CITY OF NORTH POLE, ALASKA

ANNUAL FINANCIAL REPORT

December 31, 2017

NORTH POLE
NP
ALASKA

CITY OF NORTH POLE, ALASKA

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Pole, Alaska, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of North Pole, Alaska's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Pole, Alaska, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. The prior year partial comparative information has been derived from the City of North Pole's 2016 financial statements and, in our report dated June 29, 2017, we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the PERS Pension Liability information on pages 38-39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of North Pole, Alaska's basic financial statement. The accompanying combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2018, on our consideration of the City of North Pole, Alaska's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of North Pole, Alaska's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of North Pole, Alaska's internal control over financial reporting and compliance.

Kohler, Schmitt & Hutchison PC

Fairbanks, Alaska
June 25, 2018

NORTH POLE
NP
ALASKA

BASIC FINANCIAL STATEMENTS

CITY OF NORTH POLE
STATEMENT OF NET POSITION
December 31, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equity	$ 2,460,237	1,384,588	3,844,825
Receivables, net of allowance for doubtful accounts of $43,398	566,020	259,204	825,224
Special assessments, net of allowance for doubtful accounts of $15,290	480,265	-	480,265
Restricted cash	-	108,366	108,366
Capital Assets			
Land, land improvements and construction in progress	448,368	1,735,004	2,183,372
Other capital assets, net of depreciation	2,795,594	18,366,400	21,161,994
Total assets	6,750,484	21,853,562	28,604,046
DEFERRED OUTFLOWS OF RESOURCES			
Total deferred outflows of resources	266,126	34,686	300,812
Total assets and deferred outflows of resources	$ 7,016,610	21,888,248	28,904,858
LIABILITIES			
Accounts payable	127,901	45,799	173,700
Accrued liabilities	144,544	38,347	182,891
Healthcare payable	67,110	-	67,110
Customer deposits	-	47,901	47,901
Unearned revenue	14,884	-	14,884
Due within one year			
Accrued vacation and sick leave	193,878	34,001	227,879
Bonds and notes payable	85,298	77,192	162,490
Due in more than one year			
Notes payable	-	1,401,514	1,401,514
General obligation bond	615,000	-	615,000
Special assessment bonds	18,867	-	18,867
Unamortized bond premium	47,164	-	47,164
PERS pension liability-employer portion	4,165,307	542,898	4,708,205
Total liabilities	5,479,953	2,187,652	7,667,605
DEFERRED INFLOWS OF RESOURCES			
	315,072	41,066	356,138
Total deferred inflows of resources	315,072	41,066	356,138
NET POSITION			
Net investment in capital assets	2,477,633	18,622,698	21,100,331
Restricted for:			
Public safety	59,236	-	59,236
Unrestricted	(1,315,284)	1,036,832	(278,452)
Total net position	1,221,585	19,659,530	20,881,116
Total liabilities, deferred inflows and net position	$ 7,016,610	21,888,248	28,904,858

See notes to financial statements.

CITY OF NORTH POLE
STATEMENT OF ACTIVITIES
Year ended December 31, 2017

Functions/programs	Expenses	Program Revenues: Charges for Services and Other	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
Governmental activities:							
General government	$ 1,154,484	153,920	227,389	83,052	(690,123)	-	(690,123)
Public safety	4,384,715	714,857	430,411	10,810	(3,228,637)	-	(3,228,637)
Public works	711,654	8,899	-	-	(702,755)	-	(702,755)
Debt service:							
Interest	24,839	-	-	-	(24,839)	-	(24,839)
Settlement Litigation	2,700,000	2,700,000	-	-	-	-	-
Total governmental activities	8,975,692	3,577,676	657,800	93,862	(4,646,354)	-	(4,646,354)
Business-type activities:							
Water and sewer utility	3,018,046	1,597,603	-	184,192		(1,236,251)	(1,236,251)
Total business-type activities	3,018,046	1,597,603	-	184,192		(1,236,251)	(1,236,251)
General revenues:							
Taxes, grants and revenues not restricted to specific purposes:							
Sales tax					4,051,502	-	4,051,502
Property tax					382,057	-	382,057
Grants					149,705	-	149,705
Interest					34,746	-	34,746
Other					-	28,580	28,580
Transfers - inter-fund					(37,000)	37,000	-
Total general revenues					4,581,010	65,580	4,646,590
Changes in net position					(65,344)	(1,170,671)	(1,236,015)
Beginning net position					1,286,930	20,830,201	22,117,132
Ending net position					$ 1,221,585	19,659,530	20,881,116

See notes to financial statements.

CITY OF NORTH POLE
GOVERNMENTAL FUNDS
BALANCE SHEET
December 31, 2017

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equity	$ 1,979,655	186,158	22,414	272,010	2,460,237
Receivables (net)					
Accounts, net of allowance for doubtful accounts of $-0-	478,634	-	59,023	28,363	566,020
Special assessments, net of allowance for doubtful accounts of $15,290	-	480,265	-	-	480,265
Total assets	$ 2,458,290	666,423	81,437	300,373	3,506,523
LIABILITIES					
Accounts payable	123,477	446	3,750	228	127,901
Accrued liabilities	132,271	-	-	-	132,271
Healthcare payable	67,110	-	-	-	67,110
Unearned revenue	-	-	14,884	-	14,884
Total liabilities	322,858	446	18,634	228	342,166
Deferred inflows - deferred assessments	-	417,797	-	-	417,797
FUND BALANCES					
Fund balances:					
Restricted-public safety	-	-	-	59,236	59,236
Committed					
Debt service	-	248,176	-	-	248,176
General government	349,269	-	-	-	349,269
Public safety	144,407	-	-	-	144,407
Public works	67,035	-	-	-	67,035
Assigned:					
General government	-	-	62,802	171,261	234,063
Public safety	-	-	-	54,997	54,997
Community services	-	-	-	14,654	14,654
Unassigned	1,574,730	-	-	-	1,574,730
Total fund balances	2,135,441	248,176	62,802	300,148	2,746,567
Total liabilities, deferred inflows, and fund balances	$ 2,458,290	666,423	81,437	300,373	3,506,523

See notes to financial statements.

CITY OF NORTH POLE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
December 31, 2017

Total fund balances for governmental funds		$ 2,746,567
Total net position reported for governmental activities in the Statement of Net Position is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets and related accumulated depreciation are as follows:		
Land, land improvements and construction in process	$ 448,368	
Buildings	4,020,766	
Office furniture and equipment	1,558,076	
Vehicles and equipment	3,494,479	
Infrastructure	1,733,195	
Accumulated depreciation	(8,010,922)	
		3,243,962
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.		417,797
Long-term liabilities related to the PERS pension liability are not due and payable in the current period and therefore are not reported as fund liabilites. Deferred inflows and deferred outflows recorded in relation to these pension liabilities are also not reported as fund assets and liabilities.		
These liabilities, deferred inflows and deferred outflows consist of:		
PERS pension liabilities - employer portion	(4,165,307)	
Deferred outflows of resources	266,126	
Deferred inflows of resources	(315,072)	
		(4,214,253)
Long-term liabilities that are not due and payable in the current period are not reported as fund liabilities.		
These liabilities consist of:		
Bonds payable	$ (719,165)	
Unamortized bond premium	(47,164)	
Accrued interest on bonds	(12,282)	
Accrued leave	(193,878)	
		(972,489)
Net position of governmental activities		$ 1,221,585

See notes to financial statements.

CITY OF NORTH POLE
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Year ended December 31, 2017

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	$ 4,433,559	-	-	-	4,433,559
Special assessments	-	68,207	-	-	68,207
Intergovernmental	308,235	-	384,230	103,106	795,571
Charges for services	519,540	-	-	106,990	626,530
Interest income	4,618	30,128	-	13,615	48,361
Other	3,058,136	655	-	81,000	3,139,791
Total revenues	8,324,088	98,990	384,230	304,711	9,112,019
EXPENDITURES					
Current:					
General government	899,235	-	-	-	899,235
Public safety	3,981,599	-	-	-	3,981,599
Public works	589,523	-	-	-	589,523
Debt service					
Principal	-	83,950	-	-	83,950
Interest	-	36,890	-	-	36,890
Legal fees	-	4,792	-	-	4,792
Credit card fees	-	746	-	-	746
Miscellaneous fees	-	124	-	-	124
Settlement litigation expense	2,700,000	-	-	-	2,700,000
PERS on-behalf	95,806	-	-	-	95,806
Special revenue	-	-	-	311,579	311,579
Capital outlay	-	-	341,156	-	341,156
Total expenditures	8,266,163	126,502	341,156	311,579	9,045,400
Excess (deficiency) of revenues over expenditures	57,925	(27,512)	43,074	(6,868)	66,619
OTHER FINANCING SOURCES (USES)					
Transfers (to) from other funds	19,858	(37,000)	-	(19,858)	(37,000)
Total other financing sources (uses)	19,858	(37,000)	-	(19,858)	(37,000)
Net changes in fund balances	77,783	(64,512)	43,074	(26,726)	29,619
Beginning fund balances	2,057,658	312,688	19,728	326,874	2,716,948
Ending fund balances	$ 2,135,441	248,176	62,802	300,148	2,746,567

See notes to financial statements.

CITY OF NORTH POLE
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
Year ended December 31, 2017

Net change in fund balances - total governmental funds		$ 29,619
The change in net position reported for governmental activities in the Statement of Activities is different because:		
Governmental funds report capital outlays as expenditures. However, on the Statement of Activities, depreciation expense is recognized to allocate the cost of these items over their estimated useful lives. This is the amount by which depreciation exceeded capital outlays.		(252,693)
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.		(68,862)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has an effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:		
Payments on bonds	$ 83,950	
Amortization of bond premium	5,895	
		89,845
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the expense recorded in relation to the change in the PERS pension liability and the related deferred inflows and outflows.		136,898
Interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This amount is the increase in accrued interest payable.		1,601
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.		(1,752)
Changes in net position of governmental activities		$ (65,344)

See notes to financial statements.

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

	Budget			Variance Favorable
	Original	Final	Actual	(Unfavorable)
Revenues:				
Taxes	$ 4,657,566	4,657,566	4,433,559	(224,007)
Licenses and permits	31,000	31,000	33,940	2,940
Charges for services - ambulance service	520,300	524,590	519,540	(5,050)
Intergovernmental:				
Federal government	80,000	80,000	62,724	(17,276)
State of Alaska	109,300	149,604	245,511	95,907
Investment income	3,500	3,500	4,618	1,118
Other revenues	187,500	224,018	3,024,196	2,800,178
Total revenues	5,589,166	5,670,278	8,324,088	2,653,810
Expenditures:				
General government	1,165,986	1,242,986	899,235	343,751
Public safety	4,126,160	4,135,920	3,981,599	154,321
Public works	575,720	592,720	589,523	3,197
Settlement litigation expense	-	-	2,700,000	(2,700,000)
PERS on-behalf	-	-	95,806	(95,806)
Total expenditures	5,867,866	5,971,626	8,266,163	(2,294,537)
Excess of revenues over (under) expenditures	(278,700)	(301,348)	57,925	359,273
Other financing sources (uses):				
Transfers in	22,200	22,200	19,858	(2,342)
Net other financing sources (uses)	22,200	22,200	19,858	(2,342)
Net change in fund balance	$ (256,500)	(279,148)	77,783	356,931
Beginning fund balance			2,057,658	
Ending fund balance			$ 2,135,441	

See notes to financial statements.

CITY OF NORTH POLE
WATER AND SEWER ENTERPRISE FUND
STATEMENT OF NET POSITION
December 31, 2017

ASSETS		
CURRENT ASSETS		
Cash and cash equity	$	1,384,588
Receivables		
Grants		81,048
Accounts		221,554
Allowance for doubtful accounts		(43,398)
Total current assets		1,643,792
NONCURRENT ASSETS		
Property, plant and equipment		52,501,637
Less accumulated depreciation		(32,400,233)
Total property, plant and equipment		20,101,404
Restricted cash		108,366
DEFERRED OUTFLOWS OF RESOURCES		
Total deferred outflows of resources		34,686
Total assets and deferred outflows of resources	$	21,888,248
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable		45,799
Accrued liabilities		72,348
Customer deposits		47,901
Unearned revenues		-
Current portion of bond and note payable		77,192
Total current liabilities		243,240
BOND AND NOTES PAYABLE, less current portion		1,401,514
PERS PENSION LIABILITY- EMPLOYER PORTION		542,898
Total liabilities		2,187,652
DEFERRED INFLOWS OF RESOURCES		
Total deferred inflows of resources		41,066
NET POSITION		
Net investment in capital assets		18,622,698
Unrestricted		1,036,832
Total net position		19,659,530
Total liabilities, deferred inflows and net position	$	21,888,248

See notes to financial statements.

CITY OF NORTH POLE
WATER AND SEWER ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year ended December 31, 2017

OPERATING REVENUES - charges for services	$	1,597,603
OPERATING EXPENSES		
Water		
Salaries and benefits		244,267
Other operating expenses		323,364
Depreciation		651,026
		1,218,657
Sewer		
Salaries and benefits		213,120
Other operating expenses		336,633
Depreciation		1,209,049
		1,758,802
Operating loss		(1,379,856)
NONOPERATING REVENUES (EXPENSES)		
State of Alaska PERS relief		12,487
State of Alaska PERS on-behalf payment		(12,487)
Alaska Clean Water Loan forgiveness		28,580
Interest expense		(40,587)
		(12,007)
Loss before contributions and transfers		(1,391,863)
Interfund transfer in (out)		37,000
Capital contributions		184,192
Changes in net position		(1,170,671)
Beginning net position		20,830,201
Ending net position	$	19,659,530

See notes to financial statements.

CITY OF NORTH POLE
WATER AND SEWER ENTERPRISE FUND
STATEMENT OF CASH FLOWS
Year ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$	1,802,007
Cash paid to suppliers		(926,122)
Cash paid to employees		(316,065)
Net cash provided (used) by operating activities		559,820
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in		37,000
		37,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to property, plant, and equipment		(364,080)
Proceeds of long term debt		986
Capital contributions received		184,192
Payment of revenue bond principal and interest		(35,691)
Net cash provided (used) by capital and related financing activities		(214,593)
Net increase (decrease) in cash		382,227
CASH AND CASH EQUIVALENTS, January 1		1,110,727
CASH AND CASH EQUIVALENTS, December 31	$	1,492,954
Cash and cash equivalents at end of year:		
Cash and cash equity		1,384,588
Restricted cash		108,366
	$	1,492,954
Operating loss		(1,379,856)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation		1,860,075
Unfunded PERS liability		(31,842)
Decrease (increase) in:		
Receivables		204,404
Increase (decrease) in:		
Accounts payable		(87,382)
Accrued liabilities		5,365
Customer deposits		7,849
Unearned revenues		(18,793)
Net cash provided (used) by operating activities	$	559,820
NONCASH FINANCING ACTIVITIES		
Loan debt forgiveness	$	28,580

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - The City of North Pole, Alaska (City) was incorporated as a Home Rule Charter on January 16, 1953, under the provisions of Alaska Statute, Title 29, as amended. The legislative branch of the government is comprised of a mayor and six council members. Individual departments are under the direction of the mayor, with the exception of the city clerk, who is under the direction of the City Council. There are no other entities considered for possible inclusion in the City's financial reporting entity.

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the *accrual basis of accounting.* Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Governmental fund financial statements are reported using the current financial resources measurement focus and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only to the extent they have matured.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

The City reports the following major funds:

Major governmental funds:

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

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

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

Major proprietary fund:

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

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

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

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

Budgets - The annual City operating budget for the subsequent year is prepared by management eight weeks before the end of the current fiscal year. The budget is then submitted to the City Council for review and approval. Amendments to the budget can occur any time during the fiscal year through City Council action. The legal level of budgetary control for all funds is at the function or activity level. Unencumbered funds remaining at the end of the current fiscal year may be reallocated for the purposes set forth in the budget proposal. The Capital Projects Fund has project-length budgets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

Central Treasury - A central treasury is used to account for cash from the funds of the City to maximize interest income. Investments are stated at fair value.

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

Nonspendable fund balance. This classification includes amounts that cannot be spent because they are either (a) not in spendable form - prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Encumbrances - Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. Any encumbrances outstanding at year end are reported as appropriate constraints of fund balances if they meet the definitions and criteria as outlined above.

Deferred inflows and outflows- A *deferred outflow* represents the consumption of the government's net assets or fund balance that is applicable to a future reporting period. A *deferred inflow* represents the addition of net assets or fund balance that is applicable to a future reporting period. For example, revenues that have been earned but are not yet available in the governmental funds are now reported as *deferred inflows*.

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

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

New Accounting Pronouncements - The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates. Management has not fully evaluated the potential effects of these statements, but believes GASB Statement 75 will result in the biggest reporting change.

GASB 75 –Accounting and Financial Reporting for Post-employment Benefits other than Pensions- Effective for year-end December 31, 2018. This standard will improve the usefulness of information about postemployment benefits.

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

GASB 85 – Omnibus 2017 – Effective for year-end December 31, 2018. This statement addresses practice issues that have been identified during implementation and application of certain GASB Statements.

2. CASH AND CASH EQUITY

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

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

Reconciliation of Deposit and Investment Balances - The following is a reconciliation of the City's deposit and investment balances to the financial statements as of December 31, 2017.

Bank deposits and certificates	$ 3,953,191
	$ 3,953,191

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

	Governmental Activities	Business-type Activities	Totals
Cash and cash equity	$ 2,460,237	1,384,588	3,844,825
Restricted cash	-	108,366	108,366
	$ 2,460,237	1,492,954	3,953,191

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, 2017, was as follows:

	Balance January 1, 2017	Additions	Deletions and Transfers	Balance December 31, 2017
Governmental activities				
Capital assets not being depreciated:				
Construction in progress	$ 5,000	83,052	5,000	83,052
Land and land improvements	365,316	-	-	365,316
Total assets not being depreciated	370,316	83,052	5,000	448,368
Capital assets being depreciated:				
Buildings	4,020,757	-	-	4,020,757
Office furniture and equipment	1,521,695	38,349	1,968	1,558,076
Vehicles and equipment	3,531,024	76,430	112,975	3,494,479
Infrastructure	1,733,206	-	-	1,733,206
Total assets being depreciated	10,806,682	114,779	114,943	10,806,518
Less accumulated depreciation for:				
Buildings	3,055,874	88,211	-	3,144,085
Office furniture and equipment	1,108,191	104,147	1,968	1,210,370
Vehicles and equipment	2,657,075	178,474	112,975	2,722,574
Infrastructure	847,235	86,660	-	933,895
Total accumulated depreciation	7,668,375	457,492	114,943	8,010,924
Total capital assets being depreciated, net	3,138,307	(342,713)	-	2,795,594
Governmental activity capital assets, net	$ 3,508,623	(259,661)	5,000	3,243,962
Business-type activities				
Capital assets not being depreciated:				
Land and land improvements	507,815	79,000	-	586,815
Construction in progress	3,623,640	285,079	2,760,530	1,148,189
Total capital assets not being depreciated	4,131,455	364,079	2,760,530	1,735,004
Capital assets being depreciated:				
Sewer and water system	46,534,418	2,468,421	-	49,002,839
Machinery and equipment	1,471,685	292,109	-	1,763,794
Total assets being depreciated	48,006,103	2,760,530	-	50,766,633
Less accumulated depreciation for:				
Sewer and water system	29,722,056	1,740,976	-	31,463,032
Machinery and equipment	818,103	119,099	-	937,202
Total accumulated depreciation	30,540,159	1,860,075	-	32,400,234
Total capital assets being depreciated, net	17,465,944	900,455	-	18,366,399
Business-type activity capital assets, net	$ 21,597,399	1,264,535	2,760,530	20,101,403

3. CAPITAL ASSETS, CONTINUED

Depreciation expense was charged to the functions as follows:

Governmental activities		
General government	$	23,958
Public safety		289,431
Public works		135,638
Community services		8,465
Total depreciation expense - governmental activities		457,492
Business-type activities		
Water	$	651,026
Sewer		1,209,049
Total depreciation expense - business-type activities		1,860,075

4. LONG-TERM LIABILITIES

The following is a summary of long-term liability transactions of the City for the year ended December 31, 2017:

	Balance January 1, 2017	Additions	Retired	Balance December 31, 2017	Due Within One Year
Governmental activities					
General Obligations Refunding Bonds - $835,000 2012 Series 2 bonds, due in annual installments of $5,000 to $100,000 through September 1, 2025; plus variable interest at 2 percent to 5 percent.	$ 755,000	-	70,000	685,000	70,000
Special Assessment Bonds - $300,000 2002 utility special assessment bonds, due in annual installments of $16,890 through June 20, 2019; including interest at 4.75 percent.	48,123	-	13,958	34,165	15,298
Accrued leave	192,126	253,908	252,156	193,878	193,878
Total governmental activities	995,249	253,908	336,114	913,043	279,176
Unamortized bond premium	53,059		5,895	47,164	
	$ 1,048,308			960,207	

4. LONG-TERM LIABILITIES, CONTINUED

	Balance January 1, 2017	Additions	Retired	Balance December 31, 2017	Due Within One Year
Business-type activities					
Revenue bonds -					
$647,600 1998 utility revenue bonds, due in semi-annual installments of $18,483 including interest at 4.875 percent through March 1, 2036.	$ 488,143	-	13,321	474,822	13,967
Note payables -					
$500,000 2007 Water Utility Alaska Drinking Water loan, due in annual installments of $25,000 plus interest at 1.5 percent through April 1, 2026.	250,000	-	25,000	225,000	25,000
$580,326 Alaska Clean Water loan, due in annual installments of $33,801 including interest at 1.5 percent through October 1, 2033.	503,901	-	26,243	477,658	26,637
$231,766 Alaska Clean Water loan, due in annual installments of $11,588 including interest at 1.5 percent through October 1, 2036.	259,360	986	40,168	220,178	11,588
Note payable - construction in progress, $303,000 Alaska Clean Water Loan	-	81,048	-	81,048	-
Accrued leave	30,521	29,379	25,899	34,001	25,899
Total business-type activities	$ 1,531,925	111,413	130,631	1,512,707	103,091

4. LONG-TERM LIABILITIES, CONTINUED

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

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

Governmental activities

The annual debt service requirements of the general obligation bonds, special assessment bonds, and notes payable at December 31, 2017 that are in repayment status follow:

Year Ending December 31,	General Obligation Bonds			Special Assessment Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2018	$ 70,000	31,150	101,150	15,298	1,592	16,890
2019	75,000	27,650	102,650	18,867	865	19,732
2020	80,000	23,900	103,900	-	-	-
2021	85,000	19,900	104,900	-	-	-
2022	90,000	16,500	106,500	-	-	-
2023-2025	285,000	22,250	307,250	-	-	-
	$ 685,000	141,350	826,350	34,165	2,457	36,622

Business type activities

Year Ending December 31,	Revenue Bonds			Notes Payable		
	Principal	Interest	Total	Principal	Interest	Total
2018	$ 13,967	22,998	36,965	63,225	16,174	79,400
2019	14,656	22,309	36,965	63,624	13,068	76,692
2020	15,380	21,585	36,965	64,030	12,114	76,144
2021	16,139	20,826	36,965	164,441	16,403	180,844
2022	16,935	20,030	36,965	64,859	8,687	73,546
2023-2027	98,065	86,761	184,826	205,787	32,461	238,248
2028-2032	124,768	60,057	184,825	217,213	16,689	233,902
2033-2036	174,912	23,995	198,907	79,655	3,107	82,762
	$ 474,822	278,561	753,383	922,836	118,702	1,041,538

5. INTERFUND BALANCES AND TRANSFERS

Interfund transfers are used for funding capital projects, general operations, or authorized transactions in accordance with City code. The composition of interfund transfers at December 31, 2017, are as follows:

From the Non-major Governmental Funds to the General Fund	$	19,858
From the Debt Service Fund to the Water and Sewer Enterprise Fund		37,000

The Non-major Governmental Fund transfer of $19,858 is authorized in accordance with City code and council approval. The amount is the administration fee of twenty-five percent of the total bed tax collected by the City annually.

The Debt Service Fund transfer of $37,000 is authorized by the City Council to pay a portion of the Water and Sewer Enterprise Fund obligations.

6. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2017, there were no City departments with an excess of expenditures over appropriations.

7. DEFERRED COMPENSATION PLAN

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

8. 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 $11 million with 90 percent coinsurance and a $10,000 deductible per incident. Liability coverage includes $2 million in liability insurance and $3 million in umbrella insurance with a $10,000 deductible. Workers compensation insurance is in accordance with Alaska statutes. Additionally, the City has $4 million in emergency medical services professional liability, $5 million in law enforcement liability, $1 million public officials and employment practices liability insurance, and auto and other equipment coverage.

9. RETIREMENT PLANS

Defined Benefit Pension (DB) Plan

Plan Description

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

Employee Contribution Rates

Regular City employees are required to contribute 6.75 percent of their annual covered salary. Police and firefighters are required to contribute 7.5 percent of their annual covered salary.

Employer and Other Contribution Rates

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

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

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

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

9. RETIREMENT PLANS, CONTINUED

Contribution rates for the six months ended June 30, 2017, were determined from the June 30, 2015, actuarial valuation. The contribution rates for the six months ended December 31, 2017, were determined from the June 30, 2016, actuarial valuation.

Six months ended June 30, 2017:

	Employer Effective Rate	ARM Board Adopted Rate	On-behalf Contribution Rate
Pension	14.96%	19.10%	4.14%
Post-employment healthcare	7.04%	7.04%	0.00%
Total PERS contributions rate	22.00%	26.14%	4.14%

Six months ended December 31, 2017:

	Employer Effective Rate	ARM Board Adopted Rate	On-behalf Contribution Rate
Defined benefit pension	17.12%	20.13%	3.01%
Post-employment heathcare	4.88%	4.88%	0.00%
Total PERS contribution	22.00%	25.01%	3.01%

In 2017, the City was credited with the following contributions into the pension plan. Employee contributions were $83,784.

Employer Contributions (Including DBUL)	$ 324,325
On-behalf Contributions	108,293
	$ 432,618

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

At December 31, 2017, the City reported a liability of $4,708,205 for its proportionate share of the employer pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, which was rolled forward to June 30, 2017. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, the City's proportion was .0910800 percent for the employer portion which was a decrease of .1019000 percent from its proportion measured as of June 30, 2016.

9. RETIREMENT PLANS, CONTINUED

For the year ended December 31, 2017, the City recognized a decrease in pension expense of $168,740 in the government-wide financial statements.

	Beginning Balance	Ending Balance	Pension Expense
Net pension liability	$ (5,695,667)	(4,708,205)	987,462
Deferred outflows	673,935	130,032	(543,903)
Deferred inflows	(63,488)	(356,138)	(292,650)
Contributions after measurement date	152,949	170,780	17,831
Total obligations related to pensions	$ (4,932,271)	(4,763,531)	168,740

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ 126,291	-
Difference between expected and actual experience	-	(84,649)
Changes in assumptions	-	-
Changes in proportion and differences between employer contributions	3,741	(271,489)
City contributions subsequent to the measurement date.	170,780	-
	$ 300,812	(356,138)

9. RETIREMENT PLANS, CONTINUED

The amount of $170,780 is reported as deferred outflows of resources resulting from City contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ended December 31, 2018. Amounts recognized as deferred inflows of resources will be recognized in pension expense as follows:

Year ended December 31,	Amount to be recognized:
2018	$(343,587)
2019	131,507
2020	59,035
2021	(73,062)

Actuarial assumptions

The actuarial assumptions used in the June 30, 2016 valuation was based on the results of an actuarial experience study performed as of June 30, 2013.

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

9. RETIREMENT PLANS, CONTINUED

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

Asset Class	Long-Term Expected Real
Domestic equity	8.83%
Global equity	7.79%
Intermediate Treasuries	1.29%
Opportunistics	4.76%
Real assets	4.94%
Absolute return	4.76%
Private Equity	12.02%
Cash equivalents	0.63%

Discount Rate

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

Discount Rate Sensitivity

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

City-PERS	Proportional Share	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
System Net Pension	100.00%	$ 6,790,539,000	$ 5,169,442,000	$ 3,800,488,000
City's proportionate share of the net pension liability-Employer portion	0.0910800%	$ 6,184,662	$ 4,708,205	$ 3,461,394

9. RETIREMENT PLANS, CONTINUED

Pension plan fiduciary net position

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

Defined Contribution Pension (DC) Plan

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

Employee Contribution Rates

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

Employer Contribution Rates

For the year ended December 31, 2017, the City was required to contribute 5 percent of covered salary into the plan for PERS.

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

Employees are immediately vested in their own contributions and vest 25 percent with two years of service, plus an additional 25 percent per year thereafter for full vesting at five years of service. The City and employee contributions to PERS for the year ended December 31, 2017, were $78,938 and $126,301, respectively. The City contribution amounts were recognized as pension expense.

9. RETIREMENT PLANS, CONTINUED

Other Post-Employment Benefit (OPEB) Plans

Defined Benefit OPEB

As part of its participation in the PERS DB Plans (Tiers 1,II, III for PERS) the City participates in the Alaska Retiree Healthcare Trust (ARHCT). The ARHCT is self-funded and provides major medical coverage to retirees of the System. Benefits vary by Tier level. The plan is administered by the State of Alaska, Department of Administration. Employer contribution rates are established in concert with the Defined Benefit Plan described earlier in these notes. The City was required to contribute 7.04 percent of covered payroll into the PERS OPEB plans for the period January 1 through June 30, 2017, and 4.88 percent of covered payroll for the period July 1 through December 31, 2017. Employees do not contribute to the DB OPEB plans. City contributions for the PERS DB OPEB plan was $120,937 for the year ended December 31, 2017.

Defined Contributions OPEB

Defined Contribution Pension Plan participants (PERS Tier IV) participate in the Occupational Death and Disability Plan (ODD) and the Retiree Medical Plan. Information on these plans is included in the comprehensive annual financial report for the PRS plans noted above. These plans provide for death, disability and post-employment health care. Employees do not contribute to the DC OPEB plan. Employer contribution rates for the DC OPEB plan were .49 percent for Peace Officers/Firefighters and .17 percent for all others for the period January 1 through June 30, 2017. For the period July 1 through December 31, 2017, DC OPEB rates were .43 percent for Peace Officers/ Firefighters and .16 percent for all others.

In addition, PERS defined contribution members also participate in the Health Reimbursement Arrangement. Per Alaska Statute 39.30.370 this contribution amount is "three percent of the average annual employee compensation of all employees of all employers in the plan". For the period January 1, 2017 thru June 30, 2017, for actual remittance, this amount is calculated as a flat rate for each full time or part-time employee and approximates $2,049 per year for each full-time employee, and $1.31 per hour for part-time employees. For the period July 1, 2017 through December 31, 2017, for actual remittance, this amount is calculated as $2,084 per year for each full-time employee and $1.34 per hour for part-time employees.

For the year ended December 31, 2017, the City contributed $76,382 in DC OPEB costs. These amounts were recognized as expense.

10. CONTINGENCIES AND GROUND WATER LAWSUIT

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

The City of North Pole has been involved in litigation related to sulfolane ground water contamination within the City of North Pole, and has filed claims against Flint Hills Resources Alaska (FHRA) and Williams Alaska Petroleum Inc.(WAPI) for offsite ground water contamination emanating from the North Pole Refinery (NPR) property. The State of Alaska has also filed a lawsuit against FHRA and WAPI. The City has entered into a settlement agreement with Flint Hills Resources Alaska LLC and the State of Alaska that provides funding for the expansion of the water utility to contaminated properties within and outside the City. WAPI has filed counter claims in the course of litigation against the City which the City believes are without merit and has vigorously contested. As with any litigation, there is the risk of an adverse award of attorney fees against the City, however, Flint Hills shall assume full liability for attorney fees and costs against the City resulting from failure to prevail against WAPI.

FHRA and the State of Alaska have agreed to provide funding for a water distribution system to more than 650 parcels of land affected by the groundwater contamination, including areas outside of the city limits. As part of this settlement, the City was provided $2,700,000 to pay past and future litigation expenses. The settlement agreement has provided up to $100,000,000 which will be used for the water distribution system, operations and the litigation expenses born by the City attorney agreement. Construction has begun in spring of 2018.

Cash for the interim funding referred to above will be provided in the ratio of 80% by Flint Hills Resources Alaska LLC and 20% by the State of Alaska as planning and construction costs warrant. Future judicial determinations may change this funding allocation, which may result in WAPI being held liable for the contamination and the City, state and FHRA being awarded judgment against WAPI.
The claims against WAPI are pending in the Superior Court of the State of Alaska Fourth Judicial District in Fairbanks. A jury trial date has been set for March 2019.

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REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY OF NORTH POLE INFORMATION ON THE NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT SYSTEM
December 31, 2017

Year Ended December 31	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	State of Alaska Proportionate Share of the Net Pension Liability	Total Net Pension Liability	City's Covered-Employee Payroll	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.09108000%	$ 4,708,205	$ 1,753,269	$ 6,461,474	$ 2,729,922	172%	63.3700%
2016	0.10190000%	5,695,667	717,592	6,413,259	2,696,738	211%	59.5500%
2015	0.09861000%	4,782,513	1,280,630	6,063,143	2,539,576	188%	63.9600%

Information presented for 2017 is based on Plan Measurement Date. For December 31, 2016, the plan measurement date is June 30, 2016.

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

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

SCHEDULE OF THE CITY OF NORTH POLE CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT SYSTEM
December 31, 2017

Year Ended December 31	Contractually Required Contribution	Constributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	City's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2017	$ 600,583	$ 600,583	$ -	$ 2,729,922	22%
2016	593,282	593,282	-	2,696,738	22%
2015	558,707	558,707	-	2,539,576	22%

Information in this table reports the City's pension contributions to PERS during the last two fiscal years. The 2017 contribution is reported as a deferred outflow on the December 31, 2017 basic financial statements.

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

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SUPPLEMENTARY FINANCIAL INFORMATION

NORTH POLE
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GENERAL FUND

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

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

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

CITY OF NORTH POLE
GENERAL FUND
BALANCE SHEET
December 31, 2017
with comparative data for 2016

ASSETS		2017	2016
Cash and cash equity	$	1,979,655	1,899,893
Receivables (net of allowance for doubtful accounts of $-0-)			
Sales taxes		458,600	372,503
Property taxes		2,872	7,586
Business taxes		11,778	9,450
Grants		5,385	-
Other		-	60,352
		478,634	449,891
Total assets	$	2,458,290	2,349,784
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable		123,477	97,394
Accrued liabilities		132,271	113,933
Healthcare payable		67,110	80,808
		322,858	292,135
Fund balance - committed		560,711	268,201
Fund balance - unassigned		1,574,728	1,789,456
		2,135,440	2,057,657
Total liabilities and fund balance	$	2,458,290	2,349,784

CITY OF NORTH POLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year ended December 31, 2017
with comparative data for 2016

	2017			2016
	Budget Final	Actual	Variance Favorable (Unfavorable)	Actual
REVENUES				
Taxes				
Sales, alcohol, and use taxes	$ 4,295,999	4,051,502	(244,497)	3,327,838
Property taxes	361,567	382,057	20,490	819,599
Total taxes	4,657,566	4,433,559	(224,007)	4,147,437
Business licenses	19,000	21,940	2,940	19,263
Fireworks permits	12,000	12,000	-	12,000
Charges for services - ambulance service	524,590	519,540	(5,050)	493,940
Federal government				
Corps of Engineers	80,000	62,524	(17,476)	78,143
Currency Crimes Task Force and Marijuana Eradication	-	200	200	413
Total Federal government	80,000	62,724	(17,276)	78,556
State of Alaska				
State shared revenue	149,604	149,705	101	151,906
PERS relief	-	95,806	95,806	124,291
Total State of Alaska	149,604	245,511	95,907	276,197
Investment Income	3,500	4,618	1,118	3,322
Other revenues				
Citation revenues	171,518	152,782	(18,736)	113,153
Fingerprinting revenues	20,000	20,100	100	23,660
Police report revenue	-	1,135	1,135	1,078
Fire department revenue	-	4,500	4,500	3,790
Other public safety revenue	2,500	16,800	14,300	15,835
Fleet reserves revenue	17,500	8,899	(8,601)	15,264
Settlement litigation revenue	-	2,700,000	2,700,000	-
Reimbursement of litigation costs	-	92,219	92,219	-
Miscellaneous revenue	12,500	27,761	15,261	17,268
Total other revenues	224,018	3,024,196	2,800,178	190,048
Total revenues	5,670,278	8,324,088	2,653,810	5,220,763

See notes to financial statements.

CITY OF NORTH POLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CONTINUED
Year ended December 31, 2017
with comparative data for 2016

	2017			2016
	Budget Final	Actual	Variance Favorable (Unfavorable)	Actual
EXPENDITURES				
General government				
Administration				
Salaries and benefits	$ 308,100	273,899	34,201	495,775
Purchased services	115,800	83,000	32,800	126,077
Operational expenses	52,250	32,184	20,066	43,772
Leases and rentals	5,750	5,527	223	5,527
Travel, training, and memberships	11,000	9,021	1,979	15,418
Vehicle expenses	1,850	314	1,536	243
Infrastructure outlay	8,000	5,981	2,019	4,597
Fleet reserves	320,000	142,854	177,146	16,250
Litigation	125,000	96,192	28,808	97,830
Other	2,000	1,635	365	4,544
	949,750	650,607	299,143	810,033
City Council				
Salaries and benefits	218,218	184,531	33,687	16,250
Purchased services	44,168	41,065	3,103	4,955
Operational expenses	10,600	8,700	1,900	2,340
Travel, training, and memberships	14,100	11,392	2,708	4,088
Other	6,150	2,940	3,210	3,482
	293,236	248,628	44,608	31,115
Total general government	1,242,986	899,235	343,751	841,148
Public safety				
Police department				
Salaries and benefits	1,513,468	1,439,016	74,452	1,461,027
Purchased services	265,620	252,425	13,195	231,443
Operational expenses	62,200	58,260	3,940	55,219
Leases and rentals	1,800	1,783	17	1,457
Travel, training, and memberships	34,080	30,519	3,561	13,436
Vehicle expenses	55,000	52,009	2,991	51,120
Infrastructure outlay	21,000	17,208	3,792	4,523
Fleet reserves	57,000	56,782	218	85,905
Other	82,586	83,367	(781)	42,405
	2,092,754	1,991,369	101,385	1,946,535
Fire department				
Salaries and benefits	1,676,516	1,645,064	31,452	1,579,348
Purchased services	164,800	150,873	13,927	151,978
Operational expenses	95,550	92,480	3,070	72,142
Travel, training, and memberships	25,300	22,359	2,941	12,850
Vehicle expenses	37,500	36,813	687	31,005
Infrastructure outlay	32,000	32,297	(297)	5,823
Other	11,500	10,344	1,156	6,677
	2,043,166	1,990,230	52,936	1,859,823
Total public safety	4,135,920	3,981,599	154,321	3,806,358

See notes to financial statements.

CITY OF NORTH POLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CONTINUED
Year ended December 31, 2017
with comparative data for 2016

	2017			2016
	Budget Final	Actual	Variance Favorable (Unfavorable)	Actual
EXPENDITURES, CONTINUED				
Public works				
Salaries and benefits	$ 297,470	293,581	3,889	289,946
Purchased services	99,200	98,609	591	44,507
Operational expenses	57,800	57,541	259	45,195
Travel, training, and memberships	1,750	492	1,258	98
Vehicle expenses	16,000	19,121	(3,121)	11,512
Infrastructure outlay	57,000	58,785	(1,785)	45,486
Fleet reserves	-	-	-	8,050
Other	63,500	61,394	2,106	96,811
	592,720	589,523	3,197	541,605
Debt service				
Capital lease principal	-	-	-	42,696
Capital lease interest	-	-	-	6,596
	-	-	-	49,292
Settlement litigation expense	-	2,700,000	(2,700,000)	-
PERS on-behalf	-	95,806	(95,806)	124,291
Total expenditures	5,971,626	8,266,163	(2,294,537)	5,362,694
Excess of revenues over (under) expenditures	(301,348)	57,925	359,273	(141,931)
Other financing sources (uses)				
Transfers in	22,200	19,858	(2,342)	30,000
Net other financing sources (uses)	22,200	19,858	(2,342)	30,000
Net change in fund balance	$ (279,148)	77,783	356,931	(111,931)
Beginning fund balance		2,057,658		2,169,589
Ending fund balance		$ 2,135,441		2,057,658

See notes to financial statements.

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NON-MAJOR GOVERNMENTAL FUNDS

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

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

North Pole Community Ice Rink
This fund accounts for the activities related to the development of the community ice rink project.

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

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

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

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

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

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

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

CITY OF NORTH POLE
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
December 31, 2017

	Building Department	North Pole Community Ice Rink	North Pole Festival	Justice	State Forfeitures	Treasury	JAG	Impound Lot	Bed Tax	Total
ASSETS										
Cash and cash equity	$ 147,420	10,623	4,067	46,384	12,538	314	(25,096)	55,180	20,580	272,010
Accounts Receivable	-	-	-	-	-	-	25,096	-	3,267	28,363
Total assets	$ 147,420	10,623	4,067	46,384	12,538	314	-	55,180	23,847	300,373
LIABILITIES										
Accounts payable	9	-	36	-	-	-	-	183	-	228
Total liabilities	9	-	36	-	-	-	-	183	-	228
FUND BALANCES										
Restricted-public safety	-	-	-	46,384	12,538	314	-	-	-	59,236
Assigned										
General government	147,414	-	-	-	-	-	-	-	23,847	171,261
Public safety	-	-	-	-	-	-	-	54,997	-	54,997
Community services	-	10,623	4,031	-	-	-	-	-	-	14,654
Unassigned	-	-	-	-	-	-	-	-	-	-
Total fund balances	147,414	10,623	4,031	46,384	12,538	314	-	54,997	23,847	300,148
Total liabilities and fund balances	$ 147,420	10,623	4,067	46,384	12,538	314	-	55,180	23,847	300,373

See notes to financial statements.

CITY OF NORTH POLE
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
Year ended December 31, 2017

	Building Department	North Pole Community Ice Rink	North Pole Festival	Justice	State Forfeitures	Treasury	JAG	Impound Lot	Bed Tax	Total
REVENUES										
Intergovermental	$ -	-	-	-	-	-	103,106	-	-	103,106
Charges for services	81,645	-	-	-	-	-	-	25,345	-	106,990
Investment income	-	-	-	6,907	6,708	-	-	-	-	13,615
Other	-	-	1,568	-	-	-	-	-	79,432	81,000
Total revenues	81,645	-	1,568	6,907	6,708	-	103,106	25,345	79,432	304,711
EXPENDITURES	113,062	220	4,670	22,336	3,049	1,950	103,106	650	62,536	311,579
Excess (deficiency) of revenues over expenditures	(31,417)	(220)	(3,102)	(15,429)	3,659	(1,950)	-	24,695	16,896	(6,868)
OTHER FINANCING SOURCES (USES)										
Transfers (to) from other funds	-	-	-	-	-	-	-	-	(19,858)	(19,858)
Total other financing sources (uses)	-	-	-	-	-	-	-	-	(19,858)	(19,858)
Net changes in fund balances	(31,417)	(220)	(3,102)	(15,429)	3,659	(1,950)	-	24,695	(2,962)	(26,726)
Beginning fund balances	178,831	10,843	7,133	61,813	8,879	2,264	-	30,302	26,809	326,874
Ending fund balances	$ 147,414	10,623	4,031	46,384	12,538	314	-	54,997	23,847	300,148

See notes to financial statements.

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DEBT SERVICE FUND

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

CITY OF NORTH POLE
DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
Year ended December 31, 2017
with comparative data for 2016

	2017	2016
Revenues		
Special assessments	$ 68,207	83,480
Investment income	30,128	33,658
Bad debt recovery	655	10,230
Total revenues	98,990	127,368
Expenditures - debt service		
2002 special assessment bonds		
Principal	13,950	13,934
Interest	2,940	14,936
Total 2002 special assessment bonds	16,890	28,870
2012 Series 2 refunding bonds		
Principal	70,000	65,000
Interest	33,950	36,550
Total 2012 Series 2 refunding bonds	103,950	101,550
Other fees and expenses	5,662	1,058
Total expenditures	126,502	131,478
Excess of revenues over (under) expenditures	(27,512)	(4,110)
Other financing sources (uses)		
Transfers (to) from other funds	(37,000)	-
	(37,000)	-
Net changes in fund balance	(64,512)	(4,110)
Beginning fund balance	312,688	316,798
Ending fund balance	$ 248,176	312,688

MAJOR ENTERPRISE FUND

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

Water and Sewer Enterprise Fund

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

CITY OF NORTH POLE
WATER AND SEWER ENTERPRISE FUND
STATEMENTS OF NET POSITION
December 31, 2017 and 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equity	$ 1,384,588	995,492
Receivables		
Grants	81,048	268,920
Accounts	221,554	240,647
Allowance for doubtful accounts	(43,398)	(45,959)
Total current assets	1,643,792	1,459,100
NONCURRENT ASSETS		
Property, plant and equipment	52,501,637	52,137,557
Less accumulated depreciation	(32,400,233)	(30,540,158)
Total property, plant and equipment	20,101,404	21,597,399
Restricted cash	108,366	115,235
Total assets	21,853,562	23,171,734
DEFERRED OUTFLOWS OF RESOURCES		
Total deferred outflows of resources	34,686	97,423
Total assets and deferred outflows of resources	$ 21,888,248	23,269,157
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	45,799	133,181
Accrued liabilities	72,348	66,983
Customer deposits	47,901	40,052
Unearned revenues	-	18,793
Current portion of bond and note payable	77,192	64,553
Total current liabilities	243,240	323,562
BOND AND NOTES PAYABLE, less current portion	1,401,514	1,436,851
PERS PENSION LIABILITY - EMPLOYER PORTION	542,898	671,063
Total liabilities	2,187,652	2,431,476
DEFERRED INFLOWS OF RESOURCES		
Total deferred inflows of resources	41,066	7,480
NET POSITION		
Net investment in capital assets	18,622,698	20,095,998
Unrestricted	1,036,832	734,203
Total net position	19,659,530	20,830,201
Total liabilities, deferred inflows and net position	$ 21,888,248	23,269,157

See notes to financial statements.

CITY OF NORTH POLE
WATER AND SEWER ENTERPRISE FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years ended December 31, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Water	$ 821,080	842,176
Sewer	776,523	742,552
	1,597,603	1,584,728
OPERATING EXPENSES		
Water		
Salaries and benefits	228,346	235,946
Purchased services	103,377	53,370
Operational expense	196,875	146,131
Travel, training, and memberships	1,462	2,685
Vehicle expense	9,597	7,167
Infrastructure	2,335	18,284
Depreciation	651,026	603,031
Other	9,718	660
	1,202,736	1,067,274
Sewer		
Salaries and benefits	229,041	346,454
Purchased services	97,089	80,933
Operational expense	135,641	111,415
Travel, training, and memberships	832	2,002
Vehicle expense	8,564	5,299
Infrastructure	8,957	24,040
Depreciation	1,209,049	1,119,915
Other	85,550	73,084
	1,774,723	1,763,142
Operating loss	(1,379,856)	(1,245,688)
NONOPERATING REVENUES (EXPENSES)		
State of Alaska PERS relief	12,487	16,600
State of Alaska PERS on-behalf payment	(12,487)	(16,600)
Alaska Clean Water Loan forgiveness	28,580	-
Interest expense	(40,587)	(32,422)
	(12,007)	(32,422)
Loss before contributions and transfers	(1,391,863)	(1,278,110)
Interfund transfer in (out)	37,000	(7,500)
Capital contributions	184,192	1,840,971
Changes in net position	(1,170,671)	555,361
Beginning net position	20,830,201	20,274,840
Ending net position	$ 19,659,530	20,830,201

See notes to financial statements.

CITY OF NORTH POLE
WATER AND SEWER ENTERPRISE FUND
STATEMENTS OF CASH FLOWS
Years ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 1,802,007	1,404,121
Cash paid to suppliers	(926,122)	(706,308)
Cash paid to employees	(316,065)	(298,366)
Net cash provided (used) by operating activities	559,820	399,447
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in	37,000	(7,500)
	37,000	(7,500)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to property, plant, and equipment	(364,080)	(2,664,752)
Proceeds of long term debt	986	99,543
Capital contributions received	184,192	1,840,971
Payment of revenue bond principal and interest	(35,691)	(95,953)
Net cash provided (used) by capital and related financing activities	(214,593)	(820,191)
Net increase (decrease) in cash	382,227	(428,244)
CASH AND CASH EQUIVALENTS, January 1	1,110,727	1,538,971
CASH AND CASH EQUIVALENTS, December 31	$ 1,492,954	1,110,727
Cash and cash equivalents at end of year:		
Cash and cash equity	1,384,588	995,492
Restricted cash	108,366	115,235
	$ 1,492,954	1,110,727
Operating loss	(1,379,856)	(1,245,688)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	1,860,075	1,722,946
Unfunded PERS liability	(31,842)	91,351
Decrease (increase) in:		
Receivables	204,404	(180,607)
Increase (decrease) in:		
Accounts payable	(87,382)	21,323
Accrued liabilities	5,365	19,910
Customer deposits	7,849	5,218
Unearned revenues	(18,793)	(35,006)
Net cash provided (used) by operating activities	$ 559,820	399,447
NONCASH FINANCING ACTIVITIES		
Loan debt forgiveness	$ 28,580	-

See notes to financial statements.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Pole, as of and for the year ended December 31, 2017, and the related notes to the financial statements which collectively comprise the City of North Pole's basic financial statements, and have issued our report thereon dated June 25, 2018.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Kohler, Schmutt & Hutchison, PC

Fairbanks, Alaska
June 25, 2018

CITY OF NORTH POLE
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended December 31, 2017

The following is a schedule of findings and responses prepared in accordance with *Government Auditing Standards*.

2017-001 Year-end fixed asset accounting

Condition: The year-end schedules to support the general ledger balances were incorrect due to incorrect beginning balances. Effort is needed to ensure that beginning balances are correct so current year depreciation is calculated properly.

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

Context: The additions and deletions to the depreciation schedules were provided by the client, but the incorrect beginning balances caused the accounting and calculations to not be correct.

Cause: The City incorrectly adjusted the records at year-end due to incorrect beginning balances.

Effect: The audit identified misstatements in the general ledger that were not identified and corrected by the City's internal control system. This resulted in a less efficient audit process and audit adjustments.

Recommendation: Additional effort is needed at year end to ensure these important year-end adjustments are made correctly.

Client response: See client response.

2017-002 Original and final budget accounting

Condition: The budget schedules to support the original and final budget balances along with the Fiscal Notes and Administrative Amendments were better than in prior years. However, additional effort is needed to eliminate deficiencies in the reconciliation between the original and final budgets.

Criteria: Management is required to report original and final budget amounts in the financial statement.

Context: The original and final budget schedules were provided by the client and the reconciliation had errors.

Cause: The City does not have a clear audit trail between the original and final budgets and the Fiscal Notes and Administrative Amendments.

Effect: The audit identified misstatements in the budget that were not identified and corrected by the City's internal control system. This resulted in a less efficient audit process and audit adjustments.

Recommendation: Additional effort is needed at year end to ensure there is a clear audit trail and reconciliation that bridges the budget in Caselle to the Fiscal Notes and Administrative Amendments.

Client response: See client response.

NORTH POLE
ALASKA

CITY OF NORTH POLE

"Where the Spirit of Christmas Lives Year Round"

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Fax: 907-488-3002

Mayor
907-488-8584

City Clerk
907-488-8583

Police Department
907-488-6902

Fire Department
907-488-2232

Utilities
907-488-6111

Director of City Services
907-488-8593

Finance
907-488-8594

CITY OF NORTH POLE, ALASKA
CLIENT RESPONSE
Year ended December 31, 2017

FINANCIAL STATEMENT FINDINGS

2017-001 – YEAR-END FIXED ASSET ACCOUNTING

Name of Contact Person: Mayor, Bryce J Ward

Corrective Action: Staff is working with the accounting programmers to correct fixed asset accounting discrepancies from legacy software. Management has implemented new internal controls to ensure proper asset accounting according to GAAP. Management has also provided training to personnel to ensure that personnel has the expertise required to manage the asset records according to governmental rules and regulations. The city has also contracted for independent third party counsel to review our year end closing in preparation for the audit and to ensure our fixed asset tables are correct.

Proposed Completion Date: December 31, 2018

2017-002 – ORIGINAL AND FINAL BUDGET ACCOUNTING

Name of Contact Person: Mayor, Bryce J Ward

Corrective Action: Management and Staff are developing a new spreadsheet to track changes of the budget throughout the year. These changes will track fiscal notes, administrative amendments and year end balances. Management has also provided training to personnel to ensure that personnel has the expertise required to develop and manage budget according to governmental rules and regulations. The city has also contracted for independent third party counsel to review our year end closing in preparation for the audit and to ensure our budget tracking is correct.

Proposed Completion Date: December 31, 2018