

**BASIC FINANCIAL STATEMENTS**

**OF THE**

**CITY OF PALMER, ALASKA**

Year Ended December 31, 2012

Delena Johnson  
Mayor

Doug Griffin  
City Manager

Prepared By  
Finance Department

Esther Greene, CMFO  
Finance Director

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# CITY OF PALMER, ALASKA

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## Independent Auditor's Report

Honorable Mayor and  
Members of the City Council  
City of Palmer, Alaska

### **Report on the Financial Statements**

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

Honorable Mayor and  
Members of the City Council  
City of Palmer, Alaska

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Palmer, Alaska, as of December 31, 2012, 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 accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

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

As discussed in Note 11, in 2012 the City became aware of amounts owed to the State of Alaska Court System for court fees collected in prior years. As a result of this discovery the city has recorded a prior period adjustment in the amount of \$79,870 to correctly reflect this liability.

## **Other Matters**

### ***Required Supplementary Information***

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



Honorable Mayor and  
Members of the City Council  
City of Palmer, Alaska

***Other Information***

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

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

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, City of Palmer's basic financial statements for the year ended December 31, 2011 which are not presented with the accompanying financial statements. In our report dated May 4, 2012, we expressed unqualified opinions on the respective financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information. The individual fund financial statements and schedules related to the December 31, 2011 financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the December 31, 2011 financial statements. The information has been subjected to the auditing procedures applied in the audit of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended December 31, 2011.

Honorable Mayor and  
Members of the City Council  
City of Palmer, Alaska

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2013 on our consideration of City of Palmer'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* in considering City of Palmer's internal control over financial reporting and compliance.

*Mikunda, Cottrell & Co.*

Anchorage, Alaska  
June 10, 2013

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## **CITY OF PALMER, ALASKA**

### **Management's Discussion and Analysis**

December 31, 2012

As management of the City of Palmer, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the City of Palmer for the fiscal year ended December 31, 2012. Readers are encouraged to read this narrative in conjunction with the City's financial statements, which follow this section.

#### **Financial Highlights**

- The City's assets exceeded its liabilities at the close of the 2012 fiscal year by \$85,201,047. This amount represents an increase of \$52,899 from the previous year. Of the Total net position, \$5,411,756 is Unrestricted net position and is available to meet the City's ongoing obligations.
- As of December 31, 2012, the City's governmental funds reported combined ending fund balances of \$3,558,368, an increase of \$143,852.
- The fund balance is comprised of Nonspendable, Assigned and Unassigned classifications. Unassigned fund balance for the General Fund was \$1,195,764 or 11% of total General Fund expenditures. The Nonspendable fund balance was \$665,986 which consists of prepaid expenses and advances to other funds. The remaining balance was Assigned for vested unpaid vacation and sick leave.
- At year-end, the City of Palmer's outstanding loans and bonds payable totals \$3,997,348, a net decrease of \$436,139 from the previous year. In 2012, the city refunded its Ice Rink General Obligation Bonds ranging from 2% to 5%, and made scheduled principal payments on its other ADEC loans and General Obligation Bonds.

#### **Overview of Financial Statements**

This financial statement is comprised of four segments as dictated by Generally Accepted Accounting Principles (GAAP): Management's Discussion and Analysis (this section), the Basic Financial Statements, Required Supplementary Information and Other Supplementary Information. The Basic Financial Statements include two kinds of statements that present different views of the City of Palmer.

- The Government-wide Financial Statements provide both long-term and short-term information about the City's overall financial status.
- The Fund Financial Statements focus on individual parts of Palmer's government, reporting the City's operations in more detail than the Government-wide Statements.

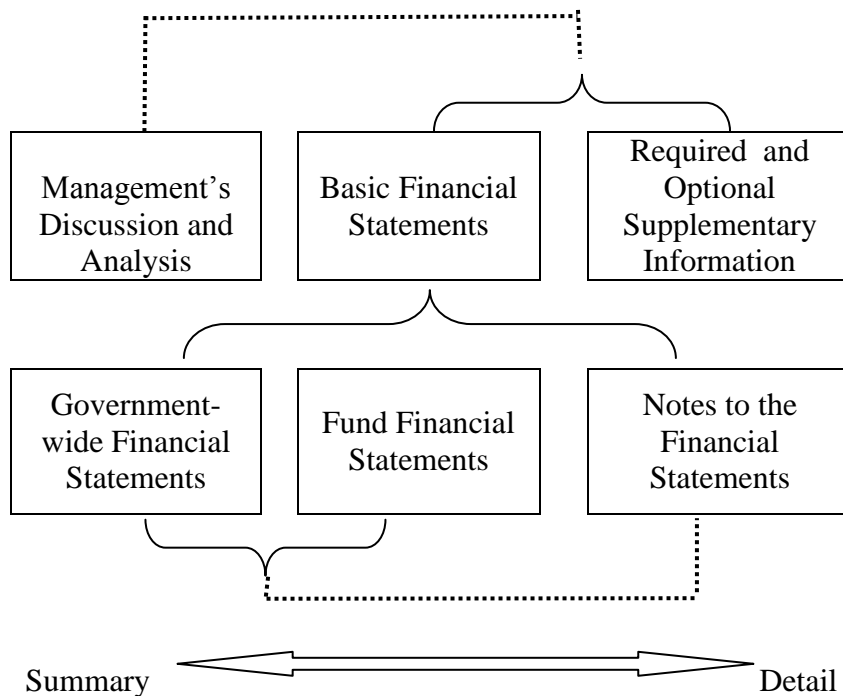
# CITY OF PALMER, ALASKA

## Management's Discussion and Analysis, continued

### Overview of Financial Statements, continued

- The governmental funds statements explain how general government services like public safety were financed in the short-term as well as what remains for future spending.
- Proprietary fund statements offer short-term and long-term financial information about the activities the government operates like businesses, such as the Water/Sewer Utility, Refuse, Airport, Land Development and Golf Course.

**Illustration A-1  
Required Components of  
City of Palmer's Financial Report**



The financial statements also include notes, which elaborate on some of the information in the financial statements, and provide more detailed data. These financial statements are followed by a section of supplementary financial information that further explains and supports the information in the financial statements. In addition to these elements, we have included other information such as the City's single audit information. Illustration A-2 summarizes the major features of the City's financial statements. The remainder of this overview section of the Management's Discussion and Analysis explains the structure and contents of each of the statements.

**CITY OF PALMER, ALASKA**

Management’s Discussion and Analysis, continued

**Overview of Financial Statements, continued**

<b>Illustration A-2</b>			
<b>Major Features of City of Palmer’s Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City government	The activities of the City that are not proprietary, such as police, fire and public works	Activities the City operates similar to private businesses; Water/Sewer utility, Refuse, Airport, Land Development, and Golf Course
Required financial statements	*Statement of net assets *Statement of activities	*Balance sheet *Statement of revenues, expenditures and changes in fund balance	*Statement of net assets *Statement of revenues, expenses and changes in net assets *Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources measurement focus	Modified accrual accounting and current financial resources focus	Accrual accounting
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

## CITY OF PALMER, ALASKA

### Management's Discussion and Analysis, continued

#### **Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City of Palmer's finances in a manner similar to a private-sector business. These statements can be located on pages 20-21 of this document.

- The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net assets may indicate the improvement or deterioration of the City's financial position.
- The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The government-wide financial statements of the City are divided into two categories:

- Governmental activities - These are functions such as public safety and public works, services that are principally supported by taxes and intergovernmental revenue.
- Business-type activities - These functions are intended to recover all or a significant portion of their costs through user fees and charges. The City's Water/Sewer Utility, Refuse, Airport, Land Development, and Golf Course fall within this category.

#### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Palmer, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds** - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.



## **CITY OF PALMER, ALASKA**

### Management's Discussion and Analysis, continued

#### **Fund Financial Statements, continued**

The City of Palmer maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund which is considered a major fund. Data from the other seven governmental funds are combined into a single, aggregated presentation. The seven nonmajor governmental funds include Special Revenue Funds: Narcotics Grant, Police Grants, Neighborhood Parks Development, and Asset Forfeiture; and Capital Projects Funds: Capital Projects, Equipment and Road Capital Project Funds. The combining statements for these nonmajor funds can be found on pages 57-58 of this report.

The City adopts annual appropriated budgets for the General Fund and most nonmajor governmental funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with these budgets.

Proprietary funds - The City maintains enterprise funds, a type of proprietary fund, to report the same functions presented as business-type activities in the government-wide financial statements. The City of Palmer's major enterprise funds are Water and Sewer, Airport, and Golf Course; and its nonmajor enterprise funds are Refuse and Land Development.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements can be found on pages 27-31 of this report.

#### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data presented in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 32-54 of this report.

#### **Government-wide Financial Analysis**

At the close of the 2012 fiscal year, the City's net position (assets exceeding liabilities) totaled \$85,201,047 (see Table A-1). Of this amount \$79,636,438, or 93.4%, represents the City's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related outstanding debt used to acquire those assets. Because the City of Palmer uses these capital assets to provide services to the community, these assets are not available for future spending. The remaining amount of net assets, are labeled as restricted or unrestricted. The unrestricted amount totals \$5,411,756, and is available to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Palmer is able to report positive balances in these two categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

**CITY OF PALMER, ALASKA**

Management's Discussion and Analysis, continued

**Government-wide Financial Analysis, continued**

**Table A-1  
City of Palmer's Net Position  
2012 and 2011(restated)**

	Governmental		Business-type		Total	
	Activities		Activities		Activities	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 4,715,913	4,446,034	2,902,539	3,841,505	7,618,452	8,287,539
Capital assets	21,520,477	21,787,229	62,253,401	61,064,171	83,773,878	82,851,400
Deferred outflows	<u>91,481</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>91,481</u>	<u>-</u>
Total assets	<u>26,327,871</u>	<u>26,233,263</u>	<u>65,155,940</u>	<u>64,905,676</u>	<u>91,483,811</u>	<u>91,138,939</u>
Long-term liabilities outstanding	1,998,454	2,082,039	2,621,054	2,819,039	4,619,508	4,901,078
Other liabilities	<u>758,844</u>	<u>470,482</u>	<u>904,412</u>	<u>619,231</u>	<u>1,663,256</u>	<u>1,089,713</u>
Total liabilities	<u>2,757,298</u>	<u>2,552,521</u>	<u>3,525,466</u>	<u>3,438,270</u>	<u>6,282,764</u>	<u>5,990,791</u>
Net position:						
Invested in capital assets, net of related debt	19,950,385	20,122,229	59,686,053	58,378,282	79,636,438	78,500,511
Restricted	152,853	-	-	-	152,853	-
Unrestricted	<u>3,467,335</u>	<u>3,558,513</u>	<u>1,944,421</u>	<u>3,089,124</u>	<u>5,411,756</u>	<u>6,647,637</u>
Total net position	\$ <u>23,570,573</u>	<u>23,680,742</u>	<u>61,630,474</u>	<u>61,467,406</u>	<u>85,201,047</u>	<u>85,148,148</u>

As reflected in Table A-2, the City's net position increased by \$52,889 during the 2012 fiscal year. Expenses exceeded revenues in the governmental activities by \$110,169 and in the business-type activities revenues exceeded expenses by \$163,068. Key elements of the increases and decreases follow:

**Table A-2  
City of Palmer's Changes in Net Position**

	Governmental		Business-type		Total	
	Activities		Activities		Activities	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Program revenues:						
Charges for service	\$ 2,000,748	2,019,746	3,258,978	3,398,552	5,259,726	5,418,298
Operating grants and contributions	341,092	282,562	39,171	-	380,263	282,562
Capital grants and contributions	721,074	411,455	1,880,422	1,614,315	2,601,496	2,025,770
General revenues:						
Property taxes	1,173,567	1,206,963	-	-	1,173,567	1,206,963
Sales taxes	5,882,204	5,611,916	-	-	5,882,204	5,611,916
Other	<u>1,363,780</u>	<u>1,369,413</u>	<u>79,325</u>	<u>137,293</u>	<u>1,443,105</u>	<u>1,506,706</u>
Total revenues	<u>11,482,465</u>	<u>10,902,055</u>	<u>5,257,896</u>	<u>5,150,160</u>	<u>16,740,361</u>	<u>16,052,215</u>

## CITY OF PALMER, ALASKA

### Management's Discussion and Analysis, continued

#### Government-wide Financial Analysis, continued

**Table A-2**  
**City of Palmer's Changes in Net Position, continued**

	Governmental Activities		Business-type Activities		Total Activities	
	2012	2011	2012	2011	2012	2011
Expenses:						
General government	\$ 1,911,326	1,897,272	-	-	1,911,326	1,897,272
Public safety	5,045,332	5,185,988	-	-	5,045,332	5,185,988
Public works	2,579,840	2,489,284	-	-	2,579,840	2,489,284
Community services	1,557,939	1,549,127	-	-	1,557,939	1,549,127
Water and sewer utility	-	-	3,553,872	2,812,351	3,553,872	2,812,351
Airport	-	-	784,282	909,294	784,282	909,294
Refuse	-	-	473,119	435,400	473,119	435,400
Golf Course	-	-	733,932	859,246	733,932	859,246
Legal settlement	-	-	-	-	-	-
Interest expense	47,820	82,160	-	-	-	82,160
 Total expenses	11,142,257	11,203,831	5,545,205	5,016,291	16,687,462	16,220,122
 Increase (decrease) in net assets before transfers	340,208	(301,776)	(287,309)	133,869	52,899	(167,907)
Transfers/NPO	(450,377)	55,600	450,377	(55,600)	-	-
Increase (decr) net position	(110,169)	(246,176)	163,068	78,269	52,899	(167,907)
Beginning net position	23,680,742	23,926,918	61,467,406	61,389,137	85,148,148	85,316,055
 Ending net position	\$ 23,570,573	23,680,742	61,630,474	61,467,406	85,201,047	85,148,148

#### Governmental Activities

Governmental activities decreased the City of Palmer's net position by \$110,169. The decrease is primarily a result of expenditures exceeding revenues by \$30,959 in the Capital Projects Fund, depreciation expense in excess of capital outlays by \$266,752, and a net decrease in Total deferred inflows of deferred special assessments and deferred property taxes of \$143,435. There was a decrease in Charges for services by \$18,998. Property taxes also decreased by \$33,396 and sales tax collections increased by \$270,288 over the amount collected in 2011. The City's expenditures decreased in the amount of \$61,574 from 2011. Net transfers out from governmental activities was \$450,377 primarily due to transfers to the business-type activities to cover unexpected non-reimbursable costs from the Steel Water Main Replacement project.

## CITY OF PALMER, ALASKA

### Management's Discussion and Analysis, continued

#### Governmental Activities, continued

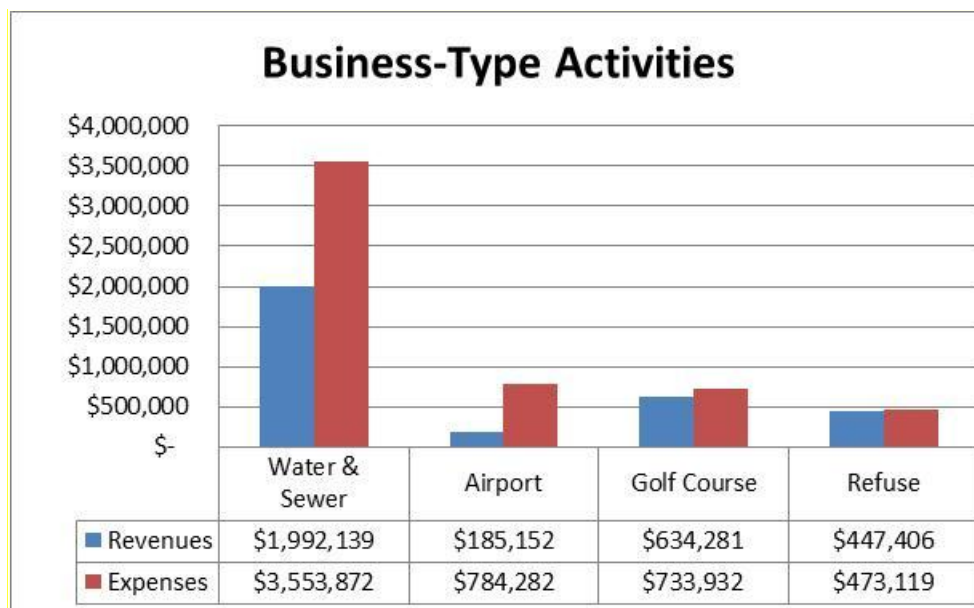
The City of Palmer has an agreement with the State of Alaska to remit fees and surcharges that were collected on behalf of the State. In late 2012, management became aware that these funds were not being properly accrued or expensed on a regular basis. This error resulted in a reduction in revenue in the amount of \$ 17,345 for the current period and \$79,870 as a prior period adjustment. This oversight was associated with amounts that were due to the Alaska Courts System and the Alaska Police Standards council.

#### Business-Type Activities

The City's business-type activities have a \$163,068 increase in net position from 2011. This is an \$84,799 increase from 2011 primarily due to transfers from the general fund to the Water and Sewer Enterprise Fund to cover capital costs.

The following graph shows expenses and operating revenues for all of the business-type activities in 2012. Not included in the revenues are operating and capital grants, contributions, and investment earnings. As reflected in the graph, all funds had expenses in excess of program revenues. In each case, except for the Airport Fund and Golf Course, if depreciation cost were removed, operating revenues would exceed operating expenses.

#### Program Revenue & Expenses - Business-Type Activity



## CITY OF PALMER, ALASKA

### Management's Discussion and Analysis, continued

#### **Financial Analysis of the Government's Funds**

**Governmental funds** - The focus of the City of Palmer's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending following the end of the fiscal year. The City's governmental funds had a prior period adjustment of \$79,870 due to incorrect postings of fees and surcharges of prior years. As of December 31, 2012, the City's governmental funds reported combined ending fund balances of \$3,558,368, an increase of \$143,852 or 4.2% compared to balances a year earlier. Of the ending balance, \$1,195,764, 33.6% is unassigned and available to the City for future spending. The remaining fund balance is nonspendable, restricted, committed or assigned. The increase of total fund balance during the year is attributed to an increase in sales tax revenues.

- The City maintains three capital project funds that account for the use of bond proceeds, intergovernmental grants and transfers from the General Fund to support the construction of capital improvements. Financial resources in these funds are intended to eventually be totally expended once the capital improvements have been completed. During the course of 2012, the fund balances of these capital project funds increased by \$9,189.

**Proprietary funds** - The City of Palmer's proprietary funds provide the same type of information found in the government-wide financial statements.

The Water and Sewer Fund's unrestricted net position is \$1,363,751, a decrease of \$659,617 primarily due to an increase in capital assets, some of which were funded through transfers from other funds. The City share of grants will cause unrestricted net assets to decline in future years due to increased capital project activity requiring the City to expend additional matching funds.

The Refuse Fund unrestricted net position are \$1,080,986, a decrease of \$371,891. Cash and investments decreased slightly and there was an increase in property, plant, and equipment during 2012.

The Golf Course unrestricted net position show a deficit of \$252,726 compared to a deficit of \$206,575 at the end of 2011. Operating expenses before depreciation exceeded operating revenues by \$43,905. The decrease in revenue was due to implement weather preventing the golf course to be available for playing golf. The Golf Course operating revenues decreased by \$101,691 or 14% from the prior year, and operating expenses before depreciation decreased by \$128,779 or 16%.

The Airport Fund unrestricted net position show a deficit of \$415,773 compared to a deficit of \$348,729 at the end of 2011. This is the result of higher than budgeted legal costs during the year.

The Land Development Fund unrestricted net position did not change from 2011. There is no change from the prior year due to no activity in the fund during the year.

## CITY OF PALMER, ALASKA

### Management's Discussion and Analysis, continued

#### General Fund Budgetary Highlights

While the original adopted budget had revenues exceeding expenditures and transfers by \$263,822, the final general fund budget reflects revenues exceeding expenditures and transfers by \$159,473.

Differences between the original budget and the final amended budget are described below:

- The final budget increased total revenues and transfers by \$583,047 including an increase of \$498,363 for PERS relief funding, a decrease of \$136,000 for taxes, an increase of \$57,675 for licenses and permits, and an increase of \$171,753 for state revenue sharing. PERS relief funding is funding provided by the state to political subdivisions to offset the unfunded state pension liability.
- The final budget increased expenditures by \$687,396 including an increase of \$213,411 in transfers to other funds.

#### Capital Asset and Debt Administration

Capital assets - As detailed in Table A-3 below, the City of Palmer's investment in capital assets for its governmental and business-type activities as of December 31, 2012, totals \$83,773,878 (net of accumulated depreciation). This amount represents a \$922,478 increase over the previous year due to depreciation exceeding the amount of additions and reclassifications.

**Table A-3**  
**City of Palmer's Capital Assets**  
(Net of depreciation)

	Governmental Activities		Business-type Activities		Total Activities	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 1,569,842	1,569,842	3,229,346	3,229,346	4,799,188	4,799,188
Buildings	4,205,564	4,626,751	181,931	211,071	4,387,495	4,837,822
Improvements other than buildings	11,380,211	11,708,132	55,063,527	56,817,413	66,443,738	68,525,545
Machinery and equipment	1,658,871	1,991,259	1,059,346	806,341	2,718,217	2,797,600
Construction work in progress	<u>2,705,989</u>	<u>1,891,245</u>	<u>2,719,251</u>	-	<u>5,425,240</u>	<u>1,891,245</u>
Total capital assets	<u>\$ 21,520,477</u>	<u>21,787,229</u>	<u>62,253,401</u>	<u>61,064,171</u>	<u>83,773,878</u>	<u>82,851,400</u>

## CITY OF PALMER, ALASKA

### Management's Discussion and Analysis, continued

#### Capital Asset and Debt Administration, continued

Major capital events during the 2012 year included:

- Road Improvements and Residential Street Lighting
- Steel Water Main Improvements
- Lift Station Rehabilitation
- Sewer and Water Line Extensions
- Wastewater Treatment Plant Improvements
- Arena Expansion

Additional information on the City's capital assets can be found in note 5 on pages 41-42 of this report.

Long-term debt - At the end of the 2012, the City of Palmer had total debt outstanding of \$4,479,416.

**Table A-4  
City of Palmer's Outstanding Debt**

	Governmental Activities		Business-type Activities		Total Activities	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
GO Bonds	\$ 1,430,000	1,665,000	-	-	1,430,000	1,665,000
Loans payable	-	-	2,516,723	2,685,889	2,516,723	2,685,889
Capital lease	-	-	<u>50,625</u>	<u>82,598</u>	<u>50,625</u>	<u>82,598</u>
Total	<u>1,430,000</u>	<u>1,665,000</u>	<u>2,567,348</u>	<u>2,768,487</u>	<u>3,997,348</u>	<u>4,433,487</u>
Compensated absences	<u>428,362</u>	<u>417,039</u>	<u>53,706</u>	<u>50,552</u>	<u>482,068</u>	<u>467,591</u>
Total long-term debt	\$ <u>1,858,362</u>	<u>2,082,039</u>	<u>2,621,054</u>	<u>2,819,039</u>	<u>4,479,416</u>	<u>4,901,078</u>

In 2005 the City accomplished a bond refunding on \$865,000 in general obligation debt for the Golf Course, with a reduction in the interest rate over 10 years from 5%-6% to 3%-5%.

In 2005 the City entered into an agreement with the Alaska Department of Environmental Conservation (ADEC) for a Clean Water Loan and Drinking Water Loan in the amounts of \$1,115,000 and \$1,150,000, respectively. In 2006, the loan amounts were amended to \$1,518,000 and \$782,000 respectively. The City has three other loan agreements with ADEC including a Clean Water Loan of \$222,857 and Drinking Water Loans of \$411,000 and \$604,000. These loans are a combination of federal and state monies and bear interest at 1.5%. Loan repayments begin one year following completion of the plans and specifications or initiation of operation of the facilities.

## **CITY OF PALMER, ALASKA**

### Management's Discussion and Analysis, continued

#### **Capital Asset and Debt Administration, continued**

The City of Palmer issues bonded debt through the State of Alaska Municipal Bond Bank. The State of Alaska Municipal Bond Bank maintains a bond rating from Moody's Investors Service, Inc. and Fitch Ratings at Aa2 and AA+ respectively to the most recent bond issue, the 2013 Series Two Bonds.

Additional information on the City's long-term debt can be found in note 7 on pages 43-45 of this report.

#### **Economic Factors and Next Year's Budgets (2013) and Rates**

- Sales tax remains the primary source of revenue for the General Fund accounting for 53% of total budgeted revenues. The City monitors the sales tax revenues closely and remains cautiously optimistic regarding future sales tax revenues due to its plans to promote Palmer and attract businesses and events to the City. The city continues to record an increase in sales tax from the prior year.
- The City continues with expansion and construction and improvements to the water and sewer utility lines along with road improvement projects.
- The City kept health insurance rates flat in 2013 by changing employee health insurance plans from a 90/10 to an 80/20 plan.

These various factors were taken into consideration in the development of the City's 2013 annual budget. The annual budget is adopted for the General, Enterprise and Capital Projects Funds. Major aspects of the adopted 2013 budget include:

- The property tax rate remained at 3.0 mills or \$.003 per \$1,000 of assessed value. This amount was levied for the operation and maintenance activities in the General Fund, and to fund capital improvements not associated with the enterprise funds.
- Sales tax rate remained the same as 2012 at 3%.
- Budgeted expenditures in the General Fund decreased \$293,690 excluding transfers from 2012 to 2013.

#### **Requests for Information**

This financial report is designed to provide a general overview of the City of Palmer's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the following:

Esther C. Greene, CMFO  
Finance Director  
City of Palmer  
231 W Evergreen Ave. Palmer, Alaska 99645  
Telephone: (907) 761-1303  
Email: [egreene@palmerak.org](mailto:egreene@palmerak.org)



## **BASIC FINANCIAL STATEMENTS**

## CITY OF PALMER, ALASKA

Statement of Net Position  
December 31, 2012

<u>Assets</u>	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
Cash and investments	\$ 2,439,058	1,918,536	4,357,594
Receivables, net of allowance for uncollectibles:			
Grants and shared revenues	191,233	589,026	780,259
Property and motor vehicle taxes	129,050	-	129,050
Sales tax	417,528	-	417,528
Accounts	41,049	363,505	404,554
Assessments	373,833	199,129	572,962
Prepaid insurance	239,653	-	239,653
Prepaid rent - airport	200,000	-	200,000
Internal balances	670,016	(670,016)	-
Inventories	14,493	284,945	299,438
Land held for sale	-	217,414	217,414
Capital assets not being depreciated	4,275,831	5,948,597	10,224,428
Capital assets, net of accumulated depreciation	<u>17,244,646</u>	<u>56,304,804</u>	<u>73,549,450</u>
Total assets	<u>26,236,390</u>	<u>65,155,940</u>	<u>91,392,330</u>
<u>Deferred Outflows</u>			
Loss on refunding	<u>91,481</u>	<u>-</u>	<u>91,481</u>
Total assets and deferred outflows	\$ <u>26,327,871</u>	<u>65,155,940</u>	<u>91,483,811</u>
<u>Liabilities</u>			
Accounts payable	449,719	495,730	945,449
Accrued payroll and employee benefits	129,646	16,177	145,823
Customer deposits	8,229	144,828	153,057
Accrued interest payable	18,900	24,892	43,792
Unearned revenue	152,350	22,785	175,135
Prepaid rent from General Fund	-	200,000	200,000
Noncurrent liabilities:			
Due within one year:			
Vested unpaid vacation and sick leave	428,362	53,706	482,068
Bonds and loans	205,000	171,116	376,116
Capital lease	-	31,972	31,972
Due in more than one year:			
Loans payable - State of Alaska	-	2,345,607	2,345,607
General obligation bonds, including unamortized premium	1,365,092	-	1,365,092
Capital lease	-	18,653	18,653
Total liabilities	<u>2,757,298</u>	<u>3,525,466</u>	<u>6,282,764</u>
<u>Net Position</u>			
Net investment in capital assets	19,950,385	59,686,053	79,636,438
Restricted	152,853	-	152,853
Unrestricted	<u>3,467,335</u>	<u>1,944,421</u>	<u>5,411,756</u>
Total net position	<u>23,570,573</u>	<u>61,630,474</u>	<u>85,201,047</u>
Total liabilities and net position	\$ <u>26,327,871</u>	<u>65,155,940</u>	<u>91,483,811</u>

See accompanying notes to basic financial statements.

**CITY OF PALMER, ALASKA**  
Statement of Activities  
Year Ended December 31, 2012

Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines & Charges for Services	Operating Grants & Contri- butions	Capital Grants & Contri- butions	Govern- mental Activities	Business- type Activities	Total
<b>Governmental:</b>							
General government	\$ 1,911,326	83,530	-	-	(1,827,796)	-	(1,827,796)
Public safety	5,045,332	1,409,897	269,478	196,709	(3,169,248)	-	(3,169,248)
Public works	2,579,840	141,755	-	115,802	(2,322,283)	-	(2,322,283)
Community services	1,557,939	365,566	71,614	408,563	(712,196)	-	(712,196)
Unallocated interest	47,820	-	-	-	(47,820)	-	(47,820)
Total governmental activities	<u>11,142,257</u>	<u>2,000,748</u>	<u>341,092</u>	<u>721,074</u>	<u>(8,079,343)</u>	<u>-</u>	<u>(8,079,343)</u>
<b>Business-type:</b>							
Water and sewer	3,553,872	1,992,139	33,453	1,874,415	-	346,135	346,135
Airport	784,282	185,152	-	6,007	-	(593,123)	(593,123)
Refuse	473,119	447,406	5,718	-	-	(19,995)	(19,995)
Golf course	733,932	634,281	-	-	-	(99,651)	(99,651)
Total business-type activities	<u>5,545,205</u>	<u>3,258,978</u>	<u>39,171</u>	<u>1,880,422</u>	<u>-</u>	<u>(366,634)</u>	<u>(366,634)</u>
Totals	\$ <u>16,687,462</u>	<u>5,259,726</u>	<u>380,263</u>	<u>2,601,496</u>	<u>(8,079,343)</u>	<u>(366,634)</u>	<u>(8,445,977)</u>
<b>General revenues:</b>							
Property taxes					\$ 1,173,567	-	1,173,567
Sales taxes					5,882,204	-	5,882,204
Grants and entitlements not restricted to a specific purpose					1,295,350	-	1,295,350
Investment income					40,549	-	40,549
Other					27,881	79,325	107,206
Transfers					(450,377)	450,377	-
Total general revenues and transfers					<u>7,969,174</u>	<u>529,702</u>	<u>8,498,876</u>
Change in net position					(110,169)	163,068	52,899
Beginning net position, as restated					<u>23,680,742</u>	<u>61,467,406</u>	<u>85,148,148</u>
Ending net position					\$ <u>23,570,573</u>	<u>61,630,474</u>	<u>85,201,047</u>

See accompanying notes to basic financial statements.

## CITY OF PALMER, ALASKA

Governmental Funds  
Balance Sheet  
December 31, 2012

<u>Assets</u>	<u>Major Funds</u> <u>General</u>	<u>Nonmajor</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Cash and investments	\$ 1,182,047	1,257,011	2,439,058
Receivables, net of allowance for uncollectibles:			
Grants and shared revenues	-	191,233	191,233
Property and motor vehicle taxes	129,050	-	129,050
Sales taxes	417,528	-	417,528
Accounts	41,049	-	41,049
Assessments	373,833	-	373,833
Prepaid insurance	239,653	-	239,653
Prepaid rent - airport	200,000	-	200,000
Inventory	14,493	-	14,493
Due from other funds	443,683	-	443,683
Advance to other fund	226,333	-	226,333
	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	\$ <u>3,267,669</u>	<u>1,448,244</u>	<u>4,715,913</u>
<u>Liabilities</u>			
Accounts payable	326,121	123,598	449,719
Accrued payroll and employee benefits	129,646	-	129,646
Deposits	8,229	-	8,229
Unearned revenue	95,960	56,390	152,350
Total liabilities	<u>559,956</u>	<u>179,988</u>	<u>739,944</u>
<u>Deferred Inflows</u>			
Deferred property taxes	39,433	-	39,433
Deferred assessments	378,168	-	378,168
Total deferred inflows	<u>417,601</u>	<u>          </u>	<u>417,601</u>
Total liabilities and deferred inflows	<u>977,557</u>	<u>179,988</u>	<u>1,157,545</u>
<u>Fund Balances</u>			
Nonspendable:			
Prepaid insurance and prepaid rent	439,653	-	439,653
Advance to other fund	226,333	-	226,333
Restricted for public safety	-	152,853	152,853
Committed:			
Capital projects and equipment	-	1,064,657	1,064,657
Public safety	-	29,010	29,010
Assigned:			
Vested unpaid vacation and sick leave	428,362	-	428,362
Parks	-	21,736	21,736
Unassigned	1,195,764	-	1,195,764
Total fund balances	<u>2,290,112</u>	<u>1,268,256</u>	<u>3,558,368</u>
Total liabilities, deferred inflows and fund balances	\$ <u>3,267,669</u>	<u>1,448,244</u>	<u>4,715,913</u>

See accompanying notes to basic financial statements.

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

Total fund balances for governmental funds		\$	3,558,368
Total net position reported for governmental activities in the Statement of Net Position is different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets, net of accumulated depreciation consist of:			
Land and land improvements	\$	1,569,842	
Buildings		4,205,564	
Improvements other than buildings		11,380,211	
Machinery and equipment		1,658,871	
Construction in progress		<u>2,705,989</u>	
Total capital assets			21,520,477
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. These assets consist of:			
Special assessments not yet due		378,168	
Delinquent property taxes receivable		<u>39,433</u>	
Total long-term assets			417,601
Long-term liabilities, including accrued vacation and sick leave are not due and payable in the current period and therefore are not reported as fund liabilities. These liabilities consist of:			
Bonds payable		(1,430,000)	
Unamortized premium		(140,092)	
Accrued interest		(18,900)	
Vested unpaid vacation and sick leave		<u>(428,362)</u>	
Total long-term liabilities			(2,017,354)
In connection with long-term liabilities, deferred outflows of resources represent the consumption of the government's net position that is applicable to a future reporting period. This consists of an unamortized loss on refunding.			
			<u>91,481</u>
Total net position of governmental activities		\$	<u><u>23,570,573</u></u>

See accompanying notes to basic financial statements.

**CITY OF PALMER, ALASKA**  
 Governmental Funds  
 Statement of Revenues, Expenditures and Changes in Fund Balances  
 Year Ended December 31, 2012

	<u>Major Funds</u>	Nonmajor	Total
	<u>General</u>	<u>Funds</u>	<u>Governmental</u>
			<u>Funds</u>
Revenues:			
Taxes	\$ 7,096,940	-	7,096,940
Licenses and permits	197,503	-	197,503
Fines and forfeitures	123,319	-	123,319
Intergovernmental	1,386,472	958,461	2,344,933
Special assessments	100,057	-	100,057
Charges for services	2,297,642	-	2,297,642
Miscellaneous	68,430	14,283	82,713
Total revenues	<u>11,270,363</u>	<u>972,744</u>	<u>12,243,107</u>
Expenditures:			
Current:			
General government	2,482,112	-	2,482,112
Public safety	4,459,605	223,449	4,683,054
Public works	2,034,666	-	2,034,666
Community services	1,253,891	-	1,253,891
Debt service	247,820	-	247,820
Capital outlay	-	963,060	963,060
Total expenditures	<u>10,478,094</u>	<u>1,186,509</u>	<u>11,664,603</u>
Excess of revenues over (under) expenditures	792,269	(213,765)	578,504
Other financing sources (uses):			
Issuance of refunding bonds	865,000	-	865,000
Premium on issuance	146,183	-	146,183
Payment to refunded to bond escrow agent	(995,458)	-	(995,458)
Transfers in	195,882	254,148	450,030
Transfers out	(890,221)	(10,186)	(900,407)
Net other financing sources (uses)	<u>(678,614)</u>	<u>243,962</u>	<u>(434,652)</u>
Net change in fund balances	113,655	30,197	143,852
Beginning fund balances, as restated	<u>2,176,457</u>	<u>1,238,059</u>	<u>3,414,516</u>
Ending fund balances	<u>\$ 2,290,112</u>	<u>1,268,256</u>	<u>3,558,368</u>

See accompanying notes to basic financial statements.

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

Net change in fund balances - total governmental funds	\$ 143,852
The change in net position reported for governmental activities in the Statement of Activities is different because:	
Governmental funds report capital outlays as expenditures.	
However on the Statement of Activities, depreciation expense is recognized to allocate the cost of these items over their estimated useful lives. This is the amount by which depreciation (\$1,392,895) exceeded capital outlays (\$1,126,143).	(266,752)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This is the net decrease in deferred special assessments and property taxes.	(143,435)
The issuance of long-term debt (e.g., bonds, leases) (\$865,000) provides current financial resources to governmental funds, while the repayment of the principal of the long-term debt (\$1,100,000) consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of bond premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized (\$48,611) in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	186,389
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. These increases consist of:	
Accrued interest	(18,900)
Vested unpaid vacation and sick leave	<u>(11,323)</u>
Change in net position of governmental activities	<u>\$ (110,169)</u>

See accompanying notes to basic financial statements.

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

	Budget		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 6,842,545	6,706,545	7,096,940	390,395
Licenses and permits	128,500	186,175	197,503	11,328
Fines and forfeitures	140,000	142,569	123,319	(19,250)
Intergovernmental	675,725	1,376,295	1,386,472	10,177
Special assessments	102,300	89,700	100,057	10,357
Charges for services	2,309,967	2,312,665	2,297,642	(15,023)
Miscellaneous	86,000	54,135	68,430	14,295
Total revenues	10,285,037	10,868,084	11,270,363	402,279
Expenditures:				
General government	2,771,350	2,532,446	2,482,112	50,334
Public safety	4,172,940	4,482,107	4,459,605	22,502
Public works	2,027,850	2,051,111	2,034,666	16,445
Community services	1,049,957	1,357,918	1,253,891	104,027
Debt service	195,000	267,500	247,820	19,680
Total expenditures	10,217,097	10,691,082	10,478,094	212,988
Excess of revenues over (under) expenditures	67,940	177,002	792,269	615,267
Other financing sources (uses):				
Issuance of refunding bonds	-	-	865,000	865,000
Premium on issuance	-	-	146,183	146,183
Payment to refunded to bond escrow agent	-	-	(995,458)	(995,458)
Transfers in	195,882	195,882	195,882	-
Transfers out	-	(213,411)	(890,221)	(676,810)
Net other financing sources (uses)	195,882	(17,529)	(678,614)	(661,085)
Net change in fund balance	\$ 263,822	159,473	113,655	(45,818)
Beginning fund balance, as restated			2,176,457	
Ending fund balance			\$ 2,290,112	

See accompanying notes to basic financial statements.



## CITY OF PALMER, ALASKA

 Proprietary Funds  
 Statement of Net Position  
 December 31, 2012

Assets	Major Enterprise Funds			Nonmajor Enterprise Funds	Total Proprietary Funds
	Water and Sewer	Airport	Golf Course		
Current assets:					
Cash and investments	\$ 573,495	-	-	1,345,041	1,918,536
Receivables:					
Grants	580,120	8,906	-	-	589,026
Accounts	232,266	7,458	50,000	73,781	363,505
Inventories - materials and supplies	147,550	-	137,395	-	284,945
Total current assets	<u>1,533,431</u>	<u>16,364</u>	<u>187,395</u>	<u>1,418,822</u>	<u>3,156,012</u>
Noncurrent assets:					
Land held for sale	-	-	-	217,414	217,414
Assessments receivable	<u>199,129</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>199,129</u>
Property, plant and equipment:					
Land and improvements	4,255	1,680,471	1,544,620	-	3,229,346
Buildings	60,067	509,758	254,559	52,667	877,051
Machinery and equipment	886,951	794,541	332,753	1,005,823	3,020,068
Improvements other than buildings	<u>62,600,035</u>	<u>17,772,252</u>	<u>672,569</u>	<u>-</u>	<u>81,044,856</u>
Total property, plant and equipment	63,551,308	20,757,022	2,804,501	1,058,490	88,171,321
Less accumulated depreciation	<u>(14,713,241)</u>	<u>(12,559,918)</u>	<u>(739,487)</u>	<u>(624,525)</u>	<u>(28,637,171)</u>
Net property, plant and equipment	<u>48,838,067</u>	<u>8,197,104</u>	<u>2,065,014</u>	<u>433,965</u>	<u>59,534,150</u>
Construction work in progress	<u>2,719,251</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,719,251</u>
Total noncurrent assets	<u>51,756,447</u>	<u>8,197,104</u>	<u>2,065,014</u>	<u>651,379</u>	<u>62,669,944</u>
Total assets	\$ <u>53,289,878</u>	<u>8,213,468</u>	<u>2,252,409</u>	<u>2,070,201</u>	<u>65,825,956</u>

See accompanying notes to basic financial statements.

**CITY OF PALMER, ALASKA**  
Proprietary Funds  
Statement of Net Position, continued

<u>Liabilities</u>	<u>Major Enterprise Funds</u>			<u>Nonmajor Enterprise Funds</u>	<u>Total Proprietary Funds</u>
	<u>Water and Sewer</u>	<u>Airport</u>	<u>Golf Course</u>		
Current liabilities:					
Accounts payable	\$ 119,894	5,801	39,635	330,400	495,730
Accrued payroll and employee benefits	16,177	-	-	-	16,177
Vested unpaid vacation and sick leave	46,270	-	-	7,436	53,706
Current portion of loans payable - State of Alaska	171,116	-	-	-	171,116
Current portion of capital lease	-	-	31,972	-	31,972
Unearned revenue	16,748	3	6,034	-	22,785
Prepaid rent from General Fund	-	200,000	-	-	200,000
Due to other funds	-	-	394,452	49,231	443,683
Accrued interest payable	24,892	-	-	-	24,892
Customer deposits	144,828	-	-	-	144,828
Total current liabilities	<u>539,925</u>	<u>205,804</u>	<u>472,093</u>	<u>387,067</u>	<u>1,604,889</u>
Long-term liabilities, net of current portion:					
Capital lease	-	-	18,653	-	18,653
Loans payable - State of Alaska	2,345,607	-	-	-	2,345,607
Advance from other fund	-	226,333	-	-	226,333
Total long-term liabilities	<u>2,345,607</u>	<u>226,333</u>	<u>18,653</u>	<u>-</u>	<u>2,590,593</u>
Total liabilities	<u>2,885,532</u>	<u>432,137</u>	<u>490,746</u>	<u>387,067</u>	<u>4,195,482</u>
<u>Net Position</u>					
Net investment in capital assets	49,040,595	8,197,104	2,014,389	433,965	59,686,053
Unrestricted (deficit)	<u>1,363,751</u>	<u>(415,773)</u>	<u>(252,726)</u>	<u>1,249,169</u>	<u>1,944,421</u>
Total net position	<u>50,404,346</u>	<u>7,781,331</u>	<u>1,761,663</u>	<u>1,683,134</u>	<u>61,630,474</u>
Total liabilities and net position	<u>\$ 53,289,878</u>	<u>8,213,468</u>	<u>2,252,409</u>	<u>2,070,201</u>	<u>65,825,956</u>

See accompanying notes to basic financial statements.

## CITY OF PALMER, ALASKA

## Proprietary Funds

Statement of Revenues, Expenses and Changes in Net Position  
Year Ended December 31, 2012

	Major Enterprise Funds			Nonmajor Enterprise Funds	Total Proprietary Funds
	Water and Sewer	Airport	Golf Course		
Operating revenues	\$ <u>1,992,139</u>	<u>185,152</u>	<u>634,281</u>	<u>447,406</u>	<u>3,258,978</u>
Operating expenses:					
Salaries and employee benefits	503,265	-	-	88,960	592,225
Administrative services	377,378	128,074	71,016	111,755	688,223
Other operating expenses	716,413	128,471	607,170	239,955	1,692,009
Depreciation	<u>1,345,195</u>	<u>527,737</u>	<u>55,746</u>	<u>32,449</u>	<u>1,961,127</u>
Total operating expenses	<u>2,942,251</u>	<u>784,282</u>	<u>733,932</u>	<u>473,119</u>	<u>4,933,584</u>
Operating loss	(950,112)	(599,130)	(99,651)	(25,713)	(1,674,606)
Nonoperating revenues (expenses):					
State PERS relief	33,453	-	-	5,718	39,171
Insurance reimbursement	78,788	-	-	-	78,788
Miscellaneous income	537	-	-	-	537
Grant revenue	-	8,906	-	-	8,906
Master plan expense	-	(8,906)	-	-	(8,906)
Loss on disposal of capital asset	(9,390)	-	-	-	(9,390)
Interest expense	<u>(47,629)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(47,629)</u>
Net nonoperating revenues (expenses)	<u>55,759</u>	<u>-</u>	<u>-</u>	<u>5,718</u>	<u>61,477</u>
Loss before contributions and transfers	(894,353)	(599,130)	(99,651)	(19,995)	(1,613,129)
Capital contributions	1,874,415	6,007	-	-	1,880,422
Capital contribution refund	(554,602)	-	-	-	(554,602)
Transfers in	676,810	15,000	-	-	691,810
Transfers out	<u>(124,358)</u>	<u>(10,651)</u>	<u>(52,872)</u>	<u>(53,552)</u>	<u>(241,433)</u>
Change in net position	977,912	(588,774)	(152,523)	(73,547)	163,068
Beginning net position	<u>49,426,434</u>	<u>8,370,105</u>	<u>1,914,186</u>	<u>1,756,681</u>	<u>61,467,406</u>
Ending net position	\$ <u>50,404,346</u>	<u>7,781,331</u>	<u>1,761,663</u>	<u>1,683,134</u>	<u>61,630,474</u>

See accompanying notes to basic financial statements.

## CITY OF PALMER, ALASKA

## Proprietary Funds

## Statement of Cash Flows

Year Ended December 31, 2012

	Major Enterprise Funds			Nonmajor Enterprise Funds	Total Proprietary Funds
	Water and Sewer	Airport	Golf Course		
Cash flows from operating activities:					
Cash receipts from customers and users	\$ 2,107,995	181,921	705,807	443,610	3,439,333
Payments to suppliers	(757,539)	(144,512)	(685,930)	(259,448)	(1,847,429)
Payments to employees	(451,620)	-	-	(82,326)	(533,946)
Payments for interfund services used	(377,378)	(128,074)	-	(111,755)	(617,207)
Net cash flows from operating activities	<u>521,458</u>	<u>(90,665)</u>	<u>19,877</u>	<u>(9,919)</u>	<u>440,751</u>
Cash flows from noncapital financing activities:					
Transfers in	-	15,000	-	-	15,000
Transfers out	(124,358)	(10,651)	(52,872)	(53,552)	(241,433)
Net cash flows from noncapital financing activities	<u>(124,358)</u>	<u>4,349</u>	<u>(52,872)</u>	<u>(53,552)</u>	<u>(226,433)</u>
Cash flows from capital and related financing activities:					
Capital contributions received	2,493,975	70,240	-	-	2,564,215
Capital contribution refund	(554,602)	-	-	-	(554,602)
Increase in property, plant and equipment and construction work in progress	(2,821,113)	(6,007)	-	(16,655)	(2,843,775)
Increase in due to General Fund	-	-	64,967	-	64,967
Increase in advance from other fund	-	22,083	-	-	22,083
Principal payments on loans payable - State of Alaska	(169,166)	-	-	-	(169,166)
Principal payments on capital lease	-	-	(31,972)	-	(31,972)
Interest paid	(40,288)	-	-	-	(40,288)
Transfers in	<u>676,810</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>676,810</u>
Net cash flows from capital and related financing activities	<u>(414,384)</u>	<u>86,316</u>	<u>32,995</u>	<u>(16,655)</u>	<u>(311,728)</u>
Net increase (decrease) in cash and investments	(17,284)	-	-	(80,126)	(97,410)
Beginning cash and investments	<u>590,779</u>	<u>-</u>	<u>-</u>	<u>1,425,167</u>	<u>2,015,946</u>
Ending cash and investments	\$ <u>573,495</u>	<u>-</u>	<u>-</u>	<u>1,345,041</u>	<u>1,918,536</u>

See accompanying notes to basic financial statements.

**CITY OF PALMER, ALASKA**  
Proprietary Funds  
Statement of Cash Flows, continued

	Major Enterprise Funds			Nonmajor Enterprise Funds	Total Proprietary Funds
	Water and Sewer	Airport	Golf Course		
Reconciliation of operating loss to net cash provided (used) by operating activities:					
Operating loss	\$ (950,112)	(599,130)	(99,651)	(25,713)	(1,674,606)
Adjustments to reconcile operating loss to net cash flows from operating activities:					
Depreciation	1,345,195	527,737	55,746	32,449	1,961,127
Noncash expense - PERS relief	33,453	-	-	5,718	39,171
Other revenues	79,325	-	-	-	79,325
Nonoperating expenses	-	(8,906)	-	-	(8,906)
(Increase) decrease in assets:					
Accounts receivable	15,323	(555)	67,811	(3,796)	78,783
Inventories	(2,340)	-	1,341	-	(999)
Increase (decrease) in liabilities:					
Accounts payable	(38,786)	(7,135)	(9,085)	(19,493)	(74,499)
Accrued payroll and employee benefits	15,954	-	-	-	15,954
Vested unpaid vacation and sick leave	2,238	-	-	916	3,154
Unearned revenue	10,274	(2,676)	3,715	-	11,313
Customer deposits	10,934	-	-	-	10,934
Net cash provided (used) by operating activities	\$ <u>521,458</u>	<u>(90,665)</u>	<u>19,877</u>	<u>(9,919)</u>	<u>440,751</u>
Noncash capital and related financing activities - purchase of equipment included in accounts payable	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>(314,138)</u>	<u>(314,138)</u>

See accompanying notes to basic financial statements.

# CITY OF PALMER, ALASKA

## Notes to Basic Financial Statements

December 31, 2012

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

**Reporting Entity**

The City of Palmer (City) was incorporated April 30, 1951 as a home rule city under the laws of the State of Alaska. The City operates under a council-manager form of government and provides the following services: public safety (police, fire, and building department), public works (roads and general), community programs, golf course, ice rink, library, water and sewer utility, airport, refuse utility, land development and general government administration.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies:

**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. 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 PALMER, 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 all revenues except reimbursement grants to be available if they are collected within 60 days after year end. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. 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 taxes, sales taxes, certain charges for services, 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue in the current period. Most 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.

##### Major proprietary funds:

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

The *Airport Enterprise Fund* is used to account for the operations of the local airport facility.

The *Golf Course Enterprise Fund* is used to account for the operations of the local city-owned golf course.

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 PALMER, 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 Funds are charges to customers for sales and services. Operating expenses for the Enterprise Funds 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.

##### Investments

Investments are stated at fair value.

##### Cash and Cash Equivalents

For purposes of the statement of cash flows, the proprietary funds consider all cash and investments 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.

##### Inventory

Inventories of materials and supplies are recorded at cost on a first-in, first-out basis. The cost is recorded as an expenditure/expense at the time individual inventory items are consumed.

##### Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

##### Land Held for Sale

Land held for sale is valued at cost.

##### Capital Assets

Capital assets, which include property, plant, and equipment, and infrastructure assets (roads, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. 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. In the case of the initial capitalization of infrastructure assets, the City chose to include all such items, regardless of their acquisition date.



## CITY OF PALMER, ALASKA

### Notes to Basic Financial Statements, continued

#### **Summary of Significant Accounting Policies, continued**

##### Capital Assets, continued

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.

Depreciation has been provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives of the assets are as follows:

Buildings	40 years
Improvements other than buildings	15 to 50 years
Machinery and equipment	2 to 25 years

##### 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.

##### Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two installments in August and February. The Matanuska-Susitna Borough bills and collects the taxes for the City. Collections of the City taxes and remittance of them to the City are accounted for in the Matanuska-Susitna Borough's Tax Agency Fund. City property tax revenues are recognized when levied to the extent that they result in current revenues available to finance City operations.

##### Long-Term Debt

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

## CITY OF PALMER, ALASKA

### Notes to Basic Financial Statements, continued

#### **Summary of Significant Accounting Policies, continued**

##### **Fund Balances**

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

The spendable portion of the fund balance 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 City manager have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

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

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

##### **Encumbrances**

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

## CITY OF PALMER, 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 annual leave 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 it has matured (e.g. the employee has terminated employment).

##### Unearned Grant Revenue

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

##### Pension Plan

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

##### Comparative Data

Comparative data for the prior year have been presented in some of the accompanying individual financial statements in order to provide an understanding of changes in the City's financial position and operations.

##### Change in Accounting Principle

The City has adopted newly issued Governmental Accounting Standards Board (GASB) pronouncements 63 and 65, resulting in a change in presentation of the government-wide and fund level financial statements. The new pronouncements require reporting two new categories of accounts. Certain items previously reported as assets are now categorized as deferred outflows. A deferred outflow represents the consumption of the government's net position or fund balance that is applicable to a future reporting period. Other items previously categorized as liabilities are now categorized as deferred inflows. A deferred inflow represents the acquisition of net assets or fund balance that is applicable to a future reporting period. For example, revenues that have been earned but are not yet available in the governmental funds are now reported as deferred inflows. In the government-wide financial statements the residual net of all of the accounts is now called net position. The adoption of these statements has no effect on previously reported net assets.

#### (2) **Stewardship, Compliance and Accountability**

##### Budgetary Accounting

An operating budget is adopted each fiscal year for the General Fund and some Special Revenue Funds on the same modified accrual basis used to reflect actual revenues and expenditures. Appropriations for these funds lapse at year end to the extent that they have not been expended or encumbered. The budgeted financial statements presented in this report reflect the final budget authorization, including Council amendments made during the year.

## CITY OF PALMER, ALASKA

### Notes to Basic Financial Statements, continued

#### **Stewardship, Compliance and Accountability, continued**

##### **Budgetary Accounting, continued**

The City follows these procedures in establishing the budgetary data reflected in the basic financial statements:

- a. During or prior to the sixth week prior to January 1, the City Manager submits to the City Council a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted by the City to obtain taxpayer comments.
- c. Prior to December 31, the budget is legally enacted through passage of a resolution.
- d. The City Manager is authorized to transfer budgeted amounts within departments; however, any revisions that alter the total expenditures of any fund or department within a fund must be approved by the City Council. Expenditures may not exceed appropriations at the fund level.
- e. Formal budgetary integration is employed as a management control device during the year for all funds.
- f. All budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

#### (3) **Cash and Investments**

The City of Palmer 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 in the case of negative cash, is included in "Due to other funds."

##### **Reconciliation of Deposit and Investment Balances**

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

Cash	\$ 1,748,795
Investments	<u>2,608,799</u>
	\$ <u>4,357,594</u>

##### **Investment Policy**

The City is authorized by ordinance to invest in the following:

- a. Government obligations;
- b. Commercial paper having original maturities of not more than 270 days;
- c. Bankers' acceptances accepted by a rated bank and eligible for rediscount with, or purchase by, Federal Reserve System banks;
- d. Certificates of deposit issued by rated banks;

**CITY OF PALMER, ALASKA**

Notes to Basic Financial Statements, continued

**Cash and Investments, continued**

**Investment Policy, continued**

- e. Interest bearing obligations of a corporation, or of any state of the United States of America or any political subdivision thereof;
- f. Shares of Securities and Exchange Commission registered money market mutual funds conforming to Rule 2a-7 of the Investment Company Act of 1940 that invest primarily in direct obligations of the United States and repurchase agreements backed by those obligations;
- g. Repurchase agreements with primary dealers or rated banks; and
- h. Alaska Municipal League Investment Pool.

Per the ordinance, all security transactions, including collateral for repurchase agreements, must be held in the City’s name by a third party custodian designated by the City Manager and evidenced by safekeeping receipts and statements. Certain investments must meet specific ratings by Standard and Poor, or Moodys, and bear interest at a rate of at least 25 basis points above the rate of interest on United States Treasury obligations of the same maturity at the time of purchase. The City Manager is authorized to appoint custodian banks and external investment managers subject to approval by the City Council. The investment manager must provide a monthly report summarizing investment activity in the portfolio.

*Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Investment maturities at December 31, 2012 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>(in Years)</u>	
		<u>Less Than 1</u>	<u>1-5</u>
Corporate obligations	\$ 1,000,000	-	1,000,000
Certificates of deposit	<u>1,591,966</u>	<u>1,243,297</u>	<u>348,669</u>
Total subject to interest rate risk	2,591,966	<u>1,243,297</u>	<u>1,348,669</u>
Pooled investments	<u>16,833</u>		
Total investments	\$ <u>2,608,799</u>		

## CITY OF PALMER, ALASKA

### Notes to Basic Financial Statements, continued

#### **Cash and Investments, continued**

##### **Investment Policy, continued**

###### *Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City did not have any investments subject to credit risk at year end.

Pooled investments are invested with the Alaska Municipal League Investment Pool, Inc. (AMLIP). The AMLIP is an external investment pool which is rated AAAM by Standard and Poor's for credit risk purposes. Alaska Statute 37.23 establishes regulatory oversight of the pool. The law sets forth numerous requirements regarding authorized investments and reporting. The share value of investments in the AMLIP is approximately equal to fair value.

#### (4) **Deferred Inflows and Unearned Revenue**

At December 31, 2012, the various components of deferred inflows and unearned revenue reported in the governmental funds were as follows:

##### Deferred inflows:

Delinquent property taxes receivable – General Fund	\$ 39,433
Special assessments not yet due and delinquent – General Fund	<u>378,168</u>
Total deferred inflows	\$ <u>417,601</u>

##### Unearned revenue:

Arena naming rights	\$ 77,960
Grant drawdowns	53,300
Other revenues received in advance	<u>21,090</u>
Total unearned revenue	\$ <u>152,350</u>

## CITY OF PALMER, ALASKA

### Notes to Basic Financial Statements, continued

(5) **Capital Assets**

The following summarizes the changes in capital assets for the year ended December 31, 2012:

	Balance January 1, <u>2012</u>	Additions and Reclass- <u>ifications</u>	Deletions and Reclass- <u>ifications</u>	Balance December 31, <u>2012</u>
<b><u>Governmental activities</u></b>				
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 1,569,842	-	-	1,569,842
Construction work in progress	<u>1,891,245</u>	<u>889,195</u>	<u>74,451</u>	<u>2,705,989</u>
Total assets not being depreciated	<u>3,461,087</u>	<u>889,195</u>	<u>74,451</u>	<u>4,275,831</u>
<i>Capital assets being depreciated:</i>				
Buildings	11,762,692	-	-	11,762,692
Improvements other than buildings	18,040,907	138,899	-	18,179,806
Machinery and equipment	<u>6,416,443</u>	<u>172,490</u>	<u>7,500</u>	<u>6,581,433</u>
Total assets being depreciated	<u>36,220,042</u>	<u>311,389</u>	<u>7,500</u>	<u>36,523,931</u>
Less accumulated depreciation for:				
Buildings	7,135,941	421,188	-	7,557,128
Improvements other than buildings	6,332,775	466,819	-	6,799,595
Machinery and equipment	<u>4,425,174</u>	<u>504,888</u>	<u>7,500</u>	<u>4,922,562</u>
Total accumulated depreciation	<u>17,893,890</u>	<u>1,392,895</u>	<u>7,500</u>	<u>19,279,285</u>
 Total assets being depreciated, net	 <u>18,326,152</u>	 <u>(1,081,506)</u>	 <u>-</u>	 <u>17,244,646</u>
 Governmental activity capital assets, net	 \$ <u>21,787,239</u>	 <u>(192,311)</u>	 <u>74,451</u>	 <u>21,520,477</u>

**CITY OF PALMER, ALASKA**

Notes to Basic Financial Statements, continued

**Capital Assets, continued**

	Balance January 1, <u>2012</u>	Additions and Reclas- <u>sifications</u>	Deletions and Reclas- <u>sifications</u>	Balance December 31, <u>2012</u>
<b><u>Business-type activities</u></b>				
<i>Capital assets not being depreciated:</i>				
Land and land improvements	\$ 3,229,346	-	-	3,229,346
Construction work in progress	<u>-</u>	<u>2,756,348</u>	<u>37,098</u>	<u>2,719,251</u>
Total assets not being depreciated	<u>3,229,346</u>	<u>2,756,348</u>	<u>37,098</u>	<u>5,948,597</u>
 <i>Capital assets being depreciated:</i>				
Buildings	877,051	-	-	877,051
Improvements other than buildings	81,001,751	43,105	-	81,044,856
Machinery and equipment	<u>2,634,413</u>	<u>397,392</u>	<u>11,737</u>	<u>3,020,068</u>
Total assets being depreciated	<u>84,513,215</u>	<u>440,497</u>	<u>11,737</u>	<u>84,941,975</u>
 Less accumulated depreciation for:				
Buildings	665,980	29,140	-	695,120
Improvements other than buildings	24,184,338	1,796,991	-	25,981,329
Machinery and equipment	<u>1,828,072</u>	<u>134,997</u>	<u>2,347</u>	<u>1,960,722</u>
Total accumulated depreciation	<u>26,678,390</u>	<u>1,961,128</u>	<u>2,347</u>	<u>28,637,171</u>
 Total assets being depreciated, net	 <u>57,834,825</u>	 <u>(1,520,631)</u>	 <u>9,390</u>	 <u>56,304,804</u>
 Business-type activity capital assets, net	 <u>\$ 61,064,171</u>	 <u>1,235,717</u>	 <u>46,488</u>	 <u>62,253,401</u>

Depreciation expense was charged to the functions as follows:

**Governmental activities**

General government	\$ 53,417
Public safety	467,299
Public works	572,445
Community services	<u>299,734</u>
Total depreciation expense – governmental activities	<u>\$ 1,392,895</u>

**Business-type activities**

Water and sewer	\$ 1,345,195
Airport	527,737
Refuse	32,450
Golf course	<u>55,746</u>
Total depreciation expense – business-type activities	<u>\$ 1,961,128</u>



## CITY OF PALMER, ALASKA

### Notes to Basic Financial Statements, continued

(6) **Interfund Receivables, Payables, and Transfers**

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

***Advances to other funds:***

Advance to Airport Enterprise Fund from General Fund to cover operating costs	\$ <u>226,333</u>
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***Due to other funds:***

Due to the General Fund from:	
Golf Course Enterprise Fund to cover operating costs	\$ 394,452
Nonmajor enterprise fund to cover operating costs	<u>49,231</u>
Total due to other funds	\$ <u>443,683</u>

***Transfers:***

To General Fund from:	
Water and Sewer Enterprise Fund	\$ 116,400
Gold Course Enterprise Fund	52,872
Nonmajor enterprise funds	26,610
To Water and Sewer Enterprise Fund from General Fund	 676,810
To nonmajor governmental funds from:	
General Fund	198,411
Water and Sewer Enterprise Fund	7,958
Airport Enterprise Fund	10,651
Nonmajor governmental funds	10,186
Nonmajor enterprise funds	26,942
To Airport Enterprise Fund from General Fund	<u>15,000</u>
Total transfers to other funds	\$ <u>1,141,840</u>

(7) **Long-Term Debt**

In October 2011, voters approved \$2 million in revenue bonds to be used to finance additional water and sewer improvement projects. In October 2010, voters approved \$3 million in general obligation bonds to acquire property known as Mat Maid block. As of December 31, 2012, none of the bonds have been issued.

**CITY OF PALMER, ALASKA**

Notes to Basic Financial Statements, continued

**Long-Term Debt, continued**

In 2012, the City issued \$865,000 in 2012 Series 2 Ice Rink General Obligation Bonds with interest rates ranging from 2.0% to 5.0% to advance refund Ice Rink General Obligation Bonds of \$900,000. The new bonds were issued at a premium of \$146,183 and after paying issuance and other costs of \$15,725, the net proceeds were \$995,458. The net proceeds from the issuance were deposited into an irrevocable trust with an escrow agent to provide debt service payments on the old bonds. The advance refunding met the requirements of an in-substance defeasance of portions of the old bonds and \$900,000 was removed from the City's government-wide financial statements. The remaining balance on the old bonds in the amount of \$140,000 will remain as a liability of the City until they are retired in 2024. At December 31, 2012, \$900,000 of the defeased bonds remain outstanding. As a result of the advance funding, the City recorded a deferred loss of \$95,548. The refunding will result in reduced debt service payments over time in the amount of \$59,057 for an economic gain of \$56,593.

A summary of long-term debt transactions of the City for the year ended December 31, 2012, follows:

	Balance January 1, <u>2012</u>	<u>Additions</u>	<u>Retired</u>	Balance December 31, <u>2012</u>	Due Within <u>One Year</u>
<b><u>Governmental activities</u></b>					
Bonds Payable:					
\$1,320,000 refunding Golf Course general obligation bonds, due in annual installments of \$135,000 to \$150,000, plus interest at 3.0% to 5.0% through 2015	\$ 560,000	-	130,000	430,000	135,000
\$1,500,000 2004 Ice Rink general obligation bonds, due in annual installments of \$70,000, plus interest ranging from 4.0% to 5.0% through 2024	1,105,000	-	965,000	140,000	70,000
\$900,000 2012 refunding Ice Rink general obligation bonds, due in annual installments of \$37,550 to \$110,250, plus interest ranging from 2.0% to 5.0% through 2024	-	865,000	5,000	860,000	-
Unamortized Premium on Ice Rink GO bonds	-	146,182	6,090	140,092	-
Vested unpaid vacation and sick leave	<u>417,039</u>	<u>390,349</u>	<u>379,026</u>	<u>428,362</u>	<u>428,362</u>
Total governmental activities	\$ <u>2,082,039</u>	<u>1,401,531</u>	<u>1,485,116</u>	<u>1,998,454</u>	<u>633,362</u>

**CITY OF PALMER, ALASKA**

Notes to Basic Financial Statements, continued

**Long-Term Debt, continued**

	Balance January 1, <u>2012</u>	<u>Additions</u>	<u>Retired</u>	Balance December 31, <u>2012</u>	Due Within <u>One Year</u>
<b><u>Business-type activities</u></b>					
Loans Payable:					
\$222,857 State of Alaska Sewer Utility loan due in annual installments of \$14,120 including interest at 1.5% through 2019	\$ 105,701	-	12,535	93,166	12,722
\$411,000 State of Alaska Water Utility loan due in annual installments of \$24,202 including interest at 1.5% through 2025	303,575	-	19,648	283,927	19,943
\$604,000 State of Alaska Water Utility loan due in annual installments of \$34,230 including interest at 1.5% through 2024	401,569	-	28,208	373,361	28,631
\$782,000 State of Alaska Water Utility loan due in annual installments of \$39,100 plus interest at 1.5% through 2027	625,600	-	39,100	586,500	39,100
\$1,518,000 State of Alaska Sewer Utility loan due in annual installments of \$88,417 including interest at 1.5% through 2027	1,249,444	-	69,675	1,179,769	70,720
Capital Lease – irrigation computer system capital lease obligation, due in monthly installments of \$2,664 through 2014	82,598	-	31,973	50,625	31,972
Vested unpaid vacation and sick leave	<u>50,552</u>	<u>40,025</u>	<u>36,871</u>	<u>53,706</u>	<u>53,706</u>
Total business-type activities	\$ <u>2,819,039</u>	<u>40,025</u>	<u>238,010</u>	<u>2,621,054</u>	<u>256,794</u>

**CITY OF PALMER, ALASKA**

Notes to Basic Financial Statements, continued

**Long-Term Debt, continued**

Annual debt service requirements to maturity for the bonds and loans follow:

Year Ending December 31,	<u>Governmental activities</u>			<u>Business-type activities</u>		
	<u>General Obligation Bonds</u>			<u>Loans Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 205,000	104,738	309,738	171,116	37,750	208,866
2014	215,000	95,188	310,188	173,097	35,184	208,281
2015	225,000	45,050	270,050	175,106	32,588	207,694
2016	75,000	34,550	109,550	177,146	29,961	207,107
2017	75,000	31,550	106,550	179,217	27,304	206,521
2018-2022	335,000	98,350	433,350	885,248	96,197	981,445
2023-2027	<u>300,000</u>	<u>30,500</u>	<u>330,500</u>	<u>755,793</u>	<u>31,651</u>	<u>787,444</u>
	<u>\$ 1,430,000</u>	<u>409,426</u>	<u>1,539,426</u>	<u>2,516,723</u>	<u>290,635</u>	<u>2,807,358</u>

**Bond Covenants**

All significant bond covenants have been complied with as of December 31, 2012.

(8) **Capital Lease**

The City has entered into a lease agreement as lessee for financing the acquisition of an irrigation computer system for the golf course. The lease agreement qualifies as a capital lease for accounting purposes (title transfers at the end of the lease term) and therefore, has been recorded at the present value of the future minimum lease payments. The following is a summary of the asset acquired with the capital lease that has an outstanding balance as of December 31, 2012:

	Golf Course <u>Fund</u>
Machinery and equipment	\$ 96,170
Less accumulated depreciation	<u>12,823</u>
Carrying value	<u>\$ 83,347</u>

**CITY OF PALMER, ALASKA**

Notes to Basic Financial Statements, continued

**Capital Lease, continued**

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

<u>Year Ending December 31,</u>	<u>Golf Course Fund</u>
2013	\$ 31,972
2014	<u>18,653</u>
Total minimum lease payments	50,625
Less current portion	<u>(31,972)</u>
Long-term portion	\$ <u>18,653</u>

(9) **Capital Contributions Refunded and Other Non-reimbursable Grant Costs**

In 2012, the City was notified by the Alaska Department of Environmental Conservation (ADEC) that a review had been performed on certain ADEC administered state and federal pass through grants dating back to 2010. As a result of this detailed review, ADEC notified the City that \$554,602 of prior year costs, substantially related to street and street light improvements performed in a combined road and water/sewer project, had been identified as non-reimbursable costs under the Alaska Clean Water and Drinking Water grants. In addition to the prior year costs identified, \$122,208 of current year costs were also disallowed on the grants. All of the disallowed costs, except for approximately \$10,000 were paid back to ADEC during fiscal year 2012. The payback has been reflected in the Water and Sewer Enterprise Fund as capital contributions refunded for the costs associated with prior years. The current year portion is reflected in the construction in progress. Due to the loss in grant revenue tied to these projects, the City has recorded a transfer of \$676,810 from the General Fund to the Water and Sewer Enterprise Fund to repay that fund for the costs associated with the street and street light improvements. It should be noted that, although the costs were disallowed for the specific water and sewer grants, the costs were not unreasonable, or otherwise inappropriate for the combined project which included road and lighting upgrades in connection with the water and sewer upgrades.

**CITY OF PALMER, ALASKA**

Notes to Basic Financial Statements, continued

(10) **Fund Balances**

Fund balances, reported for the major fund and the nonmajor funds in the aggregate on the governmental funds balance sheet is subject to the following constraints:

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Totals</u>
Nonspendable:			
Prepaid insurance and prepaid rent	\$ 439,653	-	439,653
Advance to other fund	<u>226,333</u>	<u>-</u>	<u>226,333</u>
Total nonspendable	<u>665,986</u>	<u>-</u>	<u>665,986</u>
 Restricted for public safety	<u>-</u>	<u>152,853</u>	<u>152,853</u>
Committed:			
Public safety	-	29,010	29,010
Capital projects and equipment	<u>-</u>	<u>1,064,657</u>	<u>1,064,657</u>
Total committed	<u>-</u>	<u>1,093,667</u>	<u>1,093,667</u>
Assigned:			
Vested unpaid vacation and sick leave	428,362	-	428,362
Parks	<u>-</u>	<u>21,736</u>	<u>21,736</u>
Total assigned	<u>428,362</u>	<u>21,736</u>	<u>450,098</u>
 Unassigned	<u>1,195,764</u>	<u>-</u>	<u>1,195,764</u>
 Total fund balances	<u>\$ 2,290,112</u>	<u>1,268,256</u>	<u>3,558,368</u>

(11) **Prior Period Adjustment**

In 2012, City management discovered an oversight which resulted in an understatement of accounts payable and expenditures of \$79,870 in the General Fund for prior years. This inadvertent oversight was associated with amounts that were due to the Alaska Courts System and the Alaska Police Standards Council. Because the City's management was not aware of this liability, nothing had been accrued or expensed in prior years. A prior period adjustment of \$79,870 was made to the 2011 beginning fund balance.

## CITY OF PALMER, ALASKA

### Notes to Basic Financial Statements, continued

(12) **Defined Benefit Pension Plan**

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

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

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

**Conversion to Cost Sharing**

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

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

**Employee Contribution Rates**

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

**Employer and Other Contribution Rates**

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

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

**CITY OF PALMER, ALASKA**

Notes to Basic Financial Statements, continued

**Defined Benefit Pension Plan, continued**

**Employer and Other Contribution Rates, continued**

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

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

*GASB 43 Rate:* This is the rate used to determine the long-term pension and healthcare liability for plan accounting purposes in accordance with generally accepted accounting principles as established by GASB. Certain actuarial methods and assumptions for this rate calculation are mandated by GASB. For FY13, the rate uses an 8.00% pension discount rate and a 6.88% healthcare discount rate. Additionally, the GASB 43 rate disregards all future Medicare Part D payments.

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

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

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

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



**CITY OF PALMER, ALASKA**

Notes to Basic Financial Statements, continued

**Defined Benefit Pension Plan, continued**

Annual Pension and Postemployment Healthcare Cost

The City is required to contribute 22% of covered payroll, subject to a wage floor. In addition, the State of Alaska contributed approximately 11.49% and 13.84% of covered payroll to the Plan for each six month period noted above, respectively. In accordance with the provisions of GASB Statement Number 24, the City has recorded the State on-behalf payment in the amount of \$537,533 as revenue and expense/expenditures in these financial statements. However, because the City is not statutorily obligated for these payments, this amount is excluded from pension and OPEB cost as described here.

<u>Year Ended December 31</u>	<u>Annual Pension Cost</u>	<u>Annual OPEB Cost</u>	<u>Total Benefit Cost (TBC)</u>	<u>City Contributions</u>	<u>% of TBC Contributed</u>
2012	\$ 343,789	\$ 438,439	\$ 782,228	\$ 782,228	100%
2011	300,757	541,936	842,693	842,693	100%
2010	320,962	562,574	883,536	883,536	100%

(13) **Defined Contribution Pension Plan**

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

Employee Contribution Rates

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

Employer Contribution Rates

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

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

**CITY OF PALMER, ALASKA**

Notes to Basic Financial Statements, continued

**Defined Contribution Pension Plan, continued**

**Employer Contribution Rates, continued**

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

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

Employees are immediately vested in their own contributions and vest 25% per year in employer contributions. The City and employee contributions to PERS including the HRA contribution for the year ended December 31, 2012 were \$130,744 and \$112,325, respectively.

(14) **Conduit Debt – Revenue Bonds**

On January 11, 2000, the City participated in the issuance of \$1,800,000 of revenue bonds with Southcentral Foundation, an Alaska nonprofit corporation, to finance the purchase of an office building in Anchorage. The balance of the revenue bonds outstanding at December 31, 2012 was \$887,188.

On September 10, 2002, the City participated in the issuance of \$9,050,000 of revenue bonds with Southcentral Foundation to finance the construction and acquisition of a dental, optometry, and behavioral health services building in Anchorage. The balance of the revenue bonds outstanding at December 31, 2012 was \$6,353,973.

None of the above bonds constitute a general obligation debt or pledge of the full faith and credit of the City and accordingly, the bonds are not reflected in the City’s financial statements.

## CITY OF PALMER, ALASKA

### Notes to Basic Financial Statements, continued

(15) **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. Commercial policies, transferring the risk of loss, except for relatively small deductible amounts, are purchased for employee medical costs. The City is a member of the Alaska Public Entity Insurance Association (APEI), a governmental insurance pool. APEI provides the City coverage for automobiles, casualty, including general liability, earthquake/flood, property, public officials and employee liability, law enforcement professional liability, employee benefit liability; and workers' compensation. Another insurance company provides the City coverage for airport liability. The City has no coverage for potential losses from environmental damages. APEI is a public entity risk pool organized to share risks among its members. The APEI's bylaws provide for the assessment of supplemental contributions from members in the event that losses and expenses for any coverage year exceed the annual contributions and income earned on such contributions for the year. Such supplemental contributions shall be based upon each member's annual deposit contribution in comparison to the aggregate annual deposit contributions of all members. Coverage limits and the deductibles on the policies are relatively consistent with prior years. APEI made no supplemental assessments during the year ended December 31, 2012.

(16) **Grants**

The City participates in a number of federal government and State of Alaska grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any disallowed claims, including amounts already collected, would become a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time.

(17) **Contingencies**

**Litigation**

The City is involved in various claims and litigation as part of the normal course of its activities. In the opinion of management, the disposition of these matters is not expected to have a material adverse effect on the City's financial statements, with the exception of the matter noted below.

**Palmer Airport Contingency**

The Federal Administration (FAA) made preliminary findings that the City violated certain grant assurances with respect to the use of property at the Palmer Municipal Airport for non-aeronautical purposes by the City itself and by certain airport tenants. The City's legal counsel submitted a corrective action plan to the FAA on behalf of the City. The FAA approved the corrective action plan with certain modifications. The FAA approved corrective action plan does not require the City to make any payments to any third party.

## CITY OF PALMER, ALASKA

### Notes to Basic Financial Statements, continued

#### **Contingencies, continued**

##### Employee vs. Independent Contractor Claim

As allowed under state regulations, the State of Alaska Division of Retirement and Benefits conducted an audit of the City's PERS participation and contributions. As a result of that audit, DRB questions the independent contractor status of two contractors and determined that those individuals should be classified as employees for the purposes of IRS and Social Security reporting. The audit determined that they were not employees under PERS, therefore no liability exists with respect to the PERS. The City continues to maintain that these two individuals are independent contractors and intends to defend vigorously against any claim to the contrary. The City has not been contacted by the IRS or the Social Security Administration with regard to this matter and it is unclear what, if any, financial liability may exist with respect to this issue. No liability has been reflected in these financial statements on this matter.

##### Wastewater Treatment Plant Issue

The State of Alaska contacted the City concerning the ammonia effluent levels which periodically exceed allowable discharge limits at the Waste Water Treatment Plant (WWTP). The Alaska Department of Environmental Conservation (ADEC) advised City officials that they are developing a draft Compliance Order By Consent (COBC) which will provide guidance for the City to consistently maintain allowable ammonia effluent levels. The COBC may involve an undetermined financial penalty. No liability has been reflected in these financial statements on this matter.

#### (18) **New Accounting Pronouncements**

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

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

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

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

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

**SUPPLEMENTARY FINANCIAL INFORMATION**

**NONMAJOR GOVERNMENTAL FUNDS**

## CITY OF PALMER, ALASKA

Nonmajor Governmental Funds  
Combining Balance Sheet  
December 31, 2012

<u>Assets</u>	<u>Special Revenue Funds</u>				<u>Capital Project Funds</u>			Total Nonmajor Govern- mental Funds
	<u>Narcotics Grant</u>	<u>Police Grants</u>	<u>Neighborhood Parks Development</u>	<u>Asset Forfeiture</u>	<u>Capital Projects</u>	<u>Equipment</u>	<u>Road Improve- ments</u>	
Cash and investments	\$ 17,269	902	28,949	152,853	384,215	560,618	112,205	1,257,011
Grants receivable	<u>7,293</u>	<u>3,895</u>	<u>-</u>	<u>-</u>	<u>176,955</u>	<u>3,090</u>	<u>-</u>	<u>191,233</u>
Total assets	<u>\$ 24,562</u>	<u>4,797</u>	<u>28,949</u>	<u>152,853</u>	<u>561,170</u>	<u>563,708</u>	<u>112,205</u>	<u>1,448,244</u>
<u>Liabilities</u>								
Accounts payable	349	-	7,213	-	116,036	-	-	123,598
Unearned revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,000</u>	<u>11,390</u>	<u>-</u>	<u>56,390</u>
Total liabilities	<u>349</u>	<u>-</u>	<u>7,213</u>	<u>-</u>	<u>161,036</u>	<u>11,390</u>	<u>-</u>	<u>179,988</u>
<u>Fund Balances</u>								
Restricted for public safety	-	-	-	152,853	-	-	-	152,853
Committed:								
Capital projects and equipment	-	-	-	-	400,134	552,318	112,205	1,064,657
Public safety	24,213	4,797	-	-	-	-	-	29,010
Assigned for parks	<u>-</u>	<u>-</u>	<u>21,736</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,736</u>
Total fund balances	<u>24,213</u>	<u>4,797</u>	<u>21,736</u>	<u>152,853</u>	<u>400,134</u>	<u>552,318</u>	<u>112,205</u>	<u>1,268,256</u>
Total liabilities and fund balances	<u>\$ 24,562</u>	<u>4,797</u>	<u>28,949</u>	<u>152,853</u>	<u>561,170</u>	<u>563,708</u>	<u>112,205</u>	<u>1,448,244</u>

## CITY OF PALMER, ALASKA

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

	Special Revenue Funds				Capital Project Funds			Total Nonmajor Govern- mental Funds
	Narcotics Grant	Police Grants	Neighborhood Parks Development	Asset Forfeiture	Capital Projects	Equipment	Road Improve- ments	
Revenues:								
Federal government	\$ 60,797	31,226	-	34,756	89,922	18,025	-	234,726
State of Alaska	-	102,253	-	20,938	589,209	11,335	-	723,735
Miscellaneous	-	-	1,700	-	12,583	-	-	14,283
Total revenues	<u>60,797</u>	<u>133,479</u>	<u>1,700</u>	<u>55,694</u>	<u>691,714</u>	<u>29,360</u>	<u>-</u>	<u>972,744</u>
Expenditures:								
Public safety	61,720	133,228	-	28,501	-	-	-	223,449
Capital outlay	-	-	7,213	-	926,487	29,360	-	963,060
Total expenditures	<u>61,720</u>	<u>133,228</u>	<u>7,213</u>	<u>28,501</u>	<u>926,487</u>	<u>29,360</u>	<u>-</u>	<u>1,186,509</u>
Excess of revenues over (under) expenditures	(923)	251	(5,513)	27,193	(234,773)	-	-	(213,765)
Other financing sources (uses):								
Transfers in	-	-	-	-	214,000	40,148	-	254,148
Transfers out	-	-	-	-	(10,186)	-	-	(10,186)
Net other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>203,814</u>	<u>40,148</u>	<u>-</u>	<u>243,962</u>
Net change in fund balances	(923)	251	(5,513)	27,193	(30,959)	40,148	-	30,197
Beginning fund balances	<u>25,136</u>	<u>4,546</u>	<u>27,249</u>	<u>125,660</u>	<u>431,093</u>	<u>512,170</u>	<u>112,205</u>	<u>1,238,059</u>
Ending fund balances	\$ <u>24,213</u>	<u>4,797</u>	<u>21,736</u>	<u>152,853</u>	<u>400,134</u>	<u>552,318</u>	<u>112,205</u>	<u>1,268,256</u>



**NONMAJOR ENTERPRISE FUNDS**

**CITY OF PALMER, ALASKA**  
 Nonmajor Enterprise Funds  
 Combining Statement of Net Position  
 December 31, 2012

<u>Assets</u>	<u>Refuse</u>	<u>Land Development</u>	<u>Total Nonmajor Enterprise Funds</u>
Current assets:			
Cash and investments	\$ 1,345,041	-	1,345,041
Accounts receivable	<u>73,781</u>	<u>-</u>	<u>73,781</u>
Total current assets	<u>1,418,822</u>	<u>-</u>	<u>1,418,822</u>
Land held for sale	<u>-</u>	<u>217,414</u>	<u>217,414</u>
Property, plant and equipment:			
Buildings	52,667	-	52,667
Machinery and equipment	<u>1,005,823</u>	<u>-</u>	<u>1,005,823</u>
Total property, plant and equipment	1,058,490	-	1,058,490
Less accumulated depreciation	<u>(624,525)</u>	<u>-</u>	<u>(624,525)</u>
Net property, plant and equipment	<u>433,965</u>	<u>-</u>	<u>433,965</u>
Total assets	\$ <u>1,852,787</u>	<u>217,414</u>	<u>2,070,201</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	330,400	-	330,400
Vested unpaid vacation and sick leave	7,436	-	7,436
Due to other funds	<u>-</u>	<u>49,231</u>	<u>49,231</u>
Total current liabilities	<u>337,836</u>	<u>49,231</u>	<u>387,067</u>
<u>Net Position</u>			
Net investment in capital assets	433,965	-	433,965
Unrestricted	<u>1,080,986</u>	<u>168,183</u>	<u>1,249,169</u>
Total net position	<u>1,514,951</u>	<u>168,183</u>	<u>1,683,134</u>
Total liabilities and net position	\$ <u>1,852,787</u>	<u>217,414</u>	<u>2,070,201</u>

**CITY OF PALMER, ALASKA**  
 Nonmajor Enterprise Funds  
 Combining Statement of Revenues, Expenses and Changes in Net Position  
 Year Ended December 31, 2012

	<u>Refuse</u>	<u>Land Development</u>	<u>Total Nonmajor Enterprise Funds</u>
Operating revenues	\$ <u>447,406</u>	<u>-</u>	<u>447,406</u>
Operating expenses:			
Salaries and employee benefits	88,960	-	88,960
Administrative services	111,755	-	111,755
Other operating expenses	239,955	-	239,955
Depreciation	<u>32,449</u>	<u>-</u>	<u>32,449</u>
Total operating expenses	<u>473,119</u>	<u>-</u>	<u>473,119</u>
Operating loss	(25,713)	-	(25,713)
Nonoperating revenues - State PERS relief	<u>5,718</u>	<u>-</u>	<u>5,718</u>
Loss before transfers	(19,995)	-	(19,995)
Transfers out	<u>(53,552)</u>	<u>-</u>	<u>(53,552)</u>
Change in net position	(73,547)	-	(73,547)
Beginning net position	<u>1,588,498</u>	<u>168,183</u>	<u>1,756,681</u>
Ending net position	\$ <u><u>1,514,951</u></u>	<u><u>168,183</u></u>	<u><u>1,683,134</u></u>

**CITY OF PALMER, ALASKA**  
 Nonmajor Enterprise Funds  
 Combining Statement of Cash Flows  
 Year Ended December 31, 2012

	<u>Refuse</u>	<u>Land Develop- ment</u>	<u>Total Nonmajor Enterprise Funds</u>
Cash flows from operating activities:			
Cash receipts from customers and users	\$ 443,610	-	443,610
Payments to suppliers	(259,448)	-	(259,448)
Payments to employees	(82,326)	-	(82,326)
Payments for interfund services used	<u>(111,755)</u>	<u>-</u>	<u>(111,755)</u>
Net cash flows from operating activities	<u>(9,919)</u>	<u>-</u>	<u>(9,919)</u>
Cash flows from noncapital financing activities -			
transfers out	<u>(53,552)</u>	<u>-</u>	<u>(53,552)</u>
Cash flows from capital and related financing activities:			
Increase in property, plant and equipment	<u>(16,655)</u>	<u>-</u>	<u>(16,655)</u>
Net decrease in cash and investments	(80,126)	-	(80,126)
Beginning cash and investments	<u>1,425,167</u>	<u>-</u>	<u>1,425,167</u>
Ending cash and investments	\$ <u>1,345,041</u>	<u>-</u>	<u>1,345,041</u>
Reconciliation of operating loss to net			
cash provided (used) by operating activities:			
Operating loss	\$ (25,713)	-	(25,713)
Adjustments to reconcile operating loss			
to net cash flows from operating activities:			
Depreciation	32,449	-	32,449
Noncash expense - PERS relief	5,718	-	5,718
(Increase) decrease in assets -			
accounts receivable	(3,796)	-	(3,796)
Increase (decrease) in liabilities:			
Accounts payable	(19,493)	-	(19,493)
Vested unpaid vacation and sick leave	<u>916</u>	<u>-</u>	<u>916</u>
Net cash flows from operating activities	\$ <u>(9,919)</u>	<u>-</u>	<u>(9,919)</u>
Noncash capital and related financing activities - purchase of			
equipment included in accounts payable	\$ <u>(314,138)</u>	<u>-</u>	<u>(314,138)</u>

## **GENERAL FUND**

The General Fund is established to account for the financial operations of the City of Palmer which are not accounted for in any other fund.

Revenues for this fund are recorded by source. Principal sources of revenues are property taxes, sales taxes, intergovernmental revenue and charges for services.

Expenditures are recorded first by function, then by activity and object of expenditure. General Fund expenditures are made primarily for the operations of basic municipal services such as police and fire protection, public works, library, legal and administrative services.

**CITY OF PALMER, ALASKA**  
 General Fund  
 Balance Sheet  
 December 31, 2012  
 (With Comparative Amounts for 2011)

<u>Assets</u>	<u>2012</u>	<u>Restated 2011</u>
Cash and investments	\$ 1,182,047	1,022,544
Receivables, net of allowance for uncollectibles:		
Property and motor vehicle taxes	129,050	171,339
Sales taxes	417,528	431,143
Accounts	41,049	17,670
Assessments:		
Current	33,142	8,867
Delinquent	68,902	95,730
Deferred	271,789	375,837
Prepaid insurance	239,653	236,352
Prepaid rent - airport	200,000	200,000
Inventory	14,493	-
Due from other funds	443,683	416,031
Advance to other fund	226,333	204,250
	<u>3,267,669</u>	<u>3,179,763</u>
Total assets	\$ <u>3,267,669</u>	<u>3,179,763</u>
<u>Liabilities</u>		
Accounts payable	326,121	285,459
Accrued payroll and employee benefits	129,646	112,092
Deposits	8,229	6,607
Unearned revenue	95,960	38,112
	<u>559,956</u>	<u>442,270</u>
Total liabilities	<u>559,956</u>	<u>442,270</u>
<u>Deferred Inflows</u>		
Deferred property taxes	39,433	80,602
Deferred assessments	378,168	480,434
	<u>417,601</u>	<u>561,036</u>
Total deferred inflows	<u>417,601</u>	<u>561,036</u>
	<u>977,557</u>	<u>1,003,306</u>
Total liabilities and deferred inflows	<u>977,557</u>	<u>1,003,306</u>
<u>Fund Balance</u>		
Nonspendable:		
Prepaid insurance and prepaid rent	439,653	436,352
Advance to other fund	226,333	204,250
Assigned for vested unpaid vacation and sick leave	428,362	417,039
Unassigned	1,195,764	1,118,816
	<u>2,290,112</u>	<u>2,176,457</u>
Total fund balance	<u>2,290,112</u>	<u>2,176,457</u>
	<u>3,267,669</u>	<u>3,179,763</u>
Total liabilities, deferred inflows and fund balance	\$ <u>3,267,669</u>	<u>3,179,763</u>

## CITY OF PALMER, ALASKA

## General Fund

Schedule of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual  
Year Ended December 31, 2012  
(With Comparative Amounts for 2011)

	2012		Variance with Budget	Restated
	<u>Budget</u>	<u>Actual</u>		2011
				<u>Actual</u>
Revenues:				
Taxes:				
Sales taxes	\$ 5,637,000	5,882,204	245,204	5,611,916
Real and personal property taxes	<u>1,069,545</u>	<u>1,214,736</u>	<u>145,191</u>	<u>1,170,344</u>
Total taxes	<u>6,706,545</u>	<u>7,096,940</u>	<u>390,395</u>	<u>6,782,260</u>
Licenses and permits:				
Business licenses	48,000	57,405	9,405	56,474
Permits	<u>138,175</u>	<u>140,098</u>	<u>1,923</u>	<u>171,115</u>
Total licenses and permits	<u>186,175</u>	<u>197,503</u>	<u>11,328</u>	<u>227,589</u>
Fines and forfeitures	<u>142,569</u>	<u>123,319</u>	<u>(19,250)</u>	<u>164,173</u>
Intergovernmental:				
State revenue sharing	556,753	556,753	-	521,544
Liquor licenses	13,500	13,500	-	12,700
Electric and telephone co-op tax	136,558	136,559	1	134,038
PERS relief funding	498,363	498,363	-	440,640
Library grants	71,613	71,614	1	65,727
Public safety grants	19,508	19,508	-	-
Motor vehicle tax	<u>80,000</u>	<u>90,175</u>	<u>10,175</u>	<u>86,015</u>
Total intergovernmental	<u>1,376,295</u>	<u>1,386,472</u>	<u>10,177</u>	<u>1,260,664</u>
Special assessments	<u>89,700</u>	<u>100,057</u>	<u>10,357</u>	<u>94,486</u>
Charges for services:				
Administrative service charges - other funds	617,207	617,207	-	631,680
Grant administration fees	35,000	26,125	(8,875)	42,651
Fire protection	280,968	281,148	180	293,036
Community center fees	49,000	32,960	(16,040)	34,488
Library fees	27,100	25,333	(1,767)	26,255
Equipment rental	1,000	-	(1,000)	-

## CITY OF PALMER, ALASKA

## General Fund

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

	2012		Variance with Budget	Restated
	<u>Budget</u>	<u>Actual</u>		<u>2011</u>
Revenues, continued:				
Charges for services, continued:				
Dispatch	\$ 901,262	907,715	6,453	789,954
Ice rink revenues	301,468	307,273	5,805	223,007
Building rental	61,160	61,715	555	61,715
Planning and zoning	2,500	1,990	(510)	5,896
Public safety	36,000	36,000	-	36,000
Public works fees	-	176	176	1,297
Total charges for services	<u>2,312,665</u>	<u>2,297,642</u>	<u>(15,023)</u>	<u>2,145,979</u>
Miscellaneous:				
Investment income	32,923	40,549	7,626	11,253
Property and equipment sales	5,000	4,136	(864)	27,186
Police services	1,000	925	(75)	100
Insurance reimbursement	8,512	8,512	-	-
Land leases	-	-	-	1,740
Other	<u>6,700</u>	<u>14,308</u>	<u>7,608</u>	<u>17,970</u>
Total miscellaneous	<u>54,135</u>	<u>68,430</u>	<u>14,295</u>	<u>58,249</u>
Total revenues	<u>10,868,084</u>	<u>11,270,363</u>	<u>402,279</u>	<u>10,733,400</u>
Expenditures:				
General government:				
Mayor/Council/Clerk:				
Salaries and benefits	256,195	256,402	(207)	236,063
Audit	30,000	28,217	1,783	26,790
Advertising	12,500	9,851	2,649	7,820
Dues and subscriptions	8,500	6,864	1,636	6,480
Travel	7,500	6,569	931	8,395
Education and training	6,500	5,050	1,450	5,337
Legal fees	50,000	51,468	(1,468)	42,004
Services	4,200	3,163	1,037	2,401
Telephone	3,600	3,430	170	5,035
Insurance	4,111	3,677	434	7,210
Operating supplies	7,500	7,409	91	5,635
Services - Sister City program	7,500	4,850	2,650	3,368
Council donations	7,500	9,086	(1,586)	11,050
Website technology	2,000	1,925	75	1,408
Computer services	3,000	3,249	(249)	2,458
Election	8,500	9,951	(1,451)	8,717
Office equipment	3,000	5,419	(2,419)	38,078



## CITY OF PALMER, ALASKA

## General Fund

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

	2012		Variance with Budget	Restated
	<u>Budget</u>	<u>Actual</u>		<u>2011</u>
Expenditures, continued:				
General government, continued:				
Mayor/Council/Clerk, continued:				
Codification consulting services	\$ 12,000	6,696	5,304	3,032
Repairs and maintenance	1,500	892	608	637
Office supplies	6,500	5,668	832	5,116
Miscellaneous	500	150	350	212
Total Mayor/Council/Clerk	<u>442,606</u>	<u>429,986</u>	<u>12,620</u>	<u>427,246</u>
Administration:				
Salaries and employee benefits	680,891	682,596	(1,705)	680,640
Advertising	2,800	3,054	(254)	4,033
Dues and subscriptions	1,500	915	585	315
Travel	3,550	1,879	1,671	3,333
Education and training	3,550	318	3,232	1,258
Legal fees	13,000	12,793	207	12,830
Services	12,500	13,350	(850)	18,739
Telephone	15,000	11,832	3,168	11,536
Equipment leases	2,200	1,992	208	1,183
Insurance	7,132	6,303	829	7,212
Operating supplies	7,500	6,797	703	10,336
Repairs and maintenance	3,500	3,291	209	764
Office equipment	6,000	4,031	1,969	8,629
Miscellaneous	19,181	18,681	500	4,365
Computer expense	70,000	60,595	9,405	150,965
Fuel	400	-	400	-
Total administration	<u>848,304</u>	<u>828,427</u>	<u>19,877</u>	<u>916,138</u>
Buildings:				
Services	850	228	622	673
Power	14,250	16,367	(2,117)	16,142
Heat	4,000	3,281	719	3,328
Water and sewer	1,500	1,235	265	1,234
Insurance	4,259	4,017	242	5,199
Telephone	9,000	12,824	(3,824)	12,411
Operating supplies	2,500	2,052	448	2,117
Office supplies	9,500	7,294	2,206	7,198
Repairs and maintenance	27,000	18,218	8,782	11,062
Miscellaneous	9,500	14,716	(5,216)	8,483
Total buildings	<u>82,359</u>	<u>80,232</u>	<u>2,127</u>	<u>67,847</u>

## CITY OF PALMER, ALASKA

## General Fund

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

	2012		Variance with Budget	Restated
	<u>Budget</u>	<u>Actual</u>		<u>2011</u>
Expenditures, continued:				
General government, continued:				
City manager:				
Salaries and employee benefits	\$ 401,620	403,613	(1,993)	471,090
Advertising	24,000	22,057	1,943	3,216
Dues and subscriptions	2,000	1,656	344	2,548
Travel	3,700	2,628	1,072	3,167
Education and training	5,000	3,404	1,596	2,789
Legal fees	29,000	24,783	4,217	24,638
Services	18,200	7,158	11,042	10,987
Telephone	4,100	2,870	1,230	4,281
Insurance	4,432	4,342	90	4,596
Operating supplies	250	126	124	98
Small tools and equipment	4,500	2,140	2,360	602
Discretionary	10,000	19,542	(9,542)	19,431
Lobbying	15,000	4,100	10,900	3,798
Fuel	2,000	1,195	805	1,022
Repairs and maintenance	123,800	126,401	(2,601)	1,061
Office supplies	2,000	2,850	(850)	1,824
Board stipends	1,400	-	1,400	1,600
Miscellaneous	3,000	910	2,090	1,053
Total city manager	<u>654,002</u>	<u>629,775</u>	<u>24,227</u>	<u>557,801</u>
Community development:				
Salaries and employee benefits	425,214	451,576	(26,362)	434,214
Advertising	4,500	2,352	2,148	5,160
Dues and subscriptions	2,500	2,412	88	1,854
Travel	1,590	1,644	(54)	3,320
Education and training	2,575	2,556	19	2,810
Legal fees	7,000	6,688	312	9,912
Services	8,405	1,940	6,465	2,868
Telephone	3,200	2,656	544	3,272
Power	6,545	6,969	(424)	6,677
Heat	3,600	3,020	580	2,639
Water and sewer	2,235	2,620	(385)	1,948
Insurance	5,261	4,741	520	4,587
Operating supplies	1,050	785	265	868
Equipment	2,550	2,545	5	8,496
Fuel	1,960	1,919	41	1,813
Repairs and maintenance	3,000	1,780	1,220	1,053
Annexation and community planning	7,000	5,852	1,148	2,396

## CITY OF PALMER, ALASKA

## General Fund

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

	2012		Variance with Budget	Restated
	<u>Budget</u>	<u>Actual</u>		<u>2011</u>
Expenditures, continued:				
General government, continued:				
Community development, continued:				
Rental and lease	\$ 6,500	3,840	2,660	4,754
Office supplies	4,040	3,321	719	5,151
Board stipends	4,200	2,500	1,700	2,250
Miscellaneous	2,250	1,976	274	2,046
Total community development	<u>505,175</u>	<u>513,692</u>	<u>(8,517)</u>	<u>508,088</u>
Total general government	<u>2,532,446</u>	<u>2,482,112</u>	<u>50,334</u>	<u>2,477,120</u>
Public safety:				
Police department:				
Salaries and employee benefits	3,325,039	3,369,239	(44,200)	3,139,041
Advertising	3,350	3,512	(162)	264
Dues and subscriptions	1,630	1,144	486	2,157
Communications	850	646	204	648
Travel	18,400	15,714	2,686	8,139
Education and training	14,700	13,439	1,261	5,737
Legal fees	7,193	2,973	4,220	3,173
Services	58,750	54,553	4,197	41,229
Telephone	33,600	29,029	4,571	31,665
Power	38,500	30,023	8,477	29,986
Heat	22,000	15,306	6,694	16,380
Water and sewer	8,000	8,328	(328)	8,820
Fuel	49,100	52,192	(3,092)	52,163
Insurance	37,243	34,648	2,595	35,178
Vehicle insurance	20,000	18,775	1,225	23,280
Office supplies	14,344	11,457	2,887	10,308
Vehicle supplies	1,000	1,346	(346)	265
Uniform purchases and allowances	14,500	13,035	1,465	13,671
Operating supplies	20,450	12,575	7,875	17,532
Repairs and maintenance	33,500	15,479	18,021	23,692
Community planning	2,400	2,366	34	2,030
Janitorial supplies	4,550	2,697	1,853	1,958
Equipment	108,200	88,960	19,240	23,993
Computer expense	12,900	11,829	1,071	4,103
Rowland Memorial Fund	2,000	2,000	-	1,500
Miscellaneous	1,000	318	682	248
Total police department	<u>3,853,199</u>	<u>3,811,583</u>	<u>41,616</u>	<u>3,497,160</u>

**CITY OF PALMER, ALASKA**  
 General Fund  
 Schedule of Revenues, Expenditures and Changes  
 in Fund Balance - Budget and Actual, continued

	<u>2012</u>		Variance with Budget	Restated <u>2011</u>
	<u>Budget</u>	<u>Actual</u>		<u>Budget</u>
Expenditures, continued:				
Public safety, continued:				
Fire department:				
Salaries and employee benefits	\$ 344,716	348,811	(4,095)	318,361
Volunteer firemen salaries and benefits	76,000	105,857	(29,857)	108,998
Dues and subscriptions	1,500	1,388	112	1,286
Education and training	14,000	10,773	3,227	13,452
Services	21,000	17,646	3,354	10,446
Telephone	6,000	6,313	(313)	5,500
Power	9,000	9,156	(156)	8,615
Heat	10,500	6,191	4,309	8,269
Water and sewer	1,500	742	758	782
Fuel	21,500	29,919	(8,419)	29,333
Rental and lease	11,500	11,588	(88)	9,858
Insurance	5,184	4,801	383	6,436
Vehicle insurance	11,000	9,717	1,283	14,333
Office supplies	2,500	1,791	709	1,776
Vehicle supplies	17,000	19,783	(2,783)	14,230
Uniform purchases and allowances	1,500	693	807	1,509
Operating supplies	2,500	1,564	936	1,121
Repairs and maintenance	24,000	17,887	6,113	15,121
Small tools	10,000	4,463	5,537	5,191
Janitorial supplies	1,500	835	665	709
Computer expense	3,000	1,322	1,678	2,468
Equipment	<u>33,508</u>	<u>36,782</u>	<u>(3,274)</u>	<u>11,514</u>
Total fire department	<u>628,908</u>	<u>648,022</u>	<u>(19,114)</u>	<u>589,308</u>
Total public safety	<u>4,482,107</u>	<u>4,459,605</u>	<u>22,502</u>	<u>4,086,468</u>

## CITY OF PALMER, ALASKA

## General Fund

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

	2012		Variance with Budget	Restated
	<u>Budget</u>	<u>Actual</u>		<u>2011</u>
Expenditures, continued:				
Public works:				
Administration:				
Salaries and employee benefits	\$ 846,049	741,321	104,728	789,344
Advertising	2,833	2,123	710	719
Travel	-	1,217	(1,217)	336
Education and training	6,800	3,087	3,713	2,820
Legal fees	14,500	5,576	8,924	3,572
Services	66,800	67,088	(288)	8,052
Telephone	14,000	16,938	(2,938)	19,393
Power	16,800	13,268	3,532	13,742
Heat	30,000	22,526	7,474	22,779
Water and sewer	8,500	7,494	1,006	7,743
Insurance	9,496	8,849	647	12,910
Vehicle insurance	13,000	11,400	1,600	15,662
Repairs and maintenance	11,000	11,908	(908)	6,718
Small tools	5,000	4,344	656	1,888
Janitorial supplies	2,000	1,524	476	1,573
Buildings	-	-	-	3,295
Equipment	20,000	23,483	(3,483)	5,498
Office supplies	6,500	5,502	998	5,255
Christmas lighting	7,700	7,700	-	37
Miscellaneous	10,600	2,683	7,917	2,103
Total administration	<u>1,091,578</u>	<u>958,031</u>	<u>133,547</u>	<u>923,439</u>
Roads:				
Salaries and employee benefits	225,400	239,695	(14,295)	216,728
Services	58,000	44,478	13,522	31,991
Operating supplies	16,800	14,797	2,003	6,907
Repairs and maintenance	10,000	9,998	2	4,487
Rental and lease	6,000	7,100	(1,100)	5,334
Dust control and chemicals	7,000	6,960	40	4,944
Road salt and sand	93,650	87,682	5,968	80,211
Crack sealing	33,300	47,550	(14,250)	26,998
Safety equipment	2,500	3,122	(622)	2,886
Total roads	<u>452,650</u>	<u>461,382</u>	<u>(8,732)</u>	<u>380,486</u>
Engineering	<u>20,000</u>	<u>19,341</u>	<u>659</u>	<u>13,380</u>

## CITY OF PALMER, ALASKA

## General Fund

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

	2012		Variance with Budget	Restated
	<u>Budget</u>	<u>Actual</u>		<u>2011</u>
Expenditures, continued:				
Public works, continued:				
Street lighting:				
Salaries and employee benefits	\$ -	2,957	(2,957)	1,678
Power	95,000	105,732	(10,732)	100,489
Operating supplies	4,500	1,591	2,909	1,290
Repairs and maintenance	7,000	3,205	3,795	1,370
Total street lighting	<u>106,500</u>	<u>113,485</u>	<u>(6,985)</u>	<u>104,827</u>
Building maintenance - salaries and employee benefits	<u>-</u>	<u>178,736</u>	<u>(178,736)</u>	<u>212,022</u>
State highway maintenance:				
Salaries and employee benefits	-	133	(133)	-
Rental and lease	3,500	-	3,500	-
Operating supplies	2,500	-	2,500	-
Total state highway maintenance	<u>6,000</u>	<u>133</u>	<u>5,867</u>	<u>-</u>
Motor vehicle maintenance:				
Salaries and employee benefits	201,733	127,776	73,957	129,842
Fuel	52,800	64,320	(11,520)	33,030
Vehicle supplies	32,000	30,172	1,828	25,860
Repairs and maintenance	46,350	50,646	(4,296)	33,344
Small tools and equipment	41,500	30,644	10,856	33,457
Total motor vehicle maintenance	<u>374,383</u>	<u>303,558</u>	<u>70,825</u>	<u>255,533</u>
Total public works	<u>2,051,111</u>	<u>2,034,666</u>	<u>16,445</u>	<u>1,889,687</u>
Community services:				
Tourist center:				
Services	138,860	138,860	-	136,031
Telephone	1,800	2,070	(270)	1,625
Fuel	3,200	1,461	1,739	1,085
Power	3,500	3,557	(57)	3,067
Water and sewer	2,000	2,019	(19)	1,896
Insurance	1,475	1,288	187	1,526
Repairs and maintenance	2,500	-	2,500	1,826
Total tourist center	<u>153,335</u>	<u>149,255</u>	<u>4,080</u>	<u>147,056</u>

## CITY OF PALMER, ALASKA

## General Fund

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

	2012		Variance with Budget	Restated
	<u>Budget</u>	<u>Actual</u>		<u>2011</u>
Expenditures, continued:				
Community services, continued:				
Community center building:				
Power	\$ 3,978	4,109	(131)	4,167
Heat	5,540	5,671	(131)	5,338
Water and sewer	1,632	1,553	79	1,640
Insurance	964	761	203	1,365
Operating supplies	6,500	4,161	2,339	3,607
Rental and lease	-	-	-	200
Repairs and maintenance	<u>34,037</u>	<u>2,136</u>	<u>31,901</u>	<u>2,941</u>
Total community center building	<u>52,651</u>	<u>18,391</u>	<u>34,260</u>	<u>19,258</u>
Parks and recreation:				
Salaries and employee benefits	88,086	79,846	8,240	94,242
Fuel	4,120	4,739	(619)	4,488
Insurance	-	-	-	383
Operating supplies	16,270	8,903	7,367	8,237
Repairs and maintenance	<u>6,000</u>	<u>5,259</u>	<u>741</u>	<u>6,734</u>
Total parks and recreation	<u>114,476</u>	<u>98,747</u>	<u>15,729</u>	<u>114,084</u>
Arena:				
Salaries and employee benefits	211,853	211,728	125	186,813
Advertising	-	-	-	398
Services	600	790	(190)	1,898
Telephone	6,190	4,181	2,009	6,783
Power	104,040	91,825	12,215	91,821
Heat	51,707	43,084	8,623	42,135
Water and sewer	7,200	5,763	1,437	6,006
Fuel	6,754	4,103	2,651	1,490
Insurance	4,321	4,085	236	7,563
Operating supplies	16,600	10,569	6,031	5,510
Janitorial supplies	4,000	4,490	(490)	5,720
Learn to skate	2,000	2,160	(160)	810
Small tools and equipment	1,300	470	830	1,500
Repairs and maintenance	<u>35,750</u>	<u>36,001</u>	<u>(251)</u>	<u>24,343</u>
Total arena	<u>452,315</u>	<u>419,249</u>	<u>33,066</u>	<u>382,790</u>

## CITY OF PALMER, ALASKA

## General Fund

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

	2012		Variance with Budget	Restated
	<u>Budget</u>	<u>Actual</u>		<u>2011</u>
Expenditures, continued:				
Community services, continued:				
Library:				
Salaries and employee benefits	\$ 407,551	403,663	3,888	417,552
Advertising	-	102	(102)	-
Subscriptions and dues	750	751	(1)	340
Travel	8,000	7,055	945	2,107
Education and training	2,688	1,235	1,453	485
Services	21,240	15,919	5,321	15,436
Telephone	11,067	10,904	163	12,962
Power	21,996	24,953	(2,957)	24,139
Heat	12,490	15,513	(3,023)	13,495
Water and sewer	3,144	3,159	(15)	3,288
Rental and lease	324	324	-	297
Insurance	5,831	5,008	823	8,718
Books and subscriptions	40,000	37,450	2,550	41,289
Operating supplies	23,000	21,005	1,995	19,682
Repairs and maintenance	11,000	5,647	5,353	9,800
Equipment	13,060	12,437	623	7,752
Miscellaneous	3,000	3,124	(124)	3,000
Total library	<u>585,141</u>	<u>568,249</u>	<u>16,892</u>	<u>580,342</u>
Total community services	<u>1,357,918</u>	<u>1,253,891</u>	<u>104,027</u>	<u>1,243,530</u>
Debt service on bonds:				
Principal	200,000	200,000	-	185,000
Interest	67,500	41,876	25,624	80,831
Debt issuance costs	-	5,944	(5,944)	-
Total debt service on bonds	<u>267,500</u>	<u>247,820</u>	<u>19,680</u>	<u>265,831</u>
Total expenditures	<u>10,691,082</u>	<u>10,478,094</u>	<u>212,988</u>	<u>9,962,636</u>
Excess of revenues over expenditures	<u>177,002</u>	<u>792,269</u>	<u>615,267</u>	<u>770,764</u>



**CITY OF PALMER, ALASKA**  
 General Fund  
 Schedule of Revenues, Expenditures and Changes  
 in Fund Balance - Budget and Actual, continued

	2012		Variance with Budget	Restated 2011
	<u>Budget</u>	<u>Actual</u>		<u>Budget</u>
Other financing sources (uses):				
Issuance of refunding bonds	\$ -	865,000	865,000	-
Premium on issuance	-	146,183	146,183	-
Payment to refunded bond escrow agent	-	(995,458)	(995,458)	-
Transfers in	195,882	195,882	-	276,370
Transfers out	<u>(213,411)</u>	<u>(890,221)</u>	<u>(676,810)</u>	<u>(543,112)</u>
Net other financing sources (uses)	<u>(17,529)</u>	<u>(678,614)</u>	<u>(661,085)</u>	<u>(266,742)</u>
Net change in fund balance	\$ <u>159,473</u>	113,655	<u>(45,818)</u>	504,022
Beginning fund balance, as originally presented		2,176,457		1,752,305
Prior period adjustment		<u>-</u>		<u>(79,870)</u>
Beginning fund balance, as restated		<u>2,176,457</u>		<u>1,672,435</u>
Ending fund balance	\$	<u><u>2,290,112</u></u>		<u><u>2,176,457</u></u>

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## **SPECIAL REVENUE FUNDS**

Special Revenue Funds are used to account for revenues from specific sources, which are restricted to finance particular functions and activities. Primary funding sources include grants and operating transfers from other funds.

### Narcotics Grant

This fund accounts for grants from the federal government and State of Alaska to assist with salaries and other related costs associated with narcotics investigations.

### Police Grants

This fund accounts for various federal and State grants to assist the police department.

### Neighborhood Parks Development

This fund accounts for neighborhood park development fees which shall be expended for the acquisition of land and the development of neighborhood parks.

### Asset Forfeiture

This fund accounts for federal, State and local asset forfeitures. Funds are restricted to support narcotics operations.

**CITY OF PALMER, ALASKA**  
 Narcotics Grant Special Revenue Fund  
 Balance Sheet  
 December 31, 2012  
 (With Comparative Amounts for 2011)

	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Cash and investments	\$ 17,269	-
Grants receivable	<u>7,293</u>	<u>46,134</u>
Total assets	<u>\$ 24,562</u>	<u>46,134</u>
<u>Liabilities</u>		
Accounts payable	349	-
Due to General Fund	<u>-</u>	<u>20,998</u>
Total liabilities	<u>349</u>	<u>20,998</u>
<u>Fund Balance</u>		
Committed for public safety	<u>24,213</u>	<u>25,136</u>
Total liabilities and fund balance	<u>\$ 24,562</u>	<u>46,134</u>

**CITY OF PALMER, ALASKA**  
Narcotics Grant Special Revenue Fund  
Schedule of Revenues, Expenditures and  
Changes in Fund Balance - Budget and Actual  
Year Ended December 31, 2012  
(With Comparative Amounts for 2011)

	2012		Variance with Budget	2011
	Budget	Actual		Actual
Revenues - federal government	\$ <u>62,705</u>	<u>60,797</u>	<u>(1,908)</u>	<u>87,175</u>
Expenditures - public safety:				
Salaries and employee benefits	57,768	58,598	(830)	83,560
Fuel	1,725	2,186	(461)	3,294
Equipment	<u>936</u>	<u>936</u>	<u>-</u>	<u>321</u>
Total expenditures	<u>60,429</u>	<u>61,720</u>	<u>(1,291)</u>	<u>87,175</u>
Net change in fund balance	\$ <u><u>2,276</u></u>	(923)	<u><u>(3,199)</u></u>	-
Beginning fund balance		<u>25,136</u>		<u>25,136</u>
Ending fund balance	\$	<u><u>24,213</u></u>		<u><u>25,136</u></u>

**CITY OF PALMER, ALASKA**  
 Police Grants Special Revenue Fund  
 Balance Sheet  
 December 31, 2012  
 (With Comparative Amounts for 2011)

	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Cash and investments	\$ 902	-
Grants receivable	<u>3,895</u>	<u>20,863</u>
Total assets	<u>\$ 4,797</u>	<u>20,863</u>
<u>Liabilities</u>		
Due to General Fund	<u>-</u>	<u>16,317</u>
<u>Fund Balance</u>		
Committed for public safety	<u>4,797</u>	<u>4,546</u>
Total liabilities and fund balance	<u>\$ 4,797</u>	<u>20,863</u>

**CITY OF PALMER, ALASKA**  
 Police Grants Special Revenue Fund  
 Schedule of Revenues, Expenditures and  
 Changes in Fund Balance - Budget and Actual  
 Year Ended December 31, 2012  
 (With Comparative Amounts for 2011)

	<u>2012</u>		Variance with Budget	<u>2011</u>
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Revenues:				
Federal government	\$ 54,000	31,226	(22,774)	57,658
State of Alaska contract	<u>125,303</u>	<u>102,253</u>	<u>(23,050)</u>	<u>123,476</u>
Total revenues	<u>179,303</u>	<u>133,479</u>	<u>(45,824)</u>	<u>181,134</u>
Expenditures - public safety:				
Salaries and employee benefits	173,558	130,852	42,706	176,685
Fuel	<u>5,745</u>	<u>2,376</u>	<u>3,369</u>	<u>4,449</u>
Total expenditures	<u>179,303</u>	<u>133,228</u>	<u>46,075</u>	<u>181,134</u>
Net change in fund balance	\$ <u><u>-</u></u>	251	<u><u>251</u></u>	-
Beginning fund balance		<u>4,546</u>		<u>4,546</u>
Ending fund balance		\$ <u><u>4,797</u></u>		\$ <u><u>4,546</u></u>

**CITY OF PALMER, ALASKA**  
 Neighborhood Parks Development Special Revenue Fund  
 Balance Sheet  
 December 31, 2012  
 (With Comparative Amounts for 2011)

	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Cash and investments	\$ <u>28,949</u>	<u>27,249</u>
<u>Liabilities</u>		
Accounts payable	<u>7,213</u>	<u>-</u>
<u>Fund Balance</u>		
Assigned for parks	<u>21,736</u>	<u>27,249</u>
Total liabilities and fund balance	\$ <u>28,949</u>	<u>27,249</u>



**CITY OF PALMER, ALASKA**  
 Neighborhood Parks Development Special Revenue Fund  
 Schedule of Revenues, Expenditures and  
 Changes in Fund Balance - Budget and Actual  
 Year Ended December 31, 2012  
 (With Comparative Amounts for 2011)

	2012		Variance with Budget	2011
	Budget	Actual		Actual
Revenues - development fees	\$ -	1,700	1,700	750
Expenditures - improvements	<u>12,000</u>	<u>7,213</u>	<u>4,787</u>	<u>-</u>
Net change in fund balance	\$ <u>(12,000)</u>	(5,513)	<u>6,487</u>	750
Beginning fund balance		<u>27,249</u>		<u>26,499</u>
Ending fund balance		\$ <u>21,736</u>		<u>27,249</u>

**CITY OF PALMER, ALASKA**  
Asset Forfeiture Special Revenue Fund  
Balance Sheet  
December 31, 2012  
(With Comparative Amounts for 2011)

	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Cash and investments	\$ <u>152,853</u>	<u>125,660</u>
<u>Fund Balance</u>		
Restricted for public safety	\$ <u>152,853</u>	<u>125,660</u>

**CITY OF PALMER, ALASKA**  
 Asset Forfeiture Special Revenue Fund  
 Schedule of Revenues, Expenditures and  
 Changes in Fund Balance  
 Year Ended December 31, 2012  
 (With Comparative Amounts for 2011)

	<u>2012</u>	<u>2011</u>
Revenues:		
Federal government	\$ 34,756	14,253
State forfeiture funds	20,938	-
Total revenues	<u>55,694</u>	<u>14,253</u>
Expenditures - public safety:		
Salaries and employee benefits	-	6,056
Training	1,190	-
Equipment	26,830	7,579
Fuel	481	839
Total expenditures	<u>28,501</u>	<u>14,474</u>
Net change in fund balance	27,193	(221)
Beginning fund balance	<u>125,660</u>	<u>125,881</u>
Ending fund balance	<u>\$ 152,853</u>	<u>125,660</u>

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## **CAPITAL PROJECT FUNDS**

Capital Project Funds are established to account for the resources expended to acquire assets of a relatively permanent nature. These funds evolved from the need for special accounting for bond proceeds, grants and contributions for the acquisition of capital assets.

Capital Project Funds provide a formal mechanism which enables administrators to ensure that revenues dedicated to a certain purpose are used only for that purpose, and further enables them to report to creditors and other grantors of Capital Project Fund revenue that their requirements regarding the use of the revenue were fully satisfied.

### Capital Projects

This fund accounts for the City's various capital improvement projects. Funding is provided primarily through federal and state grants and is supplemented by the City.

### Equipment

This fund accounts for the purchase of major equipment. Funding is provided primarily through federal and state grants and is supplemented by the City.

### Road Improvements

The Road Improvements Capital Project Fund accounts for revenues and expenditures relating to road local improvement districts. Funding is primarily from the General Fund.

**CITY OF PALMER, ALASKA**  
 Capital Projects Capital Project Fund  
 Balance Sheet  
 December 31, 2012  
 (With Comparative Amounts for 2011)

	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Cash and investments	\$ 384,215	437,057
Grants receivable	<u>176,955</u>	<u>-</u>
Total assets	\$ <u>561,170</u>	<u>437,057</u>
<u>Liabilities</u>		
Accounts payable	116,036	5,964
Unearned revenue	<u>45,000</u>	<u>-</u>
Total liabilities	<u>161,036</u>	<u>5,964</u>
<u>Fund Balance</u>		
Committed for capital projects	<u>400,134</u>	<u>431,093</u>
Total liabilities and fund balance	\$ <u>561,170</u>	<u>437,057</u>

**CITY OF PALMER, ALASKA**  
 Capital Projects Capital Project Fund  
 Schedule of Revenues, Expenditures and  
 Changes in Fund Balance - Budget and Actual  
 Year Ended December 31, 2012  
 (With Comparative Amounts for 2011)

	2012		Variance with Budget	2011
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Revenues:				
Intergovernmental:				
State of Alaska	\$ 2,619,192	589,209	(2,029,983)	129,963
Federal government	320,133	89,922	(230,211)	93,305
Miscellaneous	<u>141,053</u>	<u>12,583</u>	<u>(128,470)</u>	<u>50,500</u>
Total revenues	<u>3,080,378</u>	<u>691,714</u>	<u>(2,388,664)</u>	<u>273,768</u>
Expenditures:				
Soccer field	24,636	355	24,281	710
Public works air system	150,000	115,802	34,198	-
Wayfinding and streetscapes	45,000	-	45,000	-
Marketing plan	5,105	742	4,363	491
Park improvements	96,291	-	96,291	-
Sidewalk improvements	100,000	4,083	95,917	-
Safe routes to school	35,000	28,821	6,179	-
Deferred maintenance	30,000	-	30,000	-
Sidewalk ADA upgrades	112,037	10,192	101,845	-
Storm water master plan	115,000	-	115,000	-
MTA Center	725,000	-	725,000	-
Residential street lighting	-	-	-	126,993
Supplemental legal services	48,011	-	48,011	45,023
Downtown railway corridor	36,000	-	36,000	-
Ice arena expansion	120,864	101,035	19,829	709,857
Homeland Security Co-op	50,000	39,650	10,350	-
City facilities improvement	167,000	-	167,000	-

**CITY OF PALMER, ALASKA**  
 Capital Projects Capital Project Fund  
 Schedule of Revenues, Expenditures and  
 Changes in Fund Balance - Budget and Actual, continued

	2012		Variance with	2011
	<u>Budget</u>	<u>Actual</u>		<u>Budget</u>
Expenditures, continued:				
Trails and parks plan	\$ 290	-	290	74,210
Fireman's Fund grant	-	-	-	3,014
Mat Maid property	183,382	116,395	66,987	15,618
Fire Station	780,000	788	779,212	-
AHSO Tracs software	213,682	-	213,682	9,641
Homeland Security fuel tanks/radios	-	-	-	83,665
Records center	13,026	13,026	-	-
Drug recognition grant	-	-	-	2,970
Arena and Events Center expansion	400,000	397,508	2,492	-
Fire training center floor	77,000	76,639	361	-
Homeland Security	<u>21,451</u>	<u>21,451</u>	-	-
Total expenditures	<u>3,548,775</u>	<u>926,487</u>	<u>2,622,288</u>	<u>1,072,192</u>
Excess of revenues over (under) expenditures	(468,397)	(234,773)	233,624	(798,424)
Other financing sources (uses):				
Transfers in	214,000	214,000	-	174,205
Transfers out	<u>(10,186)</u>	<u>(10,186)</u>	-	<u>(57,354)</u>
Net other financing sources (uses)	<u>203,814</u>	<u>203,814</u>	-	<u>116,851</u>
Net change in fund balance	\$ <u><u>(264,583)</u></u>	<u>(30,959)</u>	<u>233,624</u>	<u>(681,573)</u>
Beginning fund balance		<u>431,093</u>		<u>1,112,666</u>
Ending fund balance	\$	<u><u>400,134</u></u>		<u><u>431,093</u></u>



**CITY OF PALMER, ALASKA**  
 Equipment Capital Project Fund  
 Balance Sheet  
 December 31, 2012  
 (With Comparative Amounts for 2011)

	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Cash and investments	\$ 560,618	529,061
Grants receivable	<u>3,090</u>	<u>5,357</u>
 Total assets	 \$ <u>563,708</u>	 <u>534,418</u>
<u>Liabilities</u>		
Accounts payable	-	13,948
Unearned revenue	<u>11,390</u>	<u>8,300</u>
Total liabilities	<u>11,390</u>	<u>22,248</u>
<u>Fund Balance</u>		
Committed for equipment replacement	<u>552,318</u>	<u>512,170</u>
 Total liabilities and fund balance	 \$ <u>563,708</u>	 <u>534,418</u>

**CITY OF PALMER, ALASKA**  
**Equipment Capital Project Fund**  
**Schedule of Revenues, Expenditures and**  
**Changes in Fund Balance - Budget and Actual**  
**Year Ended December 31, 2012**  
**(With Comparative Amounts for 2011)**

	2012		Variance with Budget	2011
	Budget	Actual		Actual
Revenues:				
Intergovernmental:				
State of Alaska	\$ 19,335	11,335	(8,000)	84,764
Federal government	11,279	18,025	6,746	103,423
Charges for services - equipment rental	-	-	-	42,047
Total revenues	30,614	29,360	(1,254)	230,234
Expenditures - capital outlay:				
Solid waste equipment	315,350	-	315,350	-
Fire fighting equipment	80,958	11,335	69,623	93,420
Public works equipment	91,711	-	91,711	29,633
Police equipment	3,565	750	2,815	10,259
Airport equipment	8,300	-	8,300	-
Public safety equipment	-	7,111	(7,111)	52,082
Lighting improvements	10,164	10,164	-	2,793
Total expenditures	510,048	29,360	480,688	188,187
Excess of revenues over (under) expenditures	(479,434)	-	479,434	42,047
Other financing sources - transfers in	354,286	40,148	(314,138)	-
Net change in fund balance	\$ <u>(125,148)</u>	40,148	<u>165,296</u>	42,047
Beginning fund balance		512,170		470,123
Ending fund balance		\$ <u>552,318</u>		512,170

**CITY OF PALMER, ALASKA**  
Road Improvements Capital Project Fund  
Balance Sheet  
December 31, 2012  
(With Comparative Amounts for 2011)

	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Cash and investments	\$ <u>112,205</u>	<u>112,205</u>
<u>Fund Balance</u>		
Committed for roads and streets	\$ <u>112,205</u>	<u>112,205</u>

**CITY OF PALMER, ALASKA**  
 Road Improvements Capital Project Fund  
 Schedule of Revenues, Expenditures and  
 Changes in Fund Balance - Budget and Actual  
 Year Ended December 31, 2012

	2012		Variance with	2011
	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
Expenditures - capital outlay:				
Gulkana LID	\$ 10,262	-	10,262	-
South Bonanza LID	78,013	-	78,013	3,216
West Dolphin/Caribou Area LID	<u>23,930</u>	<u>-</u>	<u>23,930</u>	<u>128,070</u>
Total expenditures	112,205	-	112,205	131,286
Other financing sources - transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>205,491</u>
Net change in fund balance	\$ <u>(112,205)</u>	-	<u>112,205</u>	74,205
Beginning fund balance		<u>112,205</u>		<u>38,000</u>
Ending fund balance		\$ <u>112,205</u>		<u>112,205</u>

## **ENTERPRISE FUNDS**

Enterprise Funds are established to account for the financing of self-supporting activities of governmental units, which render services to the general public on a user-charge basis. Enterprise Funds are maintained on the accrual basis of accounting.

### Water and Sewer

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

### Airport Fund

This fund accounts for the operations of the City-owned airport.

### Refuse

This fund accounts for the operations of the solid waste collection services.

### Golf Course

This fund accounts for the operations of the City-owned golf course.

### Land Development

This fund accounts for the sale of various parcels of land owned by the City.

**CITY OF PALMER, ALASKA**  
Water and Sewer Enterprise Fund  
Statement of Net Position  
December 31, 2012  
(With Comparative Amounts for 2011)

<u>Assets</u>	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and investments	\$ 573,495	590,779
Receivables:		
Grants	580,120	1,199,680
Accounts	232,266	247,589
Inventories - materials and supplies	<u>147,550</u>	<u>145,210</u>
Total current assets	<u>1,533,431</u>	<u>2,183,258</u>
Noncurrent assets:		
Assessments receivable	<u>199,129</u>	<u>200,964</u>
Property, plant and equipment:		
Land	4,255	4,255
Buildings	60,067	60,067
Machinery and equipment	886,951	832,089
Improvements other than buildings	<u>62,600,035</u>	<u>62,562,937</u>
Total property, plant and equipment	63,551,308	63,459,348
Less accumulated depreciation	<u>(14,713,241)</u>	<u>(13,370,393)</u>
Net property, plant and equipment	<u>48,838,067</u>	<u>50,088,955</u>
Construction work in progress	<u>2,719,251</u>	-
Total noncurrent assets	<u>51,756,447</u>	<u>50,289,919</u>
Total assets	<u>\$ 53,289,878</u>	<u>52,473,177</u>

**CITY OF PALMER, ALASKA**  
Water and Sewer Enterprise Fund  
Statement of Net Position, continued

<u>Liabilities</u>	<u>2012</u>	<u>2011</u>
Current liabilities:		
Accounts payable	\$ 119,894	158,680
Accrued payroll and employee benefits	16,177	223
Vested unpaid vacation and sick leave	46,270	44,032
Current portion of loans payable - State of Alaska	171,116	169,164
Accrued interest payable	24,892	17,551
Unearned revenue	16,748	6,474
Customer deposits	<u>144,828</u>	<u>133,894</u>
Total current liabilities	<u>539,925</u>	<u>530,018</u>
Long-term liabilities, net of current portion - loans payable - State of Alaska	<u>2,345,607</u>	<u>2,516,725</u>
Total liabilities	<u>2,885,532</u>	<u>3,046,743</u>
<u>Net Position</u>		
Net investment in capital assets	49,040,595	47,403,066
Unrestricted	<u>1,363,751</u>	<u>2,023,368</u>
Total net position	<u>50,404,346</u>	<u>49,426,434</u>
Total liabilities and net position	\$ <u>53,289,878</u>	<u>52,473,177</u>

**CITY OF PALMER, ALASKA**  
Water and Sewer Enterprise Fund  
Schedule of Revenues, Expenses and Changes  
in Net Position - Budget and Actual  
Year Ended December 31, 2012  
(With Comparative Amounts for 2011)

	2012		Variance with	2011
	Budget	Actual		Budget
Operating revenues:				
Water sales	\$ 1,140,000	1,108,777	(31,223)	1,109,813
Sewer services	800,000	828,125	28,125	828,141
Connection fees	17,500	30,183	12,683	34,814
Miscellaneous	20,000	25,054	5,054	23,827
Total operating revenues	<u>1,977,500</u>	<u>1,992,139</u>	<u>14,639</u>	<u>1,996,595</u>
Operating expenses excluding depreciation:				
Water:				
Salaries and employee benefits	254,836	225,224	29,612	189,165
Administrative services	192,244	192,244	-	191,206
Audit	6,750	11,430	(4,680)	6,028
Advertising	1,600	1,489	111	469
Education and training	4,500	2,515	1,985	1,238
Legal fees	116,926	159,466	(42,540)	75,927
Services	59,180	27,964	31,216	20,585
Telephone	7,725	7,172	553	5,745
Power	68,750	79,469	(10,719)	77,645
Heat	5,500	5,080	420	5,243
Fuel	7,500	9,625	(2,125)	14,150
Equipment rental	-	1,848	(1,848)	1,848
Insurance	9,653	9,559	94	8,902
Office supplies	500	613	(113)	166
Operating supplies	12,000	9,249	2,751	7,683
Repairs and maintenance	51,500	43,876	7,624	42,012
Small tools	3,000	2,835	165	2,201
Engineering	5,000	-	5,000	4,378
Chemicals	10,000	5,805	4,195	12,738
Permits	7,500	7,500	-	8,558
Equipment	51,000	3,849	47,151	584
Miscellaneous	3,500	4,396	(896)	3,365
Total water	<u>879,164</u>	<u>811,208</u>	<u>67,956</u>	<u>679,836</u>



**CITY OF PALMER, ALASKA**  
Water and Sewer Enterprise Fund  
Schedule of Revenues, Expenses and Changes  
in Net Position - Budget and Actual, continued

	2012		Variance with Budget	2011
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Operating expenses excluding depreciation, continued:				
Sewer:				
Salaries and employee benefits	\$ 216,110	278,041	(61,931)	262,245
Administrative services	185,134	185,134	-	183,253
Audit	6,500	11,197	(4,697)	5,626
Education and training	5,500	100	5,400	2,225
Legal fees	2,060	-	2,060	1,531
Services	63,500	54,620	8,880	47,379
Telephone	6,500	6,610	(110)	6,574
Power	104,000	163,643	(59,643)	144,408
Heat	22,000	11,486	10,514	21,816
Fuel	6,500	8,021	(1,521)	11,538
Equipment rental	4,000	350	3,650	1,000
Insurance	9,626	9,551	75	12,913
Office supplies	2,000	1,280	720	2,094
Operating supplies	15,000	14,715	285	14,146
Repairs and maintenance	10,000	9,990	10	10,045
Small tools	5,000	3,976	1,024	4,162
Engineering	5,000	5,000	-	2,500
Permits	10,300	9,838	462	9,838
Equipment	11,500	8,368	3,132	1,650
Advertising	500	-	500	-
Miscellaneous	4,000	3,928	72	2,925
Total sewer	<u>694,730</u>	<u>785,848</u>	<u>(91,118)</u>	<u>747,868</u>
Total operating expenses excluding depreciation	<u>1,573,894</u>	<u>1,597,056</u>	<u>(23,162)</u>	<u>1,427,704</u>
Operating income before depreciation	403,606	395,083	(8,523)	568,891
Depreciation	<u>-</u>	<u>1,345,195</u>	<u>(1,345,195)</u>	<u>1,363,921</u>
Operating income (loss)	403,606	(950,112)	(1,353,718)	(795,030)

**CITY OF PALMER, ALASKA**  
Water and Sewer Enterprise Fund  
Schedule of Revenues, Expenses and Changes  
in Net Position - Budget and Actual, continued

	2012		Variance with	2011
	<u>Budget</u>	<u>Actual</u>		<u>Budget</u>
Nonoperating revenues (expenses):				
State PERS relief	\$ 33,453	33,453	-	28,315
Insurance reimbursement	76,926	78,788	1,862	16,131
Miscellaneous income	-	537	537	22,965
Loss on disposal of capital asset	-	(9,390)	(9,390)	-
Interest expense	<u>(44,920)</u>	<u>(47,629)</u>	<u>(2,709)</u>	<u>(20,726)</u>
Net nonoperating revenues (expenses)	<u>65,459</u>	<u>55,759</u>	<u>(9,700)</u>	<u>46,685</u>
 Income (loss) before contributions and transfers	 469,065	 (894,353)	 (1,363,418)	 (748,345)
Capital contributions	-	1,874,415	1,874,415	1,585,883
Capital contribution refund	-	(554,602)	(554,602)	-
Transfers in	-	676,810	676,810	163,416
Transfers out	<u>(124,358)</u>	<u>(124,358)</u>	<u>-</u>	<u>(125,322)</u>
 Change in net position	 \$ <u>344,707</u>	 977,912	 <u>633,205</u>	 875,632
 Beginning net position		 <u>49,426,434</u>		 <u>48,550,802</u>
 Ending net position	 \$	 <u>50,404,346</u>		 <u>49,426,434</u>

**CITY OF PALMER, ALASKA**  
Water and Sewer Enterprise Fund  
Statement of Cash Flows  
Year Ended December 31, 2012  
(With Comparative Amounts for 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash receipts from customers and users	\$ 2,107,995	1,989,487
Payments to suppliers	(757,539)	(644,868)
Payments to employees	(451,620)	(421,188)
Payments for interfund services used	<u>(377,378)</u>	<u>(374,459)</u>
Net cash flows from operating activities	<u>521,458</u>	<u>548,972</u>
Cash flows from noncapital financing activities - transfers out	<u>(124,358)</u>	<u>(125,322)</u>
Cash flows from capital and related financing activities:		
Capital contributions received	2,493,975	4,310,131
Capital contribution refund	(554,602)	-
Increase in property, plant and equipment and construction work in progress	(2,821,113)	(3,075,083)
Principal payments on loans payable - State of Alaska	(169,166)	(190,847)
Interest paid	(40,288)	(23,707)
Decrease in due to General Fund	-	(1,017,794)
Transfers in	<u>676,810</u>	<u>163,416</u>
Net cash flows from capital and related financing activities	<u>(414,384)</u>	<u>166,116</u>
Cash flows from investing activities - investment income and other interest received	<u>-</u>	<u>1,013</u>
Net increase (decrease) in cash and investments	(17,284)	590,779
Beginning cash and investments	<u>590,779</u>	<u>-</u>
Ending cash and investments	\$ <u><u>573,495</u></u>	<u><u>590,779</u></u>
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (950,112)	(795,030)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation	1,345,195	1,363,921
Noncash expense - PERS relief	33,453	28,315
Other revenues	79,325	39,096
(Increase) decrease in assets:		
Accounts receivable	15,323	(20,251)
Inventories	(2,340)	(55,207)
Increase (decrease) in liabilities:		
Accounts payable	(38,786)	12,174
Accrued payroll and employee benefits	15,954	223
Vested unpaid vacation and sick leave	2,238	1,684
Unearned revenue	10,274	6,474
Customer deposits	<u>10,934</u>	<u>(32,427)</u>
Net cash flows from operating activities	\$ <u><u>521,458</u></u>	<u><u>548,972</u></u>

**CITY OF PALMER, ALASKA**  
 Airport Enterprise Fund  
 Statement of Net Position  
 December 31, 2012  
 (With Comparative Amounts for 2011)

	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Current assets:		
Receivables:		
Grants	\$ 8,906	64,233
Accounts	7,458	6,903
Total current assets	<u>16,364</u>	<u>71,136</u>
Property, plant and equipment:		
Land	1,680,471	1,680,471
Buildings	509,758	509,758
Machinery and equipment	794,541	794,541
Improvements other than buildings	<u>17,772,252</u>	<u>17,766,245</u>
Total property, plant and equipment	20,757,022	20,751,015
Less accumulated depreciation	<u>(12,559,918)</u>	<u>(12,032,181)</u>
Net property, plant and equipment	<u>8,197,104</u>	<u>8,718,834</u>
Total assets	\$ <u>8,213,468</u>	<u>8,789,970</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	5,801	12,936
Unearned revenue	3	2,679
Prepaid rent from General Fund	<u>200,000</u>	<u>200,000</u>
Total current liabilities	205,804	215,615
Long-term liabilities - advance from other fund	<u>226,333</u>	<u>204,250</u>
Total liabilities	<u>432,137</u>	<u>419,865</u>
<u>Net Position</u>		
Net investment in capital assets	8,197,104	8,718,834
Unrestricted (deficit)	<u>(415,773)</u>	<u>(348,729)</u>
Total net position	<u>7,781,331</u>	<u>8,370,105</u>
Total liabilities and net position	\$ <u>8,213,468</u>	<u>8,789,970</u>

**CITY OF PALMER, ALASKA**  
 Airport Enterprise Fund  
 Schedule of Revenues, Expenses and Changes  
 in Net Position - Budget and Actual  
 Year Ended December 31, 2012  
 (With Comparative Amounts for 2011)

	2012		Variance with Budget	2011
	Budget	Actual		Actual
Operating revenues:				
Intergovernmental				
Aviation fuel - revenue sharing	\$ 1,500	1,654	154	599
Tiedown fees	25,000	17,444	(7,556)	21,853
Land leases	160,363	157,661	(2,702)	167,278
Agricultural land leases	4,200	4,070	(130)	4,070
Miscellaneous	-	4,323	4,323	10,290
Total operating revenues	191,063	185,152	(5,911)	204,090
Operating expenses excluding depreciation:				
Administrative services	128,074	128,074	-	140,875
Audit	3,120	2,933	187	2,786
Advertising	2,500	2,446	54	525
Education and training	3,200	254	2,946	777
Legal fees	5,000	62,374	(57,374)	175,080
Services	22,200	21,922	278	2,526
Telephone	-	66	(66)	2,718
Power	13,000	12,694	306	12,672
Heat	4,700	3,824	876	6,443
Fuel	5,000	6,279	(1,279)	9,426
Rental and lease	1,800	1,625	175	2,625
Insurance	11,228	10,176	1,052	13,521
Operating supplies	200	198	2	2,270
Repairs and maintenance	10,000	2,492	7,508	11,515
Engineering	375,700	594	375,106	-
Small tools and equipment	2,500	288	2,212	-
Board stipends	4,200	-	4,200	-
Office supplies	200	-	200	59
Water/sewer/garbage	800	306	494	195
Total operating expenses excluding depreciation	593,422	256,545	336,877	384,013
Operating loss before depreciation	(402,359)	(71,393)	330,966	(179,923)
Depreciation	-	527,737	(527,737)	525,281
Operating loss	(402,359)	(599,130)	(196,771)	(705,204)

**CITY OF PALMER, ALASKA**  
 Airport Enterprise Fund  
 Schedule of Revenues, Expenses and Changes  
 in Net Position - Budget and Actual, continued

	2012		2011	
	Budget	Actual	Variance with Budget	Actual
Nonoperating revenues (expenses):				
Master plan study grant revenue	\$ -	8,906	8,906	-
Master plan study expenses	-	(8,906)	(8,906)	-
Net nonoperating revenues (expenses)	-	-	-	-
Loss before contributions and transfers	\$ (402,359)	(599,130)	(196,771)	(705,204)
Capital contributions	-	6,007	6,007	28,432
Transfers in	15,000	15,000	-	-
Transfers out	(10,651)	(10,651)	-	(13,774)
Change in net position	\$ <u>(398,010)</u>	(588,774)	<u>(190,764)</u>	(690,546)
Beginning net position		8,370,105		9,060,651
Ending net position		\$ <u>7,781,331</u>		<u>8,370,105</u>

**CITY OF PALMER, ALASKA**  
 Airport Enterprise Fund  
 Statement of Cash Flows  
 Year Ended December 31, 2012  
 (With Comparative Amounts for 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash receipts from customers and users	\$ 181,921	430,869
Payments to suppliers	(144,512)	(257,188)
Payments to employees	-	(1,346)
Payments for interfund services used	(128,074)	(140,875)
Net cash flows from operating activities	<u>(90,665)</u>	<u>31,460</u>
Cash flows from noncapital financing activities:		
Transfers in	15,000	-
Transfers out	(10,651)	(13,774)
Net cash flows from noncapital financing activities	<u>4,349</u>	<u>(13,774)</u>
Cash flows from capital and related financing activities:		
Capital contributions received	70,240	2,505
Increase in property, plant and equipment	(6,007)	(22,853)
Increase (decrease) in due to General Fund	-	(201,588)
Increase in advance from other fund	22,083	204,250
Net cash flows from capital and related financing activities	<u>86,316</u>	<u>(17,686)</u>
Net increase in cash and investments	-	-
Beginning cash and investments	<u>-</u>	<u>-</u>
Ending cash and investments	\$ <u>-</u>	<u>-</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (599,130)	(705,204)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation	527,737	525,281
Nonoperating expenses	(8,906)	-
(Increase) decrease in assets -		
accounts receivable	(555)	46,823
Increase (decrease) in liabilities:		
Accounts payable	(7,135)	(14,050)
Vested unpaid vacation and sick leave	-	(1,346)
Unearned revenue	(2,676)	(20,044)
Prepaid rent from General Fund	-	200,000
Net cash flows from operating activities	<u>\$ (90,665)</u>	<u>31,460</u>

**CITY OF PALMER, ALASKA**  
 Refuse Enterprise Fund  
 Statement of Net Position  
 December 31, 2012  
 (With Comparative Amounts for 2011)

	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Current assets:		
Cash and investments	\$ 1,345,041	1,425,167
Accounts receivable	<u>73,781</u>	<u>69,985</u>
Total current assets	<u>1,418,822</u>	<u>1,495,152</u>
Property, plant and equipment:		
Buildings	52,667	52,667
Machinery and equipment	<u>1,005,823</u>	<u>675,030</u>
Total property, plant and equipment	1,058,490	727,697
Less accumulated depreciation	<u>(624,525)</u>	<u>(592,076)</u>
Net property, plant and equipment	<u>433,965</u>	<u>135,621</u>
Total assets	\$ <u>1,852,787</u>	<u>1,630,773</u>
<u>Liabilities</u>		
Accounts payable	330,400	35,755
Vested unpaid vacation and sick leave	<u>7,436</u>	<u>6,520</u>
Total liabilities	<u>337,836</u>	<u>42,275</u>
<u>Net Position</u>		
Net investment in capital assets	433,965	135,621
Unrestricted	<u>1,080,986</u>	<u>1,452,877</u>
Total net position	<u>1,514,951</u>	<u>1,588,498</u>
Total liabilities and net position	\$ <u>1,852,787</u>	<u>1,630,773</u>



**CITY OF PALMER, ALASKA**  
 Refuse Enterprise Fund  
 Schedule of Revenues, Expenses and Changes  
 in Net Position - Budget and Actual  
 Year Ended December 31, 2012  
 (With Comparative Amounts for 2011)

	2012		2011	
	Budget	Actual	Variance with Budget	Actual
Operating revenues - solid waste collection fees	\$ 433,500	447,406	13,906	438,930
Operating expenses excluding depreciation:				
Salaries and employee benefits	88,205	88,960	(755)	79,588
Administrative services	111,755	111,755	-	116,346
Audit	3,500	3,293	207	2,947
Services	185,000	193,959	(8,959)	158,859
Fuel	17,000	15,083	1,917	20,243
Insurance	3,616	3,615	1	2,489
Vehicle insurance	2,500	2,767	(267)	2,897
Operating supplies	5,045	5,153	(108)	2,204
Repairs and maintenance	14,000	10,652	3,348	9,133
Equipment	19,000	1,506	17,494	911
Legal	1,030	-	1,030	-
Miscellaneous	2,500	3,927	(1,427)	2,925
Total operating expenses excluding depreciation	453,151	440,670	12,481	398,542
Operating income (loss) before depreciation	(19,651)	6,736	26,387	40,388
Depreciation	-	32,449	(32,449)	36,858
Operating income (loss)	(19,651)	(25,713)	(6,062)	3,530
Nonoperating revenues (expenses):				
Investment income	10,000	-	(10,000)	-
State PERS relief	5,718	5,718	-	4,370
Capital outlay - refuse truck	(314,138)	-	314,138	-
Net nonoperating revenues (expenses)	(298,420)	5,718	304,138	4,370
Income (loss) before transfers	(318,071)	(19,995)	298,076	7,900
Transfers out	(53,552)	(53,552)	-	(26,730)
Change in net position	\$ (371,623)	(73,547)	298,076	(18,830)
Beginning net position		1,588,498		1,607,328
Ending net position		\$ 1,514,951		1,588,498

**CITY OF PALMER, ALASKA**  
 Refuse Enterprise Fund  
 Statement of Cash Flows  
 Year Ended December 31, 2012  
 (With Comparative Amounts for 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash receipts from customers and users	\$ 443,610	422,610
Payments to suppliers	(259,448)	(213,306)
Payments to employees	(82,326)	(73,618)
Payments for interfund services used	<u>(111,755)</u>	<u>(116,346)</u>
Net cash flows from operating activities	<u>(9,919)</u>	<u>19,340</u>
 Cash flows from noncapital financing activities - transfers out	 <u>(53,552)</u>	 <u>(26,730)</u>
 Cash flows from capital and related financing activities - increase in property, plant and equipment	 <u>(16,655)</u>	 <u>(16,464)</u>
Net decrease in cash and investments	(80,126)	(23,854)
 Beginning cash and investments	 <u>1,425,167</u>	 <u>1,449,021</u>
 Ending cash and investments	 \$ <u><u>1,345,041</u></u>	 <u><u>1,425,167</u></u>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (25,713)	3,530
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:		
Depreciation	32,449	36,858
Noncash expense - PERS relief	5,718	4,370
(Increase) decrease in assets - accounts receivable	 (3,796)	 (16,320)
Increase (decrease) in liabilities:		
Accounts payable	294,645	(10,698)
Vested unpaid vacation and sick leave	<u>916</u>	<u>1,600</u>
Net cash flows from operating activities	\$ <u><u>304,219</u></u>	<u><u>19,340</u></u>
 Noncash capital and related financing activities - purchase of equipment included in accounts payable	 \$ <u><u>(314,138)</u></u>	 <u><u>-</u></u>

**CITY OF PALMER, ALASKA**  
 Golf Course Enterprise Fund  
 Statement of Net Position  
 December 31, 2012  
 (With Comparative Amounts for 2011)

	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Current assets:		
Accounts receivable	\$ 50,000	117,811
Inventories - materials and supplies	<u>137,395</u>	<u>138,736</u>
Total current assets	<u>187,395</u>	<u>256,547</u>
Property, plant and equipment:		
Land and land improvements	1,544,620	1,544,620
Buildings	254,559	254,559
Machinery and equipment	332,753	332,753
Improvements other than buildings	<u>672,569</u>	<u>672,569</u>
Total property, plant and equipment	2,804,501	2,804,501
Less accumulated depreciation	<u>(739,487)</u>	<u>(683,740)</u>
Net property, plant and equipment	<u>2,065,014</u>	<u>2,120,761</u>
Total assets	\$ <u>2,252,409</u>	<u>2,377,308</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	39,635	48,720
Current portion of capital lease	31,972	31,972
Unearned revenue	6,034	2,319
Due to General Fund	<u>394,452</u>	<u>329,485</u>
Total current liabilities	<u>472,093</u>	<u>412,496</u>
Long-term liabilities, net of current portion - capital lease	<u>18,653</u>	<u>50,626</u>
Total liabilities	<u>490,746</u>	<u>463,122</u>
<u>Net Position</u>		
Net investment in capital assets	2,014,389	2,038,163
Unrestricted (deficit)	<u>(252,726)</u>	<u>(206,575)</u>
Total net position	<u>1,761,663</u>	<u>1,914,186</u>
Total liabilities and net position	\$ <u>2,252,409</u>	<u>2,377,308</u>

**CITY OF PALMER, ALASKA**  
**Golf Course Enterprise Fund**  
**Schedule of Revenues, Expenses and Changes**  
**in Net Position - Budget and Actual**  
**Year Ended December 31, 2012**  
**(With Comparative Amounts for 2011)**

	2012		Variance with	2011
	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
Operating revenues:				
Golf course fees:				
Green fees	\$ 380,000	291,854	(88,146)	316,407
Driving range fees	30,000	22,374	(7,626)	26,083
Golf cart rentals and trail fees	127,000	87,007	(39,993)	102,537
Golf club rentals	8,000	4,772	(3,228)	5,350
Clubhouse revenues:				
Beer and wine sales	60,000	32,395	(27,605)	36,963
Snack bar	75,000	65,004	(9,996)	77,085
Merchandise sales	200,000	130,875	(69,125)	171,120
Miscellaneous	1,200	-	(1,200)	427
Total operating revenues	<u>881,200</u>	<u>634,281</u>	<u>(246,919)</u>	<u>735,972</u>
Operating expenses excluding depreciation:				
Golf management contract	68,000	71,016	(3,016)	76,171
Audit	8,500	7,994	506	5,358
Advertising	-	299	(299)	400
Services	638,000	564,320	73,680	655,665
Power	22,000	18,349	3,651	23,741
Heat	2,500	1,722	778	1,783
Water and sewer	3,500	1,562	1,938	1,452
Rental and lease	7,000	5,790	1,210	5,790
Insurance	7,066	6,761	305	10,521
Vehicle insurance	750	325	425	175
Operating supplies	-	10	(10)	550
Repairs and maintenance	-	-	-	21,901
Legal fees	3,000	38	2,962	3,458
Small tools and equipment	40,600	-	40,600	-
Total operating expenses excluding depreciation	<u>800,916</u>	<u>678,186</u>	<u>122,730</u>	<u>806,965</u>
Operating income (loss) before depreciation	80,284	(43,905)	(124,189)	(70,993)

**CITY OF PALMER, ALASKA**  
 Golf Course Enterprise Fund  
 Schedule of Revenues, Expenses and Changes  
 in Net Position - Budget and Actual, continued

	<u>2012</u>		<u>2011</u>	
	<u>Budget</u>	<u>Actual</u>	Variance with <u>Budget</u>	<u>Actual</u>
Depreciation	\$ -	55,746	(55,746)	52,281
Operating income (loss)	80,284	(99,651)	(179,935)	(123,274)
Nonoperating revenues - insurance reimbursement	-	-	-	88,477
Income (loss) before transfers	80,284	(99,651)	(179,935)	(34,797)
Transfers out	(52,872)	(52,872)	-	(53,190)
Change in net position	\$ <u>27,412</u>	(152,523)	<u>(179,935)</u>	(87,987)
Beginning net position		<u>1,914,186</u>		<u>2,002,173</u>
Ending net position	\$	<u>1,761,663</u>		<u>1,914,186</u>

**CITY OF PALMER, ALASKA**  
 Golf Course Enterprise Fund  
 Statement of Cash Flows  
 Year Ended December 31, 2012  
 (With Comparative Amounts for 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash receipts from customers and users	\$ 705,807	756,811
Payments to suppliers	(685,930)	(766,911)
Payments to employees	-	(23,348)
Net cash flows from operating activities	<u>19,877</u>	<u>(33,448)</u>
Cash flows from noncapital financing activities - transfers out	<u>(52,872)</u>	<u>(53,190)</u>
Cash flows from capital and related financing activities:		
Increase in property, plant and equipment	-	(10,076)
Increase in due to General Fund	64,967	110,286
Principal payments on capital lease	<u>(31,972)</u>	<u>(13,572)</u>
Net cash flows from capital and related financing activities	<u>32,995</u>	<u>86,638</u>
Net increase in cash and investments	-	-
Beginning cash and investments	<u>-</u>	<u>-</u>
Ending cash and investments	\$ <u><u>-</u></u>	<u><u>-</u></u>
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (99,651)	(123,274)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation	55,746	52,281
Other revenues	-	88,477
(Increase) decrease in assets:		
Accounts receivable	67,811	(67,811)
Inventories	1,341	17,838
Increase (decrease) in liabilities:		
Accounts payable	(9,085)	22,216
Accrued payroll and employee benefits	-	(23,348)
Unearned revenue	<u>3,715</u>	<u>173</u>
Net cash flows from operating activities	\$ <u><u>19,877</u></u>	<u><u>(33,448)</u></u>
Noncash capital and related financing activities - purchase of property, plant, and equipment by capital lease	\$ <u><u>-</u></u>	<u><u>96,170</u></u>

**CITY OF PALMER, ALASKA**  
Land Development Enterprise Fund  
Statement of Net Position  
December 31, 2012  
(With Comparative Amounts for 2011)

		<u>2012</u>	<u>2011</u>
	<u>Assets</u>		
Land held for sale		\$ <u>217,414</u>	<u>217,414</u>
	<u>Liabilities</u>		
Due to other funds		<u>49,231</u>	<u>49,231</u>
	<u>Net Position</u>		
Unrestricted		<u>168,183</u>	<u>168,183</u>
Total liabilities and net position		\$ <u>217,414</u>	<u>217,414</u>

**CITY OF PALMER, ALASKA**  
 Land Development Enterprise Fund  
 Schedule of Revenues, Expenses and Changes  
 in Net Position - Budget and Actual  
 Year Ended December 31, 2012  
 (With Comparative Amounts for 2011)

	2012			<u>2011</u>
	<u>Budget</u>	<u>Actual</u>	Variance with <u>Budget</u>	<u>Actual</u>
Change in net position	\$ <u>-</u>	-	<u>-</u>	-
Beginning net position		<u>168,183</u>		<u>168,183</u>
Ending net position		\$ <u>168,183</u>		<u>168,183</u>



**CITY OF PALMER, ALASKA**  
 Land Development Enterprise Fund  
 Statement of Cash Flows  
 Year Ended December 31, 2012  
 (With Comparative Amounts for 2011)

	<u>2012</u>	<u>2011</u>
Net increase in cash and investments	\$ -	-
Beginning cash and investments	-	-
Ending cash and investments	\$ -	-

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**SCHEDULES OF FEDERAL AND STATE EXPENDITURES**

**CITY OF PALMER, ALASKA**  
 Schedule of Expenditures of Federal Awards  
 Year Ended December 31, 2012

	Grant Number	Catalog of Federal Domestic Assistance Number	Total Grant Award	January 1, 2012 Receivable (Deferred)	Adjustment Note 2	Federal Share of Expenditures	Federal Receipts	December 31, 2012 Receivable (Deferred)
<b>Department of Transportation</b>								
Direct:								
Airport Improvement Program	3-02-0211-013-2006	20.106	\$ 1,872,308	36,672	-	-	36,672	-
Airport Improvement Program	3-02-0211-016-2007	20.106	2,355,190	18,252	-	-	18,252	-
Airport Improvement Program	3-02-0211-014-2009	20.106	343,900	9,309	-	-	9,309	-
Airport Improvement Program	3-02-0211-017-2012	20.106	375,000	-	-	8,906	-	8,906
Total CFDA 20.106				<u>64,233</u>	<u>-</u>	<u>8,906</u>	<u>64,233</u>	<u>8,906</u>
Passed through State of Alaska Department of Transportation and Public Facilities:								
Safe Routes to School Grant	LU20-12-0004	20.205	35,000	-	-	28,821	-	28,821
State and Community Highway Safety -								
ASTEP Seatbelt Enforcement	402PT 12-06-01	20.600	8,200	-	-	5,161	5,161	-
Alcohol Open Container Requirements:								
ASTEP DUI Enforcement	154AL-12-01-03	20.607	32,311	10,141	-	22,170	32,311	-
ASTEP DUI Enforcement	154AL-13-01-00(B)-7	20.607	49,715	-	-	3,895	-	3,895
Total CFDA 20.607				<u>10,141</u>	<u>-</u>	<u>26,065</u>	<u>32,311</u>	<u>3,895</u>
Total Department of Transportation				<u>74,374</u>	<u>-</u>	<u>68,953</u>	<u>101,705</u>	<u>41,622</u>
<b>Department of Justice</b>								
Passed through State of Alaska Department of Public Safety -								
Federal Asset Forfeitures	N/A	16.000	34,756	-	-	34,756	34,756	-
Direct:								
ARRA - Edward Byrne Memorial Justice Assistance Grant Program	2009-SB-B9-0912	16.804 ARRA	127,563	-	-	1,105	1,105	-
Bullet Proof Vest and Body Armor Safety Initiative	2009BUBXO8041814	16.607	2,800	-	-	1,042	806	236
Edward Byrne Memorial Justice Assistance Grants:								
Police Vehicle Equipment Project	2010-DJ-BX-1224	16.738	30,219	-	-	6,006	3,666	2,340
Police Department Law Enforcement Upgrade Project	2011-DJ-BX-3201	16.738	22,812	-	-	750	-	750
Total CFDA 16.738				<u>-</u>	<u>-</u>	<u>6,756</u>	<u>3,666</u>	<u>3,090</u>
Total Department of Justice				<u>-</u>	<u>-</u>	<u>43,659</u>	<u>40,333</u>	<u>3,326</u>
<b>Department of Agriculture</b>								
Passed through State of Alaska Department of Natural Resources Cooperative Forestry Assistance -								
2012 Volunteer Fire Assistance Grant	N/A	10.664	19,508	-	-	19,508	19,508	-
<b>Environmental Protection Agency</b>								
Passed through State of Alaska Department of Environmental Conservation:								
Capitalization Grants for Clean Water State Revolving Funds -								
Recovery Act -								
Wastewater Treatment Plant Improvements	671161	66.458 ARRA	2,500,000	93,030	-	19,623	97,949	14,704
Capitalization Grants for Clean Water State Revolving Funds -								
Recovery Act -								
Steel Water Main Replacement	677221	66.468 ARRA	2,500,000	43,702	(477,513)	423,538	-	(10,273)
Total Environmental Protection Agency				<u>136,732</u>	<u>(477,513)</u>	<u>443,161</u>	<u>97,949</u>	<u>4,431</u>

## CITY OF PALMER, ALASKA

## Schedule of Expenditures of Federal Awards, continued

	Grant Number	Catalog of Federal Domestic Assistance Number	Total Grant Award	January 1, 2012 Receivable (Deferred)	Adjustment Note 2	Federal Share of Expenditures	Federal Receipts	December 31, 2012 Receivable (Deferred)	
<b>Department of Homeland Security</b>									
Passed through State of Alaska Department of Military and Veterans Affairs:									
Homeland Security Grant Program:									
	2010 Homeland Security Grant	10SHSP-GR34067	97.067	\$ 51,784	-	-	39,650	13,217	26,433
	2012 Homeland Security Grant	12SHSP-GR34077	97.067	21,451	-	-	21,451	-	21,451
	Total Department of Homeland Security			-	-	61,101	13,217	47,884	
<b>Department of Energy</b>									
Direct - Energy Efficient & Conservation Block Grant Program -									
	Retrofit Interior Energy Lighting	RW0000030	81.128 ARRA	50,000	-	-	10,164	10,164	-
<b>Institute of Museum and Library Services</b>									
Passed through State of Alaska Department of Education and Early Development:									
	Grants to State - Continuing Education Grant	CED 12-759-171	45.310	1,500	-	-	1,500	1,500	-
	Grants to State - Continuing Education Grant	CED 12-759-172	45.310	1,500	-	-	1,500	1,500	-
	Total Institute of Museum and Library Services			-	-	3,000	3,000	-	
	Total Expenditures of Federal Awards			\$ 211,106	(477,513)	649,546	285,876	97,263	

**CITY OF PALMER, ALASKA**  
 Schedule of State Financial Assistance  
 Year Ended December 31, 2012

	Grant Number	Total Grant Award	January 1, 2012 Receivable (Deferred)	Adjustment Note 2	State Share of Expenditures	State Receipts	December 31 2012 Receivable (Deferred)	
<b>Department of Commerce, Community and Economic Development</b>								
	Palmer SW Sewer & Water Extension	07-DC-503	\$ 2,000,000	10,109	-	37,097	16,509	30,697
	ADA Sidewalk Compliance	09-DC-513	80,000	-	-	10,192	10,192	-
	Protective Equipment	11-DC-328	100,000	5,357	-	11,335	16,692	-
	Lift Station & Sewer System Rehabilitation	11-DC-329	750,000	39,011	-	-	39,011	-
	Airport Nav Aids- Legislative Grant	12-DM-134	8,300	(8,300)	-	-	-	(8,300)
*	Arena and Events Center Expansion	12-DC-414	400,000	-	-	397,508	376,359	21,149
*	Fire Training Center Station Floor	12-DC-415	77,000	-	-	76,639	8,400	68,239
*	Matanuska Maid Block Land Acquisition	12-DC-416	100,000	-	-	100,000	89,138	10,862
	Sidewalk Improvements	12-DC-417	100,000	-	-	4,083	4,083	-
	Public Safety Projects	13-DC-421	780,000	-	-	787	787	-
	Wayfind and Streetscapes Planning Phase I	13-DM-206	45,000	-	-	-	45,000	(45,000)
*	Community Revenue Sharing	N/A	556,753	-	-	556,753	556,753	-
	Total Department of Commerce, Community and Economic Development			46,177	-	1,194,394	1,162,924	77,647
<b>Department of Environmental Conservation</b>								
	Wastewater Treatment Plant Expansion Phase III	67107	612,300	54,562	-	-	-	54,562
	Steel Water Main Replacement, Phase III & VI	67111	1,743,425	165,609	-	8,733	174,342	-
	Water Main Replacement Phase V	67113	2,000,000	19,912	-	1,732	21,244	400
	Steel Water Main Replacement, Phase VI	67115	1,861,854	177,096	-	-	177,096	-
	Southwest Utility Extension Phase II	67116	2,401,210	23,280	-	39,448	62,539	189
	Steel Water Main Replacement Phase VII	67117	4,424,000	573,271	(77,089)	-	496,182	-
*	Southwest Utility Extension Phase II	67119	4,250,000	-	-	1,344,340	864,774	479,566
	Total Department of Environmental Conservation			1,013,730	(77,089)	1,394,253	1,796,177	534,717
<b>Department of Public Safety</b>								
	Byrne Memorial JAG Program	JAG-12-23C	99,639	46,134	-	53,503	99,637	-
	Byrne Memorial JAG Program	JAG-13-23C	79,711	-	-	7,293	-	7,293
	State Forfeiture	N/A	20,938	-	-	20,938	20,938	-
	Total Department of Public Safety			46,134	-	81,734	120,575	7,293
<b>Department of Transportation and Public Facilities</b>								
	FY 06 AIP Matching Grant	AIP 3-02-0211-013-200	49,271	-	-	5,449	5,449	-
	FY 09 AIP Matching Grant	AIP 3-02-0211-014-200	8,704	-	-	559	559	-
	Total Department of Transportation and Public Facilities			-	-	6,008	6,008	-
<b>Department of Revenue</b>								
*	Electric & Telephone Cooperative	N/A	136,559	-	-	136,559	136,559	-
	Liquor Licenses	N/A	13,500	-	-	13,500	13,500	-
	Aviation Fuel Tax	N/A	1,654	-	-	1,654	1,654	-
	Total Department of Revenue			-	-	151,713	151,713	-
<b>Department of Administration</b>								
*	PERS Relief	N/A	537,533	-	-	537,533	537,533	-
<b>Department of Education and Early Development</b>								
	Public Library Assistance Grant	PLA 13-75957	6,500	-	-	6,500	6,500	-
	Total State Financial Assistance		\$ 1,106,041	(77,089)	3,372,135	3,781,430	619,657	

\* Major programs

## CITY OF PALMER, ALASKA

### Notes to Schedules of Expenditures of Federal Awards and State Financial Assistance

Year Ended December 31, 2012

(1) **Basis of Presentation**

The accompanying Schedules of Expenditures of Federal Awards and State Financial Assistance include the grant activity of City of Palmer and are presented on the modified accrual basis of accounting. The information in the schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.

(2) **Prior Year Disallowed Costs**

In 2012, it was discovered that certain non-reimbursable costs were inadvertently charged to federal and state programs. The State of Alaska Department of Environmental Conservation disallowed \$477,513 of prior year costs on the federal Steel Water Main Replacement Drinking Water Fund – Recovery Act Loan number 677221 and \$77,089 of prior year costs on the state Steel Water Main Replacement Phase VII grant number 67117. These costs have been reflected as adjustments to expenditures on the Schedule of Expenditures of Federal Awards and the Schedule of State Financial Assistance. In addition, the state has disallowed \$122,208 of current year costs on the federal program. This amount has been removed from the federal share of expenditures report on the schedule.

The City notes that, while these costs were disallowed under the specific grant programs involved, the costs were reasonable for the overall project which included water, sewer, streets and street lighting upgrades. The disallowed portion was substantially associated with street and street lighting improvements not eligible under the water and sewer programs.

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**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 Palmer, Alaska

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Palmer, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise City of Palmer's basic financial statements, and have issued our report thereon dated June 10, 2013.

**Internal Control Over Financial Reporting**

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

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

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

Honorable Mayor and City Council  
City of Palmer, Alaska

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Mikunda, Cottrell & Co.*

Anchorage, Alaska  
June 10, 2013

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

Honorable Mayor and City Council  
City of Palmer, Alaska

**Report on Compliance for Each Major Federal Program**

We have audited City of Palmer's (the City'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 the City's major federal programs for the year ended December 31, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

**Basis for Qualified Opinion on Capitalization Grants for Drinking Water state Revolving Funds – Recovery Act**

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding CFDA 66.468 Drinking Water Loan Program as described in finding number 2012-01 for allowable costs. Compliance with such requirements is necessary, in our opinion, for City of Palmer to comply with the requirements applicable to that program.

Honorable Mayor and City Council  
City of Palmer, Alaska

### **Qualified Opinion on Capitalization Grants for Drinking Water state Revolving Funds – Recovery Act**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Drinking Water Loan Program for the year ended December 31, 2012.

### **Unmodified Opinion on the Other Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major federal program identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2012.

### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 12-01. Our opinion on each major federal program is modified with respect to this matter.

City of Palmer’s response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Palmer’s response was not subjected to auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

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

Honorable Mayor and City Council  
City of Palmer, Alaska

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

*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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 12-01 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

City of Palmer's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Palmer's response was not subjected to auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

*Mikunda, Cottrell & Co.*

Anchorage, Alaska  
June 10, 2013

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

Honorable Mayor and City Council  
City of Palmer, Alaska

**Report on Compliance for Each Major State Program**

We have audited City of Palmer's (the City'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 the City's major state programs for the year ended December 31, 2012. The City's major state programs are identified in the accompanying schedule of state financial assistance.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

Honorable Mayor and City Council  
City of Palmer, Alaska

### **Opinion on Each Major State Program**

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

### **Report on Internal Control over Compliance**

Management of City of Palmer is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City'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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 12-01 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

City of Palmer's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Palmer's response was not subjected to auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



Honorable Mayor and City Council  
City of Palmer, Alaska

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

*Mikunda, Cottrell & Co.*

Anchorage, Alaska  
June 10, 2013

**CITY OF PALMER, ALASKA**

Schedule of Findings and Questioned Costs

Year Ended December 31, 2012

**I. Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued

Unqualified

Internal control over financial reporting:

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

**Federal Financial Assistance**

Internal control over major programs:

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

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

Qualified

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

X yes    \_\_\_ no

Identification of major programs:

<u>Agency</u>	<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Environmental Protection Agency	66.468ARRA	Capitalization Grants for Drinking Water State Revolving Funds – Recovery Act
Department of Transportation	20.106	Airport Improvement Program

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

\$300,000

Auditee qualified as low-risk auditee?

X yes    \_\_\_ no

# CITY OF PALMER, 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?                        X   yes           no
- Significant deficiency(ies) identified?                         yes      X   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

#### Finding 12-01: Allowable Costs – Internal Control & Noncompliance

Agency: Environmental Protection Agency  
Passed Through: State of Alaska Department of Environmental Conservation  
Program: Drinking Water Loan Program                      CFDA: 66.468  
Award No.: 677221

Criteria: Costs charged to federal and state programs should be reasonable and necessary for the completion of a project. Costs charged to a federal program should fall within the scope of work of that program.

Condition: Ineligible costs were inadvertently charged to the program.

Context: The City is managing a water project. Some costs were for the related to the restoring of roads, sidewalks and street lighting improvements. These costs were subsequently determined to be improvements were considered unallowable per the program requirements.

Effect: The Environmental Protection Agency has requested reimbursement.

Cause: Management was unaware that the project costs were not allowable under the program, and therefore pay requests were submitted which included unallowable costs.

Questioned costs: \$477,513 related to prior year expenditures, \$122,208 related to the current year expenditures. Note the current year costs are not reflected in the schedule of expenditures of federal awards, as they have already been removed due to disallowance by the granting agency.

## CITY OF PALMER, ALASKA

### Schedule of Findings and Questioned Costs, continued

#### **Federal Award Findings and Questioned Costs, continued**

##### **Finding 12-01: Allowable Costs – Internal Control & Noncompliance, continued**

Recommendation: A complete understanding of the specific requirements of each grant agreement should be obtained prior to incurring project costs.

Views of responsible  
officials and planned

corrective actions: Management concurs with this finding. See the corrective action plan.

#### **IV. State Award Findings and Questioned Costs**

##### **Finding 12-01: Types of Services Allowed or Disallowed – Internal Control**

Agency: State of Alaska Department of Environmental Conservation

Program: Steel Water Main Replacement Phase VII

Award No.: 67117

See finding 12-01 at federal section.

Questioned costs: \$77,089 of prior year expenditures, \$25,947 related to the current year expenditures. Note the current year costs are not reflected in the Schedule of State Financial Assistance, as they have already been removed due to disallowance by the granting agency.

**CITY OF PALMER, ALASKA**

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2012

There were no prior year findings.

## CITY OF PALMER, ALASKA

### Corrective Action Plan

Year Ended December 31, 2012

Person responsible: Esther Greene, Finance Director  
907-761-1303  
[egreene@palmerak.org](mailto:egreene@palmerak.org)

### **Federal Award Findings and Questioned Costs**

#### **Finding 12-01: Allowable Costs – Internal Control & Noncompliance**

Agency: Environmental Protection Agency  
Passed Through: State of Alaska Department of Environmental Conservation  
Program: Clean Water Loan Program CFDA: 66.458  
Award No.: 677221

Corrective Action: In reference to the Clean Water Loan Program, the City was notified in the summer of 2012 by Alaska Department of Environmental Conservation (ADEC) that there had been a review performed on certain ADEC administered state and federal pass through grants dating back to 2010. As a result of this review, ADEC determined that the City had been overpaid in the amount of \$477,513. The City had inadvertently submitted pay requests and had received reimbursements by ADEC for non-water eligible expenses. In order to refund ADEC, future pay requests would not be processed until the amount could be repaid. Although the costs were disallowed for the specific water and sewer grants, the costs were not unreasonable for the combined project which included road and street lighting upgrades in connection with the water and sewer upgrades.

To prevent this occurrence in the future, the City of Palmer Public Works director will direct the project engineers to create a comprehensive spreadsheet that extends all project work items. Each item will be identified by its funding source and eligibility will be determined. This approach will prevent any misunderstanding in funding agreement legislation or contract language.

Expected Completion: December 2013

## CITY OF PALMER, ALASKA

### Corrective Action Plan, continued

#### **State Award Findings and Questioned Costs**

##### **Finding 12-01:           Types of Services Allowed or Disallowed – Internal Control**

Agency:                   State of Alaska Department of Environmental Conservation  
Program:                   Steel Water Main Replacement Phase VII  
Award No.:                67117

Corrective Action:    In reference to the Steel Water Main Replacement Phase VII, the City was notified in 2012 by Alaska Department of Environmental Conservation (ADEC) that there had been a review performed on certain ADEC administered state and federal pass through grants dating back to 2011. As a result of this review, ADEC determined that they had previously disbursed \$77,088.68 in error as these costs were deemed ineligible under the grant. The City had inadvertently submitted pay requests and had received reimbursements by ADEC for non-water eligible expenses. In order to refund ADEC, future pay requests would not be processed until the amount could be repaid. Although the costs were disallowed for the specific water and sewer grants, the costs were not unreasonable for the combined project which included road upgrades, sidewalks and street lights.

To prevent this occurrence in the future, the City of Palmer Public Works director will direct the project engineers to create a comprehensive spreadsheet that extends all project work items. Each item will be identified by its funding source and eligibility will be determined. This approach will prevent any misunderstanding in funding agreement legislation or contract language.

Expected Completion:   December 2013 (Estimated project completion 2014)