

CITY OF NORTH POLE, ALASKA

Basic Financial Statements,
Supplementary Information, and
Single Audit Reports

Year Ended December 31, 2012

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CITY OF NORTH POLE, ALASKA

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Independent Auditor's Report

Honorable Mayor and City Council
City of North Pole, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of North Pole, Alaska, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements 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.

Honorable Mayor and City Council
City of North Pole, Alaska

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 City of North Pole, Alaska, as of December 31, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2012, City of North Pole adopted the provisions of Governmental Accounting Standards Board (GASB) Statement number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and the provisions of GASB Statement number 65, *Items Previously Reported as Assets and Liabilities*. These provisions have been retrospectively applied to all periods presented in these financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit for the year ended December 31, 2012 was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of North Pole's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, the Schedule of State Financial Assistance, and the combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards and the Schedule of State Financial Assistance are required by OMB Circular A-133 and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audit*, respectively.

The accompanying Schedule of Expenditures of Federal Awards, the Schedule of State Financial Assistance, and the combining and individual fund financial statements and schedules listed in the table of contents, are 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 for the year ended December 31, 2012 and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole for the year ended December 31, 2012.

Honorable Mayor and City Council
City of North Pole, Alaska

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, City of North Pole's basic financial statements for the year ended December 31, 2011 which are not presented with the accompanying financial statements. In our report dated May 15, 2012, we expressed unqualified opinions on the respective financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information. The individual fund financial statements and schedules related to the December 31, 2011 financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the December 31, 2011 financial statements. The information has been subjected to the auditing procedures applied in the audit of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended December 31, 2011.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2013 on our consideration of City of North Pole's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of North Pole's internal control over financial reporting and compliance.

Mikunda, Cottrell & Co.

Anchorage, Alaska
April 29, 2013

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BASIC FINANCIAL STATEMENTS

CITY OF NORTH POLE, ALASKA

Statement of Net Position

December 31, 2012

<u>Assets</u>	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
Cash and investments	\$ 1,572,417	748,516	2,320,933
Receivables:			
Sales and property taxes	362,190	-	362,190
Accounts	14,515	125,685	140,200
Grants and shared revenues	135,767	445,985	581,752
Assessments	959,155	-	959,155
Other	414	-	414
Allowance for doubtful accounts	(6,236)	(5,636)	(11,872)
Restricted cash and investments	-	249,158	249,158
Capital assets:			
Land and construction in progress	667,249	5,128,298	5,795,547
Other capital assets, net of depreciation	<u>3,018,528</u>	<u>14,143,028</u>	<u>17,161,556</u>
Total assets	<u>6,723,999</u>	<u>20,835,034</u>	<u>27,559,033</u>
<u>Deferred Outflows of Resources</u>			
Unamortized loss on refunding	<u>110,742</u>	<u>-</u>	<u>110,742</u>
Total assets and deferred outflows of resources	<u>\$ 6,834,741</u>	<u>20,835,034</u>	<u>27,669,775</u>
<u>Liabilities</u>			
Accounts payable	114,088	240,599	354,687
Accrued payroll and related liabilities	192,335	-	192,335
Customer deposits	-	27,374	27,374
Accrued interest payable	20,096	13,053	33,149
Unearned revenue	5,465	137,228	142,693
Noncurrent liabilities:			
Due within one year:			
Accrued vacation and sick leave	173,059	22,900	195,959
Bonds and loan	71,995	35,978	107,973
Capital leases	64,436	-	64,436
Due in more than one year:			
Loan	-	325,000	325,000
General obligation bonds	945,000	-	945,000
Special assessment bonds	88,216	-	88,216
Revenue bonds	-	524,445	524,445
Unamortized bond premium	117,130	-	117,130
Capital leases	<u>131,642</u>	<u>-</u>	<u>131,642</u>
Total liabilities	<u>1,923,462</u>	<u>1,326,577</u>	<u>3,250,039</u>
<u>Net Position</u>			
Net investment in capital assets	2,378,100	18,385,903	20,764,003
Restricted - public safety	16,312	-	16,312
Unrestricted	<u>2,516,867</u>	<u>1,122,554</u>	<u>3,639,421</u>
Total net position	<u>4,911,279</u>	<u>19,508,457</u>	<u>24,419,736</u>
Total liabilities and net position	<u>\$ 6,834,741</u>	<u>20,835,034</u>	<u>27,669,775</u>

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA

Statement of Activities
Year Ended December 31, 2012

Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines and Charges for Services	Operating Grants and Contri- butions	Capital Grants and Contri- butions	Govern- mental Activities	Business- type Activities	Total
Governmental:							
General government	\$ 828,322	18,218	33,791	-	(776,313)	-	(776,313)
Public safety	4,115,651	587,354	394,117	3,804	(3,130,376)	-	(3,130,376)
Public works	719,545	-	15,565	218,852	(485,128)	-	(485,128)
Community services	90,420	-	-	120,391	29,971	-	29,971
Interest	53,938	-	-	-	(53,938)	-	(53,938)
Total governmental activities	<u>5,807,876</u>	<u>605,572</u>	<u>443,473</u>	<u>343,047</u>	<u>(4,415,784)</u>	<u>-</u>	<u>(4,415,784)</u>
Business-type - water and sewer	<u>2,410,466</u>	<u>1,860,922</u>	<u>39,522</u>	<u>1,088,885</u>	<u>-</u>	<u>578,863</u>	<u>578,863</u>
Totals	\$ <u>8,218,342</u>	<u>2,466,494</u>	<u>482,995</u>	<u>1,431,932</u>	<u>(4,415,784)</u>	<u>578,863</u>	<u>(3,836,921)</u>
General revenues:							
Sales and use taxes					\$ 2,874,657	-	2,874,657
Property taxes					954,545	-	954,545
Grants and entitlements not restricted to a specific purpose					343,801	-	343,801
Investment income					43,922	-	43,922
Other					46,813	-	46,813
Transfers					(36,965)	36,965	-
Total general revenues and transfers					<u>4,226,773</u>	<u>36,965</u>	<u>4,263,738</u>
Change in net position					(189,011)	615,828	426,817
Beginning net position, restated (Note 7)					<u>5,100,290</u>	<u>18,892,629</u>	<u>23,992,919</u>
Ending net position					\$ <u>4,911,279</u>	<u>19,508,457</u>	<u>24,419,736</u>

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA

Governmental Funds

Balance Sheet

December 31, 2012

<u>Assets</u>	<u>Major Funds</u>			Total Govern- mental Funds
	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	
Cash and investments	\$ 1,206,655	218,372	147,390	1,572,417
Receivables, net of allowance:				
Sales and property taxes	362,190	-	-	362,190
Accounts	8,125	6,390	-	14,515
Grants and shared revenues	6,775	-	128,992	135,767
Assessments	-	959,155	-	959,155
Other	414	-	-	414
Allowance for doubtful accounts	-	(6,236)	-	(6,236)
Due from other funds	118,320	-	-	118,320
 Total assets	 \$ 1,702,479	 1,177,681	 276,382	 3,156,542
 <u>Liabilities, Deferred Inflows and Fund Balances</u>				
Liabilities:				
Accounts payable	111,588	-	2,500	114,088
Accrued payroll and related liabilities	192,335	-	-	192,335
Due to other funds	-	-	118,320	118,320
Unearned revenue	-	-	5,465	5,465
Total liabilities	303,923	-	126,285	430,208
Deferred inflows - deferred assessments	-	959,037	-	959,037
Fund balances:				
Restricted - public safety	-	-	16,312	16,312
Committed - debt service	-	218,644	-	218,644
Assigned:				
General government	-	-	82,899	82,899
Public safety	-	-	32,102	32,102
Community services	-	-	18,784	18,784
Unassigned	1,398,556	-	-	1,398,556
Total fund balances	1,398,556	218,644	150,097	1,767,297
 Total liabilities, deferred inflows, and fund balances	 \$ 1,702,479	 1,177,681	 276,382	 3,156,542

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA
 Reconciliation of Governmental Funds Balance Sheet
 to Statement of Net Position
 December 31, 2012

Total fund balances for governmental funds \$ 1,767,297

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:

Construction in progress	\$ 301,933	
Land and land improvements	365,316	
Buildings	3,540,662	
Office furniture and equipment	1,581,568	
Vehicles and equipment	2,743,132	
Infrastructure	1,733,206	
Accumulated depreciation	<u>(6,580,040)</u>	
		3,685,777

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. 959,037

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

Bonds payable	(1,105,211)	
Capital leases	(196,078)	
Unamortized bond premium	(117,130)	
Unamortized loss on refunding	110,742	
Accrued interest on bonds	(20,096)	
Accrued leave	<u>(173,059)</u>	
		<u>(1,500,832)</u>

Net position of governmental activities \$ 4,911,279

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA

Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended December 31, 2012

	Major Funds			Total Govern- mental Funds
	General	Debt Service	Nonmajor Funds	
Revenues:				
Taxes	\$ 3,829,202	-	-	3,829,202
Licenses and permits	14,830	-	-	14,830
Charges for services	415,095	-	3,388	418,483
Intergovernmental:				
Federal government	85,260	-	428,818	514,078
State of Alaska	597,564	-	86,067	683,631
Investment income	2,621	41,301	-	43,922
Special assessments	-	73,040	-	73,040
Other revenues	136,984	-	14,700	151,684
Total revenues	5,081,556	114,341	532,973	5,728,870
Expenditures:				
Current:				
General government	834,055	704	9,561	844,320
Public safety	3,564,144	-	210,599	3,774,743
Public works	602,654	-	-	602,654
Community services	73,010	-	6,590	79,600
Debt service:				
Principal	86,030	76,585	-	162,615
Interest	9,027	46,562	-	55,589
Debt issuance costs	-	20,438	-	20,438
Capital outlay	40,573	-	394,207	434,780
Total expenditures	5,209,493	144,289	620,957	5,974,739
Excess of revenues over (under) expenditures	(127,937)	(29,948)	(87,984)	(245,869)
Other financing sources (uses):				
Issuance of capital lease	40,573	-	-	40,573
Transfers in	-	-	3,631	3,631
Transfers out	(3,631)	(36,965)	-	(40,596)
Refunding bond issuance - par value	-	835,000	-	835,000
Refunding bond issuance - premium	-	137,568	-	137,568
Payment to refunding bond escrow agent	-	(952,130)	-	(952,130)
Net other financing sources (uses)	36,942	(16,527)	3,631	24,046
Net change in fund balances	(90,995)	(46,475)	(84,353)	(221,823)
Beginning fund balances	1,489,551	265,119	234,450	1,989,120
Ending fund balances	\$ 1,398,556	218,644	150,097	1,767,297

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA
 Reconciliation of Change in Fund Balances of Governmental Funds
 to Statement of Activities
 Year Ended December 31, 2012

Net change in fund balances - total governmental funds \$ (221,823)

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 (\$459,892) exceeded capital outlays (\$434,355). (25,537)

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. (73,040)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net 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 Statements of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:

Payments on bonds	\$ 911,586	
Issuance of refunding bonds	(835,000)	
Payments on capital leases	86,030	
Amortization of bond premium	9,583	
Issuance of capital lease	<u>(40,573)</u>	
		131,626

Interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This is the amount of the decrease in accrued interest payable. 1,650

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. (1,887)

Change in net position of governmental activities \$ (189,011)

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA
 General Fund
 Statement of Revenues, Expenditures, and
 Changes in Fund Balance - Budget and Actual
 Year Ended December 31, 2012

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance with <u>Final Budget</u>
Revenues:				
Taxes	\$ 3,933,770	3,933,770	3,829,202	(104,568)
Licenses and permits	10,500	10,500	14,830	4,330
Charges for services - ambulance service	412,687	418,553	415,095	(3,458)
Intergovernmental:				
Federal government	102,900	102,900	85,260	(17,640)
State of Alaska	323,200	345,396	597,564	252,168
Investment income	3,000	3,000	2,621	(379)
Other revenues	<u>172,850</u>	<u>155,406</u>	<u>136,984</u>	<u>(18,422)</u>
Total revenues	<u>4,958,907</u>	<u>4,969,525</u>	<u>5,081,556</u>	<u>112,031</u>
Expenditures:				
General government	773,243	865,982	834,055	31,927
Public safety	3,453,034	3,437,368	3,564,144	(126,776)
Public works	722,864	595,141	602,654	(7,513)
Community services	68,000	68,000	73,010	(5,010)
Debt service:				
Principal	81,768	92,768	86,030	6,738
Interest	-	2,037	9,027	(6,990)
Capital outlay	<u>-</u>	<u>-</u>	<u>40,573</u>	<u>(40,573)</u>
Total expenditures	<u>5,098,909</u>	<u>5,061,296</u>	<u>5,209,493</u>	<u>(148,197)</u>
Excess of revenues over (under) expenditures	(140,002)	(91,771)	(127,937)	(36,166)
Other financing sources (uses):				
Issuance of capital lease	-	-	40,573	40,573
Transfers out	<u>-</u>	<u>(91,769)</u>	<u>(3,631)</u>	<u>88,138</u>
Net other financing sources (uses)	<u>-</u>	<u>(91,769)</u>	<u>36,942</u>	<u>128,711</u>
Net change in fund balance	\$ <u><u>(140,002)</u></u>	<u><u>(183,540)</u></u>	(90,995)	<u><u>92,545</u></u>
Beginning fund balance			<u>1,489,551</u>	
Ending fund balance			\$ <u><u>1,398,556</u></u>	

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA
 Water and Sewer Enterprise Fund
 Statement of Net Position
 December 31, 2012

Assets

Current assets:		
Cash and investments	\$	748,516
Receivables:		
Grants		445,985
Accounts		125,685
Allowance for doubtful accounts		<u>(5,636)</u>
Total current assets		<u>1,314,550</u>
Noncurrent assets:		
Restricted cash		<u>249,158</u>
Property, plant and equipment		43,562,904
Less accumulated depreciation		<u>(24,291,578)</u>
Net property, plant and equipment		<u>19,271,326</u>
Total noncurrent assets		<u>19,520,484</u>
Total assets	\$	<u><u>20,835,034</u></u>

Liabilities and Net Position

Liabilities:		
Current liabilities:		
Accounts payable		240,599
Accrued vacation and sick leave		22,900
Customer deposits		27,374
Accrued interest payable		13,053
Unearned revenue		137,228
Current portion of bonds and loan payable		<u>35,978</u>
Total current liabilities		<u>477,132</u>
Noncurrent liabilities, net of current portion:		
Revenue bonds		524,445
ADEC loan		<u>325,000</u>
Total noncurrent liabilities		<u>849,445</u>
Total liabilities		<u>1,326,577</u>
Net position:		
Net investment in capital assets		18,385,903
Unrestricted		<u>1,122,554</u>
Total net position		<u>19,508,457</u>
Total liabilities and net position	\$	<u><u>20,835,034</u></u>

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA
Water and Sewer Enterprise Fund
Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2012

Operating revenues - charges for services	\$ <u>1,860,922</u>
Operating expenses:	
Water:	
Salaries and benefits	430,421
Other operating expenses	339,720
Depreciation	<u>389,612</u>
Total water	<u>1,159,753</u>
Sewer:	
Salaries and benefits	146,626
Other operating expenses	348,402
Depreciation	<u>723,565</u>
Total sewer	<u>1,218,593</u>
Total operating expenses	<u>2,378,346</u>
Loss from operations	(517,424)
Nonoperating revenues (expenses):	
Interest expense	(32,120)
State of Alaska PERS relief	<u>39,522</u>
Net nonoperating revenues (expenses)	<u>7,402</u>
Loss before contributions and transfers	(510,022)
Capital contributions	1,088,885
Transfers in	<u>36,965</u>
Change in net position	615,828
Beginning net position, as restated (Note 7)	<u>18,892,629</u>
Ending net position	\$ <u><u>19,508,457</u></u>

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA

Water and Sewer Enterprise Fund

Statement of Cash Flows

Year Ended December 31, 2012

Cash flows from operating activities:	
Receipts from customers and users	\$ 1,847,769
Payments to suppliers	(596,075)
Payments to employees	<u>(537,751)</u>
Net cash flows from operating activities	<u>713,943</u>
Cash flows from noncapital financing activities - transfers in	<u>36,965</u>
Cash flows from capital and related financing activities:	
Additions to property, plant and equipment	(1,575,135)
Capital contributions received	835,407
Principal and interest paid on long-term debt	<u>(67,589)</u>
Net cash flows from capital and related financing activities	<u>(807,317)</u>
Net decrease in cash and investments	(56,409)
Beginning cash and investments	<u>1,054,083</u>
Ending cash and investments	\$ <u><u>997,674</u></u>
Cash and investments at end of year:	
Cash and investments	\$ 748,516
Restricted cash	<u>249,158</u>
	\$ <u><u>997,674</u></u>
Reconciliation of loss from operations to net cash flows from operating activities:	
Loss from operations	\$ (517,424)
Adjustments to reconcile loss from operations to net cash provided (used) by operating activities:	
Depreciation	1,113,177
Noncash expense - PERS relief	39,522
(Increase) decrease in assets:	
Accounts receivable	(226)
Inventory	17,264
Increase (decrease) in liabilities:	
Accounts payable	74,783
Accrued vacation and sick leave	(226)
Customer deposits	5,824
Unearned revenue	<u>(18,751)</u>
Net cash flows from operating activities	\$ <u><u>713,943</u></u>

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements

December 31, 2012

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

Reporting Entity

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

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

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

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

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

The City reports the following major funds:

Major governmental funds:

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

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

Major proprietary fund -

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

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

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

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

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

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

Budgets

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

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

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

Central Treasury

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

Cash and Cash Equivalents

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

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Inventory

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

Interfund Receivables and Payables

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

Receivables

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

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

Grants and Other Intergovernmental Revenues

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

Interfund Transactions

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

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Compensated Absences

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

Capital Assets

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

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

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

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

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.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Fund Balances

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

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

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

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

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

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

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

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.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Change in Accounting Principle

The City has adopted newly issued GASB pronouncements 63 and 65, resulting in a change in presentation of the government-wide and fund level financial statements. The new pronouncements require reporting two new categories of accounts. Certain items previously reported as assets are now categorized as *deferred outflows*. A *deferred outflow* represents the consumption of the government's net assets or fund balance that is applicable to a future reporting period. Other items previously categorized as liabilities are now categorized as *deferred inflows*. A *deferred inflow* represents the acquisition of net assets or fund balance that is applicable to a future reporting period. For example, revenues that have been earned but are not yet available in the governmental funds are now reported as *deferred inflows*. In the government-wide financial statements, the residual net of all of the accounts is now called *net position*. As discussed further in Note 7, these statements have been retrospectively applied and has resulted in a restatement of opening net position.

Pension Plan

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

(2) **Cash and Investments**

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

Investment Policy

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

Reconciliation of Deposit and Investment Balances

The following is a reconciliation of the City's deposit and investment balances to the financial statements as of December 31, 2012.

Bank deposits	\$ 2,569,891
Other	<u>200</u>
	\$ <u>2,570,091</u>

Reconciliation to the basic financial statements:

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Totals</u>
Cash and investments	\$ 1,572,417	748,516	2,320,933
Restricted cash	<u>-</u>	<u>249,158</u>	<u>249,158</u>
	\$ <u>1,572,417</u>	<u>997,674</u>	<u>2,570,091</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Cash and Investments, continued

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.

(3) **Capital Assets**

Capital asset activity for the year ended December 31, 2012 was as follows:

	Balance January 1, <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2012</u>
<u>Governmental activities</u>				
<i>Capital assets not being depreciated:</i>				
Construction in progress	\$ -	301,933	-	301,933
Land and land improvements	<u>365,316</u>	<u>-</u>	<u>-</u>	<u>365,316</u>
Total assets not being depreciated	<u>365,316</u>	<u>301,933</u>	<u>-</u>	<u>667,249</u>
 <i>Capital assets being depreciated:</i>				
Buildings	3,540,662	-	-	3,540,662
Office furniture and equipment	1,513,230	68,338	-	1,581,568
Vehicles and equipment	2,772,717	64,084	(93,669)	2,743,132
Infrastructure	<u>1,733,206</u>	<u>-</u>	<u>-</u>	<u>1,733,206</u>
Total assets being depreciated	<u>9,559,815</u>	<u>132,422</u>	<u>(93,669)</u>	<u>9,598,568</u>
 Less accumulated depreciation for:				
Buildings	2,477,464	107,949	-	2,585,413
Office furniture and equipment	1,063,129	101,137	-	1,164,266
Vehicles and equipment	2,259,289	164,146	(93,669)	2,329,766
Infrastructure	<u>413,935</u>	<u>86,660</u>	<u>-</u>	<u>500,595</u>
Total accumulated depreciation	<u>6,213,817</u>	<u>459,892</u>	<u>(93,669)</u>	<u>6,580,040</u>
 Total capital assets being depreciated, net				
	<u>3,345,998</u>	<u>(327,470)</u>	<u>-</u>	<u>3,018,528</u>
 Governmental activity capital assets, net				
	<u>\$ 3,711,314</u>	<u>(25,537)</u>	<u>-</u>	<u>3,685,777</u>
 <u>Business-type activities</u>				
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 390,415	-	-	390,415
Construction in progress	<u>3,162,748</u>	<u>1,575,135</u>	<u>-</u>	<u>4,737,883</u>
Total capital assets not being depreciated	<u>3,553,163</u>	<u>1,575,135</u>	<u>-</u>	<u>5,128,298</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Capital Assets, continued

	Balance January 1, <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2012</u>
<u>Business-type activities, continued</u>				
<i>Capital assets being depreciated:</i>				
Sewer and water system	\$ 36,657,528	-	-	36,657,528
Machinery and equipment	<u>1,777,078</u>	-	-	<u>1,777,078</u>
Total assets being depreciated	<u>38,434,606</u>	-	-	<u>38,434,606</u>
Less accumulated depreciation for:				
Sewer and water system	22,527,071	1,007,675	-	23,534,746
Machinery and equipment	<u>651,330</u>	<u>105,502</u>	-	<u>756,832</u>
Total accumulated depreciation	<u>23,178,401</u>	<u>1,113,177</u>	-	<u>24,291,578</u>
 Total capital assets being depreciated, net	 <u>15,256,205</u>	 (<u>1,113,177</u>)	 -	 <u>14,143,028</u>
 Business-type activity capital assets, net	 <u>\$ 18,809,368</u>	 <u>461,958</u>	 -	 <u>19,271,326</u>

Depreciation expense was charged to the functions as follows:

Governmental activities

General government	\$ 36,070
Public safety	300,956
Public works	112,046
Community services	<u>10,820</u>
Total depreciation expense - governmental activities	\$ <u>459,892</u>

Business-type activities

Water	\$ 389,612
Sewer	<u>723,565</u>
Total depreciation expense - business-type activities	\$ <u>1,113,177</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

(4) **Long-Term Debt**

Advance Refunding

In 2012, the City issued \$835,000 in 2012 Series II General Obligation Refunding Bonds with interest rates of 2.0% to 5.0% to advance refund General Obligation Bonds of \$835,000. The new bonds were issued at a premium of \$137,568 and after paying issuance and other costs of \$20,438, the net proceeds were \$952,130. The net proceeds from the issuance were deposited into an irrevocable trust with an escrow agent to provide debt service payments on the old bonds. The advance refunding met the requirements of an in-substance defeasance of a portion of the old bonds and \$835,000 was removed from the City's government-wide financial statements. The remaining liability on the old bonds in the amount of \$180,000 will remain on the City's books until they are retired in 2015. At December 31, 2012, \$835,000 of the defeased bonds remain outstanding and payable by the escrow account paying agent. As a result of the advance refunding, the City recorded a deferred loss of \$110,742.

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2012:

	Balance January 1, <u>2012</u>	<u>Additions</u>	<u>Retired</u>	Balance December 31, <u>2012</u>	Due Within <u>One Year</u>
<u>Governmental activities</u>					
General Obligation Bonds -					
\$1,350,000 2005 Series B bonds, due in annual installments of \$55,000 to \$105,000 through May 1, 2015; including interest at 5.00%	\$ 1,070,000	-	890,000	180,000	55,000
General Obligation Refunding Bonds -					
\$835,000 2012 Series 2 bonds, due in annual installments of \$5,000 to \$100,000 through September 1, 2025; plus variable interest at 2.00% to 5.00%	-	835,000	10,000	825,000	5,000
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%	111,797	-	11,586	100,211	11,995
Capital lease obligation for police vehicle, payable in annual install- ments of \$16,824 including interest at 6.10%					
	15,856	-	15,856	-	-

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Long-Term Debt, continued

<u>Governmental activities, continued</u>	Balance January 1, <u>2012</u>	<u>Additions</u>	<u>Retired</u>	Balance December 31, <u>2012</u>	Due Within <u>One Year</u>
Capital lease obligation for police vehicle, payable in annual installments of \$16,904 including interest at 6.75%	\$ 15,836	-	15,836	-	-
Capital lease obligation for a copier, payable in various monthly amounts including interest at 10.49%	5,794	-	2,426	3,368	3,108
Capital lease obligation for a fire pumper truck, payable in annual installments of \$46,944 including interest at 4.615% through 2016	204,049	-	37,527	166,522	37,527
Capital lease obligation for a police vehicle, payable in annual installments of \$14,384 including interest at 6.50% through 2014	-	40,573	14,385	26,188	12,682
Accrued leave	<u>171,172</u>	<u>197,762</u>	<u>195,875</u>	<u>173,059</u>	<u>173,059</u>
Total governmental activities	1,594,504	<u>1,073,335</u>	<u>1,193,491</u>	1,474,348	<u>298,371</u>
Unamortized bond premium	<u>15,971</u>			<u>117,130</u>	
	<u>\$ 1,610,475</u>			<u>1,591,478</u>	

In addition, the City has reported a \$110,742 in deferred outflow for deferred loss on refunding bonds.

<u>Business-type activities</u>	Balance January 1, <u>2012</u>	<u>Additions</u>	<u>Retired</u>	Balance December 31, <u>2012</u>	Due Within <u>One Year</u>
Revenue bonds – \$647,600 1998 utility revenue bonds, due in semi-annual installments of \$18,483 including interest at 4.875% through March 1, 2036	\$ 545,892	-	10,469	535,423	10,978

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Long-Term Debt, continued

	Balance January 1, <u>2012</u>	<u>Additions</u>	<u>Retired</u>	Balance December 31, <u>2012</u>	Due Within <u>One Year</u>
<u>Business-type activities, continued</u>					
Note payable –					
\$500,000 2007 Water Utility Alaska Drinking Water loan, due in annual installments of \$25,000 plus interest at 1.5% through April 1, 2026	\$ 375,000	-	25,000	350,000	25,000
Accrued leave	<u>23,126</u>	<u>28,791</u>	<u>29,017</u>	<u>22,900</u>	<u>22,900</u>
Total business-type activities	\$ <u>944,018</u>	<u>28,791</u>	<u>64,486</u>	<u>908,323</u>	<u>58,878</u>

Governmental activities

The annual debt service requirements of the general obligation bonds and loans outstanding at December 31, 2012 that are in repayment status follow:

<u>Year Ending December 31,</u>	<u>General Obligation Bonds</u>			<u>Special Assessment Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 60,000	44,275	104,275	11,995	4,895	16,890
2014	60,000	41,300	101,300	12,577	4,313	16,890
2015	65,000	38,175	103,175	13,188	3,702	16,890
2016	65,000	36,550	101,550	13,828	3,062	16,890
2017	70,000	33,950	103,950	14,500	2,390	16,890
2018-2022	400,000	119,100	519,100	34,123	2,810	36,933
2023-2026	<u>285,000</u>	<u>22,250</u>	<u>307,250</u>	-	-	-
	\$ <u>1,005,000</u>	<u>335,600</u>	<u>1,340,600</u>	<u>100,211</u>	<u>21,172</u>	<u>121,383</u>

Business-type activities

<u>Year Ending December 31,</u>	<u>Revenue Bonds</u>			<u>Note Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 10,978	25,987	36,965	25,000	5,250	30,250
2014	11,520	25,445	36,965	25,000	4,875	29,875
2015	12,088	24,877	36,965	25,000	4,500	29,500
2016	12,685	24,280	36,965	25,000	4,125	29,125
2017	13,310	23,655	36,965	125,000	15,000	140,000
2018-2022	77,077	107,748	184,825	125,000	5,625	130,625
2023-2027	98,065	86,760	184,825	-	-	-
2028-2032	124,768	60,057	184,825	-	-	-
2033-2036	<u>174,932</u>	<u>23,995</u>	<u>198,927</u>	-	-	-
	\$ <u>535,423</u>	<u>402,804</u>	<u>938,227</u>	<u>350,000</u>	<u>39,375</u>	<u>389,375</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

(5) **Capital Leases**

The City has entered into lease agreements as lessee for financing the acquisition of three police vehicles, a fire engine, and a copier. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments. The following is a summary of the assets acquired with the capital leases that have an outstanding balance as of December 31, 2012:

	<u>General Fund</u>
Machinery and equipment	\$ 568,231
Less accumulated depreciation	(305,870)
Carrying value	\$ <u>262,361</u>

The following is a schedule of future minimum lease payments under these capital leases and the present value of the net minimum lease payments at December 31, 2012:

<u>Year Ending December 31,</u>	<u>General Fund</u>
2013	\$ 64,436
2014	61,587
2015	46,944
2016	<u>45,222</u>
Total minimum lease payments	218,189
Less interest portion	<u>(22,111)</u>
Present value of future minimum lease payments	196,078
Less current portion	<u>(64,436)</u>
Long-term portion	\$ <u>131,642</u>

(6) **Interfund Balances and Transfers**

A schedule of interfund balances and transfers for the year ended December 31, 2012, follows:

Due to other funds:

Due to the General Fund from nonmajor funds for short-term advances to cover operating costs	\$ <u>118,320</u>
---	-------------------

Transfers:

From General Fund to nonmajor governmental funds for grant match	\$ 3,631
From Debt Service fund to Water and Sewer Enterprise Fund for short-term capital costs	<u>36,965</u>
	<u>\$ 40,596</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

(7) **Change in Accounting Principle – Adoption of GASB Pronouncements - Restatement**

The City has adopted newly issued GASB pronouncement numbers 63 and 65, resulting in a change in presentation for the government-wide financial statements. The new pronouncements require, among other things, that debt issuance costs be recognized as an expense in the year incurred, rather than capitalizing and amortizing these costs over the life of the debt. Retroactive restatement of net position is required in the year of adoption.

Beginning balance net position in the Water and Sewer Enterprise Fund and the Business-Type Activities have been restated as follows:

2012 beginning net position, as previously presented	\$ 18,898,018
Restatement: write off unamortized debt issue costs	<u>(5,389)</u>
2012 beginning net position, as restated	<u>\$ 18,892,629</u>

(8) **Defined Benefit Pension Plan**

The City participates in the Public Employees’ Retirement System (PERS). PERS is a cost-sharing multiple employer plan which covers eligible State and local government employees, other than teachers. The Plan was established and is administered by the State of Alaska Department of Administration to provide pension, postemployment healthcare, death, and disability benefits. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

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

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

Conversion to Cost Sharing

In April 2008, the Alaska Legislature passed legislation which converted the existing Public Employees Retirement System (PERS) from an agent-multiple employer plan to a cost-sharing plan with an effective date of July 1, 2008. Under the cost-sharing arrangement, the State of Alaska Division of Retirement and Benefits no longer tracks individual employer assets and liabilities. Rather, all plan costs and past service liabilities are shared among all participating employers.

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

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Defined Benefit Pension Plan, continued

Employee Contribution Rates

Regular employees are required to contribute 6.75% of their annual covered salary (2.97% for pension and 3.78% for healthcare). Police and firefighters are required to contribute 7.5% of their annual covered salary (3.29% for pension and 4.21% for healthcare).

Employer and Other Contribution Rates

There are three contribution rates associated with the pension and healthcare contributions and related liabilities:

Contractual Rate: This is the required funding rate for participating employers. The contractual rate is statutorily capped at a uniform 22% of eligible wages, subject to a wage floor, and other termination events. This 22% rate includes all PERS participating wages, including those wages attributable to employees in the defined contribution plan.

ARM Board Adopted Rate: This is the rate formally adopted by the Alaska Retirement Management (ARM) Board. This rate is actuarially determined to calculate annual funding requirements of the plan, without regard to the statutory rate cap. There are no constraints or restrictions on the actuarial cost method or other assumptions used in this valuation, other than those established and agreed to by the ARM Board.

Current legislation provides that the State of Alaska will contribute the difference between the ARM Board adopted rate and the contractual (statutory) rate. These additional contributions are recognized by each employer as an on-behalf payment and are reflected within the financial statements.

GASB 43 Rate: This is the rate used to determine the long-term pension and healthcare liability for plan accounting purposes in accordance with generally accepted accounting principles as established by GASB. Certain actuarial methods and assumptions for this rate calculation are mandated by GASB. For FY12, the rate uses an 8.00% pension discount rate and a 6.88% healthcare discount rate. Additionally, the GASB 43 rate disregards all future Medicare Part D payments.

The GASB 43 Rate differs significantly from the ARM Board adopted rate as a direct result of differences in the actuarial valuation methodology and assumptions.

Contribution rates for the six months ended June 30, 2012 were determined as part of the June 30, 2009 actuarial valuation. Rates for the six months ended December 31, 2012 (State fiscal year 2013) were determined in the June 30, 2010 valuation.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Defined Benefit Pension Plan, continued

Employer and Other Contribution Rates, continued

	Contractual Rate	ARM Board Adopted Rate	GASB 43* Rate
State FY12 <u>January to June</u>			
Pension	9.92%	15.10%	23.10%
Postemployment healthcare	<u>12.08%</u>	<u>18.39%</u>	<u>32.74%</u>
Total contribution rate	<u>22.00%</u>	<u>33.49%</u>	<u>55.84%</u>

	Contractual Rate	ARM Board Adopted Rate	GASB 43* Rate
State FY13 <u>July to December</u>			
Pension	9.67%	15.75%	24.95%
Postemployment healthcare	<u>12.33%</u>	<u>20.09%</u>	<u>39.93%</u>
Total contribution rate	<u>22.00%</u>	<u>35.84%</u>	<u>64.88%</u>

Annual Pension and Postemployment Healthcare Cost

The City is required to contribute 22% of covered payroll, subject to a wage floor. In addition, the State of Alaska contributed approximately 11.49% and 13.84% of covered payroll to the Plan for each six month period noted above, respectively. In accordance with the provisions of GASB Statement Number 24, the City has recorded the State on-behalf payment in the amount of \$322,550 as revenue and expense/expenditures in these financial statements. However, because the City is not statutorily obligated for these payments, this amount is excluded from pension and OPEB cost as described here.

<u>Year Ended December 31</u>	<u>Annual Pension Cost</u>	<u>Annual OPEB Cost</u>	<u>Total Benefit Cost (TBC)</u>	<u>City Contri- butions</u>	<u>% of TBC Contributed</u>
2012	\$ 202,584	\$ 258,310	\$ 460,894	\$ 460,894	100%
2011	196,159	277,933	474,092	474,892	100%
2010	198,562	255,343	453,905	453,905	100%

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

(9) **Defined Contribution Pension Plan**

Employees hired after July 1, 2006 participate in PERS Tier IV, a defined contribution plan. The Plan is administered by the State of Alaska, Department of Administration, and benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Alaska Retirement Management Board may also amend contribution requirements. Included in the Plan are individual pension accounts, retiree medical insurance plan and a separate Health Reimbursement Arrangement account that will help retired members pay medical premiums and other eligible medical expenses not covered by the medical plan.

Employee Contribution Rates

Employees are required to contribute 8.0% of their annual covered salary. This amount goes directly to the individual account.

Employer Contribution Rates

The City is required to contribute the following amounts based on covered salary:

	<u>Others Tier IV</u>	<u>Police/Fire Tier IV</u>
<u>January to June</u>		
Individual account	5.00%	5.00%
Retiree medical plan	0.51	0.51
Occupational death and disability benefits	<u>0.20</u>	<u>0.97</u>
	<u>5.71%</u>	<u>6.48%</u>
<u>July to December</u>		
Individual account	5.00%	5.00%
Retiree medical plan	0.48	0.48
Occupational death and disability benefits	<u>0.14</u>	<u>0.99</u>
	<u>5.62%</u>	<u>6.47%</u>

In addition, the employer must contribute to the Health Reimbursement Arrangement. AS 39.30.370 establishes this contribution amount at “three percent of the average annual employee compensation of *all employees of all employers* in the plan”. As of July 1, 2012, for actual remittance, this amount is calculated as a flat rate for each full time or part-time employee per pay period and approximates \$1,848 per year for each full-time employee, and \$1.18 per hour for part-time employees.

Employees are immediately vested in their own contributions and vest 25% per year in employer contributions. The City and employee contributions to PERS including the HRA contribution for the year ended June 30, 2012 were \$105,662 and \$87,853, respectively.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

(10) **Deferred Compensation Plan**

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

(11) **Risk Management**

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

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

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

(12) **Contingencies**

Grants

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

(13) **New Accounting Pronouncements**

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates as follows:

GASB 66 – Technical Corrections – 2012 – Effective for year end December 31, 2013 – This statement contains certain technical corrections to prior GASB statements on the topics of Risk Financing, Operating Leases, Loan Purchases, and Servicing Fees.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

New Accounting Pronouncements, continued

GASB 67 – Financial Reporting for Pension Plans – 2013 – Effective for year end December 31, 2014 – This statement contains certain technical corrections to prior GASB statements on the topic of improving financial reporting by state and local governmental pension plans.

GASB 68 – Accounting and Financial Reporting for Pensions – 2013 – Effective for year end December 31, 2015 – This statement contains certain technical corrections to prior GASB statements on the topics of Net Pension Liability and Pension Expense.

GASB 69 – Government Combinations and Disposals of Government Operations – 2013 – Effective for year end December 31, 2014 – This statement contains certain disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and effects of these transactions.

SUPPLEMENTARY FINANCIAL INFORMATION

GENERAL FUND

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

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

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

CITY OF NORTH POLE, ALASKA
 General Fund
 Balance Sheet
 December 31, 2012
 With Comparative Amounts for 2011

<u>Assets</u>	<u>2012</u>	<u>2011</u>
Cash and investments	\$ <u>1,206,655</u>	<u>1,622,311</u>
Receivables:		
Sales taxes	356,064	328,183
Property taxes	6,126	1,328
Business licenses	8,125	6,620
Grants	6,775	2,026
Other	<u>414</u>	<u>2,891</u>
Total receivables	<u>377,504</u>	<u>341,048</u>
Due from other funds	<u>118,320</u>	<u>33,895</u>
Total assets	\$ <u><u>1,702,479</u></u>	<u><u>1,997,254</u></u>
<u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	111,588	186,649
Accrued payroll and related liabilities	192,335	141,168
Unearned revenue	<u>-</u>	<u>179,886</u>
Total liabilities	303,923	507,703
Fund balance - unassigned	<u>1,398,556</u>	<u>1,489,551</u>
Total liabilities and fund balance	\$ <u><u>1,702,479</u></u>	<u><u>1,997,254</u></u>

CITY OF NORTH POLE, ALASKA

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance -

Budget and Actual

Year Ended December 31, 2012

With Comparative Amounts for 2011

	2012		Variance Positive (Negative)	2011
	Budget	Actual		Actual
Revenues:				
Taxes:				
Sales, alcohol and use taxes	\$ 2,988,770	2,874,657	(114,113)	2,854,936
Property taxes	945,000	954,545	9,545	959,554
Total taxes	<u>3,933,770</u>	<u>3,829,202</u>	<u>(104,568)</u>	<u>3,814,490</u>
Business licenses	<u>10,500</u>	<u>14,830</u>	<u>4,330</u>	<u>15,495</u>
Charges for services - ambulance service	<u>418,553</u>	<u>415,095</u>	<u>(3,458)</u>	<u>386,747</u>
Federal government:				
DOT commercial vehicle safety	10,000	3,255	(6,745)	3,360
Alaska Highway Safety Office	16,452	9,297	(7,155)	14,173
DEA Task Force equipment grant	-	-	-	81,133
Corps of Engineers	76,448	67,388	(9,060)	52,307
IRS reimbursements	-	5,320	5,320	1,667
Total Federal government	<u>102,900</u>	<u>85,260</u>	<u>(17,640)</u>	<u>152,640</u>
State of Alaska:				
State revenue sharing	282,196	282,196	-	268,329
Telephone and electric cooperative taxes	58,000	56,805	(1,195)	59,264
Fisheries business taxes	-	-	-	89
Liquor licenses	5,200	4,800	(400)	5,200
PERS relief	-	253,763	253,763	241,360
Total State of Alaska	<u>345,396</u>	<u>597,564</u>	<u>252,168</u>	<u>574,242</u>
Investment income	<u>3,000</u>	<u>2,621</u>	<u>(379)</u>	<u>3,183</u>

CITY OF NORTH POLE, ALASKA

General Fund

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

	2012		Variance Positive (Negative)	2011
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Revenues, continued:				
Other revenues:				
Candy cane donations	\$ -	-	-	800
Citation revenues	105,000	76,790	(28,210)	110,665
Fingerprinting	8,650	11,495	2,845	10,295
Police reports	5,800	3,015	(2,785)	6,368
Other public safety revenues	5,956	13,571	7,615	36,473
Miscellaneous	30,000	32,113	2,113	60,325
Total other revenues	<u>155,406</u>	<u>136,984</u>	<u>(18,422)</u>	<u>224,926</u>
Total revenues	<u>4,969,525</u>	<u>5,081,556</u>	<u>112,031</u>	<u>5,171,723</u>
Expenditures:				
General government:				
Administration:				
Salaries and benefits	450,448	487,635	(37,187)	464,966
Materials and supplies	92,400	84,430	7,970	60,235
Purchased services	232,182	170,126	62,056	145,081
Vehicle expense	3,400	2,674	726	1,924
Insurance	23,000	20,770	2,230	19,997
Repairs and maintenance	35,302	35,665	(363)	41,377
Total administration	<u>836,732</u>	<u>801,300</u>	<u>35,432</u>	<u>733,580</u>
Municipal building II:				
Purchased services	29,250	32,755	(3,505)	26,521
Repairs and maintenance	-	-	-	1,557
Total municipal building II	<u>29,250</u>	<u>32,755</u>	<u>(3,505)</u>	<u>28,078</u>
Total general government	<u>865,982</u>	<u>834,055</u>	<u>31,927</u>	<u>761,658</u>

CITY OF NORTH POLE, ALASKA

General Fund

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

	2012		Variance Positive (Negative)	2011
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Expenditures, continued:				
Public safety:				
Police department:				
Salaries and benefits	\$ 1,276,858	1,358,635	(81,777)	1,360,007
Materials and supplies	32,566	31,039	1,527	27,490
Purchased services	80,450	68,381	12,069	104,537
Vehicle expense	71,000	69,235	1,765	57,355
Insurance	125,000	99,343	25,657	98,383
Repairs and maintenance	22,700	13,953	8,747	14,028
Task force equipment grant expenditures	-	-	-	81,133
Total police department	<u>1,608,574</u>	<u>1,640,586</u>	<u>(32,012)</u>	<u>1,742,933</u>
Fire department:				
Salaries and benefits	1,612,075	1,715,453	(103,378)	1,645,209
Materials and supplies	37,472	29,705	7,767	36,826
Purchased services	71,696	77,625	(5,929)	110,568
Vehicle expense	31,000	31,105	(105)	33,251
Insurance	54,000	47,498	6,502	47,230
Repairs and maintenance	<u>22,551</u>	<u>22,172</u>	<u>379</u>	<u>13,284</u>
Total fire department	<u>1,828,794</u>	<u>1,923,558</u>	<u>(94,764)</u>	<u>1,886,368</u>
Total public safety	<u>3,437,368</u>	<u>3,564,144</u>	<u>(126,776)</u>	<u>3,629,301</u>
Public works:				
Salaries and benefits	253,765	269,863	(16,098)	194,624
Materials and supplies	29,500	24,088	5,412	11,385
Purchased services	172,099	175,548	(3,449)	67,854
Vehicle expense	28,000	27,341	659	7,923
Insurance	14,000	13,242	758	11,966
Repairs and maintenance	<u>97,777</u>	<u>92,572</u>	<u>5,205</u>	<u>98,365</u>
Total public works	<u>595,141</u>	<u>602,654</u>	<u>(7,513)</u>	<u>392,117</u>

CITY OF NORTH POLE, ALASKA

General Fund

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

	2012		Variance Positive (Negative)	2011
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Expenditures, continued:				
Debt service:				
Capital lease principal	\$ 92,768	86,030	6,738	67,461
Capital lease interest	2,037	9,027	(6,990)	13,212
Total debt service	<u>94,805</u>	<u>95,057</u>	<u>(252)</u>	<u>80,673</u>
Community service - contributions:				
North Pole Christmas on Ice	10,200	10,951	(751)	10,605
North Pole Chamber of Commerce	20,400	21,903	(1,503)	21,209
Convention and Visitors	3,400	3,651	(251)	3,535
North Pole Economic Development Council	34,000	36,505	(2,505)	35,348
Other	-	-	-	137
Total community service - contributions	<u>68,000</u>	<u>73,010</u>	<u>(5,010)</u>	<u>70,834</u>
Capital outlay - police vehicle	-	40,573	(40,573)	-
Total expenditures	<u>5,061,296</u>	<u>5,209,493</u>	<u>(148,197)</u>	<u>4,934,583</u>
Excess of revenues over (under) expenditures	(91,771)	(127,937)	(36,166)	237,140
Other financing sources (uses):				
Issuance of capital lease	-	40,573	40,573	-
Transfers out	<u>(91,769)</u>	<u>(3,631)</u>	<u>88,138</u>	-
Net other financing sources (uses)	<u>(91,769)</u>	<u>36,942</u>	<u>128,711</u>	-
Net change in fund balance	\$ <u>(183,540)</u>	(90,995)	<u>92,545</u>	237,140
Beginning fund balance		<u>1,489,551</u>		<u>1,252,411</u>
Ending fund balance		\$ <u>1,398,556</u>		<u>1,489,551</u>

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NONMAJOR GOVERNMENTAL FUNDS

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

Building Department

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

Fire Department

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

North Pole Community Ice Rink

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

North Pole Festival

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

Abade

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

Abade State Forfeitures

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

IRS Forfeitures

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

AHSO

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

JAG

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

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

General Capital Projects

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

CITY OF NORTH POLE, ALASKA

Nonmajor Governmental Funds
 Combining Balance Sheet
 December 31, 2012

	Special Revenue Funds									General	Totals
	Building Depart- ment	Fire Depart- ment	North Pole Community Ice Rink	North Pole Festival	Abade	Abade State Forfeitures	IRS Forfeitures	AHSO	JAG	Capital Projects Fund	
<u>Assets</u>											
Cash and investments	\$ 85,399	26,895	10,973	7,811	5,125	4,770	6,417	-	-	-	147,390
Grants receivable	-	-	-	-	-	-	-	12,356	21,802	94,834	128,992
Total assets	\$ <u>85,399</u>	<u>26,895</u>	<u>10,973</u>	<u>7,811</u>	<u>5,125</u>	<u>4,770</u>	<u>6,417</u>	<u>12,356</u>	<u>21,802</u>	<u>94,834</u>	<u>276,382</u>
<u>Liabilities and Fund Balances</u>											
Liabilities:											
Accounts payable	2,500	-	-	-	-	-	-	-	-	-	2,500
Unearned revenue	-	-	-	-	-	-	-	-	-	5,465	5,465
Due to other funds	-	-	-	-	-	-	-	7,149	21,802	89,369	118,320
Total liabilities	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,149</u>	<u>21,802</u>	<u>94,834</u>	<u>126,285</u>
Fund balances:											
Restricted - public safety	-	-	-	-	5,125	4,770	6,417	-	-	-	16,312
Assigned:											
General government	82,899	-	-	-	-	-	-	-	-	-	82,899
Public safety	-	26,895	-	-	-	-	-	5,207	-	-	32,102
Community services	-	-	10,973	7,811	-	-	-	-	-	-	18,784
Total fund balances	<u>82,899</u>	<u>26,895</u>	<u>10,973</u>	<u>7,811</u>	<u>5,125</u>	<u>4,770</u>	<u>6,417</u>	<u>5,207</u>	<u>-</u>	<u>-</u>	<u>150,097</u>
Total liabilities and fund balances	\$ <u>85,399</u>	<u>26,895</u>	<u>10,973</u>	<u>7,811</u>	<u>5,125</u>	<u>4,770</u>	<u>6,417</u>	<u>12,356</u>	<u>21,802</u>	<u>94,834</u>	<u>276,382</u>

CITY OF NORTH POLE, ALASKA
 Nonmajor Governmental Funds
 Combining Statement of Revenues, Expenditures and Changes in
 Fund Balances
 Year Ended December 31, 2012

	Special Revenue Funds									General Capital Projects Fund	Totals
	Building Depart- ment	Fire Depart- ment	North Pole Community Ice Rink	North Pole Festival	Abade Abade	Abade State Forfeitures	IRS Forfeitures	AHSO	JAG		
Revenues:											
Intergovernmental	\$ -	-	-	-	6,382	4,341	6,417	79,269	79,233	339,243	514,885
Charges for services	3,388	-	-	-	-	-	-	-	-	-	3,388
Other revenues	-	-	-	9,850	-	-	-	-	-	4,850	14,700
Total revenues	<u>3,388</u>	<u>-</u>	<u>-</u>	<u>9,850</u>	<u>6,382</u>	<u>4,341</u>	<u>6,417</u>	<u>79,269</u>	<u>79,233</u>	<u>344,093</u>	<u>532,973</u>
Expenditures:											
General government	9,561	-	-	-	-	-	-	-	-	-	9,561
Public safety	-	19,665	-	-	31,505	927	-	79,269	79,233	-	210,599
Community services	-	-	190	6,400	-	-	-	-	-	-	6,590
Capital outlay	-	-	-	-	46,483	-	-	-	-	347,724	394,207
Total expenditures	<u>9,561</u>	<u>19,665</u>	<u>190</u>	<u>6,400</u>	<u>77,988</u>	<u>927</u>	<u>-</u>	<u>79,269</u>	<u>79,233</u>	<u>347,724</u>	<u>620,957</u>
Excess of revenues over (under) expenditures	(6,173)	(19,665)	(190)	3,450	(71,606)	3,414	6,417	-	-	(3,631)	(87,984)
Other financing sources - transfers in	-	-	-	-	-	-	-	-	-	3,631	3,631
Net change in fund balances	(6,173)	(19,665)	(190)	3,450	(71,606)	3,414	6,417	-	-	-	(84,353)
Beginning fund balances	<u>89,072</u>	<u>46,560</u>	<u>11,163</u>	<u>4,361</u>	<u>76,731</u>	<u>1,356</u>	<u>-</u>	<u>5,207</u>	<u>-</u>	<u>-</u>	<u>234,450</u>
Ending fund balances	\$ <u>82,899</u>	<u>26,895</u>	<u>10,973</u>	<u>7,811</u>	<u>5,125</u>	<u>4,770</u>	<u>6,417</u>	<u>5,207</u>	<u>-</u>	<u>-</u>	<u>150,097</u>

DEBT SERVICE FUND

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

CITY OF NORTH POLE, ALASKA
 Debt Service Fund
 Statement of Revenues, Expenditures
 and Changes in Fund Balance
 Year Ended December 31, 2012
 With Comparative Amounts for 2011

	<u>2012</u>	<u>2011</u>
Revenues:		
Special assessments	\$ 73,040	74,925
Investment income	41,301	58,285
Total revenues	<u>114,341</u>	<u>133,210</u>
Expenditures - debt service:		
2005 Series B G.O. bonds:		
Principal	65,000	50,000
Interest	41,257	54,905
Total 2005 series B G.O. bonds	<u>106,257</u>	<u>104,905</u>
2002 special assessment bonds:		
Principal	11,586	11,062
Interest	5,304	5,828
Total 2002 special assessment bonds	<u>16,890</u>	<u>16,890</u>
2012 Series 2 Refunding Bonds - debt issuance costs	<u>20,438</u>	<u>-</u>
Other	704	-
Total expenditures	<u>144,289</u>	<u>121,795</u>
Excess of revenues over (under) expenditures	(29,948)	11,415
Other financing sources (uses):		
Transfers out	(36,965)	-
Refunding bond issuance - par value	835,000	-
Refunding bond issuance - premium on bond issuance	137,568	-
Payment to refunding bond escrow agent	(952,130)	-
Net other financing sources (uses)	<u>(16,527)</u>	<u>-</u>
Net change in fund balance	(46,475)	11,415
Beginning fund balance	<u>265,119</u>	<u>253,704</u>
Ending fund balance	\$ <u><u>218,644</u></u>	<u><u>265,119</u></u>

MAJOR ENTERPRISE FUND

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

Water and Sewer

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

CITY OF NORTH POLE, ALASKA
Water and Sewer Enterprise Fund
Statement of Net Position
December 31, 2012
With Comparative Amounts for 2011

	<u>2012</u>	<u>Restated 2011</u>
<u>Assets</u>		
Current assets:		
Cash and investments	\$ 748,516	786,340
Receivables:		
Grants	445,985	192,507
Accounts	125,685	125,459
Allowance for doubtful accounts	(5,636)	(5,636)
Inventory	-	17,264
Total current assets	<u>1,314,550</u>	<u>1,115,934</u>
Noncurrent assets:		
Restricted cash	<u>249,158</u>	<u>267,743</u>
Property, plant and equipment	43,562,904	41,987,769
Less accumulated depreciation	<u>(24,291,578)</u>	<u>(23,178,401)</u>
Net property, plant and equipment	<u>19,271,326</u>	<u>18,809,368</u>
Total noncurrent assets	<u>19,520,484</u>	<u>19,077,111</u>
Total assets	<u>\$ 20,835,034</u>	<u>20,193,045</u>
<u>Liabilities and Net Position</u>		
Liabilities:		
Current liabilities:		
Accounts payable	240,599	165,816
Accrued vacation and sick leave	22,900	23,126
Customer deposits	27,374	21,550
Accrued interest payable	13,053	13,053
Unearned revenue	137,228	155,979
Current portion of bonds and loan payable	<u>35,978</u>	<u>35,461</u>
Total current liabilities	<u>477,132</u>	<u>414,985</u>
Noncurrent liabilities, net of current portion:		
Revenue bonds	524,445	535,431
ADEC loan	<u>325,000</u>	<u>350,000</u>
Total noncurrent liabilities	<u>849,445</u>	<u>885,431</u>
Total liabilities	<u>1,326,577</u>	<u>1,300,416</u>
Net position:		
Net investment in capital assets	18,385,903	17,888,476
Unrestricted	<u>1,122,554</u>	<u>1,004,153</u>
Total net position	<u>19,508,457</u>	<u>18,892,629</u>
Total liabilities and net position	<u>\$ 20,835,034</u>	<u>20,193,045</u>

CITY OF NORTH POLE, ALASKA
Water and Sewer Enterprise Fund
Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2012
With Comparative Amounts for 2011

	<u>2012</u>	Restated <u>2011</u>
Operating revenues - charges for services:		
Water	\$ 806,614	813,736
Sewer	<u>1,054,308</u>	<u>790,841</u>
Total operating revenues	<u>1,860,922</u>	<u>1,604,577</u>
Operating expenses:		
Water:		
Salaries and benefits	430,421	240,982
Materials and supplies	74,973	42,339
Purchased services	236,132	269,846
Vehicle expense	8,302	9,925
Insurance	19,288	17,017
Repairs and maintenance	765	365
Depreciation	389,612	371,492
Bad debt expense	<u>260</u>	<u>2,906</u>
Total water	<u>1,159,753</u>	<u>954,872</u>
Sewer:		
Salaries and benefits	146,626	323,322
Materials and supplies	33,035	81,897
Purchased services	294,758	280,415
Vehicle expense	10,062	8,040
Insurance	10,461	17,256
Repairs and maintenance	-	273
Depreciation	723,565	689,913
Bad debt expense	<u>86</u>	<u>2,140</u>
Total sewer	<u>1,218,593</u>	<u>1,403,256</u>
Total operating expenses	<u>2,378,346</u>	<u>2,358,128</u>
Loss from operations	(517,424)	(753,551)
Nonoperating revenues (expenses):		
State of Alaska PERS relief	39,522	36,965
Sludge removal grant revenue	-	403,564
Sludge removal grant expenses	-	(581,732)
Interest expense	<u>(32,120)</u>	<u>(31,639)</u>
Net nonoperating revenues (expenses)	<u>7,402</u>	<u>(172,842)</u>
Loss before contributions and transfers	(510,022)	(926,393)
Capital contributions	1,088,885	7,280,384
Transfers in	<u>36,965</u>	<u>103,124</u>
Change in net position	615,828	6,457,115
Beginning net position, as restated	<u>18,892,629</u>	<u>12,435,514</u>
Ending net position	\$ <u>19,508,457</u>	<u>18,892,629</u>

CITY OF NORTH POLE, ALASKA

Water and Sewer Enterprise Fund
Statement of Cash Flows
Year Ended December 31, 2012
With Comparative Amounts for 2011

	<u>2012</u>	<u>Restated 2011</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 1,847,769	1,591,269
Payments to suppliers	(596,075)	(630,296)
Payments to employees	<u>(537,751)</u>	<u>(522,724)</u>
Net cash flows from operating activities	<u>713,943</u>	<u>438,249</u>
Cash flows from noncapital financing activities:		
Transfers in	36,965	103,124
Nonoperating grants received	-	403,564
Nonoperating grants expended	<u>-</u>	<u>(581,732)</u>
Net cash flows from noncapital financing activities	<u>36,965</u>	<u>(75,044)</u>
Cash flows from capital and related financing activities:		
Additions to property, plant and equipment	(1,575,135)	(2,885,122)
Capital contributions received	835,407	2,639,114
Principal and interest paid on long-term debt	<u>(67,589)</u>	<u>(67,966)</u>
Net cash flows from capital and related financing activities	<u>(807,317)</u>	<u>(313,974)</u>
Net increase (decrease) in cash and investments	(56,409)	49,231
Beginning cash and investments	<u>1,054,083</u>	<u>1,004,852</u>
Ending cash and investments	\$ <u>997,674</u>	<u>1,054,083</u>
Cash and investments at end of year:		
Cash and investments	\$ 748,516	786,340
Restricted cash	<u>249,158</u>	<u>267,743</u>
	\$ <u>997,674</u>	<u>1,054,083</u>
Reconciliation of loss from operations to net cash flows from operating activities:		
Loss from operations	\$ (517,424)	(753,551)
Adjustments to reconcile loss from operations to net cash provided (used) by operating activities:		
Depreciation	1,113,177	1,061,405
Noncash expense - PERS relief	39,522	36,965
(Increase) decrease in assets:		
Accounts receivable	(226)	16,256
Inventory	17,264	-
Increase (decrease) in liabilities:		
Accounts payable	74,783	102,123
Accrued vacation and sick leave	(226)	4,615
Customer deposits	5,824	4,885
Unearned revenue	<u>(18,751)</u>	<u>(34,449)</u>
Net cash flows from operating activities	\$ <u>713,943</u>	<u>438,249</u>
Noncash capital and related financing activities - Capital assets were donated to the City	\$ -	<u>4,448,763</u>

CITY OF NORTH POLE, ALASKA
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

<u>Federal Grant Title</u>	<u>Grant Number</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Total Grant Award</u>	<u>Federal Share of Expend- itures</u>
Department of Agriculture				
Direct Program - Water and Waste Disposal Systems for Rural Communities	60-002-1585	10.760	\$ 750,000	<u>169,410</u>
Department of Housing and Urban Development				
Passed through State of Alaska Department of Commerce, Community, and Economic Development - Community Development Block Grant	11-CDBG-004	14.228	103,013	<u>103,013</u>
Department of Justice				
Passed through State of Alaska Department of Public Safety:				
Edward Byrne Memorial Formula Grant Program:				
Multijurisdictional Task Force 2013	JAG 13-023D	16.738	83,521	40,125
Multijurisdictional Task Force 2012	JAG 12-023D	16.738	75,984	<u>32,579</u>
Total CFDA 16.738				<u>72,704</u>
Equitable Sharing - Seized Assets	-	16.000	6,382	<u>6,382</u>
Total Department of Justice				<u>79,086</u>
Department of the Treasury				
Direct program - IRS Forfeitures Program	-	21.unknown		6,417
Direct program - Treasury Forfeiture Fund - Currency Crimes Task Force	-	21.TFF	5,320	<u>5,320</u>
Total Department of the Treasury				<u>11,737</u>
Department of Transportation				
Passed through State of Alaska Department of Transportation and Public Facilities:				
Alcohol Open Container Requirements Grant - Impaired Driving 2012	154 AL 12-01-03	20.607	5,983	5,218
Alcohol Open Container Requirements Grant - Impaired Driving 2013	154 AL 13-01-00	20.607	11,808	3,628
Alcohol Open Container Requirements Grant - Traffic Enforcement Officer 2012	154 AL 12-01-14	20.607	107,176	63,633
Alcohol Open Container Requirements Grant - Traffic Enforcement Officer 2013	154 AL 13-01-00	20.607	107,176	<u>12,356</u>
Total CFDA 20.607				<u>84,835</u>
State and Community Highway Safety - Seatbelt Enforcement 2012	402 PT 12-06-01	20.600	499	<u>450</u>
Total Department of Transportation				<u>85,285</u>
Department of Energy				
Passed through Alaska Energy Authority -				
ARRA-Energy Efficiency and Conservation Block Grant	7510037	81.128	174,000	<u>164,312</u>
Environmental Protection Agency				
Direct Program - Congressionally Mandated Projects	XP-00J10701	66.202	970,000	<u>153,637</u>
Total Expenditures of Federal Awards			\$	<u>766,480</u>

Note 1: Basis of Presentation

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

CITY OF NORTH POLE, ALASKA
 Schedule of State Financial Assistance
 Year Ended December 31, 2012

<u>State Grant Title</u>	<u>Grant Number</u>	<u>Grant Award</u>	<u>State Share of Expenditures</u>
Department of Commerce, Community and Economic Development			
Fire Department Equipment Upgrades and Replacement	11-DC-314	\$ 95,000	8,749
Rehabilitate North Pole Utility Well	09-DC-505	147,500	12,089
Senior Center Equipment Upgrades	11-DC-315	50,000	17,378
* Community Revenue Sharing	-	282,196	<u>282,196</u>
Total Department of Commerce, Community and Economic Development			<u>320,412</u>
Department of Environmental Conservation			
* Utility Garage Construction	63319	712,311	695,805
Wastewater Plant Engineering and Design	63321	125,000	18,354
Wastewater Plant Engineering and Design	63320	125,000	<u>39,589</u>
Total Department of Environmental Conservation			<u>753,748</u>
Department of Public Safety			
Asset Forfeitures	-	4,341	<u>4,341</u>
Department of Administration			
* PERS on Behalf	-	322,550	<u>322,550</u>
Department of Transportation and Public Facilities			
North Pole Equipment	60871	50,000	<u>45,791</u>
Department of Revenue			
* Electric and Telephone Co-op Tax	-	56,687	56,687
Shared Fisheries Business Taxes	-	118	118
Liquor Licenses	-	4,800	<u>4,800</u>
Total Department of Revenue			<u>61,605</u>
Total State Financial Assistance		\$	<u><u>1,508,447</u></u>

*Major program

Note 1: Basis of Presentation

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

SINGLE AUDIT SECTION

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

Honorable Mayor and City Council
City of North Pole, Alaska

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of North Pole, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise City of North Pole's basic financial statements, and have issued our report thereon dated April 29, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of North Pole's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of North Pole's internal control. Accordingly, we do not express an opinion on the effectiveness of City of North Pole'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 internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Honorable Mayor and City Council
City of North Pole, Alaska

Compliance and Other Matters

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

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mikunda, Cottrell & Co.

Anchorage, Alaska
April 29, 2013

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance as Required by OMB Circular A-133

Honorable Mayor and City Council
City of North Pole, Alaska

Report on Compliance for Each Major Federal Program

We have audited City of North Pole's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of North Pole's major federal programs for the year ended December 31, 2012. City of North Pole's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of North Pole's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of North Pole's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, City of North Pole 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, 2012.

Honorable Mayor and City Council
City of North Pole, Alaska

Report on Internal Control Over Compliance

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

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

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

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

Mikunda, Cottrell & Co.

Anchorage, Alaska
April 29, 2013

Independent Auditor's Report on Compliance for Each Major State Program and Report on Internal Control Over Compliance as Required by *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

Honorable Mayor and City Council
City of North Pole, Alaska

Report on Compliance for Each Major State Program

We have audited City of North Pole's compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of City of North Pole's major state programs for the year ended December 31, 2012. City of North Pole's major state programs are identified in the accompanying schedule of state financial assistance.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of North Pole's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about City of North Pole's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major State Program

In our opinion, City of North Pole complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended December 31, 2012.

Honorable Mayor and City Council
City of North Pole, Alaska

Report on Internal Control Over Compliance

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

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

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

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

Mikunda, Cottrell & Co.

Anchorage, Alaska
April 29, 2013

CITY OF NORTH POLE, ALASKA

Schedule of Findings and Questioned Costs

Year Ended December 31, 2012

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X none reported
- Noncompliance material to financial statements noted? _____ yes X no

Federal Financial Assistance

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X none reported

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

Unqualified

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

_____ yes X no

Identification of major programs:

<u>Agency</u>	<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Department of Agriculture	10.760	Water and Waste Disposal Systems For Rural Communities
Environmental Protection Agency	66.202	Congressionally Mandated Projects

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

\$300,000

Auditee qualified as low-risk auditee?

 X yes _____ no

CITY OF NORTH POLE, ALASKA

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2012

Financial Statement Findings

There were no prior year audit findings.

Federal Award Findings

There were no prior year audit findings.

State Award Findings

There were no prior year audit findings.

CITY OF NORTH POLE, ALASKA

Corrective Action Plan

Year Ended December 31, 2012

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