865	19,077
2020-2024	440,000	79,800	519,800	-	-	-
2025	100,000	2,750	102,750	-	-	-
	<u>\$ 885,000</u>	<u>250,025</u>	<u>1,135,025</u>	<u>75,367</u>	<u>11,270</u>	<u>86,637</u>

**Business type activities**

Year Ending December 31,	Revenue Bonds			Notes Payable		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 12,088	24,877	36,965	50,473	12,828	63,301
2016	12,685	24,280	36,965	50,855	12,071	62,926
2017	13,310	23,655	36,965	51,243	11,309	62,552
2018	13,967	22,998	36,965	51,637	10,540	62,177
2019	14,656	22,309	36,965	52,036	9,765	61,801
2020-2024	84,872	99,953	184,825	266,387	36,995	303,382
2025-2029	107,982	76,844	184,826	202,314	17,818	220,132
2030-2034	137,385	47,440	184,825	130,284	4,922	135,206
2035-2036	115,971	9,017	124,988	-	-	-
	<u>\$ 512,916</u>	<u>351,373</u>	<u>864,289</u>	<u>855,229</u>	<u>116,248</u>	<u>971,477</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

5. CAPITAL LEASE

The City has entered into a lease agreement as lessee for financing the acquisition of a fire pumper truck. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments. The following is a summary of the asset acquired with the capital lease that has an outstanding balance as of December 31, 2014:

	<u>General Fund</u>
Fire pumper truck	\$ 420,452
Less accumulated depreciation	<u>(336,362)</u>
Carrying value	<u>\$ 84,090</u>

The following is a schedule of future minimum lease payments under this capital lease and the present value of the net minimum lease payments at December 31, 2014:

<u>Year Ending December 31,</u>	<u>General Fund</u>
2015	\$ 46,944
2016	<u>45,220</u>
Total minimum lease payments	92,164
Less interest portion	<u>5,973</u>
Present value of future minimum lease payments	86,191
Less current portion	<u>42,967</u>
Long-term portion	<u>\$ 43,225</u>

6. INTERFUND BALANCES AND TRANSFERS

There were no interfund balances at December 31, 2014. A schedule of interfund transfers for the year ended December 31, 2014, follows:

Transfers:

From non-major governmental funds to the General Fund	\$ 44,520
From Debt Service fund to Water and Sewer Enterprise Fund for short-term capital costs	\$ 36,965
From the General Fund to the Capital Projects Fund	\$ 9,200

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

7. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

	<u>Budget</u>	<u>Actual</u>	<u>Variances</u>
Administration - General			
Government	\$ 825,802	888,712	(62,910)
Police	1,727,714	1,858,188	(130,474)
Fire	1,937,413	2,059,965	(122,552)
Public Works	616,201	622,927	(6,726)
Community Services	<u>57,374</u>	<u>67,942</u>	<u>(10,568)</u>
	<u>\$ 5,164,504</u>	<u>5,497,734</u>	<u>(333,230)</u>

The budget variance is due to the PERS Employer On-Behalf funding (PERS Relief). The City of North Pole's unfunded obligation for 2014 was \$648,397, of which \$376,903 was unbudgeted.

8. 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 notes.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

8. DEFINED BENEFIT PENSION PLAN, CONTINUED

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

Funding Policy

Regular employees are required to contribute 6.75 percent of their annual covered salary. Police and firefighters are required to contribute 7.5 percent of their annual covered salary. 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 2014 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). The PERS average employer contribution rates for July through December 2014 were 44.03 percent (6.82 percent normal cost plus 33.03 percent past service rate, plus a 4.18 percent defined contribution retirement rate).

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.

Plan Contributions

The City contributed \$296,326, \$300,431, and \$324,958 in 2014, 2013, and 2012, 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 ended 2014, 2013, and 2012 were \$733,612, \$357,646 and \$322,550. 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 2014 employer contributions are 22 percent, the same as the defined benefit tiers.

For January through June 2014 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 1.14 percent for occupational death and disability benefits for police officers and firefighters and 0.20 percent for all others.

## CITY OF NORTH POLE, ALASKA

### Notes to Basic Financial Statements, Continued

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

For July through December 2014 the employers are required to contribute 5 percent to each member's individual pension account, 1.66 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 1.06 percent for occupational death and disability benefits for police officers and firefighters and 0.22 percent for all others.

##### Plan Contributions

City contributions to the PERS defined contribution plan for years ended 2014, 2013, and 2012 was \$270,530, \$266,060, and \$241,572, respectively, and the employee contributions to the plan were \$98,358, \$96,672, and \$87,879, respectively.

#### 9. DEFERRED COMPENSATION PLAN

The City offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans are available to all employees and permit them to defer a portion of their salary to 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.

#### 10. RISK MANAGEMENT

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

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, \$5 million in law enforcement liability, \$1 million public officials and employment practices liability insurance, and auto and other equipment coverage.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

11. CONTINGENCIES

Grants

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

Line of Credit

The City had a \$500,000 line of credit at 3.25 percent interest with Mt. McKinley Bank for June through December 31, 2014. No advances were made from this line of credit in 2014. The line of credit was not collateralized.

12. SUBSEQUENT EVENT

Subsequent to year-end, the City received notice that the Flint Hills Refinery, which ceased refining operations in 2014, would be assessed at a substantially reduced valuation in 2015. The City estimates this will result in a reduction in property tax revenue of approximately \$185,000 a year.

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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 Projects or Enterprise Funds.

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CITY OF NORTH POLE  
GENERAL FUND  
BALANCE SHEET  
December 31, 2014  
with comparative data for 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
Cash and cash equity	\$ 2,011,481	1,743,029
Receivables (net of allowance for doubtful accounts of \$-0-)		
Sales taxes	397,457	364,633
Property taxes	4,444	11,166
Business taxes	14,653	15,344
Grants	5,227	4,624
Other	22,980	7,224
	<u>444,761</u>	<u>402,991</u>
Other prepaid assets	-	9,274
Total assets	\$ <u>2,456,242</u>	<u>2,155,294</u>
 <u>LIABILITIES AND FUND BALANCE</u>  		
Liabilities		
Accounts payable	64,506	101,918
Accrued liabilities	166,083	261,165
Unearned revenue	203,762	-
	<u>434,351</u>	<u>363,083</u>
Fund balance-committed	148,195	-
Fund balance-assigned	-	88,319
Fund balance - unassigned	1,873,704	1,703,898
	<u>2,021,899</u>	<u>1,792,217</u>
Total liabilities and fund balance	\$ <u>2,456,242</u>	<u>2,155,294</u>

CITY OF NORTH POLE  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
Year ended December 31, 2014  
with comparative data for 2013

	2014		Variance Favorable (Unfavorable)	2013
	Budget Final	Actual		Actual
<b>REVENUES</b>				
Taxes				
Sales, alcohol, and use taxes	\$ 3,008,001	3,102,294	94,293	2,980,798
Property taxes	1,031,500	1,025,108	(6,392)	1,030,386
Total taxes	<u>4,039,501</u>	<u>4,127,402</u>	<u>87,901</u>	<u>4,011,184</u>
Business licenses	<u>16,500</u>	<u>19,490</u>	<u>2,990</u>	<u>18,465</u>
Charges for services - ambulance service	<u>465,000</u>	<u>468,245</u>	<u>3,245</u>	<u>448,417</u>
Federal government				
DOT commercial vehicle safety	4,375	2,310	(2,065)	4,301
Alaska Highway Safety Office	12,900	3,451	(9,449)	5,427
Corps of Engineers	84,000	79,724	(4,276)	72,652
Currency Crimes Task Force and Marijuana Eradication	<u>10,800</u>	<u>4,077</u>	<u>(6,723)</u>	<u>4,159</u>
Total Federal government	<u>112,075</u>	<u>89,562</u>	<u>(22,513)</u>	<u>86,539</u>
State of Alaska				
State revenue sharing	261,800	254,157	(7,643)	256,584
PERS relief	263,851	648,397	384,546	300,319
Total State of Alaska	<u>525,651</u>	<u>902,554</u>	<u>376,903</u>	<u>556,903</u>
Investment Income	<u>2,750</u>	<u>2,717</u>	<u>(33)</u>	<u>2,312</u>
Other revenues				
Citation revenues	83,000	85,306	2,306	61,304
Fingerprinting	12,000	10,420	(1,580)	10,620
Police reports	2,000	950	(1,050)	2,612
Other public safety revenues	7,500	9,068	1,568	15,801
Miscellaneous	<u>30,000</u>	<u>37,710</u>	<u>7,710</u>	<u>203,912</u>
Total other revenues	<u>134,500</u>	<u>143,454</u>	<u>8,954</u>	<u>294,249</u>
Total revenues	<u>5,295,977</u>	<u>5,753,424</u>	<u>457,447</u>	<u>5,418,069</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, 2014  
with comparative data for 2013

	2014		Variance Favorable (Unfavorable)	2013
	Budget Final	Actual		Actual
<b>EXPENDITURES</b>				
General government				
Administration				
Salaries and benefits	\$ 479,202	518,270	(39,068)	480,966
Materials and supplies	51,800	83,392	(31,592)	44,651
Purchased services	209,800	191,214	18,586	161,262
Vehicle expenses	2,750	621	2,129	1,074
Insurance	22,000	26,377	(4,377)	23,026
Repairs and maintenance	23,500	30,937	(7,437)	39,933
	<u>789,052</u>	<u>850,811</u>	<u>(61,759)</u>	<u>750,912</u>
Municipal building				
Purchased services	32,750	31,980	770	31,715
Repairs and maintenance	4,000	5,921	(1,921)	5,648
	<u>36,750</u>	<u>37,901</u>	<u>(1,151)</u>	<u>37,363</u>
Total general government	<u>825,802</u>	<u>888,712</u>	<u>(62,910)</u>	<u>788,275</u>
Public safety				
Police department				
Salaries and benefits	1,396,764	1,585,698	(188,934)	1,388,612
Materials and supplies	41,100	32,927	8,173	35,437
Purchased services	81,350	71,216	10,134	66,449
Vehicle expenses	67,500	54,468	13,032	57,763
Insurance	125,000	106,419	18,581	103,938
Repairs and maintenance	16,000	7,460	8,540	10,542
	<u>1,727,714</u>	<u>1,858,188</u>	<u>(130,474)</u>	<u>1,662,741</u>
Fire department				
Salaries and benefits	1,732,163	1,844,653	(112,490)	1,677,198
Materials and supplies	33,250	46,756	(13,506)	28,672
Purchased services	65,300	66,177	(877)	65,552
Vehicle expenses	31,000	27,239	3,761	31,127
Insurance	55,000	51,849	3,151	48,938
Repairs and maintenance	20,700	23,291	(2,591)	19,646
	<u>1,937,413</u>	<u>2,059,965</u>	<u>(122,552)</u>	<u>1,871,133</u>
Total public safety	<u>3,665,127</u>	<u>3,918,153</u>	<u>(253,026)</u>	<u>3,533,874</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, 2014  
with comparative data for 2013

	2014			2013
	Budget Final	Actual	Variance Favorable (Unfavorable)	Actual
<b>EXPENDITURES, CONTINUED</b>				
Public works				
Salaries and benefits	\$ 291,801	303,804	(12,003)	282,777
Materials and supplies	37,900	44,484	(6,584)	28,882
Purchased services	159,500	138,843	20,657	164,512
Vehicle expenses	49,000	51,697	(2,697)	32,011
Insurance	15,000	12,841	2,159	13,242
Repairs and maintenance	63,000	71,258	(8,258)	105,290
	<u>616,201</u>	<u>622,927</u>	<u>(6,726)</u>	<u>626,714</u>
Debt service				
Capital lease principal	61,195	54,732	6,463	61,194
Capital lease interest	500	6,596	(6,096)	134
	<u>61,695</u>	<u>61,328</u>	<u>367</u>	<u>61,328</u>
Community services				
North Pole Christmas on Ice	8,606	10,503	(1,897)	7,047
North Pole Chamber of Commerce	17,212	21,005	(3,793)	14,095
Convention and Visitors	2,869	1,425	1,444	2,349
North Pole Economic Development Council	28,687	35,009	(6,322)	21,856
	<u>57,374</u>	<u>67,942</u>	<u>(10,568)</u>	<u>45,347</u>
Capital outlay			-	-
Total expenditures	<u>5,226,199</u>	<u>5,559,062</u>	<u>(332,863)</u>	<u>5,055,538</u>
Excess of revenues over (under) expenditures	<u>69,778</u>	<u>194,362</u>	<u>124,584</u>	<u>362,531</u>
Other financing sources (uses)				
Transfers out	(96,000)	(4,200)	91,800	-
Transfers in	53,632	39,520	(14,112)	31,130
Net other financing sources (uses)	<u>(42,367)</u>	<u>35,320</u>	<u>77,688</u>	<u>31,130</u>
Net change in fund balance	<u>\$ 27,411</u>	<u>229,682</u>	<u>202,272</u>	<u>393,661</u>
Beginning fund balance		<u>1,792,217</u>		<u>1,398,556</u>
Ending fund balance		<u>\$ 2,021,899</u>		<u>1,792,217</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, 2014

	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>ASSETS</b>												
Cash and cash equity	\$ 101,592	(28)	10,962	8,946	55,334	11,954	108,177	5,207	(3,419)	-	500	299,225
Accounts receivable	-	-	-	-	-	-	-	-	3,419	-	-	3,419
	<u>\$ 101,592</u>	<u>(28)</u>	<u>10,962</u>	<u>8,946</u>	<u>55,334</u>	<u>11,954</u>	<u>108,177</u>	<u>5,207</u>	<u>-</u>	<u>-</u>	<u>500</u>	<u>302,644</u>
<b>LIABILITIES</b>												
Accounts payable	859	-	-	510	-	-	30,142	-	-	-	-	31,511
	<u>859</u>	<u>-</u>	<u>-</u>	<u>510</u>	<u>-</u>	<u>-</u>	<u>30,142</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,511</u>
<b>FUND BALANCES</b>												
Restricted-public safety	-	-	-	-	55,334	11,954	78,035	-	-	-	-	145,323
Assigned	100,733	-	-	-	-	-	-	-	-	-	-	100,733
General government	-	-	-	-	-	-	-	5,207	-	-	-	5,207
Public safety	-	-	10,962	8,437	-	-	-	-	-	-	500	19,899
Community services	-	(28)	-	-	-	-	-	-	-	-	-	(28)
Unassigned	100,733	(28)	10,962	8,437	55,334	11,954	78,035	5,207	-	-	500	271,136
Total fund balances	<u>100,733</u>	<u>(28)</u>	<u>10,962</u>	<u>8,437</u>	<u>55,334</u>	<u>11,954</u>	<u>78,035</u>	<u>5,207</u>	<u>-</u>	<u>-</u>	<u>500</u>	<u>271,136</u>
Total liabilities and fund balances	<u>\$ 101,592</u>	<u>(28)</u>	<u>10,962</u>	<u>8,946</u>	<u>55,334</u>	<u>11,954</u>	<u>108,177</u>	<u>5,207</u>	<u>-</u>	<u>-</u>	<u>500</u>	<u>302,644</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, 2014

	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	-	-	-	-	49,605	1,776	-	54,512	50,000	-	-	155,893
Charges for services	60,553	-	-	-	-	-	-	-	-	22,272	-	82,825
Investment income	-	-	-	-	933	-	503	-	-	-	-	1,436
Other	-	-	650	7,840	-	-	185,687	-	-	-	-	194,177
	60,553	-	650	7,840	50,538	1,776	186,190	54,512	50,000	22,272	-	434,331
<b>EXPENDITURES</b>												
Excess (deficiency) of revenues over expenditures	71,029	3,595	661	7,656	12,500	5,153	114,522	54,512	50,000	384	-	320,012
	(10,476)	(3,595)	(11)	184	38,038	(3,377)	71,668	-	-	21,888	-	114,319
<b>OTHER FINANCING SOURCES (USES)</b>												
Transfers (to) from other funds	-	-	-	-	-	(22,632)	-	-	-	(21,888)	-	(44,520)
Total other financing sources (uses)	-	-	-	-	-	(22,632)	-	-	-	(21,888)	-	(44,520)
Net changes in fund balances	(10,476)	(3,595)	(11)	184	38,038	(26,009)	71,668	-	-	-	-	69,799
Beginning fund balances	111,211	3,567	10,973	8,253	17,296	37,963	6,367	5,207	-	-	500	201,337
Ending fund balances	100,735	(28)	10,962	8,437	55,334	11,954	78,035	5,207	-	-	500	271,136

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, 2014  
with comparative data for 2013

	<u>2014</u>	<u>2013</u>
Revenues		
Special assessments	\$ 191,546	77,612
Investment income	49,688	53,845
	<u>241,234</u>	<u>131,457</u>
Expenditures - debt service		
2005 Series B - G.O. bonds		
Principal	60,000	55,000
Interest	4,750	4,500
Total 2005 Series B-G.O. bonds	<u>64,750</u>	<u>59,500</u>
2002 special assessment bonds		
Principal	12,707	12,137
Interest	4,183	4,753
Total 2002 special assessment bonds	<u>16,890</u>	<u>16,890</u>
2012 Series 2 refunding bonds		
Principal	-	5,000
Interest	36,550	39,775
Total 2012 Series 2 refunding bonds	<u>36,550</u>	<u>44,775</u>
 Total expenditures	 <u>118,190</u>	 <u>121,165</u>
Excess of revenues over (under) expenditures	<u>123,044</u>	<u>10,292</u>
Other financing sources (uses)		
Transfers (to) from other funds	<u>(36,965)</u>	<u>(36,965)</u>
	<u>(36,965)</u>	<u>(36,965)</u>
Net changes in fund balance	86,079	(26,673)
Beginning fund balance	<u>191,971</u>	<u>218,644</u>
Ending fund balance	<u>\$ 278,050</u>	<u>191,971</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, 2014 and 2013

		2014	2013
	<u>ASSETS</u>		
<b>CURRENT ASSETS</b>			
Cash and cash equity	\$	755,075	972,316
Receivables			
Grants		588,907	522,698
Accounts		202,687	137,803
Allowance for doubtful accounts		(19,702)	(5,636)
Total current assets		1,526,967	1,627,181
<b>NONCURRENT ASSETS</b>			
Property, plant and equipment		49,382,778	46,183,706
Less accumulated depreciation		(27,377,291)	(25,785,819)
Total property, plant and equipment		22,005,487	20,397,887
Restricted cash		148,172	200,213
		148,172	200,213
Total assets	\$	23,680,626	22,225,281
	<u>LIABILITIES</u>		
<b>CURRENT LIABILITIES</b>			
Accounts payable		356,007	121,382
Accrued liabilities		43,283	40,061
Customer deposits		32,927	29,849
Unearned revenues		78,280	106,836
Current portion of bond and note payable		62,943	36,520
Total current liabilities		573,440	334,648
<b>BOND AND NOTES PAYABLE, less current portion</b>		1,478,138	1,489,640
Total liabilities		2,051,578	1,824,288
	<u>NET POSITION</u>		
Net investment in capital assets		20,464,406	18,871,727
Unrestricted		1,164,641	1,529,266
Total net position		21,629,048	20,400,993
Total liabilities and net position	\$	23,680,626	22,225,281

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, 2014 and 2013

	2014	2013
OPERATING REVENUES	\$ 889,762	857,920
Water	772,652	890,705
Sewer	1,662,414	1,748,625
OPERATING EXPENSES		
Water		
Salaries and benefits	268,175	261,725
Materials and supplies	14,887	66,584
Purchased services	230,906	235,594
Vehicle expense	4,690	5,549
Insurance	18,870	17,684
Repairs and maintenance	220	192
Depreciation	562,377	522,984
Bad debt expense	7,068	-
	1,107,193	1,110,312
Sewer		
Salaries and benefits	314,888	339,282
Materials and supplies	23,973	46,107
Purchased services	261,719	259,053
Vehicle expense	7,608	7,024
Insurance	15,957	16,034
Repairs and maintenance	-	-
Depreciation	1,044,414	971,256
Bad debt expense	7,033	-
	1,675,592	1,638,756
Operating loss	(1,120,371)	(1,000,443)
NONOPERATING REVENUES (EXPENSES)		
Alaska Clean Water Loan debt forgiveness	102,410	-
State of Alaska PERS relief	85,215	48,069
Interest expense	(34,233)	(31,228)
	153,392	16,841
Loss before contributions and transfers	(966,979)	(983,602)
Interfund transfer in (out)	36,965	36,965
Capital contributions	2,158,068	1,839,173
Changes in net position	1,228,054	892,536
Beginning net position	20,400,993	19,508,457
Ending net position	\$ 21,629,048	20,400,993

See notes to financial statements.

CITY OF NORTH POLE  
WATER AND SEWER ENTERPRISE FUND  
STATEMENTS OF CASH FLOWS  
Years ended December 31, 2014 and 2013

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 1,545,387	1,707,863
Cash paid to suppliers	(295,347)	(796,846)
Cash paid to employees	(583,063)	(601,007)
Net cash provided (used) by operating activities	666,977	310,010
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers in	36,965	36,965
	36,965	36,965
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Additions to property, plant, and equipment	(3,214,390)	(2,620,802)
Proceeds of long term debt	178,948	676,724
Capital contributions received	2,158,068	1,839,173
Payment of revenue bond principal and interest	(95,850)	(67,215)
Net cash provided (used) by capital and related financing activities	(973,224)	(172,120)
Net increase (decrease) in cash	(269,282)	174,855
CASH AND CASH EQUIVALENTS, January 1	1,172,529	997,674
CASH AND CASH EQUIVALENTS, December 31	\$ 903,247	1,172,529
Cash and cash equivalents at end of year:		
Cash and cash equity	755,075	972,316
Restricted cash	148,172	200,213
	903,247	1,172,529
Operating loss	(1,120,371)	(1,000,443)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	1,606,791	1,494,241
Noncash expense - PERS relief	85,215	48,069
Decrease (increase) in:		
Receivables	(117,027)	(88,831)
Increase (decrease) in:		
Accounts payable	234,626	(119,217)
Accrued liabilities	3,221	4,108
Customer deposits	3,078	2,475
Unearned revenues	(28,556)	(30,392)
Net cash provided (used) by operating activities	\$ 666,977	310,010
<b>NONCASH FINANCING ACTIVITIES</b>		
Loan debt forgiveness	\$ 102,410	-

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, 2014, 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 16, 2015.

**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 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. [F2014-01]

*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 deficiency described in the accompany schedule of findings and questioned costs to be a significant deficiency. [F2014-02]

**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 16, 2015





**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, 2014. 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 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.

**Unmodified 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 identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2014.

## 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

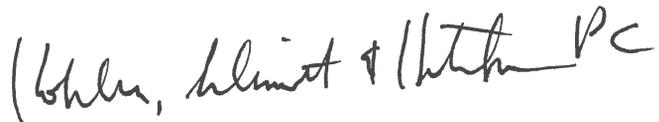
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item F2014-03 to be a material weakness.

*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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item F2014-02 to be a significant deficiency.

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

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 16, 2015

Handwritten signature in black ink, appearing to read "Robert Helmer" followed by a stylized "PC" or initials.

**CITY OF NORTH POLE, ALASKA**  
Schedule of Expenditures of Federal Awards  
For the year ended December 31, 2014

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	\$ 298,334
<b>Total U.S. Department of Agriculture</b>			<u>298,334</u>
<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	6,012
Utility Emergency Response Generators Loan	66.458	633031	172,936
<b>Total Environmental Protection Agency</b>			<u>178,948</u>
<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 14	97.042	GR35586	2,467
Emergency Management Performance Grant 13	97.042	GR34457	5,020
State Homeland Security Program 2012	97.067	GR34077	63,646
State Homeland Security Program 2013	97.067	GR34078	32,283
<b>Total U.S. Department of Homeland Security</b>			<u>103,416</u>
<b>U.S. DEPARTMENT OF JUSTICE</b>			
<b>Direct Program</b>			
Equitable Sharing Program	16.000		12,500
<b>Passed through State of Alaska Department of Public Safety</b>			
Edward Byrne Memorial Formula Grant Program			
Multijurisdictional Task Force 2014	16.738	JAG 15.205	25,000
<b>Total U.S. Department of Justice</b>			<u>37,500</u>
<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-Commercial Vehicle Inspections	20.218		2,310
High Visibility Enforcement CIOT 2014	20.600	402 PT-15-06-00(E)-8	387
ASTEP DUI Enforcement HVE 2014	20.607	154 AL- 14-01-00(A)-7	2,408
High Visibility Enforcement CIOT 2015	20.607	164 AL 15-01-00(A)-7	655
Traffic Enforcement Officer 2014	20.607	154-AL 14-01-00( C)	54,512
<b>Total U.S. Department of Transportation</b>			<u>60,272</u>
<b>U. S. DEPARTMENT OF TREASURY</b>			
<b>Direct Program</b>			
Treasury Forfeiture Fund-Currency Crimes Task Force	21.TFF		3,336
IRS Forfeitures Program	21.Unknown		87,081
<b>Total U.S. Department of Teasury</b>			<u>90,417</u>
<b>Grand Total - Federal Financial Assistance</b>			<u>\$ 768,888</u>

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, 2014. 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, 2014

**SUMMARY OF AUDITOR'S RESULTS**

***Financial Statements***

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

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, 2014

**FINDINGS – FINANCIAL STATEMENTS AUDIT**

**F2014-01 Material errors in the general ledger and financial statements**

**Condition:** City personnel did not adjust the general ledger in accordance with generally accepted accounting principles (GAAP), resulting in material errors in the City's financial statements. In order for the City to produce accurate financial statements, the City accountant must be able to adjust the general ledger to reflect the GAAP basis of accounting for the various funds. This requires reconciliation of all balance sheet accounts for each of the funds.

**Criteria:** Management is required to institute an adequate system of internal control over financial reporting.

**Context:** The City experienced turn-over in the last months of the year, and the new general ledger accountant may not have had enough time to learn the required duties.

**Cause:** The City did not have staff available at year-end that had the accounting expertise required to adjust the records.

**Effect:** The audit identified material misstatements in the general ledger that were not identified and corrected by the City's internal control system. The misstatements included the following:

1. Accounts payable and accrued expenses were not recorded in the proper accounting year, and expenses paid in 2015 were properly recorded as expenses in 2014, but were back-posted as cash transactions.
2. Grant receivables and revenues in the capital projects, non-major funds, and water and sewer enterprise funds were not recorded.
3. Grant and other tax receivables and revenue were not recorded in the general fund.
4. Fixed assets were neither capitalized in the water and sewer fund, nor included in the general government and water and sewer depreciation schedules.
5. Information necessary for the notes to the financial statement was not prepared.

**Recommendation:** The City should either contract with a third party to provide services to include adjusting the general ledger in accordance with GAAP, or ensure the general ledger accountant has the required expertise.

**Grantee response:** See corrective action plan

**F2014-02 Grant reporting**

**Condition:** Grant reports were not prepared from or reconciled to the general ledger.

**Criteria:** Management is required to institute an adequate system of internal control over financial and grant reporting, to include procedures to accurately record grant expenditures in the general ledger and monitor grant reporting.

**Context:** The prior accountant may have reconciled the general ledger to the grant reports as part of the year-end closing.

CITY OF NORTH POLE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED  
Year ended December 31, 2014

**FINDINGS – FINANCIAL STATEMENTS AUDIT, CONTINUED**

**F2014-02          Grant reporting, Continued**

*Cause:* City personnel have not been trained to monitor grant reporting in this manner, and adjust the general ledger.

*Effect:* Grant expenditures were not properly coded in the general ledger.

*Recommendation:* The City should review the general ledger grant accounting and compare it against grant reports filed by the grant managers on a monthly basis, and adjust the general ledger as required. The general ledger accounting should be accurate during the year so it can be used as a basis of reporting or as a monitoring procedure.

*Grantee response:* See corrective action plan

CITY OF NORTH POLE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED  
Year ended December 31, 2014

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

Findings F2014-02 and F2014-03 impact all the federal major programs listed below.

**Environmental Protection Agency**

CFDA No. 66.458, Capitalization Grants for Clean Water State Revolving Funds

**Department of Homeland Security**

CFDA No. 97.067, Homeland Security Grant Programs

**F2014-02** See Findings - Financial Statement Audit

**F2014-03** Schedule of expenditures of federal awards.

*Condition:* City personnel were not able to prepare the schedule of expenditures of federal awards.

*Criteria:* Preparation of the schedule of expenditures of federal awards is the responsibility of management.

*Context:* The City experienced turn-over in the last months of the year, and the new general ledger accountant may have had too many new duties to prepare the schedule.

*Cause:* The City did not have staff available at year-end that had the accounting expertise to prepare the schedule.

*Effect:* The auditor prepared the schedule of expenditures of federal awards, with the concurrence of management.

*Recommendation:* The City should either contract with a third party to provide services to include preparing the schedule of expenditures of federal awards, or ensure the general ledger accountant is adequately trained.

*Grantee response:* See corrective action plan

CITY OF NORTH POLE, ALASKA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year ended December 31, 2014

1. Prior year finding F2013-01: City personnel did not prepare fixed asset records, debt schedules, and grant reconciliations of grant receivables. This condition still exists, and is reported as a material weakness in the schedule of findings and questioned costs – F2014-01.
2. Prior year finding F2013-02: General ledger chart of accounts. The City has begun a review of the chart of accounts and is working on making changes beginning 2015.

CITY OF NORTH POLE, ALASKA  
CORRECTIVE ACTION PLAN  
Year ended December 31, 2014

**FINANCIAL STATEMENT FINDINGS**

**Finding: F2014-01** – Material errors in the general ledger and financial statements.

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

**Corrective Action:** The City of North Pole experienced turnover in December 2014 resulting in a new City Accountant. Management is immediately implementing new internal controls to ensure proper financial accounting according to GAAP. Management is also providing training to personnel to ensure that they have the expertise to adjust the records according to governmental rules and regulations. The city will also seek an independent third party accountant in the event that statements cannot be produced according to GAAP.

**Proposed Completion Date:** December 31, 2015

**Finding: F2014-02** Grant reports were not prepared or reconciled to the general ledger.

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

**Corrective Action:** The City of North Pole experienced turnover in December 2014 resulting in a new City Accountant. Management is immediately implementing new internal controls to ensure proper financial accounting according to GAAP and that all grants are reconciled to the general ledger at least quarterly if not sooner. Management is also offering training to personnel to ensure that they have the expertise to manage grants in accordance with required rules and regulations.

**Proposed Completion Date:** December 31, 2015

**MAJOR AWARDS PROGRAMS AUDIT**

**Finding: F2014-03** – City personnel were not able to prepare the schedule of expenditures of federal awards.

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

**Corrective Action:** The City of North Pole experienced turnover in December 2014 resulting in a new City Accountant. Management is immediately implementing new internal controls to ensure proper financial accounting according to GAAP and that all schedules of expenditures are completed for federal awards. Management is offering training to personnel to ensure that they have the expertise to manage grants according to required rules and regulations. The city will also seek an independent third party accountant in the event that statements cannot be produced according to GAAP.

**Proposed Completion Date:** December 31, 2015

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 the City of North Pole, Alaska, as of and for the year ended December 31, 2014, 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 16, 2015.

**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.

Our consideration of 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be material weaknesses. [S2014-01]

*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 deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency. [S2014-02]

**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 16, 2015





**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 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 City of North Pole, Alaska's major state programs for the year ended December 31, 2014. 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 each of its state programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of 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 *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about City of North Pole, 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 City of North Pole, Alaska's compliance.

**Unmodified Opinion on Each Major State 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 state programs identified in the schedule of state financial assistance for the year ended December 31, 2014.

## 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 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 *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of North Pole, Alaska's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item S2014-03 to be a material weakness.

*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 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item S2014-02 to be a significant deficiency.

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

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 *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 16, 2015



**CITY OF NORTH POLE, ALASKA**  
Schedule of State Financial Assistance  
For the year ended December 31, 2014

<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	\$ 733,612
Total Alaska Department of Administration		<u>733,612</u>
<u>Alaska Department of Commerce, Community &amp; Economic Development</u>		
Community Revenue Sharing Program*	N/A	201,754
North Pole Archival System*	14-DC-112	86,045
Fire Department Equipment Upgrades and Replacement	11-DC-314	36,817
Ambulance*	14-DC-110	125,000
100 Foot Aerial Platform	14-DC-109	36,896
Mixing Zone Compliance Plan	15-DC-114	1,206
Police Heating and Cooling Upgrades*	14-DC-113	75,000
Rehabilitate North Pole Utility Well and Adjustment Control Panel	09-DC-505	28,036
		<u>28,036</u>
Total Alaska Department of Commerce, Community & Economic Development		<u>590,755</u>
<u>Alaska Department of Environmental Conservation</u>		
Water Treatment Plant Engineering and Design	63320	61,332
Wastewater Treatment Plant Engineering and Design	63321	41,640
Wastewater Plant Rehabilitation Project*	63323	1,714,698
Techite Sewer Main and Manhole Rehabilitation	63322	14,028
		<u>14,028</u>
Total Alaska Department of Environmental Conservation		<u>1,831,698</u>
<u>Alaska Department of Revenue</u>		
Electric and Telephone Co-op Tax	N/A	47,602
Liquor Licenses	N/A	4,800
		<u>4,800</u>
Total Alaska Department of Revenue		<u>52,402</u>
<u>Alaska Department of Public Safety</u>		
Asset Forfeitures		22,784
Justice Assistance Grant 14	14-204	25,000
		<u>25,000</u>
Total Alaska Department of Public Safety		<u>47,784</u>
Total State Financial Assistance		<u>\$ 3,256,251</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, 2014. 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, 2014

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

*Financial Statements*

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weaknesses identified?	<u>  X  </u> Yes	<u>      </u> No
Significant deficiencies identified that are not considered to be material weaknesses?	<u>  X  </u> Yes	<u>      </u> None Reported
Noncompliance material to financial statements noted?	<u>      </u> Yes	<u>  X  </u> No

*State Financial Assistance*

Type of auditor's report issued on compliance for major programs:	Unmodified	
Internal control over major programs:		
Material weaknesses identified?	<u>  X  </u> Yes	<u>      </u> No
Significant deficiencies identified that are not considered to be material weaknesses?	<u>  X  </u> Yes	<u>      </u> None Reported

Dollar threshold used to distinguish a state major program:   \$ 75,000

CITY OF NORTH POLE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED  
Year ended December 31, 2014

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**S2014-01 Material errors in the general ledger and financial statements**

**Condition:** City personnel did not adjust the general ledger in accordance with generally accepted accounting principles (GAAP), resulting in material errors in the City’s financial statements. In order for the City to produce accurate financial statements, the City accountant must be able to adjust the general ledger to reflect the GAAP basis of accounting for the various funds. This requires reconciliation of all balance sheet accounts for each of the funds.

**Criteria:** Management is required to institute an adequate system of internal control over financial reporting.

**Context:** The City experienced turn-over in the last months of the year, and the new general ledger accountant may not have had enough time to learn the required duties.

**Cause:** The City did not have staff available at year-end that had the accounting expertise required to adjust the records.

**Effect:** The audit identified material misstatements in the general ledger that were not identified and corrected by the City’s internal control system. The misstatements included the following:

1. Accounts payable and accrued expenses were not recorded in the proper accounting year, and expenses paid in 2015 were properly recorded as expenses in 2014, but were back-posted as cash transactions.
2. Grant receivables and revenues in the capital projects, non-major funds, and water and sewer enterprise funds were not recorded.
3. Grant and other tax receivables and revenue were not recorded in the general fund.
4. Fixed assets were neither capitalized in the water and sewer fund, nor included in the general government and water and sewer depreciation schedules.
5. Information necessary for the notes to the financial statement was not prepared.

**Recommendation:** The City should either contract with a third party to provide services to include adjusting the general ledger in accordance with GAAP, or ensure the general ledger accountant has the required expertise.

**Grantee response:** See corrective action plan

CITY OF NORTH POLE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED  
Year ended December 31, 2014

**S2014-02 Grant reporting**

*Condition:* Grant reports were not prepared from or reconciled to the general ledger.

*Criteria:* Management is required to institute an adequate system of internal control over financial and grant reporting, to include procedures to accurately record grant expenditures in the general ledger and monitor grant reporting.

*Context:* The prior accountant may have reconciled the general ledger to the grant reports as part of the year-end closing.

*Cause:* City personnel have not been trained to monitor grant reporting in this manner, and adjust the general ledger.

*Effect:* Grant expenditures were not properly coded in the general ledger.

*Recommendation:* The City should review the general ledger grant accounting and compare it against grant reports filed by the grant managers on a monthly basis, and adjust the general ledger as required. The general ledger accounting should be accurate during the year so it can be used as a basis of reporting or as a monitoring procedure.

*Grantee response:* See corrective action plan

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

Findings S2014-02 and S2014-03 impact all of the major state programs listed below.

**Department of Commerce, Community & Economic Development**

North Pole Archival System, Grant number 14-DC-112

Ambulance, Grant number 14-DC-110

Police Heating and Cooling Upgrades, Grant number 14-DC-113

**Department of Environmental Conservation**

Wastewater Plant Rehabilitation Project, Grant number 63323

**S2014-02 See Findings - Financial Statement Audits**

**S2014-03 Schedule of state financial assistance.**

*Condition:* City personnel were not able to prepare the schedule of state financial assistance.

*Criteria:* Preparation of the state financial assistance is the responsibility of management.

*Context:* The City experienced turn-over in the last months of the year, and the new general ledger accountant may have had too many new duties to prepare the schedule.

*Cause:* The City did not have staff available at year-end that had the accounting expertise to prepare the schedule.

*Effect:* The auditor prepared the state financial assistance, with the concurrence of management.

*Recommendation:* The City should either contract with a third party to provide services to include preparing the state financial assistance, or ensure the general ledger accountant is adequately trained.

*Grantee response:* See corrective action plan

CITY OF NORTH POLE, ALASKA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year ended December 31, 2014

1. Prior year finding S2013-01: City personnel did not prepare fixed asset records, debt schedules, and grant reconciliations of grant receivables. This condition still exists, and is reported as a material weakness in the schedule of findings and questioned costs – S2014-01.
2. Prior year finding S2013-02: General ledger chart of accounts. The City has begun a review of the chart of accounts and is working on making changes beginning 2015.

CITY OF NORTH POLE, ALASKA  
CORRECTIVE ACTION PLAN  
Year ended December 31, 2014

**FINANCIAL STATEMENT FINDINGS**

**Finding: S2014-01** – Material errors in the general ledger and financial statements.

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

**Corrective Action:** **Corrective Action:** The City of North Pole experienced turnover in December 2014 resulting in a new City Accountant. Management is immediately implementing new internal controls to ensure proper financial accounting according to GAAP. Management is also providing training to personnel to ensure that they have the expertise to adjust the records according to governmental rules and regulations. The city will also seek an independent third party accountant in the event that statements cannot be produced according to GAAP.

**Proposed Completion Date:** December 31, 2015

**Finding: S2014-02** Grant reports were not prepared or reconciled to the general ledger.

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

**Corrective Action:** The City of North Pole experienced turnover in December 2014 resulting in a new City Accountant. Management is immediately implementing new internal controls to ensure proper financial accounting according to GAAP and that all grants are reconciled to the general ledger at least quarterly if not sooner. Management is also offering training to personnel to ensure that they have the expertise to manage grants in accordance with required rules and regulations.

**Proposed Completion Date:** December 31, 2015

**STATE AWARD FINDINGS AND QUESTIONED COSTS**

**Finding: S2014-03** – City personnel were not able to prepare the schedule of state financial assistance.

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

**Corrective Action:** The City of North Pole experienced turnover in December 2014 resulting in a new City Accountant. Management is immediately implementing new internal controls to ensure proper financial accounting according to GAAP and that all schedules of expenditures are completed for federal awards. Management is offering training to personnel to ensure that they have the expertise to manage grants according to required rules and regulations. The city will also seek an independent third party accountant in the event that statements cannot be produced according to GAAP.

**Proposed Completion Date:** December 31, 2015