

CITY OF NORTH POLE, ALASKA

Basic Financial Statements,
Supplementary Information, and
Single Audit Reports

Year Ended December 31, 2010

CITY OF NORTH POLE, ALASKA

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CITY OF NORTH POLE, ALASKA

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Independent Auditor's Report

Honorable Mayor and City Council
City of North Pole, Alaska

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Pole, Alaska, as of and for the year ended December 31, 2010 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of North Pole's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Pole, Alaska, as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2011 on our consideration of City of North Pole's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Honorable Mayor and City Council
City of North Pole, Alaska

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of North Pole's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, and the combining and individual fund financial statements and schedules, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is required by U.S Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Mikunda, Cottrell & Co.

Anchorage, Alaska
May 11, 2011

BASIC FINANCIAL STATEMENTS

CITY OF NORTH POLE, ALASKA
Statement of Net Assets
December 31, 2010

<u>Assets</u>	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
Cash and investments	\$ 1,532,412	718,935	2,251,347
Receivables:			
Sales and property taxes	336,991	-	336,991
Accounts	6,390	141,715	148,105
Grants and shared revenues	152,472	-	152,472
Assessments	1,107,081	-	1,107,081
Other	8,586	-	8,586
Allowance for doubtful accounts	(6,236)	(5,636)	(11,872)
Inventory	-	17,264	17,264
Restricted cash and investments	57,710	285,917	343,627
Unamortized bond issuance costs	-	5,597	5,597
Capital assets:			
Land and construction in progress	365,316	1,346,023	1,711,339
Other capital assets, net of depreciation	<u>3,828,506</u>	<u>11,190,865</u>	<u>15,019,371</u>
 Total assets	 \$ <u>7,389,228</u>	 <u>13,700,680</u>	 <u>21,089,908</u>
	<u>Liabilities</u>		
Accounts payable	177,080	63,693	240,773
Accrued payroll and related liabilities	150,445	-	150,445
Customer deposits	-	16,665	16,665
Accrued interest payable	24,934	14,402	39,336
Unearned revenue	5,557	190,428	195,985
Noncurrent liabilities:			
Due within one year:			
Accrued vacation and sick leave	180,206	18,511	198,717
Bonds and loans	60,910	34,970	95,880
Capital leases	67,460	-	67,460
Due in more than one year:			
Loans	-	375,000	375,000
General obligation bonds	1,070,000	-	1,070,000
Special assessment bonds	111,949	-	111,949
Revenue bonds	-	545,900	545,900
Unamortized bond premium	25,554	-	25,554
Capital leases	241,535	-	241,535
Total liabilities	<u>2,115,630</u>	<u>1,259,569</u>	<u>3,375,199</u>
	<u>Net Assets</u>		
Invested in capital assets, net of related debt	2,616,414	11,581,018	14,197,432
Unrestricted	<u>2,657,184</u>	<u>860,093</u>	<u>3,517,277</u>
Total net assets	<u>5,273,598</u>	<u>12,441,111</u>	<u>17,714,709</u>
 Total liabilities and net assets	 \$ <u>7,389,228</u>	 <u>13,700,680</u>	 <u>21,089,908</u>

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA
Statement of Activities
Year Ended December 31, 2010

Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Fees, Fines and Charges for Services	Operating Grants and Contri- butions	Capital Grants and Contri- butions	Govern- mental Activities	Business- type Activities	Total
Governmental:							
General government	\$ 862,171	81,267	15,128	-	(765,776)	-	(765,776)
Public safety	3,848,456	592,025	238,033	6,379	(3,012,019)	-	(3,012,019)
Public works	602,336	-	-	390,693	(211,643)	-	(211,643)
Culture and recreation	32,477	-	-	-	(32,477)	-	(32,477)
Community services	91,066	-	-	21,908	(69,158)	-	(69,158)
Interest	77,522	-	-	-	(77,522)	-	(77,522)
Total governmental activities	<u>5,514,028</u>	<u>673,292</u>	<u>253,161</u>	<u>418,980</u>	<u>(4,168,595)</u>	<u>-</u>	<u>(4,168,595)</u>
Business-type - water and sewer	<u>2,134,588</u>	<u>1,774,714</u>	<u>-</u>	<u>2,819,779</u>	<u>-</u>	<u>2,459,905</u>	<u>2,459,905</u>
Totals	\$ <u>7,648,616</u>	<u>2,448,006</u>	<u>253,161</u>	<u>3,238,759</u>	<u>(4,168,595)</u>	<u>2,459,905</u>	<u>(1,708,690)</u>
General revenues:							
Sales taxes					\$ 2,793,448	-	2,793,448
Property taxes					913,593	-	913,593
Grants and entitlements not restricted to a specific purpose					396,377	19,478	415,855
Investment income					95,674	-	95,674
Other					107,213	-	107,213
Total general revenues					<u>4,306,305</u>	<u>19,478</u>	<u>4,325,783</u>
Change in net assets					137,710	2,479,383	2,617,093
Net assets at beginning of year					<u>5,135,888</u>	<u>9,961,728</u>	<u>15,097,616</u>
Net assets at end of year					\$ <u>5,273,598</u>	<u>12,441,111</u>	<u>17,714,709</u>

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA

Governmental Funds

Balance Sheet

December 31, 2010

<u>Assets</u>	<u>Major Funds</u>			<u>Total Govern- mental Funds</u>
	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	
Cash and investments	\$ 1,105,655	195,761	230,996	1,532,412
Receivables, net of allowance:				
Sales and property taxes	336,991	-	-	336,991
Accounts	-	6,390	-	6,390
Grants and shared revenues	2,326	-	150,146	152,472
Assessments	-	1,107,081	-	1,107,081
Other	8,586	-	-	8,586
Allowance for doubtful accounts	-	(6,236)	-	(6,236)
Restricted cash - bond reserve	-	57,710	-	57,710
Due from other funds	46,975	-	-	46,975
Total assets	\$ <u>1,500,533</u>	<u>1,360,706</u>	<u>381,142</u>	<u>3,242,381</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	97,677	-	79,403	177,080
Accrued payroll and related liabilities	150,445	-	-	150,445
Due to other funds	-	-	46,975	46,975
Deferred revenue	-	1,107,002	5,557	1,112,559
Total liabilities	<u>248,122</u>	<u>1,107,002</u>	<u>131,935</u>	<u>1,487,059</u>
Fund balances:				
Reserved for bond redemption	-	57,710	-	57,710
Unreserved and undesignated:				
General Fund	1,252,411	-	-	1,252,411
Debt Service Fund	-	195,994	-	195,994
Special Revenue Funds	-	-	249,207	249,207
Total fund balances	<u>1,252,411</u>	<u>253,704</u>	<u>249,207</u>	<u>1,755,322</u>
Total liabilities and fund balances	\$ <u>1,500,533</u>	<u>1,360,706</u>	<u>381,142</u>	<u>3,242,381</u>

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA
 Reconciliation of Governmental Funds Balance Sheet
 to Statement of Net Assets
 December 31, 2010

Total fund balances for governmental funds \$ 1,755,322

Total net assets reported for governmental activities in the
 Statement of Net Assets is different because:

Capital assets used in governmental activities are not financial
 resources and therefore are not reported in the funds. These
 assets and related accumulated depreciation are as follows:

Land and land improvements	\$	365,316	
Buildings		3,540,662	
Office furniture and equipment		1,513,230	
Vehicles and equipment		2,768,508	
Infrastructure		1,733,206	
Accumulated depreciation		<u>(5,727,100)</u>	
			4,193,822

Other long-term assets are not available to pay for current
 period expenditures and therefore are deferred in the funds.
 These assets consist of deferred assessments receivable. 1,107,002

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

Bonds payable		(1,242,859)	
Capital leases		(308,995)	
Unamortized bond premium		(25,554)	
Accrued interest on bonds		(24,934)	
Accrued leave		<u>(180,206)</u>	
			<u>(1,782,548)</u>

Net assets of governmental activities \$ 5,273,598

CITY OF NORTH POLE, ALASKA
 Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Year Ended December 31, 2010

	Major Funds			Total Govern- mental Funds
	General	Debt Service	Nonmajor Funds	
Revenues:				
Taxes	\$ 3,707,041	-	-	3,707,041
Licenses and permits	10,025	-	-	10,025
Charges for services	376,262	-	71,242	447,504
Intergovernmental:				
Federal government	101,600	-	217,690	319,290
State of Alaska	396,377	-	35,342	431,719
Investment income	5,121	90,553	-	95,674
Special assessments	-	94,922	-	94,922
Other revenues	177,271	-	84,326	261,597
Total revenues	4,773,697	185,475	408,600	5,367,772
Expenditures:				
Current:				
General government	766,968	-	56,079	823,047
Public safety	3,287,025	-	234,539	3,521,564
Public works	499,204	-	-	499,204
Culture and recreation	-	-	32,477	32,477
Community services	81,340	-	-	81,340
Debt service:				
Principal	111,334	60,560	-	171,894
Interest and other	13,230	64,295	-	77,525
Capital outlay	105,316	-	32,995	138,311
Total expenditures	4,864,417	124,855	356,090	5,345,362
Excess of revenues over (under) expenditures	(90,720)	60,620	52,510	22,410
Other financing sources (uses):				
Proceeds from capital leases	105,316	-	-	105,316
Transfers in	7,688	-	-	7,688
Transfers out	-	-	(7,688)	(7,688)
Net other financing sources (uses)	113,004	-	(7,688)	105,316
Net change in fund balances	22,284	60,620	44,822	127,726
Beginning fund balances	1,230,127	193,084	204,385	1,627,596
Ending fund balances	\$ 1,252,411	253,704	249,207	1,755,322

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA
 Reconciliation of Change in Fund Balances of Governmental Funds
 to Statement of Activities
 Year Ended December 31, 2010

Net change in fund balances - total governmental funds		\$ 127,726
The change in net assets reported for governmental activities in the Statement of Activities is different because:		
Governmental funds report capital outlays as expenditures. However, on the Statement of Activities, depreciation expense is recognized to allocate the cost of these items over their estimated useful lives. This is the amount by which capital outlays \$215,509 and contributed capital assets \$385,985, exceeded depreciation \$535,464 and loss on disposal \$8,687.		
		57,343
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.		
		(94,922)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statements of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:		
Proceeds from capital leases	\$ (105,316)	
Payments on bonds	60,405	
Payments on capital leases	111,334	
Amortization of bond premium	<u>9,583</u>	
		76,006
Interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This is the amount of the decrease in accrued interest payable.		
		159
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>(28,602)</u>
Change in net assets of governmental activities		\$ <u>137,710</u>

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Year Ended December 31, 2010

	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 3,603,868	3,662,351	3,707,041	44,690
Licenses and permits	4,800	6,300	10,025	3,725
Charges for services - ambulance service	341,127	377,639	376,262	(1,377)
Intergovernmental:				
Federal government	359,661	114,322	101,600	(12,722)
State of Alaska	401,100	385,179	396,377	11,198
Investment income	45,000	7,000	5,121	(1,879)
Other revenues	239,850	30,600	177,271	146,671
Total revenues	<u>4,995,406</u>	<u>4,583,391</u>	<u>4,773,697</u>	<u>190,306</u>
Expenditures:				
General government	837,999	664,008	766,968	(102,960)
Public safety	3,518,376	3,490,421	3,287,025	203,396
Public works	639,031	578,593	499,204	79,389
Community services	-	55,336	81,340	(26,004)
Debt service:				
Principal	-	119,091	111,334	7,757
Interest	-	-	13,230	(13,230)
Capital outlay	-	-	105,316	(105,316)
Total expenditures	<u>4,995,406</u>	<u>4,907,449</u>	<u>4,864,417</u>	<u>43,032</u>
Excess of revenues over (under) expenditures	-	(324,058)	(90,720)	233,338
Other financing sources:				
Proceeds from capital leases	-	-	105,316	105,316
Transfers in	-	-	7,688	7,688
Total other financing sources	<u>-</u>	<u>-</u>	<u>113,004</u>	<u>113,004</u>
Net change in fund balance	\$ <u>-</u>	<u>(324,058)</u>	22,284	<u>346,342</u>
Beginning fund balance			<u>1,230,127</u>	
Ending fund balance			\$ <u>1,252,411</u>	

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA
Water and Sewer Enterprise Fund
Statement of Net Assets
December 31, 2010
With Comparative Amounts for 2009

	<u>2010</u>	<u>2009</u>
<u>Assets</u>		
Current assets:		
Cash and investments	\$ 718,935	720,293
Receivables:		
Accounts	141,715	295,902
Allowance for doubtful accounts	(5,636)	(58,292)
Inventory	17,264	17,264
Total current assets	<u>872,278</u>	<u>975,167</u>
Noncurrent assets:		
Restricted cash	285,917	172,800
Unamortized bond issuance costs	<u>5,597</u>	<u>5,804</u>
Property, plant and equipment	34,653,884	31,544,680
Less accumulated depreciation	<u>(22,116,996)</u>	<u>(21,365,235)</u>
Net property, plant and equipment	<u>12,536,888</u>	<u>10,179,445</u>
Total noncurrent assets	<u>12,828,402</u>	<u>10,358,049</u>
Total assets	\$ <u>13,700,680</u>	<u>11,333,216</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Current liabilities:		
Accounts payable	63,693	107,068
Accrued vacation and sick leave	18,511	20,359
Customer deposits	16,665	5,415
Accrued interest payable	14,402	14,402
Deferred revenue	190,428	233,758
Current portion of bonds and loans payable	<u>34,970</u>	<u>34,501</u>
Total current liabilities	<u>338,669</u>	<u>415,503</u>
Noncurrent liabilities, net of current portion:		
Revenue bonds	545,900	555,985
ADEC loan	<u>375,000</u>	<u>400,000</u>
Total noncurrent liabilities	<u>920,900</u>	<u>955,985</u>
Total liabilities	<u>1,259,569</u>	<u>1,371,488</u>
Net assets:		
Invested in capital assets, net of related debt	11,581,018	8,684,552
Unrestricted	<u>860,093</u>	<u>1,277,176</u>
Total net assets	<u>12,441,111</u>	<u>9,961,728</u>
Total liabilities and net assets	\$ <u>13,700,680</u>	<u>11,333,216</u>

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA
 Water and Sewer Enterprise Fund
 Statement of Revenues, Expenses and Changes in Net Assets
 Year Ended December 31, 2010
 With Comparative Amounts for 2009

	<u>2010</u>	<u>2009</u>
Operating revenues - charges for services	\$ <u>1,774,714</u>	<u>1,754,085</u>
Operating expenses:		
Water:		
Salaries and benefits	225,713	225,594
Other operating expenses	430,988	375,221
Depreciation	<u>263,116</u>	<u>280,354</u>
Total water	<u>919,817</u>	<u>881,169</u>
Sewer:		
Salaries and benefits	314,498	320,174
Other operating expenses	376,323	463,562
Depreciation	<u>488,645</u>	<u>409,228</u>
Total sewer	<u>1,179,466</u>	<u>1,192,964</u>
Total operating expenses	<u>2,099,283</u>	<u>2,074,133</u>
Loss from operations	(324,569)	(320,048)
Nonoperating revenues (expenses):		
Interest expense	(35,305)	(36,154)
State of Alaska PERS relief	<u>19,478</u>	<u>30,646</u>
Net nonoperating revenues (expenses)	<u>(15,827)</u>	<u>(5,508)</u>
Loss before contributions and transfers	(340,396)	(325,556)
Capital contributions	2,819,779	3,297,648
Transfers in	<u>-</u>	<u>300,000</u>
Change in net assets	2,479,383	3,272,092
Beginning net assets	<u>9,961,728</u>	<u>6,689,636</u>
Ending net assets	\$ <u><u>12,441,111</u></u>	<u><u>9,961,728</u></u>

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA

Water and Sewer Enterprise Fund
Statement of Cash Flows
Year Ended December 31, 2010
With Comparative Amounts for 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 1,844,165	1,670,520
Payments to suppliers	(850,479)	(760,342)
Payments to employees	(522,581)	(509,255)
Net cash flows from operating activities	<u>471,105</u>	<u>400,923</u>
Cash flows from noncapital financing activities - transfers in	<u>-</u>	<u>300,000</u>
Cash flows from capital and related financing activities:		
Additions to property, plant and equipment	(1,369,955)	(2,335,661)
Capital contributions received	1,080,530	2,097,648
Principal and interest paid on long-term debt	(69,921)	(70,215)
Net cash flows from capital and related financing activities	<u>(359,346)</u>	<u>(308,228)</u>
Net increase in cash and investments	111,759	392,695
Beginning cash and investments	<u>893,093</u>	<u>500,398</u>
Ending cash and investments	\$ <u>1,004,852</u>	<u>893,093</u>
Cash and investments at end of year:		
Cash and investments	\$ 718,935	720,293
Restricted cash	<u>285,917</u>	<u>172,800</u>
	\$ <u>1,004,852</u>	<u>893,093</u>
Reconciliation of loss from operations to net cash flows from operating activities:		
Loss from operations	\$ (324,569)	(320,048)
Adjustments to reconcile loss from operations to net cash provided (used) by operating activities:		
Depreciation	751,761	689,582
Noncash expense - PERS relief	19,478	30,646
Amortization of bond issuance costs	207	207
Decrease in allowance for doubtful accounts	(52,656)	-
(Increase) decrease in assets:		
Accounts receivable	154,187	(51,218)
Increase (decrease) in liabilities:		
Accounts payable	(43,375)	78,234
Accrued vacation and sick leave	(1,848)	5,867
Customer deposits	11,250	4,336
Deferred revenue	(43,330)	(36,683)
Net cash flows from operating activities	\$ <u>471,105</u>	<u>400,923</u>
Noncash capital and related financing activities - the City received a water system from a developer and a water well from a refinery	\$ <u>1,739,249</u>	<u>1,200,000</u>

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements

December 31, 2010

(1) Summary of Significant Accounting Policies

Reporting Entity

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

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the City. In general, the effect of interfund activity has been removed from these statements to minimize the double-counting of internal activities. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely primarily on fees and charges to external parties.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) fees, fines and charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Sales taxes, property taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only to the extent they have matured.

Property and sales taxes, charges for services, leases, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when received by the government.

The City reports the following major funds:

Major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be reported in another fund.

The *Debt Service Fund* accounts for the proceeds from water and sewer special assessments and the payment of general obligation and special assessment debt principal and interest.

Major proprietary fund -

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance.

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

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. In addition, general revenues include all taxes, investment income, and State of Alaska entitlement revenues.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund include the costs of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted first, then unrestricted resources as they are needed.

Budgets

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

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

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

Central Treasury

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

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

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

Inventory

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

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "due to / from other funds" (i.e., the current portion of interfund loans) or "advances to / from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Receivables

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

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

Grants and Other Intergovernmental Revenues

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

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Interfund Transactions

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

Compensated Absences

The City allows employees to accumulate earned but unused vacation and sick leave benefits. All vacation and sick leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental fund financial statements only if they have matured (e.g. the employee has terminated employment).

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Infrastructure assets (e.g. roads, sidewalks, etc.) have been capitalized on a prospective basis. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the useful life of the asset are not capitalized.

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

Buildings	40 years
Vehicles	10-40 years
Equipment	5-15 years

Deferred Grant Revenue

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

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Long-Term Debt

In the government-wide and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Pension Plan

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

(2) **Cash and Investments**

The City of North Pole utilizes a central treasury that is available for use by all funds. Each fund's portion of the central treasury is displayed on the balance sheet as "cash and investments" or included in "due to other funds."

Investment Policy

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

Reconciliation of Deposit and Investment Balances

The following is a reconciliation of the City's deposit and investment balances to the financial statements as of December 31, 2010.

Bank deposits	\$ 456,972	Cash and investments	\$ 2,251,347
Investments	<u>2,138,002</u>	Restricted cash and Investments	<u>343,627</u>
	<u>\$ 2,594,974</u>		<u>\$ 2,594,974</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Cash and Investments, continued

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Investment maturities in general investments at December 31, 2010 are less than one year and are as follows:

<u>Investment Type</u>	<u>Fair Value</u>
Money market accounts	\$ 2,038,002
Certificates of deposit	<u>100,000</u>
Total investments	<u>\$ 2,138,002</u>

(3) **Capital Assets**

Capital asset activity for the year ended December 31, 2010 was as follows:

	<u>Balance</u> January 1, 2010	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> December 31, 2010
<u>Governmental activities</u>				
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 365,316	-	-	365,316
Construction in progress	<u>13,316</u>	<u>-</u>	<u>13,316</u>	<u>-</u>
Total capital assets not being depreciated	<u>378,632</u>	<u>-</u>	<u>13,316</u>	<u>365,316</u>
<i>Capital assets being depreciated:</i>				
Buildings	3,505,438	35,224	-	3,540,662
Office furniture and equipment	1,519,673	10,117	16,560	1,513,230
Vehicles and equipment	2,711,513	183,484	126,489	2,768,508
Infrastructure	<u>1,347,221</u>	<u>385,985</u>	<u>-</u>	<u>1,733,206</u>
Total assets being depreciated	<u>9,083,845</u>	<u>614,810</u>	<u>143,049</u>	<u>9,555,606</u>
Less accumulated depreciation for:				
Buildings	2,238,327	123,415	-	2,361,742
Office furniture and equipment	854,926	115,526	7,873	962,579
Vehicles and equipment	1,972,831	229,162	126,489	2,075,504
Infrastructure	<u>259,914</u>	<u>67,361</u>	<u>-</u>	<u>327,275</u>
Total accumulated depreciation	<u>5,325,998</u>	<u>535,464</u>	<u>134,362</u>	<u>5,727,100</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Capital Assets, continued

	Balance January 1, <u>2010</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2010</u>
<u>Governmental activities, continued</u>				
Total capital assets being depreciated, net	\$ <u>3,757,847</u>	<u>79,346</u>	<u>8,687</u>	<u>3,828,506</u>
Governmental activity capital assets, net	\$ <u>4,136,479</u>	<u>79,346</u>	<u>22,003</u>	<u>4,193,822</u>
<u>Business-type activities</u>				
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 348,415	30,000	-	378,415
Construction in progress	<u>-</u>	<u>967,608</u>	<u>-</u>	<u>967,608</u>
Total capital assets not being depreciated	<u>348,415</u>	<u>997,608</u>	<u>-</u>	<u>1,346,023</u>
<i>Capital assets being depreciated:</i>				
Sewer and water system	30,097,334	2,285,942	252,694	32,130,582
Machinery and equipment	<u>1,098,931</u>	<u>137,491</u>	<u>59,143</u>	<u>1,177,279</u>
Total assets being depreciated	<u>31,196,265</u>	<u>2,423,433</u>	<u>311,837</u>	<u>33,307,861</u>
Less accumulated depreciation for:				
Sewer and water system	20,872,188	690,665	-	21,562,853
Machinery and equipment	<u>493,047</u>	<u>61,096</u>	<u>-</u>	<u>554,143</u>
Total accumulated depreciation	<u>21,365,235</u>	<u>751,761</u>	<u>-</u>	<u>22,116,996</u>
Total capital assets being depreciated, net	<u>9,831,030</u>	<u>1,671,672</u>	<u>311,837</u>	<u>11,190,865</u>
Business-type activity capital assets, net	\$ <u>10,179,445</u>	<u>2,669,280</u>	<u>311,837</u>	<u>12,536,888</u>

Depreciation expense was charged to the functions as follows:

Governmental activities

General government	\$ 69,043
Public safety	361,960
Public works	94,735
Community services	<u>9,726</u>
Total depreciation expense - governmental activities	\$ <u>535,464</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Capital Assets, continued

Business-type activities

Water	\$ 263,116
Sewer	<u>488,645</u>
Total depreciation expense - business-type activities	\$ <u>751,761</u>

(4) **Long-Term Debt**

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2010:

	Balance January 1, <u>2010</u>	<u>Additions</u>	<u>Retired</u>	Balance December 31, <u>2010</u>	Due Within <u>One Year</u>
<u>Governmental activities</u>					
General Obligation Bonds - \$1,350,000 2005 Series B bonds, due in annual installments of \$50,000 to \$105,000 through May 1, 2025; plus interest at 4.00% to 5.25%	\$ 1,170,000	-	50,000	1,120,000	50,000
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%	133,264	-	10,405	122,859	10,910
Capital lease obligation for police vehicle, payable in annual installments of \$43,944 including interest at 5.40%	41,623	-	41,623	-	-
Capital lease obligation for police vehicle, payable in annual installments of \$16,824 including interest at 6.10%	-	47,625	16,824	30,801	14,945
Capital lease obligation for police vehicle, payable in annual installments of \$16,904 including interest at 6.75%	-	47,574	16,904	30,670	14,834

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Long-Term Debt, continued

Governmental activities

	Balance January 1, <u>2010</u>	<u>Additions</u>	<u>Retired</u>	Balance December 31, <u>2010</u>	Due Within <u>One Year</u>
Capital lease obligation for a copier, payable in various monthly amounts including interest at 15.35%	\$ 341	-	341	-	-
Capital lease obligation for a copier, payable in various monthly amounts including interest at 10.49%	-	10,117	1,960	8,157	2,364
Capital lease obligation for a fire pumper truck, payable in annual installments of \$46,944 including interest at 4.615% through 2016	273,049	-	33,682	239,367	35,317
Accrued leave	<u>151,604</u>	<u>209,680</u>	<u>181,078</u>	<u>180,206</u>	<u>180,206</u>
Total governmental activities	1,769,881	<u>314,996</u>	<u>352,817</u>	1,732,060	<u>308,576</u>
Unamortized bond premium	<u>35,137</u>			<u>25,554</u>	
	\$ <u>1,805,018</u>			<u>1,757,614</u>	

Business-type activities

Revenue bonds –					
\$647,600 1998 utility revenue bonds, due in semi-annual installments of \$18,483 including interest at 4.875% through March 1, 2038	\$ 565,486	-	9,616	555,870	9,970
Note payable –					
\$500,000 2007 Water Utility Alaska Drinking Water loan, due in annual installments of \$25,000 plus interest at 1.5% through April 1, 2026	425,000	-	25,000	400,000	25,000
Accrued leave	<u>20,359</u>	<u>13,235</u>	<u>15,083</u>	<u>18,511</u>	<u>18,511</u>
Total business-type activities	\$ <u>1,010,845</u>	<u>13,235</u>	<u>49,699</u>	<u>974,381</u>	<u>53,481</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Long-Term Debt, continued

Governmental activities

The annual debt service requirements of the general obligation bonds and loans outstanding at December 31, 2010 that are in repayment status follow:

Year Ending December 31,	<u>General Obligation Bonds</u>			<u>Special Assessment Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 50,000	54,905	104,905	10,910	5,980	16,890
2012	55,000	52,280	107,280	11,440	5,450	16,890
2013	55,000	49,530	104,530	11,995	4,895	16,890
2014	60,000	46,655	106,655	12,577	4,313	16,890
2015	65,000	43,530	108,530	13,188	3,702	16,890
2016-2020	360,000	165,456	525,456	62,749	8,262	71,011
2021-2025	<u>475,000</u>	<u>61,021</u>	<u>536,021</u>	<u>-</u>	<u>-</u>	<u>-</u>
	\$ <u>1,120,000</u>	<u>473,377</u>	<u>1,593,377</u>	<u>122,859</u>	<u>32,602</u>	<u>155,461</u>

Business-type activities

Year Ending December 31,	<u>Revenue Bonds</u>			<u>Note Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 9,970	26,995	36,965	25,000	6,000	31,000
2012	10,462	26,503	36,965	25,000	5,625	30,625
2013	10,978	25,987	36,965	25,000	5,250	30,250
2014	11,520	25,445	36,965	25,000	4,875	29,875
2015	12,088	24,877	36,965	25,000	4,500	29,500
2016-2020	69,998	114,827	184,825	125,000	16,875	141,875
2021-2025	89,060	95,765	184,825	125,000	7,500	132,500
2026-2030	113,310	71,515	184,825	25,000	375	25,375
2031-2035	144,164	40,661	184,825	-	-	-
2036	<u>84,320</u>	<u>3,727</u>	<u>88,047</u>	<u>-</u>	<u>-</u>	<u>-</u>
	\$ <u>555,870</u>	<u>456,302</u>	<u>1,012,172</u>	<u>400,000</u>	<u>51,000</u>	<u>451,000</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

(5) **Capital Leases**

The City has entered into lease agreements as lessee for financing the acquisition of three police vehicles, a fire engine, and a copier. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments. The following is a summary of the assets acquired with the capital leases that have an outstanding balance as of December 31, 2010:

	<u>General Fund</u>
Machinery and equipment	\$ 675,189
Less accumulated depreciation	<u>(241,716)</u>
Carrying value	\$ <u>433,473</u>

The following is a schedule of future minimum lease payments under these capital leases and the present value of the net minimum lease payments at December 31, 2010:

<u>Year Ended</u> <u>December 31,</u>	<u>General Fund</u>
2011	\$ 83,781
2012	83,781
2013	50,052
2014	47,203
2015	46,944
2016	<u>46,944</u>
Total minimum lease payments	358,705
Less interest portion	<u>(49,710)</u>
Present value of future minimum lease payments	308,995
Less current portion	<u>(67,460)</u>
Long-term portion	\$ <u>241,535</u>

(6) **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.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Defined Benefit Pension Plan, continued

The Plan is included in a comprehensive annual financial report that includes financial statements and other required supplemental information. The report is available at the following address:

Department of Administration
Division of Retirement and Benefits
P.O. Box 110203
Juneau, Alaska 99811-0203

Conversion to Cost Sharing

In April 2008, the Alaska Legislature passed Senate Bill (SB) 125 which converted the existing Public Employees Retirement System (PERS) from an agent-multiple employer plan to a cost-sharing plan with an effective date of July 1, 2008. Under the cost-sharing arrangement, the State of Alaska Division of Retirement and Benefits no longer tracks individual employer assets and liabilities. Rather, all plan costs and past service liabilities are shared among all participating employers. The cost-sharing plan requires a uniform employer contribution rate of 22% of active member wages, subject to a wage floor. Legislation provides for State contributions to meet the annually calculated and board adopted rate for all amounts in excess of 22%. Such additional contributions (on-behalf payments) are recognized in these financial statements as revenue and expenditure/expense.

In addition, in fiscal year 2008, the State of Alaska passed legislation (SB 123) which requires that the employer contribution be calculated on all PERS eligible wages, including wages attributable to the Tier IV defined contribution plan, described later in these footnotes.

Funding Policy

Regular employees are required to contribute 6.75% of their annual covered salary (2.41% for pension and 4.34% for healthcare). Police and firefighters are required to contribute 7.5% of their annual covered salary (2.67% for pension and 4.83% for healthcare).

The funding policy provides for periodic contributions based on actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay both pension and postemployment healthcare benefits when due.

Under current legislation the employer contribution rate is statutorily capped at 22%, however, the State of Alaska will contribute any amount over 22% such that the total contribution equals the Alaska Retirement Management Board adopted rate, generally consistent with the actuarially determined rate.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Defined Benefit Pension Plan, continued

The City's contribution rates for 2010 were as follows:

	<u>Employer Rate</u>	<u>Actuarial Rate</u>	<u>GASB 45 Rate*</u>
<u>January to June</u>			
Pension	8.16%	10.25%	10.72%
Postemployment healthcare	<u>13.84%</u>	<u>17.40%</u>	<u>53.96%</u>
Total contribution rate	<u>22.00%</u>	<u>27.65%</u>	<u>64.68%</u>

	<u>Employer Rate</u>	<u>Actuarial Rate</u>	<u>GASB 45 Rate*</u>
<u>July to December</u>			
Pension	7.85%	9.98%	13.49%
Postemployment healthcare	<u>14.15%</u>	<u>17.98%</u>	<u>55.87%</u>
Total contribution rate	<u>22.00%</u>	<u>27.96%</u>	<u>69.36%</u>

* The GASB 45 rate uses a 4.5% OPEB discount rate and disregards all future Medicare Part D payments.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the plan members at that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial values of assets.

Projected benefits for financial reporting purposes do not incorporate any potential effects of legal or contractual funding limitations.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Defined Benefit Pension Plan, continued

Annual Pension and Postemployment Healthcare Cost

The City is required to contribute 22% of covered payroll, subject to a wage floor. In addition, State of Alaska contributions totaled approximately 5.65% and 5.96% of covered wages for the January to June and July to December timeframes, respectively. In accordance with the provisions of GASB Statement Number 24, the City has recorded the State on-behalf payment in the amount of \$144,135 as revenue and expenditure/expense in these financial statements. However, because the City is not statutorily responsible for these payments, this amount is excluded from pension and OPEB cost as described here. Only two years of information are available at this time.

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

(7) **Defined Contribution Pension Plan**

The State of Alaska Legislature approved Senate Bill 141 to create the Public Employees' Retirement System (PERS) Tier IV for employees hired after July 1, 2006 or for employees converting from the PERS Tier I, II or III defined benefit plans. The plan is administered by the State of Alaska, Department of Administration, and benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Alaska Retirement Management Board may also amend contribution requirements. Included in the plan are individual pension accounts, retiree medical insurance plan and a separate health reimbursement arrangement account that will help retired members pay medical premiums and other eligible medical expenses not covered by the medical plan. Employees are required to contribute 8.0% of their annual covered salary, and the City is required to make the following contributions:

	<u>Others</u> <u>Tier IV</u>	<u>Police/Fire</u> <u>Tier IV</u>
Individual account	5.00%	5.00%
Health reimbursement arrangement (HRA) *	3.00	3.00
Retiree medical plan	0.99	0.99
Occupational death and disability benefits	<u>0.58</u>	<u>1.33</u>
	<u>9.57%</u>	<u>10.32%</u>

*Health Reimbursement Arrangement – AS 39.30.370 requires that the employer contribute “an amount equal to three percent of the employer’s average annual employee compensation.” For actual remittance, this amount is calculated as a flat rate for each full time or part-time employee per pay period.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Defined Contribution Pension Plan, continued

Employees are immediately vested in their own contributions, and after two years of service, vest 25% per year in employer contributions. The City and employee contributions to PERS including the HRA contribution for the year ended December 31, 2010 were \$102,457 and \$81,531, respectively.

(8) **Deferred Compensation Plan**

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

(9) **Risk Management**

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

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

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

(10) **Interfund Balances and Transfers**

A schedule of interfund balances and transfers for the year ended December 31, 2010, follows:

Due to other funds:

Due to the General Fund from nonmajor funds for short-term advances to cover operating costs	\$ <u>46,975</u>
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Transfers:

From nonmajor funds to General Fund to close funds	\$ <u>7,688</u>
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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.

SUPPLEMENTARY FINANCIAL INFORMATION

GENERAL FUND

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

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

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

CITY OF NORTH POLE, ALASKA
 General Fund
 Balance Sheet
 December 31, 2010
 With Comparative Amounts for 2009

<u>Assets</u>	<u>2010</u>	<u>2009</u>
Cash and investments	\$ <u>1,105,655</u>	<u>1,138,998</u>
Receivables:		
Sales taxes	334,939	241,483
Property taxes	2,052	6,561
Business licenses	7,700	6,525
Grants	2,326	50,034
Other	<u>886</u>	<u>1,942</u>
Total receivables	<u>347,903</u>	<u>306,545</u>
Due from other funds	<u>46,975</u>	<u>38,029</u>
Total assets	\$ <u><u>1,500,533</u></u>	<u><u>1,483,572</u></u>
<u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	97,677	201,031
Accrued payroll and related liabilities	<u>150,445</u>	<u>52,414</u>
Total liabilities	<u>248,122</u>	<u>253,445</u>
Fund balance - unreserved and undesignated	<u>1,252,411</u>	<u>1,230,127</u>
Total liabilities and fund balance	\$ <u><u>1,500,533</u></u>	<u><u>1,483,572</u></u>

CITY OF NORTH POLE, ALASKA

General Fund

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

Year Ended December 31, 2010

With Comparative Amounts for 2009

	2010		Variance Positive (Negative)	2009
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Revenues:				
Taxes:				
Sales, alcohol and bed taxes	\$ 2,752,351	2,793,448	41,097	2,398,544
Property taxes	910,000	913,593	3,593	939,603
Total taxes	<u>3,662,351</u>	<u>3,707,041</u>	<u>44,690</u>	<u>3,338,147</u>
Business licenses	<u>6,300</u>	<u>10,025</u>	<u>3,725</u>	<u>7,975</u>
Charges for services - ambulance service	<u>377,639</u>	<u>376,262</u>	<u>(1,377)</u>	<u>389,336</u>
Federal government:				
Alaska Highway Safety Office	28,322	17,996	(10,326)	20,402
Corps of Engineers	70,000	68,476	(1,524)	67,632
Economic stimulus grant	16,000	15,128	(872)	47,951
Total Federal government	<u>114,322</u>	<u>101,600</u>	<u>(12,722)</u>	<u>135,985</u>
State of Alaska:				
State revenue sharing	206,334	206,334	-	203,079
Telephone and electric cooperative taxes	67,145	67,145	-	76,305
Liquor taxes	4,200	4,200	-	4,600
PERS relief	107,500	118,698	11,198	200,634
Total State of Alaska	<u>385,179</u>	<u>396,377</u>	<u>11,198</u>	<u>484,618</u>
Fairbanks North Star Borough	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
Investment income	<u>7,000</u>	<u>5,121</u>	<u>(1,879)</u>	<u>20,159</u>

CITY OF NORTH POLE, ALASKA

General Fund

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

	2010		Variance Positive (Negative)	2009
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Revenues, continued:				
Other revenues:				
Gaming	\$ -	-	-	2,100
Candy cane donations	-	1,200	1,200	-
Citation revenues	-	145,220	145,220	160,229
Fingerprinting	8,650	8,226	(424)	8,312
Police reports	1,200	938	(262)	1,255
Miscellaneous	20,750	21,687	937	34,278
Total other revenues	<u>30,600</u>	<u>177,271</u>	<u>146,671</u>	<u>206,174</u>
Total revenues	<u>4,583,391</u>	<u>4,773,697</u>	<u>190,306</u>	<u>4,592,394</u>
Expenditures:				
General government:				
Administration:				
Salaries and benefits	440,494	430,530	9,964	403,966
Materials and supplies	59,100	69,019	(9,919)	75,504
Purchased services	59,100	162,779	(103,679)	191,245
Vehicle expense	150	77	73	3,997
Insurance	21,364	21,364	-	22,495
Repairs and maintenance	35,000	35,212	(212)	38,136
Total administration	<u>615,208</u>	<u>718,981</u>	<u>(103,773)</u>	<u>735,343</u>
Municipal building II:				
Purchased services	28,800	32,866	(4,066)	41,391
Repairs and maintenance	20,000	15,121	4,879	13,991
Total municipal building II	<u>48,800</u>	<u>47,987</u>	<u>813</u>	<u>55,382</u>
Total general government	<u>664,008</u>	<u>766,968</u>	<u>(102,960)</u>	<u>790,725</u>

CITY OF NORTH POLE, ALASKA

General Fund

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

	2010		Variance Positive (Negative)	2009
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Expenditures, continued:				
Public safety:				
Police department:				
Salaries and benefits	\$ 1,333,938	1,199,799	134,139	1,284,455
Materials and supplies	35,950	41,442	(5,492)	27,458
Purchased services	119,772	98,649	21,123	70,288
Vehicle expense	46,000	49,235	(3,235)	49,076
Insurance	125,000	122,359	2,641	103,296
Repairs and maintenance	15,000	14,197	803	13,187
Total police department	<u>1,675,660</u>	<u>1,525,681</u>	<u>149,979</u>	<u>1,547,760</u>
Fire department:				
Salaries and benefits	1,570,332	1,516,904	53,428	1,607,751
Materials and supplies	26,457	23,957	2,500	39,747
Purchased services	104,372	106,712	(2,340)	121,195
Vehicle expense	42,500	47,541	(5,041)	53,007
Insurance	54,000	50,498	3,502	64,394
Repairs and maintenance	17,100	15,732	1,368	24,833
Total fire department	<u>1,814,761</u>	<u>1,761,344</u>	<u>53,417</u>	<u>1,910,927</u>
Total public safety	<u>3,490,421</u>	<u>3,287,025</u>	<u>203,396</u>	<u>3,458,687</u>
Public works:				
Salaries and benefits	239,500	234,485	5,015	248,753
Materials and supplies	23,125	14,196	8,929	10,031
Purchased services	66,200	42,400	23,800	62,562
Vehicle expense	19,000	7,568	11,432	13,588
Insurance	14,000	13,661	339	14,023
Repairs and maintenance	216,768	186,894	29,874	149,107
Total public works	<u>578,593</u>	<u>499,204</u>	<u>79,389</u>	<u>498,064</u>
Debt service:				
Capital lease principal	119,091	111,334	7,757	75,359
Capital lease interest	-	13,230	(13,230)	15,476
Total debt service	<u>119,091</u>	<u>124,564</u>	<u>(5,473)</u>	<u>90,835</u>

CITY OF NORTH POLE, ALASKA

General Fund

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

	2010		Variance Positive (Negative)	2009
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Expenditures, continued:				
Community service:				
Department of Economic Development:				
Salaries and benefits	\$ -	-	-	28,192
Materials and supplies	-	-	-	750
Purchased services	-	-	-	33,700
Vehicle expense	-	-	-	2,400
Total Department of Economic Development	-	-	-	65,042
Contributions:				
North Pole Christmas on Ice	32,563	12,195	20,368	6,102
North Pole Chamber of Commerce	12,545	24,390	(11,845)	11,933
Convention and Visitors	5,354	4,065	1,289	2,034
North Pole Economic Development Council	4,874	40,650	(35,776)	20,338
Other	-	40	(40)	-
Total contributions	55,336	81,340	(26,004)	40,407
Total community service	55,336	81,340	(26,004)	105,449
Capital expenditures:				
Police vehicles	-	95,199	(95,199)	-
Fire department copier	-	10,117	(10,117)	-
Total capital expenditures	-	105,316	(105,316)	-
Total expenditures	4,907,449	4,864,417	43,032	4,943,760
Excess of revenues over (under) expenditures	(324,058)	(90,720)	233,338	(351,366)
Other financing sources (uses):				
Proceeds from capital leases	-	105,316	105,316	-
Transfers in	-	7,688	7,688	-
Transfers out	-	-	-	(300,000)
Net other financing sources (uses)	-	113,004	113,004	(300,000)
Net change in fund balance	\$ (324,058)	22,284	346,342	(651,366)
Beginning fund balance		1,230,127		1,881,493
Ending fund balance	\$	1,252,411		1,230,127

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NONMAJOR GOVERNMENTAL FUNDS

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

Building Department

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

HIPPO

This fund is used to accumulate monies for the maintenance and improvement of the Hippo Park.

Economic Development

This fund is used to accumulate monies for funding of local economic projects.

APSC Training

This fund is used to record training expenses that will be reimbursed by Alaska Police Standards Council.

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.

AHSO

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

JAG

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

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

Capital Projects

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

CITY OF NORTH POLE, ALASKA
 Nonmajor Governmental Funds
 Combining Balance Sheet
 December 31, 2010

	Special Revenue Funds							Capital Projects Fund	Totals
	Building Depart- ment	Fire Depart- ment	North Pole Community Ice Rink	North Pole Festival	Abade	AHSO	JAG		
Cash and investments	\$ 77,994	34,654	11,410	7,638	20,342	-	-	78,958	230,996
Grants receivable	-	-	-	-	-	31,504	30,413	88,229	150,146
Total assets	\$ 77,994	34,654	11,410	7,638	20,342	31,504	30,413	167,187	381,142
Liabilities and Fund Balances									
Liabilities:									
Accounts payable	1,000	4,865	297	5,000	-	9,735	-	58,506	79,403
Deferred revenue	-	-	-	-	-	-	-	5,557	5,557
Due to other funds	-	-	-	-	-	16,562	30,413	-	46,975
Total liabilities	1,000	4,865	297	5,000	-	26,297	30,413	64,063	131,935
Fund balances - unreserved	76,994	29,789	11,113	2,638	20,342	5,207	-	103,124	249,207
Total liabilities and fund balances	\$ 77,994	34,654	11,410	7,638	20,342	31,504	30,413	167,187	381,142

CITY OF NORTH POLE, ALASKA

Nonmajor Governmental Funds
 Combining Statement of Revenues, Expenditures and Changes in
 Fund Balances
 Year Ended December 31, 2010

	Special Revenue Funds										Totals	
	Building Department	HIPPO	Economic Development	APSC Training	Fire Department	North Pole Community Ice Rink	North Pole Festival	Abade	AHSO	JAG		Capital Projects Fund
Revenues:												
Intergovernmental Charges for services	\$ -	-	-	-	-	-	-	-	147,400	72,637	32,995	253,032
Other revenues	71,242	-	-	-	-	-	-	-	-	-	-	71,242
	9,246	-	6	-	16,512	12,660	32,265	6,137	-	-	7,500	84,326
Total revenues	80,488	-	6	-	16,512	12,660	32,265	6,137	147,400	72,637	40,495	408,600
Expenditures:												
General government	56,079	-	-	-	-	-	-	-	-	-	-	56,079
Public safety	-	-	-	-	12,490	-	-	2,012	147,400	72,637	-	234,539
Culture and recreation	-	-	-	-	-	2,170	30,307	-	-	-	-	32,477
Capital outlay	-	-	-	-	-	-	-	-	-	-	32,995	32,995
Total expenditures	56,079	-	-	-	12,490	2,170	30,307	2,012	147,400	72,637	32,995	356,090
Excess of revenues over expenditures	24,409	-	6	-	4,022	10,490	1,958	4,125	-	-	7,500	52,510
Other financing uses - transfers out	-	(4,114)	(876)	(2,698)	-	-	-	-	-	-	-	(7,688)
Net change in fund balances	24,409	(4,114)	(870)	(2,698)	4,022	10,490	1,958	4,125	-	-	7,500	44,822
Beginning fund balances	52,585	4,114	870	2,698	25,767	623	680	16,217	5,207	-	95,624	204,385
Ending fund balances	\$ 76,994	-	-	-	29,789	11,113	2,638	20,342	5,207	-	103,124	249,207

DEBT SERVICE FUND

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

CITY OF NORTH POLE, ALASKA
 Debt Service Fund
 Statement of Revenues, Expenditures
 and Changes in Fund Balance
 Year Ended December 31, 2010
 With Comparative Amounts for 2009

	<u>2010</u>	<u>2009</u>
Revenues:		
Special assessments	\$ 94,922	97,713
Investment income	<u>90,553</u>	<u>48,119</u>
Total revenues	<u>185,475</u>	<u>145,832</u>
Expenditures - debt service:		
2005 series B G.O. bonds:		
Principal	50,000	50,000
Interest	<u>57,155</u>	<u>59,155</u>
Total 2005 series B G.O. bonds	<u>107,155</u>	<u>109,155</u>
2002 special assessment bonds:		
Principal	10,560	10,081
Interest	<u>6,330</u>	<u>6,809</u>
Total 2002 special assessment bonds	<u>16,890</u>	<u>16,890</u>
Other	<u>810</u>	<u>-</u>
Total expenditures	<u>124,855</u>	<u>126,045</u>
Net change in fund balance	60,620	19,787
Beginning fund balance	<u>193,084</u>	<u>173,297</u>
Ending fund balance	\$ <u>253,704</u>	<u>193,084</u>

MAJOR ENTERPRISE FUND

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

Water and Sewer

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

CITY OF NORTH POLE, ALASKA
 Water and Sewer Enterprise Fund
 Statement of Revenues, Expenses and Changes in Net Assets
 Year Ended December 31, 2010
 With Comparative Amounts for 2009

	<u>2010</u>	<u>2009</u>
Operating revenues - charges for services:		
Water	\$ 862,783	828,028
Sewer	911,931	926,057
Total operating revenues	<u>1,774,714</u>	<u>1,754,085</u>
Operating expenses:		
Water:		
Salaries and benefits	225,713	225,594
Materials and supplies	79,220	113,273
Purchased services	308,924	221,081
Vehicle expense	5,671	5,107
Insurance	31,707	14,038
Repairs and maintenance	444	4,263
Depreciation	263,116	280,354
Bad debt expense	5,022	17,459
Total water	<u>919,817</u>	<u>881,169</u>
Sewer:		
Salaries and benefits	314,498	320,174
Materials and supplies	28,573	83,674
Purchased services	309,154	353,915
Vehicle expense	7,742	6,709
Insurance	30,012	16,182
Repairs and maintenance	220	2,044
Depreciation	488,645	409,228
Bad debt expense	622	1,038
Total sewer	<u>1,179,466</u>	<u>1,192,964</u>
Total operating expenses	<u>2,099,283</u>	<u>2,074,133</u>
Loss from operations	(324,569)	(320,048)
Nonoperating revenues (expenses):		
State of Alaska PERS relief	19,478	30,646
Interest expense	(35,305)	(36,154)
Net nonoperating revenues (expenses)	<u>(15,827)</u>	<u>(5,508)</u>
Loss before contributions and transfers	(340,396)	(325,556)
Capital contributions	2,819,779	3,297,648
Transfers in	-	300,000
Change in net assets	<u>2,479,383</u>	<u>3,272,092</u>
Beginning net assets	<u>9,961,728</u>	<u>6,689,636</u>
Ending net assets	\$ <u>12,441,111</u>	<u>9,961,728</u>

CITY OF NORTH POLE, ALASKA
 Schedule of Expenditures of Federal Awards
 Year Ended December 31, 2010

<u>Federal Grant Title</u>	<u>Grant Number</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Total Grant Award</u>	<u>Federal Share of Expenditures</u>
Department of Agriculture				
Passed through State of Alaska Department of Natural Resources - Cooperative Forestry Assistance 2009	39984	10.664	\$ 4,842	<u>4,842</u>
Department of Justice				
Passed through State of Alaska Department of Public Safety: Edward Byrne Memorial Formula Grant Program	JAG 11-023D	16.738	86,569	30,413
Equitable Sharing - Seized Assets		16.000	6,137	<u>6,137</u>
Total Department of Justice				<u>36,550</u>
Department of Transportation				
Passed through State of Alaska Department of Transportation and Public Facilities: National Motor Carrier Safety	10-PD-008	20.218	3,452	<u>3,452</u>
State and Community Highway Safety - Seatbelt Enforcement 2010	402 PT 10-06-09	20.600	3,315	2,045
State and Community Highway Safety - Seatbelt Enforcement 2011	402 PT 11-06-01	20.600	4,017	<u>267</u>
Total CFDA 20.600				<u>2,312</u>
Alcohol Open Container Requirements Grant - Impaired Driving 2010	154 AL 10-01-01	20.607	14,945	9,405
Alcohol Open Container Requirements Grant - Impaired Driving 2011	154 AL 11-01-03	20.607	13,530	2,059
Alcohol Open Container Requirements Grant - Traffic Enforcement Officer 2010	154 AL 10-01-06	20.607	161,592	112,753
Alcohol Open Container Requirements Grant - Traffic Enforcement Officer 2011	154 AL 11-01-15	20.607	156,929	<u>31,504</u>
Total CFDA 20.607				<u>155,721</u>
Total Department of Transportation				<u>161,485</u>
Environmental Protection Agency				
Passed through the State of Alaska Department of Environmental Conservation: Capitalization Grants for Clean Water State Revolving Funds - Recovery Act - Clean Water Loan - Sewer Lift Station Renovation - ARRA (90% forgiven)	633151	66.458	1,922,222	<u>257,358</u>
Capitalization Grants for Drinking Water State Revolving Funds - Recovery Act: Drinking Water Loan - Water Meter Replacement - ARRA (100% forgiven)	633271	66.468	100,000	55,115
Drinking Water Loan - Water Pump Efficiency Improvements - ARRA (100% forgiven)	633281	66.468	600,000	<u>540,656</u>
Total CFDA 66.468				<u>595,771</u>
Total Environmental Protection Agency				<u>853,129</u>
Department of Education				
Passed through the State of Alaska Department of Commerce, Community and Economic Development - ARRA - Community Economic Stimulus Grant	800220	84.397	63,079	<u>15,932</u>
Total Federal Financial Assistance			\$	<u><u>1,071,938</u></u>

CITY OF NORTH POLE, ALASKA

Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2010

Note 1: **Basis of Presentation**

The Schedule of Expenditures of Federal Awards includes the federal grant activity of City of North Pole and is on the modified accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Note 2: **Forgiveness Loans**

The City obtained the following forgiveness loans from the Alaska Department of Environmental Conservation Clean Water and Drinking Water Revolving Loan Programs. Because the loans are forgiven, they are not reflected in the long-term debt section of the financial statements. The loan portions that were not forgiven (10% on two loans) were paid to the State of Alaska in 2009 and are also not reflected in long-term debt.

ARRA – Clean Water – CFDA 66.458

Sewer Lift Station Renovation	90% forgiveness
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Jet Vac Truck	90% forgiveness
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ARRA – Drinking Water – CFDA 66.468

Water Meter Replacement	100% forgiveness
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Water Pump Efficiency Improvements	100% forgiveness
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SINGLE AUDIT SECTION

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Honorable Mayor and City Council
City of North Pole, Alaska

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Pole, Alaska as of and for the year ended December 31, 2010, which collectively comprise the City of North Pole's basic financial statements and have issued our report thereon dated May 11, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Honorable Mayor and City Council
City of North Pole, Alaska

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City of North Pole's management, Honorable Mayor and City Council, others within the entity, federal and state awarding agencies and, if applicable, pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Mikunda, Cottrell & Co.

Anchorage, Alaska
May 11, 2011

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Honorable Mayor and City Council
City of North Pole, Alaska

Compliance

We have audited the compliance of City of North Pole 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 its major federal programs for the year ended December 31, 2010. City of North Pole's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of North Pole's management. Our responsibility is to express an opinion on City of North Pole's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of North Pole's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of North Pole's compliance with those requirements.

In our opinion, the City of North Pole complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Honorable Mayor and City Council
City of North Pole, Alaska

Internal Control Over Compliance

Management of City of North Pole is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of North Pole's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of North Pole's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of City of North Pole's management, Honorable Mayor and City Council, others within the entity, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Mikunda, Cottrell & Co.

Anchorage, Alaska
May 11, 2011

CITY OF NORTH POLE, ALASKA

Schedule of Findings and Questioned Costs

Year Ended December 31, 2010

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported
- Noncompliance material to financial statements noted? _____ yes X no

Federal Financial Assistance

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported

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

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

_____ yes X no

Identification of major programs:

<u>Agency</u>	<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Environmental Protection Agency	66.468	Capitalization Grants for Drinking Water State Revolving Funds – Recovery Act

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

_____ yes X no

CITY OF NORTH POLE, ALASKA

Schedule of Findings and Questioned Costs, continued

II. Financial Statement Findings

None noted.

III. Federal Award Findings and Questioned Costs

None noted.

CITY OF NORTH POLE, ALASKA

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2010

Financial Statement Findings

Finding 09-01 Internal Controls over Journal Entries – Significant Deficiency

Condition: Adjusting journal entries are generally initiated, recorded, reconciled, and approved by one individual.

Status: This finding was resolved in 2010.

Finding 09-02 Internal Controls over Financial Statement Preparation – Significant Deficiency

Condition: Deferred assessments, capital assets, depreciation and accrued payroll accounts were not properly reconciled or recorded in the financial statements. Cash accounts were not reconciled on a monthly basis for several months near the end of the year.

Status: This finding was resolved in 2010.

CITY OF NORTH POLE, ALASKA

Corrective Action Plan

Year Ended December 31, 2010

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