

MUNICIPALITY OF ANCHORAGE, ALASKA



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended December 31, 2009

**Daniel A. Sullivan
Mayor**

**Prepared by:
Finance Department**

**Lucinda Mahoney
CFO**

**David Ryan, C.A.
Controller**

Cover photo courtesy of Robert D. McNeil

MUNICIPALITY OF ANCHORAGE, ALASKA

Table of Contents

	Page(s)
Introductory Section:	
Letter of Transmittal	i - v
Certificate of Achievement for Excellence in Financial Reporting	vi
Organizational Chart	vii
Principal Officials	viii
Municipality of Anchorage Vicinity Map	ix
Financial Section:	
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-17
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	20-21
Statement of Activities	22-23
Fund Financial Statements:	
Balance Sheet – Governmental Funds	24
Reconciliation of Net Assets between the Government-wide and Fund Financial Statements	25
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	26
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	27
Statement of Net Assets – Proprietary Funds	28-31
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	32-33
Statement of Cash Flows – Proprietary Funds	34-37
Statement of Fiduciary Net Assets – Fiduciary Funds	38
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	39
Notes to Basic Financial Statements – Index	41
Notes to Basic Financial Statements	42-109
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund by Function	111
Notes to Required Supplementary Information – Budgetary Data	112-113
Required Supplementary Information – Condition Rating of Anchorage's Road Network	114
Required Supplementary Information – Other Post Employment Information Schedule Funding Progress	115
Supplementary Information:	
Budgetary Comparison Schedule – General Fund by Fund	118
Budgetary Comparison Schedule – General Fund by Department	119
Nonmajor Governmental Funds:	
Combining Balance Sheet	124-127
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	128-131
Budgetary Comparison Schedules:	
Heritage Land Bank	132
Convention Center Operating Reserve	133
Special Assessment Bonds	134

MUNICIPALITY OF ANCHORAGE, ALASKA

Table of Contents

	Page(s)
Retirement Certificate of Participation	135
Police/Fire Retiree Medical Liability	136
Jail Revenue Bond	137
ACPA Surcharge Revenue Bond	138
Nonmajor Enterprise Funds:	
Combining Statement of Net Assets	140
Combining Statement of Revenues, Expenses and Changes in Net Assets	141
Combining Statement of Cash Flows	142
Internal Service Funds:	
Combining Statement of Net Assets	144-145
Combining Statement of Revenues, Expenses and Changes in Net Assets	146-147
Combining Statement of Cash Flows	148-149
Fiduciary Funds:	
Combining Statement of Fiduciary Net Assets	152-153
Combining Statement of Changes in Fiduciary Net Assets	154-155
Statistical Section:	
Table 1. Net Assets By Component	159
Table 2. Change in Net Assets	160-161
Table 3. Charges for Services By Function/Program	162
Table 4. Fund Balances, Governmental Funds	163
Table 5. Changes in Fund Balance, Governmental Funds	164
Table 6. Debt Service as a Percentage of Noncapital Expenditures	165
Table 7. Tax Revenues by Source, Governmental Funds	166
Table 8. Use of Property Taxes	167
Table 9. Assessed Value and Estimated Actual Value of Taxable Property	168
Table 10. Property Tax Rates	169
Table 11. Principal Property Tax Payers	170
Table 12. Property Tax Levies and Collections	171
Table 13. Outstanding Debt By Type	172
Table 14. Ratio of General bonded Debt Outstanding	173
Table 15. Direct and Overlapping Debt	174
Table 16. Legal Debt Margin	175
Table 17. Pledged Revenue Coverage	176-178
Table 18. Demographic Statistics	179
Table 19. Principal Employers	180
Table 20. Full-Time Equivalent Employees	181
Table 21. Miscellaneous Statistical Data By Function	182-184

Introductory Section

MUNICIPALITY OF ANCHORAGE



Mayor Dan Sullivan

June 4, 2010

Honorable Mayor, Members of the Assembly, and
Citizens of the Municipality of Anchorage:

The Comprehensive Annual Financial Report (CAFR) of the Municipality of Anchorage (Anchorage) for the year ended December 31, 2009, is hereby submitted in accordance with Anchorage Home Rule Charter and Anchorage Municipal Code. These laws require an annual report on financial and administrative activities with an independent audit of all municipal accounts by a certified public accountant. Mikunda, Cottrell & Co. performed the independent audit. Management is responsible for the accuracy, completeness and fairness of the presentation including all disclosures.

Accounting principles generally accepted in the United States of America require management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. Anchorage's MD&A can be found in the Financial Section of the CAFR immediately following the report of the independent auditors.

As a recipient of federal grant awards, Anchorage is required to undergo an audit in accordance with the provisions of the U.S. Office of Management and Budget's (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and associated *Compliance Supplement*. A schedule of expenditures of federal awards, the independent auditor's reports on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs will be included in a separately issued audit in accordance with OMB Circular A-133.

As a recipient of state grant awards, Anchorage is also required to undergo an audit in accordance with the provisions of Alaska State Regulation 2 AAC 45.010 and *Audit Guide and Compliance Supplement for State Single Audits*. A State Financial Assistance Schedule, the independent auditor's reports on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs will be included in separately issued State Financial Assistance Reports.

Mikunda, Cottrell & Co. was retained to perform both the financial and the compliance audits of Federal and State financial assistance programs for the year ended December 31, 2009. These audits were performed in accordance with federal and state regulations and *Government Auditing Standards*. Mikunda, Cottrell & Co. audited all 2009 financial records except for those of one component unit, Alaska Center for the Performing Arts, Inc., and the Police & Fire Retirement Pension Trust Funds. Mikunda, Cottrell & Co.'s reports are included in the financial section of the CAFR and in both financial assistance reports. The excluded component unit and pension trust funds were audited by certified public accountants who issued unqualified reports.

Government Profile

The City of Anchorage was originally incorporated in 1920 and unified with the Greater Anchorage Area Borough in 1975 to create the Municipality of Anchorage. Anchorage encompasses approximately 1,955 square miles.

Anchorage is operated under a strong mayoral system with an eleven member Assembly serving as the legislative branch. Leading the executive branch, the Mayor is responsible for appointing top executives and running the day to day governmental activities. The Assembly is responsible for approving ordinances, municipal contracts, budgets, and certain appointments. A compilation of municipal ordinances can be reviewed on-line in the Anchorage Municipal Code at www.muni.org.

Anchorage provides a full range of services, including police, fire, emergency medical services, health and human services, construction/maintenance of infrastructure, recreation activities, and public transportation. Many of these services are provided on a service area basis with taxpayers residing in different taxing districts paying for only those services they authorize and receive.

The Assembly and administration are responsible for and committed to establishing and maintaining an internal control structure designed to provide reasonable assurance that Anchorage's assets are protected from loss, theft or misuse, and that adequate accounting records are maintained for preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The concept of reasonable assurance recognizes that the cost of controls should not exceed the benefit likely to be derived and that valuation of costs and benefits requires the use of estimates and judgments.

The Assembly approves operating budgets and appropriations of direct costs at the department level, and revenues, direct costs and indirect costs at the fund level. During the year, the Assembly may approve supplemental appropriations to increase or decrease the budget, or to transfer all or part of any unencumbered balance from one appropriation to another. The Assembly by ordinance may authorize a contract, lease or other obligation requiring financing from future appropriations. A lease purchase agreement with respect to acquisition of a capital improvement valued in excess of \$1 million is not valid until approved by the voters. The Mayor may transfer all or part of an unencumbered balance between categories within an appropriation. No obligation involving the expenditure of money may be made unless the Chief Fiscal Officer has certified that the funds required have been appropriated and/or are available for that purpose.

The accounting records are maintained on a budgetary basis whereby encumbrances are recorded for budgetary control. However, year-end financial statements present actual amounts in conformity with accounting principles generally accepted in the United States of America which excludes encumbrances.

The financial reporting entity includes the following component units for which Anchorage is financially accountable - Anchorage School District (ASD), Alaska Center for the Performing Arts, Inc., CIVICVentures, and Anchorage Community Development Authority. Additional information on all four of these component units can be found in the notes to the financial statements.

Anchorage owns and operates several utilities and other enterprise activities including electric, water, wastewater, refuse collection, solid waste disposal, port, and Municipal airport. Anchorage contracts out management of its sports arena, convention center, ice arenas, golf courses and equestrian center.

Additional information regarding Anchorage's government, services, current events, economic indicators and other statistics is located on its municipal web site at www.muni.org.

Major Initiatives

Port Expansion

The \$700 million expansion project of the Port of Anchorage (Port) is underway. This is the first project of its kind, with the Federal Maritime Administration Agency (MARAD) overseeing the construction of the expansion project. As MARAD completes the construction of capital assets and turns them over to Anchorage during the next few years, the assets will be recorded on the Port's financial statements.

Local Economy

The information presented in the financial statements is better understood when it is considered from the broader perspective of the specific environment within which Anchorage operates.

Anchorage has an approximate population of 291,000, an increase of 2.4% over prior year. The increase in population is due to increased military movement into Anchorage in 2009. As the largest city in Alaska, Anchorage is home to approximately 42% of the state's residents.

As of June 30, 2009, the ASD had 49,381 students enrolled for the 2009-2010 academic year, an increase of 2.1% from prior year. Anchorage is also home to the University of Alaska Anchorage, a state operated university, and Alaska Pacific University, a private independent university. They have combined enrollments in excess of 21,000 students.

After twenty years of consecutive employment growth, Anchorage experienced a 1.1% decline in 2009. The average unemployment rate in 2009 of 6.8% increased from 5.3% in 2008 but was significantly better than the national average of 9.3%. Anchorage has several major sectors that drive the local economy, including oil/gas, construction, transportation, and tourism. These sectors, along with the supporting businesses that have developed around them have experienced a decline due to the economic slow-down in 2009. Anchorage has continued to enjoy the addition of new retailers such as Kohls and the addition of new store locations for current big-box retailers. Growth in the retail section is expected to increase modestly over the next several years.

Despite an increase in oil prices in 2009 after a sharp decline in late 2008, the oil and gas industry has reduced employment in Anchorage by 7.1%. Statewide, employment in the oil and gas industry declined by 3.7% in December after peaking at 13,400 jobs in July 2009. Limited oil exploration and reduced capital spending will contribute to further losses statewide in 2010 but will be offset by increased maintenance activity required to repair and replace aging infrastructure. The outlook for 2010 anticipates no significant changes in employment in Anchorage. The industry also anticipates continued progress on the in-state gas line, Denali, the joint venture between BP and ConocoPhillips, and also on the TransCanada natural gas pipeline project.

Anchorage has a large and growing military presence with the location of three main operating posts: Elmendorf Air Force Base, Fort Richardson Army Post, and Kulis Air National Guard base. Although the Kulis Air National Guard base is slated for closure, the command and air assets will be transferred to Elmendorf Air Force Base. Fort Richardson and Elmendorf Air Force Base will merge into one single installation in 2010 and will be renamed Joint Base Elmendorf-Richardson. The merger will be completed by October and there are no planned reductions in employment. Thousands of military personnel are employed by these three military posts and, along with their family members, aid the local economy by supporting local businesses.

The transportation sector consists of air cargo activity at the Ted Stevens Anchorage International Airport; in-state freight and passenger transportation by the State of Alaska owned Alaska Railroad; and maritime transportation through the municipal-owned Port. The Ted Stevens Anchorage International Airport continues to be one of the busiest cargo airports in the world, although transit cargo volume decreased by 15% in each of the past two years. It was ranked fifth in tonnage volume in 2009. This sector of the local economy is expected to stabilize in 2010 and could see an increase in volumes as much as 2%. The Alaska Railroad continued to have another year of growth during 2009, reporting \$13.9 million in net income. The Port is ice free year round and is served by two major maritime carriers, Totem Ocean Trailer Express and Horizon Lines. With approximately 90% of all consumer goods arriving in Alaska through the port facilities, servicing 80% of the population of Alaska, the Port has begun construction of a \$700 million expansion project involving road/rail extensions and marine terminal redevelopment. Improving cargo flow through expanded berth capacity, accommodating larger ships with deeper drafts, supporting new military rapid deployment requirements, and upgrading cruise ship facilities are the major objectives of this expansion project.

The tourism sector is a major economic driver for Anchorage offering a central location, available transportation infrastructure, and abundant recreational opportunities. In addition to the Anchorage region's sport fishing and tourism destinations, visitors often use Anchorage as the gateway to other Alaska destinations. As a result of the slowdown in the national and international economies, tourism activities continued to slow in 2009 with lodging tax revenues of approximately \$18 million, an 18% decrease from 2008. The anticipation for 2010 is that this sector of the local economy will continue to be affected by the national economic situation.

Long-term Financial Planning

Anchorage has no legal debt limit mandated by its Charter, Code or State law. Anchorage continues to maintain outstanding credit ratings on all outstanding debt. Current long-term Municipality General Obligation bond ratings are AA by Standard and Poor's (S&P) and AA by Fitch Ratings (Fitch). These ratings were unchanged in 2009. The Anchorage Water Utility bond ratings are AA by S&P and AA- by Fitch. The Anchorage Wastewater Utility bond ratings are AA Stable by S&P and AA- Stable by Fitch. The Anchorage Municipal Light & Power Senior Lien and Junior Lien Electric revenue bond ratings are A+Stable by S&P and A+Stable by Fitch. Revenue bond covenants stipulating debt service coverage requirements were met in 2009.

Anchorage's percentage of net general obligation debt to assessed valuation and bonded debt per capita are useful indicators to citizens and investors of Anchorage's debt position. The percentage of net direct general obligation debt, exclusive of ASD debt, to assessed valuation was 1.43% as of December 31, 2009, and the net direct general obligation debt per capita was \$1,543. The respective amounts as of December 31, 2008 were 1.56% and \$1,669. When ASD debt is included, net direct general obligation debt to assessed value is 4.0% (4.0% in 2008) and the net direct general obligation debt per capita is \$4,305 (\$4,438 in 2009).

Awards and Acknowledgements

Anchorage and its employees are committed to the goal of making Anchorage a better place to live, work, and raise families.

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Anchorage for its CAFR for the fiscal year ended December 31, 2008. This was the twenty-second consecutive year that Anchorage has received this prestigious award. In order to be awarded a Certificate of Achievement, the government must publish an easily readable and

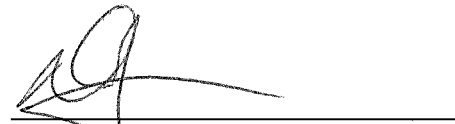
efficiently organized CAFR. Our 2008 report satisfied both Generally Accepted Accounting Principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. It is believed that our current report continues to conform to the Certificate of Achievement program requirements. The report will be submitted to GFOA to determine its eligibility for another certification.

The preparation of the CAFR was made possible by the dedicated efforts of the entire Controller Division staff. We express sincere appreciation to our employees for their contribution to this report whether it was in processing daily transactions or in report preparation. We also express our appreciation to all other individuals who assisted in this effort.

Respectfully submitted:


Lucinda Mahoney
CFO


David Ryan, C.A.
Controller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Municipality of Anchorage
Alaska

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2008

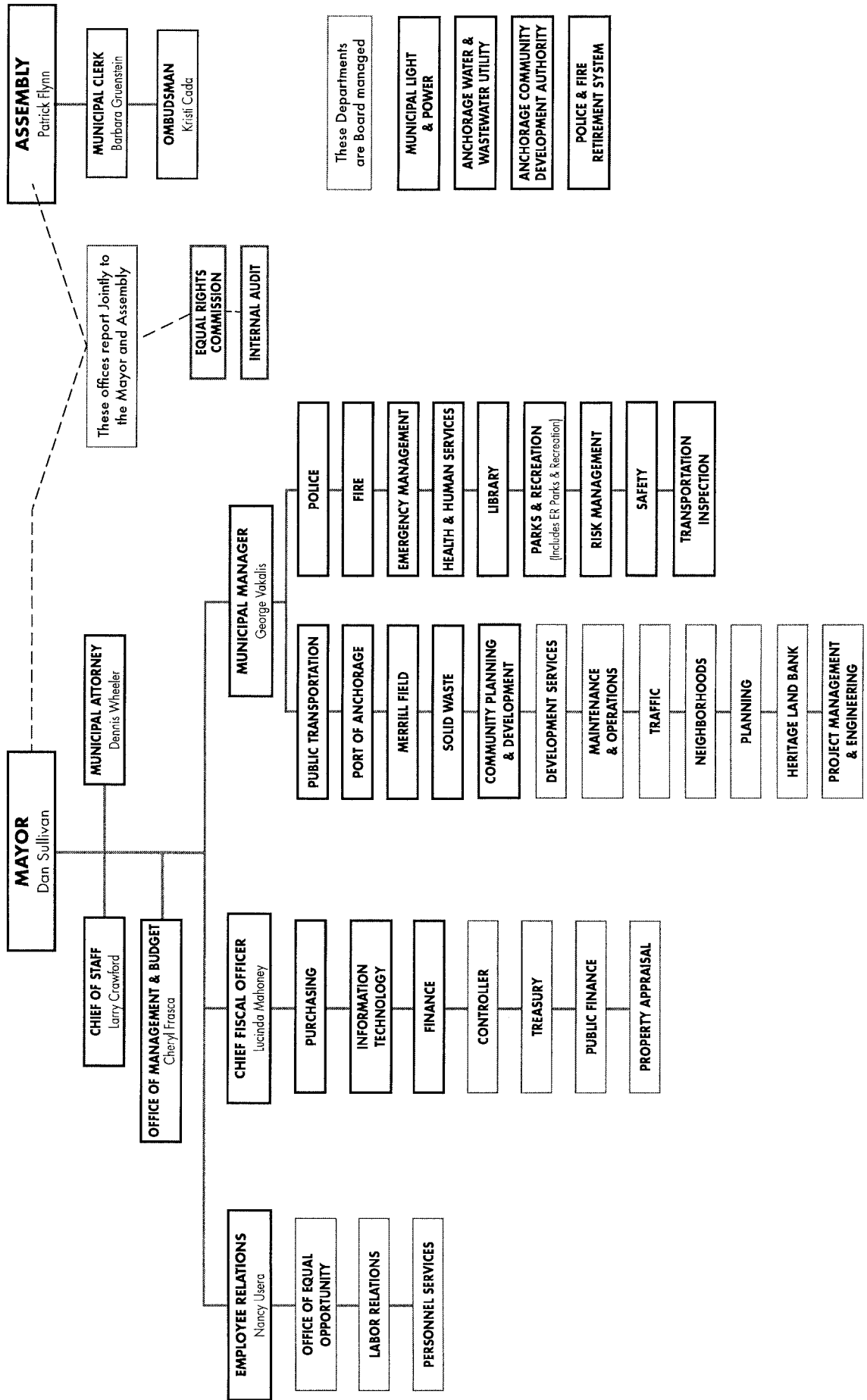
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

MOA Organization Chart – December 31st, 2009



MUNICIPALITY OF ANCHORAGE

2009

PRINCIPAL OFFICIALS

ASSEMBLY

The legislative power of Anchorage is vested in an eleven member elected assembly. The Assembly, by Charter, is required to meet twice each month. The body meets on Tuesdays in the Assembly Chambers at 3600 Denali Street (Z.J. Loussac Library). Numerous special meetings and work sessions are scheduled throughout the year. At December 31, 2009, the following citizens were elected to serve on the Assembly.

Patrick Flynn, Chair

Chris Birch

Dan Coffey

Elvi Gray-Jackson

Jennifer Johnston

Sheila Selkregg

Matt Claman

Harriet Drummond

Mike Gutierrez, Vice Chair

Debbie Ossiander

Bill Starr

Barbara Gruenstein, Municipal Clerk

ADMINISTRATION

Daniel A. Sullivan, Mayor

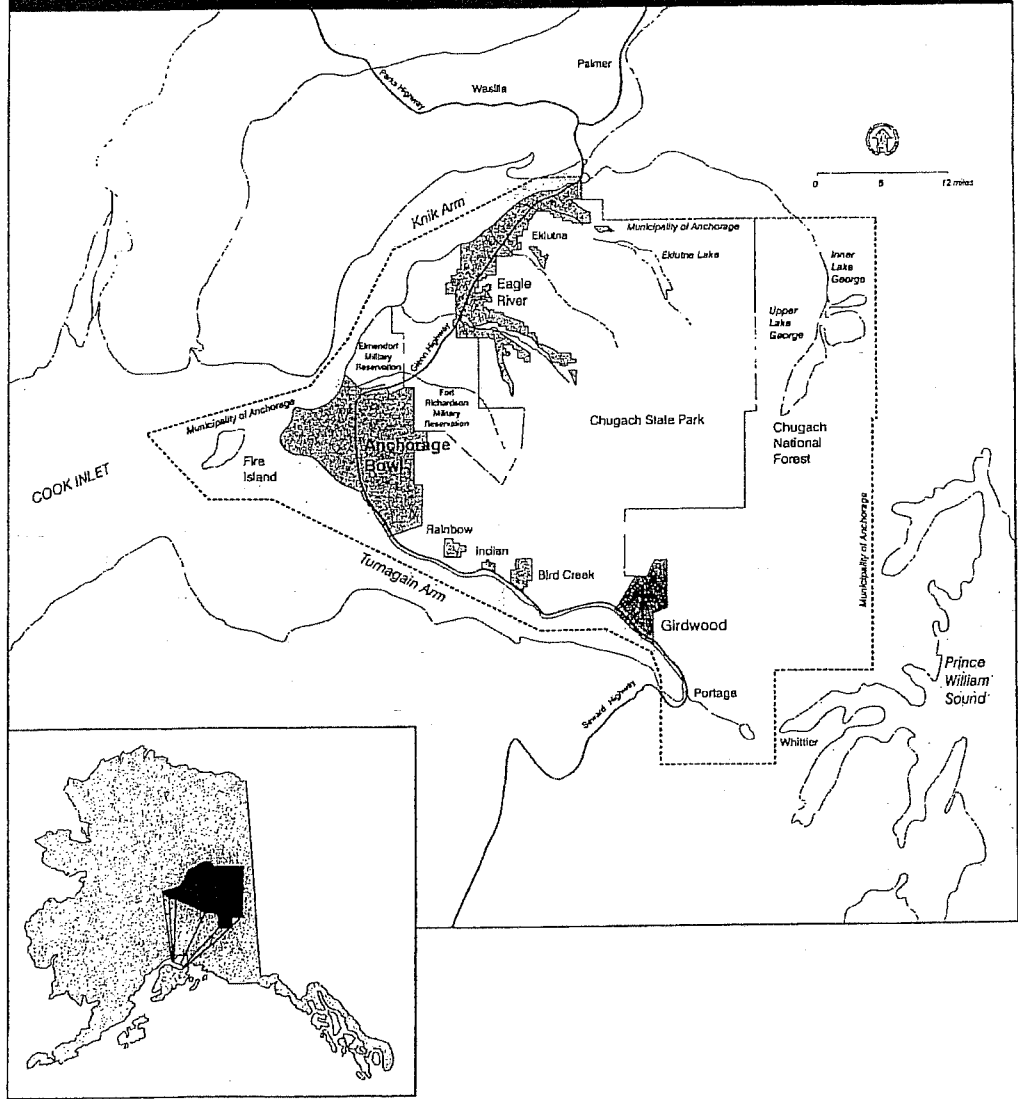
George Vakalis, Municipal Manager

Dennis Wheeler, Municipal Attorney

Lucinda Mahoney, CFO

Greg Jones, Director Economic & Community Development

Municipality of Anchorage Vicinity Map



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