

CITY OF NORTH POLE, ALASKA

ANNUAL FINANCIAL REPORT

December 31, 2019



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, 2019, 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, 2019, 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 2018 financial statements and, in our report dated June 26, 2019, 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 and PERS OPEB Liability information on pages 44-47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2020, on our consideration of the City of North Pole, Alaska's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of North Pole, Alaska's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of North Pole, Alaska's internal control over financial reporting and compliance.

Fairbanks, Alaska
June 26, 2020

Handwritten signature in black ink, appearing to read "Kohn, White & Little PC".

BASIC FINANCIAL STATEMENTS

CITY OF NORTH POLE
STATEMENT OF NET POSITION
December 31, 2019

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash and cash equity	\$ 3,278,003	4,978,551	8,256,554
Accounts receivable, net of allowance for doubtful accounts of \$43,398	546,564	155,924	702,488
Special assessments, net of allowance for doubtful accounts of \$32,902	240,859	-	240,859
Restricted cash	-	2,243,791	2,243,791
Capital Assets			
Land, land improvements and construction in progress	365,316	4,320,571	4,685,887
Other capital assets, net of depreciation	2,299,428	68,994,449	71,293,877
Total assets	6,730,170	80,693,286	87,423,456
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Total deferred outflows of resources	634,464	95,393	729,857
Total assets and deferred outflows of resources	\$ 7,364,634	80,788,679	88,153,313
<u>LIABILITIES</u>			
Accounts payable	130,261	334,702	464,963
Accrued liabilities	391,360	52,929	444,289
Customer deposits	-	80,583	80,583
Revenue received in advance	-	500,319	500,319
Unearned revenue	21,056	2,033,358	2,054,414
Settlement funds for legal costs	-	2,089,186	2,089,186
Due within one year			
Accrued vacation and sick leave	197,885	47,557	245,442
Bonds and notes payable	80,000	79,410	159,410
Due in more than one year			
Notes payable	-	1,243,843	1,243,843
General obligation bond	460,000	-	460,000
Unamortized bond premium	35,374	-	35,374
OPEB liability	99,278	14,926	114,204
PERS pension liability	4,624,542	695,304	5,319,846
Total liabilities	6,039,755	7,172,117	13,211,872
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Total deferred inflows of resources	249,229	37,472	286,701
	249,229	37,472	286,701
<u>NET POSITION</u>			
Net investment in capital assets	2,124,744	71,991,767	74,116,511
Restricted for:			
Public safety	64,047	-	64,047
Unrestricted	(1,113,141)	1,587,323	474,182
Total net position	1,075,650	73,579,090	74,654,740
Total liabilities, deferred inflows of resources and net position	\$ 7,364,634	80,788,679	88,153,313

See notes to financial statements.

CITY OF NORTH POLE
STATEMENT OF ACTIVITIES
Year ended December 31, 2019

Functions/programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services and Other	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 1,147,238	35,959	83,115	-	(1,028,164)		(1,028,164)
Public safety	4,481,318	796,752	120,094	10,824	(3,553,648)		(3,553,648)
Public works	241,997	190,084	-	41,176	(10,737)		(10,737)
Debt service:							
Interest	29,916	21,571	-	-	(8,345)		(8,345)
Total governmental activities	<u>5,900,469</u>	<u>1,044,366</u>	<u>203,209</u>	<u>52,000</u>	<u>(4,600,894)</u>		<u>(4,600,894)</u>
Business-type activities:							
Water and sewer utility	5,760,990	1,976,443	-	24,087,183		20,302,636	20,302,636
Total business-type activities	<u>5,760,990</u>	<u>1,976,443</u>	<u>-</u>	<u>24,087,183</u>		<u>20,302,636</u>	<u>20,302,636</u>
General revenues:							
Taxes, grants and revenues not restricted to specific purposes:							
Sales tax					4,126,122		4,126,122
Property tax					634,340		634,340
Grants					225,150		225,150
Interest					32,955		32,955
Transfers - inter-fund					(35,040)	35,040	-
Total general revenues					<u>4,983,527</u>	<u>35,040</u>	<u>5,018,567</u>
Changes in net position					382,633	20,337,676	20,720,309
Beginning net position					693,017	53,241,414	53,934,431
Ending net position					<u>\$ 1,075,650</u>	<u>73,579,090</u>	<u>74,654,740</u>

See notes to financial statements.

CITY OF NORTH POLE
GOVERNMENTAL FUNDS
BALANCE SHEET
December 31, 2019

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>					
Cash and cash equity	2,718,226	141,923	63,376	354,478	3,278,003
Receivables					
Accounts, net of allowance for doubtful accounts of \$-0-	514,614	-	13,700	18,250	546,564
Special assessments, net of allowance for doubtful accounts of \$32,902	-	240,859	-	-	240,859
Total assets	<u>3,232,840</u>	<u>382,782</u>	<u>77,076</u>	<u>372,728</u>	<u>4,065,426</u>
<u>LIABILITIES</u>					
Accounts payable	120,736	31	-	9,494	130,261
Accrued liabilities	120,439	-	-	-	120,439
Healthcare payable	262,870	-	-	-	262,870
Unearned revenue	-	-	21,056	-	21,056
Total liabilities	<u>504,045</u>	<u>31</u>	<u>21,056</u>	<u>9,494</u>	<u>534,626</u>
Deferred inflows - deferred assessments	-	203,766	-	-	203,766
<u>FUND BALANCES</u>					
Fund balances:					
Restricted-public safety	-	-	-	64,047	64,047
Committed					
Debt service	-	178,985	-	-	178,985
General government	393,325	-	-	-	393,325
Public safety	197,119	-	-	-	197,119
Public works	114,274	-	-	-	114,274
Assigned:					
General government	-	-	56,020	236,057	292,077
Public safety	-	-	-	56,920	56,920
Community services	-	-	-	10,580	10,580
Unassigned	2,024,077	-	-	(4,370)	2,019,707
Total fund balances	<u>2,728,795</u>	<u>178,985</u>	<u>56,020</u>	<u>363,234</u>	<u>3,327,034</u>
Total liabilities, deferred inflows, and fund balances	<u>3,232,840</u>	<u>382,782</u>	<u>77,076</u>	<u>372,728</u>	<u>4,065,426</u>

See notes to financial statements.

CITY OF NORTH POLE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
December 31, 2019

Total fund balances for governmental funds		\$ 3,327,034
Total net position reported for governmental activities in the Statement of Net Position is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets and related accumulated depreciation are as follows:		
Land, land improvements and construction in process	\$ 365,316	
Buildings	3,673,354	
Office furniture and equipment	1,761,859	
Vehicles and equipment	3,413,109	
Infrastructure	1,733,206	
Accumulated depreciation	<u>(8,282,098)</u>	2,664,746
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.		
		203,766
Long-term liabilities related to the PERS pension liability are not due and payable in the current period and therefore are not reported as fund liabilities. Deferred inflows and deferred outflows recorded in relation to these pension liabilities are also not reported as fund assets and liabilities. These liabilities, deferred inflows and deferred outflows consist of:		
PERS pension liabilities	(4,624,542)	
OBEB pension liability	(99,278)	
Deferred outflows of resources	634,464	
Deferred inflows of resources	<u>(249,229)</u>	(4,338,585)
Long-term liabilities that are not reported as fund liabilities. These liabilities consist of:		
Bonds payable	\$ (540,000)	
Unamortized bond premium	(35,374)	
Accrued interest on bonds	(8,053)	
Accrued leave	<u>(197,885)</u>	<u>(781,312)</u>
Net position of governmental activities		\$ <u><u>1,075,650</u></u>

See notes to financial statements.

CITY OF NORTH POLE
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Year ended December 31, 2019

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 4,760,462	-	-	-	4,760,462
Special assessments	-	72,126	-	-	72,126
Intergovernmental	392,289	-	51,999	120,094	564,382
Charges for services	582,452	-	-	190,084	772,536
Interest income	32,955	21,156	-	-	54,111
Other	248,889	666	-	84,485	334,040
Total revenues	<u>6,017,047</u>	<u>93,948</u>	<u>51,999</u>	<u>394,663</u>	<u>6,557,657</u>
EXPENDITURES					
Current:					
General government	895,544	-	-	-	895,544
Public safety	4,302,826	-	-	-	4,302,826
Public works	663,270	-	-	-	663,270
Debt service	-	90,033	-	-	90,033
Principal	-	28,506	-	-	28,506
Interest	-	5,630	-	-	5,630
Legal fees	-	1,464	-	-	1,464
Credit card fees	-	621	-	-	621
Bad Debt	-	33	-	-	33
Miscellaneous fees	167,139	-	-	-	167,139
PERS on-behalf	-	-	-	-	-
Special revenue	-	-	-	344,728	344,728
Capital outlay	-	-	53,428	-	53,428
Total expenditures	<u>6,028,779</u>	<u>126,287</u>	<u>53,428</u>	<u>344,728</u>	<u>6,553,222</u>
Excess (deficiency) of revenues over expenditures	<u>(11,732)</u>	<u>(32,339)</u>	<u>(1,429)</u>	<u>49,935</u>	<u>4,435</u>
OTHER FINANCING SOURCES (USES)					
Transfers (to) from other funds	14,725	(18,038)	-	(31,727)	(35,040)
Total other financing sources (uses)	<u>14,725</u>	<u>(18,038)</u>	<u>-</u>	<u>(31,727)</u>	<u>(35,040)</u>
Net changes in fund balances	2,993	(50,377)	(1,429)	18,208	(30,605)
Beginning fund balances	2,725,802	229,362	57,449	345,026	3,357,639
Ending fund balances	<u>\$ 2,728,795</u>	<u>178,985</u>	<u>56,020</u>	<u>363,234</u>	<u>3,327,034</u>

See notes to financial statements.

CITY OF NORTH POLE
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
Year ended December 31, 2019

Net change in fund balances - total governmental funds	\$	(30,605)
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.		(202,206)
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.		(72,377)
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	\$ 93,213	
Amortization of bond premium	<u>5,896</u>	
		99,109
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the expense recorded in relation to the change in the PERS and OPEB liabilities and the related deferred inflows and outflows.		552,569
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.		3,158
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the net increase in accrued leave.		<u>32,985</u>
Changes in net position of governmental activities	\$	<u><u>382,633</u></u>

See notes to financial statements.

CITY OF NORTH POLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year ended December 31, 2019

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues:				
Taxes	\$ 4,962,499	4,962,499	4,760,462	(202,037)
Licenses and permits	34,000	34,000	34,589	589
Charges for services - ambulance service	570,000	570,000	582,452	12,452
Intergovernmental:				
Federal government	85,000	85,000	100,347	15,347
State of Alaska	134,500	134,500	291,942	157,442
Investment income	4,500	4,500	32,955	28,455
Other revenues	185,300	185,300	214,300	29,000
Total revenues	5,975,799	5,975,799	6,017,047	41,248
Expenditures:				
General government	987,674	987,674	895,544	92,130
Public safety	4,568,432	4,553,433	4,302,826	250,607
Public works	770,032	785,032	663,270	121,762
PERS on-behalf	-	-	167,139	(167,139)
Total expenditures	6,326,138	6,326,139	6,028,779	297,360
Excess of revenues over (under) expenditures	(350,339)	(350,340)	(11,732)	338,608
Other financing sources (uses):				
Transfers in	14,985	14,985	14,725	(260)
Net other financing sources (uses)	14,985	14,985	14,725	(260)
Net change in fund balance	\$ (335,354)	(335,355)	2,993	338,348
Beginning fund balance			2,725,802	
Ending fund balance			\$ 2,728,795	

See notes to financial statements.

CITY OF NORTH POLE
WATER AND SEWER ENTERPRISE FUND
STATEMENT OF NET POSITION
December 31, 2019

<u>ASSETS</u>	
CURRENT ASSETS	
Cash and cash equity	\$ 4,978,551
Receivables	
Accounts	199,322
Allowance for doubtful accounts	(43,398)
Total current assets	<u>5,134,475</u>
NONCURRENT ASSETS	
Property, plant and equipment	111,234,523
Less accumulated depreciation	(37,919,503)
Total property, plant and equipment	<u>73,315,020</u>
Restricted cash	<u>2,243,791</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Total deferred outflows of resources	<u>95,393</u>
Total assets and deferred outflows of resources	<u>\$ 80,788,679</u>
<u>LIABILITIES</u>	
CURRENT LIABILITIES	
Accounts payable	334,702
Accrued liabilities	100,486
Customer deposits	80,583
Revenue received in advance	500,319
Unearned revenues	2,033,358
Settlement funds for legal costs	2,089,186
Current portion of bond and note payable	79,410
Total current liabilities	<u>5,218,044</u>
BOND AND NOTES PAYABLE, less current portion	<u>1,243,843</u>
PERS PENSION AND OPEB LIABILITY	710,230
Total liabilities	<u>7,172,117</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Total deferred inflows of resources	<u>37,472</u>
<u>NET POSITION</u>	
Net investment in capital assets	71,991,767
Unrestricted	1,587,323
Total net position	<u>73,579,090</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 80,788,679</u>

See notes to financial statements.

CITY OF NORTH POLE
WATER AND SEWER ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year ended December 31, 2019

OPERATING REVENUES - charges for services	\$ <u>1,976,443</u>
OPERATING EXPENSES	
Water	
Salaries and benefits	314,463
Other operating expenses	514,682
Depreciation	<u>1,283,449</u>
	<u>2,112,594</u>
Sewer	
Salaries and benefits	314,771
Other operating expenses	403,379
Depreciation	<u>2,383,548</u>
	<u>3,101,698</u>
Operating loss	<u>(3,237,849)</u>
NONOPERATING REVENUES (EXPENSES)	
State of Alaska PERS relief	25,128
State of Alaska PERS on-behalf payment	(25,128)
Interest expense	<u>(35,884)</u>
	<u>(35,884)</u>
Loss before contributions and transfers	(3,273,733)
Interfund transfer in	35,040
Capital contributions from settlement	510,814
Legal fees funded by settlement	(510,814)
Capital contributions	<u>23,576,369</u>
Changes in net position	20,337,676
Beginning net position	<u>53,241,414</u>
Ending net position	\$ <u><u>73,579,090</u></u>

See notes to financial statements.

CITY OF NORTH POLE
WATER AND SEWER ENTERPRISE FUND
STATEMENT OF CASH FLOWS
Year ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 2,518,138
Cash received from settlement	2,089,186
Cash paid to suppliers and employees	(1,175,002)
Interest paid	(35,884)
Net cash provided (used) by operating activities	<u>3,396,438</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers in	<u>35,040</u>
	<u>35,040</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Additions to property, plant, and equipment	(2,803,767)
Grant proceeds received	4,842,126
Payment of revenue bond principal and interest	(78,601)
Net cash provided (used) by capital and related financing activities	<u>1,959,758</u>
Net increase (decrease) in cash	5,391,236
CASH AND CASH EQUIVALENTS, January 1	<u>1,831,106</u>
CASH AND CASH EQUIVALENTS, December 31	<u>\$ 7,222,342</u>
Cash and cash equivalents at end of year:	
Cash and cash equity	4,978,551
Restricted cash	<u>2,243,791</u>
	<u>\$ 7,222,342</u>
Loss before contributions and transfers	(3,273,733)
Adjustments to reconcile loss before contributions and transfers to net cash provided (used) by operating activities:	
Depreciation	3,666,996
Unfunded pension liability	(5,208)
Decrease (increase) in:	
Receivables	41,379
Increase (decrease) in:	
Accounts payable	332,290
Accrued liabilities	18,168
Revenue received in advance	500,319
Settlement funds for legal costs	2,089,186
Customer deposits	<u>27,041</u>
Net cash provided (used) by operating activities	<u>\$ 3,396,438</u>
NONCASH FINANCING ACTIVITIES	
Utility plant contributed	<u>\$ 23,571,372</u>

See notes to financial statements.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

The City reports the following major funds:

Major governmental funds:

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

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

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

Major proprietary fund:

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

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

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

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

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

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

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

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

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

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

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

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

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

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

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

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

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

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

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

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

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

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

Property taxes - Real property is assessed in February. The rate of levy on the net assessed value of taxable real property is set by City Council in early June. Taxes are levied before June 15. Property taxes attach as an enforceable lien on the property on July 1 and are payable in two installments on September 1 and November 1. Taxes are considered late on September 2 for the first installment and November 2 for the second installment. The Fairbanks North Star Borough bills and collects its own property taxes as well as the taxes for the City of North Pole.

New Accounting Pronouncements - The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates. Management has not fully evaluated the potential effects of these statements, but believes GASB Statement 87 could result in the biggest reporting change.

GASB 83 - Certain Asset Retirement Obligations - Effective for year-end December 31, 2020. This standard addresses accounting and financial reporting for certain asset retirement obligations (AROs), such as sewage treatment plants.

GASB 87 - Leases - Effective for year-end December 31, 2022. This standard will improve accounting and financial reporting for leases by governments.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

3. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019, was as follows:

	Balance January 1, 2019	Additions	Deletions and Transfers	Balance December 31, 2019
Governmental activities				
Capital assets not being depreciated:				
Land and land improvements	\$ 365,316	-	-	365,316
Total assets not being depreciated	<u>365,316</u>	<u>-</u>	<u>-</u>	<u>365,316</u>
Capital assets being depreciated:				
Buildings	3,673,353	-	-	3,673,353
Office furniture and equipment	1,761,859	-	-	1,761,859
Vehicles and equipment	3,473,639	207,300	267,831	3,413,108
Infrastructure	1,733,206	-	-	1,733,206
Total assets being depreciated	<u>10,642,057</u>	<u>207,300</u>	<u>267,831</u>	<u>10,581,526</u>
Less accumulated depreciation for:				
Buildings	2,992,005	64,934	-	3,056,939
Office furniture and equipment	1,326,427	61,790	-	1,388,217
Vehicles and equipment	2,801,436	196,122	267,831	2,729,727
Infrastructure	1,020,555	86,660	-	1,107,215
Total accumulated depreciation	<u>8,140,423</u>	<u>409,506</u>	<u>267,831</u>	<u>8,282,098</u>
Total capital assets being depreciated, net	<u>2,501,634</u>	<u>(202,206)</u>	<u>-</u>	<u>2,299,428</u>
Governmental activity capital assets, net	<u>\$ 2,866,950</u>	<u>(202,206)</u>	<u>-</u>	<u>2,664,744</u>
Business-type activities				
Capital assets not being depreciated:				
Land and land improvements	586,815	-	-	586,815
Construction in progress	8,401,642	2,655,777	7,323,663	3,733,756
Total assets not being depreciated	<u>8,988,457</u>	<u>2,655,777</u>	<u>7,323,663</u>	<u>4,320,571</u>
Capital assets being depreciated:				
Sewer and water system	76,910,900	28,239,257	-	105,150,157
Machinery and equipment	1,763,794	-	-	1,763,794
Total assets being depreciated	<u>78,674,694</u>	<u>28,239,257</u>	<u>-</u>	<u>106,913,951</u>
Less accumulated depreciation for:				
Sewer and water system	33,203,203	3,554,442	-	36,757,645
Machinery and equipment	1,049,302	112,555	-	1,161,857
Total accumulated depreciation	<u>34,252,505</u>	<u>3,666,997</u>	<u>-</u>	<u>37,919,502</u>
Total capital assets being depreciated, net	<u>44,422,189</u>	<u>24,572,260</u>	<u>-</u>	<u>68,994,449</u>
Business-type activity capital assets, net	<u>\$ 53,410,646</u>	<u>27,228,037</u>	<u>7,323,663</u>	<u>73,315,021</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

3. CAPITAL ASSETS, CONTINUED

Depreciation expense was charged to the functions as follows:

Governmental activities		
General government		\$ 7,680
Public safety		266,188
Public works		<u>135,638</u>
Total depreciation expense - governmental activities		<u>\$ 409,506</u>
Business-type activities		
Water		1,283,449
Sewer		<u>2,383,548</u>
Total depreciation expense - business-type activities		<u>\$ 3,666,998</u>

4. LONG-TERM LIABILITIES

The following is a summary of long-term liability transactions of the City for the year ended December 31, 2019:

	Balance January 1, 2019	Additions	Retired	Balance December 31, 2019	Due within One Year
Governmental activities					
General Obligations Refund Bonds - \$835,000 2012 Series 2 bonds, due in annual installments of \$5,000 to \$100,000 through September 1, 2025; plus variable interest at 2 percent to 5 percent.	\$ 615,000	-	75,000	540,000	80,000
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.	18,867	-	18,867	-	-
Accrued Leave	<u>230,869</u>	<u>230,206</u>	<u>263,190</u>	<u>197,885</u>	<u>197,885</u>
Total governmental activities	864,736	<u>230,206</u>	357,057	737,885	<u>277,885</u>
Unamortized Bond Premium	<u>41,269</u>		<u>5,895</u>	<u>35,374</u>	
	<u>\$ 906,005</u>		<u>362,952</u>	<u>773,259</u>	

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

4. LONG-TERM LIABILITIES, CONTINUED

	Balance January 1, 2019	Additions	Retired	Balance December 31, 2019	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.	\$ 461,195	-	14,976	446,219	15,380
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.	200,000	-	25,000	175,000	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.	451,021	-	27,036	423,985	27,442
\$231,766 Alaska Clean Water loan, due in annual installments of \$11,588 plus interest at 1.5 percent through October 1, 2036.	208,590	-	11,588	197,002	11,588
Note payable - construction in progress, \$303,000 Alaska Clean Water loan.	81,048	-	-	81,048	-
Accrued leave	<u>39,500</u>	<u>54,655</u>	<u>46,598</u>	<u>47,557</u>	<u>47,557</u>
Total business-type activities	<u>\$ 1,441,354</u>	<u>54,655</u>	<u>125,198</u>	<u>1,370,811</u>	<u>126,967</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

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, 2019, so no repayment schedule for this debt has been determined. The note payable at December 31, 2019, 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 2021.

The annual debt service requirements of the general obligation bonds, revenue bonds, and notes payable at December 31, 2019, that are in repayment status follow:

Governmental activities

Year Ending December 31,	General Obligation Bonds		
	Principal	Interest	Total
2020	80,000	23,900	103,900
2021	85,000	19,900	104,900
2022	90,000	16,500	106,500
2023	90,000	12,000	102,000
2024	95,000	7,500	102,500
2025	100,000	2,750	102,750
	<u>\$ 540,000</u>	<u>82,550</u>	<u>622,550</u>

Business-type activities

Year Ending December 31,	Revenue Bonds			Notes Payable		
	Principal	Interest	Total	Principal	Interest	Total
2020	15,380	21,585	36,965	64,030	11,940	75,970
2021	16,139	20,826	36,965	64,441	10,979	75,420
2022	16,935	20,030	36,965	64,859	10,012	74,871
2023	17,771	19,194	36,965	65,283	9,040	74,323
2024-2028	102,904	81,921	184,825	283,004	30,755	313,759
2029-2033	130,924	53,901	184,825	219,601	12,563	232,164
2034-2036	146,166	15,796	161,962	34,769	1,043	35,812
	<u>\$ 446,219</u>	<u>233,253</u>	<u>679,472</u>	<u>795,987</u>	<u>86,332</u>	<u>882,319</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

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, 2019, are as follows:

	General	Debit Service	Other Governmental Funds	Total Governmental Funds	Total Enterprise Fund
Transfers from other funds	\$ 24,725	-	10,000	34,725	34,040
Transfers to other funds	(10,000)	(18,038)	(41,727)	(69,765)	-
Total net transfers between funds	<u>\$ 14,725</u>	<u>(18,038)</u>	<u>(31,727)</u>	<u>(35,040)</u>	<u>34,040</u>

6. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2019, 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 Meritain Health 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 \$22 million with a \$10,000 deductible per incident. Liability coverage includes \$15 million in liability insurance which includes emergency medical services professional liability and public officials with a \$0 deductible. Employment practices liability insurance is included in liability coverage with a \$10 million limit and a \$10,000 deductible. Workers compensation insurance is in accordance with Alaska statutes. Additionally, the City has \$5 million in law enforcement liability, \$15 million in auto and other equipment coverage.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

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

Liabilities, deferred inflows and deferred outflows related to PERS pension and OPEB plans as of December 31, 2019, are as follows:

	Governmental Activities	Business Activities	Total
Pension and OPEB liabilities			
Pension plan	\$ (4,624,542)	(695,304)	(5,319,846)
OPEB plan	(99,278)	(14,926)	(114,204)
Total pension and OPEB liabilities	<u>\$ (4,723,820)</u>	<u>(710,230)</u>	<u>(5,434,050)</u>
Deferred Inflows			
Pension plan	(73,294)	(11,020)	(84,314)
OPEB plan	(175,935)	(26,452)	(202,387)
Total deferred inflows	<u>\$ (249,229)</u>	<u>(37,472)</u>	<u>(286,701)</u>
Deferred Outflows			
Pension plan	347,920	52,310	400,230
OPEB plan	286,544	43,083	329,627
Total deferred outflows	<u>\$ 634,464</u>	<u>95,393</u>	<u>729,857</u>

10. RETIREMENT PLANS

Defined Benefit Pension (DB) Plan

Plan Description

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

Employee Contribution Rates

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

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

10. RETIREMENT PLANS, CONTINUED

Employer and Other Contribution Rates

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

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

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

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

Contribution rates for the six months ended June 30, 2019, were determined from the June 30, 2017, actuarial valuation. The contribution rates for the six months ended December 31, 2019, were determined from the June 30, 2018, actuarial valuation.

Six months ended June 30, 2019:

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

Six months ended December 31, 2019

	<u>Employer Effective Rate</u>	<u>ARM Board Adopted Rate</u>	<u>On-behalf Contribution Rate</u>
Pension	15.72%	21.41%	5.69%
Post-employment healthcare	6.28%	7.21%	0.93%
Total PERS contribution rate	22.00%	28.62%	6.62%

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

10. RETIREMENT PLANS, CONTINUED

In 2019, the City was credited with the following contributions into the pension plan. Employee contributions were \$89,884.

Employer Contributions (Including DBUL)	\$ 335,701
On-behalf Contributions	<u>192,269</u>
	<u>\$ 527,970</u>

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

At December 31, 2019, the City reported a liability of \$5,319,846 for its proportionate share of the employer pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, which was rolled forward to June 30, 2019. 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, 2019, the City's proportion was .09718 percent for the employer portion which was an increase of .00108 percent from its proportion measured as of June 30, 2018.

For the year ended December 31, 2019, the City recognized an increase in pension expense of \$477,877.

	<u>Beginning Balance</u>	<u>Ending Balance</u>	<u>Pension Expense</u>
Net pension liability	\$ (4,775,073)	(5,319,846)	(544,773)
Deferred outflows	207,685	239,145	31,460
Deferred inflows	(119,845)	(84,314)	35,531
Contributions after measurement date	<u>161,180</u>	<u>161,085</u>	<u>(95)</u>
Total obligations related to pensions	<u>(4,526,053)</u>	<u>(5,003,930)</u>	<u>(477,877)</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

10. RETIREMENT PLANS, CONTINUED

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ <u>76,275</u>	<u>-</u>
Difference between expected and actual experience	<u>-</u>	<u>(78,754)</u>
Changes in assumptions	<u>162,870</u>	<u>-</u>
Changes in proportion and differences between employer contributions	<u>-</u>	<u>(5,560)</u>
City contributions subsequent to the measurement date.	<u>161,085</u>	<u>-</u>
	<u>\$ 400,230</u>	<u>(84,314)</u>

The amount of \$161,085 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, 2020. Other amounts recognized as deferred inflows of resources and deferred outflows of resources will be recognized in pension expense as follows:

Year ended December 31,	Amount to be recognized:
2020	\$ 163,188
2021	(56,315)
2022	21,641
2023	26,317

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

10. RETIREMENT PLANS, CONTINUED

Actuarial assumptions

The actuarial assumptions used in the June 30, 2018 valuation was based on the results of an actuarial experience study performed for the period July 1, 2013 to June 30, 2017.

Investment Return/Discount Rate	7.38 percent per year (geometric), compounded annually net of expense.
Salary Scale	Inflation - 2.50 percent per year. Salary increases graded by age and service, from 7.75 percent to 2.75 percent for Peace Officers/Firefighters and from 6.75 percent to 2.75 percent for all others.
Payroll Growth	2.75 percent per year. (inflation + productivity)
Mortality	Pre-termination and post-termination mortality rates were based upon 2013-2017 actual mortality experience.. Deaths are assumed to be occupational 75 percent of the time for Peace Officer/Firefighters, 40 percent of the time for Others.
Retirement	Deferred vested members are assumed to retire at their earliest unreduced retirement date for Others (Non-Peace Officer/Firefighter). For Peace Officers/Firefighter, Tier 1 deferred vested members are assumed to retire at age 55 and Tiers 2 and 3 are deferred vested members assumed to retire at age 60.
Marriage and Age Difference	Males are assumed to be three years older than wives. Females are assumed to be two years younger than husbands. For Others (Non-Peace Officer/Firefighters) 65 percent male members and 70 percent female members are assumed to be married. For Peace Officer/Firefighters, 85 percent male members and 60 percent female members are assumed to be married.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

10. 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 of 2.50%):

Asset Class	Long-term expected real rate of return
Domestic equity	8.16%
Global equity (non-U.S.)	7.51%
Opportunistic	3.96%
Real assets	4.76%
Intermediate treasuries	1.58%
Private equity	11.39%
Cash equivalents	0.83%

Discount Rate

The discount rate used to measure the total pension liability was 7.38 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 7.38 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 (6.38 percent) or one percentage point higher (8.38 percent) than the current rate:

<u>City-PERS</u>	<u>Proportional Share</u>	<u>1% Decrease 6.38%</u>	<u>Current Discount Rate 7.38%</u>	<u>1% Increase 8.38%</u>
System Net Pension	100%	\$ 7,225,023,000	\$ 5,474,230,000	\$ 4,007,998,000
City's proportionate share of the net pension liability	0.097180%	\$ 7,021,264	\$ 5,319,846	\$ 3,894,965

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

10. 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, 2019, the City was required to contribute 5 percent of covered salary into the plan for PERS.

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

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

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

For the year ended December 31, 2019, the City and employee contributions to PERS were \$95,537 and \$153,074, respectively. The City did not have any forfeitures in 2019. The City contribution was recognized as pension expenses.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

10. RETIREMENT PLANS, CONTINUED

Other Post-Employment Benefit (OPEB) Obligations

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

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

Employee Contribution Rates

Employees do not contribute to the OPEB Plan.

Employer Contribution Rates

Contribution rates for the year ended December 31, 2019, were as follows:

	Peace Officers/ Firefighters	All Others	State Contribution Rate
January 1 through June 30, 2019			
ARHCT	5.83%	5.83%	0.00%
RMP	0.94%	0.94%	0.00%
ODD	0.76%	0.26%	0.00%
Total Contribution Rates	7.53%	7.03%	0.00%

	Peace Officers/ Firefighters	All Others	State Contribution Rate
July 1 through December 31, 2019			
ARHCT	6.28%	6.28%	0.93%
RMP	1.32%	1.32%	0.00%
ODD	0.72%	0.26%	0.00%
Total Contribution Rates	8.32%	7.86%	0.93%

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

10. RETIREMENT PLANS, CONTINUED

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

For the year ended December 31, 2019, the City contributed \$223,654 into the OPEB plan of which \$126,475 was for ARCHT.

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

At December 31, 2019, the City reported a total liability of \$114,204 for its proportionate share of the net OPEB liability. The total net OPEB liability for the City's proportionate share and the State proportionate share were as follows:

	<u>December 31, 2019</u>
City's proportionate share of net OPEB liability - ARHCT	\$ 144,020
State's proportionate share of net OPEB liability - ARHCT	<u>57,370</u>
Total net OPEB liability - ARHCT	<u>\$ 201,390</u>
City's proportionate share of net OPEB liability - RMP	<u>\$ 39,097</u>
City's proportionate share of net OPEB liability - ODD	<u>\$ (68,913)</u>

The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018, which was rolled forward to June 30, 2019. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. At December 31, 2019, the City's proportions and changes in proportion were as follows:

City's Proportionate Share of the net OPEB liabilities:	<u>June 30, 2018</u> Measurement Date	<u>June 30, 2019</u> Measurement Date	<u>Change</u>
ARHCT	0.09610%	0.09710%	0.00100%
RMP	0.14827%	0.16342%	0.01515%
ODD	0.14827%	0.28423%	0.13596%

For the year ended December 31, 2019, the City recognized a decrease in OPEB expense of \$1,035,654.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

10. RETIREMENT PLANS, CONTINUED

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

	<u>Beginning Balance</u>	<u>Ending Balance</u>	<u>OPEB Expense</u>
Net OPEB liability - ARHCT	\$ (986,220)	(144,020)	842,200
Net OPEB liability - RMP	(18,867)	(39,097)	(20,230)
Net OPEB liability - ODD	28,796	68,913	40,117
Deferred outflows	207,531	247,043	39,512
Deferred inflows	(354,184)	(202,387)	151,797
Contributions after measurement date	<u>100,326</u>	<u>82,584</u>	<u>(17,742)</u>
Total Obligations Related to OPEB	<u>\$ (1,022,618)</u>	<u>13,036</u>	<u>1,035,654</u>

At December 31, 2019, the City reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

		<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience			
	ARHCT	\$ -	(96,778)
	RMP	-	(2,897)
	ODD	-	(21,486)
Changes in assumptions			
	ARHCT	191,111	-
	RMP	18,924	-
	ODD	-	(1,318)
Net difference between projected and actual earnings on OPEB plan investments			
	ARHCT	-	(63,065)
	RMP	-	(431)
	ODD	-	(455)
Changes in proportion and differences between City contributions and proportionate share of contributions			
	ARHCT	32,579	-
	RMP	1,624	-
	ODD	2,805	(15,957)
City contributions subsequent to the measurement date		<u>82,584</u>	<u>-</u>
		<u>\$ 329,627</u>	<u>(202,387)</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

10. RETIREMENT PLANS, CONTINUED

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

The \$82,584 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized in the net OPEB liability in the year ended December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30,</u>	<u>ARHCT</u>	<u>RMP</u>	<u>ODD</u>
2020	77,893	1,846	(5,430)
2021	(49,019)	1,846	(5,430)
2022	15,173	2,881	(4,800)
2023	19,801	2,863	(4,787)
2024	-	2,467	(4,998)
Thereafter	-	5,318	(10,964)

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019. The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2013 to June 30, 2017, resulting in changes in actuarial assumptions adopted by the Alaska Retirement Management Board to better reflect expected future experience. In addition to the changes resulting from the experience study, the following assumptions were made since the prior valuation: (1) based on recent experience, the healthcare costs trend assumptions were updated, (2) per capita claim costs were updated to reflect recent experience, and (3) healthcare cost trends were updated to reflect a Cadillac Tax load.

Inflation rate	2.50 percent
Salary increases	Graded by service, from 9.66 percent to 4.92 percent for peace officers/firefighters. Graded by age and service, from 8.55 percent to 4.34 percent for all other.
Investment rate of return	7.38 percent, net of post-retirement healthcare plan investment expenses. This is based on an average inflation rate of 2.50 percent and a real rate of return of 4.88 percent.
Trend rates	Pre-65 medical; 7.5 percent grading down to 4.5 percent. Post-65 medical; 5.5 percent grading down to 4.5 percent. Prescription drug; 8.5 percent grading down to 4.5 percent. Retiree Drug Subsidy/Employer Group Waiver Plans: 8.5 percent grading down to 4.5 percent.
Mortality	Pre-termination based on 2013-2017 actual mortality experience, 91 percent of male and 96 percent of female post-termination rates.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

10. RETIREMENT PLANS, CONTINUED

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

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

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

Asset Class	Long-term expected real rate of return
Domestic equity	8.16%
Global ex-U.S. equity	7.51%
Intermediate treasuries	1.58%
Opportunistic	3.96%
Real assets	4.76%
Private equity	11.39%
Cash equivalents	0.83%

Discount Rate

The discount rate used to measure the total OPEB liability for all plans was 7.38%. The projection of cash flows used to determine the discount rate assumed that employer and State contributions will continue to follow the current funding policy, which meets State statutes. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Discount Rate Sensitivity

The following presents the City's proportionate share of the net OPEB liabilities calculated using the discount rate of 7.38%, as well as the City's proportionate share of the net OPEB liability if it were calculated using a discount rate that is one percentage point lower (6.38%) or one percentage point higher (8.38%) than the current rate:

City's proportionate share of the net OPEB liabilities (assets):	Proportional Share	1% Decrease 6.38%	Current Discount Rate 7.38%	1% Increase 8.38%
ARHCT	0.09710%	\$ 1,158,458	144,020	(690,467)
RMP	0.16342%	98,198	39,097	(5,398)
ODD	0.28423%	(65,368)	(68,913)	(71,778)

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

10. RETIREMENT PLANS, CONTINUED

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

Healthcare Cost Trend Rates Sensitivity

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

City's proportionate share of the net OPEB liabilities (assets):	Proportional Share	Current Healthcare Cost Rate	
		1% Decrease	1% Increase
ARHCT	0.09710%	\$ (788,066)	\$ 144,020
RMP	0.16342%	\$ (12,025)	\$ 39,097

OPEB Plan Fiduciary Net Position

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

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

Plan Description

Defined Contribution Pension Plan participants, PERS DC Plan (Tier IV), participate in the Retiree Medical Plan and Occupational Death and Disability Plan described in the DB OPEB Plan section. In addition, PERS defined contribution members participate in the Health Reimbursement Agreement. State statute established the contribution amount for the Health Reimbursement Agreement as "three percent of the average annual employee compensation of all employees of all employers in the plan", this amount is calculated as a flat rate for each full-time employee per pay period at \$87.62 as of June 30, 2019, and \$88.40 as of December 31, 2019.

Employee Contribution Rates

Employees do not contribute to the DC OPEB Plan.

Employer Contribution Rates

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

For the year ended December 31, 2019, the City contributed \$61,252 in DC OPEB costs. This amount was recognized as expense.

11. 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.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, Continued

11. CONTINGENCIES AND GROUND WATER LAWSUIT, CONTINUED

In 2017, Flint Hills Resources Alaska (FHRA) and the State of Alaska agreed to provide funding for a water distribution system for more than 650 parcels of land affected by groundwater contamination, including areas outside of the city limits. The settlement agreement provided up to \$100,000,000 to be used for the water distribution system, operations and the litigation expenses born by the City attorney agreement. Construction began in the spring of 2018, and the project was completed in 2019. The City has received \$56,135,828 in utility assets during 2018 and 2109 from this construction. This amount is recorded as property, plant and equipment and capital contribution in the water and sewer enterprise fund.

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

Testing for PFAS near the North Pole Fire Department and the North Pole Waste Water Treatment Plant. PFOS/PFAS is an issue in the Flint Hills Resources Alaska ground water monitoring and is still un-litigated between the State of Alaska and WAPI. The City of North Poles settlement with Flint Hills and the State of Alaska provides some protection from claims by the State of Alaska and/or Flint Hills.

Claims against WAPI are on-going and pending in the Superior Court of the State of Alaska Fourth Judicial District in Fairbanks. A jury trial date has been set for the spring of 2021.

In 2019, the City recorded \$2,600,000 in funds received from the settlement referred to above, in the water utility fund, as restricted cash and settlement funds for legal costs. During the year, \$510,814 was recognized as nonoperating revenue and expense. The funds were originally received in 2017 and recorded as general fund income and expense and held in a legal firm trust account, in anticipation of a timely settlement.

12. SUBSEQUENT EVENTS

On March 11, 2020 the United States Center for Disease Control and Prevention (CDC) identified COVID-19 as a pandemic. On March 17, 2020 Alaska Governor Dunleavy issued a COVID-19 Health Mandate closing nonessential business and on April 27, 2020 the City of North Pole approved Resolution 20-04 A Resolution Renewing The Mayor's Declaration Of A Disaster Emergency For The City of North Pole Due To COVID-19 Pandemic And Requesting State And Federal Assistance. As a result of the spread of COVID-19, economic uncertainties have arisen, and the potential financial impact is unknown at this time. Management is carefully monitoring the situation and evaluating its options.



REQUIRED SUPPLEMENTARY INFORMATION

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

Year Ended June 30	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	State of Alaska Proportionate Share of the Net Pension Liability	Total Net Pension Liability	City's Covered- Employee Payroll	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2019	0.09718000%	\$ 5,319,846	\$ 2,114,432	\$ 7,434,278	\$ 2,894,762	184%	63.42%
2018	0.09610000%	4,775,073	1,382,424	6,157,497	2,783,564	172%	65.19%
2017	0.09108000%	4,708,205	1,753,269	6,461,474	2,729,922	172%	63.37%
2016	0.10190000%	5,695,667	717,592	6,413,259	2,696,738	211%	59.55%
2015	0.09861000%	4,782,513	1,280,630	6,063,143	2,539,576	188%	63.96%

Information presented for 2019 is based on Plan Measurement Date. For December 31, 2019, the plan measurement date is June 30, 2019.

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

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

See notes to financial statements.

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

Year Ended December 31	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	City's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2019	\$ 654,892	\$ 654,892	\$ -	\$ 2,976,780	22%
2018	612,384	612,384	-	2,783,564	22%
2017	600,583	600,583	-	2,729,922	22%
2016	593,282	593,282	-	2,696,738	22%
2015	558,707	558,707	-	2,539,576	22%

Information in this table reports the City's pension contributions to PERS for the last five years on the December 31, 2019 basic financial statements.

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

See notes to financial statements.

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

Year Ended June 30	City's Proportion of the Net OPEB Liability	City's Proportionate Share of the Net OPEB Liability	State of Alaska Proportionate Share of the Net OPEB Liability	Total Net OPEB Liability	City's Covered Payroll	City's Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
<i>Alaska Retiree Healthcare Trust</i>							
2019	0.09710%	\$ 144,020	\$ 57,370	\$ 201,390	\$ 2,894,762	4.98%	98.13%
<i>Retiree Medical Plan</i>							
2019	.16342%	39,097	-	39,097	2,894,762	1.35%	83.17%
<i>Occupational Death and Disability</i>							
2019	.28423%	(68,913)	-	(68,913)	2,894,762	-2.38%	297.43%
<hr/>							
<i>Alaska Retiree Healthcare Trust</i>							
2018	0.09610%	\$ 986,220	\$ 287,413	\$ 1,273,633	\$ 2,783,564	35.43%	88.12%
<i>Retiree Medical Plan</i>							
2018	.14827%	18,867	-	18,867	2,783,564	0.68%	88.71%
<i>Occupational Death and Disability</i>							
2018	.14827%	(28,796)	-	(28,796)	2,783,564	-1.03%	270.62%

Information presented for 2019 is based on Plan Measurement Date. For December 31, 2019, the plan measurement date is June 30, 2019.

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

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

See notes to financial statements.

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

Year Ended Dec 31	Contractually Required Contribution	Contributions Relative to the Contractually Required Contribution	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
<i>Alaska Retiree Healthcare Trust</i>					
2019	\$ 126,475	\$ 126,475	-	\$ 2,976,780	4.25%
<i>Retiree Medical Plan</i>					
2019	23,856	23,856	-	2,976,780	0.80%
<i>Occupational Death and Disability</i>					
2019	12,071	12,071	-	2,976,780	0.41%
<hr/>					
<i>Alaska Retiree Healthcare Trust</i>					
2018	\$ 99,464	\$ 99,464	-	\$ 2,783,564	3.57%
<i>Retiree Medical Plan</i>					
2018	17,284	17,284	-	2,783,564	0.62%
<i>Occupational Death and Disability</i>					
2018	5,551	5,551	-	2,783,564	0.20%

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

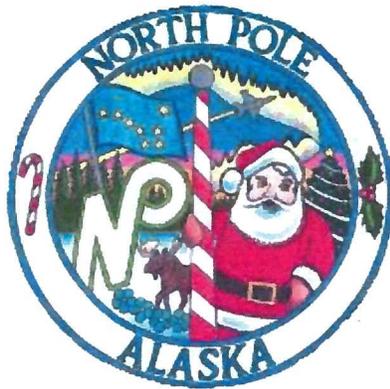
The 2019 OPEB contributions from July 1, 2019 through December 31, 2019 are reported as a deferred outflow on the December 31, 2019 basic financial statements.

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

See notes to financial statements.



SUPPLEMENTARY FINANCIAL INFORMATION



GENERAL FUND

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

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

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

CITY OF NORTH POLE
GENERAL FUND
BALANCE SHEET
December 31, 2019
with comparative data for 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
Cash and cash equity	\$ <u>2,718,226</u>	<u>2,337,318</u>
Receivables (net of allowance for doubtful accounts of \$-0-)		
Sales taxes	453,162	476,193
Property taxes	2,063	1,669
Business taxes	14,065	13,041
Grants	10,328	11,768
Healthcare reimburseable	34,407	34,407
Other	589	1,540
	<u>514,614</u>	<u>538,618</u>
Total assets	\$ <u><u>3,232,840</u></u>	<u><u>2,875,936</u></u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities		
Accounts payable	120,736	50,137
Accrued liabilities	120,439	99,997
Healthcare payable	262,870	-
	<u>504,045</u>	<u>150,134</u>
Fund balance - committed	704,718	567,940
Fund balance - unassigned	<u>2,024,077</u>	<u>2,157,862</u>
	<u>2,728,795</u>	<u>2,725,802</u>
Total liabilities and fund balance	\$ <u><u>3,232,840</u></u>	<u><u>2,875,936</u></u>

See notes to financial statements.

CITY OF NORTH POLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year ended December 31, 2019
with comparative data for 2018

	2019		Variance Favorable (Unfavorable)	2018
	Budget Final	Actual		Actual
REVENUES				
Taxes				
Sales, alcohol, and use taxes	\$ 4,349,999	4,126,122	(223,877)	4,324,452
Property taxes	612,500	634,340	21,840	602,892
Total taxes	<u>4,962,499</u>	<u>4,760,462</u>	<u>(202,037)</u>	<u>4,927,344</u>
Business licenses	<u>22,000</u>	<u>22,589</u>	<u>589</u>	<u>25,435</u>
Fireworks permits	<u>12,000</u>	<u>12,000</u>	<u>-</u>	<u>12,000</u>
Charges for services - ambulance service	<u>570,000</u>	<u>582,452</u>	<u>12,452</u>	<u>566,653</u>
Federal government				
Corps of Engineers	<u>85,000</u>	<u>100,347</u>	<u>15,347</u>	<u>64,750</u>
Total Federal government	<u>85,000</u>	<u>100,347</u>	<u>15,347</u>	<u>64,750</u>
State of Alaska				
State shared revenue	134,500	124,803	(9,697)	142,314
PERS relief	<u>-</u>	<u>167,139</u>	<u>167,139</u>	<u>112,787</u>
Total State of Alaska	<u>134,500</u>	<u>291,942</u>	<u>157,442</u>	<u>255,101</u>
Investment Income	<u>4,500</u>	<u>32,955</u>	<u>28,455</u>	<u>5,988</u>
Other revenues				
Citation revenues	112,000	122,171	10,171	113,852
Fingerprinting revenues	18,000	12,824	(5,176)	14,200
Police report revenue	1,000	1,365	365	1,295
Fire department revenue	300	5,775	5,475	5,955
Other public safety revenue	30,000	26,111	(3,889)	31,308
Fleet reserves revenue	14,000	18,369	4,369	7,156
Miscellaneous revenue	<u>10,000</u>	<u>27,685</u>	<u>17,685</u>	<u>79,286</u>
Total other revenues	<u>185,300</u>	<u>214,300</u>	<u>29,000</u>	<u>253,052</u>
Total revenues	<u>5,975,799</u>	<u>6,017,047</u>	<u>41,248</u>	<u>6,110,323</u>

See notes to financial statements.

CITY OF NORTH POLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CONTINUED
Year ended December 31, 2019
with comparative data for 2018

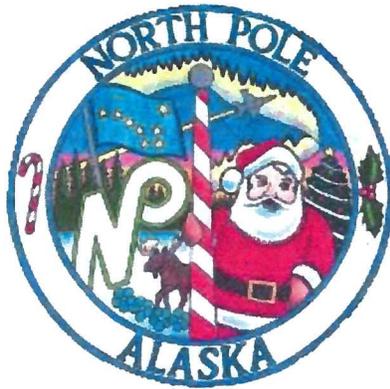
	2019		Variance Favorable (Unfavorable)	2018
	Budget Final	Actual		Actual
EXPENDITURES				
General government				
Administration				
Salaries and benefits	\$ 328,360	331,799	(3,439)	325,978
Purchased services	122,535	116,679	5,856	75,425
Operational expenses	38,500	34,936	3,564	49,295
Leases and rentals	5,750	5,818	(68)	5,197
Travel, training, and memberships	13,050	8,160	4,890	7,732
Vehicle expenses	1,800	1,688	112	898
Infrastructure outlay	12,000	10,088	1,912	6,760
Fleet reserves	129,651	126,688	2,963	-
Litigation	75,000	27,100	47,900	37,326
Other	4,500	7,088	(2,588)	1,938
	<u>731,146</u>	<u>670,044</u>	<u>61,102</u>	<u>510,549</u>
City Council				
Salaries and benefits	161,728	156,587	5,141	143,773
Purchased services	56,900	50,226	6,674	43,900
Operational expenses	10,500	3,769	6,731	6,885
Travel, training, and memberships	15,250	8,142	7,108	9,053
Vehicle expenses	150	150	-	-
Other	12,000	6,626	5,374	2,445
	<u>256,528</u>	<u>225,500</u>	<u>31,028</u>	<u>206,056</u>
Total general government	<u>987,674</u>	<u>895,544</u>	<u>92,130</u>	<u>716,605</u>
Public safety				
Police department				
Salaries and benefits	1,629,638	1,536,328	93,310	1,409,324
Purchased services	281,693	282,254	(561)	264,975
Operational expenses	65,700	60,824	4,876	57,230
Leases and rentals	1,800	1,635	165	1,783
Travel, training, and memberships	38,000	36,818	1,182	27,957
Vehicle expenses	48,500	37,149	11,351	40,635
Infrastructure outlay	7,500	3,322	4,178	18,319
Fleet reserves	68,000	-	68,000	64,670
Other	52,375	53,166	(791)	59,169
	<u>2,193,206</u>	<u>2,011,496</u>	<u>181,710</u>	<u>1,944,062</u>
Fire department				
Salaries and benefits	1,735,648	1,733,050	2,598	1,685,008
Purchased services	172,829	174,212	(1,383)	160,725
Operational expenses	102,550	96,789	5,761	81,557
Travel, training, and memberships	33,700	29,901	3,799	28,511
Vehicle expenses	36,000	38,274	(2,274)	47,933
Infrastructure outlay	8,000	10,838	(2,838)	16,831
Fleet reserves	260,000	197,300	62,700	-
Other	11,500	10,966	534	49,489
	<u>2,360,227</u>	<u>2,291,330</u>	<u>68,897</u>	<u>2,070,054</u>
Total public safety	<u>4,553,433</u>	<u>4,302,826</u>	<u>250,607</u>	<u>4,014,116</u>

See notes to financial statements.

CITY OF NORTH POLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CONTINUED
Year ended December 31, 2019
with comparative data for 2018

	2019		Variance Favorable (Unfavorable)	2018
	Budget Final	Actual		Actual
EXPENDITURES, CONTINUED				
Public works				
Salaries and benefits	\$ 337,332	334,806	2,526	339,227
Purchased services	125,500	92,950	32,550	96,604
Operational expenses	58,950	62,993	(4,043)	53,177
Travel, training, and memberships	2,250	249	2,001	132
Vehicle expenses	17,500	20,045	(2,545)	16,854
Infrastructure outlay	102,000	98,844	3,156	67,059
Fleet reserves	80,000	-	80,000	-
Other	61,500	53,383	8,117	51,161
	<u>785,032</u>	<u>663,270</u>	<u>121,762</u>	<u>624,214</u>
PERS on-behalf	-	167,139	(167,139)	112,787
Health insurance expense	-	-	-	71,371
	<u>-</u>	<u>167,139</u>	<u>(167,139)</u>	<u>184,158</u>
 Total expenditures	 <u>6,326,139</u>	 <u>6,028,779</u>	 <u>297,360</u>	 <u>5,539,093</u>
 Excess of revenues over (under) expenditures	 <u>(350,340)</u>	 <u>(11,732)</u>	 <u>338,608</u>	 <u>571,230</u>
 Other financing sources (uses)				
Transfers in	14,985	14,725	(260)	22,565
Transfer out	-	-	-	(3,434)
Net other financing sources (uses)	<u>14,985</u>	<u>14,725</u>	<u>(260)</u>	<u>19,131</u>
 Net change in fund balance	 <u>\$ (335,355)</u>	 <u>2,993</u>	 <u>338,348</u>	 <u>590,361</u>
 Beginning fund balance		 <u>2,725,802</u>		 <u>2,135,441</u>
 Ending fund balance		 <u>\$ 2,728,795</u>		 <u>2,725,802</u>

See notes to financial statements.



NON-MAJOR GOVERNMENTAL FUNDS

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

Building Department

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

North Pole Community Ice Rink

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

North Pole Festival

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

Justice

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

State Forfeitures

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

Treasury

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

JAG

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

Impound Lot

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

Bed Tax

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

CITY OF NORTH POLE
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
December 31, 2019

		North Pole Community Ice Rink	North Pole Festival	Justice	State Forfeitures	Treasury	JAG	Impound Lot	Bed Tax	Total
ASSETS										
	Building Department									
\$	209,880	10,580	(1,868)	63,248	9,672	250	(17,897)	56,920	23,693	354,478
	-	-	-	-	-	-	15,395	-	2,855	18,250
\$	209,880	10,580	(1,868)	63,248	9,672	250	(2,502)	56,920	26,548	372,728
LIABILITIES										
	Accounts payable									
	371	-	-	8,714	409	-	-	-	-	9,494
	371	-	-	8,714	409	-	-	-	-	9,494
FUND BALANCES										
	Restricted-public safety									
	Assigned									
	209,509	-	-	54,534	9,263	250	-	-	-	64,047
	General government									
	-	-	-	-	-	-	-	-	26,548	236,057
	Public safety									
	-	10,580	-	-	-	-	-	56,920	-	56,920
	Community services									
	-	-	(1,868)	-	-	-	-	-	-	10,580
	Unassigned									
	-	-	(1,868)	-	-	-	(2,502)	-	-	(4,370)
	209,509	10,580	(1,868)	54,534	9,263	250	(2,502)	56,920	26,548	363,234
\$	209,880	10,580	(1,868)	63,248	9,672	250	(2,502)	56,920	26,548	372,728
Total liabilities and fund balances										

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, 2019

	Building Department	North Pole Community Ice Rink	North Pole Festival	Justice	State Forfeitures	Treasury	JAG	Impound Lot	Bed Tax	Total
REVENUES										
Intergovernmental	\$ -	-	-	38,685	-	-	81,409	-	-	120,094
Charges for services	171,302	-	-	-	-	-	-	18,782	-	190,084
Other	-	-	1,370	-	-	-	-	-	83,115	84,485
Total revenues	171,302	-	1,370	38,685	-	-	81,409	18,782	83,115	394,663
EXPENDITURES										
	172,444	43	4,748	22,707	6,601	-	77,465	2,132	58,588	344,728
Excess (deficiency) of revenues over expenditures	(1,142)	(43)	(3,378)	15,978	(6,601)	-	3,944	16,650	24,527	49,935
OTHER FINANCING SOURCES (USES)										
Transfers (to) from other funds	-	-	-	10,000	-	(4)	(3,944)	(17,000)	(20,779)	(31,727)
Total other financing sources (uses)	-	-	-	10,000	-	(4)	(3,944)	(17,000)	(20,779)	(31,727)
Net changes in fund balances	(1,142)	(43)	(3,378)	25,978	(6,601)	(4)	-	(350)	3,748	18,208
Beginning fund balances	210,651	10,623	1,510	28,556	15,864	254	(2,502)	57,270	22,800	345,026
Ending fund balances	\$ 209,509	10,580	(1,868)	54,534	9,263	250	(2,502)	56,920	26,548	363,234

See notes to financial statements.



DEBT SERVICE FUND

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

CITY OF NORTH POLE
DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
Year ended December 31, 2019
with comparative data for 2018

	2019	2018
Revenues		
Special assessments	\$ 72,126	106,440
Investment income	21,156	24,331
Bad debt recovery	666	3,079
Total revenues	93,948	133,850
Expenditures - debt service		
2002 special assessment bonds		
Principal	15,033	15,307
Interest	855	1,582
Total 2002 special assessment bonds	15,888	16,889
2012 Series 2 refunding bonds		
Principal	75,000	70,000
Interest	27,650	31,150
Total 2012 Series 2 refunding bonds	102,650	101,150
Other fees and expenses	7,748	6,580
Total expenditures	126,287	124,619
Excess of revenues over (under) expenditures	(32,339)	9,231
Other financing sources (uses)		
Transfers (to) from other funds	(18,038)	(28,045)
Net changes in fund balance	(50,377)	(18,814)
Beginning fund balance	229,362	248,176
Ending fund balance	\$ 178,985	229,362

FEDERAL SINGLE AUDIT
REPORTS AND SCHEDULES





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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Pole, Alaska, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise City of North Pole, Alaska's basic financial statements and have issued our report thereon dated June 26, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of North Pole, Alaska's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of North Pole, Alaska's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of North Pole, Alaska's internal control.

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

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

Compliance and Other Matters

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

City of North Pole, Alaska's Response to Findings

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

Purpose of this Report

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

Fairbanks, Alaska
June 26, 2020

A handwritten signature in black ink, appearing to read "Holler, Robert & Hite PC".



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

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

Report on Compliance for Each Major Federal Program

We have audited City of North Pole, Alaska's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of North Pole, Alaska's major federal programs for the year ended December 31, 2019. City of North Pole, Alaska's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of North Pole, Alaska's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of North Pole, Alaska's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City of North Pole, Alaska complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control Over Compliance

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

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

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

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

Fairbanks, Alaska
June 26, 2020



CITY OF NORTH POLE, ALASKA
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF DEFENSE			
Passed through Programs from:			
U.S. Army Corps of Engineers-Alaska District			
Cooperative Agreement -Water Supply and Distribution Design, Moose Creek, Alaska	12.U01	W911KB-19-2-5200	\$ 2,565,261
Cooperative Agreement-Remedial Action Construction Phase One North Loop Supply and Distribution System, Moose Creek, Alaska	12.U02	W911KB-19-2-5201	<u>90,517</u>
Total U.S. Department of Defense			\$ <u>2,655,778</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through Programs from:			
Alaska Department of Military and Veteran Affairs			
Emergency Management Performance Grant FY19	97.042	EMS-2019-EP-00001-S01	13,675
Emergency Management Performance Grant FY18	97.042	EMS-2018-EP-00002-S01	12,436
State Homeland Security Program 2018	97.067	EMW-2018-SS-00045-S01	27,475
State Homeland Security Program 2017	97.067	EMW-2017-SS-00048-S01	<u>699</u>
Total U.S. Department of Homeland Security			\$ <u>54,285</u>
U.S. DEPARTMENT OF JUSTICE			
Direct Program			
Equitable Sharing Program	16.000		22,707
Passed through State of Alaska Department of Public Safety			
Edward Byrne Memorial Justice Assistance Grant 19	16.738	19-JAG1	66,014
Edward Byrne Memorial Justice Assistance Grant 20	16.738	20-JAG1	<u>15,395</u>
			81,409
Total U.S. Department of Justice			\$ <u>104,116</u>
Grand Total- Federal Financial Assistance			\$ <u>2,814,179</u>

See Notes to Schedule of Expenditures of Federal Awards.

CITY OF NORTH POLE, ALASKA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2019

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of City of North Pole, Alaska under programs of the federal government for the year ended December 31, 2019. The information in this SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a selected portion of the operations of the City of North Pole, Alaska, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of North Pole, Alaska.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. INDIRECT COST RATE

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

CITY OF NORTH POLE, ALASKA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year ended December 31, 2019

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified? Yes No

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

Noncompliance material to financial statements noted? Yes No

Federal Awards

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

Internal control over major programs:

Material weaknesses identified? Yes No

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

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
12.U01	Cooperative Agreement-Water Supply and Distribution Design, Moose Creek, Alaska
12.U02	Cooperative Agreement-Remedial Action Construction Phase One North Loop Supply and Distribution System, Moose Creek, Alaska

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

Auditee qualified as low-risk auditee? Yes No

CITY OF NORTH POLE, ALASKA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
Year ended December 31, 2019

FINDINGS – FINANCIAL STATEMENTS AUDIT

2019-001 General ledger accounting and year end closing procedures:

Condition: The general ledger had material errors in account balances and unrecorded transactions when presented for audit. Source documents for material account balances were not available, and significant non-attest services were required to complete the year end closing, correct the records and prepare the financial statements.

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

Context: An objective of internal control is to ensure that transactions are properly recorded and accounted for to permit the preparation of reliable financial statements. Management was able to complete the accounting for the debt service fund receivables and deferrals; correctly record the sales tax receivable; and the trial balance was in balance, an error that effected the debt service fund last year. These are all improvements.

However, there were still problems with managing the budget in Caselle, and there was an unrecorded transfer between funds, and a transfer between funds that was not approved in the budget. Also, accounting adjustments were required to correct beginning of the year fund balances; record bond payments in the correct fund; record cash received for legal purposes in the utility fund; adjust grant related assets and liabilities; adjust general fund accrued liabilities; record revenues received in advance and correct utility receivables; add unrecorded liabilities; record utility assets constructed with settlement funds received from litigation with Flint Hills Resources Alaska and the State of Alaska; record utility assets constructed with grant funds; record depreciation on utility and general government fixed assets; and record the City's portion of the PERS unfunded retirement and healthcare liability.

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

Effect: Material adjustments were required to correct the records.

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

Grantee response: See corrective action plan

FINDINGS AND QUESTIONED COST – MAJOR AWARD PROGRAMS AUDIT.

None.

NP also needs Corrective Action Plan for 12-31-19 on their letterhead- Prior Audit Findings also

THIS IS ON NORTH POLE LETTERHEAD

CITY OF NORTH POLE, ALASKA
SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended December 31, 2019

NORTH POLE LETTERHEAD

The following is an update of a prior audit finding and is prepared in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Prior audit finding 2018-001 originated in the audit for the year ended December 31, 2018 and is summarized below:

Prior Audit Finding ;

2018-001 General ledger accounting and year end closing procedures

Summary of Prior Audit Finding:

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

Status :

Contact Person:

Michael W. Welch, Mayor
907-488-8584