

CITY OF NORTH POLE, ALASKA

ANNUAL FINANCIAL REPORT

December 31, 2018

CITY OF NORTH POLE, ALASKA

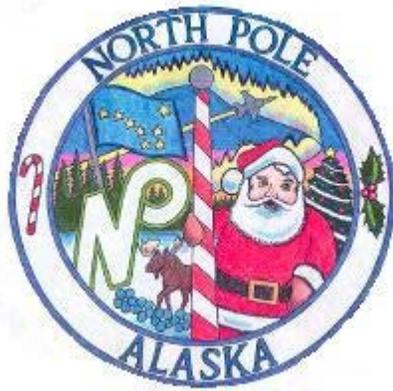
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CITY OF NORTH POLE, ALASKA

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of the 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, 2018, 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, 2018, 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 2017 financial statements and, in our report dated June 25, 2018, 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.

Change in Accounting Principle

As described in Note 2 to the financial statements, in 2018, the City adopted new accounting guidance, *GASBS No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the PERS Pension Liability information and PERS OPEB Liability information on pages 44-47 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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.

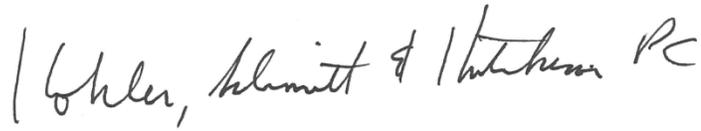
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of North Pole, Alaska's basic financial statements. The accompanying 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 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

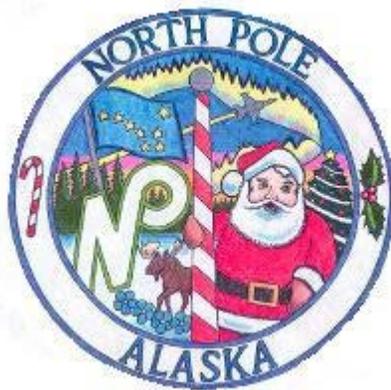
The combining and individual fund financial statements and schedules, and schedule of expenditures of federal awards as listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic 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 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 report dated June 26, 2019, on our consideration of the City of North Pole, Alaska's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of North Pole, Alaska's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of North Pole, Alaska's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Gohler, Schmidt & Johnson PC".

Fairbanks, Alaska
June 26, 2019



BASIC FINANCIAL STATEMENTS

CITY OF NORTH POLE
STATEMENT OF NET POSITION
December 31, 2018

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash and cash equity	\$ 2,871,227	1,711,604	4,582,831
Receivables, net of allowance for doubtful accounts of \$43,398	622,496	197,303	819,799
Special assessments, net of allowance for doubtful accounts of \$32,902	312,192	-	312,192
Restricted cash	-	119,503	119,503
Capital Assets			
Land, land improvements and construction in progress	365,316	-	365,316
Other capital assets, net of depreciation	2,501,634	53,410,644	55,912,278
Total assets	6,672,865	55,439,054	62,111,919
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Total deferred outflows of resources	596,530	80,192	676,722
Total assets and deferred outflows of resources	\$ 7,269,395	55,519,246	62,788,641
<u>LIABILITIES</u>			
Accounts payable	50,080	2,412	52,492
Accrued liabilities	110,552	42,818	153,370
Customer deposits	-	53,539	53,539
Unearned revenue	22,057	-	22,057
Due within one year			
Accrued vacation and sick leave	230,869	39,500	270,369
Bonds and notes payable	93,867	78,280	172,147
Due in more than one year			
Notes payable	-	1,323,574	1,323,574
General obligation bond	540,000	-	540,000
Special assessment bonds	-	-	-
Unamortized bond premium	41,269	-	41,269
OPEB liability	860,601	115,690	976,291
PERS pension liability	4,209,227	565,846	4,775,073
Total liabilities	6,158,522	2,221,659	8,380,181
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Total deferred inflows of resources	417,856	56,173	474,029
<u>NET POSITION</u>			
Net investment in capital assets	2,191,814	52,008,790	54,200,604
Restricted for:			
Public safety	44,674	-	44,674
Unrestricted	(1,543,471)	1,232,624	(310,847)
Total net position	693,017	53,241,414	53,934,431
Total liabilities, deferred inflows of resources and net position	\$ 7,269,395	55,519,246	62,788,641

See notes to financial statements.

CITY OF NORTH POLE
STATEMENT OF ACTIVITIES
Year ended December 31, 2018

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services and Other</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities:							
General government	\$ 2,101,325	38,825	99,396	634,081	(1,329,023)	-	(1,329,023)
Public safety	4,228,963	819,705	296,017	328,168	(2,785,073)	-	(2,785,073)
Public works	746,074	221,475	-	13,402	(511,197)	-	(511,197)
Debt service:							
Interest	31,699	(7,804)	-	-	(39,503)	-	(39,503)
Total governmental activities	<u>7,108,061</u>	<u>1,072,201</u>	<u>395,413</u>	<u>975,651</u>	<u>(4,664,796)</u>	<u>-</u>	<u>(4,664,796)</u>
Business-type activities:							
Water and sewer utility	<u>3,211,907</u>	<u>1,736,449</u>	<u>-</u>	<u>35,156,514</u>		<u>33,681,056</u>	<u>33,681,056</u>
Total business-type activities	<u>3,211,907</u>	<u>1,736,449</u>	<u>-</u>	<u>35,156,514</u>		<u>33,681,056</u>	<u>33,681,056</u>
General revenues:							
Taxes, grants and revenues not restricted to specific purposes:							
Sales tax					4,324,452	-	4,324,452
Property tax					602,892	-	602,892
Grants					207,064	-	207,064
Interest					5,988	-	5,988
Other					-	-	-
Transfers - inter-fund					(28,045)	28,045	-
Total general revenues					<u>5,112,351</u>	<u>28,045</u>	<u>5,140,396</u>
Changes in net position					447,555	33,709,101	34,156,656
Beginning net position, as restated					<u>245,462</u>	<u>19,532,313</u>	<u>19,777,775</u>
Ending net position					<u>\$ 693,017</u>	<u>53,241,414</u>	<u>53,934,431</u>

See notes to financial statements.

CITY OF NORTH POLE
GOVERNMENTAL FUNDS
BALANCE SHEET
December 31, 2018

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>					
Cash and cash equity	\$ 2,337,318	193,344	27,977	312,588	2,871,227
Receivables					
Accounts, net of allowance for doubtful accounts of \$-0-	538,618	-	51,529	32,349	622,496
Special assessments, net of allowance for doubtful accounts of \$32,902	-	312,192	-	-	312,192
Total assets	<u>\$ 2,875,936</u>	<u>505,536</u>	<u>79,506</u>	<u>344,937</u>	<u>3,805,915</u>
<u>LIABILITIES</u>					
Accounts payable	50,137	31	-	(89)	50,079
Accrued liabilities	99,997	-	-	-	99,997
Unearned revenue	-	-	22,057	-	22,057
Total liabilities	<u>150,134</u>	<u>31</u>	<u>22,057</u>	<u>(89)</u>	<u>172,133</u>
Deferred inflows - deferred assessments	-	276,143	-	-	276,143
<u>FUND BALANCES</u>					
Fund balances:					
Restricted-public safety	-	-	-	44,674	44,674
Committed					
Debt service	-	229,362	-	-	229,362
General government	248,112	-	-	-	248,112
Public safety	231,913	-	-	-	231,913
Public works	87,915	-	-	-	87,915
Assigned:					
General government	-	-	57,449	233,451	290,900
Public safety	-	-	-	54,768	54,768
Community services	-	-	-	12,133	12,133
Unassigned	2,157,862	-	-	-	2,157,862
Total fund balances	<u>2,725,802</u>	<u>229,362</u>	<u>57,449</u>	<u>345,026</u>	<u>3,357,639</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 2,875,936</u>	<u>505,536</u>	<u>79,506</u>	<u>344,937</u>	<u>3,805,915</u>

See notes to financial statements.

CITY OF NORTH POLE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
December 31, 2018

Total fund balances for governmental funds		\$ 3,357,639
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	\$ 365,316	
Buildings	3,673,354	
Office furniture and equipment	1,761,860	
Vehicles and equipment	3,473,640	
Infrastructure	1,733,206	
Accumulated depreciation	<u>(8,140,423)</u>	2,866,953
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.		
		276,143
Long-term liabilities related to the PERS pension liability are not due and payable in the current period and therefore are not reported as fund liabilities. Deferred inflows and deferred outflows recorded in relation to these pension liabilities are also not reported as fund assets and liabilities.		
These liabilities, deferred inflows and deferred outflows consist of:		
PERS pension liabilities	(4,209,227)	
OBEB pension liability	(860,601)	
Deferred outflows of resources	596,530	
Deferred inflows of resources	<u>(417,856)</u>	(4,891,154)
Long-term liabilities that are not due and payable in the current period are not reported as fund liabilities.		
These liabilities consist of:		
Bonds payable	\$ (540,000)	
Unamortized bond premium	(41,269)	
Accrued interest on bonds	(10,559)	
Accrued leave	<u>(230,869)</u>	<u>(822,697)</u>
Net position of governmental activities		<u>\$ 786,884</u>

See notes to financial statements.

CITY OF NORTH POLE
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Year ended December 31, 2018

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 4,927,344	-	-	-	4,927,344
Special assessments	-	106,440	-	-	106,440
Intergovernmental	319,851	-	975,651	121,878	1,417,380
Charges for services	566,653	-	-	221,475	788,128
Interest income	5,988	24,331	-	-	30,319
Other	290,487	3,079	-	91,651	385,217
Total revenues	<u>6,110,323</u>	<u>133,850</u>	<u>975,651</u>	<u>435,004</u>	<u>7,654,828</u>
EXPENDITURES					
Current:					
General government	716,605	-	-	-	716,605
Public safety	4,014,116	-	-	-	4,014,116
Public works	624,214	-	-	-	624,214
Debt service					
Principal	-	85,307	-	-	85,307
Interest	-	32,733	-	-	32,733
Legal fees	-	5,826	-	-	5,826
Credit card fees	-	721	-	-	721
Miscellaneous fees	-	32	-	-	32
PERS on-behalf	112,787	-	-	-	112,787
Health insurance expense	71,371	-	-	-	71,371
Special revenue	-	-	-	352,561	352,561
Capital outlay	-	-	999,438	-	999,438
Total expenditures	<u>5,539,093</u>	<u>124,619</u>	<u>999,438</u>	<u>352,561</u>	<u>7,015,711</u>
Excess (deficiency) of revenues over expenditures	<u>571,230</u>	<u>9,231</u>	<u>(23,787)</u>	<u>82,443</u>	<u>639,117</u>
OTHER FINANCING SOURCES (USES)					
Transfers (to) from other funds	19,131	(28,045)	18,434	(37,565)	(28,045)
Total other financing sources (uses)	<u>19,131</u>	<u>(28,045)</u>	<u>18,434</u>	<u>(37,565)</u>	<u>(28,045)</u>
Net changes in fund balances	590,361	(18,814)	(5,353)	44,878	611,072
Beginning fund balances	<u>2,135,441</u>	<u>248,176</u>	<u>62,802</u>	<u>300,148</u>	<u>2,746,567</u>
Ending fund balances	<u>\$ 2,725,802</u>	<u>229,362</u>	<u>57,449</u>	<u>345,026</u>	<u>3,357,639</u>

See notes to financial statements.

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, 2018

Net change in fund balances - total governmental funds	\$	611,072
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 depreciation exceeded capital outlays.		
		(377,014)
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.		
		(141,654)
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	\$ 85,298	
Amortization of bond premium	<u>5,896</u>	
		91,194
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 expense recorded in relation to the change in the PERS and OPEB liabilities and the related deferred inflows and outflows.		
		299,221
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.		
		1,727
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>(36,991)</u>
Changes in net position of governmental activities	\$	<u><u>447,555</u></u>
		447,555

See notes to financial statements.

CITY OF NORTH POLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year ended December 31, 2018

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenues:				
Taxes	\$ 4,879,997	4,847,741	4,927,344	79,603
Licenses and permits	33,000	33,000	37,435	4,435
Charges for services - ambulance service	536,500	570,500	566,653	(3,847)
Intergovernmental:				
Federal government	82,500	82,500	64,750	(17,750)
State of Alaska	111,300	139,716	255,101	115,385
Investment income	3,500	3,500	5,988	2,488
Other revenues	223,500	221,600	253,052	31,452
Total revenues	<u>5,870,297</u>	<u>5,898,557</u>	<u>6,110,323</u>	<u>211,766</u>
Expenditures:				
General government	1,011,783	1,040,093	716,605	323,488
Public safety	4,313,104	4,353,054	4,014,116	338,938
Public works	782,122	782,122	624,214	157,908
PERS on-behalf	-	-	112,787	(112,787)
Health insurance expense	-	-	71,371	(71,371)
Total expenditures	<u>6,107,009</u>	<u>6,175,269</u>	<u>5,539,093</u>	<u>707,547</u>
Excess of revenues over (under) expenditures	<u>(236,712)</u>	<u>(276,712)</u>	<u>571,230</u>	<u>919,313</u>
Other financing sources (uses):				
Transfers in	22,500	22,500	19,131	(3,369)
Net other financing sources (uses)	<u>22,500</u>	<u>22,500</u>	<u>19,131</u>	<u>(3,369)</u>
Net change in fund balance	<u>\$ (214,212)</u>	<u>(254,212)</u>	590,361	<u>915,944</u>
Beginning fund balance			<u>2,135,441</u>	
Ending fund balance			<u>\$ 2,725,802</u>	

See notes to financial statements.

CITY OF NORTH POLE
WATER AND SEWER ENTERPRISE FUND
STATEMENT OF NET POSITION
December 31, 2018

<u>ASSETS</u>	
CURRENT ASSETS	
Cash and cash equity	\$ 1,711,604
Receivables	
Accounts	240,701
Allowance for doubtful accounts	(43,398)
Total current assets	<u>1,908,907</u>
NONCURRENT ASSETS	
Property, plant and equipment	87,663,151
Less accumulated depreciation	(34,252,507)
Total property, plant and equipment	<u>53,410,644</u>
Restricted cash	<u>119,503</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Total deferred outflows of resources	<u>80,192</u>
Total assets and deferred outflows of resources	<u>\$ 55,519,246</u>
<u>LIABILITIES</u>	
CURRENT LIABILITIES	
Accounts payable	2,412
Accrued liabilities	82,318
Customer deposits	53,539
Unearned revenues	-
Current portion of bond and note payable	78,280
Total current liabilities	<u>216,549</u>
BOND AND NOTES PAYABLE, less current portion	<u>1,323,574</u>
PERS PENSION AND OPEB LIABILITY	<u>681,536</u>
Total liabilities	<u>2,221,659</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Total deferred inflows of resources	<u>56,173</u>
<u>NET POSITION</u>	
Net investment in capital assets	52,008,790
Unrestricted	1,232,624
Total net position	<u>53,241,414</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 55,519,246</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, 2018

OPERATING REVENUES - charges for services	\$ <u>1,736,449</u>
OPERATING EXPENSES	
Water	
Salaries and benefits	250,642
Other operating expenses	447,388
Depreciation	648,296
	<u>1,346,326</u>
Sewer	
Salaries and benefits	279,332
Other operating expenses	345,090
Depreciation	1,203,978
	<u>1,828,400</u>
Operating loss	<u>(1,438,277)</u>
NONOPERATING REVENUES (EXPENSES)	
State of Alaska PERS relief	15,177
State of Alaska PERS on-behalf payment	(15,177)
Interest expense	(37,181)
	<u>(37,181)</u>
Loss before contributions and transfers	(1,475,458)
Interfund transfer in	28,045
Capital contributions	35,156,514
	<u>33,709,101</u>
Changes in net position	33,709,101
Beginning net position, as restated	<u>19,532,313</u>
Ending net position	<u>\$ <u>53,241,414</u></u>

See notes to financial statements.

CITY OF NORTH POLE
WATER AND SEWER ENTERPRISE FUND
STATEMENT OF CASH FLOWS
Year ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,798,346
Cash paid to suppliers	(1,022,634)
Cash paid to employees	(346,572)
Interest paid	(37,181)
Net cash provided (used) by operating activities	<u>391,959</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers in	<u>28,045</u>
	<u>28,045</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Additions to property, plant, and equipment	(129,317)
Capital contributions received	124,317
Payment of revenue bond principal and interest	(76,852)
Net cash provided (used) by capital and related financing activities	<u>(81,852)</u>
Net increase (decrease) in cash	338,152
CASH AND CASH EQUIVALENTS, January 1	<u>1,492,954</u>
CASH AND CASH EQUIVALENTS, December 31	<u>\$ 1,831,106</u>
Cash and cash equivalents at end of year:	
Cash and cash equity	1,711,604
Restricted cash	<u>119,503</u>
	<u>\$ 1,831,107</u>
Loss before contributions and transfers	(1,475,458)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation	1,852,274
Unfunded PERS liability	(18,975)
Decrease (increase) in:	
Receivables	61,901
Increase (decrease) in:	
Accounts payable	(43,387)
Accrued liabilities	9,970
Customer deposits	<u>5,634</u>
Net cash provided (used) by operating activities	<u>\$ 391,959</u>
NONCASH FINANCING ACTIVITIES	
Utility plant contributed	<u>\$ 35,156,514</u>

See notes to financial statements.

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 acquisition value, the price that would be paid to acquire an asset with equivalent service potential.

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 funds, or unrestricted funds.

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. This 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 addition 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 87 could result in the biggest reporting change.

GASB 83 - Certain Asset Retirement Obligations - Effective for year-end December 31, 2019. This standard addresses accounting and financial reporting for certain asset retirement obligations (AROs), such as sewage treatment plants.

GASB 87 - Leases - Effective for year-end December 31, 2020. This standard will improve accounting and financial reporting for leases by governments.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

2. CHANGE IN ACCOUNTING PRINCIPLE

In 2018, the City adopted *GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, which among other accounting and reporting criteria, requires the City to recognize its proportional share of the net OPEB liability and related deferred inflows/outflows of resources as of the beginning of the City's fiscal year. As a result, The City recorded opening balance adjustments to increase liabilities and deferred inflows/outflows and to decrease net position as follows:

	<u>Governmental Activities</u>	<u>Business Activities</u>	<u>Total</u>
Opening net position, as originally presented	\$ 1,221,585	19,659,530	20,881,115
Change in accounting principle adjustment	<u>(976,123)</u>	<u>(127,217)</u>	<u>(1,103,340)</u>
Opening net position, as restated	<u>\$ 245,462</u>	<u>19,532,313</u>	<u>19,777,775</u>

3. 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, 2018.

Bank deposits and certificates	\$ <u>4,702,334</u>
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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	\$ 2,899,272	1,683,559	4,582,831
Restricted cash	<u>-</u>	<u>119,503</u>	<u>119,503</u>
	<u>\$ 2,899,272</u>	<u>1,803,062</u>	<u>4,702,334</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. At December 31, 2018, the City's cash balances exceeded FDIC insurance and collateral by \$545,000.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018, was as follows:

	Balance January 1, 2018	Additions	Deletions and Transfers	Balance December 31, 2018
Governmental activities				
Capital assets not being depreciated:				
Construction in progress	\$ 83,052	-	83,052	-
Land and land improvements	365,316	-	-	365,316
Total assets not being depreciated	<u>448,368</u>	<u>-</u>	<u>83,052</u>	<u>365,316</u>
Capital assets being depreciated:				
Buildings	4,020,757	-	347,404	3,673,353
Office furniture and equipment	1,558,076	203,783	-	1,761,859
Vehicles and equipment	3,494,479	89,285	-	3,583,764
Infrastructure	1,733,206	-	110,125	1,623,081
Total assets being depreciated	<u>10,806,518</u>	<u>293,068</u>	<u>457,529</u>	<u>10,642,057</u>
Less accumulated depreciation for:				
Buildings	3,144,085	74,924	227,004	2,992,005
Office furniture and equipment	1,210,370	116,057	-	1,326,427
Vehicles and equipment	2,722,574	188,987	110,125	2,801,436
Infrastructure	933,895	86,660	-	1,020,555
Total accumulated depreciation	<u>8,010,924</u>	<u>466,628</u>	<u>337,129</u>	<u>8,140,423</u>
Total capital assets being depreciated, net	<u>2,795,594</u>	<u>(173,560)</u>	<u>120,400</u>	<u>2,501,634</u>
Governmental activity capital assets, net	<u>\$ 3,243,962</u>	<u>(173,560)</u>	<u>203,452</u>	<u>2,866,950</u>
Business-type activities				
Capital assets not being depreciated:				
Land and land improvements	586,815	-	-	586,815
Construction in progress	1,148,189	7,253,453	-	8,401,642
Total assets not being depreciated	<u>1,735,004</u>	<u>7,253,453</u>	<u>-</u>	<u>8,988,457</u>
Capital assets being depreciated:				
Sewer and water system	49,002,839	27,908,061	-	76,910,900
Machinery and equipment	1,763,794	-	-	1,763,794
Total assets being depreciated	<u>50,766,633</u>	<u>27,908,061</u>	<u>-</u>	<u>78,674,694</u>
Less accumulated depreciation for:				
Sewer and water system	31,463,032	1,740,174	-	33,203,206
Machinery and equipment	937,202	112,100	-	1,049,302
Total accumulated depreciation	<u>32,400,234</u>	<u>1,852,274</u>	<u>-</u>	<u>34,252,508</u>
Total capital assets being depreciated, net	<u>18,366,399</u>	<u>26,055,787</u>	<u>-</u>	<u>44,422,186</u>
Business-type activity capital assets, net	<u>\$ 20,101,403</u>	<u>33,309,240</u>	<u>-</u>	<u>53,410,644</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

4. CAPITAL ASSETS, CONTINUED

Depreciation expense was charged to the functions as follows:

Governmental activities		
General government		\$ 23,958
Public safety		298,568
Public works		135,638
Community services		<u>8,464</u>
Total depreciation expense - governmental activities		\$ <u><u>466,628</u></u>
Business-type activities		
Water		648,296
Sewer		<u>1,203,977</u>
Total depreciation expense - business-type activities		\$ <u><u>1,852,274</u></u>

5. LONG-TERM LIABILITIES

The following is a summary of long-term liability transactions of the City for the year ended December 31, 2018:

	Balance January 1, 2018	Additions	Retired	Balance December 31, 2018	Due within One Year
Governmental activities					
General Obligations Refund 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.	\$ 685,000	-	70,000	615,000	75,000
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.	34,165	-	15,298	18,867	18,867
Accrued Leave	<u>193,878</u>	<u>366,663</u>	<u>329,672</u>	<u>230,869</u>	<u>230,869</u>
Total governmental activities	913,043	<u><u>366,663</u></u>	414,970	864,736	<u><u>324,736</u></u>
Unamortized Bond Premium	<u>47,164</u>		<u>5,895</u>	<u>41,269</u>	
	<u>\$ 960,207</u>		<u><u>420,865</u></u>	<u><u>906,005</u></u>	

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

5. LONG-TERM LIABILITIES, CONTINUED

	Balance January 1, 2018	Additions	Retired	Balance December 31, 2018	Due within One Year
Business-type activities					
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.	\$ 474,822	-	13,627	461,195	14,656
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.	225,000	-	25,000	200,000	25,000
\$580,326 Alaskan Clean Water loan, due in annual installments of \$33,801 including interest at 1.5 percent through October 1, 2033.	477,658	-	26,637	451,021	27,036
\$231,766 Alaska Clean Water loan, due in annual installments of \$11,588 including interest at 1.5 percent through October 1, 2036.	220,178	-	11,588	208,590	11,588
Note payable - construction in progress, \$303,000 Alaska Clean Water loan.	81,048	-	-	81,048	-
Accrued leave	34,001	40,878	35,379	39,500	39,500
Total business-type activities	<u>\$ 1,512,707</u>	<u>40,878</u>	<u>112,231</u>	<u>1,441,354</u>	<u>117,780</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

5. LONG-TERM LIABILITIES, CONTINUED

Alaska Clean Water Loan – In 2017, the City entered into a loan agreement with the Alaska Department of Environmental Conservation for \$303,000 with a loan term of 20 years at a rate of 1.5 percent per annum. The project will provide funding for the design of the wastewater effluent discharge. This project is still in progress as of December 31, 2018, so no repayment schedule for this debt has been determined. The note payable at December 31, 2018, includes loan advances received in 2017, by the City, in the amount of \$81,048.

The North Pole City voters authorized the City of North Pole to acquire up to \$2 million of debt for the North Pole Utilities (NPU) to construct an extension of the wastewater effluent to a main channel of the Tanana River to satisfy the NPU’s discharge violation. The construction estimate for the effluent discharge extension is just over \$4.5 million. Once voters have authorized the loan, the City Council must approve the contract language and additional financing package before the debt can be assigned and monies made available. The earliest that the project could be constructed would be the summer of 2019.

The annual debt service requirements of the general obligation bonds, special assessment bonds, and notes payable at December 31, 2018 that are in repayment status follow:

Governmental activities

Year Ending December 31,	General Obligation Bonds			Special Assessment Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 75,000	27,650	102,650	18,867	210	19,077
2020	80,000	23,900	103,900	-	-	-
2021	85,000	19,900	104,900	-	-	-
2022	90,000	16,500	106,500	-	-	-
2023	90,000	12,000	102,000	-	-	-
2024-2025	195,000	10,250	205,250	-	-	-
	<u>\$ 615,000</u>	<u>110,200</u>	<u>725,200</u>	<u>18,867</u>	<u>210</u>	<u>19,077</u>

Business type activities

Year Ending December 31,	General Obligation Bonds			Special Assessment Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2019	14,656	22,309	36,965	63,624	12,894	76,518
2020	15,380	21,585	36,965	64,030	11,940	75,970
2021	16,139	20,826	36,965	64,441	10,979	75,420
2022	16,935	20,030	36,965	64,859	10,012	74,871
2023	17,771	19,194	36,965	65,283	9,040	74,323
2024-2028	102,904	81,921	184,825	283,004	30,755	313,759
2029-2033	130,924	53,901	184,825	219,601	12,563	232,164
2034-2036	146,486	15,796	162,282	34,769	1,043	35,812
	<u>\$ 461,195</u>	<u>255,562</u>	<u>716,757</u>	<u>859,611</u>	<u>99,226</u>	<u>958,837</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

6. INTERFUND BALANCES AND TRANSFERS

Interfund transfers are used for funding capital projects, general operations, or authorized transactions in accordance with City code. The composition of interfund transfers at December 31, 2018, are as follows:

	General	Debit Service	Capital Projects	Other Governmental Funds	Total Governmental Funds	Total Enterprise Fund
Transfers from other funds	\$ 22,565	-	18,434	-	40,999	28,045
Transfers to other funds	<u>(3,434)</u>	<u>(28,045)</u>	-	<u>(37,565)</u>	<u>(69,044)</u>	-
Total net transfers between funds	<u>\$ 19,131</u>	<u>(28,045)</u>	<u>18,434</u>	<u>(37,565)</u>	<u>(28,045)</u>	<u>28,045</u>

7. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2018, there were no City departments with an excess of expenditures over appropriations.

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 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.

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 \$12 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

10. PERS PENSION AND OPEB LIABILITIES, DEFERRED INFLOWS/DEFERRED OUTFLOWS

Liabilities, deferred inflows and deferred outflows related to PERS pension and OPEB plans as of December 31, 2018, are as follows:

	Governmental Activities	Business Activities	Total
Pension and OPEB liabilities			
Pension plan	\$ (4,209,227)	(565,846)	(4,775,073)
OPEB plan	(860,601)	(115,690)	(976,291)
Total pension and OPEB liabilities	<u>\$ (5,069,828)</u>	<u>(681,536)</u>	<u>(5,751,364)</u>
Deferred Inflows			
Pension plan	(105,643)	(14,202)	(119,845)
OPEB plan	(312,213)	(41,971)	(354,184)
Total deferred inflows	<u>\$ (417,856)</u>	<u>(56,173)</u>	<u>(474,029)</u>
Deferred Outflows			
Pension plan	325,154	43,711	368,865
OPEB plan	271,376	36,481	307,857
Total deferred outflows	<u>\$ 596,530</u>	<u>80,192</u>	<u>676,722</u>

11. RETIREMENT PLANS

Defined Benefit Pension (DB) Plan

Plan Description

The Public Employees Retirement System (PERS) is administered by the State of Alaska (State) and is established to provide pension, post-employment healthcare, survivor, and disability benefits to eligible employees. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. Tiers I, II, and III are a defined benefit plan. Effective July 1, 2006, the State Legislature (Senate Bill 141) closed the defined benefit plan of PERS to new members. New employees after that date participate in the Tier IV PERS/TRS Defined Contribution (DC) Plans described later in these notes. Effective July 1, 2008, the State Legislature (Senate Bill 125) converted the PERS plan from an agent multiple-employer to a cost sharing multiple-employer plan.

Employee Contribution Rates

Regular City 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.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

11. RETIREMENT PLANS, CONTINUED

Employer and Other Contribution Rates

There are several contribution rates associated with the pension and healthcare contributions and related liabilities. These amounts are calculated on an annual basis.

Employer Effective Rate: This is the contractual employer pay-in-rate. Under current legislation, this rate is statutorily capped at 22 percent of eligible wages for PERS, subject to a wage floor, and other termination events. These rates are applied to PERS participating wages, respectively, including those wages attributable to employees in the defined contribution plan. Contributions derived from the defined contribution employees are referred to as the Defined Benefit Unfunded Liability or DBUL contribution.

ARM Board Adopted Rate: This is the rate adopted by the Alaska Retirement Management Board. This rate is actuarially determined and used to calculate annual Plan Funding requirements, without regard to the statutory rate cap or the GASB accounting rate. Prior to July 1, 2015, there were no constraints or restrictions on the actuarial cost method or other assumptions used in the ARM Board valuation. Effective, July 1, 2015, the Legislature requires the ARM Board to adopt employer contribution rates for past service liabilities using a level percent of pay method over a closed 25 year term which ends in 2039. This resulted in lower ARM Board rates in future years.

On-behalf Contribution Rate: This is the rate paid in by the State as an on-behalf payment as mandated under current statute. Under state law, subject to annual appropriation, the state will contribute an on-behalf payment into the plan in an amount equal to the difference between the ARM Board Rate and the Employer Effective Rate. On-behalf contribution amounts are recognized in the fund financial statements in the year they are appropriated by the State.

Contribution rates for the six months ended June 30, 2018, were determined from the June 30, 2016, actuarial valuation. The contribution rates for the six months ended December 31, 2018, were determined from the June 30, 2017, actuarial valuation.

Six months ended June 30, 2018:

	<u>Employer Effective Rate</u>	<u>ARM Board Adopted Rate</u>	<u>On-behalf Contribution Rate</u>
Pension	17.12%	20.13%	3.01%
Post-employment healthcare	4.88%	4.88%	0.00%
Total PERS contributions rate	<u>22.00%</u>	<u>25.01%</u>	<u>3.01%</u>

Six months ended December 31, 2018:

	<u>Employer Effective Rate</u>	<u>ARM Board Adopted Rate</u>	<u>On-behalf Contribution Rate</u>
Pension	16.17%	21.75%	5.58%
Post-employment healthcare	5.83%	5.83%	0.00%
Total PERS contribution rate	<u>22.00%</u>	<u>27.58%</u>	<u>5.58%</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

11. RETIREMENT PLANS, CONTINUED

In 2018, the City was credited with the following contributions into the pension plan. Employee contributions were \$92,272.

Employer Contributions (Including DBUL)	\$ 339,346
On-behalf Contributions	<u>127,964</u>
	<u>\$ 467,310</u>

Pension Liabilities, Pension Expense, and Deferred outflows of Resources and Deferred Inflows of Resources Related to Pension - City of North Pole

At December 31, 2018, the City reported a liability of \$4,775,073 for its proportionate share of the employer pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, which was rolled forward to June 30, 2018. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2018, the City's proportion was .0961000 percent for the employer portion which was an increase of .005020 percent from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the City recognized a decrease in pension expense of \$237,478.

	<u>Beginning Balance</u>	<u>Ending Balance</u>	<u>Pension Expense</u>
Net pension liability	\$ (4,708,205)	(4,775,073)	(66,868)
Deferred outflows	130,032	207,685	77,653
Deferred inflows	(356,138)	(119,845)	236,293
Contributions after measurement date	<u>170,780</u>	<u>161,180</u>	<u>(9,600)</u>
Total obligations related to pensions	<u>(4,763,531)</u>	<u>(4,526,053)</u>	<u>237,478</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

11. RETIREMENT PLANS, CONTINUED

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ <u>105,459</u>	<u>-</u>
Difference between expected and actual experience	<u>-</u>	<u>(119,845)</u>
Changes in assumptions	<u>-</u>	<u>-</u>
Changes in proportion and differences between employer contributions	<u>102,226</u>	<u>-</u>
City contributions subsequent to the measurement date.	<u>161,180</u>	<u>-</u>
	<u>\$ 368,865</u>	<u>(119,845)</u>

The amount of \$161,180 is reported as deferred outflows of resources resulting from City contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ended December 31, 2019. Amounts recognized as deferred inflows of resources will be recognized in pension expense as follows:

Year ended December 31,	Amount to be recognized:
2019	\$ 116,511
2020	57,665
2021	(81,712)
2022	(4,624)

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

11. RETIREMENT PLANS, CONTINUED

Actuarial assumptions

The actuarial assumptions used in the June 30, 2017 valuation was based on the results of an actuarial experience study performed as of June 30, 2013.

Investment Return/Discount Rate	8.00 percent per year (geometric), compounded annually net of expense.
Salary Scale	Inflation - 3.12 percent per year. Salary increases graded by age and service, from 9.66 percent to 4.92 percent for Peace Officers/Firefighters and from 8.55 percent to 4.34 percent for all others.
Payroll Growth	3.62 percent per year. (inflation + productivity)
Mortality	Based upon 2010-2013 actual mortality experience. 60 percent for male rates and 65 percent for female post-termination mortality rates. Deaths are assumed to be occupational 70 percent of the time for Peace Officer/Firefighters, 50 percent of the time for Others.
Retirement	Deferred vested members are assumed to retire at their earliest unreduced retirement date for Others (Non-Peace Officer/Firefighter). For Peace Officers/Firefighter, Tier 1 deferred vested members are assumed to retire at age 55 and Tiers 2 and 3 are deferred vested members assumed to retire at age 60.
Marriage and Age Difference	Wives are assumed to be three years younger than husbands. For Others (Non-Peace Officer/Firefighters) 75 percent male members and 70 percent female members are assumed to be married. For Non-Peace Officer/Firefighters, 85 percent male members and 60 percent female members are assumed to be married.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

11. RETIREMENT PLANS, CONTINUED

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The best estimates of arithmetic real rates of return for each major asset class are summarized in the following table (note that the rates shown exclude the inflation component):

Asset Class	Long-Term Expected Real
Domestic equity	8.90%
Global ex-U.S. equity	7.85%
Fixed income	1.25%
Opportunistic	4.76%
Real assets	6.20%
Absolute return	4.76%
Private equity	12.08%
Cash equivalents	0.66%

Discount Rate

The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that Employer and State contributions will continue to follow the current funding policy which meets State statutes. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Discount Rate Sensitivity

The following presents the Retirement System's net pension liability and the City's proportionate share of the net pension liability calculated using the discount rate of 8.00 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that was one percentage point lower (7.00 percent) or one percentage point higher (9.00 percent) than the current rate:

<u>City - PERS</u>	<u>Proportional Share</u>	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
System Net Pension	100.00%	\$ 6,580,245,000	\$ 4,969,027,000	\$ 3,606,131,000
City's proportionate share of the net pension liability - Employer portion	0.0961000%	\$ 6,323,402	\$ 4,775,073	\$ 3,465,374

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

11. RETIREMENT PLANS, CONTINUED

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

Defined Contribution Pension (DC) Plan

Employees hired after July 1, 2006, participate in PERS Tier IV or TRS Tier III, defined contribution plans. These plans are administered by the State of Alaska, Department of Administration as are the defined benefit plans noted above. 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, a 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. This Plan is included in the comprehensive annual financial reports for PERS, as noted above.

Employee Contribution Rates

City employees are required to contribute 8 percent of their annual covered salary for PERS. This amount goes directly to the individual's account.

Employer Contribution Rates

For the year ended December 31, 2018, the City was required to contribute 5 percent of covered salary into the plan for PERS.

However, the total employer contribution must equal 22 percent of covered payroll. After subtracting, the defined contribution (DC) pension rates, occupational death and disability plan (ODD), Retiree medical, and the HRA contribution, any residual amount of the 22 percent is deposited into the defined benefit (DB) plan. Locally known as the defined benefit unfunded liability (DBUL) payment, this amount is intended to mitigate against the declining payroll base that resulted from the creation of the DC plan.

Employees are immediately vested in their own contributions and vest 25 percent with two years of service, plus an additional 25 percent per year thereafter for full vesting at five years of service.

In 2018, the State allowed the usage of forfeitures for employer contributions to unvested, terminated employee DC plans. Forfeited contributions are only available to cover future payrolls related to employer contributions to the DC plan.

For the year ended December 31, 2018, the City and employee contributions to PERS were \$86,645 and \$138,632, respectively. The City had forfeitures in the amount of \$32,425. The City contribution; net of forfeitures, was recognized as pension expenses.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

11. RETIREMENT PLANS, CONTINUED

Other Post-Employment Benefit (OPEB) Obligations

Defined Benefit Other Post-Employment (OPEB) Plan-PERS

As part of its participation in the PERS Retirement Plan, which is a cost-sharing multiple employer plan, the City participates in the Alaska Retiree Healthcare Trust (ARHCT), Retiree Medical Plan (RMP), and Occupational Death and Disability Plan (ODD). The ARHCT is self-funded and provides major medical coverage to retirees of the PERS DB Plan (Tiers I, II, III). Benefits vary by Tier level. The RMP provides major medical coverage to retirees of the PERS DC Plan (Tier IV). The ODD provides death benefits for beneficiaries of plan participants and long-term disability to all active members within PERS. The Plans are administered by the State of Alaska, Department of Administration.

Employee Contribution Rates

Employees do not contribute to the OPEB Plan.

Employer Contribution Rates

Contribution rates for the year ended December 31, 2018, were as follows:

	Peace Officers/ Firefighters	All Others	State Contribution Rate
January 1 through June 30, 2018			
ARHCT	4.88%	4.88%	0.00%
RMP	1.03%	1.03%	0.00%
ODD	0.43%	0.16%	0.00%
Total Contribution Rates	6.34%	6.07%	0.00%

	Peace Officers/ Firefighters	All Others	State Contribution Rate
July 1 through December 31, 2018			
ARHCT	5.83%	5.83%	0.00%
RMP	0.94%	0.94%	0.00%
ODD	0.76%	0.26%	0.00%
Total Contribution Rates	7.53%	7.03%	0.00%

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

11. RETIREMENT PLANS, CONTINUED

Defined Benefit Other Post-Employment (OPEB) Plan-PERS, Continued

For the year ended December 31, 2018, the City contributed \$192,546 into the OPEB plan of which \$108,898 was for ARHCT.

OPEB Liabilities, OPEB Expenses, and Deferred Outflow of Resources and Deferred Inflow of Resources Related to OPEB Plans

At December 31, 2018, the City reported a total liability of \$976,291 for its proportionate share of the net OPEB liability. The total net OPEB liability for the City's proportionate share and the State proportionate share were as follows:

	<u>December 31, 2018</u>
City's proportionate share of net OPEB liability - ARHCT	\$ 986,220
State's proportionate share of net OPEB liability - ARHCT	<u>287,413</u>
Total net OPEB liability - ARHCT	<u>\$ 1,273,633</u>
City's proportionate share of net OPEB liability - RMP	<u>\$ 18,867</u>
City's proportionate share of net OPEB liability - ODD	<u>\$ (28,796)</u>

The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017, which was rolled forward to June 30, 2018. The City's proportion of the net OPEB liability was based on a projection of the City's long term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. At December 31, 2018, the City's proportions and changes in proportion were as follows:

City's Proportionate Share of the net OPEB liabilities:	<u>June 30, 2017</u> Measurement Date	<u>June 30, 2018</u> Measurement Date	<u>Change</u>
ARHCT	0.09110%	0.09610%	0.00500%
RMP	0.14267%	0.14827%	0.00560%
ODD	0.14267%	0.14827%	0.00560%

For the year ended December 31, 2018, the City recognized a decrease in OPEB expense of \$80,719.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

11. RETIREMENT PLANS, CONTINUED

Defined Benefit Other Post-Employment (OPEB) Plan - PERS, Continued

	<u>Beginning Balance</u>	<u>Ending Balance</u>	<u>OPEB Expense</u>
Net OPEB liability - ARHCT	\$ (769,666)	(986,220)	(216,554)
Net OPEB liability - RMP	(7,440)	(18,867)	(11,427)
Net OPEB liability - ODD	20,243	28,796	8,553
Deferred outflows	2,173	207,531	205,358
Deferred inflows	(348,647)	(354,184)	(5,537)
Contributions after measurement date	-	100,326	100,326
Total Obligations Related to OPEB	<u>\$ (1,103,337)</u>	<u>(1,022,618)</u>	<u>80,719</u>

At December 31, 2018, the City reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

		<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience			
	ARHCT	\$ -	105,531
	RMP	-	1,008
	ODD	-	7,967
Changes in assumptions			
	ARHCT	149,619	-
	RMP	8,741	-
	ODD	-	-
Net difference between projected and actual earnings on OPEB plan investments			
	ARHCT	-	208,989
	RMP	-	2,752
	ODD	-	1,013
Changes in proportion and differences between City contributions and proportionate share of contributions			
	ARHCT	45,502	26,924
	RMP	433	-
	ODD	3,236	-
City contributions subsequent to the measurement date		<u>100,326</u>	<u>-</u>
		<u>\$ 307,857</u>	<u>354,184</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

11. RETIREMENT PLANS, CONTINUED

Defined Benefit Other Post-Employment (OPEB) Plan-PERS, Continued

The \$100,326 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized in the net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30,</u>	<u>ARHCT</u>	<u>RMP</u>	<u>ODD</u>
2019	(41,819)	85	(897)
2020	(31,787)	85	(897)
2021	(68,135)	85	(897)
2022	(4,582)	1,025	(568)
2023	-	1,008	(561)
Thereafter	-	3,126	(1,925)

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2009 to June 30, 2013, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect expected future experience.

Inflation rate	3.12 percent
Salary increases	Graded by service, from 9.66 percent to 4.92 percent for peace officers/firefighters. Graded by age and service, from 8.55 percent to 4.34 percent for all other.
Investment rate of return	8.00 percent, net of post-retirement healthcare plan investment expenses. This is based on an average inflation rate of 3.12 percent and a real rate of return of 4.88 percent.
Trend rates	Pre-65 medical; 8.0 percent grading down to 4.0 percent. Post-65 medical; 5.5 percent grading down to 4.0 percent. Prescription drug; 9.0 percent grading down to 4.0 percent. Retiree Drug Subsidy/Employer Group Waiver Plans: 6.5 percent grading down to 4.0 percent.
Mortality	Pre-termination based on 2010-2013 actual mortality experience, 60 percent of male and 65 percent of female post-termination rates. Deaths are assumed to be occupational 70 percent of the time for peace officers/firefighters, 50 percent of the time for others. Post-termination based on 96 percent of all rates of the RP-2000 table, 2000 Base Year projected to 2018 with projection scale BB.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

11. RETIREMENT PLANS, CONTINUED

Defined Benefit Other Post-Employment (OPEB) Plan-PERS, Continued

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of post-employment healthcare plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The best estimates of arithmetic real rates of return for each major asset class are summarized in the following table (note that the rates shown below exclude the inflation component):

Asset Class	Long-term expected real rate of return
Domestic equity	8.90%
Global ex-U.S. equity	7.85%
Fixed income	1.25%
Opportunistic	4.76%
Real assets	6.20%
Absolute return	4.76%
Private equity	12.08%
Cash equivalents	0.66%

Discount Rate

The discount rate used to measure the total OPEB liability for all plans was 8.00%. The projection of cash flows used to determine the discount rate assumed that employer and State contributions will continue to follow the current funding policy, which meets State statutes. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Discount Rate Sensitivity

The following presents the City's proportionate share of the net OPEB liabilities calculated using the discount rate of 8.00%, as well as the City's proportionate share of the net OPEB liability if it were calculated using a discount rate that is one percentage point lower (7.00%) or one percentage point higher (9.00%) than the current rate:

City's proportionate share of the net OPEB liabilities (assets):	Proportional Share	Current		
		1% Decrease 7.00%	Discount Rate 8.00%	1% Increase 9.00%
ARHCT	0.09610%	\$ 1,996,601	986,220	139,314
RMP	0.14827%	56,341	18,867	(10,362)
ODD	0.14827%	(27,041)	(28,796)	(30,240)

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

11. RETIREMENT PLANS, CONTINUED

Defined Benefit Other Post-Employment (OPEB) Plan-PERS, Continued

Healthcare Cost Trend Rates Sensitivity

The following presents the City’s proportionate share of the net OPEB liabilities calculated using the healthcare cost trend rate, as well as the City’s proportionate share of the net OPEB liability if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

City's proportionate share of the net OPEB liabilities (assets):	Proportional Share	1% Decrease	Current Healthcare Cost Rate	1% Increase
ARHCT	0.09610%	\$ 19,144	986,220	2,151,156
RMP	0.14827%	(16,041)	18,867	65,584

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued PERS comprehensive annual financial reports as described earlier in these notes.

Defined Contribution Other Post-Employment Benefit (OPEB) Plan- PERS

Plan Description

Defined Contribution Pension Plan participants, PERS DC Plan (Tier IV), participate in the Retiree Medical Plan and Occupational Death and Disability Plan described in the DB OPEB Plan section. In addition, PERS defined contribution members participate in the Health Reimbursement Agreement. State statute established the contribution amount for the Health Reimbursement Agreement as “three percent of the average annual employee compensation of all employees of all employers in the plan”, this amount is calculated as a flat rate for each full-time employee per pay period at \$86.84 as of June 30, 2018, and \$87.62 as of December 31, 2018.

Employee Contribution Rates

Employees do not contribute to the DC OPEB Plan.

Employer Contribution Rates

Employer contribution rates are described in the DB OPEB Plan section.

For the year ended December 31, 2018, the City contributed \$58,776 in DC OPEB costs. This amount was recognized as expense.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

12. CONTINGENCIES AND GROUND WATER LAWSUIT

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.

In 2017, Flint Hills Resources Alaska (FHRA) and the State of Alaska agreed to provide funding for a water distribution system for more than 650 parcels of land affected by groundwater contamination, including areas outside of the city limits. The settlement agreement provided up to \$100,000,000 to be used for the water distribution system, operations and the litigation expenses born by the City attorney agreement. Construction began in the spring of 2018, and Phase 1 of the water system was completed before year end. The City received \$35,156,514 in utility assets during the year from this construction. This amount is recorded as property, plant and equipment and capital contribution in the water and sewer enterprise fund. Phase 2 of this project is expected to be completed in 2019.

Funding for the water system is provided in the ratio of 80 percent by Flint Hills Resources Alaska LLC and 20 percent by the State of Alaska as planning and construction costs warrant. Future judicial determinations may change this funding allocation, which may result in Williams Alaska Petroleum (WAPI) being held liable for the contamination and the City, state and FHRA being awarded judgment against WAPI.

Claims against WAPI are on-going and pending in the Superior Court of the State of Alaska Fourth Judicial District in Fairbanks. A jury trial date has been set for the fall of 2019.

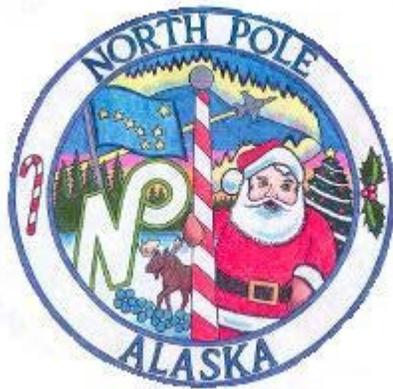
13. SUBSEQUENT EVENTS

January 14, 2019, Ordinance 19-01 An Ordinance Of The City Of North Pole To Amend The 2019 Operating Budget In Support Of The Moose Creek Water System Expansion Project

April 15, 2019, Ordinance 19-08 An Ordinance Of The City Of North Pole, Alaska To Approve The Amended Cooperative Agreement With The US Army Corps Of Engineers For The Engineering And Design Of The Moose Creek Water System Expansion Project And Associated Fiscal Note

The above ordinances were adopted by the North Pole City Council. These ordinances approve the US Air Force, through the US Army Corps of Engineers, to work with the City to prepare a complete design of a water transmission line from North Pole's water distribution system. Additionally, a local water distribution system within the community of Moose Creek will include a pump house and water storage tank. Water shall be supplied by the North Pole Water Treatment Plant, approximately five miles northwest of Moose Creek. The design work is scheduled to be completed in December 2019, with construction to follow starting in the spring of 2020. Budget amendments total \$2,825,000.

As of June 21, 2019, forty-five eligible property owners have signed up for water service under the Flint Hills water extension settlement. These new accounts will receive a credit total in the amount of \$101,450.



REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY OF NORTH POLE INFORMATION ON THE NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST FOUR FISCAL YEARS

Year Ended June 30	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	State of Alaska Proportionate Share of the Net Pension Liability	Total Net Pension Liability	City's Covered- Employee Payroll	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.09610000%	\$ 4,775,073	\$ 1,382,424	\$ 6,157,497	\$ 2,783,564	172%	65.1900%
2017	0.09108000%	4,708,205	1,753,269	6,461,474	2,729,922	172%	63.3700%
2016	0.10190000%	5,695,667	717,592	6,413,259	2,696,738	211%	59.5500%
2015	0.09861000%	4,782,513	1,280,630	6,063,143	2,539,576	188%	63.9600%

Information presented for 2018 is based on Plan Measurement Date. For December 31, 2018, the plan measurement date is June 30, 2018.

This schedule is intended to present 10 years of information. Information for additional years will be included as it becomes available.

The plan is not reporting any changes in benefit terms or assumptions from the prior measurement period.

SCHEDULE OF THE CITY OF NORTH POLE CONTRIBUTIONS - PENSION
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST FOUR FISCAL YEARS

Year Ended June 30	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	City's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2018	\$ 612,384	\$ 612,384	\$ -	\$ 2,783,564	22%
2017	600,583	600,583	-	2,729,922	22%
2016	593,282	593,282	-	2,696,738	22%
2015	558,707	558,707	-	2,539,576	22%

Information in this table reports the City's pension contributions to PERS for the last four years on the December 31, 2018 basic financial statements.

This schedule is intended to present 10 years of information. Information for additional years will be included as it becomes available.

SCHEDULE OF THE CITY OF NORTH POLE INFORMATION ON THE NET OPEB LIABILITY
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST FISCAL YEAR

Year Ended June 30	City's Proportion of the Net OPEB Liability	City's Proportionate Share of the Net OPEB Liability	State of Alaska Proportionate Share of the Net OPEB Liability	Total Net OPEB Liability	City's Covered Payroll	City's Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
<i>Alaska Retiree Healthcare Trust</i>							
2018	0.09610%	\$ 986,220	\$ 287,413	\$ 1,273,633	\$ 2,169,907	45.45%	88.12%
<i>Retiree Medical Plan</i>							
2018	.14827%	18,867	-	18,867	2,169,907	0.87%	88.71%
<i>Occupational Death and Disability</i>							
2018	.14827%	(28,796)	-	(28,796)	2,169,907	-1.33%	270.62%

Information presented for 2018 is based on Plan Measurement Date. For December 31, 2018, the plan measurement date is June 30, 2018.

This schedule is intended to present 10 years of information. Information for additional years will be included as it becomes available.

The plan is not reporting any changes in benefit terms or assumptions from the prior measurement period.

See notes to financial statements.

SCHEDULE OF THE CITY OF NORTH POLE CONTRIBUTIONS - OPEB
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST FISCAL YEAR

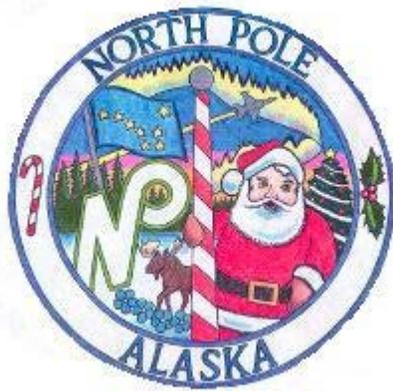
Year Ended June 30	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
<i>Alaska Retiree Healthcare Trust</i>					
2018	\$ 99,464	\$ 99,464	-	\$ 2,169,907	4.58%
<i>Retiree Medical Plan</i>					
2018	17,284	17,284	-	2,169,907	0.80%
<i>Occupational Death and Disability</i>					
2018	5,551	5,551	-	2,169,907	0.26%

Information in this table reports the City's OPEB contributions for the last fiscal year.

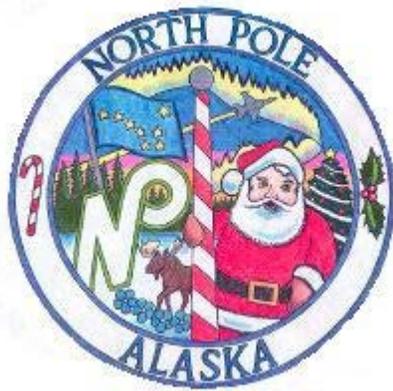
The 2018 OPEB contributions from July 1, 2018 through December 31, 2018 are reported as a deferred outflow on the December 31, 2018 basic financial statements.

This schedule is intended to present 10 years of information. Information for additional years will be included as it becomes available.

See notes to financial statements.



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 Projects or Enterprise Funds.

CITY OF NORTH POLE
GENERAL FUND
BALANCE SHEET
December 31, 2018
with comparative data for 2017

<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
Cash and cash equity	\$ 2,337,318	1,979,655
Receivables (net of allowance for doubtful accounts of \$-0-)		
Sales taxes	476,193	458,600
Property taxes	1,669	2,872
Business taxes	13,041	11,778
Grants	11,768	5,385
Healthcare reimburseable	34,407	-
Other	1,540	-
	<u>538,618</u>	<u>478,634</u>
Total assets	\$ <u><u>2,875,936</u></u>	<u><u>2,458,290</u></u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities		
Accounts payable	50,137	123,477
Accrued liabilities	99,997	132,271
Healthcare payable	-	67,110
	<u>150,134</u>	<u>322,858</u>
Fund balance - committed	567,940	560,711
Fund balance - unassigned	2,157,862	1,574,728
	<u>2,725,802</u>	<u>2,135,440</u>
Total liabilities and fund balance	\$ <u><u>2,875,936</u></u>	<u><u>2,458,290</u></u>

See notes to financial statements.

CITY OF NORTH POLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year ended December 31, 2018
with comparative data for 2017

	2018		Variance Favorable (Unfavorable)	2017
	Budget Final	Actual		Actual
REVENUES				
Taxes				
Sales, alcohol, and use taxes	\$ 4,247,744	4,324,452	76,708	4,051,502
Property taxes	599,997	602,892	2,895	382,057
Total taxes	<u>4,847,741</u>	<u>4,927,344</u>	<u>79,603</u>	<u>4,433,559</u>
Business licenses	<u>21,000</u>	<u>25,435</u>	<u>4,435</u>	<u>21,940</u>
Fireworks permits	<u>12,000</u>	<u>12,000</u>	<u>-</u>	<u>12,000</u>
Charges for services - ambulance service	<u>570,500</u>	<u>566,653</u>	<u>(3,847)</u>	<u>519,540</u>
Federal government				
Corps of Engineers	82,500	64,750	(17,750)	62,524
Currency Crimes Task Force and Marijuana Eradication	-	-	-	200
Total Federal government	<u>82,500</u>	<u>64,750</u>	<u>(17,750)</u>	<u>62,724</u>
State of Alaska				
State shared revenue	139,716	142,314	2,598	149,705
PERS relief	-	112,787	112,787	95,806
Total State of Alaska	<u>139,716</u>	<u>255,101</u>	<u>115,385</u>	<u>245,511</u>
Investment Income	<u>3,500</u>	<u>5,988</u>	<u>2,488</u>	<u>4,618</u>
Other revenues				
Citation revenues	155,000	113,852	(41,148)	152,782
Fingerprinting revenues	17,500	14,200	(3,300)	20,100
Police report revenue	-	1,295	1,295	1,135
Fire department revenue	-	5,955	5,955	4,500
Other public safety revenue	15,600	31,308	15,708	16,800
Fleet reserves revenue	17,500	7,156	(10,344)	8,899
Settlement litigation revenue	-	-	-	2,700,000
Reimbursement of litigation costs	-	-	-	92,219
Miscellaneous revenue	16,000	79,286	63,286	27,761
Total other revenues	<u>221,600</u>	<u>253,052</u>	<u>31,452</u>	<u>3,024,196</u>
Total revenues	<u>5,898,557</u>	<u>6,110,323</u>	<u>211,766</u>	<u>8,324,088</u>

See notes to financial statements.

CITY OF NORTH POLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CONTINUED
Year ended December 31, 2018
with comparative data for 2017

	2018		Variance Favorable (Unfavorable)	2017
	Budget Final	Actual		Actual
EXPENDITURES				
General government				
Administration				
Salaries and benefits	\$ 332,920	325,978	6,942	273,899
Purchased services	97,250	75,425	21,825	83,000
Operational expenses	58,500	49,295	9,205	32,184
Leases and rentals	5,750	5,197	553	5,527
Travel, training, and memberships	13,800	7,732	6,068	9,021
Vehicle expenses	1,250	898	352	314
Infrastructure outlay	9,000	6,760	2,240	5,981
Fleet reserves	133,901	-	133,901	142,854
Litigation	150,000	37,326	112,674	96,192
Other	4,500	1,938	2,562	1,635
	<u>806,871</u>	<u>510,549</u>	<u>296,322</u>	<u>650,607</u>
City Council				
Salaries and benefits	151,512	143,773	7,739	184,531
Purchased services	50,310	43,900	6,410	41,065
Operational expenses	11,150	6,885	4,265	8,700
Travel, training, and memberships	15,250	9,053	6,197	11,392
Other	5,000	2,445	2,555	2,940
	<u>233,222</u>	<u>206,056</u>	<u>27,166</u>	<u>248,628</u>
Total general government	<u>1,040,093</u>	<u>716,605</u>	<u>323,488</u>	<u>899,235</u>
Public safety				
Police department				
Salaries and benefits	1,612,749	1,409,324	203,425	1,439,016
Purchased services	272,375	264,975	7,400	252,425
Operational expenses	62,502	57,230	5,272	58,260
Leases and rentals	1,800	1,783	17	1,783
Travel, training, and memberships	32,000	27,957	4,043	30,519
Vehicle expenses	55,500	40,635	14,865	52,009
Infrastructure outlay	18,500	18,319	181	17,208
Fleet reserves	60,500	64,670	(4,170)	56,782
Other	66,523	59,169	7,354	83,367
	<u>2,182,449</u>	<u>1,944,062</u>	<u>238,387</u>	<u>1,991,369</u>
Fire department				
Salaries and benefits	1,769,355	1,685,008	84,347	1,645,064
Purchased services	161,700	160,725	975	150,873
Operational expenses	94,150	81,557	12,593	92,480
Travel, training, and memberships	29,300	28,511	789	22,359
Vehicle expenses	47,700	47,933	(233)	36,813
Infrastructure outlay	16,500	16,831	(331)	32,297
Other	51,900	49,489	2,411	10,344
	<u>2,170,605</u>	<u>2,070,054</u>	<u>100,551</u>	<u>1,990,230</u>
Total public safety	<u>4,353,054</u>	<u>4,014,116</u>	<u>338,938</u>	<u>3,981,599</u>

See notes to financial statements.

CITY OF NORTH POLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CONTINUED
Year ended December 31, 2018
with comparative data for 2017

	2018		Variance Favorable (Unfavorable)	2017
	Budget Final	Actual		Actual
EXPENDITURES, CONTINUED				
Public works				
Salaries and benefits	\$ 330,322	339,227	(8,905)	293,581
Purchased services	123,500	96,604	26,896	98,609
Operational expenses	54,250	53,177	1,073	57,541
Travel, training, and memberships	1,750	132	1,618	492
Vehicle expenses	21,000	16,854	4,146	19,121
Infrastructure outlay	93,500	67,059	26,441	58,785
Fleet reserves	91,000	-	91,000	-
Other	66,800	51,161	15,639	61,394
	<u>782,122</u>	<u>624,214</u>	<u>157,908</u>	<u>589,523</u>
Settlement litigation expense	-	-	-	2,700,000
PERS on-behalf	-	112,787	(112,787)	95,806
Health insurance expense	-	71,371	(71,371)	-
	<u>-</u>	<u>184,158</u>	<u>(184,158)</u>	<u>2,795,806</u>
 Total expenditures	 <u>6,175,269</u>	 <u>5,539,093</u>	 <u>636,176</u>	 <u>8,266,163</u>
 Excess of revenues over (under) expenditures	 <u>(276,712)</u>	 <u>571,230</u>	 <u>847,942</u>	 <u>57,925</u>
 Other financing sources (uses)				
Transfers in	22,500	22,565	65	19,858
Transfer out	-	(3,434)	-	-
Net other financing sources (uses)	<u>22,500</u>	<u>19,131</u>	<u>65</u>	<u>19,858</u>
 Net change in fund balance	 <u>\$ (254,212)</u>	 <u>590,361</u>	 <u>848,007</u>	 <u>77,783</u>
 Beginning fund balance		 <u>2,135,441</u>		 <u>2,057,658</u>
Ending fund balance		<u>\$ 2,725,802</u>		<u>2,135,441</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.

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.

Justice

This fund is used to record federal Department of Justice forfeitures and expenditures for public safety.

State Forfeitures

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

Treasury

This fund is used to record federal Department of the Treasury forfeitures and expenditures for public safety.

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.

Bed Tax

This fund is used to account for monies collected from bed tax.

CITY OF NORTH POLE
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
December 31, 2018

	Building Department	North Pole Community Ice Rink	North Pole Festival	Justice	State Forfeitures	Treasury	JAG	Impound Lot	Bed Tax	Total
<u>ASSETS</u>										
Cash and cash equity	\$ 209,313	10,623	1,510	28,556	15,864	254	(30,425)	57,283	19,610	312,588
Accounts Receivable	-	-	-	-	-	-	27,923	-	4,426	32,349
Total assets	<u>\$ 209,313</u>	<u>10,623</u>	<u>1,510</u>	<u>28,556</u>	<u>15,864</u>	<u>254</u>	<u>(2,502)</u>	<u>57,283</u>	<u>24,036</u>	<u>344,937</u>
<u>LIABILITIES</u>										
Accounts payable	(1,335)	-	-	-	-	-	-	13	1,236	(89)
Total liabilities	<u>(1,335)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13</u>	<u>1,236</u>	<u>(89)</u>
<u>FUND BALANCES</u>										
Restricted-public safety	-	-	-	28,556	15,864	254	-	-	-	44,674
Assigned										
General government	210,651	-	-	-	-	-	-	-	22,800	233,451
Public safety	-	-	-	-	-	-	(2,502)	57,270	-	54,768
Community services	-	10,623	1,510	-	-	-	-	-	-	12,133
Unassigned	-	-	-	-	-	-	-	-	-	-
Total fund balances	<u>210,651</u>	<u>10,623</u>	<u>1,510</u>	<u>28,556</u>	<u>15,864</u>	<u>254</u>	<u>(2,502)</u>	<u>57,270</u>	<u>22,800</u>	<u>345,026</u>
Total liabilities and fund balances	<u>\$ 209,313</u>	<u>10,623</u>	<u>1,510</u>	<u>28,556</u>	<u>15,864</u>	<u>254</u>	<u>(2,502)</u>	<u>57,283</u>	<u>24,036</u>	<u>344,937</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, 2018

	Building Department	North Pole Community Ice Rink	North Pole Festival	Justice	State Forfeitures	Treasury	JAG	Impound Lot	Bed Tax	Total
REVENUES										
Intergovernmental	\$ -	-	-	-	9,135	-	112,743	-	-	121,878
Charges for services	206,120	-	-	-	-	-	-	15,355	-	221,475
Other	-	-	1,390	-	-	-	-	-	90,261	91,651
Total revenues	<u>206,120</u>	<u>-</u>	<u>1,390</u>	<u>-</u>	<u>9,135</u>	<u>-</u>	<u>112,743</u>	<u>15,355</u>	<u>90,261</u>	<u>435,004</u>
EXPENDITURES										
	<u>142,883</u>	<u>-</u>	<u>3,911</u>	<u>7,828</u>	<u>5,809</u>	<u>60</u>	<u>115,245</u>	<u>8,082</u>	<u>68,743</u>	<u>352,561</u>
Excess (deficiency) of revenues over expenditures	63,237	-	(2,521)	(7,828)	3,326	(60)	(2,502)	7,273	21,518	82,443
OTHER FINANCING SOURCES (USES)										
Transfers (to) from other funds	-	-	-	(10,000)	-	-	-	(5,000)	(22,565)	(37,565)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,000)</u>	<u>(22,565)</u>	<u>(37,565)</u>
Net changes in fund balances	63,237	-	(2,521)	(17,828)	3,326	(60)	(2,502)	2,273	(1,047)	44,878
Beginning fund balances	<u>147,414</u>	<u>10,623</u>	<u>4,031</u>	<u>46,384</u>	<u>12,538</u>	<u>314</u>	<u>-</u>	<u>54,997</u>	<u>23,847</u>	<u>300,148</u>
Ending fund balances	<u>\$ 210,651</u>	<u>10,623</u>	<u>1,510</u>	<u>28,556</u>	<u>15,864</u>	<u>254</u>	<u>(2,502)</u>	<u>57,270</u>	<u>22,800</u>	<u>345,026</u>

See notes to financial statements.



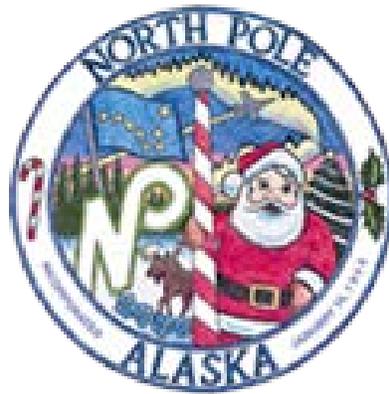
DEBT SERVICE FUND

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, 2018
with comparative data for 2017

	<u>2018</u>	<u>2017</u>
Revenues		
Special assessments	\$ 106,440	68,207
Investment income	24,331	30,128
Bad debt recovery	3,079	655
Total revenues	<u>133,850</u>	<u>98,990</u>
Expenditures - debt service		
2002 special assessment bonds		
Principal	15,307	13,950
Interest	1,582	2,940
Total 2002 special assessment bonds	<u>16,889</u>	<u>16,890</u>
2012 Series 2 refunding bonds		
Principal	70,000	70,000
Interest	31,150	33,950
Total 2012 Series 2 refunding bonds	<u>101,150</u>	<u>103,950</u>
Other fees and expenses	<u>6,580</u>	<u>5,662</u>
Total expenditures	<u>124,619</u>	<u>126,502</u>
Excess of revenues over (under) expenditures	<u>9,231</u>	<u>(27,512)</u>
Other financing sources (uses)		
Transfers (to) from other funds	<u>(28,045)</u>	<u>(37,000)</u>
	<u>(28,045)</u>	<u>(37,000)</u>
Net changes in fund balance	(18,814)	(64,512)
Beginning fund balance	<u>248,176</u>	<u>312,688</u>
Ending fund balance	<u>\$ 229,362</u>	<u>248,176</u>

FEDERAL SINGLE AUDIT
REPORTS AND SCHEDULES





KOHLER, SCHMITT & HUTCHISON
A Professional Corporation

Certified Public Accountants

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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, 2018, 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 26, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the City of North Pole, Alaska's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of North Pole, Alaska's internal control.

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

Compliance and Other Matters

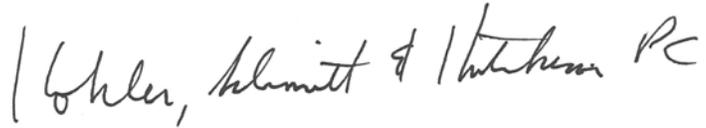
As part of obtaining reasonable assurance about whether City of North Pole, Alaska's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 26, 2019



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE

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 Compliance Supplement* that could have a direct and material effect on each of the City of North Pole, Alaska's major federal programs for the year ended December 31, 2018. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the City of North Pole, Alaska's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of North Pole, Alaska's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of North Pole, Alaska complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

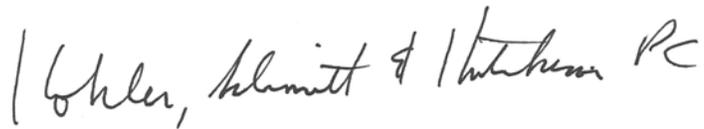
Report on Internal Control Over Compliance

Management of the City of North Pole, Alaska is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of North Pole, Alaska's internal control over compliance with the types of requirements that could have a direct and material effect on each major 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of North Pole, Alaska's internal control over compliance.

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

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

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



Fairbanks, Alaska
June 26, 2019

CITY OF NORTH POLE, ALASKA
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed through Program from:			
State of Alaska Department of Commerce, Community and Economic Development: Santa's Seniors Center Remodel Project (CDBG)	14.228	16-CDBG-03	\$ 634,081
Total U.S. Department of Housing and Urban Development			\$ 634,081
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through Programs from:			
Alaska Department of Military and Veteran Affairs Emergency Management Performance Grant FY17	97.042	EMS-2017-EP-00002-S01	11,819
Emergency Management Performance Grant FY18	97.042	EMS-2018-EP-00002-S01	19,488
State Homeland Security Program 2016	97.067	20SHSP-GY16	9,517
State Homeland Security Program 2017	97.067	20SHSP-GY17	49,451
Total U.S. Department of Homeland Security			\$ 90,275
U.S. DEPARTMENT OF JUSTICE			
Direct Program			
Equitable Sharing Program	16.000		7,828
Passed through State of Alaska Department of Public Safety			
Edward Byrne Memorial Justice Assistance Grant 17	16.738	17-100	62,191
Edward Byrne Memorial Justice Assistance Grant 19	16.738	19-JAGI	53,054
			115,245
Total U.S. Department of Justice			\$ 123,073
U. S. DEPARTMENT OF TREASURY			
Direct Program			
Treasury Forfeiture Fund-Currency Crimes Task Force	21.000		60
Total U.S. Department of Teasury			\$ 60
Grand Total - Federal Financial Assistance			\$ 847,489

See Notes to Schedule of Expenditures of Federal Awards.

CITY OF NORTH POLE, ALASKA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2018

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of City of North Pole, Alaska under programs of the federal government for the year ended December 31, 2018, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of 2 CFR 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts represented in the SEFA may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. INDIRECT COST RATE

The City did not elect to use the 10% de minimis indirect cost rate.

CITY OF NORTH POLE
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year ended December 31, 2018

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weaknesses? X Yes _____ None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

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

Internal control over major programs:

Material weaknesses identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X None Reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a): _____ Yes X No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Santa's Seniors Center Remodel Project

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? _____ Yes X No

CITY OF NORTH POLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
Year ended December 31, 2018

FINDINGS – FINANCIAL STATEMENTS AUDIT

2018-001 General ledger accounting and year end closing procedures:

Condition: The general ledger was presented for audit without correct balances for certain grant receivables and revenues, budget transfers were not recorded between funds, the PERS liability account was misstated in relation to payments due in the next month, special assessments balances were not adjusted in relation to the subsidiary balances, note payments were coded to the wrong funds, payments for health costs were recorded to the liability account and did not reflect the rebate of expenses received in 2019, fixed asset records were not prepared for the governmental or utility funds, and additions to the water utility plant funded by Flint Hills Resources Alaska and the State of Alaska were not recorded in the books.

Criteria: Strong internal controls require an adequate number of trained staff to perform the procedures needed to have accurate and complete records.

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

Cause: The City of North Pole may need to add staff or hire contractors to help with accounting duties so the general ledger can be accurately adjusted to ensure the records are in accordance with generally accepted accounting principles, and include all transactions.

Effect: This condition resulted in the following:

- Receivables, accruals, inter-fund transfers, and other transactions were not properly recorded.
- Current year additions and deletions to capital assets and depreciation expense were not recorded.
- The utility plant built and donated to the City was not recorded in the utility fund.

Recommendation: Management should ensure that an adequate number of knowledgeable accounting personnel are available so that the records can be adjusted in a timely basis.

Grantee response: See corrective action plan

FINDINGS AND QUESTIONED COST – MAJOR AWARD PROGRAMS AUDIT.

None.



CITY OF NORTH POLE

"Where the Spirit of Christmas Lives Year Round"

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E-mail: mayor@northpolealaska.com • Website: www.northpolealaska.com

FINANCIAL STATEMENT FINDINGS

2018-001 GENERAL LEDGER ACCOUNTING AND YEAR END CLOSING PROCEDURES

Name of Contact Person: Mayor, Michael W. Welch

Corrective Action: Management and Staff was aware of this deficiency from previous years audit findings. In a genuine effort to prove that there has become a greater need to have adequate and trained additional personnel available to assist the City Accountant, so that records can be adjusted on a timely basis, a temporary part-time accountant was hired on April 2, 2019 for a period of one quarter (13 weeks). Activities included biweekly/pay period processing of payroll for 44 employees, completion of bank reconciliations, and processing of purchase orders. Due to the assistance of the temporary accounting assistant we were able to prepare the PBC schedules and meet our self-imposed deadline of April 30, 2019. Management is concerned that, sooner than later, the City will see a record increase in receivables, accruals, and inter-fund transfers, as well as more additions and deletions to capital assets and depreciation expenses, much due to the increase in our City Utility department, but also because of increased activity in Police, Fire, Public Works, and Administration.

Management realizes that as the City of North Pole both expands its population and services, we can no longer expect to have an effective and efficient accounting department that rests on the shoulders of a staff of one. Management will confer with City Council to plan to add an additional qualified person to the accounting department this fall, just in time to assist with the complex and time-consuming budget preparations for the budget year beginning in 2020.

Proposed Completion Date: September 3, 2019

City Hall
907-488-2281
Fax: 907-488-3002

Mayor
907-488-8584

City Clerk
907-488-8583

Police
Department
907-488-6902

Fire
Department
907-488-2232

Utilities
907-488-6111

Director of
City Services
907-488-8593

Finance
907-488-8594