



CITY OF NORTH POLE *Alaska*

REGULAR CITY COUNCIL MEETING Monday, June 4, 2012

**Committee of the Whole – 6:30 p.m.
Regular City Council Meeting – 7:00 p.m.**

COUNCIL MEMBERS

Richard Holm	488-1776
Sharron Hunter- <i>Alt Dep Mayor Pro Tem</i>	488-4282
Ronald Jones- <i>Mayor Pro Tem</i>	488-3579
Thomas McGhee	455-0010
Derrick Nelson	490-2446
Bryce Ward- <i>Deputy Mayor Pro Tem</i>	488-7314

MAYOR

Douglas Isaacson 488-8584

CITY CLERK

Kathy Weber, MMC 488-8583

1. Call to Order/Roll Call
2. Pledge of Allegiance to the US Flag –
3. Invocation
4. Approval of the Agenda
5. Approval of the Minutes
6. Communications from the Mayor
 - Presentation of Draft Resolution regarding large diameter pipeline down the Richardson Highway – Alan LeMaster, Director of Alaska Natural Gas Pipeline Coalition
7. Council Member Questions of the Mayor
8. Communications from Department Heads, Borough Representative and the City Clerk
9. Ongoing Projects Report
10. Citizens Comments (Limited to Five (5) minutes per Citizen)

11. Old Business

12. New Business

- a. Request for Mayor to enter into Employment Contract for Police Chief

13. Council Comments

14. Adjournment

The City of North Pole will provide an interpreter at City Council meetings for hearing impaired individuals. The City does require at least 48 hours notice to arrange for this service. All such requests are subject to the availability of an interpreter. All City Council meetings are recorded on CD. These CD's are available for listening or duplication at the City Clerk's Office during regular business hours, Monday through Friday, 8:00 a.m. to 5:00 p.m. or can be purchased for \$5.00 per CD. The City Clerk's Office is located in City Hall, 125 Snowman Lane, North Pole, Alaska.

**Committee of the Whole – 6:30 P.M.
Regular City Council Meeting – 7:00 P.M.**

A regular meeting of the North Pole City Council was held on Monday, May 21 2012 in the Council Chambers of City Hall, 125 Snowman Lane, North Pole, Alaska.

CALL TO ORDER/ROLL CALL

Mayor Isaacson called the regular City Council meeting of Monday, May 21, 2012 to order at 7:00 p.m.

There were present:

**Mr. Holm
Ms. Hunter
Mr. Jones
Mr. McGhee
Mr. Nelson
Mr. Ward
Mayor Isaacson**

Absent/Excused

PLEDGE OF ALLEGIANCE TO THE U.S. FLAG

Led by Mayor Isaacson

INVOCATION

Invocation was given by Bryce Jones

APPROVAL OF AGENDA

Mr. McGhee moved to Approve the Agenda of May 7, 2012

Seconded by Jones

Discussion

None

Mr. McGhee moved to Consent the following item under New Business:

- a) Resolution 12-15, A Resolution Of The City Of North Pole To Enter Into A Cooperative Agreement With The Santa's Senior Center To Implement The Community Development Block Grant #11-CDBG-004 Administered By The Alaska Department Of Commerce, Community And Economic Development In The Amount Of \$73,261 For The Senior Center Kitchen Upgrade Project**

Seconded by Mr. Jones

Discussion

None

PASSED

YES –7 - Jones, Ward, Nelson, McGhee, Holm, Hunter, Isaacson

NO – 0 -

Abstained- 0

APPROVAL OF MINUTES

Mr. McGee *moved to Approve the minutes of May 7, 2012*

Seconded *by Mr. Jones*

Discussion

None

PASSED

YES –7 - Jones, Ward, Holm, Nelson, McGhee, Isaacson, Hunter

NO – 0 -

Abstained- 0

COMMUNICATIONS FROM THE MAYOR

Communication Highlights from the Mayor for the period ending May 21, 2012

GENERAL:

- **The Status of Eielson:** The Site Activation Task Force (SATAF) report is expected out within the next week or two. You may have read in today's News Miner how Congressman Young put specific language limiting the Air Force from doing a "back door" BRAC. The bill still has to pass the Senate but it definitely ups the pressure on the DOD to ensure there is proper cost-accounting to justify the move of Eielson's F-16s.

Also, KeepTheF16s.com is a joint outreach effort by the Fairbanks North Star Borough and the cities of North Pole and Fairbanks to inform concerned residents about the Air Force's plans to move the F-16 squadron and support staff from Eielson AFB to the Joint Base Elmendorf-Richardson in Anchorage. The website (<http://www.KeepTheF16s.com>) and related Facebook page ([www.facebook.com/ KeepTheF16s /](http://www.facebook.com/KeepTheF16s/)) are also places where the public can share their comments, photos, and videos to help make the case that moving the F-16s from Eielson is the wrong solution for Fairbanks and the country.

- **The Status of Energy Relief and Projects:** With the conceptual buy-in by Mayors Hopkins and Cleworth, I have spoken to and/or made presentations to Anchorage groups during the past two weeks, including the Board of Commonwealth North, members of Institute of the North, members of the Anchorage Economic Development Corp, members of the municipality of Anchorage, the Presiding Officer of the Anchorage Assembly, the AML Board, and the Lt. Governor trying to gain support for NOW-TERM (meaning, this coming winter) Energy Relief.

Council members have received both a presentation paper and my correspondence to the Governor urging the use of what we own, Royalty Oil, to benefit Alaskans first and reduce the cost energy for Interior and Rural Alaskans by half of the current cost in a temporary use of our resources until projects like the trucking of LNG can be brought online. The concept has met with a lot of support, but the decision is with the Governor and Legislature.

The three local mayors met with Governor Parnell this afternoon. The Governor did promise us that he would pursue a now-term solution for this winter. It may or may not include the suggestion to use Royalty oil, which he questions the certainty of his constitutional and legal ability to do, that will be his call. The Governor did mention that he would like to see private companies (FNG, GVEA, FHR, etc) be more aggressive and would prefer to help us find a solution that would give immediate relief without the possibility of getting the State trapped into a quick-fix that became a permanent subsidy. We all agree.

The Governor will be speaking at a GFCC luncheon next Wednesday, May 30, from noon to 1 pm at the Carlson Center. He may update us on his NOW-TERM solution progress. Council members wishing to go, please contact me ASAP.

- City Open House: was held on May 19 with the NP Fire Department and NP Police Department hosting interactive events. The NPPD Live Burn demonstration graphically illustrated the benefit of having a sprinkler system in even a residential home, saving lives and property. The NPPD had a booth outside Cruis'n With Santa and appeared to have a steady stream of interested people looking at the displays, getting their children IDs, and getting their children properly fitted in car seats. Both the NPPD and the NPFD offered the popular rides in their vehicles. Howard Rixie, of Cruis'n with Santa, stated that their numbers were over 4000, up from the 2500 attendees last year. Also on Saturday was the Third Friday and Saturday Art Show at the Grange Hall, adding to a very eventful day in North Pole. Thank you to all the departments, staff, and organizations who help to showcase the talents of our people, the expertise and helpfulness of our departments, and highlight the livability of our great little city! Thank you to each one of you who had a part in making this spectacular Saturday happen. Special kudos to organizers Eng. Kyle Green, NPFD, Sgt. Chad Rathbun, NPPD, Howard Rixie, Cruis'n with Santa and Nicole Blizinski, Santa Claus House!

- Welcome Home Soldiers! STOMP (Salute to our Military Parade) was a huge success, as defined by the military members themselves! Thank you to all who participated in the day's activities on May 12, including the excellent singing of the Greatland Singers, whose members include our own Councilman Dick Holm.

I also attended the 1-25 Fallen Soldier Memorial and the 1-25 Redeployment Ceremony and the US Army Alaska (USARAK) Commanding General Change of Command Ceremony at JBER.

- Summer Festival Committee: has begun preparing for the July 4, 2012 event. Teffony Wyman has agreed to be the Organizational Co-Chair, which frees me up for other mayoral duties. This year, July 4 falls on a Wednesday which means that a lot of people will be in town who might otherwise have been elsewhere. If you, or your business, would like to be involved in the

planning and underwriting of expenses/activities/prizes, please join us! The next two meetings are 1) this Wednesday, May 22 and 2) Tuesday, May 29 at 6 pm here at City Hall. Your help is needed to make this a great event!

- Alaska Municipal League Board Meeting: The City of North Pole is extraordinarily represented on the AML Board. City Clerk, Past AMCC President, Kathy Weber, District 7 Councilman Ron Jones, and At-Large Mayor Isaacson, were in Anchorage on May 11 participating in the AML Board meeting. There was discussion about encouraging a statewide Energy Plan, possibly headed by a Commissioner of Energy. Discussion was also held on the upcoming ballot issue for Coastal Zone Management. There is great information relating to both sides of the issue at www.AlaskaSeaParty.org and <http://AlaskaAlliance.com>. Chief Jeff Tucker of the North Star Volunteer Fire Department gave an ALMR update. We'll **hear more of this issue at the Summer Conference** in Bethel as it again becomes a legislative priority. I was able to give a quick briefing of various Interior Issues: JPARC, Eielson, and my proposal for Energy Relief.

- Bond Refinancing: City Accountant, Lisa Vaughn, will give the briefing on savings generated by the City of North Pole during this Alaska Municipal Bond Bank Series Two issuance.

- FMATS: The Fairbanks Metropolitan Area Transportation System Policy meeting was held at the City of Fairbanks Conference Room, Director of City Services Bill Butler sat in for the mayor. There was a consensus to fund in FY13 the construction of sidewalks along St. Nicholas. The project is estimated to cost \$2 million. For more information, talk to Bill or me.

- Various Meetings in addition to those mentioned above, included:

- weekly at NPMS giving "Words of Wisdom" and interaction with students and staff
- Participated in the NPHS graduation ceremony, congratulating students.
- Spoke at the NPMS 8th grade advancement ceremony.

FNSB ASSEMBLY MEETING:

There is nothing to report. The next regularly scheduled Assembly meeting is scheduled for June 14.

For a list of meeting times and agendas, go to <http://co.fairbanks.ak.us/meetings/Assembly>.

MEDIA:

May 12 & 19: Mayor Isaacson was on KJNP (1170 AM, 100.3 FM) 8 – 9 a.m. "Over the Coffee Cup." I have also been interviewed by various media regarding Interior issues.

UPCOMING (*This is NOT conclusive, see above for other events, dates, and times, or call the Clerk or Mayor for other possible upcoming events*)

- **May 23 & 29, 6-7 pm:** Summer Festival Committee meets
- **May 28: MEMORIAL DAY, CITY HALL IS CLOSED.**

COUNCIL MEMBER QUESTIONS OF THE MAYOR

Mr. McGhee had concerns on item B of Mayor Isaacson's letter to the governor. He said that there is a potential for people to think that oil companies are not being totally honest with us about their endeavors.

Mr. Ward echoed Mr. McGhee's comments and that it appeared that the Mayor demonized the business and that because the letter carries weight from the city that he needs to be careful.

COMMUNICATIONS FROM DEPARTMENT HEADS, BOROUGH REPRESENTATIVE AND THE CITY CLERK

Police Department, Lt. Dutra

- Our annual Outreach day – successful
 - 374 Child ID kits
 - Non stop police car rides
 - Car seats distributed
 - Car Seat checks
 - Handed out pamphlets on bullying, drugs, safety tips
 - Thank you public works for tent
 - Thank you Cody and Mr. Butler for setting up tent
- New In car computer systems working flawlessly
 - Excited about less down time and less issues
- New E-Citations is close to completion.
- Online accident reports and electronic Crash soon
- One Officer currently at Guard – 2 weeks
 - 2nd Officer goes out next week
- I will be out of the Office until Next Thursday but can always be reached by cell
 - Sgt Rathbun will be in charge
- Officer Memorial well attended by 5 Officers

- Impound lot update
- Vehicle bid
- Officer Durney attended CIT
- Two Officers went to gang class
- Detective plus Officer Binkley to attend Computer forensic class
- CEEP Training a success
- Signs in roundabouts - please advise everyone not to put them there

Accountant, Lisa Vaughn

- None

FNSB Representative

Next meeting is scheduled for June 14, 2012

Director of City Services, Bill Butler

Building Department

- No building permits issued since the last council meeting

Public Works

- Resurfacing of Holiday, 4th Avenue, northern section of Santa Claus Lane/6th Avenue and southern loops of Kit and Beaver Boulevards completed
- Replacement resolution before council this evening for Santa's Seniors kitchen upgrade project
- Have hired three seasonal Public Works Summer positions
- Public Works Department is accumulating a list of small road repair project
 - Settling at Dougchee/Badger Roads: Watching to see if it rises any with ground thawing. If repair too early a surface rebound could result in a speed bump in the winter
- Public works is continuing with beautification efforts on Santa Claus Lane
 - Roundabouts prepared for flower planting. Planting planned for early June
 - Drainage ditches being cleared of 5 years of accumulated gravel and litter. Plan is to till the soil and replant with grass

Utility Department

- Governor approved capital budget that includes a \$2,590,450 Municipal Matching Grant for the Utility Department's Techite Sewer Main and Manhole Rehabilitation project
 - Will be able to use the \$1.4 million loan ADEC has approved for the Utility as the required match for the project
 - Expect to receive formal notification from ADEC in July
 - Project should go to construction in Spring/Summer 2013
- Utility Garage Project
 - Foundation excavation completed
 - Gravel bed for foundation is being compacted
 - Metal building has been ordered
- ADEC has granted final approval for the Utility's Industrial Pretreatment Program
 - Utility has 90 days to implement the program—issue permits to the 3 industrial dischargers
- Utility's discharge to the Tanana River is now discharging to a dry river channel (pictures attached)
 - Waste water discharge is supposed to have a mixing zone to dilute the effluent
 - ADEC has been notified because the Utility is in violation of its discharge permit
 - ADEC is not penalizing the Utility for an act of nature
 - No historical memory of this happening over the past 25 years

If the Tanana River does not re-flood the channel the Utility could be facing a significant expense to correct the problem.



City Clerk

The City Clerk was at the International Institute of Municipal Clerks Conference in Portland, Oregon.

ONGOING PROJECTS

Friends of the North Pole Library, Brenda Sadler

Ms. Sadler updated council and the public on the event called A Storybook Festival which will be held on June 30th.

Finance Committee Report, Ron Jones

Next meeting will be held after Memorial Day

CITIZENS COMMENTS – 5 Minutes

None

OLD BUSINESS

None

NEW BUSINESS

PRESENTATION OF 2011 AUDIT BY JOHN BOST, MIKUNDA, COTTRELL & CO, INC

See Attached

Report to the City Council

Basic Financial Statements – Single Audit Reports

COUNCIL COMMENTS

Mr. Ward – Theme for tonight is to plan for the future. The finance committee needs to start planning for the direction that they want the city to go. He encouraged everyone to consider where they would like the city to be in the next few years.

Mr. Holm – good night everyone.

Mr. Jones - Has a meeting with secretary of the Air Force tomorrow. He plans on drilling them on the issue of the F-16's and that it doesn't balance out. Thanked Rep. Don Young for his help.

STOMP was excellent and it was nice to see the community welcome the soldiers back. AML was great and they had some good discussion and a voice at the table. They are hoping that the PERS issue will get better and do away with termination studies. They are also working on energy issues.

Ms. Hunter – Have a good evening.

Mr. Nelson – No comment.

Mr. McGhee – No comment.

Mayor Isaacson – No comment.

ADJOURNMENT

Mr. McGhee *moved to adjourn the meeting of May 21, 2012*

Seconded by Jones

No Objection

The regular meeting of May 21, 2012 adjourned at 8:56 p.m.

These minutes passed and approved by a duly constituted quorum of the North Pole City Council on Monday, May 21, 2012.

Douglas W. Isaacson, Mayor

ATTEST:

Kathryn M. Weber, MMC
North Pole City Clerk

City of North Pole

Report to the City Council

May 15, 2012



May 15, 2012

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

Honorable Mayor and City Council:

We are pleased to present this report related to our audit of the financial statements of City of North Pole for the year ended December 31, 2011. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for City of North Pole's financial reporting process.

This report is intended solely for the information and use of the City Council and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to City of North Pole.

Mikunda, Cottrell & Co.

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Contents

Required Communications

Summary of Accounting Estimates

**Exhibit A – Certain Written Communications Between Management and Our Firm
Representation Letter**

Required Communications

Statement on Auditing Standards No. 114 requires the auditor to communicate certain matters to keep those charged with governance adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. The following summarizes these communications.

Area	Comments
Auditor's Responsibility Under Professional Standards	Our responsibility under auditing standards generally accepted in the United States of America has been described to you in our arrangement letter dated January 31, 2012.
Accounting Practices	<p>Adoption of, or Change in, Accounting Policies</p> <p>Management has the ultimate responsibility for the appropriateness of the accounting policies used by the City. For fiscal year 2011 the City implemented GASB Statement No. 54 <i>Fund Balance Reporting and Governmental Fund Type Definitions</i>.</p> <p>Significant or Unusual Transactions</p> <p>We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p> <p>Alternative Treatments Discussed with Management</p> <p>We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.</p>
Management's Judgments and Accounting Estimates	Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached "Summary of Accounting Estimates".
Financial Statement Disclosures	To our knowledge, all necessary disclosures have been included in the footnotes to the financial statements.

Area	Comments
Audit Adjustments	There were twelve adjustments made to the original trial balances presented to us to begin our audit. All but two of those adjustments were part of management's year end close process. The two audit adjustments were to record donated assets and adjust PERS on behalf payments from the State of Alaska.
Uncorrected Misstatements	There are no uncorrected misstatements to our knowledge.
Disagreements with Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
Consultations with Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed with Management	No significant issues arising from the audit were discussed or were the subject of correspondence with management.
Difficulties Encountered in Performing the Audit	We did not encounter any difficulties in dealing with management during the audit.
Significant Deficiencies and Material Weaknesses	We did not identify any deficiencies in internal controls that we considered to be significant deficiencies or material weaknesses.
Certain Written Communications Between Management and Our Firm	Copies of certain written communications between our firm and the management of the City are attached as Exhibit A.

**City of North Pole
Summary of Accounting Estimates
Year Ended December 31, 2011**

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates. The following describes the significant accounting estimates reflected in the City's December 31, 2011 financial statements:

Area	Accounting Policy	Estimation Process	Comments
Bad debt expense and allowance for doubtful accounts	To estimate the amount of uncollectible accounts receivable at year end.	Based on historical records and actual review of individual accounts at year end.	We concur with management's implementation of the policy.
Depreciable lives of capital assets	To depreciate the cost of capital assets over their estimated useful lives.	Based on management's estimates using their knowledge of the specific assets, usage, etc.	We concur with management's implementation of the policy.

Exhibit A - Certain Written Communications Between Management and Our Firm



CITY OF NORTH POLE

"Where the Spirit of Christmas Lives Year Round"

125 Snowman Lane • North Pole, Alaska 99705-7708
E-mail: mayor@northpolealaska.com • Website: www.northpolealaska.com

May 15, 2012

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

Mayor
907-488-8584

Mikunda, Cottrell & Co.
3601 C Street, Suite 601
Anchorage, Alaska 99503

City Clerk
907-488-8583

Police
Department
907-488-6902

Fire
Department
907-488-2232

Utilities
907-488-6111

Director of
City Services
907-488-8593

Finance
907-488-8594

In connection with your audit of the basic financial statements of City of North Pole as of and for the year ended December 31, 2011, we confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in financial position, and cash flows in conformity with accounting principles generally accepted in the United States of America.

We confirm to the best of our knowledge and belief, as of May 15, 2012 the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We have identified for you all organizations that are a part of this reporting entity or with which we have a relationship, as these organizations are defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards, that are:
 - a. Component units.
 - b. Other organizations for which the nature and significance of their relationship with City of North Pole are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.
 - c. Jointly governed organizations in which we participated.
3. We have identified for you all of our funds, governmental functions, and identifiable business-type activities.
4. We have properly classified all funds and activities.
5. We have properly determined and reported the major governmental and enterprise funds based on the required quantitative criteria.
6. We are responsible for compliance with laws and regulations applicable to City of North Pole including adopting, approving, and amending budgets.

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7. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts including legal and contractual provisions for reporting specific activities in separate funds.
8. We have made available to you:
 - a. All financial records and related data of all funds and activities, including those of all special funds, programs, departments, projects, activities, etc., in existence at any time during the period covered by your audit.
 - b. All minutes of the meetings of the City Council and committees of council members or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - c. All communications from grantors, lenders, other funding sources, or regulatory agencies concerning noncompliance with:
 - (1) Statutory, regulatory, or contractual provisions or requirements.
 - (2) Financial reporting practices that could have a material effect on the financial statements.
9. We have no knowledge of fraud or suspected fraud affecting the entity involving:
 - a. Management.
 - b. Employees who have significant roles in the internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
10. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.
11. We have no knowledge of any allegations of fraud or suspected fraud affecting City of North Pole received in communications from employees, former employees, analysts, regulators, short sellers, or others.
12. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the entity's ability to record, process, summarize, and report financial data.
13. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
14. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
15. The following have been properly recorded and/or disclosed in the financial statements [G]:
 - a. Related-party transactions, as defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards, and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements, and guarantees, all of

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which have been recorded in accordance with the economic substance of the transaction and appropriately classified and reported.

- b. Guarantees, whether written or oral, under which the Government is contingently liable.
 - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.
 - d. Line of credit or similar arrangements.
 - e. Agreements to repurchase assets previously sold.
 - f. Security agreements in effect under the Uniform Commercial Code.
 - g. Any other liens or encumbrances on assets or revenues or any assets or revenues which were pledged as collateral for any liability or which were subordinated in any way.
 - h. The fair value of investments.
 - i. Amounts of contractual obligations for construction and purchase of real property or equipment not included in the liabilities or encumbrances recorded on the books.
 - j. Any liabilities which are subordinated in any way to any other actual or possible liabilities.
 - k. Debt issue repurchase options or agreements, or sinking fund debt repurchase ordinance requirements.
 - l. Debt issue provisions.
 - m. All leases and material amounts of rental obligations under long-term leases.
 - n. All significant estimates and material concentrations known to management which are required to be disclosed in accordance with the AICPA's Statement of Position No. 94-6, *Disclosure of Certain Significant Risks and Uncertainties*. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year.
 - o. Authorized but unissued bonds and/or notes.
 - p. Risk financing activities.
 - q. Special and extraordinary items.
 - r. Deposits and investment securities categories of risk.
 - s. Impairment of capital assets. The method of measuring the impairment is appropriate.
 - t. Net positions and fund balance classifications.
16. We are responsible for making the accounting estimates included in the financial statements.

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Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:

- a. To reduce receivables to their estimated net collectable amounts.
- b. To reduce obsolete, damaged, or excess inventories to their estimated net realizable values.
- c. To reduce investments, intangibles, and other assets which have permanently declined in value to their realizable values.
- d. For risk retention, including uninsured losses or loss retentions (deductibles) attributable to events occurring through December 31, 2011, and/or for expected retroactive insurance premium adjustments applicable to periods through December 31, 2011.
- e. For pension obligations, post-retirement benefits other than pensions, and deferred compensation agreements attributable to employee services rendered through December 31, 2011.
- f. For any material loss to be sustained in the fulfillment of, or from the inability to fulfill, any service commitments.
- g. For any material loss to be sustained as a result of purchase commitments.
- h. For environmental clean-up obligations.

17. There are no:

- a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
- b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Federal Environmental Protection Agency or any equivalent state agencies in connection with any environmental contamination.
- c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5 and/or GASB Statement No. 10.

18. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No.5 and/or GASB Statement No.10.

19. We have no direct or indirect, legal or moral obligation for any debt of any organization, public or private, or to special assessment bond holders that is not disclosed in the financial statement.

20. We have satisfactory title to all owned assets.

21. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

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22. Net positions invested in capital assets, net of related debt; restricted; and unrestricted and fund balances are properly classified and, when applicable, approved.
 23. Expenses or expenditures have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
 24. Revenues are appropriately classified in the statements of activities within program revenues and general revenues.
 25. Capital assets, including infrastructure assets, are properly capitalized, reported, and depreciated.
 26. We are responsible for and have reviewed and approved the proposed adjustments to the trial balances identified during the audit, which are included in the summarized schedule of posted adjustments and will post all adjustments accordingly. We have reviewed, approved, and are responsible for overseeing the preparation and completion of the basic financial statements and related notes.
 27. The methods and significant assumptions used to estimate the fair values of investments are as follows:

Published market prices are used when available.
 28. With respect to supplementary information presented in relation to the financial statements as a whole:
 - a. We acknowledge our responsibility for the presentation of such information.
 - b. We believe such information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
- In connection with your audit, conducted in accordance with Government Auditing Standards, we confirm:
29. We are responsible for:
 - a. Compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to City of North Pole.
 - b. Establishing and maintaining effective internal control over financial reporting.
 30. We have identified and disclosed to you:
 - a. All laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determinations of financial statement amounts or other financial data significant to audit objectives.
 - b. Violations (and possible violations) of laws, regulations, and provisions of contracts and grant agreements whose effects should be considered for disclosure in the auditor's report on noncompliance.
 31. We have a process to track the status of audit findings and recommendations.

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32. We have identified for you previous audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective action taken to address significant findings and recommendations.

33. We have reviewed, approved, and take full responsibility for the financial statements and related notes and acknowledge the auditor's role in the preparation of this information.

34. We have reviewed, approved, and take full responsibility for all accrual adjustments and an acknowledgement of the auditor's role in the preparation of the adjustments.

In connection with your audit of federal and state awards conducted in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, we confirm:

35. We are responsible for complying, and we have complied, with the requirements of OMB Circular A-133 and *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.

36. We are responsible for understanding and complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal and state programs.

37. We are responsible for establishing and maintaining, and we have established and maintained, effective internal control over compliance for federal and state programs that provides reasonable assurance that we are managing federal and state awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on our federal and state programs.

38. We have prepared the schedule of expenditures of federal awards in accordance with Circular A-133 and the schedule of state financial assistance, and have included expenditures made during the period being audited for all awards provided by federal and state agencies in the form of grants, federal and state cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.

39. We have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.

40. We have made available all contracts and grant agreements (including amendments, if any) and any other correspondence relevant to federal and state programs and related activities that have taken place with federal and state agencies or pass-through entities.

41. We have identified and disclosed to you all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal and state awards.

42. We believe that we have complied with the direct and material compliance requirements.


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- 43. We have made available all documentation related to compliance with the direct and material compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.**
- 44. We have provided you our interpretations of any compliance requirements that are subject to varying interpretations.**
- 45. We have disclosed to you any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of your report.**
- 46. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of your report.**
- 47. We are responsible for taking corrective action on audit findings of the compliance audit.**
- 48. We have provided you with all information on the status of the follow-up on prior audit findings by federal and state awarding agencies and pass-through entities, including all management decisions.**
- 49. We have disclosed the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.**
- 50. We have disclosed all known noncompliance with direct and material compliance requirements occurring subsequent to the period covered by your report.**
- 51. We have disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by us with regard to significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent to the date as of which compliance is audited.**
- 52. Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.**
- 53. The copies of federal and state program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal and state agency or pass-through entity, as applicable.**
- 54. We have charged costs to federal awards in accordance with applicable cost principles.**
- 55. We are responsible for, and have accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by Circular A-133.**
- 56. We will accurately complete appropriate sections of the data collection form. We further acknowledge our responsibility for the complete, accurate, and timely filing of the data collection form with the Federal Audit Clearinghouse.**

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57. We have disclosed all contracts or other agreements with service organizations.
58. We have disclosed to you all communications from service organizations relating to noncompliance at those organizations.
59. We are responsible for determining that significant events or transactions that have occurred since the balance sheet date and through May 15, 2012, have been recognized or disclosed in the financial statements. No events or transactions have occurred subsequent to the balance sheet date and through May 15, 2012 that would require recognition or disclosure in the financial statements. We further represent that as of May 15, 2012, the financial statements were complete in a form and format that complied with accounting principles generally accepted in the United States of America, and all approvals necessary for issuance of the financial statements had been obtained.
60. [During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.]

As of and for the Year Ended December 31, 2011



Douglas Isaacson, Mayor

Lisa Vaughn, City Accountant

CITY OF NORTH POLE, ALASKA

Basic Financial Statements,
Supplementary Information, and
Single Audit Reports

Year Ended December 31, 2011

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CITY OF NORTH POLE, ALASKA

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CITY OF NORTH POLE, ALASKA

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Independent Auditor's Report

Honorable Mayor and City Council
City of North Pole, Alaska

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Pole, Alaska, as of and for the year ended December 31, 2011 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of North Pole's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Pole, Alaska, as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2012 on our consideration of City of North Pole's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Honorable Mayor and City Council
City of North Pole, Alaska

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of North Pole's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, Schedule of State Financial Assistance, and the combining and individual fund financial statements and schedules, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is required by U.S Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations* and the Schedule of State Financial Assistance is required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the City of North Pole's basic financial statements for the year ended December 31, 2010 which are not presented with the accompanying financial statements. In our report dated May 11 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of North Pole's financial statements as a whole. The individual fund financial statements and schedules related to the December 31, 2010 financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the December 31, 2010 financial statements. The information has been subjected to the auditing procedures applied in the audit of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2010 individual fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Mikunda, Cottrell & Co.

Anchorage, Alaska
May 15, 2012

BASIC FINANCIAL STATEMENTS

CITY OF NORTH POLE, ALASKA
Statement of Net Assets
December 31, 2011

<u>Assets</u>	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
Cash and investments	\$ 2,078,769	786,340	2,865,109
Receivables:			
Sales and property taxes	329,511	-	329,511
Accounts	6,390	125,459	131,849
Grants and shared revenues	50,804	192,507	243,311
Assessments	1,032,156	-	1,032,156
Other	9,511	-	9,511
Allowance for doubtful accounts	(6,236)	(5,636)	(11,872)
Inventory	-	17,264	17,264
Restricted cash and investments	40,843	267,743	308,586
Unamortized bond issuance costs	-	5,389	5,389
Capital assets:			
Land and construction in progress	365,316	3,553,163	3,918,479
Other capital assets, net of depreciation	<u>3,345,998</u>	<u>15,256,205</u>	<u>18,602,203</u>
Total assets	\$ <u>7,253,062</u>	<u>20,198,434</u>	<u>27,451,496</u>
<u>Liabilities</u>			
Accounts payable	194,030	165,816	359,846
Accrued payroll and related liabilities	141,168	-	141,168
Customer deposits	-	21,550	21,550
Accrued interest payable	21,746	13,053	34,799
Unearned revenue	185,353	155,979	341,332
Noncurrent liabilities:			
Due within one year:			
Accrued vacation and sick leave	171,172	23,126	194,298
Bonds and loan	66,440	35,461	101,901
Capital leases	69,634	-	69,634
Due in more than one year:			
Loan	-	350,000	350,000
General obligation bonds	1,015,000	-	1,015,000
Special assessment bonds	100,357	-	100,357
Revenue bonds	-	535,431	535,431
Unamortized bond premium	15,971	-	15,971
Capital leases	<u>171,901</u>	<u>-</u>	<u>171,901</u>
Total liabilities	<u>2,152,772</u>	<u>1,300,416</u>	<u>3,453,188</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	2,272,011	17,888,476	20,160,487
Unrestricted	<u>2,828,279</u>	<u>1,009,542</u>	<u>3,837,821</u>
Total net assets	<u>5,100,290</u>	<u>18,898,018</u>	<u>23,998,308</u>
Total liabilities and net assets	\$ <u>7,253,062</u>	<u>20,198,434</u>	<u>27,451,496</u>

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA
Statement of Activities
Year Ended December 31, 2011

Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Fees, Fines and Charges for Services	Operating Grants and Contri- butions	Capital Grants and Contri- butions	Govern- mental Activities	Business- type Activities	Total
Governmental:							
General government	\$ 837,455	75,252	-	-	(762,203)	-	(762,203)
Public safety	4,132,263	602,855	317,700	-	(3,211,708)	-	(3,211,708)
Public works	493,980	-	917	4,209	(488,854)	-	(488,854)
Community services	99,103	-	8,522	-	(90,581)	-	(90,581)
Interest	70,758	-	-	-	(70,758)	-	(70,758)
Total governmental activities	<u>5,633,559</u>	<u>678,107</u>	<u>327,139</u>	<u>4,209</u>	<u>(4,624,104)</u>	<u>-</u>	<u>(4,624,104)</u>
Business-type - water and sewer	<u>2,971,707</u>	<u>1,604,577</u>	<u>403,564</u>	<u>7,280,384</u>	<u>-</u>	<u>6,316,818</u>	<u>6,316,818</u>
Totals	\$ <u>8,605,266</u>	<u>2,282,684</u>	<u>730,703</u>	<u>7,284,593</u>	<u>(4,624,104)</u>	<u>6,316,818</u>	<u>1,692,714</u>
General revenues:							
Sales and use taxes					\$ 2,854,936	-	2,854,936
Property taxes					959,554	-	959,554
Grants and entitlements not restricted to a specific purpose					574,242	36,965	611,207
Investment income					61,468	-	61,468
Other					103,720	-	103,720
Transfers					(103,124)	103,124	-
Total general revenues and transfers					<u>4,450,796</u>	<u>140,089</u>	<u>4,590,885</u>
Change in net assets					(173,308)	6,456,907	6,283,599
Net assets at beginning of year					<u>5,273,598</u>	<u>12,441,111</u>	<u>17,714,709</u>
Net assets at end of year					\$ <u>5,100,290</u>	<u>18,898,018</u>	<u>23,998,308</u>

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA

Governmental Funds

Balance Sheet

December 31, 2011

<u>Assets</u>	<u>Major Funds</u>		<u>Nonmajor Funds</u>	<u>Total Govern- mental Funds</u>
	<u>General</u>	<u>Debt Service</u>		
Cash and investments	\$ 1,622,311	224,043	232,415	2,078,769
Receivables, net of allowance:				
Sales and property taxes	329,511	-	-	329,511
Accounts	-	6,390	-	6,390
Grants and shared revenues	2,026	-	48,778	50,804
Assessments	-	1,032,156	-	1,032,156
Other	9,511	-	-	9,511
Allowance for doubtful accounts	-	(6,236)	-	(6,236)
Restricted cash - bond reserve	-	40,843	-	40,843
Due from other funds	33,895	-	-	33,895
 Total assets	 \$ <u>1,997,254</u>	 <u>1,297,196</u>	 <u>281,193</u>	 <u>3,575,643</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	186,649	-	7,381	194,030
Accrued payroll and related liabilities	141,168	-	-	141,168
Due to other funds	-	-	33,895	33,895
Deferred revenue	179,886	1,032,077	5,467	1,217,430
Total liabilities	<u>507,703</u>	<u>1,032,077</u>	<u>46,743</u>	<u>1,586,523</u>
Fund balances:				
Restricted	-	40,843	78,087	118,930
Committed	-	224,276	-	224,276
Assigned	-	-	156,363	156,363
Unassigned	1,489,551	-	-	1,489,551
Total fund balances	<u>1,489,551</u>	<u>265,119</u>	<u>234,450</u>	<u>1,989,120</u>
 Total liabilities and fund balances	 \$ <u>1,997,254</u>	 <u>1,297,196</u>	 <u>281,193</u>	 <u>3,575,643</u>

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Assets
December 31, 2011

Total fund balances for governmental funds \$ 1,989,120

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

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

Land and land improvements	\$	365,316	
Buildings		3,540,662	
Office furniture and equipment		1,513,230	
Vehicles and equipment		2,772,717	
Infrastructure		1,733,206	
Accumulated depreciation		<u>(6,213,817)</u>	
			3,711,314

Other long-term assets are not available to pay for current
period expenditures and therefore are deferred in the funds.

These assets consist of deferred assessments receivable. 1,032,077

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

These liabilities consist of:

Bonds payable	(1,181,797)		
Capital leases	(241,535)		
Unamortized bond premium	(15,971)		
Accrued interest on bonds	(21,746)		
Accrued leave	<u>(171,172)</u>		
			<u>(1,632,221)</u>

Net assets of governmental activities \$ 5,100,290

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended December 31, 2011

	<u>Major Funds</u>			<u>Total Govern- mental Funds</u>
	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	
Revenues:				
Taxes	\$ 3,814,490	-	-	3,814,490
Licenses and permits	15,495	-	-	15,495
Charges for services	386,747	-	59,757	446,504
Intergovernmental:				
Federal government	152,640	-	200,530	353,170
State of Alaska	574,242	-	30,485	604,727
Investment income	3,183	58,285	-	61,468
Special assessments	-	74,925	-	74,925
Other revenues	224,926	-	42,595	267,521
Total revenues	<u>5,171,723</u>	<u>133,210</u>	<u>333,367</u>	<u>5,638,300</u>
Expenditures:				
Current:				
General government	761,658	-	47,679	809,337
Public safety	3,629,301	-	158,350	3,787,651
Public works	392,117	-	-	392,117
Community services	70,834	-	8,925	79,759
Debt service:				
Principal	67,461	61,062	-	128,523
Interest	13,212	60,733	-	73,945
Capital outlay	-	-	30,046	30,046
Total expenditures	<u>4,934,583</u>	<u>121,795</u>	<u>245,000</u>	<u>5,301,378</u>
Excess of revenues over expenditures	237,140	11,415	88,367	336,922
Other financing uses - transfers out	<u>-</u>	<u>-</u>	<u>(103,124)</u>	<u>(103,124)</u>
Net change in fund balances	237,140	11,415	(14,757)	233,798
Beginning fund balances	<u>1,252,411</u>	<u>253,704</u>	<u>249,207</u>	<u>1,755,322</u>
Ending fund balances	<u>\$ 1,489,551</u>	<u>265,119</u>	<u>234,450</u>	<u>1,989,120</u>

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA
 Reconciliation of Change in Fund Balances of Governmental Funds
 to Statement of Activities
 Year Ended December 31, 2011

Net change in fund balances - total governmental funds \$ 233,798

The change in net assets reported for governmental activities in the Statement of Activities is different because:

Governmental funds report capital outlays as expenditures. However, on the Statement of Activities, depreciation expense is recognized to allocate the cost of these items over their estimated useful lives. This is the amount by which depreciation (\$486,717) exceeded capital outlays (\$4,209). (482,508)

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. (74,925)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statements of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:

Payments on bonds	\$	61,062	
Payments on capital leases		67,460	
Amortization of bond premium		<u>9,583</u>	
			138,105

Interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This is the amount of the decrease in accrued interest payable. 3,188

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 decrease in accrued leave. 9,034

Change in net assets of governmental activities \$ (173,308)

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 3,896,862	3,962,862	3,814,490	(148,372)
Licenses and permits	12,150	12,150	15,495	3,345
Charges for services - ambulance service	376,127	379,772	386,747	6,975
Intergovernmental:				
Federal government	98,500	98,500	152,640	54,140
State of Alaska	369,560	421,473	574,242	152,769
Investment income	6,500	6,500	3,183	(3,317)
Other revenues	224,650	163,593	224,926	61,333
Total revenues	<u>4,984,349</u>	<u>5,044,850</u>	<u>5,171,723</u>	<u>126,873</u>
Expenditures:				
General government	741,098	748,063	761,658	(13,595)
Public safety	3,506,364	3,469,839	3,629,301	(159,462)
Public works	605,978	582,707	392,117	190,590
Community services	50,236	50,236	70,834	(20,598)
Debt service:				
Principal	76,723	76,723	67,461	9,262
Interest	3,950	3,950	13,212	(9,262)
Total expenditures	<u>4,984,349</u>	<u>4,931,518</u>	<u>4,934,583</u>	<u>(3,065)</u>
Excess of revenues over expenditures	-	113,332	237,140	123,808
Other financing sources uses - transfers out	<u>-</u>	<u>(113,332)</u>	<u>-</u>	<u>113,332</u>
Net change in fund balance	\$ <u>-</u>	<u>-</u>	237,140	<u>237,140</u>
Beginning fund balance			<u>1,252,411</u>	
Ending fund balance		\$ <u>1,489,551</u>		

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA
Water and Sewer Enterprise Fund
Statement of Net Assets
December 31, 2011
With Comparative Amounts for 2010

	<u>2011</u>	<u>2010</u>
<u>Assets</u>		
Current assets:		
Cash and investments	\$ 786,340	718,935
Receivables:		
Grants	192,507	-
Accounts	125,459	141,715
Allowance for doubtful accounts	(5,636)	(5,636)
Inventory	17,264	17,264
Total current assets	<u>1,115,934</u>	<u>872,278</u>
Noncurrent assets:		
Restricted cash	267,743	285,917
Unamortized bond issuance costs	<u>5,389</u>	<u>5,597</u>
Property, plant and equipment	41,987,769	34,653,884
Less accumulated depreciation	<u>(23,178,401)</u>	<u>(22,116,996)</u>
Net property, plant and equipment	<u>18,809,368</u>	<u>12,536,888</u>
Total noncurrent assets	<u>19,082,500</u>	<u>12,828,402</u>
Total assets	\$ <u>20,198,434</u>	<u>13,700,680</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Current liabilities:		
Accounts payable	165,816	63,693
Accrued vacation and sick leave	23,126	18,511
Customer deposits	21,550	16,665
Accrued interest payable	13,053	14,402
Deferred revenue	155,979	190,428
Current portion of bonds and loan payable	<u>35,461</u>	<u>34,970</u>
Total current liabilities	<u>414,985</u>	<u>338,669</u>
Noncurrent liabilities, net of current portion:		
Revenue bonds	535,431	545,900
ADEC loan	<u>350,000</u>	<u>375,000</u>
Total noncurrent liabilities	<u>885,431</u>	<u>920,900</u>
Total liabilities	<u>1,300,416</u>	<u>1,259,569</u>
Net assets:		
Invested in capital assets, net of related debt	17,888,476	11,581,018
Unrestricted	<u>1,009,542</u>	<u>860,093</u>
Total net assets	<u>18,898,018</u>	<u>12,441,111</u>
Total liabilities and net assets	\$ <u>20,198,434</u>	<u>13,700,680</u>

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA
Water and Sewer Enterprise Fund
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended December 31, 2011
With Comparative Amounts for 2010

	<u>2011</u>	<u>2010</u>
Operating revenues - charges for services	\$ <u>1,604,577</u>	<u>1,774,714</u>
Operating expenses:		
Water:		
Salaries and benefits	240,982	225,713
Other operating expenses	342,606	430,988
Depreciation	<u>371,492</u>	<u>263,116</u>
Total water	<u>955,080</u>	<u>919,817</u>
Sewer:		
Salaries and benefits	323,322	314,498
Other operating expenses	390,021	376,323
Depreciation	<u>689,913</u>	<u>488,645</u>
Total sewer	<u>1,403,256</u>	<u>1,179,466</u>
Total operating expenses	<u>2,358,336</u>	<u>2,099,283</u>
Loss from operations	(753,759)	(324,569)
Nonoperating revenues (expenses):		
Interest expense	(31,639)	(35,305)
Sludge removal grant revenue	403,564	-
Sludge removal grant expenses	(581,732)	-
State of Alaska PERS relief	<u>36,965</u>	<u>19,478</u>
Net nonoperating revenues (expenses)	<u>(172,842)</u>	<u>(15,827)</u>
Loss before contributions and transfers	(926,601)	(340,396)
Capital contributions	7,280,384	2,819,779
Transfers in	<u>103,124</u>	<u>-</u>
Change in net assets	6,456,907	2,479,383
Beginning net assets	<u>12,441,111</u>	<u>9,961,728</u>
Ending net assets	\$ <u>18,898,018</u>	<u>12,441,111</u>

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA

Water and Sewer Enterprise Fund

Statement of Cash Flows

Year Ended December 31, 2011

With Comparative Amounts for 2010

	2011	2010
Cash flows from operating activities:		
Receipts from customers and users	\$ 1,591,269	1,844,165
Payments to suppliers	(630,296)	(850,479)
Payments to employees	(522,724)	(522,581)
Net cash flows from operating activities	<u>438,249</u>	<u>471,105</u>
Cash flows from noncapital financing activities:		
Transfers in	103,124	-
Nonoperating grants received	403,564	-
Nonoperating grants expended	(581,732)	-
Net cash flows from noncapital financing activities	<u>(75,044)</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Additions to property, plant and equipment	(2,885,122)	(1,369,955)
Capital contributions received	2,639,114	1,080,530
Principal and interest paid on long-term debt	(67,966)	(69,921)
Net cash flows from capital and related financing activities	<u>(313,974)</u>	<u>(359,346)</u>
Net increase in cash and investments	49,231	111,759
Beginning cash and investments	<u>1,004,852</u>	<u>893,093</u>
Ending cash and investments	\$ <u>1,054,083</u>	<u>1,004,852</u>
Cash and investments at end of year:		
Cash and investments	\$ 786,340	718,935
Restricted cash	267,743	285,917
	\$ <u>1,054,083</u>	<u>1,004,852</u>
Reconciliation of loss from operations to net cash flows from operating activities:		
Loss from operations	\$ (753,759)	(324,569)
Adjustments to reconcile loss from operations to net cash provided (used) by operating activities:		
Depreciation	1,061,405	751,761
Noncash expense - PERS relief	36,965	19,478
Amortization of bond issuance costs	208	207
Decrease in allowance for doubtful accounts	-	(52,656)
(Increase) decrease in assets:		
Accounts receivable	16,256	154,187
Increase (decrease) in liabilities:		
Accounts payable	102,123	(43,375)
Accrued vacation and sick leave	4,615	(1,848)
Customer deposits	4,885	11,250
Deferred revenue	(34,449)	(43,330)
Net cash flows from operating activities	\$ <u>438,249</u>	<u>471,105</u>
Noncash capital and related financing activities - Capital assets were donated to the City	\$ <u>4,448,763</u>	<u>1,739,249</u>

See accompanying notes to basic financial statements.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements

December 31, 2011

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

Reporting Entity

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

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

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

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

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

The City reports the following major funds:

Major governmental funds:

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

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

Major proprietary fund -

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

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

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

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

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

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

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

Budgets

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

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

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

Central Treasury

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

Cash and Cash Equivalents

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

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Inventory

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

Interfund Receivables and Payables

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

Receivables

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

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

Grants and Other Intergovernmental Revenues

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

Interfund Transactions

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

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Compensated Absences

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

Capital Assets

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

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

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

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

Deferred Grant Revenue

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

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Summary of Significant Accounting Policies, continued

Long-Term Debt

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

Fund Balances

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

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

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

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

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

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

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

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

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.

Pension Plan

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

(2) **Cash and Investments**

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

Investment Policy

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

Reconciliation of Deposit and Investment Balances

The following is a reconciliation of the City's deposit and investment balances to the financial statements as of December 31, 2011.

Bank deposits	\$ 3,173,445
Other	<u>250</u>
	<u>\$ 3,173,695</u>

Reconciliation to the basic financial statements:

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Totals</u>
Cash and investments	\$ 2,078,769	786,340	2,865,109
Restricted cash	<u>40,843</u>	<u>267,743</u>	<u>308,586</u>
	<u>\$ 2,119,612</u>	<u>1,054,083</u>	<u>3,173,695</u>

Custodial credit risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. To limit its exposure to custodial credit risk, City policy requires that all deposits be fully insured or collateralized.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

(3) **Capital Assets**

Capital asset activity for the year ended December 31, 2011 was as follows:

	Balance January 1, <u>2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2011</u>
<u>Governmental activities</u>				
<i>Capital assets not being depreciated –</i>				
Land and land improvements	\$ <u>365,316</u>	<u>-</u>	<u>-</u>	<u>365,316</u>
<i>Capital assets being depreciated:</i>				
Buildings	3,540,662	-	-	3,540,662
Office furniture and equipment	1,513,230	-	-	1,513,230
Vehicles and equipment	2,768,508	4,209	-	2,772,717
Infrastructure	<u>1,733,206</u>	<u>-</u>	<u>-</u>	<u>1,733,206</u>
Total assets being depreciated	<u>9,555,606</u>	<u>4,209</u>	<u>-</u>	<u>9,559,815</u>
Less accumulated depreciation for:				
Buildings	2,361,742	115,722	-	2,477,464
Office furniture and equipment	962,579	100,550	-	1,063,129
Vehicles and equipment	2,075,504	183,785	-	2,259,289
Infrastructure	<u>327,275</u>	<u>86,660</u>	<u>-</u>	<u>413,935</u>
Total accumulated depreciation	<u>5,727,100</u>	<u>486,717</u>	<u>-</u>	<u>6,213,817</u>
Total capital assets being depreciated, net	<u>3,828,506</u>	<u>(482,508)</u>	<u>-</u>	<u>3,345,998</u>
Governmental activity capital assets, net	\$ <u>4,193,822</u>	<u>(482,508)</u>	<u>-</u>	<u>3,711,314</u>
<u>Business-type activities</u>				
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 378,415	12,000	-	390,415
Construction in progress	<u>967,608</u>	<u>2,794,939</u>	<u>599,799</u>	<u>3,162,748</u>
Total capital assets not being depreciated	<u>1,346,023</u>	<u>2,806,939</u>	<u>599,799</u>	<u>3,553,163</u>
<i>Capital assets being depreciated:</i>				
Sewer and water system	32,130,582	4,526,946	-	36,657,528
Machinery and equipment	<u>1,177,279</u>	<u>599,799</u>	<u>-</u>	<u>1,777,078</u>
Total assets being depreciated	<u>33,307,861</u>	<u>5,126,745</u>	<u>-</u>	<u>38,434,606</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Capital Assets, continued

	Balance January 1, <u>2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2011</u>
<u>Business-type activities, continued</u>				
Less accumulated depreciation for:				
Sewer and water system	\$ 21,562,853	964,218	-	22,527,071
Machinery and equipment	<u>554,143</u>	<u>97,187</u>	<u>-</u>	<u>651,330</u>
Total accumulated depreciation	<u>22,116,996</u>	<u>1,061,405</u>	<u>-</u>	<u>23,178,401</u>
 Total capital assets being depreciated, net	 <u>11,190,865</u>	 <u>4,065,340</u>	 <u>-</u>	 <u>15,256,205</u>
 Business-type activity capital assets, net	 <u>\$ 12,536,888</u>	 <u>6,872,279</u>	 <u>599,799</u>	 <u>18,809,368</u>

Depreciation expense was charged to the functions as follows:

Governmental activities

General government	\$ 36,070
Public safety	327,895
Public works	111,930
Community services	<u>10,822</u>
Total depreciation expense - governmental activities	<u>\$ 486,717</u>

Business-type activities

Water	\$ 371,492
Sewer	<u>689,913</u>
Total depreciation expense - business-type activities	<u>\$ 1,061,405</u>

(4) Long-Term Debt

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2011:

	Balance January 1, <u>2011</u>	<u>Additions</u>	<u>Retired</u>	Balance December 31, <u>2011</u>	Due Within <u>One Year</u>
<u>Governmental activities</u>					
General Obligation Bonds -					
\$1,350,000 2005 Series B bonds,					
due in annual installments of					
\$50,000 to \$105,000 through					
May 1, 2025; plus variable					
interest at 4.00% to 5.25%	\$ 1,120,000	-	50,000	1,070,000	55,000

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Long-Term Debt, continued

	Balance January 1, <u>2011</u>	<u>Additions</u>	<u>Retired</u>	Balance December 31, <u>2011</u>	Due Within <u>One Year</u>
<u>Governmental activities, continued</u>					
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%	\$ 122,859	-	11,062	111,797	11,440
Capital lease obligation for police vehicle, payable in annual install- ments of \$16,824 including interest at 6.10%	30,801	-	14,945	15,856	15,856
Capital lease obligation for police vehicle, payable in annual install- ments of \$16,904 including interest at 6.75%	30,670	-	14,834	15,836	15,836
Capital lease obligation for a copier, payable in various monthly amounts including interest at 10.49%	8,157	-	2,363	5,794	2,624
Capital lease obligation for a fire pumper truck, payable in annual installments of \$46,944 including interest at 4.615% through 2016	239,367	-	35,318	204,049	35,318
Accrued leave	<u>180,206</u>	<u>252,288</u>	<u>261,322</u>	<u>171,172</u>	<u>171,172</u>
Total governmental activities	1,732,060	<u>252,288</u>	<u>389,844</u>	1,594,504	<u>307,246</u>
Unamortized bond premium	<u>25,554</u>			<u>15,971</u>	
	<u>\$ 1,757,614</u>			<u>1,610,475</u>	

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Long-Term Debt, continued

	Balance January 1, 2011	Additions	Retired	Balance December 31, 2011	Due Within One Year
<u>Business-type activities</u>					
Revenue bonds –					
\$647,600 1998 utility revenue bonds, due in semi-annual installments of \$18,483 including interest at 4.875% through March 1, 2038	\$ 555,870	-	9,978	545,892	10,461
Note payable –					
\$500,000 2007 Water Utility Alaska Drinking Water loan, due in annual installments of \$25,000 plus interest at 1.5% through April 1, 2026	400,000	-	25,000	375,000	25,000
Accrued leave	<u>18,511</u>	<u>14,206</u>	<u>9,591</u>	<u>23,126</u>	<u>23,126</u>
Total business-type activities	\$ <u>974,381</u>	<u>14,206</u>	<u>44,569</u>	<u>944,018</u>	<u>58,587</u>

Governmental activities

The annual debt service requirements of the general obligation bonds and loans outstanding at December 31, 2011 that are in repayment status follow:

Year Ending December 31,	<u>General Obligation Bonds</u>			<u>Special Assessment Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 55,000	52,280	107,280	11,440	5,450	16,890
2013	55,000	49,530	104,530	11,995	4,895	16,890
2014	60,000	46,655	106,655	12,577	4,313	16,890
2015	65,000	43,530	108,530	13,188	3,702	16,890
2016	65,000	40,280	105,280	13,828	3,062	16,890
2017-2021	380,000	146,691	526,691	48,769	5,200	53,969
2022-2025	<u>390,000</u>	<u>39,506</u>	<u>429,506</u>	<u>-</u>	<u>-</u>	<u>-</u>
	\$ <u>1,070,000</u>	<u>418,472</u>	<u>1,488,472</u>	<u>111,797</u>	<u>26,622</u>	<u>138,419</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Long-Term Debt, continued

Business-type activities

Year Ending December 31,	<u>Revenue Bonds</u>			<u>Note Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 10,461	26,504	36,965	25,000	5,625	30,625
2013	10,978	25,987	36,965	25,000	5,250	30,250
2014	11,520	25,445	36,965	25,000	4,875	29,875
2015	12,088	24,877	36,965	25,000	4,500	29,500
2016	12,685	24,280	36,965	25,000	4,125	29,125
2017-2021	73,452	111,373	184,825	125,000	15,000	140,000
2022-2026	93,454	91,371	184,825	125,000	5,625	130,625
2027-2031	118,901	65,924	184,825	-	-	-
2032-2036	<u>202,353</u>	<u>33,546</u>	<u>235,899</u>	<u>-</u>	<u>-</u>	<u>-</u>
	\$ <u>545,892</u>	<u>429,307</u>	<u>975,199</u>	<u>375,000</u>	<u>45,000</u>	<u>420,000</u>

(5) Capital Leases

The City has entered into lease agreements as lessee for financing the acquisition of three police vehicles, a fire engine, and a copier. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments. The following is a summary of the assets acquired with the capital leases that have an outstanding balance as of December 31, 2011:

	<u>General Fund</u>
Machinery and equipment	\$ 528,083
Less accumulated depreciation	(232,823)
Carrying value	\$ <u>295,260</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Capital Leases, continued

The following is a schedule of future minimum lease payments under these capital leases and the present value of the net minimum lease payments at December 31, 2011:

<u>Year Ending</u> <u>December 31,</u>	<u>General Fund</u>
2012	\$ 83,781
2013	50,052
2014	47,203
2015	46,944
2016	<u>46,944</u>
Total minimum lease payments	274,924
Less interest portion	<u>(33,389)</u>
Present value of future minimum lease payments	241,535
Less current portion	<u>(69,634)</u>
Long-term portion	\$ <u>171,901</u>

(6) **Interfund Balances and Transfers**

A schedule of interfund balances and transfers for the year ended December 31, 2011, follows:

Due to other funds:

Due to the General Fund from nonmajor funds for short-term advances to cover operating costs	\$ <u>33,895</u>
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Transfers:

From nonmajor governmental fund to Water and Sewer Enterprise Fund to convert fund to enterprise capital project fund	\$ <u>103,124</u>
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(7) **Defined Benefit Pension Plan**

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

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

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

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Defined Benefit Pension Plan, continued

Conversion to Cost Sharing

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

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

Funding Policy

Regular employees are required to contribute 6.75% of their annual covered salary (3.21% for pension and 3.54% for healthcare). Police and firefighters are required to contribute 7.5% of their annual covered salary (3.57% for pension and 3.93% for healthcare).

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

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

The City's contribution rates for 2011 were as follows:

	Employer Rate	Actuarial Rate	GASB 43/45 Rate*
<u>January to June</u>			
Pension	7.85%	9.98%	13.49%
Postemployment healthcare	<u>14.15%</u>	<u>17.98%</u>	<u>55.87%</u>
Total contribution rate	<u>22.00%</u>	<u>27.96%</u>	<u>69.36%</u>

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Defined Benefit Pension Plan, continued

Funding Policy, continued

	<u>Employer Rate</u>	<u>Actuarial Rate</u>	<u>GASB 43/45 Rate*</u>
<u>July to December</u>			
Pension	10.48%	14.65%	13.72%
Postemployment healthcare	<u>11.52%</u>	<u>16.11%</u>	<u>49.98%</u>
Total contribution rate	<u>22.00%</u>	<u>30.76%</u>	<u>63.70%</u>

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

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

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

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

Annual Pension and Postemployment Healthcare Cost

The City is required to contribute 22% of covered payroll, subject to a wage floor. In addition, the State of Alaska contributed approximately 8.76% of covered payroll to the Plan for the July to December period. In accordance with the provisions of GASB Statement Number 24, the City has recorded the State on behalf contribution in the amount of \$285,843 as revenue and expenditure/expense in these financial statements. However, because the City is not statutorily obligated for these payments, this amount is excluded from pension and OPEB cost as described here.

<u>Year Ended December 31</u>	<u>Annual Pension Cost</u>	<u>Annual OPEB Cost</u>	<u>Total Benefit Cost (TBC)</u>	<u>City Contri- butions</u>	<u>% of TBC Contributed</u>
2011	\$ 196,159	\$ 277,933	\$ 474,892	\$ 474,892	100%
2010	198,562	255,343	453,905	453,905	100%
2009	147,573	300,522	448,095	448,095	100%

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

(8) **Defined Contribution Pension Plan**

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

	Others Tier IV	Police/Fire Tier IV
Individual account	5.00%	5.00%
Health reimbursement arrangement (HRA) *	3.00	3.00
Retiree medical plan	0.51	0.51
Occupational death and disability benefits	<u>0.11</u>	<u>0.97</u>
	<u>8.62 %</u>	<u>9.48%</u>

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

Employees are immediately vested in their own contributions and vest 25% per year in employer contributions. The City and employee contributions to PERS including the HRA contribution for the year ended December 31, 2011 were \$98,149 and \$79,964, respectively.

(9) **Deferred Compensation Plan**

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

(10) **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.

CITY OF NORTH POLE, ALASKA

Notes to Basic Financial Statements, continued

Risk Management, continued

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

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

(11) **Contingencies**

Grants

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

SUPPLEMENTARY FINANCIAL INFORMATION

GENERAL FUND

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

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

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

CITY OF NORTH POLE, ALASKA
General Fund
Balance Sheet
December 31, 2011
With Comparative Amounts for 2010

<u>Assets</u>	<u>2011</u>	<u>2010</u>
Cash and investments	\$ <u>1,622,311</u>	<u>1,105,655</u>
Receivables:		
Sales taxes	328,183	334,939
Property taxes	1,328	2,052
Business licenses	6,620	7,700
Grants	2,026	2,326
Other	<u>2,891</u>	<u>886</u>
Total receivables	<u>341,048</u>	<u>347,903</u>
Due from other funds	<u>33,895</u>	<u>46,975</u>
Total assets	\$ <u><u>1,997,254</u></u>	<u><u>1,500,533</u></u>
<u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	186,649	97,677
Accrued payroll and related liabilities	141,168	150,445
Deferred revenue	<u>179,886</u>	<u>-</u>
Total liabilities	<u>507,703</u>	<u>248,122</u>
Fund balance - unassigned	<u>1,489,551</u>	<u>1,252,411</u>
Total liabilities and fund balance	\$ <u><u>1,997,254</u></u>	<u><u>1,500,533</u></u>

CITY OF NORTH POLE, ALASKA
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual
Year Ended December 31, 2011
With Comparative Amounts for 2010

	<u>2011</u>			<u>2010</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>Actual</u>
Revenues:				
Taxes:				
Sales, alcohol and use taxes	\$ 3,009,992	2,854,936	(155,056)	2,793,448
Property taxes	952,870	959,554	6,684	913,593
Total taxes	<u>3,962,862</u>	<u>3,814,490</u>	<u>(148,372)</u>	<u>3,707,041</u>
Business licenses	<u>12,150</u>	<u>15,495</u>	<u>3,345</u>	<u>10,025</u>
Charges for services - ambulance service	<u>379,772</u>	<u>386,747</u>	<u>6,975</u>	<u>376,262</u>
Federal government:				
DOT commercial vehicle safety	10,000	3,360	(6,640)	4,220
Alaska Highway Safety Office	18,500	14,173	(4,327)	13,776
DEA Task Force equipment grant	-	81,133	81,133	-
Corps of Engineers	70,000	52,307	(17,693)	68,476
IRS reimbursements	-	1,667	1,667	-
Economic stimulus grant	-	-	-	15,128
Total Federal government	<u>98,500</u>	<u>152,640</u>	<u>54,140</u>	<u>101,600</u>
State of Alaska:				
State revenue sharing	267,649	268,329	680	206,334
Telephone and electric cooperative taxes	59,264	59,264	-	67,145
Fisheries business taxes	-	89	89	-
Liquor licenses	5,200	5,200	-	4,200
PERS relief	89,360	241,360	152,000	118,698
Total State of Alaska	<u>421,473</u>	<u>574,242</u>	<u>152,769</u>	<u>396,377</u>
Interest income	<u>6,500</u>	<u>3,183</u>	<u>(3,317)</u>	<u>5,121</u>

CITY OF NORTH POLE, ALASKA

General Fund

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

	2011			2010
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)	<u>Actual</u>
Revenues, continued:				
Other revenues:				
Candy cane donations	\$ -	800	800	1,200
Citation revenues	107,000	110,665	3,665	145,220
Fingerprinting	8,650	10,295	1,645	8,226
Police reports	5,543	6,368	825	938
Other public safety revenues	21,400	36,473	15,073	21,687
Miscellaneous	21,000	60,325	39,325	-
Total other revenues	<u>163,593</u>	<u>224,926</u>	<u>61,333</u>	<u>177,271</u>
Total revenues	<u>5,044,850</u>	<u>5,171,723</u>	<u>126,873</u>	<u>4,773,697</u>
Expenditures:				
General government:				
Administration:				
Salaries and benefits	452,578	464,966	(12,388)	430,530
Materials and supplies	60,300	60,235	65	69,019
Purchased services	153,785	145,081	8,704	162,779
Vehicle expense	3,600	1,924	1,676	77
Insurance	22,800	19,997	2,803	21,364
Repairs and maintenance	35,000	41,377	(6,377)	35,212
Total administration	<u>728,063</u>	<u>733,580</u>	<u>(5,517)</u>	<u>718,981</u>
Municipal building II:				
Purchased services	20,000	26,521	(6,521)	32,866
Repairs and maintenance	-	1,557	(1,557)	15,121
Total municipal building II	<u>20,000</u>	<u>28,078</u>	<u>(8,078)</u>	<u>47,987</u>
Total general government	<u>748,063</u>	<u>761,658</u>	<u>(13,595)</u>	<u>766,968</u>

CITY OF NORTH POLE, ALASKA

General Fund

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

	<u>2011</u>		<u>Variance</u>	<u>2010</u>
	<u>Budget</u>	<u>Actual</u>	<u>Positive</u>	<u>Actual</u>
			<u>(Negative)</u>	
Expenditures, continued:				
Public safety:				
Police department:				
Salaries and benefits	\$ 1,260,261	1,360,007	(99,746)	1,199,799
Materials and supplies	47,000	27,490	19,510	41,442
Purchased services	106,580	104,537	2,043	98,649
Vehicle expense	57,000	57,355	(355)	49,235
Insurance	125,000	98,383	26,617	122,359
Repairs and maintenance	14,500	14,028	472	14,197
Task force equipment grant expenditures	-	81,133	(81,133)	-
Total police department	<u>1,610,341</u>	<u>1,742,933</u>	<u>(132,592)</u>	<u>1,525,681</u>
Fire department:				
Salaries and benefits	1,613,096	1,645,209	(32,113)	1,516,904
Materials and supplies	35,957	36,826	(869)	23,957
Purchased services	114,894	110,568	4,326	106,712
Vehicle expense	28,951	33,251	(4,300)	47,541
Insurance	54,000	47,230	6,770	50,498
Repairs and maintenance	12,600	13,284	(684)	15,732
Total fire department	<u>1,859,498</u>	<u>1,886,368</u>	<u>(26,870)</u>	<u>1,761,344</u>
Total public safety	<u>3,469,839</u>	<u>3,629,301</u>	<u>(159,462)</u>	<u>3,287,025</u>
Public works:				
Salaries and benefits	234,247	194,624	39,623	234,485
Materials and supplies	16,000	11,385	4,615	14,196
Purchased services	175,960	67,854	108,106	42,400
Vehicle expense	7,500	7,923	(423)	7,568
Insurance	14,000	11,966	2,034	13,661
Repairs and maintenance	135,000	98,365	36,635	186,894
Total public works	<u>582,707</u>	<u>392,117</u>	<u>190,590</u>	<u>499,204</u>
Debt service:				
Capital lease principal	76,723	67,461	9,262	111,334
Capital lease interest	3,950	13,212	(9,262)	13,230
Total debt service	<u>80,673</u>	<u>80,673</u>	<u>-</u>	<u>124,564</u>

CITY OF NORTH POLE, ALASKA

General Fund

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

	2011			2010
	Budget	Actual	Variance Positive (Negative)	Actual
Expenditures, continued:				
Community service - contributions:				
North Pole Christmas on Ice	\$ 4,109	10,605	(6,496)	12,195
North Pole Chamber of Commerce	11,015	21,209	(10,194)	24,390
Convention and Visitors	5,099	3,535	1,564	4,065
North Pole Economic				
Development Council	30,013	35,348	(5,335)	40,650
Other	-	137	(137)	40
Total community service - contributions	<u>50,236</u>	<u>70,834</u>	<u>(20,598)</u>	<u>81,340</u>
Capital expenditures:				
Police vehicles	-	-	-	95,199
Fire department copier	-	-	-	10,117
Total capital expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>105,316</u>
Total expenditures	<u>4,931,518</u>	<u>4,934,583</u>	<u>(3,065)</u>	<u>4,864,417</u>
Excess of revenues over (under) expenditures	113,332	237,140	123,808	(90,720)
Other financing sources:				
Proceeds from capital leases	-	-	-	105,316
Transfers in	-	-	-	7,688
Transfers out	(113,332)	-	113,332	-
Net other financing sources (uses)	<u>(113,332)</u>	<u>-</u>	<u>113,332</u>	<u>113,004</u>
Net change in fund balance	\$ <u>-</u>	237,140	<u>237,140</u>	22,284
Beginning fund balance		<u>1,252,411</u>		<u>1,230,127</u>
Ending fund balance	\$	<u>1,489,551</u>		<u>1,252,411</u>

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NONMAJOR GOVERNMENTAL FUNDS

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

Building Department

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

Fire Department

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

North Pole Community Ice Rink

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

North Pole Festival

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

Abade

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

Abade State Forfeitures

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

AHSO

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

JAG

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

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

General Capital Projects

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

CITY OF NORTH POLE, ALASKA

Nonmajor Governmental Funds

Combining Balance Sheet

December 31, 2011

	Special Revenue Funds						General Capital Projects Fund	Totals
	Building Depart- ment	Fire Depart- ment	North Pole Community Ice Rink	North Pole Festival	Abade Forfeitures	AHSG	JAG	
Cash and investments	\$ 91,100	47,704	11,163	4,361	1,356	-	-	232,415
Grants receivable	-	-	-	-	-	21,299	16,101	48,778
Total assets	\$ 91,100	47,704	11,163	4,361	1,356	21,299	16,101	281,193
Liabilities and Fund Balances								
Liabilities:								
Accounts payable	2,028	1,144	-	-	-	-	-	7,381
Deferred revenue	-	-	-	-	-	-	-	5,467
Due to other funds	-	-	-	-	-	16,092	16,101	33,895
Total liabilities	2,028	1,144	-	-	-	16,092	16,101	46,743
Fund balances:								
Restricted	-	-	-	-	1,356	-	-	78,087
Assigned	89,072	46,560	11,163	4,361	-	5,207	-	156,363
Total fund balances	89,072	46,560	11,163	4,361	1,356	5,207	-	234,450
Total liabilities and fund balances	\$ 91,100	47,704	11,163	4,361	1,356	21,299	16,101	281,193

CITY OF NORTH POLE, ALASKA

Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in
Fund Balances
Year Ended December 31, 2011

	Special Revenue Funds						Capital Project Funds				
	Building Department	Fire Department	North Pole Community Ice Rink	North Pole Festival	Abade	Abade State Forfeitures	AHSO	JAG	General Capital Projects Fund	Capital Projects Fund	Totals
Revenues:											
Intergovernmental	-	-	-	-	60,384	1,356	95,613	43,616	30,046	-	231,015
Charges for services	59,757	-	-	-	-	-	-	-	-	-	59,757
Other revenues	-	31,897	50	10,648	-	-	-	-	-	-	42,595
Total revenues	59,757	31,897	50	10,648	60,384	1,356	95,613	43,616	30,046	-	333,367
Expenditures:											
General government	47,679	-	-	-	-	-	-	-	-	-	47,679
Public safety	-	15,126	-	-	3,995	-	95,613	43,616	-	-	158,350
Community services	-	-	-	8,925	-	-	-	-	-	-	8,925
Capital outlay	-	-	-	-	-	-	-	-	30,046	-	30,046
Total expenditures	47,679	15,126	-	8,925	3,995	-	95,613	43,616	30,046	-	245,000
Excess of revenues over expenditures	12,078	16,771	50	1,723	56,389	1,356	-	-	-	-	88,367
Other financing uses - transfers out	-	-	-	-	-	-	-	-	-	(103,124)	(103,124)
Net change in fund balances	12,078	16,771	50	1,723	56,389	1,356	-	-	-	(103,124)	(14,757)
Beginning fund balances	76,994	29,789	11,113	2,638	20,342	-	5,207	-	-	103,124	249,207
Ending fund balances	\$ 89,072	46,560	11,163	4,361	76,731	1,356	5,207	-	-	-	234,450

DEBT SERVICE FUND

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

CITY OF NORTH POLE, ALASKA
Debt Service Fund
Statement of Revenues, Expenditures
and Changes in Fund Balance
Year Ended December 31, 2011
With Comparative Amounts for 2010

	<u>2011</u>	<u>2010</u>
Revenues:		
Special assessments	\$ 74,925	94,922
Investment income	<u>58,285</u>	<u>90,553</u>
Total revenues	<u>133,210</u>	<u>185,475</u>
Expenditures - debt service:		
2005 Series B G.O. bonds:		
Principal	50,000	50,000
Interest	<u>54,905</u>	<u>57,155</u>
Total 2005 series B G.O. bonds	<u>104,905</u>	<u>107,155</u>
2002 special assessment bonds:		
Principal	11,062	10,560
Interest	<u>5,828</u>	<u>6,330</u>
Total 2002 special assessment bonds	<u>16,890</u>	<u>16,890</u>
Other	<u>-</u>	<u>810</u>
Total expenditures	<u>121,795</u>	<u>124,855</u>
Net change in fund balance	11,415	60,620
Beginning fund balance	<u>253,704</u>	<u>193,084</u>
Ending fund balance	\$ <u><u>265,119</u></u>	<u><u>253,704</u></u>

MAJOR ENTERPRISE FUND

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

Water and Sewer

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

CITY OF NORTH POLE, ALASKA
Water and Sewer Enterprise Fund
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended December 31, 2011
With Comparative Amounts for 2010

	<u>2011</u>	<u>2010</u>
Operating revenues - charges for services:		
Water	\$ 813,736	862,783
Sewer	790,841	911,931
Total operating revenues	<u>1,604,577</u>	<u>1,774,714</u>
Operating expenses:		
Water:		
Salaries and benefits	240,982	225,713
Materials and supplies	42,339	79,220
Purchased services	270,054	308,924
Vehicle expense	9,925	5,671
Insurance	17,017	31,707
Repairs and maintenance	365	444
Depreciation	371,492	263,116
Bad debt expense	2,906	5,022
Total water	<u>955,080</u>	<u>919,817</u>
Sewer:		
Salaries and benefits	323,322	314,498
Materials and supplies	81,897	28,573
Purchased services	280,415	309,154
Vehicle expense	8,040	7,742
Insurance	17,256	30,012
Repairs and maintenance	273	220
Depreciation	689,913	488,645
Bad debt expense	2,140	622
Total sewer	<u>1,403,256</u>	<u>1,179,466</u>
Total operating expenses	<u>2,358,336</u>	<u>2,099,283</u>
Loss from operations	(753,759)	(324,569)
Nonoperating revenues (expenses):		
State of Alaska PERS relief	36,965	19,478
Sludge removal grant revenue	403,564	-
Sludge removal grant expenses	(581,732)	-
Interest expense	(31,639)	(35,305)
Net nonoperating revenues (expenses)	<u>(172,842)</u>	<u>(15,827)</u>
Loss before contributions and transfers	(926,601)	(340,396)
Capital contributions	7,280,384	2,819,779
Transfers in	103,124	-
Change in net assets	6,456,907	2,479,383
Beginning net assets	<u>12,441,111</u>	<u>9,961,728</u>
Ending net assets	\$ <u>18,898,018</u>	<u>12,441,111</u>

CITY OF NORTH POLE, ALASKA
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2011

<u>Federal Grant Title</u>	<u>Grant Number</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Total Grant Award</u>	<u>Federal Share of Expend- itures</u>
Department of Agriculture				
Direct Program - Water and Waste Disposal Systems for Rural Communities	60-002-1585	10.760	\$ 750,000	<u>93,847</u>
Department of Justice				
Direct program - Organized Crime Drug Enforcement Task Force	PA-OR-0004-10	16.OCDETF	81,133	<u>81,133</u>
Passed through State of Alaska Department of Public Safety: Edward Byrne Memorial Formula Grant Program:				
Multijurisdictional Task Force 2011	JAG 11-023D	16.738	83,521	24,252
Multijurisdictional Task Force 2012	JAG 12-023D	16.738	75,984	<u>16,101</u>
Total CFDA 16.738				<u>40,353</u>
Equitable Sharing - Seized Assets	-	16.000	60,384	<u>60,384</u>
Total Department of Justice				<u>181,870</u>
Department of the Treasury				
Direct program - Treasury Forfeiture Fund - Currency Crimes Task Force	-	21.TFF	15,000	<u>1,667</u>
Department of Transportation				
Passed through State of Alaska Department of Transportation and Public Facilities:				
Alcohol Open Container Requirements Grant - Impaired Driving 2012	154 AL 12-01-03	20.607	5,983	360
Alcohol Open Container Requirements Grant - Impaired Driving 2011	154 AL 11-01-03	20.607	13,530	10,365
Alcohol Open Container Requirements Grant - Traffic Enforcement Officer 2012	154 AL 10-01-14	20.607	107,176	21,300
Alcohol Open Container Requirements Grant - Traffic Enforcement Officer 2011	154 AL 11-01-15	20.607	156,929	<u>70,057</u>
Total CFDA 20.607				<u>102,082</u>
State and Community Highway Safety - Seatbelt Enforcement 2011	402 PT 11-06-01	20.600	4,017	<u>3,449</u>
Total Department of Transportation				<u>105,531</u>
Department of Energy				
Passed through Alaska Energy Authority - ARRA-Energy Efficiency and Conservation Block Grant	7510037	81.128	174,000	<u>917</u>
Environmental Protection Agency				
Direct Program - Congressionally Mandated Projects	XP-00J10701	66.202	970,000	970,000
Passed through the State of Alaska Department of Environmental Conservation - ARRA - Capitalization Grants for Clean Water State Revolving Funds - Clean Water Loan - Sewer Life Station Renovation - (90% Forgiven)	633151	66.458	1,922,222	<u>69,376</u>
Total Environmental Protection Agency				<u>1,039,376</u>
Total Expenditures of Federal Awards			\$	<u>1,423,208</u>

Note 1: Basis of Presentation

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

CITY OF NORTH POLE, ALASKA
Schedule of State Financial Assistance
Year Ended December 31, 2011

<u>State Grant Title</u>	<u>Grant Number</u>	<u>Grant Award</u>	<u>Expenditures</u>
Department of Commerce, Community and Economic Development			
Fire Department Equipment Upgrades and Replacement	11-DC-314	\$ 95,000	16,398
Water Treatment Plant Roof Improvements	08-DC-471	160,000	5,100
Rehabilitate North Pole Utility Well	09-DC-505	147,500	39,728
Senior Center Equipment Upgrades	11-DC-315	50,000	8,522
* Community Revenue Sharing	-	200,737	268,329
Total Department of Commerce, Community and Economic Development			<u>338,077</u>
Department of Environmental Conservation			
* Sewer Lift Station Renovation	63317	2,204,851	1,612,285
* Wastewater Treatment Plant Sludge Removal	63318	595,000	403,564
Utility Garage Construction	63319	524,977	10,003
Wastewater Plant Engineering and Design	63321	125,000	30,098
Wastewater Plant Engineering and Design	63320	125,000	1,185
Total Department of Environmental Conservation			<u>2,057,135</u>
Department of Public Safety			
Asset Forfeitures	-	1,356	<u>1,356</u>
Department of Administration			
* PERS on Behalf	-	285,843	<u>285,843</u>
Department of Transportation and Public Facilities			
North Pole Equipment	-	50,000	<u>4,209</u>
Department of Revenue			
Electric and Telephone Co-op Tax	-	59,264	59,264
Shared Fisheries Business Taxes	-	89	89
Liquor Licenses	-	5,200	<u>5,200</u>
Total Department of Revenue			<u>64,553</u>
Total State Financial Assistance		\$	<u>2,751,173</u>

*Major program

Note 1: Basis of Presentation

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

SINGLE AUDIT SECTION

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

Honorable Mayor and City Council
City of North Pole, Alaska

We have audited 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, 2011, which collectively comprise the City of North Pole's basic financial statements and have issued our report thereon dated May 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Honorable Mayor and City Council
City of North Pole, Alaska

Compliance and Other Matters

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

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

Mikunda, Cottrell & Co.

Anchorage, Alaska
May 15, 2012

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

Honorable Mayor and City Council
City of North Pole, Alaska

Compliance

We have audited City of North Pole's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of North Pole's major federal programs for the year ended December 31, 2011. City of North Pole's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of North Pole's management. Our responsibility is to express an opinion on City of North Pole's compliance based on our audit.

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

In our opinion, City of North Pole complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Honorable Mayor and City Council
City of North Pole, Alaska

Internal Control Over Compliance

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

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

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

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

Mikunda, Cottrell & Co.

Anchorage, Alaska
May 15, 2012

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with the State of Alaska Audit Guide and Compliance Supplement for State Single Audits

Honorable Mayor and City Council
City of North Pole, Alaska

Compliance

We have audited City of North Pole's compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of City of North Pole's major state programs for the year ended December 31, 2011. City of North Pole's major state programs are identified in the accompanying Schedule of State Financial Assistance. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state programs is the responsibility of City of North Pole's management. Our responsibility is to express an opinion on City of North Pole's compliance based on our audit.

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

In our opinion, City of North Pole complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended December 31, 2011.

Honorable Mayor and City Council
City of North Pole, Alaska

Internal Control Over Compliance

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

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

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

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

Mikunda, Cottrell & Co.

Anchorage, Alaska
May 15, 2012

CITY OF NORTH POLE, ALASKA

Schedule of Findings and Questioned Costs

Year Ended December 31, 2011

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued

Unqualified

Internal control over financial reporting:

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

Federal Financial Assistance

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified? ☐ yes ☒ none reported

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

Unqualified

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

☐ yes ☒ no

Identification of major programs:

<u>Agency</u>	<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Environmental Protection Agency	66.202	Congressionally Mandated Projects

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

\$300,000

Auditee qualified as low-risk auditee?

☒ yes ☐ no

CITY OF NORTH POLE, ALASKA

Schedule of Findings and Questioned Costs, continued

Summary of Auditor's Results, continued

State Financial Assistance

Internal control over major programs:

- | | | |
|---|-------------------|----------------------------|
| • Material weakness(es) identified? | <u> </u> yes | <u> X </u> no |
| • Significant deficiency(ies) identified? | <u> </u> yes | <u> X </u> none reported |

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

Unqualified

Dollar threshold used to distinguish a
state major program?

\$75,000

II. Financial Statement Findings

None noted.

III. Federal Award Findings and Questioned Costs

None noted.

IV. State Award Findings and Questioned Costs

None noted.

CITY OF NORTH POLE, ALASKA

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2011

Financial Statement Findings

There were no prior year audit findings.

Federal Award Findings

There were no prior year audit findings.

State Award Findings

There were no prior year audit findings.

CITY OF NORTH POLE, ALASKA

Corrective Action Plan

Year Ended December 31, 2011

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

LISA MURKOWSKI
ALASKA

COMMITTEES:
ENERGY AND NATURAL RESOURCES
RANKING MEMBER
APPROPRIATIONS
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May 25, 2012

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(907) 225-6880

851 EAST WESTPOINT DRIVE, SUITE 307
WASILLA, AK 99654-7142
(907) 376-7665

The Honorable Doug W. Isaacson
Mayor
City of North Pole
125 Snowman Lane
North Pole, Alaska 99705-7708

Dear Mayor Isaacson:



Thank you for your letter about funding for Alaska Railroad (RR). I always appreciate hearing from you.

I am aware of the negative impacts that a cut to Alaska RR funding would have not only on the railroad but to communities along the Railbelt. My staff and I fought for this funding throughout the debate over MAP-21, but met strong resistance due to the current ban on earmarks.

I wrote to the transportation bill conference committee to urge that they not repeal the Federal Transit Administration (FTA) formula grant language funding in conference negotiations and eliminate the harm caused to Alaska RR in MAP-21. I have enclosed a copy of that letter.

Since sending the letter to the conference committee, I have talked with Senator Boxer, Chairwoman of the committee, about this issue and remain hopeful that it can be resolved in the conference negotiations. I will continue to work with the conferees to resolve this matter.

Again, thank you for your letter.

Sincerely,



Lisa Murkowski
United States Senator

Enclosure

LISA MURKOWSKI
ALASKA

COMMITTEES

ENERGY AND NATURAL RESOURCES
Ranking Member

APPROPRIATIONS

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AND PENSIONS

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601 East Westmont Drive, Suite 107
Wasilla, AK 99684-7142
(907) 376-7685

May 8, 2012

Senator Barbara Boxer
Chairwoman
Environment and Public Works Committee
Washington, DC 20510

Senator Jim Inhofe
Ranking Member
Environment and Public Works Committee
Washington, DC 20510

Dear Chairwoman Boxer and Ranking Member Inhofe:

Thank you for your efforts to reauthorize the federal-aid highway program. As you negotiate with your fellow conferees, I write to inform you of my priorities.

I proudly voted for MAP-21 when it passed the Senate. It contains robust funding levels for federal-aid highway programs consistent with SAFETEA-LU. Unfortunately, H.R. 7 makes aggressive cuts to highway funding levels that would severely hamper my state's ability to continue improving our surface transportation system. H.R. 7 would cut highway funding to Alaska by 40% compared to MAP-21. I urge you to maintain the highway funding levels contained in MAP-21.

One major problem I have with MAP-21 is contained in Division B – Public Transportation. The legislation amends Title 49 by repealing a compromise that was reached during House-Senate negotiations of SAFETEA-LU. With the passage of SAFETEA-LU, 49 USC 5336 allows Alaska Railroad (RR) to count 60% of its passenger track for FTA formulas. This was the result of negotiations between the House and Senate, and it corrected an inequity that existed prior to passage of the highway reauthorization. In 2000 through 2002, under both the Clinton and George W. Bush Administrations, FTA determined that Alaska RR passenger operations meet FTA statutory eligibility requirements for formula funds. However, an issue remained as to how much of the passenger track could be counted for formulas.

The Alaska RR has as its hub the Anchorage urbanized area, which is an over 200,000 population UZA. Passenger trains operate in and out of Anchorage and most train miles outside of Anchorage are attributable to the Anchorage UZA. Other FTA-qualified railroads are either all inside UZAs or FTA allows 100% of passenger track outside a UZA to be counted as "attributable" to a UZA for formulas. Prior to passage of SAFETEA-LU, Alaska RR could only count mileage within the Anchorage UZA and was the only qualified FTA recipient passenger railroad unable to count attributable miles. Consequently, Alaska's Congressional Delegation stepped in to address the disparity between Alaska RR and railroads in the Lower 48 by including language in SAFETEA-LU.

In 2006-2007, Alaska RR issued grant-anticipation bonds, \$137 million of which still needs to be repaid. The annual debt service payments are roughly \$15 million and MAP-21 cuts FTA funding by \$30 million. To put it bluntly, MAP-21 will force the railroad into default. The result will be budget shortfalls and laid off railroad workers. Since the passage of MAP-21, Moody's Investor Service downgraded the debt from A1 to A2 and has kept the Alaska RR on negative watch for another drop due to the potential loss of grant funding.

Attached to this letter are letters of support from the Teamsters, American Federation of Government Employees, Transportation Communications Union, and the United Transportation Union. All of these entities are asking that you correct this unfair harm to the Alaska RR. H.R. 7 did not repeal language that is vitally important to Alaska RR, and I respectfully request that you defer to the House on this issue.


Sincerely,




Lisa Murkowski
U.S. Senator

Enclosure

CC: Senate conferees to MAP-21

 Attachments can contain viruses that may harm your computer. Attachments may not display correctly.

Kathy Weber

From: Alan LeMaster [gakona@gakonaak.net] **Sent:** Tue 5/29/2012 6:24 PM
To: Doug Isaacson
Cc: Kathy Weber
Subject: FW: Alaska Natural Gas Pipeline Coalition. (ANGPC) meeting with NP City Council ~ June 4, 2012 - 7:00 PM
Attachments:  [05-12-12 Master Final Draft.docx\(30KB\)](#)

Mayor Isaacson:

Thank you for your time this afternoon. I am attaching our latest draft of the Resolution upon which we are seeking support. Please review it carefully and pass it along to your council members. Understand, this is our proposal and may or may not meet all the criteria of every organization. Therefore it is completely OK to add, subtract or revise to your individual needs.

If you have resolutions or other items you wish us to read prior to our arrival, please e-mail them to me.

At this time we are expecting to be in North Pole for you June 4th council meeting at 7:00 PM and look forward to a productive meeting.

Best regards,

L. Alan LeMaster, Director

Alaska Natural Gas Pipeline Coalition. (ANGPC)

P. O. Box 222

Gakona, AK 99586

Phone: (907) 822-3664

E-mail: gakona@gakonaak.net

Resolution:

Whereas, Interior and Southcentral Alaska currently uses about 75 million gallons of fuel oil to stay warm in the winter at a cost of over \$320.00 million dollars per year, and;

Whereas, the work of scientists with USGS, EIA, Escopeta, Buccaneer Energy and others estimate that 16-24 trillion cubic feet of natural gas reserves exist under Cook Inlet; which is a 200+ year supply of gas for the Anchorage bowl, given existing railbelt consumption of 240 million cubic feet per day (MCF/D), and;

Whereas, Cook Inlet gas is dry gas, perfect for use in heating and electrical generation in the Anchorage bowl and surrounding communities from the Mat-Su Valley to Homer on the Kenai Peninsula, and;

Whereas, Cook Inlet is much closer to Anchorage than Prudhoe Bay thus greatly reducing the cost of distribution, and;

Whereas, there is in excess of 35 trillion cubic feet (T/cf) of known natural gas reserves in North Slope oil wells and, by some estimates, unknown reserves may be from an additional 35 T/cf to 200 (T/cf) yet to be certified and;

Whereas, an abundance of research proves that a large-diameter gasline would serve more Alaskan residents with low cost energy if routed from the North Slope to Valdez, with a 24" spur line from Glennallen to Palmer adjacent to the Glenn Highway corridor for transporting natural gas to Anchorage if needed, or from Anchorage to Valdez should significant supplies of natural gas are discovered in Cook Inlet, allowing for sales of Cook Inlet natural gas to the Asian market, and;

Whereas, a Richardson Highway routing would ensure natural gas would be made available to key military bases such as Ft. Wainright, Eielson AFB, and Ft. Greely National Missile Defense, and, given significant US defense spending cuts that have been announced, these bases are more secure if their operating costs are reduced, and;

Whereas, in the opinion of most comprehensive studies that the Port of Valdez is the only port in Alaska that can adequately be used for shipment of liquid natural gas (LNG) on large capacity tankers to the Asian market necessary to transport LNG in the greatest volume and at the most economical costs, and;

Whereas, a Richardson Highway routing would ensure that a large-diameter natural gas pipeline to the deep water, ice free Port of Valdez, would enable gas to be fed into the small diameter (24") gasline to the Mat-Su/Anchorage/Kenai Peninsula system, with a minimum of one or two gas off takes - thereby reducing the capital expenditures (CAPEX) of the large line, and also, ensuring that Interior and other Southcentral residents enjoyed the benefits of the low cost of gas transported through Alaska from the large-diameter gasline, and;

Whereas, a Richardson Highway routing would ensure that affordable natural gas was made available in the corridor where research has determined that vast mineral resources exist, and where large mines (Pogo and Fort Knox) is already in operation and other large mining operations are under consideration (Livengood), and that mineral resource extraction requires significant energy and that affordable natural gas reduces this expense, and;

Whereas, the Richardson Highway is an existing pipeline corridor, that has received federal approval in the form of a Federal Environmental Impact Study for a gasline, where other routes have not, and that Right of Way and permitting risk should be minimized, and;

Whereas, a Glennallen to Palmer routing-as the first leg of this project, ensures that significant Right of Way and permitting of that corridor was established by the work of Alaska Natural Gas Development Authority (ANGDA), and such a routing ensures gas from Cook Inlet can be more easily transported to Valdez for export, and other gas wells are currently under study and development in the gas-rich Copper River basin, and;

Whereas, a small diameter line in conjunction and integrated with a large gas line provides redundancy to ensure that Southcentral and Interior Alaska gas customers have alternative gas supplies in the event of a major earthquake or other natural or manmade disaster, and;

Whereas, such a line could be built with billions of dollars Alaska has in state savings and with the sale of Bonds from major financial institutions around the world thereby reducing the pipeline's operating costs; specifically, not requiring a return on equity, as the state already does with highways, ports, airports, the Alaska State Ferry system and other public infrastructure, and;

Whereas, a Richardson Highway routing ensures a gas line routing next to the Golden Valley Electric Association (GVEA) - North Pole Expansion Facility where a General Motors LM-6000 power generating turbine may be fed with cheap natural gas thereby significantly reducing GVEA member's electricity bills, and;

Whereas, a Richardson Highway routing ensures a gas line routing next to the Copper Valley Electric Association (CVEA) – Glennallen Power Plant Facility where a power generating turbine may be fed with cheap natural gas thereby significantly reducing CVEA member's electricity bills, and;

Whereas, a Richardson Highway routing also ensures that outlying areas of the Fairbanks North Star Borough, such as Livengood, Harding Lake, Salcha, and all communities along that corridor such as Delta Junction, Summit Lake, Paxson, Gakona, Gulkana, Glennallen, Copper Center, Tazlina, Tonsina, Kenny Lake, Chitina, and Valdez, as well as communities along the Glenn Highway corridor such as Tolsona, Mendeltna, Nelchina, and Eureka will receive low cost energy from Alaska's natural gas supplies, saving millions of dollars annually to all consumers within the purview of these communities and;

Whereas, with the correct routing, and a minimal return on equity would significantly reduce the cost of energy in the Southcentral and Interior Alaska, and dramatically improve our winter time air quality in all of the communities affected, and;

Whereas, the Alaska Natural Gas Pipeline Coalition. (ANGPC) is hereby established and is recognized as an ad hoc citizens committee, formed and dedicated to the promotion of a large-diameter (48") natural gas pipeline from the North Slope to tidewater at Valdez Alaska, first to service the low cost energy needs of Alaskans and subsequently to allow the state of Alaska to export and market the excess Liquid Natural Gas to the Asian markets with reasonable profits that can be dedicated to ultimately paying for the construction and operation of the pipeline;

Therefore be it resolved, that the _____ hereby agrees to align itself with members of the Alaska Natural Gas Pipeline Coalition. (ANGPC) in its efforts to support the construction and operation of a large-diameter natural gas pipeline routed from the North Slope to Valdez with take-offs where needed and demanded in, but not limited to, Fairbanks, North Pole, Delta Junction, and Glennallen and;

Be it further resolved, that said pipeline will be a cooperative effort in design, development, construction and operation with the State of Alaska, TransCanada Corporation, British Petroleum, Conoco/Phillips, and Mobil/Exxon.

CITY OF NORTH POLE

RESOLUTION 11-29

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF NORTH POLE, ALASKA, SUPPORTING A LARGE VOLUME GASLINE WHICH WOULD SIGNIFICANTLY REDUCE THE COST OF ENERGY IN THE FAIRBANKS/NORTH POLE AREA AND OTHER PARTS OF ALASKA WITH GAS VIA A GASLINE FROM PRUDHOE BAY TO FAIRBANKS AND CONTINUING SOUTH TO GLENNALLEN, CONNECTING TO A SPUR LINE FROM GLENNALLEN TO THE EXISTING SOUTH CENTRAL GAS GRID AND CONTINUING TO THE KENAI PENINSULA FOR EXPORT, AND PROVIDING FOR EXPORT FROM THE ICE FREE DEEP WATER PORT AT VALDEZ.

WHEREAS, Alaska is fortunate to have 35 trillion cubic feet of known gas reserves plus potentially an additional undiscovered hundreds of trillions of cubic feet of natural gas on Alaska's North Slope region, the development of this resource will provide billions of dollars of revenue to Alaska each year plus greatly increase the volume of oil put into the Trans Alaska Pipeline (TAPS), providing economic and revenue benefits to Alaska; and

WHEREAS, Alaska, while rich in natural resources, suffers from having the highest cost of energy and coldest temperature days per capita in the nation; and

WHEREAS, the Alaska Constitution, Article 8, Section 1 states, "It is the policy of the State to encourage the settlement of its land and the development of its resources by making them available for maximum use consistent with the public interest"; and Section 2 mandates, "The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people"; and settlement requires access and affordable, competitive energy to develop commerce to sustain the settlement of Alaska; and

WHEREAS, the legislature is to be commended for taking steps to provide for the development of natural gas, the first effort being AGIA which is an international line through Canada toward which Alaska pays incentives of \$500 million and which is not likely to be built unless in phases, due to shale gas exploitation in North America; the second effort was House Bill 369 passed by the 26th Alaska Legislature in April 2010, establishing the Alaska Gasline Development Corporation (AGDC) as a subsidiary corporation of AHFC to pursue developing a project plan for delivering North Slope natural gas to Interior and Southcentral Alaska. The Legislature received AGDC's Project Plan in July 2011. The Plan described how a 737-mile-long, 24-inch-diameter Alaska Stand Alone Gas Pipeline/*ASAP* project could be feasibly designed, financed, constructed and operated as the legislation directed; however, as proposed, it does not provide for maximum settlement or benefit and has an inequitable tariff structure; and

WHEREAS, each legislative proposal for developing natural gas should include an evaluation of the following considerations:

- a. Does the routing of the pipeline encourage the greatest settlement of Alaska's land and provide for the maximum development of Alaska's resources? Does it facilitate the ability of the people to affordably live where cities and communities have already been established?
- b. Is the tariff equal to all parts of the pipeline, the resource being equally owned by all?
- c. Is the tariff as low as possible due to the ability to export?
- d. Is the diameter of the pipe as large as possible to be able to competitively market the resource?
- e. Are the terminal, or take-off, points placed for maximum integration into existing energy production and transmission infrastructure?

WHEREAS, AGDC's ASAP project would route through national and state parks along the Parks Highway which have minimal settlement or development opportunities thereby providing for minimal benefit to Alaskans; and because a 12 inch diameter pipe will be built approximately 35 miles from the main pipe to supply Interior Alaska but will stop 20 miles from the two oil refineries and 120 (plus) megawatt electric generation plant in North Pole which produce much of the gasoline, heating oil, jet fuel, and electricity for use throughout Interior, Rural and Southcentral Alaska, but the pipeline that is to benefit Alaskans, in its current form, will require Interior Alaskans to pay a greater tariff than the consumer in Southcentral twice; an additional tariff for a spur from the mainline, and additionally to construct the line to North Pole and/or beyond—negatively affecting the economics of such a spur to Interior Alaska; and

WHEREAS, AGDC's ASAP line projects the tariff by eventual demand, the actual price to the consumer may be too expensive to encourage an infrastructure build out and home or business conversions, but that dynamic could be changed by incentivizing the build-out and heating oil conversions in Interior Alaska by ensuring that the tariff is the same system-wide; if the cost to the consumer is not economical, make it economical by increasing the market of consumers through export opportunities from ports on the Kenai and at Valdez; if exports can't be facilitated because of the restrictions of AGIA, then either:

- a. The legislature should get us out of AGIA to allow for an in-state gasline with throughput greater than 500 million standard cubic feet per day (MMcfd); or
- b. The legislature should amend the provisions of HB 369 to ensure the routing of the 24 inch line is down the Richardson Highway, supplying the greater number of communities, including North Pole, Eielson AFB, Salcha, Delta Junction, Ft. Greely, and Glennallen, and bringing the energy supply to mining projects in operation or being permitted, such as Pogo Mine; or
- c. The legislature or Administration should marry AGIA and ASAP, thus allowing a large diameter pipeline to be built down the Richardson corridor to Delta, as a possible Phase 1 of the Trans Canada line, and be continued south to Glennallen, connecting to a spur line from Glennallen to the existing Southcentral gas grid and continuing to the Kenai Peninsula for export, and providing for export from the ice free, deep water port at Valdez; and

WHEREAS, it is time that this take place by moving natural gas throughout Alaska in such a way to provide a source of cheap, clean energy to heat our homes and businesses to the maximum number of Alaskans; the cost of energy in the Fairbanks/North Pole area, including the military bases, is threatening the very existence of our Interior communities; and

WHEREAS, the high cost of energy at our interior military bases could be a deciding factor if the bases were once again evaluated on a closure criteria; and

WHEREAS, the world markets for natural gas made into liquefied natural gas (LNG) are seeking suppliers of LNG to their countries, for example, Japan is seeking contracts from far away states like Pennsylvania and from Northern Europe which have travel distances far greater than the 3400 miles from Alaska to Tokyo, making Alaska LNG far more competitive when export is provided for; and

Whereas, the recently released report by the worldwide recognized energy leader Wood MacKenzie shows that LNG from Valdez is significantly more economical than LNG export projects being proposed in the Lower 48, British Columbia and Australia; and

WHEREAS, export is already provided for from the Kenai; and Governors Bill Egan, Walter Hickel, Jay Hammond, the late Senator Ted Stevens and 138,000 Alaska voters all supported and took steps in advancing the building of an All-Alaska Gasline parallel to the Trans-Alaska Oil Pipeline to Fairbanks and continuing south to tidewater at Valdez for liquefaction and export; and

WHEREAS, because of the robust economics in the Asian energy markets in need of LNG, Alaska finally has the opportunity to monetize its natural gas in such a manner that would bring billions of dollars each year in additional revenues to the State and low cost energy to Alaskans; and

WHEREAS, only a large volume gasline from Prudhoe Bay to Fairbanks and continuing south to the deepwater port at Valdez, the All-Alaska line, or through Glennallen to Southcentral and the Kenai, provides significant benefits to All Alaskans.

NOW, THEREFORE, BE IT RESOLVED, the North Pole City Council urges the Governor and Legislature to:

1. Ensure that any State supported in-state gas pipeline does not charge Fairbanks/North Pole an additional tariff and that the terminus be located to enable immediate connection to Interior Alaska's existing energy production and transmission infrastructure in North Pole; and
2. Utilizing the considerations and three options within this resolution, take immediate steps to advance the building of a large volume gasline from Prudhoe Bay parallel to the TAPS to tidewater at Valdez with the maximum amount of off-take locations at every logical local, such as the Yukon River, Fairbanks, all interior military bases, Delta Junction and Glennallen to points south, for the maximum gas distribution throughout Alaska; and
3. Make an analysis that evaluates the benefits of taking LNG or compressed natural gas (CNG) from Valdez, and the Yukon River to coastal communities throughout Alaska who are currently utilizing diesel fuel as the source of power generation and space heating.

BE IT FURTHER RESOLVED, this resolution is to be distributed to the Governor, Legislature, Congressional Delegation, AGDC, AGPA, AML, Trans Canada, City of Fairbanks, and the Fairbanks North Star Borough.

April 15, 2011

Governor Sean Parnell
State of Alaska
P.O. Box 110001
Juneau, AK 99811-0001

Dear Governor Parnell,

It has come to the attention of the representatives of Interior and Eastern Alaska, that the State of Alaska is currently pursuing the route selection process for the instate natural gas pipeline. We have recently been informed that the Pipeline Coordinator's Office has received a right-of-way application from the Alaska Gasline Development Corporation (AGDC), for the purpose of transporting natural gas from the North Slope to the Cook Inlet via the Parks Highway Corridor. While we are grateful for the work that is being done to facilitate the construction of an in-state natural gas pipeline we are concerned about the transparency of the process, the potential for the State to limit public review of the route choices in the future, the validity of the figures used to justify the selection of the Parks Highway route, and the failure to include potential economic benefits in the route selection process.

The route selection process has not been transparent up to this point, and we do not believe any independent analysis has been completed to verify that the Parks Highway route would be the optimal route. The information that is currently available to the public does not contain all of the reference materials used in the decision making process, specifically the sources of the data used by Enstar during their previous evaluation of the Parks Highway route. If the data used in Enstar's report is the basis for the AGDC decision making process, the State should reconsider the route on the basis that Enstar's decisions are derived from a profit maximization motive and not the maximization of benefits to society, which should be the basis for the State's decision.

Below, we outline some of the reasons we believe that the Richardson Highway corridor should be given a fair evaluation as a potential instate pipeline right-of-way.

According to the *Stand Alone Gas Pipeline Route Alternatives Analysis* (Sep. 2009) issued by the State of Alaska Office of the Governor, the Parks Highway route is the least expensive choice. The authors of the analysis estimate that the cost of building the pipeline along the Parks Highway corridor would be \$3,929,222,046 , and would supply 1,593 customers with 18.1 million standard cubic feet of gas/day (MMSCFD) (this number excludes the population centers that would be served by either route). They estimated that the Richardson route would cost \$4,411,270,780, and would supply 2,582 customers with 2.4 MMSCFD. While this does reveal that the Parks Highway route would be cheaper to construct, the analysis fails to address any of the social benefits along either route. It does not provide estimates for the costs associated with routing a pipeline near Denali National Park or additional costs of bypassing the park, and we believe the report may contain errors in the population and gas demand estimates for the Richardson Highway route.

Of primary concern is the over-estimated demand along the Parks Highway route due to the inclusion of Clear Air Force Base. It is our understanding that Clear Air Force base is unable to utilize gas provided by a natural gas pipeline for strategic security purposes. Second, we are concerned that the demand along the Richardson Highway route is understated, primarily as a result of the exclusion of military bases and other potential gas consumers located southeast of Fairbanks. According to the report, customers and gas demand for the population centers that would be served by either option (Anchorage/Cook inlet area and Fairbanks) were excluded from the estimates, however, there are some discrepancies between the communities that would be included on both routes. These differences seem to arise from the inclusion of locations under the lateral pipeline component of the Parks Highway route that would not actually be serviced by the lateral pipeline. These areas include Fort Wainwright, Eielson Air Force base, Flint Hills Refinery and the City of North Pole, and Golden Valley Electric Association generation Facilities. While it is unlikely that Eielson Air Force Base and Fort Wainwright would convert their coal fired power plants to gas, again for security reasons, they could potentially utilize the natural gas for energy needs at facilities not connected to their steam heat distribution system. Fort Greely, which is located further down the Richardson Highway does not have coal fired power and is currently using diesel fuel, so it is likely that they would be interested in utilizing natural gas to operate their electric generation and heating systems while maintaining diesel generation back-up. If this is true, then the residential, industrial, and military consumers on the Richardson route would be significantly greater than currently estimated.

In fact, using 2010 census data data from the State of Alaska Department of Workforce Development Resource & Analysis our study suggests that the Richardson route contains approximately 7,878 more consumers than the Parks route. In addition to this data, the Alaska Department of Natural Resources released an *Alaska Natural Gas In-State Demand Study* (ASP 2001-1000-2650) in 2002, which states that the estimated gas demand for the Fairbanks North Star Borough could be up to 5.2 Bcf/yr or about 14.2 MMSCFD/day, not including power plant conversion. If one looks closely at the Stand Alone Gas Pipeline Alternative Analysis, it states that if the power plants along the Parks Highway were not converted then the demand for natural gas would be 0.0 MMSCFD, and .03 MMSCFD for the Richardson Highway. Such uncertainty and variances in the estimates for gas demand and populations along each route suggest a more rigorous examination should be conducted to address the underlying assumptions regarding power plant conversions and military base utilization.

We also believe that the geotechnical issues and potential impacts to human life along the Parks Highway are not being given the full weight they should receive. Dr. Paul Metz, Professor of Geological Engineering at the University of Alaska Fairbanks has provided a brief synopsis of some of those issues below:

The Parks Highway route crosses the Denali Fault system at two locations. The main strand of the Denali Fault crosses the Parks Highway near Cantwell. At this crossing there is adequate area to locate a high pressure pipeline away from the buildings and structures in the area. The Hines Creek strand of the Denali Fault crosses the Parks Highway near the entrance of Denali National Park and Preserve. At this location there is limited area to build a fault crossing structure for a pipeline away from the populated areas along the highway that would be resistant to a major

earthquake. In addition to an actual rupture along the Hines Creek strand fault structure, a major earthquake would reactive large scale and deep seated landslides that occur in the area from the Garner Station on the Alaska Railroad through to the visitor facilities near the entrance to Denali Park, a distance of approximately 12 miles. These existing landslides have deformed the Alaska Railroad tunnels at Garner and Moody stations, the Parks Highway and the highway bridges across the Nenana River as well as the tributary creeks to the Nenana River from the Garner station to the park entrance. These landslides have also deformed the foundations to the recently constructed buildings in the Nenana Canyon. A failure of natural gas pipeline buried in these large landslides in the canyon would be a major hazard to life and property.

The Richardson Highway route crosses *only* the main strand of the Denali Fault near the Black Rapids Glacier. The valley of the Delta River is wide at this location and there are no build facilities in the region other than the Trans-Alaska Pipeline. The Trans-Alaska Pipeline crossing of the Denali Fault withstood a magnitude 7.9 earthquake in the region in 2002. The natural gas pipeline crossing of the fault could be designed in a similar fashion and located far enough from the oil pipeline such that a catastrophic failure of either one would not impact the other structure. The Richardson Highway route also crosses two smaller active fault structures the Donnelly Dome and McGinnis Glacier Faults. As at the Denali Fault crossing the valley of the Delta River is large and the fault crossings are distant from any occupied structure. These crossing do not pose any major hazard to life and property.

It appears as if these geotechnical and safety considerations have not been discussed in the analysis of route options. We have also not seen discussion regarding the additional costs associated with routing through Denali National Park or the additional costs associated with bypassing the park as has been proposed in the most recent analysis from the AGDC. Given the potential scale of these costs it may be both safer and more economically beneficial to route the gasline along the Richardson Highway. While the current estimated difference in the cost of the routes is \$482 million dollars, without a public estimate for the additional costs of bypassing Denali National Park or routing through the Park it is difficult to assess the true difference in the cost of the routes.

In addition, a comparative evaluation of the potential mineral resources along each route is necessary. Dr. Metz was kind enough to weigh in on this subject, and has indicated that the potential to utilize natural gas to extract resources that are currently stranded along both routes could create major economic benefits for communities located along the routes. According to Dr. Metz's analysis the estimated value of mineral deposits along the Parks Highway corridor is \$14.6 billion dollars while the estimated value along the Richardson Highway corridor is \$20.2 billion dollars, which is a difference of \$6.4 billion dollars. While the potential value of resources along each route is substantial, it seems that the final decision regarding the route of the instate gasline has been solely based on the estimated costs of the project. In terms of a correct economic assessment of the project, this is a very limited approach that does not give appropriate weight to the direct and indirect economic and social benefits associated with potential development along each route.

The Richardson route could also allow for the construction of a gas-to-liquids (GTL) facility in the Interior that could supply Interior military bases with synthetic fuels. This could potentially reduce the chances of one of Alaska's military bases being shut down in the next Base Relocation and Consolidation (BRAC) round. Under the current Parks Highway plan it would be impossible to locate a GTL facility in the Interior due to the limited supply of gas available from the lateral pipeline. And yet another potential benefit could be increased exploration for oil and gas in Eastern Alaska.

Conclusion:

Given the level of public financing that will be necessary for the project to be completed and the State's current expenditures on the study of route options, it is vital that the chosen route follow the guidelines laid out in HB 369, which necessitate that the selected route be the most economical and provide gas to the most Alaskan residents at a reasonable cost. If this were a private project it would be understood that the most economical choice would be the lowest cost option that maximizes returns to shareholders. However, this is a public project and as such it must address the total impacts to society, which include both the direct and indirect costs and benefits.

We would like to see several of our questions and concerns addressed.

1. What is the certainty of military installations consuming the Natural Gas along each route?
2. Do the population estimates used in the AGDC analysis and Alternative Route Analysis use the most current data available?
3. Will there be a consideration of the total benefits of each route in the decision making process?
4. Will estimates for the updated cost of constructing a pipeline in or around Denali National Park, including costs addressing the geotechnical issues discussed above, be made public?

Thank you for your attention to this matter.

Sincerely,

Mayor Luke Hopkins
Fairbanks North Star Borough
PO Box 71267-1267
Fairbanks, Alaska 99701

Mayor Jerry Cleworth
City of Fairbanks
800 Cushman Street
Fairbanks, Alaska 99701

Mayor Doug Isaacson
City of North Pole
125 Snowman Lane
North Pole, Alaska 99705

Mayor Mary Leith
City of Delta Junction
PO Box 322
Delta Junction, AK 99737

Mayor Dave Cobb

City of Valdez
PO Box 307
Valdez, Alaska 99686

Robert A. Wilkinson, CEO

Copper Valley Electric Association
PO Box 45
Glennallen, Alaska 99588

Jim Dodson, President and CEO

Fairbanks Economic Development
Corporation
301 Cushman St, Suite 301
Fairbanks, Alaska 99701

CC:

Senator Joe Paskvan, Senate Resources Co-chair

Senator Joe Thomas

Senator John Coghill

Representative Eric Feige, House Resources Co-Chair

Representative David Guttenberg

Representative Scott Kawasaki

Representative Kyle Johansen

Representative Bob Miller

Representative Steve Thompson

Representative Tammie Wilson

Dan Fauske, CEO/Executive Director, Alaska Housing Finance Corporation

Alternative Instate Bullet Line Routes:

Population and Mineral Value Estimates

The population differences along the proposed instate bullet line routes were estimated using United States Census' 2010 population data available from the State of Alaska Department of Workforce Development Resource & Analysis Statistics. Communities were selected from the Alaska Gasline Development Corporation's "Alaska Stand Alone Gas Pipeline Plan of Development" (March 2011), and a the State of Alaska Office of the Governors "Stand Alone Gas Pipeline Route Alternatives Analysis" (Sep. 2009).

2010 estimates

Route	Location	Population	Housing Units
Parks	Nenana	376	215
Parks	Tanana	246	136
Parks	Anderson	246	145
Parks	Healy	1034	711
Parks	Cantwell	219	200
Parks	Talkeetna	876	744
Parks	Trapper Creek	481	499
Parks	Willow	2101	1912
Parks	Houston	1912	973
Parks	Big Lake	3350	2780
TOTAL		10,841	8,315

Route	Location	Population	Housing Units
Richardson	Moose Creek	747	332
Richardson	North Pole	2117	916
Richardson	Eielson	2647	848
Richardson	Pleasant Valley	725	396
Richardson	Two Rivers	719	348
Richardson	Harding-brich lakes	299	656
Richardson	Salcha	1095	585
Richardson	Big Delta	591	305
Richardson	Delta Junction	958	517
Richardson	Fort Greely	539	364
Richardson	Paxson	40	179
Richardson	Gakona	218	131
Richardson	Glennallen	483	336

Richardson	Copporville	155	N/A
Richardson	Copper Center	328	199
Richardson	Lake Louise	46	315
Richardson	Nelchina	59	47
Richardson	Chickaloon	272	251
Richardson	Palmer	5937	2281
Richardson	Knik-River	744	336
Total		18,719	9,342

Route	Total Population of differing locations along routes
Parks (2010)	10,841
Richardson (2010)	18,719

Difference	7,878
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Estimate Range	
(+10%)	8,666
(-10%)	7,090

Mineral development value estimates were provided by Dr. Paul Metz of the University of Alaska. Values were estimated using the "Mineral Occurrence Revenue Estimation and Visualization Tool" (MOREV) which was developed in cooperation with UAF and the Michigan Technical Research Institute (MTRI). MOREV uses geospatial data on metallic and non-metallic mineral resources, and other commodities for Alaska, Yukon, and British Columbia to estimate potential future revenues under pre-define and user-generated scenarios within the existing and future railroad corridors in the regions.

Route	Mineral Development Probability	Total estimated value of mineral development
Parks	10th Percentile	\$843,763,387
Richardson	10th Percentile	\$897,109,410
	difference	\$53,346,023
Parks	50th Percentile	\$14,643,109,869
Richardson	50th Percentile	\$20,167,434,999
	difference	\$5,524,325,130
Parks	90th Percentile	\$68,330,984,020
Richardson	90th Percentile	\$100,018,774,830
	difference	\$31,687,790,810

STATE CAPITOL
PO Box 110001
Juneau, Alaska 99811-0001
907-465-3500
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Governor Sean Parnell
STATE OF ALASKA

550 West 7th Avenue #1700
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www.Gov.Alaska.Gov
Governor@Alaska.Gov

May 18, 2011

The Honorable Luke Hopkins
Mayor
Fairbanks North Star Borough
P.O. Box 71267-1267
Fairbanks, AK 99701

The Honorable Doug Isaacson
Mayor
City of North Pole
125 Snowman Lane
North Pole, AK 99705

The Honorable Jerry Cleworth
Mayor
City of Fairbanks
800 Cushman Street
Fairbanks, AK 99701

The Honorable May Leith
Mayor
City of Delta Junction
P.O. Box 229
Delta Junction, AK 99737

The Honorable Dave Cobb
Mayor
City of Valdez
P.O. Box 307
Valdez, AK 99686

Mr. Jim Dodson
President and Chief Executive Officer
Fairbanks Economic Development Corporation
301 Cushman Street, Suite 301
Fairbanks, AK 99701

Re: Pipeline Route Alternatives for the Alaska Stand Alone Gas Pipeline Project

Dear Mayors and Mr. Dodson,

I am writing in response to your letter of April 15, 2011, raising several questions and concerns regarding the route selection process and underlying facts for the Alaska Stand Alone Gas Pipeline (ASAP) Project. My purpose in writing is to both thank you for your collective interest in the ASAP Project and to respond to your questions and concerns.

As you know, in March, the State Pipeline Coordinator's Office published notice of public hearings for the AGDC Right-of-Way Lease Application, and the first hearing was held in Fairbanks on May 3. The completed application is available for download from the State Pipeline Coordinator's Office website at <http://dnr.alaska.gov/commis/pco/>.

The Alaska Gasline Development Corporation (AGDC) is working on the initial planning for the ASAP Project, which is currently proceeding through the feasibility and early design phases. By July 1, 2011, AGDC will provide to the Alaska Legislature the project plan as required by House Bill 369 to "specify and document how an in-state natural gas pipeline can be designed, financed, constructed, and made operational by December 31, 2015." This plan should address most of the

The Honorable Luke Hopkins et al.

May 18, 2011

Page 2

issues raised in your letter since the plan must “include an analysis of alternative possible routes and the selection of a route that ... (1) is economically feasible; (2) makes natural gas available to residents at the lowest possible cost; (3) allows for connecting lines to serve industrial, residential, and utility customers along the entire route, and in other regions of the state that can be served at commercially feasible rates...” AGDC’s alternative analysis will be based on this mandate from the Legislature.

I have asked AGDC to answer the four questions you posed in your letter and to provide technical information with regards to the issues raised. You can expect their response soon.

Again, we appreciate your interest in the ASAP Project and look forward to the healthy discussion and analyses that are sure to follow. Please do not hesitate to contact my office at 907-269-7450 to discuss the ASAP Project or to share any additional comments or concerns.

Best regards,



Sean Parnell
Governor

cc: Dan Fauske, President, Alaska Gasline Development Corporation



May 23, 2011

Mayor Luke Hopkins
Fairbanks North Star
Borough
P.O. Box 71267-1267
Fairbanks, Alaska 99701

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Mayor Jerry Cleworth
City of Fairbanks
800 Cushman Street
Fairbanks, Alaska 99701

Jim Dodson,
President/CEO
Fairbanks Economic
Development Corp.
301 Cushman St., Ste. 301
Fairbanks, Alaska 99701

Subject: Pipeline Route Alternatives for the Alaska Stand Alone Gas Pipeline Project

Honorable Mayors and Mr. Dodson:

Governor Sean Parnell asked me to respond to technical concerns you raised in your letter of April 15, 2011. He has previously written to you on your concerns (see attachment C Governor's May 18, 2011 letter). When Alaska Gasline Development Corporation (AGDC) was formed last year through House Bill 369, the language directed the project team to "...produce a project plan for the development of an in state natural gas pipeline." I am pleased to report that we are on track to deliver our plan to the legislature by its due date of July 1.

The questions you raised in your letter are welcome, as the magnitude of this project requires a great deal of trust that will only be established and strengthened through direct communication and a transparent process. To that end H.B. 369 establishes a clear vision that AGDC identify and plan for an effort that includes "...construction, ownership, operation and management of a natural gas pipeline serving Fairbanks, the Southcentral region... and other communities whenever practicable, connecting with or enhancing the existing gas pipeline system, and reaching tidewater in Southcentral."

H.B. 369 also requires that the plan be economically feasible, make gas available to residents at the lowest possible costs, allow for connections to serve Alaskans along the route and across the state, and maximize the use of state resources and existing facilities to the extent possible.

AGDC and the involved federal and state agencies are engaged in a substantial and ongoing community and stakeholder outreach program. We can all agree that a decision to move forward on an in-state gasline is one that will benefit the state for decades to come. The question of which route is clearly important but we must not lose sight of the bigger picture: supplying Alaskans with gas equals unparalleled economic opportunity that will set the stage for the next 50 to 100 years.

The report to the Legislature to be submitted July 1 and the Draft Environmental Impact Statement expected in August will significantly advance public awareness and understanding of ASAP and will provide substantial evidence of the independent commercial and environmental analyses. Final assessment of public benefits of the ASAP Project, including the proposed route, ultimately rests with the Alaska Legislature, who will review AGDC's project plan, consider the information provided, and balance interests consistent with those in the best interests of Alaska's citizens.

Included with this letter are two attachments that address the alternative route issue and the four questions from your letter dated April 15, 2011. I hope this addresses all of your concerns but feel free to contact me if there are follow up questions.

Sincerely,



Dan Fauske,
President, Alaska Gasline Development Corporation

cc: The Honorable Sean Parnell, Governor

attachments: A - Discussion of Alternative Pipeline Route Issues
B - Response to Four Questions in April 15, 2011 Letter
C - Governor's Letter May 18, 2011

ATTACHMENT A

Discussion of Alternative Pipeline Route Issues

Substantial attention has been paid to the relative cost-effectiveness, public benefits, and environmental impacts of pipeline route alternatives, such as the Richardson Highway route and numerous smaller pipeline segment alternatives. These analyses have been conducted by AGDC and its predecessors at the Alaska Department of Natural Resources (DNR) on the commercial side, and by USACE and the NEPA cooperating agencies with respect to environmental impacts, not by ENSTAR (which has not been involved in the ASAP Project since 2008). Several factors described below make the currently proposed Parks Highway route preferable to the Richardson Highway route.

A Richardson Highway pipeline alignment is approximately 100 miles (i.e., 15 percent) longer than the currently proposed ASAP route, resulting in substantially increased relative cost and more adverse environmental impacts. The overall cost differential is approximately \$580¹ million in favor of the currently proposed route.

Environmental Impact

The NEPA scoping and alternatives process has included consideration of a Richardson Highway route alignment, as well as other route alternatives. USACE and the cooperating agencies have made initial screening decisions for alternatives and are overseeing the DEIS analysis of AGDC's proposal and a range of alternatives. Those decisions and associated analyses will be made public and subject to comment when the DEIS is published this fall. The NEPA process assures interested parties of an independent and fully transparent environmental analysis of the ASAP Project.

It seems clear that the additional 100 miles of pipeline route necessitated by a Richardson Highway alignment poses significantly more environmental impact and project permitting obstacles. For example, the *Stand Alone Gas Pipeline Route Alternatives Analysis* prepared in 2009 (and referenced in the April 15 letter) indicates that a Richardson Highway alignment would impact 23 percent more wetland features and 35 percent more wetland habitat.

Geo-Hazards

The April 15 letter suggests that the potential comparative hazards of faults along the proposed route might be a basis to prefer a Richardson Highway alignment. The *Stand Alone Gas Pipeline Route Alternatives Analysis* includes a comparative analysis of the potential geo-hazards for the Parks Highway and Richardson Highway alignments, including a 15-page appendix on this subject. Although the letter focuses attention on the Denali Fault, both routes are identified as having several fault crossings and transiting several active seismic areas:

¹ While the *Stand Alone Gas Pipeline Route Alternatives Analysis* prepared in 2009 identified a cost differential of \$480 million, additional hydraulic analysis of the project indicates that the additional 100 miles of alignment for the Richardson alternative would necessitate an additional compression station with an estimated cost of \$85 to \$100 million.

Parks Highway Route Active Faults	Richardson Highway Route Active Faults
<ul style="list-style-type: none">• Minto Fault (MP 458 to 468)• Northern Foothills Fold & Fault Belt (MP 506)• Healy Creek Fault (MP 527)• Healy Fault (MP 531)• Denali/Hines Creek Strand Fault² (MP 562)• Denali/McKinley Strand Fault (MP 568)• Castle Mountain Fault (MP 726)	<ul style="list-style-type: none">• Salcha Seismic Zone (MP 500)• Donnelly Dome Fault (MP 563.5)• McGinnis Glacier Fault (MP 593.5)• Denali Fault (MP 594.5)• Caribou Fault #1 (MP 766)• Caribou Fault #2 (MP 778)• Castle Mountain Fault (MP 784)

It is not meaningful to compare alternate routes by reference to a single fault, and a full comparison of seismic hazards provides no single basis to prefer one route over the other. Because of the clear importance of seismic stability for the pipeline route regardless of its location, AGDC has teamed with DNR's Division of Geological & Geophysical Surveys (DGGS) to conduct a high-resolution LiDAR survey of the proposed alignment, followed by trenching of faults that are found to cross the proposed alignment. This work begins this summer.

AGDC and the involved agencies are well aware of the landslide-prone areas and will be factoring this information into the design and construction of the pipeline. These factors have already been taken into account in developing project cost estimates. Because the available information demonstrates that the two route alignments have similar landslide-prone areas, there is no reason to prefer one alternative over the other on this basis.

One safety issue that is not mentioned in the April 15 letter is the potential hazard associated with routing a 2500 psi gas line through residential areas of Fairbanks and North Pole. Doing so would result in numerous additional "High Consequence Areas" – for example, areas associated with the University of Alaska at Fairbanks and with tourist accommodations and attractions. Additional design, construction, maintenance, and right-of-way costs result from these proximity issues and associated risks. These costs were not captured in the 2009 route analysis.

Public Benefit

The letter emphasizes that there may be significant social benefits from development of a Richardson Highway route because of a higher comparative demand for natural gas along that route. However, the only gas off-take points proposed for the ASAP Project are at Fairbanks and at the terminus of the pipeline in Southcentral Alaska.

To reduce the overall tariff for natural gas transported via the ASAP Project, AGDC's proposal includes up to 35,000 barrels of natural gas liquids (NGLs) in the gas stream from the North Slope to the pipeline terminus, where an NGL extraction facility will be located. The NGLs in the

² The Parks Highway route does not cross the "Denali Fault" in two locations as suggested in the letter. Neotectonics geologist Dr. Rich Koehler of DNR's Division of Geological & Geophysical Surveys (DGGS) is researching and developing a comprehensive database of active faults statewide. According to Dr. Koehler, the "Denali/Hines Creek Strand Fault" has "Denali Fault" in its name but is a separate structure. The Denali/Hines Creek Strand Fault is a bedrock structure that is thought to have become inactive ~95 million years ago. Although this geologic structure has been identified for completeness, it is not considered an active fault.

gas stream must be removed to provide utility-grade gas for residential and most commercial purposes. The current proposal accomplishes NGL removal through a straddle plant at the intersection of the main pipeline with a proposed 36-mile 12-inch lateral line providing up to 60 MMscfd to the Fairbanks area, and through an NGL extraction facility near tidewater in Southcentral Alaska from which NGLs will be exported.

Due to the need for NGL removal, it is not economical to serve the smaller areas along the pipeline route, regardless of the alignment, except via a new distribution system developed off the proposed Fairbanks lateral. Even if the mainline transported only utility-grade gas, development of local distribution systems for the smaller communities and users along the pipeline would very likely be cost-prohibitive regardless of the alignment.

ATTACHMENT B

Response to Four Questions in April 15, 2011 Letter

1. What is the certainty of military installations consuming the Natural Gas along each route?

There is no certainty; however, under the current development scenario using NGLs, neither Clear AFB nor Fort Greely will be connected no matter which route is used. Eielson AFB can be equally served from both alternatives.

2. Do the population estimates used in the AGDC analysis and Alternative Route Analysis use the most current data available?

Using the population numbers contained in the April 15 letter and assuming the various communities could connect to the main line, the alternatives are as follows:

- Parks Highway: 15,605 (adding Eielson AFB and North Pole, as these areas would ultimately be connected via a local distribution company). This number does not include Clear AFB.
- Richardson Highway: 12,038 (Subtracting Palmer and Knik-River as they are already being served by ENSTAR).

3. Will there be a consideration of the total benefits of each route in the decision making process?

Yes. The Alaska Legislature should have the total benefits in mind as it considers AGDC's feasibility report and recommendations. Moreover, by law, USACE and the cooperating agencies will take into account the direct, indirect, and cumulative environmental effects of the proposed project and a reasonable range of alternatives.

The Parks Highway and Richardson Highway alignments have similar engineering issues, cross similar terrain, and have similar social/economic benefits. Neither pipeline route would service small communities and customers adjacent to the route, except via a new local distribution system extending from Fairbanks or via existing or new distribution systems extending from the pipeline terminus. The over-riding comparative factor is that the Richardson Highway alignment is approximately 100 miles longer. The additional 15 percent in the length of the pipeline adds approximately \$600 million to the project cost south of Fairbanks. This additional cost would be added to the tariff of the approximately 440,000 people in the Mat-Su, Kenai Peninsula, and Anchorage Boroughs. In addition, because the route is 100 miles longer, there are significant comparative adverse environmental impacts. When there are two routes that meet the project purpose and need, and there are no meaningful environmental advantages to one of the routes but important and obvious environmental disadvantages (e.g., impacts to 35 percent more wetland acreage), there is little to be gained from a detailed analysis of the more environmentally damaging route alternative.

4. Will estimates for the updated cost of constructing a pipeline in or around Denali National Park, including costs addressing the geotechnical issues discussed above, be made public?

There are no separate costs associated with the Denali Park area. All costs for the Parks Highway alignment are incorporated into the cost estimate contained in the September 2009 *Stand Alone Gas Pipeline Route Alternatives Analysis*.

STATE CAPITOL
PO Box 110001
Juneau, Alaska 99811-0001
907-465-3500
fax: 907-465-3532



Governor Sean Parnell
STATE OF ALASKA

550 West 7th Avenue #1700
Anchorage, Alaska 99501
907-269-7450
fax 907-269-7463
www.Gov.Alaska.Gov
Governor@Alaska.Gov

May 18, 2011

The Honorable Luke Hopkins
Mayor
Fairbanks North Star Borough
P.O. Box 71267-1267
Fairbanks, AK 99701

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Re: Pipeline Route Alternatives for the Alaska Stand Alone Gas Pipeline Project

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The Honorable Luke Hopkins et al.
May 18, 2011
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Best regards,




Sean Parnell
Governor

cc: Dan Fauske, President, Alaska Gasline Development Corporation



City of North Pole Office of the Mayor

125 Snowman Lane • North Pole, AK 99705
Phone: 907-488-8584 • Fax: 907-488-3002

Date: May 30, 2012
To: Council Members
Cc: Kathy Weber, MMC
From: Mayor Douglas W. Isaacson 
**RE: Request to Enter Into Employment Contract with
Interim Police Chief**

According to City Charter Chapter 12.1, all contracts must be authorized by the Council. I am therefore requesting Council approval to enter into the attached employment contract with Interim Police Chief Steve Dutra.

Thank you.

EMPLOYMENT AGREEMENT

THIS AGREEMENT, effective as of June 5, 2012, is entered into between the City of North Pole (hereinafter called the "the City"), an Alaskan municipality, and Stephen Dutra (hereinafter called "the Chief of Police").

In consideration of the mutual agreements and covenants herein contained, the City and Chief of Police agree as follows:

1. **EMPLOYMENT.** The City hereby employs Stephen Dutra to act as Chief of Police of the City, and hereby accepts such employment and agrees to devote his time and attention to the diligent prosecution of the business and affairs of the City in that capacity. The Chief of Police further agrees to perform the services and duties contemplated for the office of Chief of Police in conformity with the terms of the City's code, specifically but not limited to NPMC 2.20.030, and to perform such other responsibilities as may be assigned him from time to time by the Mayor.

2. **TERM.** The employment provided for in this Agreement shall commence upon the date of signing of this Agreement and shall continue until November 1, 2016 (hereinafter referred to as the "Period of Employment") unless earlier terminated as hereinafter provided.

3. **TERMINATION.** The City, through decision by the Mayor and ratified by City council, reserves the right to terminate, if other than for just cause, this Agreement for any reason at any time prior to the expiration of the term. Should the City decide to terminate this Agreement, the Chief of Police will be given the opportunity to exercise the terms of the Step Back Clause outlined below.

4. **TERMINATION FOR JUST CAUSE.** If the City has Just Cause to terminate the employment of the Chief of Police then the City may require the Chief of Police to exercise the Step Back Clause and the City will follow the procedures outlined in NPMC 2.36.321.

5. **VOLUNTARY RESIGNATION.** If the Chief of Police decides that the position of Chief of Police is not suitable, he will give two (2) weeks' notice to the Mayor in accordance with NPMC 02.36.350, and will then be allowed to exercise the terms of the Step Back Clause.

6. REPLACEMENT OF CHIEF OF POLICE. The Chief of Police position serves at the pleasure of the Mayor pursuant to NPMC 02.20.020. If the Mayor elects to exercise his or her authority to replace the Chief of Police prior to expiration of the Period of Employment and the City Council ratifies the Mayor's decision, then the Chief of Police shall be allowed to exercise the terms of the Step Back Clause outlined below.

7. STEP BACK CLAUSE. The Step Back Clause allows the Chief of Police to be given the option to rejoin the police force within the North Pole Police Department at a lesser rank. This position, to which the Chief of Police would step back into, would be, at a minimum, a police officer position and at a pay scale commensurate to his years of service and appropriate professional development steps at the time the Step Back Clause is exercised.

8. NOTICE. Any notice given under this Agreement to either party shall be given in writing. Any such notice shall be deemed to be given when hand delivered or mailed by certified mail, postage prepaid, addressed to such party at the respective addresses set out below, or at such other addresses as such party may hereafter designate (by written notice provided in accordance with this paragraph) as the addresses for purposes of notice hereunder:

Chief of Police: Stephen Dutra
PO Box 55091
North Pole, AK 99705

City: Kathryn Weber
Clerk, City of North Pole
125 Snowman Lane
North Pole, Alaska 99705

9. WAIVER OF BREACH. The waiver by either party of a breach of any provision(s) of this Agreement shall not operate or be construed as a waiver of any subsequent breach.

10. ENTIRE AGREEMENT. This instrument contains the entire agreement of the parties. It may be changed only by an agreement in writing signed by the party against whom enforcement of any waiver, change, modification, extension or discharge is sought.

11. AMENDMENT. This Agreement may be amended at any time and in any respect by the written agreement of the parties hereto.

12. ASSIGNMENT. The rights and obligations of the City under this Agreement shall enure to the benefit of and shall be binding upon the successors and assigns of the City. The Chief of Police shall not assign his rights, duties or obligations hereunder.

IN WITNESS WHEREOF, the City and the Chief of Police have executed this Agreement on the day and year first hereinabove mentioned.

CITY OF NORTH POLE

By: _____
Doug Isaacson, Mayor

Chief of Police

By: _____
Stephen Dutra, Chief of Police

STATE OF ALASKA)
)ss.
FOURTH JUDICIAL DISTRICT)

THIS IS TO CERTIFY that on this ____ day _____, 2012, personally appeared before me Doug Isaacson, the Mayor of the City of North Pole, with authority to sign on its behalf, to me known and known to me to be the individual described in and who executed the within and foregoing document, and acknowledged that same was signed and sealed for the reasons and purposes stated as the free and voluntary act and deed of said City.

WITNESS my hand and notarial seal the date last written.

Notary Public in and for Alaska
My Commission Expires: _____



CITY OF NORTH POLE

JOB DESCRIPTION

TITLE: POLICE CHIEF

REPORTS TO: The Mayor

SUPERVISES: All Police Department Personnel

FLSA STATUS: Non-Exempt

THIS IS AN APPOINTED POSITION THAT SERVES AT AND FOR THE PLEASURE OF THE MAYOR AND, AS SUCH, IS AN AT WILL EMPLOYEE.

JOB OBJECTIVES:

An employee in this position reports directly to the mayor. This is a department head position with overall responsibility for all operations of the police department and the supervision of police department personnel through his/her subordinate officers. The police chief's duties are administrative in nature. However, supervision of operational tasks may be required.

JOB LOCATION:

The North Pole Police Department, 125 Snowman Lane, North Pole, Alaska; all areas within the corporate city limits of North Pole; and any area outside the corporate city limits of North Pole that has specifically been authorized by the Director of Public Safety for the State of Alaska, by Alaska State Statutes, or by any contractual or mutual aid agreement between the North Pole Police Department and neighboring law enforcement or governmental agencies.

WORKING CONDITIONS:

Must have sufficient physical fitness, strength, agility and stamina to work in extremely difficult environments. Must not have disabilities that would cause a safety risk to themselves or others in the performance of their duties.

ESSENTIAL JOB FUNCTIONS:

The Chief of Police will have the duties as outlined below. These examples do not include all the specific tasks that the Chief of Police may be required to perform:

- Must be able to perform all of the essential job functions of the police lieutenant, sergeant, and officer;
- Must be able to use and instruct in all personnel in the use for the equipment normally used by all police personnel;
- Must be able to use all equipment that a police officer is required to use;
- Works with department personnel to establish goals and objectives for the department or for specific programs, resolves operational and administrative issues, evaluates training and equipment needs, and evaluates progress of selected investigations;
- Develops and implements standard operating procedures and policies to govern both the day-to-day and emergency activities of the department;
- Takes appropriate action in response to employee grievances and/or disciplinary actions according to the city's personnel policy;
- Prepares the department's annual operating budget recommendations and monitors monthly expenditures against authorized budget limits;
- Evaluates community crime patterns, develops short and long-term strategies, and plans to reduce crime;
- Prepares and submits reports summarizing crime activity, arrests and investigations for selected time periods. Prepares and presents reports to the mayor and city council as requested;
- Makes public presentations to business and civic organizations regarding department activities and programs;
- Works with department personnel to investigate major crimes, including interviewing victims, witnesses and suspects; collecting and analyzing evidence; and preparing case reports;

- Has overall responsibility to ensure all complaints regarding police enforcement activities and/or individual officer conduct are investigated;
- Develops and maintains an effective working relationship with representatives of other law enforcement agencies to facilitate law enforcement efforts;
- Any other duty as assigned by the mayor.

The above duties do not include all of the specific tasks that an employee may be required to perform.

SKILLS, KNOWLEDGE, AND EXPERTISE REQUIRED:

- Principles and practices of police department operations and administration;
- Techniques and practices of conducting criminal investigations;
- State laws governing police personnel practices;
- Governmental accounting procedures and practices;
- Modern supervisory principles and practices;
- Work effectively with managers and employees at all levels of the organization, representatives of other law enforcement agencies, local elected officials, and the general public;
- Communicate effectively, both orally and in writing;
- Make presentations in public and;
- Think clearly and act quickly and calmly in emergency situations.

MINIMUM QUALIFICATIONS:

- Bachelor's degree in criminology, law enforcement, criminal justice, police science/administration or related field of study and;
- Possess an Alaska Police Standards Council Advanced Certificate with at least two (2) years at the rank of lieutenant or at least four (4) years at the rank of sergeant;

- Through an applicable testing process established by the hiring authority, be able to demonstrate the ability, or the potential ability, to satisfactorily perform the essential functions of the position;
- Must pass an extensive background investigation prior to employment with the North Pole Police Department and pass a physical fitness exam, a medical exam, drug testing and, if required, must pass a written and oral exam, a polygraph and psychological testing;
- Must be able to give trustworthy and credible testimony in court;
- Must possess and maintain a valid Alaska Driver's License and;
- Must be able to work weekends, holidays or evenings when necessary in order to accomplish the essential functions of the position.

These factors will be the basis for selecting candidates to be interviewed. The candidate selected for employment must satisfactorily perform the essential job functions during a prescribed probationary period.