

Financial Section

MUNICIPALITY OF ANCHORAGE MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Municipality of Anchorage (Anchorage), we offer readers of Anchorage's Comprehensive Annual Financial Report (CAFR) this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal. All monetary amounts are in thousands of dollars, unless otherwise indicated.

Financial Highlights

- The assets of Anchorage exceeded its liabilities at the end of 2004 with reported net assets of \$3,056,886.
- Anchorage's total net assets increased approximately 1.2% over the course of this year's operations. The total increase reflects the net asset increase of our business-type activities of \$37,762 and a decrease in net assets of our governmental activities of \$2,241.
- As of December 31, 2004, Anchorage's governmental funds reported a combined ending fund balance of \$302,799, an increase of \$24,175 in comparison to the prior year. Of this total amount, \$208,347 is reserved. The remaining \$94,452 unreserved balance may be legally restricted, otherwise limited as to its use, or previously designated by Assembly action. A more detailed discussion of fund balance appears later in this report.
- During the year, the business-type activities generated \$223,435 in revenues, including special items, which were offset by expenses and transfers of \$185,672. During 2003, business-type activities generated \$192,257 in revenues and transfers which were offset by expenses, including special items of \$168,043.
- During 2004, Anchorage established a formal Fund Balance Designation policy for general fund unreserved fund balances. The policy set forth a Bond Rating Designation equal to 8.25% of general fund revenues. Additionally, the policy set forth an Operating Emergency Designation for general fund unreserved fund balances of the five major general fund sub groups equal to 2.5% of general fund revenues and will subsequently be managed within a range of 2% to 3% of general fund revenues through the annual budget process. Unreserved general fund balance designated through the Fund Balance Designation policy was \$27,843 as of December 31, 2004. As of December 31, 2004 and 2003, general fund unreserved fund balance was 9.6% and 9.1% of general fund revenues respectively. As of December 31, 2004, two of the five major general fund sub groups were outside the managed range and will be adjusted through the budgetary process.
- Proceeds from the 1999 sale of the Anchorage Telephone Utility were placed in the MOA Trust Fund to provide a perpetual revenue stream for Anchorage and tax relief for its citizens. The MOA Trust Fund is an endowment with a long-term performance focus—one that assumes a long-term average annual investment return of 8% and a long-term average annual inflation rate of 3%. The Trust provides revenue to general government calculated as 5% of the average market value of the trust during the preceding five year period. During 2003 and 2004, the MOA Trust Fund provided \$6,800 and \$6,600, respectively, in support of government services.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Anchorage's CAFR. The financial section of the annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds, internal service funds, and fiduciary funds.

The basic financial statements include two kinds of statements that present different views of Anchorage:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about Anchorage's overall financial status, in a manner similar to a private-sector business.
 - The statement of net assets presents information on all of Anchorage's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Anchorage is improving or deteriorating.
 - The statement of activities presents information showing how Anchorage's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement on an accrual basis, with related cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of Anchorage that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of Anchorage include general government, fire services, police services, health and human services, economic and community development, public transportation, public works, education, maintenance and operations, and debt service. The business-type activities of Anchorage include water services, wastewater services, electric generation and distribution, port services, Municipal airport services, solid waste disposal services, refuse collection services, Parking Authority, Cooperative Services Authority, and Performing Arts Center.

The government-wide financial statements include not only Anchorage itself, but also the following discretely presented component units for which Anchorage is financially accountable – the Anchorage School District and Anchorage Historic Properties, Inc. Financial information for the Anchorage School District and Anchorage Historical Properties, Inc. is reported separately from the financial information presented for the primary government itself. The Alaska Center for the Performing Arts, Inc., Cooperative Services Authority, Inc., and Anchorage Parking Authority, Inc., although legally

separate, function for all practical purposes as an integral part of the primary government and therefore have been included in business-type activities as blended component units.

- The remaining statements are fund financial statements that focus on individual parts of the local government, reporting Anchorage's operations in more detail than the government-wide statements. A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance related legal requirements.

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

Anchorage maintains twenty-three individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund and MOA Trust Fund, which are considered major funds. Information from the other twenty governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Anchorage adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund as required supplementary information to demonstrate compliance with this budget.

- Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Anchorage maintains two different types of proprietary funds - enterprise funds and internal service funds.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Anchorage uses enterprise funds to account for its water services, wastewater services, electric generation, electric transmission, electric distribution, port services, Municipal airport services, solid waste disposal services, refuse collection services, Parking Authority, Cooperative Services Authority, and Performing Arts Center.

Internal service funds are an accounting device used to accumulate and allocate costs internally among Anchorage's various functions. Anchorage uses internal service funds to account for vehicle operations and maintenance, risk management, self insurance, unemployment compensation, and information technology services. Because these services predominantly benefit governmental rather than business-type activities, they have been included within governmental activities in the

government-wide financial statements, with the exception of the portion allocated to enterprise funds.

The proprietary fund financial statements provide separate information for the water services, wastewater services, and electric generation/distribution services, all of which are considered to be major enterprise funds of Anchorage. Information from the other four proprietary enterprise funds and three blended component units is combined into a single, aggregated presentation. Individual fund data for each of these non-major proprietary enterprise funds is provided in the form of combining statements elsewhere in this report. All proprietary internal service funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major proprietary internal service funds is provided in the form of combining statements elsewhere in this report.

- Fiduciary funds are used to account for resources held for the benefit of parties outside the government, such as the retirement and retiree medical plans for police and fire employees, in which Anchorage acts solely as a trustee. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support Anchorage's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning Anchorage's disclosure of information relating to its paved road infrastructure network accounted for under the modified approach and general fund budgetary comparison schedule.

In addition to these required elements, the combining statements referred to earlier in connection with non-major governmental, proprietary, and fiduciary funds are presented as supplementary information immediately following the required supplementary information. A summary of selected statistical information is also provided.

Government-wide Financial Analysis

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Anchorage's total assets exceeded liabilities by \$3,056,886 and \$3,021,365 at the fiscal years ended December 31, 2004 and 2003 (reference Table A-1).

The net assets for governmental activities were \$2,599,273 and \$2,601,514, with \$87,866 and \$100,957 classified as unrestricted deficits in 2004 and 2003 respectively. The significant portion (95%) of Anchorage's net assets for governmental activities reflects its investment in capital assets such as infrastructure, land, buildings, machinery and equipment, net of the debt on

these assets. Anchorage uses capital assets to provide both present and future services to citizens and therefore these assets are not available for future spending. Restricted Net Assets of \$214,684 and \$210,665 in 2004 and 2003 respectively, result from restrictions imposed legally or externally by creditors, debt covenants or grantors. The deficit in unrestricted net assets represents accrued liabilities in excess of unrestricted assets. Accrued liabilities include a \$153,919 long-term obligation for post-employment medical benefits in the Police and Fire Retiree Medical Trust Fund which was recognized based upon a funding analysis performed in 2002. More detailed information about the Police and Fire Retiree Medical Trust Fund is presented in Note 11, Post-Employment Health Care Benefits, in the basic financial statements.

Table A-1
Anchorage's Net Assets
(in thousands)

	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 447,204	\$ 421,894	\$ 265,800	\$ 194,682	\$ 713,004	\$ 616,576
Capital assets	2,848,384	2,834,653	1,115,317	1,093,445	3,963,701	3,928,098
Total assets	<u>3,295,588</u>	<u>3,256,547</u>	<u>1,381,117</u>	<u>1,288,127</u>	<u>4,676,705</u>	<u>4,544,674</u>
Long term liabilities	605,918	569,894	437,847	408,135	1,043,765	978,029
Other liabilities	90,397	85,139	485,657	460,141	576,054	545,280
Total liabilities	<u>696,315</u>	<u>655,033</u>	<u>923,504</u>	<u>868,276</u>	<u>1,619,819</u>	<u>1,523,309</u>
Net assets (deficit):						
Invested in capital assets,						
net of related debt	2,472,455	2,491,806	257,844	277,361	2,730,299	2,769,167
Restricted	214,684	210,665	98,379	67,697	313,063	278,362
Unrestricted	(87,866)	(100,957)	101,390	74,793	13,524	(26,164)
Total net assets	<u>\$ 2,599,273</u>	<u>\$ 2,601,514</u>	<u>\$ 457,613</u>	<u>\$ 419,851</u>	<u>\$ 3,056,886</u>	<u>\$ 3,021,365</u>

Current and other assets include \$346,433 and \$301,062 of cash and investments held for governmental activities at December 31, 2004 and 2003. Governmental activities long term liabilities increased by \$36,024 or approximately 6%. The increase in long term liabilities was primarily the result of new general obligation bonds issued in the amount of \$52,375 and long term contracts issuance of \$5,365 with the Alaska Municipal Bond Bank Authority, offset by debt service payments of \$27,502. Over 60% of the governmental activities long term liabilities are general obligation bonds.

For business-type activities, unrestricted net assets of \$101,390 (22%) and \$74,793 (18%) may be used to meet the ongoing needs of these organizations at December 31, 2004 and 2003 respectively. This represents an increase of \$26,597 or approximately 36%. This increase reflects an increase in overall business-type charges for services of 15% offset against an increase in the associated overall business-type expenses of 11% during 2004. The most significant portion of net assets for the business-type activities, \$257,844 (56%) and \$277,361 (66%) as of December 31, 2004 and 2003 respectively, are invested in capital assets which are used to provide customers with the services they desire. Net assets invested in capital assets, net or related debt, decreased \$19,517 or approximately 7% in 2004. Net assets of business-type

activities subject to external restrictions were \$98,379 (21%) and \$67,697 (16%) in 2004 and 2003. External restrictions were related to debt service and construction acquisition requirements.

At the end of 2004 and 2003, Anchorage reported positive total net asset balances for both governmental and business-type activities.

Significant changes in net assets are discussed below under Governmental Activities and Business-Type Activities.

Governmental Activities

During 2004, Anchorage's net assets decreased \$2,241 for governmental activities (reference Table A-2). Highlights of governmental activities net asset changes are as follows:

- Investment revenues decreased \$12,247 from prior year due primarily to a substantial decrease in the year-end market value adjustment of unrealized investment gains related to the MOA Trust investment portfolio.
- Tobacco tax revenues increased \$3,897 due to an imposed increase in the tobacco tax rate of \$1 per pack for cigarettes effective October 1, 2004.
- Municipal utility service assessment (MUSA) tax revenues increased \$2,573 due to a change in the method of assessment used during 2004. During 2004, net plant in service was utilized to calculate the tax due.
- Loss on disposal of capital assets of \$3,494 was incurred which consisted primarily of road and drainage infrastructure cost adjustments.
- A net pension obligation of \$2,477 was recognized as of December 31, 2004 which reflects the unfunded actuarially determined pension obligation associated with the State of Alaska Public Employees' Retirement System.

Table A-2
Anchorage's Changes in Net Assets
(in thousands)

	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	54,297	48,496	206,386	179,534	260,683	228,030
Operating grants and contributions	25,158	44,299	407	153	25,565	44,452
Capital grants and contributions	12,276	11,715	2,304	3,897	14,580	15,612
General revenues:						
Property taxes	333,690	311,918	-	-	333,690	311,918
Other taxes	39,626	31,248	-	-	39,626	31,248
Gain (Loss) on capital asset sale	(3,494)	859	109	43	(3,385)	902
Investment earnings	18,162	30,409	2,276	1,935	20,438	32,344
Other	-	-	-	-	-	-
Total revenues	479,715	478,944	211,482	185,562	691,197	664,306
Expenses:						
General government	28,412	32,474	-	-	28,412	32,474
Fire services	55,209	48,199	-	-	55,209	48,199
Police services	69,372	61,283	-	-	69,372	61,283
Health and Human services	24,312	30,287	-	-	24,312	30,287
Economic and Community Dev	46,850	33,141	-	-	46,850	33,141
Public transportation	20,284	17,611	-	-	20,284	17,611
Public works *	37,096	184,797	-	-	37,096	184,797
Education	154,280	144,095	-	-	154,280	144,095
Maintenance and Operations	26,663	27,313	-	-	26,663	27,313
Interest	19,944	20,075	-	-	19,944	20,075
Water	-	-	31,739	27,353	31,739	27,353
Wastewater	-	-	24,453	21,223	24,453	21,223
Electric	-	-	93,048	83,462	93,048	83,462
Port	-	-	8,166	7,395	8,166	7,395
Municipal Airport	-	-	2,152	2,040	2,152	2,040
Solid waste	-	-	13,087	12,884	13,087	12,884
Refuse	-	-	5,902	5,669	5,902	5,669
Cooperative Service Authority	-	-	202	-	202	-
Parking Authority	-	-	4,731	4,620	4,731	4,620
Performing Arts Center	-	-	1,726	1,793	1,726	1,793
Total expenses	482,422	599,275	185,206	166,439	667,628	765,714
Change in net assets prior to special items and transfers	(2,707)	(120,331)	26,276	19,123	23,569	(101,208)
Special items - regulatory adjustment	-	-	11,952	6,695	11,952	6,695
Transfers	466	1,604	(466)	(1,604)	-	-
Change in net assets	(2,241)	(118,727)	37,762	24,214	35,521	(94,513)
Net assets, beginning of year, as previously reported	2,601,514	2,635,920	419,851	395,637	3,021,365	3,031,557
Add adjustment for retroactive capitalization of infrastructure	-	84,321	-	-	-	84,321
Net assets, beginning of year, as restated	2,601,514	2,720,241	419,851	395,637	3,021,365	3,115,878
Net assets, end of year	2,599,273	2,601,514	457,613	419,851	3,056,886	3,021,365

* Public works 2003 expenditures include an adjustment of \$154,483 for capital outlay expensed under the modified approach to reporting infrastructure.

Figure A-2
Governmental Activities Revenues by Type

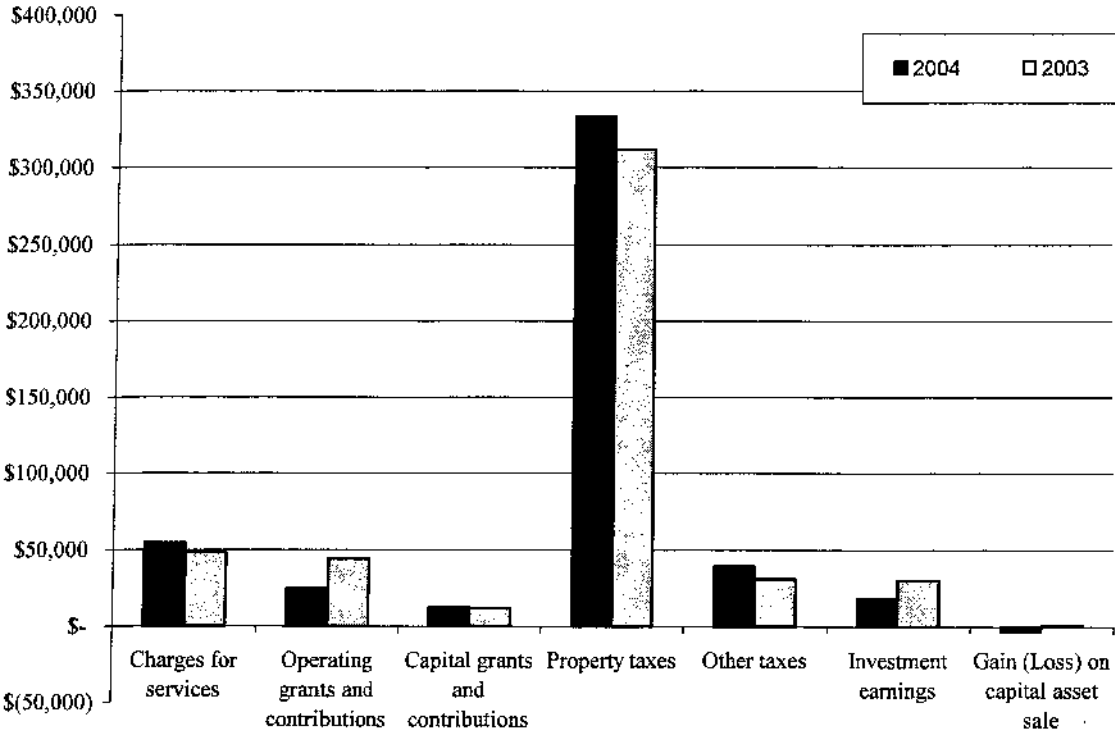


Figure A-3
2004 Program Revenue vs Expense by Governmental Activities

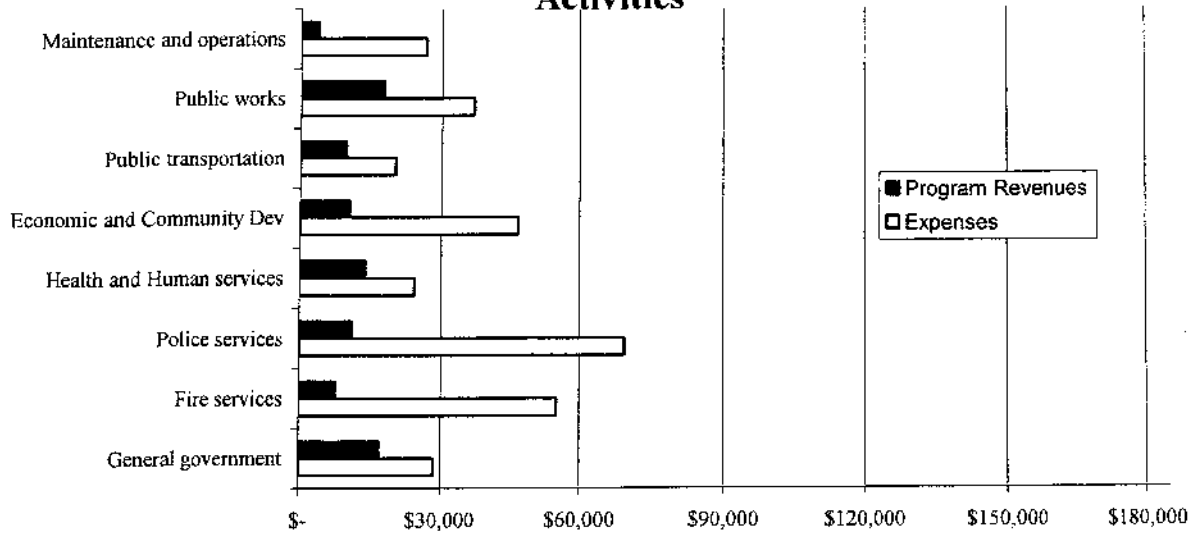
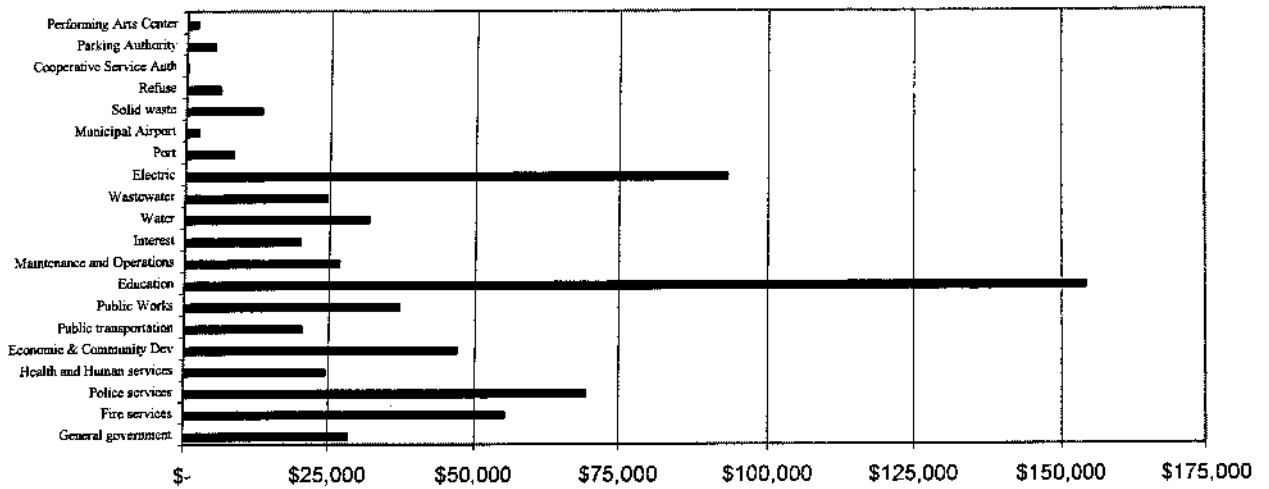


Figure A-4
2004 Expense by Functional Activity



Business-type Activities

Business-type activities increased Anchorage's net assets by \$37,762 in 2004. Key elements of the change in net assets are as follows:

- Electric revenues overall increased by 19% in 2004. This increase was attributable to a full year's recognition of both the second and final phase of the retail rate increase (3.474%) implemented in October 2003 and the contract for sale of electrical power to the military at Fort Richardson which was also effective October 2003. In addition, electric resale revenues increased by 109% in 2004.
- During 2004, water and wastewater revenues increased 10% and 6% respectively. The revenue increases were attributable to interim refundable rate increases of 13.61% for water and 8.06% for wastewater which were effective in February 2004.

Financial Analysis of Anchorage's Funds

As noted earlier, Anchorage uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

The focus of Anchorage's governmental funds is to provide information on the short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Anchorage's financial requirements.

As of the current fiscal year end, Anchorage's governmental funds reported a combined ending fund balance of \$302,799, an increase of \$24,175 in comparison to the prior year. Of the total fund balance, \$208,347 is reserved and not available for additional spending because it has already been committed either to liquidate contracts and purchase orders of the prior period (\$30,990), to meet debt service requirements (\$41,719), to generate income for perpetual care of the municipal cemetery (\$269), to recognize prepaid items, deposits and inventory (\$961), to satisfy long term loan principal payments (\$5,480), or is otherwise reserved in the MOA Trust Fund (\$128,928).

Approximately 31% of total fund balance (\$94,452) is classified as unreserved fund balance. Of the unreserved fund balance, approximately 58% of the unreserved fund balance is reported in Special Revenue Funds (\$12,570) and Capital Projects Funds (\$41,767) to be used for grant specified projects and capital construction. The remaining unreserved fund balance of approximately 42% (\$40,115) is reported in the General Fund. Of the General Fund unreserved fund balance of \$40,115, approximately 78% (\$31,244) is in service area sub funds of the General Fund and must be used to support activities of those particular service areas. The remaining 22% (\$8,871) of the General Fund unreserved fund balance is in the Areawide Service Area sub fund. Unreserved fund balance may also be designated for specific purposes by Assembly action, such as the Fund Balance Designation Policy approved in 2004.

The General Fund is the primary operational fund for Anchorage. At December 31, 2004 and 2003, the unreserved fund balance was \$40,115 and \$35,460, while the total fund balance was \$42,916 and \$41,295. In measuring the General Fund's liquidity, one may compare both the unreserved fund balance and the total fund balance to total expenditures. At December 31, 2004, unreserved fund balance represents 9.6% of total General Fund expenditures and total fund balance represents 10.3% of the same amount. Unreserved fund balance was 8.9% of total General Fund expenditures and total fund balance was 10.4% of the same amount at December 31, 2003.

Investment revenue in the MOA Trust Fund decreased \$10,412 or 48% due to the decrease in market returns experienced during 2004 in both the bond and equity markets. During 2003 the investment returns were exceptionally high and the 2004 results reflected a return to more long term historical average investment return experience.

A key factor in the overall increase in total governmental fund's fund balance was the increase in financing proceeds from the issuance of general obligation bonds and long term contracts in 2004 of \$57,740 which represented an increase of approximately 65% over prior year activities.

Proprietary Funds

Anchorage's proprietary funds provide the same type of information found in the government-wide business-type activities financial statements, but in more detail.

- During 2004, Electric residential revenues increased by 12% and commercial revenues increased by 16% as compared to respective increases of 6% and 7% during 2003. The increased electric revenue can be attributed to a prior year retail rate increase implemented in October 2003 and an increase in total kilowatt usage. Public authority revenue increased 450% due to the October 2003 agreement to provide Fort Richardson Army Base with its power requirements. Although the volume of gas sold decreased, gas revenues increased by 4% due to an increase in gas contract prices which are determined by contractual agreement.
- The Electric utility's overall expenses increased by 11% in 2004. The major increase was in Production which increased by 35%. Production expenses increased partly due to the increase of \$.3159 per Mcf (thousand cubic feet) in the contract price of gas purchased and the increase in gas purchases of 1,281,624 Mcfs during 2004. The Electric utility purchased 7,352,758 Mcf in 2004 compared to 6,071,134 Mcf in 2003. The increase in gas purchased was related to the increase in kilowatt hour sales in 2004. Production costs also increased due to increased gas field expenses for field operation, equipment maintenance, and repairs. In Docket U-96-36, the Regulatory Commission of Alaska (RCA) decision revised the transfer price of the gas calculation methodology which also increased production expense.
- The Electric utility recorded a Special Item of \$11,952 as the result of a RCA order in which the disposition of the 2003 underlift cash settlement was determined. The RCA allowed the electric utility to eliminate the deferred gas cost asset that had accumulated from 1997 and the 2003 amount that was to be included in the calculation of the fuel cost

for inclusion in the Utility's pricing for gas. The Electric utility was allowed to retain the remaining funds plus any investment earnings on those funds and dedicate them to future gas capital expenditures.

- Water total revenues increased 10% or \$3,086 during 2004. The substantial portion of the revenue increase was from residential sales revenues which increased 10% or \$2,111. Total costs increased 16% or \$4,363, with total expenses increasing 12% or \$2,995 and Municipal Utility Service Assessment (MUSA) expense increasing 72% or \$1,368.
- Wastewater total revenues increased 6% or \$1,484 during 2004. The substantial portion of the revenue increase was from residential sales revenues which increased 5% or \$1,013. Total costs increased 15% or \$3,199, with total expenses increasing 10% or \$2,084 and Municipal Utility Service Assessment (MUSA) expense increasing 95% or \$1,115.
- The Water Utility sold "mini bonds" in an aggregate appreciated amount of \$2,000,000 to the general public. The bond proceeds were deposited in the bond and grant capital acquisition and construction pool to be spent within six months on capital improvements and upgrades to the system approved as part of the Utility's 2004 and 2005 capital improvement plans and to pay costs of issuance.
- The Wastewater Utility issued \$22,620,000 of revenue bonds to finance a large portion of its capital expansion. The proceeds of the improvement bonds were used to reimburse the Municipality of Anchorage for the costs of the certain additions, betterments and improvements to the system undertaken as a part of the 2001, 2002 and 2003 capital improvement plans (approximately \$11.9 million); to pay a portion of the costs of the system's 2004 and 2005 capital improvement plans.
- The Water and Wastewater Utilities obtained additional low interest loans of \$8,715,413 and \$8,228,002 respectively from the State of Alaska to fund capital improvement projects.
- The Water Utility Fund issued \$18,595,000 of Water Revenue and Refunding Bonds. Net proceeds of \$18,486,045 were used to provide for the defeasance and redemption of \$3,055,000 principal amount of the 1993 Senior Lien Water Revenue and Refunding Bonds and to reimburse the utility for capital improvement expenditures, to pay the costs of certain additions, betterments and extensions to the water system, to satisfy the reserve requirement, and to pay costs of issuance of the water bonds. The remaining proceeds of \$15,003,158 were deposited to the bond and grant capital acquisition and construction pool. The refunding resulted in a net present value savings of \$105,736 and an economic gain of \$41,325.

General Fund Budgetary Highlights

The 2004 approved budget (adopted in late 2003) includes projected funding sources.

Annually after the end of the first quarter of the fiscal year, the rate of tax levy is established and taxes are levied for general purposes, which includes all service areas of Anchorage and the Anchorage School District (ASD). Expenditure revisions are usually made in conjunction with the tax levy. This first quarter budget revision establishes the budget for property taxes. A significant consistent difference between the original budget and the final revised budget is the amount contributed to ASD for taxes levied. The amount to be contributed to ASD is

determined during the first quarter of the fiscal year when the budget for ASD is approved for its ensuing fiscal year, July 1 – June 30, and the resulting tax levy rate and tax amount are levied for ASD.

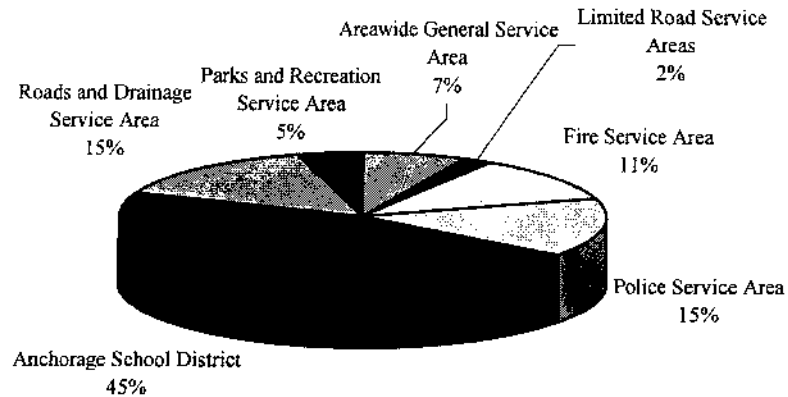
The following were major revisions to the approved budget during 2004, in thousands:

- Five Major Service Areas (Areawide, Fire, Roads and Drainage, Police, Parks and Recreation)
 - \$154,493 contribution to the Anchorage School District for property taxes collected on their behalf by general government.
 - \$743 to provide additional funding for ten additional police positions.
 - \$750 to provide additional funding for snow hauling due to heavier than expected first quarter snowfall.
 - \$1,000 to provide additional funding for self insurance fund activities.
 - \$598 for street maintenance and drainage projects supported by general obligation bonds.

- Other Service Areas
 - \$458 to fund various Limited Road Service Areas/Chugiak Birchwood Eagle River Rural Road Service Areas budgets to reflect anticipated additional summer and winter road maintenance
 - \$3,025 to fund acquisition of properties for the Lake Otis-Tudor Road, Abbott-Bragaw Road, and Convention Center projects.
 - \$462 contribution to the Equipment Maintenance Internal Service Fund for additional street maintenance equipment.
 - \$1,500 for additional road and park improvements in service areas outside the Anchorage bowl service area.

Figure A-5

Property Tax Levy by Service Areas



Capital Asset and Debt Administration

Capital Assets

At the end of 2004 and 2003, Anchorage had invested \$3,963,700 and \$3,928,098 in a broad range of capital assets, including police and fire equipment, buildings, land, and paved roads (reference Table A-3). More detailed information about Anchorage's capital assets is presented in Note 5, Capital Assets, in the basic financial statements.

Table A-3
Municipality of Anchorage's Capital Assets
(net of accumulated depreciation, in thousands)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 1,195,735	\$ 1,193,603	\$ 58,277	\$ 58,214	\$ 1,254,012	\$ 1,251,817
Buildings and improvements	164,658	170,971	85,247	85,808	249,885	256,779
Art	13,943	12,970	-	-	13,943	12,970
Equipment	52,266	45,763	-	-	52,266	45,763
Distribution and collection systems	-	-	912,753	882,647	912,753	882,647
Infrastructure	1,391,943	1,369,333	-	-	1,391,943	1,369,333
Construction in progress	29,858	42,013	59,040	66,776	88,898	108,789
	<u>\$ 2,848,383</u>	<u>\$ 2,834,653</u>	<u>\$ 1,115,317</u>	<u>\$ 1,093,445</u>	<u>\$ 3,963,700</u>	<u>\$ 3,928,098</u>

Significant additions to governmental activities capital assets during 2004 were \$10,746 of current paved road infrastructure additions and \$20,042 of current year drainage systems additions. During 2004, no additional infrastructure networks were retroactively added to governmental activities capital assets. Construction in progress decreased in 2004, primarily as a result of capital outlay determined to be expensed under the modified approach to reporting roads infrastructure.

Business-type activities capital assets increased during 2004 primarily due to distribution and collection system additions of \$71,575.

Long-term Debt

At year end Anchorage had \$868,954 in debt outstanding, an increase of 7.7% from 2003 debt outstanding of \$806,613 (reference Table A-4). More detailed information about Anchorage's long-term debt liabilities is presented in Note 8, Long Term Obligations, in the basic financial statements.

Table A-4
Municipality of Anchorage's Outstanding Debt
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
General Obligation Bonds	\$ 367,387	\$ 334,678	\$ 15,997	\$ 23,574	\$ 383,384	\$ 358,252
Revenue Bonds	54,545	56,610	350,441	327,919	404,986	384,529
Special Assessment Debt with Governmental Commitment	690	895	272	304	962	1,199
Certificates of Participation	6,560	9,615	-	-	6,560	9,615
Long-term Contracts	6,855	811	66,207	52,207	73,062	53,018
Total	<u>\$ 436,037</u>	<u>\$ 402,609</u>	<u>\$ 432,917</u>	<u>\$ 404,004</u>	<u>\$ 868,954</u>	<u>\$ 806,613</u>

New debt in governmental activities resulted from the issuance of general obligation bonds in the amount of \$52,375 and long-term contracts in the amount of \$5,365 associated with the Alaska Municipal Bond Bank Authority.

Anchorage also issued \$21,465,000 of general obligation refunding bonds to advance refund \$21,425,000 of outstanding bonds. The economic gain generated by this refunding was \$1,081,150, calculated as the difference between the present value of the debt service requirements of the new debt and the present value of the debt service requirements of the refunded debt.

Since 1999, Anchorage's general obligation bonds have been rated at (AA-) by Standard Poor and (Aa3) by Moody's.

Infrastructure Modified Approach

Anchorage manages its paved road network using its Pavement Management Plan and accounts for it using the modified approach. The condition of road pavement is measured based upon an assessment of the longitudinal profile (International Roughness Index) and rut depth provided by the Dynatest Road Surface Profiler. The measurement system is an algorithm that combines the international roughness index, rut depth, and road profile to determine a condition index from 2 for pavement in excellent condition to 7 for pavement in poor condition. The condition index is used to classify paved roads in good or better condition (4 or less) and fair condition (5 or more). It is Anchorage's policy to maintain 60% or more of the total paved road miles in good or better condition. The most recent condition assessment shows that the condition of Anchorage's paved road network is in accordance with its policy. Condition assessments are updated every three years.

As this is Anchorage's third year of implementation, the condition assessment will not be updated until 2005 when the next road condition assessment survey is performed. The 2002 assessed condition of the paved roads infrastructure network was approximately 81% of total paved roads as being in good or better condition. This exceeds Anchorage's policy to maintain 60% of total paved roads in good or better condition.

Economic Factors and Next Year's Budgets and Rates

Municipal population increased less than 1% to 277,500 at year end 2004 and unemployment stood at 5.7%, which is comparable to the national average of 5.8%.

The Citizens Property Tax Cap allows for both economic growth (inflation and population) and for a number of other factors including new construction, debt service, voter-approved new services, special taxes, operations and maintenance costs, and judgments. Property taxes represent 59% of the General Government Operating Budget Revenue. Local taxes and program revenues account for the majority of the remaining revenues (32%). Intergovernmental charges outside of general government (7%), Federal/State revenues (1%), and applied fund balance account for the remaining balance.

The 2005 general government operating budget, as revised at first quarter 2005, is \$22,900 more than was approved for 2004 at first quarter revision. This increase reflects an increase in debt service for voter approved bonds and funding for an additional 54 public safety positions. While property tax revenues supporting the 2005 budget increased from the 2004 level of \$182,700 to \$187,800, the percentage of the 2005 budget supported by property tax revenues decreased from 59% in 2004 to 57% in 2005. This decrease was due in part to a four-part property relief package which included a residential property tax exemption, a personal property tax exemption, increased tobacco taxes, and a change in property assessment methodology for leasehold property.

Anchorage's fiscal year 2005 governmental activities capital budget is \$97,162 and primarily funds future infrastructure improvements. The capital budget is funded substantially through general obligation bond proceeds and Federal grants.

On November 16, 2004, an ordinance adopting and appropriating funds for the 2005 Municipal Utilities Operating and Capital budget for the Municipality of Anchorage was approved. The Utilities' operating budgets total \$202,911 and capital budgets total \$106,972.

The Municipality adopted a change in the formula used to calculate Municipal Utility Service Assessment (MUSA). Beginning in 2004, payments are calculated on net plant in service. This change treats the utilities, for MUSA purposes, similar to the private sector and in the manner in which business personal property taxes are calculated. In past years, a Municipal utility paid MUSA on the net non-contributed portion of plant in service, but prior to 1989 MUSA was calculated on net plant in service.

The Water and Wastewater Utilities filed two-stage rate cases with the Regulatory Commission of Alaska (RCA) on January 9, 2004, requesting permanent rate increases of 14.20% and 8.06% for 2004 for Water and Wastewater Utilities respectively and an additional 7.17% and 6.83% for 2005 for Water and Wastewater Utilities respectively. In the event the RCA was unable to approve permanent rates within the 45 day statutory period, the Utilities requested interim refundable rate increases of 14.20% and 8.06% for 2004. The 2004 interim refundable rate increases were subsequently approved, the Utilities' filings for rate relief were suspended, and all rates were made interim and refundable by the RCA effective February 24, 2004. The January 2004 filings were updated with amended revenue requirements studies filed on November 3, 2004 that increased the revenue requirements but did not ask for additional permanent rate increases. On February 18, 2005, the RCA issued an order allowing the Utilities to implement their requested 2005 interim refundable rates.

In March 2005, two testifiers representing the State Attorney General (AG) filed pre-filed testimony with the RCA opposing various aspects of the Utilities' rate cases. Their testimony opposed several aspects of the revenue requirements study including: changes in MUSA; the return on equity used; certain payroll adjustments added to the amended filing; and the Utilities' plant accounting practices. The testimony concluded that the Utilities' revenue requirements were overstated by approximately \$7,100,000 and \$5,800,000 for the Water and Wastewater Utilities respectively. In addition to its pre-filed testimony, on March 25, 2005 the AG filed a motion for partial summary disposition, asking that the Utilities' MUSA increases be denied and consumer refunds be issued within 30 calendar days of the RCA's ruling.

The Utilities have filed responses to the AG's pre-filed testimony and its motion for partial summary disposition; and is actively preparing for its upcoming rate case hearings.

On May 24, 2005, the RCA issued an electronic ruling to the Water Utility for partial summary disposition which denied the AG's requests as it related to MUSA, but granted the AG's request to exclude certain acquisition adjustments. The financial impact of the

acquisition adjustment orders is estimated to be less than \$200,000 upon the revenue requirements and would not result in a refund situation. A decision whether or not to file a motion for reconsideration will be made after a paper order has been received from the RCA.

On May 24, 2005, the RCA issued an electronic ruling to the Wastewater Utility for partial summary disposition which denied the AG's requests as it related to MUSA.

The case will be heard by the RCA on June 14 through June 17, 2005, and the RCA's final rulings are due by September 15, 2005. The Utilities expect a favorable outcome on all of the remaining material issues addressed by the AG, and therefore have not recorded an accrual for any of the disputed items.

Contacting Anchorage's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of Anchorage's finances and to demonstrate our accountability for the monies we receive. If you have questions about this report or need additional financial information, please contact the Municipality of Anchorage's Controller Division, 632 W. 6th Avenue, P.O. Box 196650, Anchorage, AK 99519-6650.



KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report

The Honorable Mayor and
Members of the Assembly
Municipality of Anchorage, Alaska:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Anchorage, Alaska, as of and for the year ended December 31, 2004, which collectively comprise Anchorage's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Municipality of Anchorage's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units and the Anchorage Parking Authority, a blended component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Anchorage School District, Anchorage Historic Properties, Inc, and Anchorage Parking Authority is based on the reports of the other auditors. The prior year summarized comparative information has been derived from the Municipality of Anchorage's 2003 financial statements and in our report, dated March 31, 2004, we expressed, based upon our audit and the reports of other auditors, unqualified opinions on the respective financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality of Anchorage's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Municipality of Anchorage, Alaska, as of



The Honorable Mayor and
Members of the Assembly
Municipality of Anchorage, Alaska

December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America

In accordance with *Government Auditing Standards*, we have also issued a report dated March 31, 2005 on our consideration of Municipality of Anchorage's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis as listed in the table of contents, schedule of funding progress in Note 10, budgetary comparison schedule-general fund as listed in the table of contents, and condition rating of Anchorage's road network as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Anchorage's basic financial statements. The combining and individual nonmajor fund financial statements, as 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 combining and individual nonmajor fund financial statements, as listed in the table of contents have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables, as listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

March 31, 2005
except for note 14(b)
which is as of May 24, 2005

Basic Financial Statements

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MUNICIPALITY OF ANCHORAGE, ALASKA

Statement of Net Assets

December 31, 2004

(With summarized financial information at December 31, 2003)

Assets	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Anchorage School District	Anchorage Historic Properties
Cash	\$ 14,783	\$ 5,343,645	\$ 5,358,428	\$ 413,658	\$ 38,523
Cash in central treasury	189,334,675	73,283,491	262,618,166	—	—
Investments	24,389,203	—	24,389,203	206,160,202	722,429
Interest receivable	1,294,617	254,525	1,549,142	774,492	—
Receivables (net of allowance for uncollectibles)	80,282,775	42,923,737	123,206,512	1,200,992	18,587
Due from primary government	—	—	—	81,751,661	—
Due from component unit	244,395	—	244,395	—	—
Internal balances	1,116,230	(1,116,230)	—	—	—
Inventories	1,072,522	16,577,067	17,649,589	2,737,471	391
Prepaid items and deposits	495,785	86,591	582,376	1,526,575	750
Deferred charges	—	304,052	304,052	3,046,519	—
Restricted assets:					
Cash in central treasury	10,576	15,034,711	15,045,287	—	—
Investments	132,683,533	24,784,783	157,468,316	—	—
Customer deposits	—	1,781,877	1,781,877	—	—
Restricted deposits	—	592,202	592,202	—	—
Bond acquisition and construction	—	46,330,873	46,330,873	—	—
Bond operation and maintenance	—	8,375,780	8,375,780	—	—
Debt service accounts	—	21,547,810	21,547,810	—	—
Receivables	466,236	5,225	471,461	—	—
Intergovernmental receivables	13,214,429	—	13,214,429	23,017,168	—
Loans receivable, net	—	28,585	28,585	—	—
Deferred charges and other assets	2,584,894	9,661,402	12,246,296	—	—
Capital assets, not being depreciated	2,526,635,854	117,317,036	2,643,952,890	229,606,868	94,192
Capital assets, being depreciated, net	321,747,725	998,000,127	1,319,747,852	777,282,200	13,737
Total assets	\$ 3,295,588,232	\$ 1,381,117,289	\$ 4,676,705,521	\$ 1,327,517,806	\$ 888,609
Liabilities and Net Assets					
Liabilities:					
Accounts payable	\$ 9,701,333	\$ 12,605,956	\$ 22,307,289	\$ 18,334,162	\$ 18,097
Accrued expenses	—	—	—	25,470,875	132
Claims payable, including IBNR	12,390,992	—	12,390,992	9,114,825	—
Accrued interest payable	3,838,686	5,154,547	8,993,233	10,767,475	—
Due to component unit	54,667,774	—	54,667,774	—	—
Deferred revenue	9,660,768	3,059,782	12,720,550	82,342,533	—
Deferred credits	—	460,319,602	460,319,602	—	—
Liabilities payable from restricted assets	137,362	4,517,007	4,654,369	—	—
Noncurrent liabilities:					
Due within one year	40,733,821	35,254,098	75,987,919	34,760,000	—
Due in more than one year	565,184,589	402,593,503	967,778,092	646,490,000	—
Total liabilities	696,315,325	923,504,495	1,619,819,820	827,279,870	18,229
Net assets (deficit):					
Invested in capital assets, net of related debt	2,472,454,545	257,844,237	2,730,298,782	325,639,068	107,929
Restricted for:					
Debt service	38,640,719	44,127,199	82,767,918	10,732,112	—
Maintenance and operations	—	35,142	35,142	—	—
Acquisition and construction	24,038,663	54,216,672	78,255,335	945,856	—
Grant activity	18,517,524	—	18,517,524	—	—
Heritage Land Bank	4,289,774	—	4,289,774	—	—
Other purposes	—	—	—	—	391
Perpetual care:					
Nonexpendable	269,397	—	269,397	—	—
MOA Trust:					
Nonexpendable	122,328,345	—	122,328,345	—	—
Expendable	6,600,000	—	6,600,000	—	—
Unrestricted	(87,866,060)	101,389,544	13,523,484	162,920,900	762,060
Net assets	2,599,272,907	457,612,794	3,056,885,701	500,237,936	870,380
Total liabilities and net assets	\$ 3,295,588,232	\$ 1,381,117,289	\$ 4,676,705,521	\$ 1,327,517,806	\$ 888,609

See accompanying notes to financial statements.

Total Reporting Entity

<u>December 31,</u> <u>2004</u>	<u>December 31,</u> <u>2003</u>
\$ 5,810,609	\$ 4,898,625
262,618,166	209,217,808
231,271,834	204,116,305
2,323,634	2,390,091
124,426,091	115,189,761
81,751,661	72,491,829
244,395	587,093
—	—
20,387,451	20,299,607
2,109,701	16,214,690
3,350,571	463,496
15,045,287	3,674,614
157,468,316	128,667,213
1,781,877	1,807,310
592,202	524,363
46,330,873	29,067,931
8,375,780	7,126,426
21,547,810	41,068,381
471,461	713,273
36,231,597	35,360,912
28,585	65,732
12,246,296	18,951,238
2,873,653,950	2,901,428,978
2,097,043,789	1,957,684,167
<u>\$ 6,005,111,936</u>	<u>\$ 5,772,009,843</u>
\$ 40,659,548	\$ 32,398,592
25,471,007	22,888,113
21,505,817	21,690,679
19,760,708	13,350,556
54,667,774	48,327,886
95,063,083	81,849,580
460,319,602	443,737,040
4,654,369	3,757,316
110,747,919	102,752,729
<u>1,614,268,092</u>	<u>1,458,501,680</u>
<u>2,447,117,919</u>	<u>2,229,254,171</u>
3,056,045,779	3,116,957,999
93,500,030	96,620,241
35,142	524,363
79,201,191	48,837,494
18,517,524	19,027,354
4,289,774	5,981,641
391	—
269,397	256,622
122,328,345	118,304,677
6,600,000	6,600,000
<u>177,206,444</u>	<u>129,645,281</u>
<u>3,557,994,017</u>	<u>3,542,755,672</u>
<u>\$ 6,005,111,936</u>	<u>\$ 5,772,009,843</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Statement of Activities

Year ended December 31, 2004

(With summarized financial information for the year ended December 31, 2003)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 28,412,366	\$ 14,016,015	\$ 3,017,124	\$ —
Fire services	55,208,871	5,655,912	2,084,350	17,166
Police services	69,371,463	9,784,179	1,322,354	—
Health and human services	24,312,243	3,781,694	10,146,551	—
Economic & community development	46,849,814	5,817,018	3,044,759	1,779,383
Public transportation	20,283,370	3,002,525	2,971,554	3,849,687
Public works	37,096,194	10,332,321	2,239,274	5,188,633
Education	154,278,770	—	—	—
Maintenance and operations	26,663,041	1,906,892	332,126	1,440,914
Interest on long-term debt	19,944,303	—	—	—
Total governmental activities	<u>482,420,435</u>	<u>54,296,556</u>	<u>25,158,092</u>	<u>12,275,783</u>
Business-type activities:				
Water	31,739,512	33,397,222	—	—
Wastewater	24,452,663	26,590,207	—	—
Electric	93,047,721	107,656,289	—	—
Port	8,165,915	10,284,368	—	—
Municipal Airport	2,152,012	1,055,742	—	2,241,293
Solid Waste	13,086,817	15,722,106	—	62,250
Refuse	5,902,024	6,033,272	—	—
Cooperative Services Authority	202,210	—	—	—
Parking Authority	4,731,366	4,951,013	—	—
Performing Arts Center	1,726,324	696,121	407,337	—
Total business-type activities	<u>185,206,564</u>	<u>206,386,340</u>	<u>407,337</u>	<u>2,303,543</u>
Total primary government	<u>\$ 667,626,999</u>	<u>\$ 260,682,896</u>	<u>\$ 25,565,429</u>	<u>\$ 14,579,326</u>
Component Units:				
Anchorage School District	\$ —	\$ —	\$ —	\$ —
Anchorage Historic Properties	—	—	—	—
Totals – Component Units	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

General revenues:

Property taxes
 Motor vehicle taxes
 Lodging taxes
 Tobacco taxes
 Utility service assessment taxes
 Grants and entitlements not restricted to specific programs
 Gain (loss) on sale of capital assets
 Appropriation from Municipality of Anchorage
 Investment earnings
 Other

Special item:

Regulatory Adjustment

Transfers

Total general revenues, special item, and other transfers

Change in net assets

Net assets, beginning of year, as previously reported

Add adjustment for retroactive capitalization of infrastructure assets under GASB 34

Net assets, beginning of year, as restated

Net assets, end of year

See accompanying notes to financial statements.

Net (Expense), Revenue and Changes in Net Assets

Primary Government			Component Units		Total Reporting Entity	
Governmental Activities	Business-Type Activities	Total	Anchorage School District	Anchorage Historic Properties	2004	2003
\$ (11,379,227)	\$ —	\$ (11,379,227)	\$ —	\$ —	\$ (11,379,227)	\$ (13,632,457)
(47,451,443)	—	(47,451,443)	—	—	(47,451,443)	(38,201,852)
(58,264,930)	—	(58,264,930)	—	—	(58,264,930)	(50,384,356)
(10,383,998)	—	(10,383,998)	—	—	(10,383,998)	(9,256,827)
(36,208,654)	—	(36,208,654)	—	—	(36,208,654)	(28,494,187)
(10,459,604)	—	(10,459,604)	—	—	(10,459,604)	(11,217,532)
(19,335,966)	—	(19,335,966)	—	—	(19,335,966)	(156,555,901)
(154,278,770)	—	(154,278,770)	—	—	(154,278,770)	(144,095,089)
(22,983,109)	—	(22,983,109)	—	—	(22,983,109)	(22,852,533)
(19,944,303)	—	(19,944,303)	—	—	(19,944,303)	(20,075,030)
<u>(390,690,004)</u>	<u>—</u>	<u>(390,690,004)</u>	<u>—</u>	<u>—</u>	<u>(390,690,004)</u>	<u>(494,765,764)</u>
—	1,657,710	1,657,710	—	—	1,657,710	3,011,578
—	2,137,544	2,137,544	—	—	2,137,544	3,965,504
—	14,608,568	14,608,568	—	—	14,608,568	6,639,029
—	2,118,453	2,118,453	—	—	2,118,453	1,714,784
—	1,145,023	1,145,023	—	—	1,145,023	449,061
—	2,697,539	2,697,539	—	—	2,697,539	2,664,177
—	131,248	131,248	—	—	131,248	(65,807)
—	(202,210)	(202,210)	—	—	(202,210)	—
—	219,647	219,647	—	—	219,647	(272,170)
—	(622,866)	(622,866)	—	—	(622,866)	(961,077)
—	<u>23,890,656</u>	<u>23,890,656</u>	<u>—</u>	<u>—</u>	<u>23,890,656</u>	<u>17,145,079</u>
<u>\$ (390,690,004)</u>	<u>\$ 23,890,656</u>	<u>\$ (366,799,348)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (366,799,348)</u>	<u>\$ (477,620,685)</u>
			\$ (388,915,173)	\$ —	\$ (388,915,173)	\$ (351,968,343)
			—	(131,693)	(131,693)	(165,741)
			<u>\$ (388,915,173)</u>	<u>\$ (131,693)</u>	<u>\$ (389,046,866)</u>	<u>\$ (352,134,084)</u>
333,690,024	—	333,690,024	—	—	333,690,024	311,917,530
10,131,578	—	10,131,578	—	—	10,131,578	9,617,492
11,680,274	—	11,680,274	—	—	11,680,274	10,287,972
8,631,780	—	8,631,780	—	—	8,631,780	4,734,327
9,181,929	—	9,181,929	—	—	9,181,929	6,608,739
—	—	—	219,201,438	—	219,201,438	219,226,948
(3,494,292)	109,211	(3,385,081)	—	—	(3,385,081)	902,080
—	—	—	144,983,658	—	144,983,658	142,954,582
18,162,086	2,276,444	20,438,530	2,320,920	53,124	22,812,574	35,961,784
—	—	—	2,194,195	10,538	2,204,733	1,978,237
—	11,951,652	11,951,652	—	—	11,951,652	6,695,054
465,838	(465,838)	—	—	—	—	—
<u>388,449,217</u>	<u>13,871,469</u>	<u>402,320,686</u>	<u>368,700,211</u>	<u>63,662</u>	<u>771,084,559</u>	<u>750,884,745</u>
<u>(2,240,787)</u>	<u>37,762,125</u>	<u>35,521,338</u>	<u>(20,214,962)</u>	<u>(68,031)</u>	<u>15,238,345</u>	<u>(78,870,024)</u>
<u>2,601,513,694</u>	<u>419,850,669</u>	<u>3,021,364,363</u>	<u>520,452,898</u>	<u>938,411</u>	<u>3,542,755,672</u>	<u>3,537,304,339</u>
—	—	—	—	—	—	84,321,357
<u>2,601,513,694</u>	<u>419,850,669</u>	<u>3,021,364,363</u>	<u>520,452,898</u>	<u>938,411</u>	<u>3,542,755,672</u>	<u>3,621,625,696</u>
<u>\$ 2,599,272,907</u>	<u>\$ 457,612,794</u>	<u>\$ 3,056,885,701</u>	<u>\$ 500,237,936</u>	<u>\$ 870,380</u>	<u>\$ 3,557,994,017</u>	<u>\$ 3,542,755,672</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Balance Sheet
Governmental Funds

December 31, 2004

(With summarized financial information at December 31, 2003)

Assets	General	MOA Trust	Other Governmental Funds	Total Governmental Funds	
				December 31, 2004	December 31, 2003
Cash	\$ —	\$ —	\$ 14,783	\$ 14,783	\$ 12,623
Cash in central treasury	83,589,630	—	93,667,037	177,256,667	125,038,366
Investments	287,500	—	24,101,703	24,389,203	25,411,080
Due from other funds	5,351,284	—	574,836	5,926,120	31,912,733
Receivables (net of allowance for uncollectibles)	72,990,685	—	4,751,210	77,741,895	79,321,584
Interest receivable	—	—	4,526	4,526	14
Special assessments receivable	2,001,814	—	538,923	2,540,737	1,974,992
Due from component units	244,395	—	—	244,395	587,093
Inventories	738,969	—	—	738,969	671,043
Prepaid items and deposits	216,917	—	3,754	220,671	237,027
Restricted assets:					
Cash in central treasury	—	10,576	—	10,576	256,622
Investments	—	128,615,417	4,068,116	132,683,533	128,667,213
Intergovernmental receivables	1,099,953	—	12,114,476	13,214,429	13,203,655
Interest receivables	—	466,236	—	466,236	423,196
Loans receivables, net	—	—	—	—	30,800
Advances to other funds	853,042	—	—	853,042	646,859
Total assets	\$ 167,374,189	\$ 129,092,229	\$ 139,839,364	\$ 436,305,782	\$ 408,394,900
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and retainages	\$ 4,575,426	\$ —	\$ 3,920,977	\$ 8,496,403	\$ 9,754,020
Due to other funds	34,577	—	1,105,754	1,140,331	1,467,912
Due to component unit	54,667,774	—	—	54,667,774	48,327,886
Deferred revenue and deposits	65,180,801	—	3,857,894	69,038,695	70,102,827
Liabilities payable from restricted assets	—	163,884	—	163,884	118,206
Total liabilities	124,458,578	163,884	8,884,625	133,507,087	129,770,851
Fund balances:					
Reserved:					
Encumbrances	1,383,615	—	29,606,259	30,989,874	28,988,140
Inventories	738,969	—	—	738,969	671,043
Prepaid items and deposits	216,917	—	3,754	220,671	237,027
Long-term loans	461,196	—	5,018,893	5,480,089	6,240,215
Perpetual care	—	—	269,397	269,397	256,622
MOA trust	—	128,928,345	—	128,928,345	124,904,677
Debt service	—	—	41,719,238	41,719,238	42,717,015
Unreserved, designated for bond rating and operating emergencies, reported in:					
General fund	27,843,180	—	—	27,843,180	—
Unreserved, undesignated, reported in:					
General fund	12,271,734	—	—	12,271,734	35,460,354
Special revenue funds	—	—	12,570,336	12,570,336	16,010,905
Capital projects funds	—	—	41,766,862	41,766,862	23,138,051
Total fund balances	42,915,611	128,928,345	130,954,739	302,798,695	278,624,049
Total liabilities and fund balances	\$ 167,374,189	\$ 129,092,229	\$ 139,839,364	\$ 436,305,782	\$ 408,394,900

See accompanying notes to financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA

Reconciliation of Net Assets Between the
Government-wide and Fund Financial Statements

December 31, 2004

Amounts reported as fund balance on the governmental fund balance sheet		\$ 302,798,695
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		2,817,809,325
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Jail lease receivable, net activity	\$ 55,835,091	
Property taxes	6,152,522	
Deferred charges	2,584,894	
	64,572,507	64,572,507
Internal service funds are used by management to charge the costs of fleet management, cost of insurance, and information technology to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.		23,045,232
Long term liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore not reported in the funds:		
General obligation bonds	(367,386,458)	
Revenue bonds	(54,545,000)	
Special assessment bonds	(690,000)	
Certificates of participation	(6,560,000)	
Notes and contracts	(6,779,034)	
Compensated absences	(12,889,447)	
Police and fire post employment health care benefits liability	(153,919,710)	
Unfunded Pension Obligation	(2,344,517)	
Accrued interest payable	(3,838,686)	
	(608,952,852)	(608,952,852)
Net assets of governmental activities		\$ 2,599,272,907

See accompanying notes to financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year ended December 31, 2004
(With summarized financial information for the year ended December 31, 2003)

	General	MOA Trust	Other Governmental Funds	Total Governmental Funds	
				2004	2003
Revenues:					
Taxes	\$ 372,606,202	\$ —	\$ —	\$ 372,606,202	\$ 344,146,857
Special assessments	858,002	—	792,611	1,650,613	1,297,844
Licenses and permits	12,624,998	—	—	12,624,998	11,568,910
Intergovernmental	3,252,213	—	34,181,663	37,433,876	56,013,938
Charges for services	19,170,939	—	5,605,967	24,776,906	22,283,909
Fines and forfeitures	6,712,483	—	245,096	6,957,579	6,088,988
Investment income	1,292,109	11,363,635	2,071,708	14,727,452	26,915,807
Restricted contributions	34,286	—	1,260,049	1,294,335	52,450
Other	2,405,659	—	855,729	3,261,388	3,690,183
Total revenues	418,956,891	11,363,635	45,012,823	475,333,349	472,058,886
Expenditures:					
Current:					
General government	13,763,263	739,967	2,011,492	16,514,722	22,961,766
Fire services	49,029,677	—	1,872,490	50,902,167	45,955,347
Police services	63,353,884	—	2,962,472	66,316,356	60,157,670
Health and human services	12,794,694	—	10,970,946	23,765,640	29,841,949
Economic and community development	33,911,425	—	4,038,441	37,949,866	23,836,321
Public transportation	14,855,345	—	3,147,466	18,002,811	15,350,897
Public works	13,873,783	—	1,113,614	14,987,397	29,832,140
Education	153,993,490	—	285,280	154,278,770	144,095,089
Maintenance and operations	24,357,227	—	562	24,357,789	26,892,534
Debt service:					
Principal	22,176,762	—	5,325,000	27,501,762	25,791,483
Interest	16,024,472	—	3,627,906	19,652,378	19,227,244
Bond issuance costs	255,509	—	588,279	843,788	444,379
Capital outlay	—	—	58,750,450	58,750,450	59,954,574
Total expenditures	418,389,531	739,967	94,694,398	513,823,896	504,341,393
Excess (deficiency) of revenues over expenditures	567,360	10,623,668	(49,681,575)	(38,490,547)	(32,282,507)
Other financing sources (uses):					
Transfers in – from other funds	12,519,206	—	11,588,946	24,108,152	22,646,876
Transfers out – to other funds	(13,482,517)	(6,600,000)	(5,000,833)	(25,083,344)	(23,154,015)
General obligation bonds issued	—	—	52,375,000	52,375,000	35,000,000
Long term debt issued	—	—	5,365,000	5,365,000	—
Refunding bonds issued	21,465,000	—	—	21,465,000	—
Premium on bond sale	1,757,098	—	591,593	2,348,691	714,292
Premium on refunding bonds	1,877,845	—	—	1,877,845	—
Payment to refunded bond escrow agent to extinguish debt	(21,425,000)	—	—	(21,425,000)	—
Payment to refunded bond escrow agent	(1,662,336)	—	—	(1,662,336)	—
Capital leases	—	—	1,146,807	1,146,807	—
Sale of capital assets	3,468	—	2,145,910	2,149,378	2,926,684
Total other financing sources (uses)	1,052,770	(6,600,000)	68,212,423	62,665,193	38,133,837
Net change in fund balances	1,620,130	4,023,668	18,530,848	24,174,646	5,851,330
Fund balances, beginning of year	41,295,481	124,904,677	112,423,891	278,624,049	272,772,719
Fund balances, end of year	\$ 42,915,611	\$ 128,928,345	\$ 130,954,739	\$ 302,798,695	\$ 278,624,049

See accompanying notes to financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities

Year ended December 31, 2004

Net change in fund balance – total governmental funds		\$ 24,174,646
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures.		
However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Capital outlay	\$ 58,750,450	
Depreciation expense	(22,698,236)	
Reversal of capital outlay determined to be expensed under modified approach	(17,541,643)	
Equipment purchases expensed in fund statements	<u>4,845,955</u>	23,356,526
The net effect of miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.		(6,790,477)
Revenues in the statement of activities that do not provide current financial resources and are deferred in the funds:		
Property taxes	709,382	
Jail lease receivable, net activity	<u>(2,108,021)</u>	(1,398,639)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effects of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:		
New issuance of general obligation bonds	(52,375,000)	
Refunding issuance of general obligation bonds	(21,465,000)	
New issuance of long term debt	(5,365,000)	
Extinguishment of debt due to refunding	21,425,000	
Principal repayment	27,501,762	
Payment to escrow agent for refunding	1,662,336	
Net activity of premium discount, issuance, and interest of issued debt	<u>(3,432,889)</u>	(32,048,791)
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.		
Compensated absences		(146,841)
Unfunded pension obligation		(2,344,517)
Internal service funds are used by management to charge the costs of insurance, fleet management and information technology to individual funds. The net revenue (expenses) of certain activities of internal service funds is reported with governmental activities.		<u>(7,042,694)</u>
Change in net assets of governmental activities		<u>\$ (2,240,787)</u>

See accompanying notes to financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA

Statement of Net Assets
Proprietary Funds

December 31, 2004

(With summarized financial information at December 31, 2003)

Business-Type Activities – Enterprise Funds

Assets	Electric Utility	Water Utility	Wastewater Utility	Other Enterprise Funds	Total Enterprise Funds
Current assets:					
Cash	\$ 1,600	\$ —	\$ —	\$ 5,342,045	\$ 5,343,645
Cash in central treasury	28,721,829	11,097,835	8,614,895	24,848,932	73,283,491
Due from other funds	—	—	—	—	—
Receivables (net of allowance for uncollectibles)	33,998,260	2,857,932	1,829,715	2,970,528	41,656,435
Interest receivable	89,516	53,422	107,922	3,665	254,525
Current portion of lease receivable	—	—	—	457,236	457,236
Inventories	15,073,657	1,503,410	—	—	16,577,067
Prepaid items and deposits	—	—	—	86,591	86,591
Special assessments receivable	—	91,750	168,666	—	260,416
Unbilled reimbursable work orders	17,274	382,114	150,262	—	549,650
Deferred charges and other assets	304,052	—	—	—	304,052
Restricted assets:					
Cash in central treasury	15,034,711	—	—	—	15,034,711
Customer deposits	1,018,265	393,034	370,578	—	1,781,877
Restricted deposits	—	—	—	592,202	592,202
Receivables	—	—	—	5,225	5,225
Bond and acquisition and construction accounts	—	2,583,143	1,995,807	41,751,923	46,330,873
Revenue bond operations and maintenance accounts	8,005,968	—	—	369,812	8,375,780
Debt service accounts	6,872,603	11,341,761	2,192,424	1,141,022	21,547,810
Total current assets	<u>109,137,735</u>	<u>30,304,401</u>	<u>15,430,269</u>	<u>77,569,181</u>	<u>232,441,586</u>
Noncurrent assets:					
Loans receivables, net	—	—	—	28,585	28,585
Advances to other funds	—	—	—	—	—
Revenue bond reserve investments	24,784,783	—	—	—	24,784,783
Deferred charges and other assets	4,054,256	1,444,756	2,807,803	1,354,587	9,661,402
Capital assets, net	281,209,765	386,479,583	276,607,013	171,020,802	1,115,317,163
Total noncurrent assets	<u>310,048,804</u>	<u>387,924,339</u>	<u>279,414,816</u>	<u>172,403,974</u>	<u>1,149,791,933</u>
Total assets	<u>\$ 419,186,539</u>	<u>\$ 418,228,740</u>	<u>\$ 294,845,085</u>	<u>\$ 249,973,155</u>	<u>\$ 1,382,233,519</u>

See accompanying notes to financial statements.

Governmental Activities – Internal Service Funds	Total Proprietary Funds	
	December 31, 2004	December 31, 2003
\$ —	\$ 5,343,645	\$ 4,001,234
5,610,445	78,893,936	76,734,898
908,019	908,019	908,019
143	41,656,578	31,865,888
—	254,525	735,239
—	457,236	416,691
333,553	16,910,620	17,105,915
275,114	361,705	521,863
—	260,416	201,909
—	549,650	523,713
—	304,052	463,496
—	15,034,711	3,674,614
—	1,781,877	1,807,310
—	592,202	524,363
—	5,225	290,077
6,467,563	52,798,436	36,255,853
—	8,375,780	7,126,426
—	21,547,810	41,068,381
<u>13,594,837</u>	<u>246,036,423</u>	<u>224,225,889</u>
—	28,585	34,932
6,789,033	6,789,033	6,734,166
—	24,784,783	—
—	9,661,402	13,792,373
30,574,254	1,145,891,417	1,128,000,917
<u>37,363,287</u>	<u>1,187,155,220</u>	<u>1,148,562,388</u>
<u>\$ 50,958,124</u>	<u>\$ 1,433,191,643</u>	<u>\$ 1,372,788,277</u>

(Continued)

MUNICIPALITY OF ANCHORAGE, ALASKA

Statement of Net Assets
Proprietary Funds

December 31, 2004

(With summarized financial information at December 31, 2003)

Business-Type Activities – Enterprise Funds					
Liabilities and Net Assets	Electric Utility	Water Utility	Wastewater Utility	Other Enterprise Funds	Total Enterprise Funds
Current liabilities:					
Accounts payable and retainages	\$ 9,330,465	\$ 1,074,168	\$ 868,628	\$ 1,332,695	\$ 12,605,956
Compensated absences payable	1,571,503	990,199	990,199	516,108	4,068,009
Claims payable	—	—	—	—	—
Claims incurred but not reported	—	—	—	—	—
Due to other funds	—	—	—	360,217	360,217
Accrued interest payable	1,741,805	2,182,616	796,445	433,681	5,154,547
Long-term obligations maturing within one year	13,310,000	5,959,203	7,008,955	4,907,931	31,186,089
Deferred revenue and deposits	2,843,018	—	—	216,764	3,059,782
Deferred credits and other liabilities	70,518	—	—	260,004	330,522
Current liabilities payable from restricted assets:					
Customer deposits payable	1,018,265	393,034	370,578	54,944	1,836,821
Capital acquisition and construction accounts and retainage payable	—	1,012,310	1,082,687	585,189	2,680,186
Total current liabilities	29,885,574	11,611,530	11,117,492	8,667,533	61,282,129
Noncurrent liabilities:					
General obligation bonds payable (net of unamortized discounts, premiums, deferred gain or loss on refunding)	—	—	5,729,820	2,267,230	7,997,050
Revenue bonds payable (net of unamortized discounts, premiums, deferred gain or loss on refunding)	209,691,109	91,044,821	27,037,888	2,541,526	330,315,344
Special assessment bonds payable (net of unamortized discounts)	—	254,522	17,841	—	272,363
Due to other funds	—	—	—	962,886	962,886
Alaska clean water loan payable	—	21,892,621	29,474,275	11,779,341	63,146,237
Other loans and contracts payable	—	—	—	—	—
Deferred revenue	—	—	—	—	—
Compensated absences payable	—	90,626	90,626	—	181,252
Unfunded pension obligation	122,368	230,547	163,222	165,120	681,257
Total noncurrent liabilities	209,813,477	113,513,137	62,513,672	17,716,103	403,556,389
Deferred credits and other liabilities:					
Future landfill closure costs	—	—	—	11,111,326	11,111,326
Other deferred credits	24,355,633	—	(33,722)	—	24,321,911
Contributed capital	14,638,553	231,567,132	178,350,158	—	424,555,843
Total deferred credits and other liabilities	38,994,186	231,567,132	178,316,436	11,111,326	459,989,080
Total liabilities	278,693,237	356,691,799	251,947,600	37,494,962	924,827,598
Net assets:					
Invested in capital assets, net of related debt	43,570,103	35,761,284	28,988,076	149,524,774	257,844,237
Restricted for debt service	29,915,581	10,754,413	2,010,871	1,446,334	44,127,199
Restricted for operations and maintenance	—	—	—	35,142	35,142
Restricted for acquisition and construction	12,191,693	—	—	42,024,979	54,216,672
Unrestricted	54,815,925	15,021,244	11,898,538	19,446,964	101,182,671
Total net assets	\$ 140,493,302	\$ 61,536,941	\$ 42,897,485	\$ 212,478,193	457,405,921
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					206,873
Net assets of business-type activities					\$ 457,612,794

See accompanying notes to financial statements.

Governmental Activities – Internal Service Funds	Total Proprietary Funds	
	December 31, 2004	December 31, 2003
\$ 566,190	\$ 13,172,146	\$ 7,871,747
595,710	4,663,719	4,455,977
6,633,412	6,633,412	6,567,269
5,837,424	5,837,424	5,961,115
5,988,019	6,348,236	31,202,266
—	5,154,547	5,100,278
75,997	31,262,086	30,463,196
43,467	3,103,249	339,553
—	330,522	4,038,909
—	1,836,821	1,842,904
532,374	3,212,560	1,914,412
<u>20,272,593</u>	<u>81,554,722</u>	<u>99,757,626</u>
—	7,997,050	15,649,244
—	330,315,344	308,624,069
—	272,363	304,186
6,024,762	6,987,648	7,642,185
—	63,146,237	49,294,121
—	—	75,998
1,276,128	1,276,128	1,505,908
—	181,252	298,214
132,536	813,793	—
<u>7,433,426</u>	<u>410,989,815</u>	<u>383,393,925</u>
—	11,111,326	10,324,632
—	24,321,911	17,316,835
—	424,555,843	412,056,664
—	459,989,080	439,698,131
<u>27,706,019</u>	<u>952,533,617</u>	<u>922,849,682</u>
23,565,476	281,409,713	303,867,575
—	44,127,199	39,284,761
—	35,142	524,363
—	54,216,672	27,887,567
(313,371)	100,869,300	78,374,329
<u>\$ 23,252,105</u>	<u>\$ 480,658,026</u>	<u>\$ 449,938,595</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds

Year ended December 31, 2004

(With summarized financial information for the year ended December 31, 2003)

	<u>Business-Type Activities – Enterprise Funds</u>				
	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>
Operating revenues:					
Charges for services	\$ 93,026,061	\$ 29,376,961	\$ 25,492,009	\$ 34,005,001	\$ 181,900,032
Other	14,486,940	3,991,011	1,098,198	4,949,709	24,525,858
Total operating revenues	<u>107,513,001</u>	<u>33,367,972</u>	<u>26,590,207</u>	<u>38,954,710</u>	<u>206,425,890</u>
Operating expenses:					
Operations	61,453,351	17,094,054	15,821,938	23,329,920	117,699,263
Municipal service assessment taxes	2,065,369	3,261,718	2,290,291	1,564,550	9,181,928
Amortization of future landfill closure costs	—	—	—	786,694	786,694
Depreciation	14,343,676	5,736,739	4,495,973	8,735,931	33,312,319
Total operating expenses	<u>77,862,396</u>	<u>26,092,511</u>	<u>22,608,202</u>	<u>34,417,095</u>	<u>160,980,204</u>
Operating income (loss)	<u>29,650,605</u>	<u>7,275,461</u>	<u>3,982,005</u>	<u>4,537,615</u>	<u>45,445,686</u>
Nonoperating revenues (expenses):					
Investment income	1,013,779	291,357	211,901	759,407	2,276,444
Other revenues	143,288	29,250	—	195,249	367,787
Intergovernmental revenue	—	—	—	2,303,543	2,303,543
Interest expense	(14,747,400)	(5,665,360)	(2,075,552)	(978,777)	(23,467,089)
Allowance for funds used during construction	213,750	781,541	533,036	—	1,528,327
Gain on disposition of assets	—	—	—	109,211	109,211
Amortization of deferred charges	(261,092)	(769,169)	(300,092)	(52,929)	(1,383,282)
Other expenses	(406,609)	—	—	—	(406,609)
Net nonoperating revenues (expenses)	<u>(14,044,284)</u>	<u>(5,332,381)</u>	<u>(1,630,707)</u>	<u>2,335,704</u>	<u>(18,671,668)</u>
Income before capital contributions, special item and transfers	<u>15,606,321</u>	<u>1,943,080</u>	<u>2,351,298</u>	<u>6,873,319</u>	<u>26,774,018</u>
Capital contributions	—	—	—	(484,819)	(484,819)
Special item – regulatory adjustment	11,951,652	—	—	—	11,951,652
Transfers in	—	—	—	1,373,500	1,373,500
Transfers out	—	—	—	(1,839,338)	(1,839,338)
Change in net assets	<u>27,557,973</u>	<u>1,943,080</u>	<u>2,351,298</u>	<u>5,922,662</u>	<u>37,775,013</u>
Total net assets – beginning	<u>112,935,329</u>	<u>59,593,861</u>	<u>40,546,187</u>	<u>206,555,531</u>	
Total net assets – ending	<u>\$ 140,493,302</u>	<u>\$ 61,536,941</u>	<u>\$ 42,897,485</u>	<u>\$ 212,478,193</u>	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					<u>(12,888)</u>
Change in net assets of business-type activities					<u>\$ 37,762,125</u>

See accompanying notes to financial statements.

Governmental Activities – Internal Service Funds	Total Proprietary Funds	
	2004	2003
\$ 32,643,723	\$ 214,543,755	\$ 201,242,335
—	24,525,858	17,097,372
<u>32,643,723</u>	<u>239,069,613</u>	<u>218,339,707</u>
29,953,832	147,653,095	132,814,604
—	9,181,928	6,608,357
—	786,694	767,073
<u>6,064,333</u>	<u>39,376,652</u>	<u>38,782,949</u>
<u>36,018,165</u>	<u>196,998,369</u>	<u>178,972,983</u>
<u>(3,374,442)</u>	<u>42,071,244</u>	<u>39,366,724</u>
329,811	2,606,255	2,220,934
14,953	382,740	578,069
125,000	2,428,543	1,561,780
(241,784)	(23,708,873)	(23,968,648)
—	1,528,327	1,713,022
(36,202)	73,009	43,121
—	(1,383,282)	(1,568,025)
—	(406,609)	(449,905)
<u>191,778</u>	<u>(18,479,890)</u>	<u>(19,869,652)</u>
(3,182,664)	23,591,354	19,497,072
—	(484,819)	(107,963)
—	11,951,652	6,695,054
—	1,373,500	3,899,500
<u>(3,872,918)</u>	<u>(5,712,256)</u>	<u>(4,712,808)</u>
<u>(7,055,582)</u>	<u>30,719,431</u>	<u>25,270,855</u>
<u>30,307,687</u>	<u>449,938,595</u>	<u>424,667,740</u>
<u>\$ 23,252,105</u>	<u>\$ 480,658,026</u>	<u>\$ 449,938,595</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Statement of Cash Flows
Proprietary Funds

Year ended December 31, 2004

(With summarized financial information for the year ended December 31, 2003)

	<u>Business-Type Activities – Enterprise Funds</u>		
	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>
Cash flows from operating activities:			
Receipts from customers and users	\$ 116,236,703	\$ 35,118,318	\$ 26,774,022
Payments to employees	(17,351,773)	(9,760,289)	(9,362,092)
Payments to vendors	(48,016,576)	(11,431,535)	(8,922,590)
Net cash provided by operating activities	<u>50,868,354</u>	<u>13,926,494</u>	<u>8,489,340</u>
Cash flows from noncapital financing activities:			
Transfers to other funds	—	—	—
Transfers from other funds	—	—	—
Loan proceeds from central treasury	—	—	—
Loan payments to central treasury	—	—	—
Other noncapital receipts	11,988	29,250	—
Other noncapital payments to vendors	(406,612)	—	—
Net cash provided (used) by noncapital and related financing activities	<u>(394,624)</u>	<u>29,250</u>	<u>—</u>
Cash flows from capital and related financing activities:			
Proceeds from issuance of long-term obligations	—	16,303,738	22,060,672
Principal payments on long-term obligations	(12,830,000)	(4,625,000)	(5,695,000)
Loan proceeds from central treasury	—	—	—
Loan payments to central treasury	—	(7,933,945)	(11,891,841)
Interest payments on long-term obligations	(13,019,741)	(5,678,805)	(1,865,639)
Acquisition and construction of capital assets	(11,815,362)	(13,744,580)	(14,292,594)
Proceeds from disposition of capital assets	138,570	—	—
Intergovernmental revenue received	—	—	—
Proceeds from gas underlift settlement	11,951,652	—	—
Capital contributions – customers	1,041,065	560,866	886,986
Capital contributions – intergovernmental	522,405	667,424	1,570,250
Payments for interfund services used	(813,279)	—	—
Proceeds from Alaska Clean Water loans	—	8,715,413	8,228,002
Principal payments on Alaska Clean Water loans	—	(670,624)	(1,364,329)
Net cash used by capital and related financing activities	<u>(24,824,690)</u>	<u>(6,405,513)</u>	<u>(2,363,493)</u>
Cash flows from investing activities:			
Proceeds from sales and maturity of investments	—	—	—
Proceeds from investment in direct financing leases	—	—	—
Purchase of investments	(12,681,829)	(6,101,084)	(4,188,231)
Investment income received	1,181,893	279,586	213,489
Net cash provided (used) by investing activities	<u>(11,499,936)</u>	<u>(5,821,498)</u>	<u>(3,974,742)</u>
Net increase (decrease) in cash	14,149,104	1,728,733	2,151,105
Cash, beginning of year	15,592,590	9,762,136	6,834,368
Cash, end of year	<u>\$ 29,741,694</u>	<u>\$ 11,490,869</u>	<u>\$ 8,985,473</u>
Cash			
Cash	\$ 1,600	\$ —	\$ —
Cash in central treasury	28,721,829	11,097,835	8,614,895
Customer deposits	1,018,265	393,034	370,578
Cash, December 31	<u>\$ 29,741,694</u>	<u>\$ 11,490,869</u>	<u>\$ 8,985,473</u>

See accompanying notes to financial statements.

Other Enterprise Funds	Total Enterprise Funds	Governmental Activities -- Internal Service Funds	Total Proprietary Funds	
			2004	2003
\$ 42,685,507 (12,136,996) (15,988,555)	\$ 220,814,550 (48,611,150) (84,359,256)	\$ 32,692,329 (7,556,858) (22,339,813)	\$ 253,506,879 (56,168,008) (106,699,069)	\$ 223,760,410 (54,713,140) (90,743,931)
14,559,956	87,844,144	2,795,658	90,639,802	78,303,339
(1,839,338)	(1,839,338)	(3,872,918)	(5,712,256)	(4,603,588)
1,373,500	1,373,500	—	1,373,500	3,899,500
—	—	918,486	918,486	—
(310,332)	(310,332)	(6,884,295)	(7,194,627)	—
183,720	224,958	14,953	239,911	1,946,423
—	(406,612)	—	(406,612)	(449,906)
(592,450)	(957,824)	(9,823,774)	(10,781,598)	792,429
—	38,364,410	—	38,364,410	—
(5,012,932)	(28,162,932)	(1,040,689)	(29,203,621)	(29,532,556)
962,886	962,886	—	962,886	—
—	(19,825,786)	—	(19,825,786)	(1,208,252)
(980,567)	(21,544,752)	(243,659)	(21,788,411)	(22,210,292)
(18,188,822)	(58,041,358)	(1,128,534)	(59,169,892)	(55,595,235)
208,637	347,207	108,614	455,821	419,484
2,044,836	2,044,836	125,000	2,169,836	1,706,059
—	11,951,652	—	11,951,652	—
(312,239)	2,176,678	—	2,176,678	1,370,573
—	2,760,079	—	2,760,079	2,324,461
—	(813,279)	—	(813,279)	—
—	16,943,415	—	16,943,415	6,090,965
—	(2,034,953)	—	(2,034,953)	(1,813,378)
(21,278,201)	(54,871,897)	(2,179,268)	(57,051,165)	(98,448,171)
—	—	—	—	2,861,953
568,160	568,160	—	568,160	229,507
—	(22,971,144)	—	(22,971,144)	(882,698)
1,067,182	2,742,150	329,811	3,071,961	2,618,510
1,635,342	(19,660,834)	329,811	(19,331,023)	4,827,272
(5,675,353)	12,353,589	(8,877,573)	3,476,016	(14,525,131)
35,866,330	68,055,424	14,488,018	82,543,442	97,068,573
\$ 30,190,977	\$ 80,409,013	\$ 5,610,445	\$ 86,019,458	\$ 82,543,442
\$ 5,342,045	\$ 5,343,645	\$ —	\$ 5,343,645	\$ 4,001,234
24,848,932	73,283,491	5,610,445	78,893,936	76,734,898
—	1,781,877	—	1,781,877	1,807,310
\$ 30,190,977	\$ 80,409,013	\$ 5,610,445	\$ 86,019,458	\$ 82,543,442

(Continued)

MUNICIPALITY OF ANCHORAGE, ALASKA

Statement of Cash Flows
Proprietary Funds

Year ended December 31, 2004

(With summarized financial information for the year ended December 31, 2003)

	<u>Business-Type Activities – Enterprise Funds</u>		
	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>
Reconciliation of change in net assets to net cash provided by operating activities:			
Operating income (loss)	\$ 29,650,605	\$ 7,275,461	\$ 3,982,005
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	14,343,676	5,736,739	4,495,973
Amortization of future landfill closure costs	—	—	—
Allowance for uncollectible accounts	630	58,512	(6,240)
Capital equipment purchases	—	—	—
Changes in assets and liabilities which increase (decrease) cash:			
Accounts receivable	15,641,037	19,419	(312,329)
Notes receivable	—	—	—
Unbilled reimbursable work orders	51,859	(99,287)	21,491
Prepaid items and deposits	—	—	—
Inventories	217,759	(68,973)	—
Customer deposits	28,065	(27,681)	4,788
Deferred charges and other assets	826,829	39,853	(483,908)
Accounts payable and retainages	1,968,635	706,641	579,118
Due to other funds	—	—	—
Accrued interest payable	—	—	—
Claims payable	—	—	—
Deferred credits and other liabilities	(12,031,439)	—	(10,043)
Deferred revenue and deposits	—	—	—
Unfunded pension obligation	122,368	230,547	163,222
Compensated absences payable	48,330	55,263	55,263
Total cash provided by operating activities	<u>\$ 50,868,354</u>	<u>\$ 13,926,494</u>	<u>\$ 8,489,340</u>
Noncash investing, capital, and financing activities:			
Capital purchases on account	\$ 440,213	\$ 73,005	\$ 319,704
Deferred refunding loss	—	—	—
Contributed equipment	395,607	11,622,436	5,964,522
Special item - regulatory deferred asset	—	—	—
Special item - regulatory depletion adjustment	—	—	—
	<u>\$ 835,820</u>	<u>\$ 11,695,441</u>	<u>\$ 6,284,226</u>

See accompanying notes to financial statements.

Other Enterprise Funds	Total Enterprise Funds	Governmental Activities – Internal Service Funds	Total Proprietary Funds	
			2004	2003
\$ 4,537,615	\$ 45,445,686	\$ (3,374,442)	\$ 42,071,244	\$ 39,366,724
8,735,931	33,312,319	6,064,333	39,376,652	38,782,949
786,694	786,694	—	786,694	767,073
—	52,902	—	52,902	12,468
30,558	30,558	—	30,558	—
(189,664)	15,158,463	1,496	15,159,959	(18,771,455)
6,500	6,500	—	6,500	2,397
—	(25,937)	—	(25,937)	94,080
10,794	10,794	(8,017)	2,777	543,151
—	148,786	46,509	195,295	734,957
19,170	24,342	—	24,342	81,498
—	382,774	157,225	539,999	(3,220,893)
457,212	3,711,606	32,213	3,743,819	395,263
—	—	—	—	1,695,797
—	—	—	—	—
—	—	—	—	(634,477)
120,194	(11,921,288)	(229,180)	(12,150,468)	18,214,386
(79,108)	(79,108)	—	(79,108)	82,626
165,120	681,257	132,536	813,793	—
(41,060)	117,796	(27,015)	90,781	156,795
<u>\$ 14,559,956</u>	<u>\$ 87,844,144</u>	<u>\$ 2,795,658</u>	<u>\$ 90,639,802</u>	<u>\$ 78,303,339</u>
\$ 516,600	\$ 1,349,522	\$ 532,374	\$ 1,881,896	\$ 1,845,823
80,061	80,061	—	80,061	111,246
—	17,982,565	—	17,982,565	6,045,674
—	—	—	—	(8,502,156)
—	—	—	—	15,197,210
<u>\$ 596,661</u>	<u>\$ 19,412,148</u>	<u>\$ 532,374</u>	<u>\$ 19,944,522</u>	<u>\$ 14,697,797</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Statement of Fiduciary Net Assets
Fiduciary Funds

December 31, 2004

Assets	Pension and Other Post Employment Benefit Trust Funds	Employee Benefits Agency Fund
Cash in central treasury	\$ 72,443	\$ 6,623,869
Cash, cash equivalents held under securities lending program	22,514,095	—
Investment in master group trust	395,038,728	—
Investments	5,897,481	—
Accounts Receivable	—	9,974
Due from Other Funds	—	—
Contributions receivable	—	—
Capital assets, net	27,033	—
Total assets	\$ 423,549,780	\$ 6,633,843
Liabilities		
Accounts payable	\$ 99,272	\$ 164,394
Payable under securities lending program	22,514,095	—
Due to employees	—	5,031,105
Due to employees' retirement systems	—	966,588
Payroll liabilities	—	471,756
Total liabilities	22,613,367	6,633,843
Net Assets		
Held in trust for:		
Employees' pension benefits	395,037,416	—
Employees' post employment healthcare benefits	5,898,997	—
Total net assets	\$ 400,936,413	\$ —

See accompanying notes to financial statements.

MUNICIPALITY OF ANCHORAGE, ALASKA

Statements of Changes in Fiduciary Net Assets
Fiduciary Funds

Years ended December 31, 2004 and 2003

	Pension and Other Post Employment Benefit Trust Funds	
	<u>2004</u>	<u>2003</u>
Additions:		
Contributions from other funds	\$ 1,495,890	\$ 1,320,447
Contributions	18,775	4,710,589
Investment income:		
Interest	5,892,040	5,596,750
Dividends	1,014,967	1,298,653
Net increase (decrease) in fair value of investments	36,966,300	66,079,888
Less: investment expense	(1,430,934)	(1,213,398)
Total additions (reductions)	<u>43,957,038</u>	<u>77,792,929</u>
Deductions:		
Regular benefit payments	23,317,352	21,032,582
Administrative expenses	867,850	1,794,712
Total deductions	<u>24,185,202</u>	<u>22,827,294</u>
Change in net assets	19,771,836	54,965,635
Net assets – beginning	381,164,577	326,198,942
Net assets – ending	<u>\$ 400,936,413</u>	<u>\$ 381,164,577</u>

See accompanying notes to financial statements.

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MUNICIPALITY OF ANCHORAGE, ALASKA
Notes to Basic Financial Statements
December 31, 2004

MUNICIPALITY OF ANCHORAGE, ALASKA
NOTES TO THE FINANCIAL STATEMENTS

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MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2004

NOTE 1 Summary of Significant Accounting Policies

(a) Reporting Entity

The Municipality of Anchorage (Anchorage) operates under an elected nonpartisan Mayor-Assembly form of government. The Mayor is elected at large for a three-year term. Legislative power is vested in the Assembly with executive and administrative power vested in the Mayor. The financial statements of the reporting entity include those of Anchorage (primary government) and its component units. The component units discussed below are included in the reporting entity because of the significance of their operational or financial relationships with the primary government.

Blended component units. The Anchorage Parking Authority, Inc. (Authority) is a public corporation created to manage Municipal parking facilities. The Authority is reported as a blended component unit, as its sole purpose is to provide parking management services to the primary government. The Alaska Center for Performing Arts, Inc. (ACPA) operates, maintains and promotes the performing arts center, which is owned by the primary government. The ACPA is reported as a blended component unit as it was created to manage the Municipal owned performing arts center and provides facility management services exclusively to the primary government. The Cooperative Services Authority (CSA) is a purchasing cooperative created to obtain savings through pooled purchasing power and managed vendor negotiation. In 2004 the CSA provided services exclusively to the Municipality of Anchorage. The Authority, ACPA, and CSA are reported as enterprise funds.

Discretely presented component units. The Anchorage School District (School District) is responsible for elementary and secondary education within Anchorage. Members of the School Board are elected by the voters, however, the School District is fiscally dependent upon the primary government because the Assembly approves the total budget of the School District, levies the necessary taxes, and approves the borrowing of money and the issuance of bonds. The School District has a June 30 fiscal year end; therefore, the financial information presented in these financial statements is as of and for the year ended June 30, 2004. Anchorage Historic Properties, Inc. (Historic Properties) administers historic preservation projects. The Assembly approves the annual budget and the financing of historic preservation projects.

Complete financial statements of individual component units, other than the Cooperative Services Authority, can be obtained from their respective administrative offices in the following locations:

Anchorage School District
4600 DeBarr Road
Anchorage, Alaska 99519-6614

Anchorage Parking Authority, Inc.
700 West 6th Avenue, Suite 206
Anchorage, Alaska 99501

Anchorage Historic Properties, Inc.
645 West 3rd Avenue
Anchorage, Alaska 99501

Anchorage Center for the Performing Arts, Inc.
621 West 6th Avenue
Anchorage, Alaska 99501

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2004

(b) *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 nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) 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 as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

(c) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property and other 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 have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days 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 and claims and judgments, are recorded only when payment is due.

Property taxes, lodging and other taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual. Only the portion of special assessment receivable due within the current period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2004

Anchorage reports the following major governmental funds:

- The *General Fund* is the government's primary operating fund. It is used to account for resources which are not required legally or by sound management to be accounted for in any other fund.
- The *MOA Trust Fund* accounts for investments and related income from proceeds of the sale of Anchorage Telephone Utility and any other amounts the Anchorage Assembly may add to the fund.

Anchorage reports the following major proprietary funds:

- The *Electric Utility Fund* accounts for the operations of the Municipal owned Electric Utility.
- The *Water Utility Fund* accounts for the operations of the Municipal owned Water Utility.
- The *Wastewater Utility Fund* accounts for the operations of the Municipal owned Wastewater Utility.

Additionally, the government reports the following fund types:

- The *Internal Service Funds* account for the management and maintenance of general government equipment and vehicles, information technology, and for general liability, workers' compensation, and unemployment compensation insurance coverage provided to other departments on a cost-reimbursement basis.
- The *Pension and Post-employment Benefit Trust Funds* account for the Police and Fire Retirement Systems Pension plans and the Police and Fire Retiree Medical plan for eligible Police and Fire retirees.
- The *Agency Fund* accounts for payroll related liabilities.

Agency Funds only report assets and liabilities, thus they do not have a measurement focus. However, they do use the accrual basis of accounting to recognize receivables and payables.

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

The regulated Electric, Water and Wastewater Utilities (Utilities) follow provisions of Financial Accounting Standards Board Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*. The Utilities' rates are regulated by the Regulatory Commission of Alaska (RCA), and as a result, revenues intended to recover certain costs are provided either before or after the costs are incurred, resulting in regulatory assets or liabilities. The Utilities receive contributions in aid of construction which for rate-making purposes are amortized over the life of the respective utility plant

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2004

as a reduction of depreciation expense. Consequently, contributions in aid of construction are recorded as a regulatory liability in the accompanying basic financial statements. The Utilities' rates also include an allowance for the cost of funds used during construction (AFUDC), which is capitalized in the accompanying financial statements. Associated rate case expenses are amortized over a period of 24 to 60 months.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between Anchorage's various business-type functions and various other functions of Anchorage. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 Proprietary Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds and Internal Service Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is Anchorage's policy to use unrestricted resources first, and then restricted resources, as they are needed.

(d) *Assets, Liabilities, and Fund Equity*

Cash and Investments

To obtain flexibility in cash management, Anchorage uses a central treasury. Pooled cash is invested in various securities to maximize return while maintaining reasonable liquidity to meet maturing obligations. Investments in securities to satisfy bond reserve and other requirements are maintained in separate accounts.

Municipal Code (Code) authorizes Anchorage to invest in negotiable certificates of deposit issued by banks rated at least "A" by a nationally recognized rating service or nonnegotiable certificates of deposit of other depository agreements collateralized according to the Code. Anchorage and the School District maintain non-interest bearing deposits of \$490,000 (adjusted quarterly) and \$4,284,567, respectively, as compensating balances in return for banking services. Code requires deposits to be collateralized by securities valued at current market value.

The Code further authorizes Anchorage to invest in the following:

- Direct obligations of or obligations insured or guaranteed by the United States of America or agencies thereof;
- Commercial paper with no more than nine-months maturities issued by business organizations having the highest rating of a nationally recognized rating service;
- Banker's acceptances accepted by a rated bank and eligible for rediscount with or purchase by Federal Reserve System banks; and

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Notes to Basic Financial Statements

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- Repurchase agreements secured by obligations insured or guaranteed by the United States of America or agencies or instrumentalities thereof.

The Anchorage Parking Authority's bond indenture agreements require bond monies be invested in the following:

- Direct obligations of or obligations insured or guaranteed by the United States of America or agencies thereof;
- Interest bearing deposits or certificates of deposit if amounts in excess of amounts insured by the Federal Deposit Insurance Corporation are collateralized by obligations of the United States of America, or agencies thereof, State of Alaska, Municipality of Anchorage, or bonds of other states or municipalities in the two highest rating categories;
- Interest bearing notes maturing in six months, or less, issued by a bank with capital in excess of \$200,000,000 and rated in the two highest rating categories by a national rating agency;
- Repurchase agreements fully collateralized; and
- Banker's acceptances, certificates of deposit, and investment agreements of institutions with stated capital and surplus in excess of \$200,000,000 and rated within the two highest rating categories assigned by Standard and Poor's Corporation or Moody's Investors Services, Inc.

Investments at December 31, 2004 are reported at fair value. Investment income on cash pool investments is allocated to the various funds based on their month-end cash pool equity balances. Funds which have negative balances in the cash pools are charged interest; the interest income is allocated to those funds having equity in the cash pools.

Receivables and Payables

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

All trade and property taxes receivable, including those business-type activities, are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 180 days comprise the trade accounts receivable allowance for uncollectibles, including those related to business-type activities.

Property Taxes

Property taxes attach a lien on property on the first day of the tax year in which taxes are levied. For 2004, real property taxes were levied on May 4. Real property taxes were payable in two installments on June 15 and August 15, and personal property taxes in two installments on August 31 and October 31. The School District had accrued taxes and deferred revenue of \$81,751,661 for financing half of the 2004-2005 budget as of June 30, 2004. Taxes receivable of \$9,186,138 at

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

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December 31, 2004, include interest and penalties of \$1,237,562 and is net of an allowance for uncollectible property taxes receivable of \$140,007. The property taxes receivable allowance is equal to approximately 4% of outstanding property taxes at December 31, 2004.

Inventories and Prepaid Items

Inventories are valued at cost (specific identification), except inventories of the Utilities, which are valued at the lower of average cost or market. All primary government inventories are recorded as expenditures or expenses when used (consumption method).

Restricted Assets

Assets which are restricted for specific uses by bond covenants, grant provisions or other requirements are classified as restricted assets. The "bond operation and maintenance account" is used to report resources set aside to subsidize potential deficiencies from Anchorage's operations that could adversely affect debt service payments. The "bond acquisition and construction account" is used to report those proceeds of bond issuances that are restricted for use in construction. The "debt service account" is used to segregate resources accumulated for debt service payments. "Intergovernmental receivables" represent grant receivables due from state and federal governments. Restricted assets, excluding customer deposits, are considered investments, and as such, are excluded from cash for the purposes of the statement of cash flows. Liabilities payable from such restricted assets are separately classified.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, drainage systems, 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 Anchorage as assets with an estimated useful life in excess of one year and an initial, individual cost of more than \$5,000 for equipment or \$1,000 for computer hardware and software. 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.

Although Anchorage holds title to capital assets of the School District, the School District has the risk and benefits of ownership associated with their capital assets. The School District, under Alaska law, cannot legally hold title to real property nor incur long-term debt. However, Anchorage has delegated the construction management of school projects to the School District. In order to reflect all of the capital assets used for school purposes and the related obligations serviced by the School District, real property and the associated obligations have been reported in the financial statements of the school district.

The Utilities capitalize interest on construction work in progress in accordance with regulatory requirements. Interest was capitalized in 2004 in the amounts of \$213,750, \$781,541, and \$533,036 for the Electric, Water and Wastewater Utilities, respectively.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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For all regulated utility property replaced or retired, the average cost of the property unit, plus removal cost less salvage value, is charged to accumulated depreciation. Gain or loss on the sale or retirement of plant is not recognized, except for extraordinary retirement. For all other proprietary fund types, gain or loss on the sale or retirement is recognized.

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

Buildings and Improvements	3-47 years
Production, Treatment, General Plant, Transmission and Reservoirs	5-90 years
Lift Stations, Interceptor, Trunks and Laterals	50-85 years
Equipment Containers	14 years
Office Equipment and Vehicles	3-25 years
Infrastructure (other than roads)	30-75 years

Anchorage has elected to use the modified approach for its paved road infrastructure network.

Under this election, Anchorage does not depreciate infrastructure assets that are part of a network or subsystem of a network that meet two specific requirements. First, Anchorage manages the paved road infrastructure network using an asset management system that has certain specified characteristics; second, Anchorage documents that the paved road infrastructure network is being preserved approximately at (or above) a condition level established and disclosed by Anchorage.

Compensated Absences

It is Anchorage's policy to permit employees to accumulate earned but unused annual leave benefits. All annual leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they are due and payable, for example, as a result of employee resignations or retirements.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statements of net assets. Bond premiums, discounts, gains and losses on bond refundings, and issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premiums, discounts, gains and losses on bond refundings. Bond issuance costs are reported as deferred charges and amortized over the life of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs,

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whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Post employment benefit obligations other than pension are recognized as long-term obligations when considered material.

Contributed Capital

The Electric, Water and Wastewater Utilities meet the criteria, and accordingly, follow the accounting and reporting requirements of Financial Accounting Standards Board Statement No. 71, *Accounting for the Effects of Certain Types of Regulation* (SFAS 71). The Utilities rates are regulated by the Regulatory Commission of Alaska, and as a result revenues intended to recover certain costs are provided either before or after the costs are incurred, resulting in regulatory assets or liabilities. The Utilities receive contributions in aid of construction, which they record as contributed plant in service and deferred liability. The Utilities amortize contributed plant over the useful life of the utility plant and record amortization as a reduction of the deferred liability. At December 31, 2004, the balances of the Electric, Water and Wastewater Utilities deferred liabilities were \$14,638,553, \$231,567,132, and \$178,316,436 respectively.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(e) Revenues

Utility Revenues

Utility revenues (excluding gas revenues) are based on cycle billings rendered monthly to customers. As a result of this cycle billing method, the Utilities do not accrue revenue at the end of any fiscal period for services sold but not billed at such date.

(f) Statement of Cash Flows

For the purposes of the statement of cash flows, Anchorage has defined cash as the demand deposits and all investments maintained in the central treasury (regardless of maturity period), because the funds use the pool essentially as a demand deposit account. Anchorage has excluded the construction investment pool within the central treasury and restricted assets, other than customer deposits, which are not considered demand deposits.

(g) Reclassifications

Certain amounts previously reported have been reclassified to conform with the current year's presentation. The reclassification had no effect on previously reported net income.

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Notes to Basic Financial Statements

December 31, 2004

NOTE 2 Stewardship, Compliance, and Accountability

(a) Deficit of Individual Funds

The Miscellaneous Capital Projects Fund reflects a deficit fund balance of \$187,251. This deficit is expected to be eliminated by special assessment recoveries. The General Liability/Workers' Compensation Risk Management Internal Service Fund reflects deficit net assets of \$602,663. The deficit is expected to be eliminated through user charges in 2005. The Information Technology Internal Service Fund reflects deficit net assets of \$92,180. The deficit is expected to be eliminated through user charges in 2005.

(b) Related Party Transactions

Parking Authority: The primary government has leased 600 spaces located on four sites to the Parking Authority for a period of 35 years at \$10 per year per lot.

NOTE 3 Cash and Investments

At year end, Anchorage's carrying amount of deposits was \$2,767,255 and the bank balance was \$6,426,594. Of the bank balance, \$6,426,594 was covered by federal depository insurance or by collateral held by Anchorage's agent in Anchorage's name.

Investments are categorized into these three categories of custodial credit risk:

1. Insured or registered, or securities held by Anchorage or its agent in Anchorage's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in Anchorage's name.
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in Anchorage's name.

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Notes to Basic Financial Statements

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At year end, Anchorage's investment balances were as follows:

	Category			Carrying value
	1	2	3	
Repurchase agreements	\$ 12,932,252	—	—	\$ 12,932,252
U.S. Government and agency securities:				
Anchorage	373,560,665	—	—	373,560,665
Police/Fire Retirement System Trust	52,817,939	—	—	52,817,939
Fixed income securities:				
Police/Fire Retirement System Trust	44,092,762	—	—	44,092,762
Municipality of Anchorage Trust	47,266,534	—	—	47,266,534
Equity securities:				
Police/Fire Retirement System Trust	64,102,921	—	—	64,102,921
Municipality of Anchorage Trust	39,125,125	—	—	39,125,125
	<u>633,898,198</u>	<u>—</u>	<u>—</u>	<u>633,898,198</u>
Component units:				
Alaska Center for Performing Arts Repurchase Agreement	1,008,434	—	—	1,008,434
	<u>\$ 634,906,632</u>	<u>—</u>	<u>—</u>	<u>634,906,632</u>

Amounts not classified because they do not exist in physical or book entry form:

Anchorage:	
Money Market Funds	6,667,396
Nonparticipating Annuity	5,356,000
Alaska Center for Performing Arts:	
Money Market Funds	557,060
Police/Fire Retiree Medical Liability:	
Mutual Funds	18,739,775
Police/Fire Retiree Medical Trust:	
Mutual Funds	5,897,481
Municipality of Anchorage Trust:	
Mutual Funds	42,223,758
Police/Fire Retirement System Trust:	
Equity Securities – Pooled	161,241,301
Short-term Investment Funds – Pooled	13,376,053
Mutual Funds	20,405,846
Real Estate Investment Trust	38,916,290
Real Estate Mortgages	85,616
	<u>\$ 948,373,208</u>
Cash and Investments	\$ 948,373,208
Cash on Hand and in Banks	2,767,255
	<u>\$ 951,140,463</u>
Governmental Activities	\$ 346,432,770
Business-Type Activities	197,075,172
Fiduciary Funds	407,632,521
	<u>\$ 951,140,463</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2004

NOTE 4 Receivables

Receivables as of year end for Anchorage's individual governmental major fund, governmental nonmajor funds and business-type activities in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Governmental Activities</u>		<u>Business-Type</u>	<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Enterprise Funds</u>	
Property Taxes	\$ 9,326,145	\$ —	\$ —	\$ 9,326,145
Unbilled Reimbursable Work Orders	—	—	549,650	549,650
Special Assessments Receivable	2,001,814	538,923	260,416	2,801,153
Capital Lease Receivable	54,545,000	—	457,236	55,002,236
Trade Accounts, including internal service funds	11,074,894	4,751,478	42,309,132	58,135,504
	<u>76,947,853</u>	<u>5,290,401</u>	<u>43,576,434</u>	<u>125,814,688</u>
Allowance for Uncollectible Accounts	<u>(1,955,354)</u>	<u>(125)</u>	<u>(652,697)</u>	<u>(2,608,176)</u>
	<u>\$ 74,992,499</u>	<u>\$ 5,290,276</u>	<u>\$ 42,923,737</u>	<u>\$ 123,206,512</u>

Special assessment receivables and the portion outside of amount due within one year of capital leases receivables are not expected to be collected within one year.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2004

NOTE 5 Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows (in thousands):

(a) Primary Government

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,193,603	\$ 2,904	\$ (772)	\$ 1,195,735
Artwork	12,970	973	—	13,943
Construction				
Work-in-Progress	42,013	70,376	(82,531)	29,858
Infrastructure	1,279,937	10,746	(3,583)	1,287,100
Total Capital Assets, Not Being Depreciated	<u>2,528,523</u>	<u>84,999</u>	<u>(86,886)</u>	<u>2,526,636</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	374,338	6,511	(602)	380,247
Equipment	138,030	19,261	(2,392)	154,899
Infrastructure	176,933	20,042	(1,171)	195,804
Total Capital Assets, Being Depreciated	<u>689,301</u>	<u>45,814</u>	<u>(4,165)</u>	<u>730,950</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	203,367	12,692	(450)	215,609
Equipment	92,267	11,924	(1,558)	102,633
Infrastructure	87,537	4,146	(722)	90,961
Total Accumulated Depreciation	<u>383,171</u>	<u>28,762</u>	<u>(2,730)</u>	<u>409,203</u>
Total Capital Assets, Being Depreciated, Net	<u>306,130</u>	<u>17,052</u>	<u>(1,435)</u>	<u>321,747</u>
Total Governmental Activities, Net	<u>\$ 2,834,653</u>	<u>\$ 102,051</u>	<u>\$ (88,321)</u>	<u>\$ 2,848,383</u>

Anchorage has elected to use the modified approach for its paved road infrastructure network and to depreciate its drainage systems infrastructure network. At December 31, 2004 no other infrastructure is reported retroactively. Other infrastructure in governmental activities is reported prospectively.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

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	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land and Property held for future use	\$ 58,214	\$ 63	\$ —	\$ 58,277
Construction Work-in-Progress	<u>66,776</u>	<u>49,838</u>	<u>(57,574)</u>	<u>59,040</u>
Total Capital Assets, Not Being Depreciated	124,990	49,901	(57,574)	117,317
Capital Assets, Being Depreciated:				
Distribution and Collection Systems, Infrastructure	1,452,406	71,574	(25,750)	1,498,230
Buildings and Improvements	<u>150,430</u>	<u>3,390</u>	<u>(497)</u>	<u>153,323</u>
Total Capital Assets, Being Depreciated	<u>1,602,836</u>	<u>74,964</u>	<u>(26,247)</u>	<u>1,651,553</u>
Less Accumulated Depreciation for:				
Distribution and Collection Systems, Infrastructure	569,759	40,412	(24,694)	585,477
Buildings and Equipment	<u>64,622</u>	<u>4,318</u>	<u>(864)</u>	<u>68,076</u>
Total Accumulated Depreciation	<u>634,381</u>	<u>44,730</u>	<u>(25,558)</u>	<u>653,553</u>
Total Capital Assets, Being Depreciated, Net	<u>968,455</u>	<u>30,234</u>	<u>(689)</u>	<u>998,000</u>
Total Business-Type Activities, Net	<u>\$ 1,093,445</u>	<u>\$ 80,135</u>	<u>\$ (58,263)</u>	<u>\$ 1,115,317</u>

Depreciation expense was charged to the departments and functions of the primary government as follows (in thousands):

Governmental Activities:	
General Government	\$ 3,454
Fire Services	2,658
Police Services	1,099
Health and Human Services	792
Economic & Community Development	10,180
Public Transportation	2,384
Public Works	4,608
Maintenance and Operations	<u>3,587</u>
Total – Governmental Activities	<u>\$ 28,762</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

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Business-Type Activities:		
Electric	\$	14,344
Water		5,737
Wastewater		4,495
Refuse		448
Solid Waste		2,480
Port		3,341
Municipal Airport		1,284
Parking Authority		1,183
Total – Business-Type Activities		<u>33,312</u>
Depreciation expense offset by amortization of regulatory liability - contributed plant		<u>11,418</u>
Gross increase in accumulated depreciation		<u><u>44,730</u></u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2004

(b) Discretely Presented Component Units – Anchorage School District – Capital Assets

The capital assets activity for the fiscal year ended June 30, 2004 are as follows:

	<u>Balance July 1, 2003</u>	<u>Additions/ Transfers</u>	<u>Deduction/ Transfers</u>	<u>Balance June 30, 2004</u>
Governmental Activities:				
Capital Assets, not Being				
Depreciated:				
Land	\$ 25,435,602	\$ 6,096,381	\$ 142,736	\$ 31,389,247
Construction in Progress	222,480,065	121,896,066	146,158,510	198,217,621
Total Capital Assets not Being Depreciated	<u>247,915,667</u>	<u>127,992,447</u>	<u>146,301,246</u>	<u>229,606,868</u>
Capital Assets Being Depreciated:				
Land Improvements	38,392,167	2,829,481	126,781	41,094,867
Buildings and Equipment	927,233,082	135,513,136	35,501,513	1,027,244,705
Pupil Transportation Equipment	<u>9,904,563</u>	<u>21,320</u>	<u>886,189</u>	<u>9,039,694</u>
Total Capital Assets Being Depreciated	<u>975,529,812</u>	<u>138,363,937</u>	<u>36,514,483</u>	<u>1,077,379,266</u>
Less Accumulated				
Depreciation for:				
Land Improvements	(25,740,129)	(1,508,167)	(113,296)	(27,135,000)
Buildings and Equipment	(261,169,813)	(20,699,354)	(15,307,519)	(266,561,648)
Pupil Transportation Equipment	<u>(5,626,802)</u>	<u>(871,361)</u>	<u>(97,745)</u>	<u>(6,400,418)</u>
Total Accumulated Depreciation	<u>(292,536,744)</u>	<u>(23,078,882)</u>	<u>(15,518,560)</u>	<u>(300,097,066)</u>
Total Capital Assets, Being Depreciated, Net	<u>682,993,068</u>	<u>115,285,055</u>	<u>20,995,923</u>	<u>777,282,200</u>
Governmental Activities Capital Assets, Net	<u>\$ 930,908,735</u>	<u>\$ 243,277,502</u>	<u>\$ 167,297,169</u>	<u>\$ 1,006,889,068</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2004

NOTE 6 Interfund Receivables, Payables, and Transfers

(a) Interfund Receivables and Payables

A summary of interfund receivables and payables is as follows:

	Receivables			Payables		
	Interfund	Blended Component Unit/Primary Government	Discretely Presented Component Unit/Primary Government	Interfund	Blended Component Unit/Primary Government	Discretely Presented Component Unit/Primary Government
General Fund	\$ 5,958,239	\$ 246,087	\$ 244,395	\$ 34,577	\$ —	\$ 54,667,774
MOA Trust Fund	—	—	—	—	—	—
Nonmajor Governmental Funds	460,706	114,130	—	1,105,754	—	—
Nonmajor Enterprise Funds	—	—	—	—	1,323,103	—
Internal Service Funds	6,734,166	962,886	—	12,012,780	—	—
Total Primary Government	13,153,111	1,323,103	244,395	13,153,111	1,323,103	54,667,774
Discretely Presented Component						
Unit Anchorage School District, June 30, 2004	—	—	81,751,661	—	—	—
Adjustment:						
Activity Occurring Between July 1, 2004 and December 31, 2004	—	—	(27,083,887)	—	—	244,395
Total Reporting Entity	\$ 13,153,111	\$ 1,323,103	\$ 54,912,169	\$ 13,153,111	\$ 1,323,103	\$ 54,912,169

All balances are expected to be settled within the next fiscal year, except for those interfund receivables and payables recorded as advances to/from other funds.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

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(b) Interfund Transfers

A summary of interfund transfers is as follows*:

	Transfers in		Transfers out	
	Interfund	Blended Component Unit/Primary Government	Interfund	Blended Component Unit/Primary Government
General Fund	\$ 11,955,070	\$ 564,136	\$ 8,290,953	\$ 1,373,500
MOA Trust Fund	—	—	6,600,000	—
Nonmajor Governmental Funds	11,387,264	201,682	3,504,943	—
Nonmajor Enterprise Funds	—	1,373,500	1,073,520	765,818
Internal Service Funds	—	—	3,872,918	—
Total Primary Government	\$ 23,342,334	\$ 2,139,318	\$ 23,342,334	\$ 2,139,318

* Schedule does not include transfers to and from fiduciary funds, which have been reflected in the fund financial statements

Significant transfers were as follows:

- General Fund transferred \$1,148,500 to the Anchorage Center for the Performing Arts component unit to fund operations;
- General Fund transferred \$4,808,912 to Capital Projects Funds for the acquisition and construction of capital assets;
- Heritage Land Bank Fund transferred \$2,776,000 to the Heritage Land Bank Capital Fund to fund the acquisition of land for future capital construction;
- MOA Trust Fund transferred \$6,600,000 to the General Fund to fund operations;
- Equipment Maintenance Fund transferred \$3,872,918 to the General Fund to implement the Municipality's fund balance designation policy;
- Solid Waste Services Fund transferred \$790,755 to the General Fund as a dividend;
- Refuse Fund transferred \$282,765 to the General Fund as a dividend.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2004

NOTE 7 Lease Agreements

(a) Lease Commitments

Commitments under operating lease agreements for facilities provide for minimum annual rental payments as follows (in thousands):

	<u>Anchorage</u>
Years:	
2005	\$ 5,182
2006	4,828
2007	4,279
2008	4,231
2009	4,231
2010-2014	21,155
2015-2019	21,155
2020-2024	21,155
2025-2029	6,804
2030-2034	156
Total	<u>\$ 93,176</u>
 2004 rent expense	 <u>\$ 5,175</u>

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Notes to Basic Financial Statements

December 31, 2004

(b) Investment in Direct Financing Leases

Anchorage has entered into direct financing leases for various plant and equipment located at the Port of Anchorage.

Components of the investments in leases as of December 31, 2004 follow (in thousands):

	Direct Financing
Total minimum lease payment to be received	\$ 2,121
Less unearned interest income	(354)
Net investment in leases	1,767
Amount due within one year	(457)
Total noncurrent investment – included in deferred charges and other assets in the accompanying financial statements	\$ 1,310
Minimum lease payments to be received as follows:	
2005	603
2006	603
2007	364
2008	301
2009	236
2010	14
	\$ 2,121

(c) Port of Anchorage Lease Agreements

The Port of Anchorage has leased to unrelated third parties 72.8 acres of space in the Port Industrial Park. The leases provide for five-year rental adjustment intervals. Future minimum payments to be received are as follows (in thousands):

	Amount
Years:	
2005	2,422
2006	357
Total	\$ 2,779
Lease revenue for 2004	\$ 2,516

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

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(d) Parking Authority Lease Agreements

Leases to unrelated third parties of 9,150 square feet of retail space in Sixth Avenue Parking Mall provide for adjustments to rent based on the Consumer Price Index and additional rents based on gross revenue. The lease to an unrelated party of Fifth Avenue Garage retail space through September 13, 2007 provides for a minimum rental of \$480,000 per year and additional rent equal to 50% of net income each calendar year as defined by the lease. Future minimum rental on noncancelable operating leases follow (in thousands):

	<u>Sixth Avenue</u>	<u>Fifth Avenue</u>
Years:		
2005	\$ 89	\$ 480
2006	42	480
2007	—	340
	<u>\$ 131</u>	<u>\$ 1,300</u>
Total		
	<u>\$ 131</u>	<u>\$ 480</u>
Lease revenue for 2004		
	<u>\$ 131</u>	<u>\$ 480</u>

NOTE 8 Long Term Obligations

(a) General Obligation Bonds

Anchorage issues general obligation (GO) bonds to provide funds for capital acquisition and construction. GO bonds are direct obligations and pledge the full faith and credit of the government. They generally are issued as 20-year serial bonds with equal amounts of principal and interest payments due each year.

A portion of Anchorage's GO bonds are reported in the proprietary funds since they are expected to be repaid from proprietary fund revenues; such amounts total \$15,997,050, net of unamortized discounts and losses on refundings of \$287,950 at December 31, 2004. School District GO bonds are reported as obligations of the component unit since they are expected to be repaid from School District revenues; such amounts total \$681,250,000 at June 30, 2004. All other Anchorage GO bonds are reported in the government-wide financial statements.

In October 2004, Anchorage issued \$52,375,000 of new general obligation bonds to provide funding for capital acquisition and construction projects.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

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Annual debt service requirements to maturity for general obligation bonds are as follows:

Governmental Activities			
	Principal	Interest	Total
Years:			
2005	\$ 24,385,000	\$ 17,179,639	\$ 41,564,639
2006	25,030,000	15,915,979	40,945,979
2007	22,440,000	14,929,386	37,369,386
2008	20,705,000	13,924,916	34,629,916
2009	19,995,000	13,065,566	33,060,566
2010-2014	102,585,000	50,579,154	153,164,154
2015-2019	100,090,000	26,133,228	126,223,228
2020-2024	46,670,000	5,237,363	51,907,363
	361,900,000	156,965,231	518,865,231
Add unamortized premiums/ discounts, net	5,486,459	—	5,486,459
	\$ 367,386,459	\$ 156,965,231	\$ 524,351,690
Business-Type Activities			
	Principal	Interest	Total
Years:			
2005	\$ 8,000,000	\$ 628,015	\$ 8,628,015
2006	6,415,000	259,748	6,674,748
2007	430,000	99,640	529,640
2008	455,000	77,065	532,065
2009	480,000	52,950	532,950
2010-2014	505,000	27,270	532,270
	16,285,000	1,144,688	17,429,688
Less unamortized premiums/ discounts, net	(287,950)	—	(287,950)
	\$ 15,997,050	\$ 1,144,688	\$ 17,141,738

(b) Revenue Bonds

On April 15, 2000 Anchorage issued \$60,440,000 in Revenue Bonds for the purpose of construction and operation of the new municipal jail facility that will be leased to the State of Alaska. Jail revenue bond covenants require an “absolute net lease” pursuant to which Anchorage shall not be expected or required to make any payment of any kind under the Agreement of Lease. The Department of Administration (DOA) of the State of Alaska is required to make all payments under the Agreement of Lease. The DOA’s obligation to make lease payments and to perform and observe all other

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Notes to Basic Financial Statements

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covenants and agreements is absolute and unconditional except as expressly provided in the Agreement of Lease.

In 2004 the Water Utility sold "mini bonds" in an aggregate appreciated amount of \$2,000,000 to the general public. The bond proceeds were deposited in the bond and grant capital acquisition and construction pool to be spent within six months on capital improvements and upgrades to the system approved as part of the Utility's 2004 and 2005 capital improvement plans and to pay costs of issuance. The purchase price for each \$1,000 of appreciated amount of bonds was \$650.29. The bonds were dated October 12, 2004 and interest began accruing on October 12, 2004. Accrued interest will be compounded on April 12 and October 12 of each year, commencing with April 12, 2005 at the rate of 4.35% per annum. All accreted interest and principal will be paid only at final maturity unless tendered earlier by the owner by the method prescribed in the official statement.

In 2004, the Wastewater Utility issued \$22,620,000 of revenue bonds to finance a large portion of its capital expansion. The proceeds of the improvement bonds were used to reimburse the Municipality of Anchorage for the costs of the certain additions, betterments and improvements to the system undertaken as a part of the 2001, 2002 and 2003 capital improvement plans (approximately \$11.9 million); to pay a portion of the costs of the system's 2004 and 2005 capital improvement plans.

Electric, Water, Wastewater, Solid Waste, Refuse Collection and Port revenue bond covenants require establishment of certain cash reserves. Revenue bond covenants further stipulate that operating income, as defined in the covenants, will be at least equal to 1.25 to 1.40 times the debt service requirement for that year. All such requirements were met in 2004.

Annual debt service requirements to maturity for revenue bonds are as follows:

	Governmental Activities		
	Principal	Interest	Total
Years:			
2005	\$ 2,175,000	\$ 3,039,125	\$ 5,214,125
2006	2,290,000	2,921,919	5,211,919
2007	2,415,000	2,798,413	5,213,413
2008	2,550,000	2,661,706	5,211,706
2009	2,690,000	2,519,463	5,209,463
2010-2014	15,960,000	10,101,697	26,061,697
2015-2019	21,400,000	4,661,200	26,061,200
2020-2024	5,065,000	145,619	5,210,619
	\$ 54,545,000	\$ 28,849,142	\$ 83,394,142

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	Business-Type Activities		
	Principal	Interest	Total
Years:			
2005	\$ 20,125,000	\$ 19,657,169	\$ 39,782,169
2006	21,120,000	18,640,473	39,760,473
2007	19,060,000	17,741,628	36,801,628
2008	20,145,000	16,688,130	36,833,130
2009	20,940,000	15,572,289	36,512,289
2010-2014	110,315,000	59,923,322	170,238,322
2015-2019	63,410,000	32,822,867	96,232,867
2020-2024	54,615,000	17,740,620	72,355,620
2025-2029	26,735,000	5,912,508	32,647,508
2030-2034	11,200,000	1,493,681	12,693,681
	367,665,000	206,192,687	573,857,687
Less unamortized premiums/ discounts, net	(17,224,656)	—	(17,224,656)
	\$ 350,440,344	\$ 206,192,687	\$ 556,633,031

(c) Special Assessment District Bonds

In 1989 Anchorage issued \$3,438,200 of Roads and Drainage Consolidated Special Assessment (CSA) District 1 Bonds. In 1990 Anchorage issued \$590,770 for Water Utility CSA District 2 and \$985,448 for Water and Wastewater Utility CSA District 3. In 1991 Anchorage issued \$728,721 for Roads and Drainage Special Assessment District 1P87. In 1992 Anchorage issued \$48,667 for Natural Gas Line Special Assessment District 2G90. In 1993, Anchorage issued \$532,677 for Natural Gas Line Special Assessment Districts 1G91. These bonds were issued to provide permanent financing for improvements in certain identified special assessment districts. The bonds are backed only by the assessments levied in the identified districts and by the Roads and Drainage Guarantee Reserves, the Natural Gas Line Guarantee Reserves, and the Water and Wastewater Special Assessment Guarantee Reserves. The debt for Roads and Drainage and Natural Gas Line bonds is included in the Governmental Activities while the debt for CSA Districts 2 and 3 bonds is included in the Business-type Activities.

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Notes to Basic Financial Statements

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Annual debt service requirements to maturity for special assessment bonds are as follows:

Governmental Activities			
	Principal	Interest	Total
Years:			
2005	\$ 155,000	\$ 55,658	\$ 210,658
2006	140,000	43,150	183,150
2007	150,000	31,750	181,750
2008	150,000	19,515	169,515
2009	35,000	7,244	42,244
2010-2014	60,000	6,863	66,863
	\$ 690,000	\$ 164,180	\$ 854,180
Business-Type Activities			
	Principal	Interest	Total
Years:			
2005	\$ 90,000	\$ 22,275	\$ 112,275
2006	30,000	15,150	45,150
2007	35,000	12,763	47,763
2008	40,000	9,975	49,975
2009	45,000	6,788	51,788
2010-2014	40,000	3,200	43,200
	280,000	70,151	350,151
Less unamortized premiums/ discounts, net	(7,637)	—	(7,637)
	\$ 272,363	\$ 70,151	\$ 342,514

(d) Certificates of Participation

On April 1, 1994, Anchorage issued \$6,995,000 of Certificates of Participation, Series 1994B Tax Exempt, for the Information Technology Internal Service Fund.

On July 1, 1999 Anchorage issued \$2,437,262 of Certificates of Participation, Series 1999A Tax Exempt, for the Information Technology Internal Service Fund.

Proceeds from the sale of the Series 1994B and 1999A Nontaxable Certificates were used to prepay an existing lease obligation, to acquire new property, to fund a reserve fund for the payment of principal and interest on the certificates and to pay certificate issuance costs. The debt, included in the Internal Service Fund, is not backed by a pledge of the full faith and credit of Anchorage.

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Notes to Basic Financial Statements

December 31, 2004

Annual debt service requirements to maturity for certificates of participation are as follows:

	Governmental Activities		
	Principal	Interest	Total
Years:			
2005	\$ 3,200,000	\$ 248,000	\$ 3,448,000
2006	3,360,000	84,000	3,444,000
	<u>\$ 6,560,000</u>	<u>\$ 332,000</u>	<u>\$ 6,892,000</u>

(e) Notes and Contracts

Anchorage has various notes and contracts for equipment in its Information Technology Department and clean water fund loans in its Solid Waste, Water, and Wastewater Utilities.

In 2004 the Water and Wastewater Utilities obtained additional low interest loans for \$8,715,413 and \$8,228,002 from the State of Alaska to fund capital improvement projects.

In September 2004, Anchorage entered into an agreement with the Alaska Municipal Bond Bank Authority for \$5,365,000 to provide funding for repairs to the Performing Arts Center roof. This loan will be repaid with revenues from a Performing Arts Center ticket surcharge.

In 2004 Anchorage entered into lease agreements for \$1,146,807 to purchase one tanker and two pumpers for the Fire Department.

Annual debt service requirements to maturity for notes and contracts are as follows:

	Governmental Activities		
	Principal	Interest	Total
Years:			
2005	\$ 226,086	\$ 227,641	\$ 453,727
2006	267,170	302,583	569,753
2007	259,587	291,066	550,653
2008	272,357	279,396	551,753
2009	280,495	267,258	547,753
2010-2014	1,164,337	1,160,092	2,324,429
2015-2019	700,000	979,142	1,679,142
2020-2024	865,000	812,275	1,677,275
2025-2029	1,090,000	578,757	1,668,757
2030-2034	1,405,000	264,034	1,669,034
2035-2039	325,000	8,121	333,121
	<u>\$ 6,855,032</u>	<u>\$ 5,170,365</u>	<u>\$ 12,025,397</u>

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	Business-Type Activities		
	Principal	Interest	Total
Years:			
2005	\$ 3,061,088	\$ 1,198,648	\$ 4,259,736
2006	3,948,581	1,739,154	5,687,735
2007	3,986,880	1,479,940	5,466,820
2008	4,026,139	1,380,271	5,406,410
2009	4,066,377	1,279,614	5,345,991
2010-2014	20,104,473	4,862,885	24,967,358
2015-2019	17,233,343	2,474,042	19,707,385
2020-2024	8,930,317	638,893	9,569,210
2025-2029	850,126	21,253	871,379
	<u>\$ 66,207,324</u>	<u>\$ 15,074,700</u>	<u>\$ 81,282,024</u>

(f) Unfunded Pension Obligation

Anchorage and Anchorage Parking Authority recognized unfunded pension obligations of \$3,104,012 and \$54,299 respectively in 2004 as a result of the actuarially determined employer contribution rate for PERS being higher than the State of Alaska required contribution rate, as limited by state statute.

(g) Bonds Authorized But Unissued

A summary of authorized but unissued bonds as of December 31, 2004 (in thousands):

General Obligation Bonds	Interest Limitation	Amount Authorized	Amount Issued	Remaining Authorized
Primary Government:				
Public Transit Services	None	\$ 780	\$ 780	\$ —
Cultural and Recreation Services	None	1,750	1,750	—
Roads and Drainage	None	88,310	38,415	49,895
Emergency Services	None	840	840	—
Fire Protection	None	5,650	5,650	—
Public Safety	None	2,940	2,940	—
Total Authorized but Unissued General Obligation Bonds				<u><u>\$ 49,895</u></u>

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Notes to Basic Financial Statements

December 31, 2004

There are \$112,345,000 authorized but unissued general obligation school bonds of the Municipality of Anchorage at December 31, 2004 as follows (in thousands):

<u>Purpose</u>	<u>Ordinance Date</u>	<u>Interest Limitation</u>	<u>Amount Authorized</u>	<u>Amount Issued</u>	<u>Remaining Authorized</u>
Construction/renovation/ repair of school facilities	April 20, 1999	None	\$ 700	\$ 400	\$ 300
Construction/renovation/ replacement/major maintenance	April 2, 2002	None	7,320	5,870	1,450
Construction/renovation/ replacement/major maintenance	April 1, 2003	None	72,585	62,115	10,470
Construction/renovation/ replacement/major maintenance	April 2004	None	36,380	17,855	18,525
Construction/renovation/ replacement/major maintenance	November 2004	None	81,600	—	81,600
					<u>\$ 112,345</u>

(h) Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows (in thousands):

	<u>Balance January 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2004</u>	<u>Due Within One Year</u>
Governmental activities:					
General Obligation Bonds	\$ 334,678	\$ 77,999	\$ (45,290)	\$ 367,387	\$ 24,385
Revenue Bonds	56,610	—	(2,065)	54,545	2,175
Special Assessment District Bonds	895	—	(205)	690	155
Certificates of Participation	9,615	—	(3,055)	6,560	3,200
Long-Term Contracts	811	6,512	(468)	6,855	226
Total Debt Payable	<u>402,609</u>	<u>84,511</u>	<u>(51,083)</u>	<u>436,037</u>	<u>30,141</u>
Compensated Absences	13,366	11,982	(11,863)	13,485	10,593
Unfunded Pension Obligation	—	2,477	—	2,477	—
Post-employment Benefits	<u>153,919</u>	<u>—</u>	<u>—</u>	<u>153,919</u>	<u>—</u>
Total Governmental Activities	<u>\$ 569,894</u>	<u>\$ 98,970</u>	<u>\$ (62,946)</u>	<u>\$ 605,918</u>	<u>\$ 40,734</u>

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December 31, 2004

	Balance January 1, 2004	Additions	Reductions	Balance December 31, 2004	Due Within One Year
Business-type activities:					
General Obligation Bonds	\$ 23,574	\$ —	\$ (7,577)	\$ 15,997	\$ 8,000
Revenue Bonds	327,919	44,872	(22,350)	350,441	20,125
Special Assessment District Bonds	304	—	(32)	272	—
Long-term Contracts	52,207	16,943	(2,943)	66,207	3,061
Total Bonds Payable	404,004	61,815	(32,902)	432,917	31,186
Compensated Absences	4,131	4,613	(4,495)	4,249	4,068
Unfunded Pension Obligation	—	681	—	681	—
Total Business- type Activities	<u>\$ 408,135</u>	<u>\$ 67,109</u>	<u>\$ (37,397)</u>	<u>\$ 437,847</u>	<u>\$ 35,254</u>

Anchorage has recognized a liability for and expects to pay approximately \$1,400,000, plus interest, in 2005 for judgements. Governmental activities compensated absences are typically liquidated by the General Fund.

(i) Refunded Bond Issues

In August 2004 Anchorage issued \$21,465,000 of new general obligation bonds to advance refund \$21,425,000 of outstanding bonds. The economic gain generated by this refunding was \$1,081,150, calculated as the difference between the present value of the debt service requirements of the new debt and the present value of the debt service requirements of the refunded debt.

In 2004 the Water Utility Fund issued \$18,595,000 of Water Revenue and Refunding Bonds. Net proceeds of \$18,486,045 were used to provide for the defeasance and redemption of \$3,055,000 principal amount of the 1993 Senior Lien Water Revenue and Refunding Bonds and to reimburse the utility for capital improvement expenditures, to pay the costs of certain additions, betterments and extensions to the water system, to satisfy the reserve requirement, and to pay costs of issuance of the water bonds. The remaining proceeds of \$15,003,158 were deposited to the bond and grant capital acquisition and construction pool. The refunding resulted an economic gain of \$41,325.

(j) Defeasance of Debt

Anchorage defeased certain general obligation and reserve bonds by placing the proceeds of new bonds and other available funds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, trust account assets and liabilities for defeased bonds are not included in Anchorage's financial statements. At December 31, 2004 the amount of general obligation and revenue bonds considered defeased was \$301,590,000.

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Notes to Basic Financial Statements

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(k) School District Debt

The following is a summary of long-term debt transactions of the School District for fiscal year ended June 30, 2004 (in thousands):

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2004</u>
General Obligation Bonds	\$ 583,225	\$ 126,770	\$ 28,745	\$ 681,250

Bonds payable at June 30, 2004 are comprised of the following individual issues (in thousands):

<u>General Obligation Bonds</u>	<u>Amount</u>
\$41,635,000 1993 series B school construction refunding serial bonds due in annual installments of \$1,245,000 to \$4,030,000 through September 2005; interest at 5.0%.	\$ 5,275
\$63,000,000 1994 series A school construction serial bonds due in annual installments of \$2,885,000 to \$3,060,000 through July 2005; interest at 5.4% to 6.5%.	5,945
\$60,000,000 1995 series A school construction serial bonds due in annual installments of \$110,000 to \$5,030,000 through October 2015; interest at 5.0% to 6.0%.	25,390
\$29,765,000 1995 series A school construction refunding serial bonds due in annual installments of \$1,505,000 to \$3,700,000 through October 2012; interest at 5.125% to 6.0%.	25,990
\$65,000,000 1996 series A school construction serial bonds due in annual installments of \$2,655,000 to \$5,345,000 through August 2016; interest at 5.5% to 6.0%.	14,880
\$43,850,000 1997 series A school construction serial bonds due in annual installments of \$1,790,000 to \$3,390,000 through December 2017; interest at 5.0% to 5.25%.	20,095
\$20,735,000 1998 series A school construction refunding serial bonds due in annual installments of \$135,000 to \$5,120,000 through July 2014; interest at 3.85% to 4.75%.	20,155
\$55,900,000 1999 series A school construction serial bonds due in annual installments of \$2,185,000 to \$4,270,000 through December 2018; interest at 4.0% to 5.125 %.	40,735
\$35,000,000 2000 series A school construction serial bonds due in annual installments of \$1,180,000 to \$2,770,000 through December 2020; interest at 4.75% to 5.75 %.	29,910
\$77,900,000 2000 series B school construction serial bonds due in annual installments of \$2,685,000 to \$6,235,000 through December 2020; interest at 4.75% to 5.875%.	59,155

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General Obligation Bonds (continued)	Amount
\$65,000,000 2001 series A school construction serial bonds due in annual installments of \$2,240,000 to \$5,065,000 through June 2021; interest at 4.125% to 5.5%.	\$ 58,715
\$51,805,000 2001 school construction refunding bonds due in annual installments of \$55,000 to \$10,345,000 through July 2013; interest 4.125% to 5.5%.	51,695
\$131,800,000 2002 series B school construction serial bonds due in annual installments of \$4,191,000 to \$10,390,000 through July 2022; interest 3.2% to 5.5%.	127,750
\$70,345,000 2002 school construction refunding bonds due in annual installments of \$150,000 to \$10,255,000 through July 2015; interest 3.75% to 5.5%.	68,790
\$126,770,000 2003 series B school construction serial bonds due in annual installments of \$1,325,000 to \$9,420,000 through September 2023; interest 2.0% to 5.25%.	126,770
	<u>\$ 681,250</u>

The annual requirements to amortize all general obligation debt outstanding as of June 30, 2004, including interest payments in the amount of \$321,487,859 are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 34,760	\$ 33,485	\$ 68,245
2006	33,515	31,832	65,347
2007	34,525	30,201	64,726
2008	35,660	28,694	64,354
2009	37,075	27,102	64,177
2010-2014	207,025	106,254	313,279
2015-2019	189,995	52,509	242,504
2020-2024	108,695	11,411	120,106
	<u>\$ 681,250</u>	<u>\$ 321,488</u>	<u>\$ 1,002,738</u>

The amount of long-term liability that is due within one year as of June 30, 2004 is \$34,760,000.

The Debt Service Fund has \$10,732,112 available to service the general obligation bonds.

There are a number of restrictions contained in the various bond indentures. The School District is in compliance with all significant restrictions.

The amount available and to be provided by Debt Service Fund to repay long-term debt obligations, general obligation bonds at June 30, 2004 is \$681,250,000.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2004

NOTE 9 Conduit Debt Obligations

(a) Nonrecourse Revenue Bonds – United Way of Anchorage

On November 1, 2000, Anchorage issued \$850,000 of Nonrecourse Revenue Bonds on behalf of the United Way of Anchorage. On July 30, 2001, Anchorage issued \$900,000 of Nonrecourse Revenue Bonds on behalf of the United Way of Anchorage. Anchorage has no direct involvement with the administration of these bonds except to allow their issuance under the name of Anchorage. These revenue bonds are issued under provisions of state and Federal law that provide that the bonds do not constitute an indebtedness of Anchorage. The bonds do not constitute a general obligation or pledge of the full faith and credit of Anchorage. Accordingly, the bonds and the related assets are not reflected in the accompanying financial statements.

A schedule of the remaining debt service on the 2000 issue bonds follows:

	<u>Principal</u>
Years:	
2005	\$ 44,654
2006	47,762
2007	51,089
2008	54,645
2009	58,450
2010-2014	359,270
2015	80,012
	<u>\$ 695,882</u>

A schedule of the remaining debt service on the 2001 issue bonds follows:

	<u>Principal</u>
Years:	
2005	\$ 28,162
2006	30,049
2007	32,062
2008	34,209
2009	36,499
2010-2014	222,608
2015-2019	307,826
2020-2021	126,865
	<u>\$ 818,280</u>

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Notes to Basic Financial Statements

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(b) Higher Education Revenue Bonds – Alaska Pacific University Project

On January 5, 1993, Anchorage participated in the issuance of \$18,800,000 of Higher Education Variable Rate Demand Revenue Bonds, Series 1993, on behalf of Alaska Pacific University. The proceeds were used to refund all Anchorage's Higher Education Variable Rate Demand Revenue Bonds, Series 1987; to refund a portion of the Revenue Bonds, 1990 (Alaska Pacific University Project), issued by the City of Seward; to fund certain other indebtedness of the University; and to pay costs of issuance of the bonds. The bonds bear interest at a weekly interest rate based upon prevailing market rates of like-quality debt instruments. The bonds do not constitute a general obligation debt or pledge of the full faith and credit of Anchorage. Accordingly, the bonds and the related assets are not reflected in the accompanying financial statements.

A schedule of the remaining debt service follows:

	<u>Principal</u>
Years:	
2005	\$ 700,000
2006	700,000
2007	800,000
2008	800,000
2009	900,000
2010-2014	5,600,000
2015-2017	4,500,000
	<u>\$ 14,000,000</u>

(c) Nonrecourse Revenue Bonds – Alaska Native Heritage Center

On February 13, 2001, Anchorage issued \$4,200,000 of Nonrecourse Revenue Bonds on behalf of the Alaska Native Heritage Center, Incorporated Project. Anchorage has no direct involvement with the administration of these bonds except to allow their issuance under the name of Anchorage. These revenue bonds are issued under provisions of state and Federal law that provide that the bonds do not constitute an indebtedness of Anchorage. The bonds do not constitute a general obligation or pledge of the full faith and credit of Anchorage. Accordingly, the bonds and the related assets are not reflected in the accompanying financial statements.

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Notes to Basic Financial Statements

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A schedule of the remaining debt service follows:

	<u>Principal</u>
Years:	
2005	\$ 216,971
2006	232,078
2007	248,237
2008	265,522
2009	284,009
2010-2011	2,244,495
	<u>\$ 3,491,312</u>

NOTE 10 Retirement Plans

Substantially all regular employees of Anchorage are members of a public employees' retirement system except for employees who are members of the International Brotherhood of Electrical Workers (IBEW) and International Union of Operating Engineers, Local 302 (Local 302) (effective July 1, 2004).

IBEW members participate in a union sponsored cost-sharing defined benefit plan. Employer contributions are determined from hours of work reported by participating employers and the contractual employer contribution rate in effect. The Electric Utility's current agreement provides for contributions of \$3.67 to the Plan for each hour worked by a covered employee. The total employer contributions for 2004, 2003 and 2002 were \$4,151,339, \$4,291,098, and \$3,871,875, respectively. Anchorage's obligation for IBEW employees' retirement is limited to the amount paid to the Alaska Electrical Trust Fund. Each year, IBEW issues audited financial statements that can be obtained by writing to International Brotherhood of Electrical Workers, 3333 Denali Street, Anchorage, Alaska 99503.

Local 302 members participate in a union sponsored cost-sharing defined benefit plan. Employer contributions are determined from compensable work hours and the contractual employer contribution rate in effect. The current agreement provides for contributions of \$3.50 per hour. Total employer contributions for 2004 were \$362,777. Anchorage's obligation for Local 302 employees' retirement is limited to the amount paid to the Local 302 International Operating Engineers-Employers Construction Industry Retirement Fund.

All Anchorage employees who are members of a public employees' retirement system participate in the State of Alaska Public Employees' Retirement System (PERS) except for police officers hired prior to October 6, 1994, paramedics and fire fighters hired prior to July 18, 1994, and command officers hired prior to May 24, 1994, who participate in either Plan I, Plan II, or Plan III of the Anchorage Police and Fire Retirement System. Police officers, command officers, paramedics and fire fighters hired subsequent to these dates are in the State Plan.

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(a) *State of Alaska Public Employees' Retirement System*

Plan Description

Anchorage contributes to PERS, a defined benefit, agent multiple-employer public employee retirement system which was established and is administered by the State of Alaska (State) to provide pension, post employment healthcare, death and disability benefits to eligible employees.

All full-time Anchorage employees not covered by the State of Alaska Teacher's Retirement System (TRS) or another retirement plan are eligible to participate in PERS. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

Each fiscal year, PERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

Funding Policy and Annual Pension Cost

Employee contribution rates are required by State statute. The funding policy for PERS provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due.

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Annual pension cost for the year ended 2004 and related information for Anchorage, and Anchorage Parking Authority (APA) are as follows:

	Pension			
	Anchorage		APA	
	<u>1/1/04 - 6/30/04</u>	<u>7/1/04 - 12/31/04</u>	<u>1/1/04 - 6/30/04</u>	<u>7/1/04 - 12/31/04</u>
Contribution Rates:				
Employee Rate:				
Police Officers and Firefighters	5.27%	4.65%	N/A	N/A
Other Employees	4.74%	4.19%	4.73%	4.19%
Actuarially Required Employer Rate:				
Police Officers and Firefighters	5.59%	14.38%	N/A	N/A
Other Employees	4.64%	14.38%	2.94%	12.43%
Adjusted Actual Employer Rate:				
Police Officers and Firefighters	3.43%	6.14%	N/A	N/A
Other Employees	2.36%	5.19%	2.94%	5.71%
Actuarial Valuation Date	June 30, 2001	June 30, 2002	June 30, 2001	June 30, 2002
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Dollar, Open	Level Dollar, Open	Level Dollar, Open	Level Dollar, Open
Amortization Period	Rolling 25 Years	Rolling 25 Years	Rolling 25 Years	Rolling 25 Years
Asset Valuation Method	Market	Market	Market	Market
Actuarial Assumptions:				
Inflation Rate	3.50%	3.50%	3.50%	3.50%
Investment Return	8.25%	8.25%	8.25%	8.25%
Projected Salary Increase:				
Inflation	3.50%	3.50%	3.50%	3.50%
Productivity and Merit - Police	2.00%	2.50%	N/A	N/A
Productivity and Merit - Other	2.00%	2.00%	2.00%	2.00%

The components of annual pension cost for the year ended 2004 (in thousands) are as follows:

	Pension	
	<u>MOA</u>	<u>APA</u>
Annual Required Contribution (ARC)	\$ 9,818	\$ 122
Interest on the Net Pension Obligation (NPO)	—	—
Adjustment to the ARC	—	—
Annual Pension Cost (APC)	9,818	122
Contributions made	(6,714)	(68)
Increase in NPO	—	—
NPO, beginning of year	—	—
NPO, end of year	\$ 3,104	\$ 54

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Three year trend information (in thousands) follows:

Municipality of Anchorage				
	Year Ending December 31	APC	Percentage of APC Contributed	NPO
Pension	2002	4,662	100%	—
	2003	6,262	100%	—
	2004	9,818	68%	3,104

Anchorage Parking Authority				
	Year Ending December 31	APC	Percentage of APC Contributed	NPO
Pension	2002	26	100%	—
	2003	30	100%	—
	2004	122	56%	54

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress Pension Benefits (in thousands) (unaudited)							
	Actuarial Valuation Year Ended June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	(Overfunded) Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Municipality of Anchorage:							
Pension Benefits	2001	496,559	466,160	(30,399)	107%	100,953	(30)%
	2002	408,083	525,540	117,457	78%	117,039	100%
	2003	396,744	534,420	137,676	74%	124,211	111%
Anchorage Parking Authority:							
Pension Benefits	2001	1,882	1,745	(137)	108%	916	(13)%
	2002	1,801	2,432	631	74%	936	67%
	2003	1,804	2,467	633	73%	964	69%

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(c) ***Police and Fire Retirement System Plans***

Plans I, II and III are defined benefit single-employer plans established by Chapter 3.85 of the Code. The plans are administered by the Police and Fire Retirement Board (Retirement Board). The cost of administering the plans is financed by the Retirement Board. The board consists of eight members appointed by the Mayor and confirmed by the Assembly.

All regular full-time police officers hired prior to October 6, 1994; paramedics and fire fighters hired prior to July 18, 1994; and command officers hired prior to May 24, 1994, are required to participate in a plan. No other person is eligible to participate. Membership is determined by date of employment or employee election. Members employed on or before June 30, 1977, are members of Plan I, members employed between July 1, 1977, and April 16, 1984, are members of Plan II and members employed after April 16, 1984, are members of Plan III. Members of Plans I and II were permitted to elect into Plan III at its inception.

Members of Plan I are required to contribute an amount not to exceed 6% of compensation. Members of Plan II and III are required to contribute not more than 2.5:1 Anchorage/member contribution ratio. Anchorage is responsible for any additional contributions to ensure that Plans I, II, and III are financially sound.

Benefit and contribution provisions are established by Code and may be amended only by the Assembly. The actuarial valuation recommended contribution rates for Plans I, II and III are zero for both the employee and the employer. All contributions were made in accordance with actuarial recommendations except for Plan III. The Assembly adopted ordinance AO 94-95 which ceased contributions to Plan III on July 24, 1994.

Benefits for all three plans include voluntary normal, early and deferred retirement benefits and occupational and nonoccupational disability and death benefits. The extent of benefits varies by plan and basic benefit provisions are discussed in the following paragraphs. Benefits vest after 5 years of service for all plans, retirement benefits are paid monthly for life and are equal to 2.5% of average monthly compensation times years of credited service. A member may retire after 20 years of credited service and immediately begin receiving a monthly benefit. For Plans I and II average monthly compensation is the amount paid during the period of the highest three consecutive calendar years divided by the number of months for which compensation was received. For Plan III, final average compensation is the greater of the average of the two highest consecutive tax years of base compensation or average of total base compensation for the last 52 pay periods.

Plan I and II members may elect early retirement after five years of credited service and attainment of age 55 and receive a retirement benefit. Plan III members may elect early retirement after 15 years of credited service and either withdraw their contributions or start receiving a retirement benefit. All three plans have deferred retirement options for members who have at least five years credited service and have not reached age 55. Plan I and II members may either withdraw their contributions or remain in the plan and begin receiving a retirement benefit upon reaching age 55. Plan III members either withdraw their contributions or receive a retirement benefit beginning the date on which he or she would have completed 20 years of credited service or upon reaching age 55.

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Disability benefits may be either occupational or nonoccupational. Benefits are payable for life and are subject to certain restrictions. To be eligible for nonoccupational benefits, a member must have five years credited service prior to date of disability. Plan I and II members receive an occupational benefit of 66 2/3% of gross monthly compensation at time of disability and a nonoccupational disability of 50% of monthly compensation. Plan III members receive an occupational benefit of 50% of final average compensation at time of disability and a nonoccupational disability of 25% of final average compensation at time of disability with more than five but less than ten years credited service. For each additional year of service up to 20 years, the benefit shall increase by 2.5% of final average compensation.

Plan III beneficiaries are entitled to receive limited cost of living adjustments and children's benefits for disabilitants and surviving spouses until dependent children reach age eighteen.

Each fiscal year, the Police and Fire Retirement System Plan issues a publicly available financial report. The report may be obtained by writing to Anchorage Police and Fire Retirement System, P.O. Box 196650, Anchorage, Alaska 99519-6650 or by calling (907) 343-8400.

Funding Status and Contribution Requirements

Annual pension cost for the current year and the related information is as follows:

Police and Fire Retirement Systems			
	Plan I	Plan II	Plan III
Contribution rates:			
Employee:			
Peace officers and firefighters	—	—	—
Other employees	—	—	—
Employer			
Annual pension cost (in thousands)	—	—	—
Contributions made (in thousands)	—	—	—
Actuarial valuation date	January 1, 2005	January 1, 2005	January 1, 2005
	Modified	Modified	Modified
Actuarial cost method	Aggregate	Aggregate	Aggregate
Amortization period	15 years	15 years	15 years
Asset valuation method	Market related	Market related	Market related
Actuarial assumptions:			
Inflation rate	3.5%	3.5%	3.5%
Investment rate of return	8%	8%	8%
Projected salary increase	4%	4%	4%
Cost of living adjustment	N/A	N/A	0.872%/1.175% *

* 0.875% for present retirees and after retirement for current active members after 20th anniversary of hire, and 1.175% after 25th anniversary of hire

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The components of annual pension cost for the year ended 2004 (in thousands) are as follows:

	Police and Fire Retirement Systems		
	Plan I	Plan II	Plan III
Annual required contribution (ARC)	\$ 752	\$ 547	\$ 2,519
Interest on the net pension obligation (NPO)	—	—	—
Adjustment to the ARC	—	—	—
Annual pension cost (APC)	—	—	—
Contributions made	(752)	(547)	(2,519)
Increase in NPO	—	—	—
NPO, beginning of year	—	—	—
NPO, end of year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Three year trend information (in thousands) follows:

	Year Ending	APC	Percentage of APC Contributed	NPO
Plan I	2001	—	100%	—
	2002	—	100%	—
	2003	752	100%	—
Plan II	2001	—	100%	—
	2002	—	100%	—
	2003	547	100%	—
Plan III	2001	—	100%	—
	2002	—	100%	—
	2003	2,519	100%	—

(d) Investments

The State Plan and the Police and Fire Retirement System do not own any notes, bonds, or other instruments of Anchorage.

The impact of Fiscal Year 2002's decline on the System's market value has impacted the System's funding status as of December 31, 2004.

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In May 2003, the Police and Fire Retirement System board of directors elected to change the methodology for calculating contributions to the modified aggregate actuarial cost method, effective with the plan year beginning January 1, 2004. Based upon this methodology, scheduled contributions for 2005 are shown below:

	<u>Members</u>	<u>Anchorage</u>	<u>Total</u>
Plan I	\$ —	\$ —	\$ —
Plan II	—	—	—
Plan III	4,250	11,030	15,280
	<u>\$ 4,250</u>	<u>\$ 11,030</u>	<u>\$ 15,280</u>

NOTE 11 Post-Employment Health Care Benefits

Prior to January 1, 1995, Anchorage was required to provide post-employment medical benefits for all retired police officers and fire fighters. In December 1994, Anchorage entered into a defined contribution program to provide medical benefits for police officers and fire fighters. The program went into effect January 1, 1995, and applied to those active duty, noncommand personnel who retire after January 1, 1995, and are members of the Police and Fire Retirement System. The program also applies to personnel appointed to nonrepresented command positions after January 1, 1995. Anchorage has elected to recognize the capped ultimate cost of post-employment medical benefit for this group of employees. As such a long-term obligation of \$ 153,919,710 has been recorded based on a funding analysis performed in 2002.

The significant terms of the agreement required Anchorage to contribute \$2,000,000 in 1994 and \$490 per month per retired employee in 1995 to the Police and Fire Retiree Medical Trust Fund. For all subsequent years, the amount to be contributed per retired employee is adjusted in accordance with the CPI factors indicated below:

<u>Retirement Age</u>	<u>Service at Retirement</u>	<u>Annual Adjustment</u>
60 or older	25 years	75% of medical CPI
55 – 59		50% of medical CPI
50 – 54	20 – 24 years	50% of medical CPI (with a maximum of 6%)
Less than 50	0 – 19 years	25% of medical CPI (with a maximum of 3%)

Anchorage contributed \$1,495,890 to the Police and Fire Retiree Medical Trust Fund in 2004.

Anchorage is prefunding the estimated cost of the program with annual payments to the Police and Fire Retiree Medical Liability Debt Service Fund of \$1,800,000, except for 2006 when \$9,800,000 will be contributed from the Retirement Certificates of Participation Debt Service Fund. Based on an actuarial

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report issued in July 2002 the annual payment in 2004 was \$1,800,000. Anchorage will perform an actuarial funding study every three years and adjust the required annual contribution as needed.

For other personnel retired under the Police and Fire Retirement Plan and command active personnel, Anchorage plans to continue pay-as-you-go post-employment health, dental, audio and vision benefits. To be eligible for post-employment defined health benefits, the participant must be receiving retirement benefits from the Police and Fire Retirement Plan. At December 31, 2004, there were 283 retirees who met the eligibility requirements. Anchorage pays 100% of the health portion for all eligible retirees and dental, audio and vision coverage for police retirees; optional dental, audio and vision coverage is paid by the fire and command retirees. The cost of retiree health benefits is recognized as an expenditure as premiums are paid. For 2004, those costs totaled \$4,461,414.

Anchorage employees, including new police and fire employees, who are members of the State Public Employee Retirement Plan will receive medical benefits as determined by that Plan.

Deferred Compensation Plan

Anchorage has determined that a fiduciary relationship does not exist between it and the Internal Revenue Code Section 457 deferred compensation plan. The deferred compensation plan is not reported in Anchorage's financial statements in accordance with GASB Statement No. 32.

NOTE 12 Risk Management and Self-Insurance

Anchorage is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; illness of and injuries to employees; unemployment; and natural disasters. The primary government utilizes three risk management funds to account for and finance its uninsured risks of loss.

The government provides coverage up to the maximum of \$2,000,000 per occurrence for automobile and general liability claims and \$750,000 for each workers' compensation claim. Coverage in excess of these amounts is insured by private carriers. Settled claims have not exceeded this commercial coverage in any of the past three years.

Unemployment compensation expense is based on actual claims paid by the State of Alaska and reimbursed by the government.

All government departments participate in the risk management program and make payments to the risk management funds based on actuarial estimates of the amounts needed to pay prior and current year claims.

Claims payable represent estimates of claims to be paid based upon past experience modified for current trends and information. The ultimate amount of losses incurred through December 31, 2004, is dependent upon future developments. At December 31, 2004, claims incurred but not reported included in the liability accounts are \$5,837,424 in the General Liability/Workers' Compensation Fund. No provision has been made for unemployment compensation claims incurred but not paid by the State of Alaska.

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Changes in the funds' claim liability amounts in 2003 and 2004 are as follows:

	<u>Liability Balance January 1</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payment</u>	<u>Liability Balance December 31</u>
2003:				
General Liability/Workers' Compensation	\$ 12,670,708	\$ 7,136,197	\$ (7,415,913)	\$ 12,390,992
Health	393,518	(391,904)	(1,614)	—
Unemployment	98,635	473,588	(434,831)	137,392
	<u>\$ 13,162,861</u>	<u>\$ 7,217,881</u>	<u>\$ (7,852,358)</u>	<u>\$ 12,528,384</u>
2004:				
General Liability/Workers' Compensation	\$ 12,390,992	\$ 7,857,287	\$ (7,857,287)	\$ 12,390,992
Unemployment	137,392	411,787	(469,335)	79,844
	<u>\$ 12,528,384</u>	<u>\$ 8,269,074</u>	<u>\$ (8,326,622)</u>	<u>\$ 12,470,836</u>

Anchorage's health self-insurance plan ended in 2001 when Anchorage transferred its medical insurance coverage to a private insurance carrier. At December 31, 2003, all liabilities for the health self-insurance plan had been liquidated.

NOTE 13 MOA Trust Fund

On April 2, 2002, 70% of Anchorage voters approved Proposition #4 which fundamentally changed distribution rules applicable to the MOA Trust Fund. Key excerpts from Proposition #4 include:

- "The trust fund shall be defined as an endowment fund with a controlled spending policy limiting dividend distributions..."
- "Any use of the corpus, or a portion of the corpus, separate from the controlled spending policy of the endowment, may only be used for purposes approved by a majority of the voters voting on a ballot proposition in a regular or special election."
- "Under the endowment's controlled spending policy an annual dividend may be appropriated by the assembly provided that the annual appropriation does not exceed 5% of the average asset balance of the trust."

Code was also revised to accompany the City Charter change. The changes made to Code 6.50.060 further define and clarify the methodology to be used in paying out an annual dividend from the MOA Trust Fund each year.

Depending on the investment market conditions in any given year, the MOA Trust Fund may or may not generate sufficient realized and unrealized net earnings to cover the 5% dividend payout. Under the endowment model, however, up to 5% of the market value of the MOA Trust Fund for the twelve trailing

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quarters marked at March 31 of each year is available for appropriation by the Assembly to help fund the general government budget. The endowment model is tied to an average market value, not to annual earnings, and it assumes a long-term investment return of 8% and inflation of 3%. During periods of market decline the MOA Trust Fund may experience a negative return; nonetheless the voter-approved endowment model for the MOA Trust Fund makes it possible for the Assembly to payout a 5% dividend by drawing from the fund's corpus. Over time the MOA Trust Fund is also expected to benefit from positive years in the market (i.e., years in which the real rate of return exceeds 5%), however the Assembly must abide by the 5% cap on annual distributions. This means that any excess returns generated during positive year in the market effectively are converted to corpus. The Municipal Treasurer is required by Code to determine whether the MOA Trust Fund's purchasing power is being maintained, by performing an analysis at least every five years beginning in year 2007. At December 31, 2004, \$6,600,000 of the MOA Trust Fund Balance was determined to be expendable.

NOTE 14 Regulatory and Other Matters

(a) *Electric Utility*

Demand and Energy Rates and Cost of Service Study, U-99-139: The Utility was ordered to file a revenue requirement and cost of service study by July 1, 2000 in Docket No. U-99-139. The Utility timely filed a 1999 test year revenue requirement study, and later, a 2001 test year revenue requirement study. All substantive issues related to the Utility's demand and energy rates were resolved in Order No. 17, with the result that the Utility's demand and energy rates were increased by 4.035% effective August 15, 2002. The Utility implemented Phase 2 of the rate increases granted in Order No. U-99-139(17) by increasing its base rates by 3.474% across the board on October 9, 2003.

Accounting and Rate Making Treatment of Beluga River Gas Field, U-96-36: In Docket U-96-36, Order No. 7, the RCA required the Utility to file an explanation of its intended accounting treatment and proposed rate making treatment with respect to its Beluga River Gas Field interest. The Utility complied with this order on December 23, 1996. The most noteworthy aspect of this filing was a request to be allowed to defer some costs associated with the gas field interest in order to spread the benefits of the acquisition through time in an equitable manner. Subsequent to acquisition of the Beluga River Gas Field, the Utility deferred certain costs associated with operation of the field with the intent of recovering such costs from ratepayers in the future. At January 1, 2002 (prior to receipt of the RCA orders described below), the deferred gas cost asset associated with the field was \$11,346,747. In addition, the Utility sought approval to record depletion expense based upon proven and probable reserves in the Beluga River Gas Field, a methodology that differs from generally accepted accounting principles as prescribed in Statement on Financial Accounting Standards No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies* (SFAS 19).

On June 17, 2002 the RCA issued Order No. 25, and then clarified and corrected that order in Order No. 26, on July 30, 2002. This order affirmed certain important Utility positions, but changed the capital cost portion of the rate-making methodology from rate-base/rate-of-return to debt service coverage ratio. The Utility believed that this change, while not harmful to the Utility's long run financial interest, was theoretically incorrect, and would require substantial write-off of the Utility's deferred gas cost asset. The Utility petitioned for reconsideration on September 30, 2002. The

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petition was granted, in part, in Order No. 30. In Order No. U-96-36 (36) issued on August 11, 2003, the RCA affirmed the revenue requirement methodology it had previously ordered, recalculated the Utility's deferred gas cost asset based on its approved revenue requirement methodology which resulted in a deferred gas cost asset of \$1,640,852 and granted recovery of the recalculated deferred asset over a 5 year period including interest calculated at the Utility's approved cost of capital of 8.30%. This Order also resulted in a deferred credit for 2003 of \$1,930,524 which was to be included in the revenue requirement calculation establishing the fuel rate for the Beluga River Unit in 2004. The RCA based its affirmation of its revenue requirement methodology on a finding that the returns allowed in the methodology for the historical period (1997-2002) were adequate if annual depletion expense were restated to equal 125% of the principal portion of the Utility's gas acquisition debt service payments. The RCA further found that the Utility's depletion expense was properly represented at that level.

The Utility petitioned for reconsideration of this order on two points: (1) that the RCA's calculation of the accumulated deferred asset contained a technical error which caused an understatement of \$433,035, and (2) that if the RCA believed that the Utility's depletion expense is best represented as 125% of the Utility's principal payments on the Beluga River Gas Field acquisition debt, it should order the Utility to record depletion in a manner consistent with that finding. The RCA granted the Utility's petition on both points in Order No. U-96-36 (40). Specifically, the RCA concluded that use of a proposed depletion methodology calculated based upon 125% of Beluga River Gas Field acquisition debt, rather than the methodology prescribed by generally accepted accounting principles, more accurately matched the revenue requirement they established in previous orders and established the deferred gas cost asset at \$2,053,347.

Therefore, the Utility concluded based upon SFAS No. 71 that it was appropriate to record a regulatory asset representing the difference between the depletion methodology prescribed in the RCA orders referred to above and the depletion methodology prescribed by SFAS 19. The financial statements reflect the following activity based upon the aforementioned orders as a special item:

	<u>2003</u>
To reflect adjustment to reduce regulatory asset -- order No. 36	\$ (8,502,156)
To adjust accumulated reserve for depletion -- order No. 40	<u>15,197,210</u>
	<u>\$ 6,695,054</u>

In addition to the matters discussed above, the Commission determined in Docket U-96-36 that ML&P's gas costs would be recovered through an annual gas cost adjustment mechanism. Under-recoveries and over-recoveries each year are captured in a Cost of Gas Clearing Account and added to the following year's gas revenue requirement calculation for subsequent recovery or refund. Because the revenue requirement is based on a calendar year and the resulting rate is effective for a July 1 through June 30 year, significant balances are possible in the Cost of Gas Clearing Account as of December 31. The December 31, 2004 balance was \$286,623 (representing an under-recovery).

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Included in net plant in service at December 31, 2004 and 2003 is \$25,930,971 and \$23,599,151, respectively, which represents a regulatory asset for the difference between depletion calculated in accordance with SFAS 19 and depletion calculated in accordance with the aforementioned orders.

Beluga River Unit ("BRU") Underlift Cash Settlement: Each of the three participants in the Beluga River Unit has a right to take one third of the gas produced by the Unit each year. Imbalances between the Unit owners are resolved each year in accordance with the Beluga River Unit Gas Balancing Agreement. "Overlifted" parties (parties which have taken more than one third of the Unit output) must offer to "underlifted" parties (parties which have taken less than one third of the Unit output) the option to either accept a cash settlement for their gas underlift for the year, or accept a right to take the gas underlift in a future year, subject to certain restrictions. While it had been the Utility's practice, in keeping with its original intent to secure a future supply of gas for generation, to accept the right to take future delivery of underlifted gas, its underlift position had reached a level by the end of 2003 such as to call into question its ultimate ability to recover all of its share of BRU gas before field closure. For this reason, the Utility elected to receive cash settlements for its 2003 underlift. These settlements amount to \$17,136,139.

In Order No. 39 of Docket U-96-36, the RCA ordered the Utility to file a report on this transaction along with a proposed accounting treatment when the transaction occurred. ML&P filed its report and proposed accounting treatment on October 15, 2004. The Commission opened Docket No. U-04-63 to consider this filing. ML&P proposed three uses of the 2003 underlift settlement:

- (1) Eliminate the balance in the 2002 accumulated deferred asset in the amount of \$2,053,347. This would have the effect of eliminating the recovery of this amount from rates during the period 2004-2008 which the Commission had ordered in Docket U-96-36 (39) issued on December 29, 2003.
- (2) Eliminate the 2003 year-end balance in the cost of gas clearing account in the amount of \$1,930,524. This would have the effect of eliminating the recovery of this amount from rates during 2004-2005.
- (3) Use the remaining \$13,152,267 to fund capital investments in the BRU field. This would eliminate borrowing that otherwise would have been used to fund these plant additions, and because the Utility's revenue requirement for fuel is determined based on debt service coverage rather than on rate base, would have the effect of eliminating recovery of the avoided debt service and return margins in rates.

On February 14, 2005, the RCA issued Order No. 5 in Docket U-04-64 in which the Utility recommendation for use of the funds to eliminate the 2002 accumulated deferred asset and the 2003 year-end balance in the gas clearing account was approved. The RCA required the Utility to provide additional information regarding the use of the remaining amount to fund capital investments in the BRU field. The Utility filed the information required on March 18, 2005.

The Commission approved the Utility's proposed disposition of the underlift settlement funds for capital investments in Order No. U-04-64 (6) dated March 25, 2004. The Utility is required to

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Notes to Basic Financial Statements

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maintain the funds dedicated to future gas fund capital investments in a separate account and submit reports detailing investment earnings from the funds and capital expenditures from the funds. The Utility is required to continue this reporting until all funds in the account have been invested in capital projects. The amount of the settlement has been reduced from \$13,152,267 to \$11,951,652 due to adjustments in the 2003 underlift settlement amounts with ConocoPhillips and Chevron. The Utility, therefore, recognized the \$11,951,652 as a special item in 2004 and has included this amount in Net Assets Restricted for Capital Projects.

The Utility opted to accept Chevron U.S.A. and ConocoPhillips Alaska, Inc. monetary settlement in the amount \$19,852,555 after lease burdens and taxes for the 2004 underlift. The Utility will file with the RCA its proposed distribution of the monetary settlement in the second quarter of 2005 and therefore, has recorded this underlift settlement as a deferred credit rather than revenue until such time as the RCA determines how these funds are to be used.

Eklutna Hydroelectric Project: On October 2, 1997, the ownership of the Eklutna Hydroelectric Project was formally transferred from the Alaska Power Administration, a unit of the United States Department of Energy, to the three participating utilities: the Utility, Chugach Electric Association (CEA) and Matanuska Electric Association (MEA). The Project is jointly owned and operated by the participating utilities and each contributes their proportionate share for operation and maintenance costs. The Utility has a 53.33% ownership interest in the Project and recorded costs of \$769,388 and \$287,353 in 2004 and 2003, respectively.

Grant Agreement 2195150 (Eklutna Project Transmission Line Upgrade): On November 5, 2002, the Utility received a grant from the State of Alaska, Alaska Energy Authority in the amount of \$19,300,000. The grant was issued for the Eklutna Project Transmission Line Upgrade which must be completed no later than December 31, 2006. The Utility received an advance of 20% or \$3,860,000 on December 5, 2002.

Bradley Lake Hydroelectric Project: The Utility has agreed to acquire a portion of the output of the Bradley Lake Hydroelectric Project (Project) pursuant to a Power Sales Agreement (Agreement). The Agreement specifies that the Utility acquire 25.9% of the output of the Project. The Bradley Lake Hydroelectric Project went on line September 1, 1991. The Utility made payments to the Alaska Energy Authority (AEA) of \$4,085,538 and \$3,588,576 in 2004 and 2003 for its portion of the costs, and received 91,188 and 128,380 megawatt hours of power in 2004 and 2003 from the Project. The Utility received a budget surplus refund in the amount of \$170,124 and \$351,341 for 2004 and 2003, respectively. The Utility's estimated cost of power from the Project for 2005 is \$4,100,000.

The Alaska Energy Authority issued the Power Revenue Bonds, First and Second Series in September 1989 and August 1990, respectively for the long term financing of the construction costs of the Bradley Lake Hydroelectric Project. The total amount of debt outstanding as of December 31, 2004, is \$130,166,773. The pro rata share of the debt service costs of the Project for which the Utility is responsible, given its 25.9% share of the Project, is \$33,713,194. In the event of payment defaults by other power purchasers, the Utility's share could be increased by up to 25%, which would then cause its pro rata share to be a total of \$42,141,493; the Utility does not now know of or anticipate any such defaults.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

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In order to deliver the Bradley Lake energy and power from the Project to the participants, a transmission line had to be built between the Bradley Junction and the Soldotna Substation. Homer Electric Association constructed the transmission line and the Utility has purchased a portion of the transmission capability of the line in an amount equal to the Utility's share of the Project output. The Utility's portion of the transmission line capacity was \$2,795,477, which is being amortized over a 30-year period and is included as intangible plant.

Railbelt Electric Interties: In 1993, the Alaska Legislature appropriated \$90 million in grants from the Railbelt Energy Fund to fund construction of a Northern Intertie between Healy and Fairbanks and a Southern Intertie between Anchorage and the Kenai Peninsula.

In late 1998, as allowed by the agreements, the Utility withdrew from direct participation in the Northern Intertie, thus relieving itself of any financial responsibility or ownership interest in that line. The Utility on February 25, 2004 withdrew from participation in the Southern Intertie along with the five other participants.

Application for Joint Use and Interconnection: On October 30, 2003, The Utility, Chugach Electric Association, Golden Valley Electric Association, and the City of Seward d/b/a Seward Electric System ("Petitioners") filed a joint petition asking the RCA to order Matanuska Electric Association ("MEA") to continue to allow the Petitioners to use a portion of MEA's transmission system as a part of the Alaska Intertie according to the terms of the expiring Transmission Services Agreement between MEA and the Alaska Energy Authority ("AEA"). Negotiations between MEA, AEA, and the Petitioners (participants in the Alaska Intertie) on extension of the Transmission Services Agreement had reached impasse.

On December 30, 2004, the Commission issued Order No. U-03-100(4) resolving all disputed issues in favor of the Petitioners. On January 31, 2005, MEA filed an appeal of that Order with the Superior Court of the State of Alaska.

Depreciation Study: RCA Order No. U-99-139(17) requires the Utility to file a depreciation study by January 6, 2006. The Utility retained Gannett Fleming, Inc. on August 26, 2004 to perform the study and intends to file it with the RCA before the end of 2005.

Beluga River Production Tax Refund: On December 23, 2004, the Supreme Court of Alaska affirmed the Alaska Superior Court ruling that the Utility was exempt from paying production tax on the gas it used from its ownership in the Beluga River Gas Field to generate electricity. The Utility had paid the production tax, under protest, from 1997 through November, 2004. On January 26, 2005, the Utility received a letter from the Alaska Department of Revenue (DOR) stating the Utility would be issued a refund in the amount of \$4,442,523 (\$3,074,600 production tax paid and \$1,367,923 interest of which \$40,350 was for 2005). The Utility has, therefore, recorded a receivable for this amount and has recorded the refund plus interest as a deferred credit until such time as the Utility requests and receives approval from the RCA as to what manner to return the refund to the Utility ratepayers.

(b) *Water and Wastewater Utilities*

301(h) Waiver: The Environmental Protection Agency issued the Wastewater Utility a new National Pollutant Discharge Elimination System discharge permit on June 28, 2000, for the Asplund Wastewater Treatment Facility, located at Pt. Woronzof. This permit is good for five (5) years from

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

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the date of issuance and contains a Section 301(h) waiver of secondary treatment. The Wastewater Utility has been able to meet all the new permit limits contained in the new discharge permit.

Rate Case: The Water and Wastewater Utilities filed two-stage rate cases with the Regulatory Commission of Alaska (RCA) on January 9, 2004, requesting permanent rate increases of 14.20% and 8.06% for 2004 for Water and Wastewater Utilities respectively and an additional 7.17% and 6.83% for 2005 for Water and Wastewater Utilities respectively. In the event the RCA was unable to approve permanent rates within the 45 day statutory period, the Utilities requested interim refundable rate increases of 14.20% and 8.06% for 2004. The 2004 interim refundable rate increases were subsequently approved, the Utilities' filings for rate relief were suspended, and all rates were made interim and refundable by the RCA effective February 24, 2004. The January 2004 filings were updated with amended revenue requirements studies filed on November 3, 2004 that increased the revenue requirements but did not ask for additional permanent rate increases. On February 18, 2005, the RCA issued an order allowing the Utilities to implement their requested 2005 interim refundable rates.

In March 2005, two testifiers representing the State Attorney General (AG) filed pre-filed testimony with the RCA opposing various aspects of the Utilities' rate cases. Their testimony opposed several aspects of the revenue requirements study including: changes in MUSA; the return on equity used; certain payroll adjustments added to the amended filing; and the Utilities' plant accounting practices. The testimony concluded that the Utilities' revenue requirements were overstated by approximately \$7,100,000 and \$5,800,000 for the Water and Wastewater Utilities respectively. In addition to its pre-filed testimony, on March 25, 2005 the AG filed a motion for partial summary disposition, asking that the Utilities' MUSA increases be denied and consumer refunds be issued within 30 calendar days of the RCA's ruling.

The Utilities have filed responses to the AG's pre-filed testimony and its motion for partial summary disposition; and is actively preparing for its upcoming rate case hearings.

On May 24, 2005, the RCA issued an electronic ruling to the Water Utility for partial summary disposition which denied the AG's requests as it related to MUSA, but granted the AG's request to exclude certain acquisition adjustments. The financial impact of the acquisition adjustment orders is estimated to be less than \$200,000 upon the revenue requirements and would not result in a refund situation. A decision whether or not to file a motion for reconsideration will be made after a paper order has been received from the RCA.

On May 24, 2005, the RCA issued an electronic ruling to the Wastewater Utility for partial summary disposition which denied the AG's requests as it related to MUSA.

The case will be heard by the RCA on June 14 through June 17, 2005, and the RCA's final rulings are due by September 15, 2005. The Utilities expect a favorable outcome on all of the remaining material issues addressed by the AG, and therefore have not recorded an accrual for any of the disputed items.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2004

NOTE 15 Contingencies

(a) *Litigation*

Anchorage, in the normal course of its activities, is involved in various claims and litigation. In the opinion of management and the Municipal Attorney, the disposition of these matters is not presently expected to have a material adverse effect on Anchorage's financial statements.

(b) *Grants*

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, would become a liability of the General or other applicable fund. In management's opinion, disallowances, if any, will be immaterial.

(c) *Property Tax Limitation*

On October 4, 1983, Anchorage voters approved a charter amendment limiting the amount of taxes Anchorage can levy except for debt service. With certain other exceptions, the amendment limits taxes to the amount levied in the previous year increased by Anchorage Consumer Price Index (CPI) and 5-year average population growth. In the opinion of management, Anchorage is in compliance with this limitation.

(d) *Spending Limitation*

On August 3, 1983, the Assembly adopted an ordinance limiting the amount of expenditures in the general government operating budget for tax-supported services. The amount is limited to the previous year's budget increased by amounts no more than the percentage increase in the July CPI over the previous July CPI and those additional increases necessary to provide voter and legally mandated services. In the opinion of management, Anchorage is in compliance with this limitation.

(e) *Internal Revenue Service Examination of Electric Utility Revenue Bonds*

In 1996, the Municipality of Anchorage issued tax-exempt electric revenue bonds to finance capital improvements and a portion of its purchase of the Beluga River Gas Field. These electric revenue bonds were selected for examination by the IRS as part of its expanded compliance program for tax-exempt bonds. Subsequent to year end, the examination of the bonds was resolved. Pursuant to a closing agreement with the IRS Office of Appeals, the bondholders will not be required to include, for income tax reporting purposes, interest on the bonds in their gross income; the Utility is not required to make any payment to the IRS; no bonds are required to be redeemed absent a change in circumstances; and the Utility promises to continue to comply with the private use limitations of the Internal Revenue Code of 1986.

NOTE 16 Environmental Issues

Anchorage has adopted an aggressive proactive policy designed to identify and mitigate the potential effects of past, present and future activity which may result in environmental impact. It is accounting policy to record a liability when the likelihood of responsibility for an environmental impact is probable and the cost of mitigating the impact is estimable within reasonable limits. At December 31, 2004, there

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2004

are environmental issues which meet both of these criteria and, accordingly, a provision has been made in the accompanying financial statements for the cost of mitigating environmental concerns of underground fuel and hazardous waste contamination. The following is a summary of environmental concerns at December 31, 2004.

(a) *Solid Waste Landfill Site*

Anchorage's landfill at Merrill Field was closed during 1987 following approximately 50 years of usage. An active gas migration control system was successfully constructed in 1992 and has since operated without fail. It appears that remedial measures already completed and continued monitoring of the active gas control system have alleviated any potential environmental problems.

In 1992, the 20-year-old subdrain of the leachate collection system at the Merrill Field landfill was cleaned. As a result, the amount of leachate flow increased 241%. Subsequently, an outside consultant was hired to make recommendations for improving the leachate collection system to ensure that no off-site migration of leachate will occur. This study was completed in 1994 and recommended a rehabilitation/upgrade of the leachate collection system. Design work for the project was completed in 1995 and construction completed in the fall of 1996. Completion of this project should alleviate any potential environmental problems. The water quality at 16 different locations at the Merrill Field landfill will continue to be monitored.

(b) *Landfill Closure and Postclosure Care Cost*

State and federal laws and regulations require Anchorage to place a final cover on its current landfill when it stops accepting solid waste and to perform certain maintenance and monitoring functions at the landfill for thirty years after closure. To properly account for these future closure and postclosure costs, Anchorage Solid Waste Services (SWS) is recording as an operating expense in each period an amount based on landfill capacity used as of each balance sheet date. During 1997 the future closure and postclosure were reevaluated and adjusted to reflect current conditions. As of December 2004, SWS had a recorded liability of \$11,111,326 associated with these future costs, based on the use of 26.2% of the estimated capacity of the landfill. It is estimated that SWS will recognize another \$31,354,838 in expense and liability between December 31, 2004, and the year 2037, the date the landfill is expected to reach full capacity. These amounts are based on what it would cost to perform all the closure and postclosure functions in 2004. Actual costs of closure and postclosure care may be higher due to inflation, changes in technology, or changes in laws and regulations.

As of December 31, 2004, there are no state laws or regulations requiring Anchorage to provide financial assurances for the closure and postclosure care of the landfill. Federal regulations that went into effect in 1997 do require Anchorage to provide financial assurances for future closure and postclosure costs by one of a number of allowable mechanisms available. Anchorage elected to use the "Local Government Test" financial assurance mechanism to be in compliance with the regulation. Currently no SWS assets are restricted for payment of closure and postclosure care costs. Future inflation costs and additional costs that might arise from changes in requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Basic Financial Statements

December 31, 2004

Activity in long term liability of the landfill closure and postclosure care cost was as follows:

<u>Balance January 1, 2004</u>	<u>Addition</u>	<u>Deletion</u>	<u>Balance December 31, 2004</u>	<u>Due Within 1 year</u>
\$ 10,324,632	\$ 786,694	\$ —	\$ 11,111,326	\$ —

(c) Fuel Contamination Sites

During the 1964 earthquake, approximately 250,000-400,000 gallons of diesel fuel spilled on the ground. According to numerous environmental investigations, the spill impacted soil and groundwater at Plant 1 of the Electric Utility, and properties west/northwest of Plant 1. Currently, no active remediation, environmental investigation, or monitoring is being requested by the Alaska Department of Environmental Conservation (ADEC) at this site. However, these activities may be triggered if soil-disturbing activities occur at Plant 1 or in the area impacted by the 1964 spill.

(d) Water Vulnerability Assessment

The Water Utility is required by federal law to prepare a security Vulnerability Assessment (VA). This requirement, administered by the United States Environmental Protection Agency (USEPA), took effect in April 2002. The Water Utility requested and received an extension by the USEPA until March 30, 2003. The Water Utility failed to file the VA with the USEPA on the deadline and was placed under a compliance order from the USEPA to complete the VA by May 31, 2003. The completion of a proper VA for the Water Utility was certified to the USEPA on May 30, 2003. The USEPA officially closed the compliance order/administrative order per memo on June 2, 2003.

Required Supplementary Information

MUNICIPALITY OF ANCHORAGE, ALASKA

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

Year ended December 31, 2004

	Budget		Actual Budgetary Basis	Budget to GAAP Difference	Actual GAAP Basis	Variance With Final Budget - Positive (Negative)	
	Original	Final					
Revenues:							
Taxes	\$ 36,512,030	\$ 378,134,090	\$ 372,606,202	\$ —	\$ 372,606,202	\$ (5,527,888)	
Special assessments	538,580	538,580	858,002	—	858,002	319,422	
Licenses and permits	11,963,390	11,940,870	12,624,998	—	12,624,998	684,128	
Intergovernmental	3,911,780	3,793,780	3,252,213	—	3,252,213	(541,567)	
Charges for services	19,028,970	19,514,670	19,170,939	—	19,170,939	(343,731)	
Fines and forfeitures	10,571,050	10,571,050	6,712,483	—	6,712,483	(3,858,567)	
Investment income	1,247,550	1,095,290	1,292,109	—	1,292,109	196,819	
Restricted contributions	10,000	40,000	34,286	—	34,286	(5,714)	
Other revenues	1,801,470	1,874,970	2,405,659	—	2,405,659	530,689	
Total revenues	85,584,820	427,503,300	418,956,891	—	418,956,891	(8,546,409)	
Expenditures:							
Current:							
General government	9,324,570	9,172,260	13,516,703	(1)	246,560	13,763,263	(4,344,443)
Fire services	49,188,910	49,439,210	48,960,690	(1)	68,987	49,029,677	478,520
Police services	62,664,020	62,782,540	63,299,627	(1)	54,257	63,353,884	(517,087)
Health and human services	13,321,460	13,288,090	12,714,478	(1)	80,216	12,794,694	573,612
Economic & community development	36,051,740	36,191,930	33,812,403	(1)	99,022	33,911,425	2,379,527
Public transportation	15,454,980	15,563,490	14,853,943	(1)	1,402	14,855,345	709,547
Public works	14,727,110	14,792,360	13,873,098	(1)	685	13,873,783	919,262
Education	—	154,493,490	153,993,490	—	—	153,993,490	500,000
Maintenance and operations	26,551,800	25,827,660	25,855,402	(1)	501,825	24,357,227	1,972,258
Debt service:							
Principal	21,592,140	21,685,510	22,176,762	—	—	22,176,762	(491,252)
Interest	18,423,610	18,334,780	16,024,472	—	—	16,024,472	2,310,308
Bond issuance costs	—	—	255,509	—	—	255,509	(255,509)
Total expenditures	267,300,340	421,571,320	417,336,577	1,052,954	418,389,531	4,234,743	
Excess (deficiency) of revenues over expenditures	(181,715,520)	5,931,980	1,620,314	(1,052,954)	567,360	(4,311,666)	
Other financing sources (uses):							
Transfers in - from other funds	7,241,804	10,881,550	12,519,206	—	12,519,206	1,637,656	
Transfers out - to other funds	(11,581,780)	(13,594,240)	(13,482,511)	—	(13,482,511)	111,729	
Premium on bond sale	—	—	3,634,943	—	3,634,943	3,634,943	
Refunding bonds issued	—	—	21,465,000	—	21,465,000	21,465,000	
Payments to extinguish debt	—	—	(21,425,000)	—	(21,425,000)	(21,425,000)	
Payments to refunding bond escrow agent	—	—	(1,662,336)	—	(1,662,336)	(1,662,336)	
Sale of capital assets	—	—	3,468	—	3,468	3,468	
Total other financing uses	(4,339,976)	(2,712,690)	1,052,770	—	1,052,770	3,765,460	
Deficiency of revenues and other financing sources over expenditures and other financing uses	(186,055,496)	3,219,290	2,673,084	(1,052,954)	1,620,130	(546,206)	
Fund balance, beginning of year	38,858,912	38,858,912	38,858,912	(2)	2,436,569	41,295,481	
Fund balance, end of year	\$ (147,196,584)	\$ 42,078,202	\$ 41,531,996	\$ 1,383,615	\$ 42,915,611	\$ (546,206)	

Explanation of differences:

- (1) Encumbrances for goods and services ordered but not received are reported in the year the orders are placed for budgetary purposes, but are reported in the year goods and services are received for GAAP purposes.
- (2) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Municipality's budget. This amount differs from the fund balance reported in the statement of revenues, expenditures, and changes in fund balances because of the cumulative effect of transactions such as those described above.

See accompanying notes to required supplementary information.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Required Supplementary Information – Budgetary Data

December 31, 2004

In 2003, Anchorage implemented GASB Statement No. 41, *Budgetary Comparison Schedules – Perspective Differences*. This statement, an amendment to GASB Statement No. 34, clarifies the budgetary presentation requirements for governments with significant budgetary perspective differences that result in not being able to present budgetary comparison information for their general fund and major special revenue funds. The estimated appropriations in Anchorage's General Fund Budget do not correspond to the expenditures that are reported for the general fund on a GAAP basis. A reconciliation from GAAP to budgetary basis is provided to present the actual amounts on a budgetary basis for the budget to actual comparison.

In accordance with the Anchorage Home Rule Charter, the Mayor is required to submit a proposed budget for the next fiscal year to the Assembly at least 90 days before the end of the current fiscal year. The Assembly holds two public hearings on the proposed budget. The Assembly may increase or decrease any item, and may add or delete items; but must approve a budget and appropriate the necessary resources by ordinance at least 21 days prior to year end. Otherwise, the Mayor's proposal becomes the budget and appropriation.

The Assembly approved 2004 operating budgets and appropriations of direct costs at the department level, and indirect costs at the fund level. Some departmental appropriations span more than one fund. The Assembly approved 2004 capital budgets with anticipated appropriation of resources for the general government and appropriations for each utility. Upon certification by the Chief Fiscal Officer that actual resources have become available for specific general government capital projects; e.g., when a grant is accepted, a bond sale or interfund transfer is approved, or a special assessment district is created, a supplemental appropriation is submitted to the Assembly for final approval. Supplemental appropriations are also submitted for approval upon certification by the Chief Fiscal Officer that operating grant funds have become available. The legal level of a budgetary control is the department and fund level.

During the year, no obligation involving the expenditure of money may be made unless the Chief Fiscal Officer has certified that the money required for the expenditure has been appropriated for that purpose. When each obligation is incurred, the committed amount becomes encumbered; i.e., it is treated as a reduction of available budget so that the committed amount will be available to pay for the goods or services when they are received. When the commitment is fulfilled, the encumbrance is released and an expenditure is recorded. An encumbrance is also released when a commitment is canceled.

The Assembly may approve supplemental appropriations to increase or decrease the budget and appropriations, or transfer all or part of any unencumbered balance from one appropriation to another by resolution. The Assembly, by ordinance, may authorize a contract, lease or other obligation requiring financing from future appropriations, except that a lease purchase agreement committing funds in excess of \$1 million is not valid until approved by the voters. The Mayor may transfer all or part of any unencumbered balance between categories within an appropriation.

At the end of the year, an unencumbered operating appropriation lapses into the fund from which it was appropriated; except that supplemental appropriations of grant and capital project resources do not lapse until their purpose has been accomplished or abandoned.

Annual budgets are adopted for the General Fund, Heritage Land Bank (a Special Revenue Fund), Debt Service Funds, and the administrative operating costs of the Pension Trust Fund. Appropriations for these funds lapse at year end to the extent they have not been expended or encumbered. The General Fund is the only major fund required to be included as required supplementary information.

MUNICIPALITY OF ANCHORAGE, ALASKA

Notes to Required Supplementary Information – Budgetary Data

December 31, 2004

Annual budgets are also adopted for proprietary fund types. However, since the measurement focus for proprietary fund types is upon determination of net income, financial position and cash flows, GAAP does not require the adoption of budgets, and budgetary comparisons are not included for these funds.

The Municipal Assembly is required to approve the School District budget (in total only) and appropriate by ordinance the necessary resources at least sixty (60) days prior to the current School District year end. Any budget revisions during the year increasing the total appropriation require approval by the Assembly. Expenditures may not exceed the aggregate total amount of the budget.

MUNICIPALITY OF ANCHORAGE, ALASKA

Required Supplementary Information – Condition Rating of
Anchorage’s Road Network

December 31, 2004

	Percentage of Lane – Miles in Good or Better Condition
	2002
Anchorage Road District	76.61%
Chugiak/Eagle River Road District	95.25%
Girdwood Road District	73.75%
Other Road Districts	76.94%
Overall System	80.57%

	Percentage of Lane – Miles in Fair Condition
	2002
Anchorage Road District	23.39%
Chugiak/Eagle River Road District	4.75%
Girdwood Road District	26.25%
Other Road Districts	23.06%
Overall System	19.43%

Comparison of Estimated-to-Actual Maintenance/Preservation (in Thousands)

	2004	2003	2002
Anchorage Road District:			
Needed	\$ 12,968	\$ 11,145	\$ 6,914
Actual	11,835	11,854	6,997
Chugiak/Eagle River Road District:			
Needed	1,819	1,783	1,415
Actual	1,460	1,584	1,173
Girdwood Road District:			
Needed	97	89	104
Actual	111	78	103
Other Road Districts:			
Needed	279	268	616
Actual	237	224	338
Overall System:			
Needed	15,163	13,285	9,049
Actual	13,643	13,740	8,611
Difference	(1,520)	455	(438)

Note: The condition of road pavement is measured based upon an assessment of the longitudinal profile (International Roughness Index) and rut depth provided by the Dynatest Road Surface Profiler. The measurement system is an algorithm that combines the international roughness index, rut depth, and road profile to determine a condition index from two for pavement in excellent condition to seven for pavement in fair condition. The condition index is used to classify paved roads in good or better condition (4 or less) and fair condition (5 or more). It is Anchorage’s policy to maintain 60% or more of the total paved road miles in good or better condition. Condition assessments are updated every three years.

Supplementary Information

Non-major Governmental Funds

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

The **Heritage Land Bank Fund** accounts for Municipal-owned real estate.

The **Police Investigation Fund** accounts for the proceeds from sale of property seized by the Police Department, State and Federal agencies.

The **State Grants Fund** accounts for financial resources which may be used only in accordance with State grant agreements.

The **Federal Grants Fund** accounts for financial resources which may be used only in accordance with Federal grant agreements.

The **Miscellaneous Operational Grants Fund** accounts for the use of miscellaneous restricted contributions and donations.

The **Other Restricted Resources Fund** accounts for the use of other specific revenues that are legally restricted for specified purposes.

Debt Service Funds

The **Special Assessment Bonds Fund** accounts for special assessments and interest used to retire special assessment bonds which were issued to finance improvements to the assessed properties, except for special assessment bonds accounted for in proprietary funds.

The **Retirement Certificates of Participation Fund** accounts for an annuity investment and related income; the earnings and proceeds of which are to be used for payment of debt service requirements on certain Certificates of Participation and pension obligations of Anchorage in 2006, which include a \$9,800,000 contribution to the Police/Fire Retiree Medical Liability Fund.

The **Police/Fire Retiree Medical Liability Fund** accounts for contributions and earnings which are used to fund the Police/Fire Retiree Medical Trust.

The **Jail Revenue Bond Fund** accounts for debt service on jail revenue bonds and the lease revenue from the jail used to fund the debt service.

The **PAC Surcharge Revenue Bond Fund** accounts for the performing arts center surcharge revenue and debt service on the roof repair loan.

Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

The **Areawide Capital Projects Fund** accounts for general government construction projects not accounted for in other funds.

The **Public Safety Capital Projects Fund** accounts for capital improvement projects in support of police, fire and rescue operations.

The **Roads and Drainage Capital Projects Fund** accounts for all roads and drainage capital improvement projects.

The **Public Transportation Capital Projects Fund** accounts for capital improvement projects for transit facilities and equipment.

The **Miscellaneous Capital Projects Fund** accounts for capital improvement projects for out-of-service area roads and drainage, gas lines and pass-thru grants.

The **Parks and Recreation Capital Projects Fund** accounts for parks and recreation capital improvement projects in the taxing districts which receive parks and recreation services.

The **Historic Preservation Capital Projects Fund** accounts for the preservation of historic structures.

The **Heritage Land Bank Capital Projects Fund** accounts for parks capital improvement projects recommended by the Board of Heritage Land Bank and approved by the Assembly.

Permanent Fund

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

The **Cemetery Perpetual Maintenance Permanent Fund** accounts for contributions, revenues and expenditures for perpetual maintenance of the Anchorage Memorial Park Cemetery.

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MUNICIPALITY OF ANCHORAGE, ALASKA

Combining Balance Sheet
Nonmajor Governmental Funds

December 31, 2004

(With summarized financial information at December 31, 2003)

Assets	Special Revenue				Miscellaneous Operational Grants
	Heritage Land Bank	Police Investigations	State Grants	Federal Grants	
Cash	\$ —	\$ 8,727	\$ —	\$ —	\$ —
Cash in central treasury	4,328,765	486,024	4,393,104	5,653,998	554,945
Investments	—	—	—	—	5,928
Due from other funds	—	—	—	—	—
Receivables (net of allowance for uncollectibles)	2,232	—	—	4,714,395	34,583
Intergovernmental receivables	—	—	3,497,799	4,331,029	—
Interest receivable	—	—	—	—	16
Special assessments receivable	725	—	—	—	—
Prepaid items and deposits	3,754	—	—	—	—
Restricted assets:					
Cash in central treasury	—	—	—	—	—
Investments	—	—	—	—	—
Total assets	\$ 4,335,476	\$ 494,751	\$ 7,890,903	\$ 14,699,422	\$ 595,472
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and retainages	\$ 45,702	\$ 23,231	\$ 1,022,390	\$ 747,670	\$ 402
Due to other funds	—	—	—	—	—
Deferred revenue and deposits	—	—	296,182	3,139,810	—
Total liabilities	45,702	23,231	1,318,572	3,887,480	402
Fund balances (deficits):					
Reserved:					
Encumbrances	86,554	—	1,511,384	3,849,598	110,060
Prepays and deposits	3,754	—	—	—	—
Long-term loans	—	—	—	4,665,612	—
Perpetual care	—	—	—	—	—
Debt service	—	—	—	—	—
Unreserved, reported in:					
Special revenue fund	4,199,466	471,520	5,060,947	2,296,732	485,010
Capital project funds:					
Designated	—	—	—	—	—
Undesignated	—	—	—	—	—
Total fund balances (deficits)	4,289,774	471,520	6,572,331	10,811,942	595,070
Total liabilities and fund balances	\$ 4,335,476	\$ 494,751	\$ 7,890,903	\$ 14,699,422	\$ 595,472

See accompanying independent auditor's report.

Debt Service							
Other Restricted Resources	Total Special Revenue	Special Assessment Bonds	Retirement Certificates of Participation	Police/Fire Retiree Medical Liability	Jail Revenue Bond	PAC Surcharge Revenue Bond	Total Debt Service
\$ —	\$ 8,727	\$ —	\$ —	\$ —	\$ 6,056	\$ —	\$ 6,056
17,474	15,434,310	766,060	12,628,562	—	—	334,508	13,729,130
—	5,928	—	5,356,000	18,739,775	—	—	24,095,775
—	—	—	—	—	—	114,130	114,130
—	4,751,210	—	—	—	—	—	—
—	7,828,828	—	—	—	—	—	—
—	16	—	4,510	—	—	—	4,510
64,203	64,928	461,688	—	—	—	—	461,688
—	3,754	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	351,166	3,716,950	—	—	—	4,068,116
<u>\$ 81,677</u>	<u>\$ 28,097,701</u>	<u>\$ 1,578,914</u>	<u>\$ 21,706,022</u>	<u>\$ 18,739,775</u>	<u>\$ 6,056</u>	<u>\$ 448,638</u>	<u>\$ 42,479,405</u>
\$ —	\$ 1,839,395	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—	—	—
15,016	3,451,008	406,886	—	—	—	—	406,886
<u>15,016</u>	<u>5,290,403</u>	<u>406,886</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>406,886</u>
10,000	5,567,596	—	—	—	—	—	—
—	3,754	—	—	—	—	—	—
—	4,665,612	353,281	—	—	—	—	353,281
—	—	—	—	—	—	—	—
—	—	818,747	21,706,022	18,739,775	6,056	448,638	41,719,238
56,661	12,570,336	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
<u>66,661</u>	<u>22,807,298</u>	<u>1,172,028</u>	<u>21,706,022</u>	<u>18,739,775</u>	<u>6,056</u>	<u>448,638</u>	<u>42,072,519</u>
<u>\$ 81,677</u>	<u>\$ 28,097,701</u>	<u>\$ 1,578,914</u>	<u>\$ 21,706,022</u>	<u>\$ 18,739,775</u>	<u>\$ 6,056</u>	<u>\$ 448,638</u>	<u>\$ 42,479,405</u>

(Continued)

MUNICIPALITY OF ANCHORAGE, ALASKA

Combining Balance Sheet
Nonmajor Governmental Funds

December 31, 2004

(With summarized financial information at December 31, 2003)

Assets	Capital Projects				
	Areawide	Public Safety	Roads and Drainage	Public Transportation	Miscellaneous
Cash	\$ —	\$ —	\$ —	\$ —	\$ —
Cash in central treasury	16,641,695	10,684,545	23,686,564	—	37,270
Investments	—	—	—	—	—
Due from other funds	460,706	—	—	—	—
Receivables (net of allowance for uncollectibles)	—	—	—	—	—
Intergovernmental receivables	545,449	406,325	1,151,563	1,378,909	229,094
Interest receivable	—	—	—	—	—
Special assessments receivable	—	—	—	—	12,307
Prepaid items and deposits	—	—	—	—	—
Restricted assets:					
Cash in central treasury	—	—	—	—	—
Investments	—	—	—	—	—
Total assets	\$ 17,647,850	\$ 11,090,870	\$ 24,838,127	\$ 1,378,909	\$ 278,671
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and retainages	\$ 200,547	\$ 404,861	\$ 1,187,603	\$ 129,337	\$ 4,726
Due to other funds	183,852	—	—	460,706	461,196
Deferred revenue and deposits	—	—	—	—	—
Total liabilities	384,399	404,861	1,187,603	590,043	465,922
Fund balances (deficits):					
Reserved:					
Encumbrances	7,197,441	1,620,741	11,753,463	2,013,791	98,663
Prepays and deposits	—	—	—	—	—
Long-term loans	—	—	—	—	—
Perpetual care	—	—	—	—	—
Debt service	—	—	—	—	—
Unreserved, reported in:					
Special revenue fund	—	—	—	—	—
Capital project funds:					
Designated	10,023,090	8,136,587	11,778,114	—	(285,914)
Undesignated	42,920	928,681	118,947	(1,224,925)	—
Total fund balances (deficits)	17,263,451	10,686,009	23,650,524	788,866	(187,251)
Total liabilities and fund balances	\$ 17,647,850	\$ 11,090,870	\$ 24,838,127	\$ 1,378,909	\$ 278,671

See accompanying independent auditor's report.

Parks and Recreation	Historic Preservation	Heritage Land Bank	Total Capital Projects	Permanent Fund Cemetery Perpetual Maintenance	Total Nonmajor Governmental Funds	
					December 31, 2004	December 31, 2003
\$ —	\$ —	\$ —	\$ —	\$ —	\$ 14,783	\$ 12,623
10,245,476	54,434	2,884,216	64,234,200	269,397	93,667,037	43,042,562
—	—	—	—	—	24,101,703	25,409,080
—	—	—	460,706	—	574,836	31,418,886
574,308	—	—	4,285,648	—	4,751,210	5,374,419
—	—	—	—	—	12,114,476	12,118,620
—	—	—	12,307	—	4,526	14
—	—	—	—	—	538,923	723,530
—	—	—	—	—	3,754	8,171
—	—	—	—	—	—	256,622
—	—	—	—	—	4,068,116	4,044,293
<u>\$ 10,819,784</u>	<u>\$ 54,434</u>	<u>\$ 2,884,216</u>	<u>\$ 68,992,861</u>	<u>\$ 269,397</u>	<u>\$ 139,839,364</u>	<u>\$ 122,408,820</u>
\$ 154,356	\$ —	\$ 152	\$ 2,081,582	\$ —	\$ 3,920,977	\$ 4,658,725
—	—	—	1,105,754	—	1,105,754	1,408,647
—	—	—	—	—	3,857,894	3,917,557
<u>154,356</u>	<u>—</u>	<u>152</u>	<u>3,187,336</u>	<u>—</u>	<u>8,884,625</u>	<u>9,984,929</u>
1,268,351	—	86,213	24,038,663	—	29,606,259	24,699,770
—	—	—	—	—	3,754	8,171
—	—	—	—	—	5,018,893	5,593,357
—	—	—	—	269,397	269,397	256,622
—	—	—	—	—	41,719,238	42,717,015
—	—	—	—	—	12,570,336	16,010,905
9,178,567	—	2,462,307	41,292,751	—	41,292,751	23,315,896
218,510	54,434	335,544	474,111	—	474,111	(177,845)
<u>10,665,428</u>	<u>54,434</u>	<u>2,884,064</u>	<u>65,805,525</u>	<u>269,397</u>	<u>130,954,739</u>	<u>112,423,891</u>
<u>\$ 10,819,784</u>	<u>\$ 54,434</u>	<u>\$ 2,884,216</u>	<u>\$ 68,992,861</u>	<u>\$ 269,397</u>	<u>\$ 139,839,364</u>	<u>\$ 122,408,820</u>

MUNICIPALITY OF ANCHORAGE, ALASKA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year ended December 31, 2004
(With summarized financial information at December 31, 2003)

	Special Revenue				
	Heritage Land Bank	Police Investigations	State Grants	Federal Grants	Miscellaneous Operational Grants
Revenues:					
Special assessments	\$ —	\$ —	\$ —	\$ —	\$ —
Intergovernmental	—	—	12,075,621	9,830,259	—
Charges for services	—	—	—	19,663	—
Fines and forfeitures	—	150,657	—	—	—
Investment income	67,653	6,708	6,222	—	7,493
Restricted contributions	—	—	—	—	705,049
Other	168,309	176,018	—	(65,279)	—
Total revenues	235,962	333,383	12,081,843	9,784,643	712,542
Expenditures:					
Current:					
General government	988,373	—	510,331	2,893	21,395
Fire services	—	—	109,798	1,758,712	3,980
Police services	—	432,527	378,715	1,750,928	400,302
Health and human services	—	—	7,564,359	3,399,842	6,745
Economic and community development	—	—	212,264	3,686,584	139,593
Public transportation	—	—	2,857,271	290,195	—
Public works	—	—	464,152	649,462	—
Maintenance and operations	—	—	562	—	—
Education	—	—	285,280	—	—
Debt service:					
Principal	—	—	—	—	—
Interest	—	—	—	—	—
Bond issuance costs	—	—	—	—	—
Capital projects	—	—	—	—	—
Total expenditures	988,373	432,527	12,382,732	11,538,616	572,015
Excess (deficiency) of revenues over expenditures	(752,411)	(99,144)	(300,889)	(1,753,973)	140,527
Other financing sources (uses):					
Transfers in – from other funds	—	—	766,207	981,472	13,440
Transfers out – to other funds	(2,788,000)	(110,710)	—	—	(227,886)
General obligation bonds issued	—	—	—	—	—
Long term debt issued	—	—	—	—	—
Premium on bond sale	—	—	—	—	—
Capital Leases	—	—	—	—	—
Sale of capital assets	1,848,544	—	—	—	—
Total other financing sources (uses)	(939,456)	(110,710)	766,207	981,472	(214,446)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(1,691,867)	(209,854)	465,318	(772,501)	(73,919)
Fund balances (deficit), beginning of year	5,981,641	681,374	6,107,013	11,584,443	668,989
Fund balances (deficit), end of year	\$ 4,289,774	\$ 471,520	\$ 6,572,331	\$ 10,811,942	\$ 595,070

See accompanying independent auditor's report.

Debt Service

Other Restricted Resources	Total Special Revenue	Special Assessment Bonds	Retirement Certificates of Participation	Police/Fire Retiree Medical Liability	Jail Revenue Bond	PAC Surcharge Revenue Bond	Total Debt Service
\$ 569,626	\$ 569,626	\$ 204,767	\$ —	\$ —	\$ —	\$ —	\$ 204,767
—	21,905,880	—	—	—	—	—	—
—	19,663	—	—	—	5,212,844	—	5,212,844
—	150,657	—	—	—	—	—	—
—	88,076	14,997	(105,795)	1,862,041	180	28,439	1,799,862
—	705,049	—	—	—	—	—	—
—	279,048	—	—	—	—	—	—
569,626	23,717,999	219,764	(105,795)	1,862,041	5,213,024	28,439	7,217,473
488,500	2,011,492	—	—	—	—	—	—
—	1,872,490	—	—	—	—	—	—
—	2,962,472	—	—	—	—	—	—
—	10,970,946	—	—	—	—	—	—
—	4,038,441	—	—	—	—	—	—
—	3,147,466	—	—	—	—	—	—
—	1,113,614	—	—	—	—	—	—
—	562	—	—	—	—	—	—
—	285,280	—	—	—	—	—	—
—	—	205,000	3,055,000	—	2,065,000	—	5,325,000
—	—	74,622	405,440	—	3,147,844	—	3,627,906
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
488,500	26,402,763	279,622	3,460,440	—	5,212,844	—	8,952,906
81,126	(2,684,764)	(59,858)	(3,566,235)	1,862,041	180	28,439	(1,735,433)
—	1,761,119	—	—	1,800,000	13,347	201,682	2,015,029
—	(3,126,596)	—	—	(1,495,890)	—	—	(1,495,890)
—	—	—	—	—	—	—	—
—	—	—	—	—	—	215,000	215,000
—	—	—	—	—	—	3,517	3,517
—	—	—	—	—	—	—	—
—	1,848,544	—	—	—	—	—	—
—	483,067	—	—	304,110	13,347	420,199	737,656
81,126	(2,201,697)	(59,858)	(3,566,235)	2,166,151	13,527	448,638	(997,777)
(14,465)	25,008,995	1,231,886	25,272,257	16,573,624	(7,471)	—	43,070,296
\$ 66,661	\$ 22,807,298	\$ 1,172,028	\$ 21,706,022	\$ 18,739,775	\$ 6,056	\$ 448,638	\$ 42,072,519

(Continued)

MUNICIPALITY OF ANCHORAGE, ALASKA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended December 31, 2004

(With summarized financial information at December 31, 2003)

	Capital Projects				
	Areawide	Public Safety	Roads and Drainage	Public Transportation	Miscellaneous
Revenues:					
Special assessments	\$ —	\$ —	\$ —	\$ —	\$ 18,218
Intergovernmental	1,259,427	1,089,732	3,899,322	3,849,540	238,637
Charges for services	—	—	—	—	—
Fines and forfeitures	94,439	—	—	—	—
Investment income	60,106	36,501	27,347	—	1,528
Restricted contributions	—	—	—	—	—
Other	515,908	2,160	8,303	—	—
Total revenues	1,929,880	1,128,393	3,934,972	3,849,540	258,383
Expenditures:					
Current:					
General government	—	—	—	—	—
Fire services	—	—	—	—	—
Police services	—	—	—	—	—
Health and human services	—	—	—	—	—
Economic and community development	—	—	—	—	—
Public transportation	—	—	—	—	—
Public works	—	—	—	—	—
Maintenance and operations	—	—	—	—	—
Education	—	—	—	—	—
Debt service:					
Principal	—	—	—	—	—
Interest	—	—	—	—	—
Bond issuance costs	102,962	76,401	383,649	7,790	—
Capital projects	4,197,546	7,090,237	37,358,106	4,263,135	267,262
Total expenditures	4,300,508	7,166,638	37,741,755	4,270,925	267,262
Excess (deficiency) of revenues over expenditures	(2,370,628)	(6,038,245)	(33,806,783)	(421,385)	(8,879)
Other financing sources (uses):					
Transfers in – from other funds	1,417,772	107,300	2,104,610	—	35,000
Transfers out – to other funds	(365,000)	(13,347)	—	—	—
General obligation bonds issued	3,780,000	7,650,000	38,415,000	780,000	—
Long term debt issued	5,150,000	—	—	—	—
Premium on bond sale	119,230	92,154	349,620	9,594	—
Capital Leases	—	1,146,807	—	—	—
Sale of capital assets	—	—	297,366	—	—
Total other financing sources (uses)	10,102,002	8,982,914	41,166,596	789,594	35,000
Excess (deficiency) of revenues and other sources over expenditures and other uses	7,731,374	2,944,669	7,359,813	368,209	26,121
Fund balances (deficit), beginning of year	9,532,077	7,741,340	16,290,711	420,657	(213,372)
Fund balances, end of year	\$ 17,263,451	\$ 10,686,009	\$ 23,650,524	\$ 788,866	\$ (187,251)

See accompanying independent auditor's report.

Parks and Recreation	Historic Preservation	Heritage Land Bank	Total Capital Projects	Permanent Fund	Total Nonmajor Governmental Funds	
				Cemetery Perpetual Maintenance	2004	2003
\$ —	\$ —	\$ —	\$ 18,218	\$ —	\$ 792,611	\$ 742,564
1,939,125	—	—	12,275,783	—	34,181,663	47,183,113
364,090	—	—	364,090	9,370	5,605,967	5,900,639
—	—	—	94,439	—	245,096	353,064
33,373	714	20,796	180,365	3,405	2,071,708	4,309,209
555,000	—	—	555,000	—	1,260,049	—
50,310	—	—	576,681	—	855,729	1,987,077
<u>2,941,898</u>	<u>714</u>	<u>20,796</u>	<u>14,064,576</u>	<u>12,775</u>	<u>45,012,823</u>	<u>60,475,666</u>
—	—	—	—	—	2,011,492	1,812,461
—	—	—	—	—	1,872,490	2,475,584
—	—	—	—	—	2,962,472	2,532,918
—	—	—	—	—	10,970,946	17,921,841
—	—	—	—	—	4,038,441	430,742
—	—	—	—	—	3,147,466	2,058,820
—	—	—	—	—	1,113,614	10,423,584
—	—	—	—	—	562	—
—	—	—	—	—	285,280	59,199
—	—	—	—	—	5,325,000	5,005,000
—	—	—	—	—	3,627,906	3,880,780
17,477	—	—	588,279	—	588,279	444,379
4,849,085	—	725,079	58,750,450	—	58,750,450	59,954,574
4,866,562	—	725,079	59,338,729	—	94,694,398	106,999,882
<u>(1,924,664)</u>	<u>714</u>	<u>(704,283)</u>	<u>(45,274,153)</u>	<u>12,775</u>	<u>(49,681,575)</u>	<u>(46,524,216)</u>
1,372,116	—	2,776,000	7,812,798	—	11,588,946	5,558,399
—	—	—	(378,347)	—	(5,000,833)	(9,872,481)
1,750,000	—	—	52,375,000	—	52,375,000	35,000,000
—	—	—	5,150,000	—	5,365,000	—
17,478	—	—	588,076	—	591,593	444,379
—	—	—	1,146,807	—	1,146,807	—
—	—	—	297,366	—	2,145,910	2,846,684
<u>3,139,594</u>	<u>—</u>	<u>2,776,000</u>	<u>66,991,700</u>	<u>—</u>	<u>68,212,423</u>	<u>33,976,981</u>
1,214,930	714	2,071,717	21,717,547	12,775	18,530,848	(12,547,235)
9,450,498	53,720	812,347	44,087,978	256,622	112,423,891	124,971,126
<u>\$ 10,665,428</u>	<u>\$ 54,434</u>	<u>\$ 2,884,064</u>	<u>\$ 65,805,525</u>	<u>\$ 269,397</u>	<u>\$ 130,954,739</u>	<u>\$ 112,423,891</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Budgetary Comparison Schedule
Heritage Land Bank
Special Revenue Fund

Year ended December 31, 2004

	Budget		Actual	Variance With Final Budget – Positive (Negative)
	Original	Final		
Revenues:				
Investment income	\$ 104,920	\$ 97,160	\$ 67,653	\$ (29,507)
Other revenues	131,500	131,500	168,309	36,809
Total revenues	<u>236,420</u>	<u>228,660</u>	<u>235,962</u>	<u>7,302</u>
Expenditures:				
General government	977,600	1,230,550	988,373	242,177
Total expenditures	<u>977,600</u>	<u>1,230,550</u>	<u>988,373</u>	<u>242,177</u>
Deficiency of revenues over expenditures	<u>(741,180)</u>	<u>(1,001,890)</u>	<u>(752,411)</u>	<u>249,479</u>
Other financing sources (uses):				
Transfers out – to other funds	(12,000)	(2,788,000)	(2,788,000)	—
Proceeds from sale of assets	753,210	765,150	1,848,544	1,083,394
Total other financing sources (uses)	<u>741,210</u>	<u>(2,022,850)</u>	<u>(939,456)</u>	<u>1,083,394</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	30	(3,024,740)	(1,691,867)	1,332,873
Fund balance, beginning of year	5,981,641	5,981,641	5,981,641	—
Fund balance, end of year	<u>\$ 5,981,671</u>	<u>\$ 2,956,901</u>	<u>\$ 4,289,774</u>	<u>\$ 1,332,873</u>

See accompanying independent auditor's report.

MUNICIPALITY OF ANCHORAGE, ALASKA

Budgetary Comparison Schedule
Special Assessment Bonds
Debt Service Fund

Year ended December 31, 2004

	Budget		Actual	Variance With Final Budget -- Positive (Negative)
	Original	Final		
Revenues:				
Special assessments	\$ —	\$ 334,000	\$ 204,767	\$ (129,233)
Investment income	—	—	14,997	14,997
Total revenues	—	334,000	219,764	(114,236)
Expenditures:				
Debt service:				
Principal	—	259,000	205,000	54,000
Interest	—	75,000	74,622	378
Total expenditures	—	334,000	279,622	54,378
Deficiency of revenues over expenditures	—	—	(59,858)	(59,858)
Fund balance, beginning of year	1,231,886	1,231,886	1,231,886	—
Fund balance, end of year	<u>\$ 1,231,886</u>	<u>\$ 1,231,886</u>	<u>\$ 1,172,028</u>	<u>\$ (59,858)</u>

See accompanying independent auditor's report.

MUNICIPALITY OF ANCHORAGE, ALASKA

Budgetary Comparison Schedule
Retirement Certificates of Participation
Debt Service Fund

Year ended December 31, 2004

	Budget		Actual	Variance With Final Budget – Positive (Negative)
	Original	Final		
Revenues:				
Investment income	\$ —	\$ —	\$ (105,795)	\$ (105,795)
Total revenues	—	—	(105,795)	(105,795)
Expenditures:				
Debt service:				
Principal	—	3,055,000	3,055,000	—
Interest	—	403,380	405,440	(2,060)
Total expenditures	—	3,458,380	3,460,440	(2,060)
Deficiency of revenues over expenditures	—	(3,458,380)	(3,566,235)	(107,855)
Fund balance, beginning of year	25,272,257	25,272,257	25,272,257	—
Fund balance, end of year	\$ 25,272,257	\$ 21,813,877	\$ 21,706,022	\$ (107,855)

See accompanying independent auditor's report.

MUNICIPALITY OF ANCHORAGE, ALASKA

Budgetary Comparison Schedule
Police/Fire Retiree Medical Liability
Debt Service Fund

Year ended December 31, 2004

	Budget		Actual	Variance With Final Budget – Positive (Negative)
	Original	Final		
Revenues:				
Investment income	\$ —	\$ —	\$ 1,862,041	\$ 1,862,041
Total revenues	—	—	1,862,041	1,862,041
Other financing sources (uses):				
Transfers in – from other funds	1,800,210	1,800,210	1,800,000	(210)
Transfers out – to other funds	(1,800,000)	(1,800,000)	(1,495,890)	304,110
Total other financing sources	210	210	304,110	303,900
Excess of revenues and other financing sources over other financing uses	210	210	2,166,151	2,165,941
Fund balance, beginning of year	16,573,624	16,573,624	16,573,624	—
Fund balance, end of year	<u>\$ 16,573,834</u>	<u>\$ 16,573,834</u>	<u>\$ 18,739,775</u>	<u>\$ 2,165,941</u>

See accompanying independent auditor's report.

MUNICIPALITY OF ANCHORAGE, ALASKA

Budgetary Comparison Schedule
Jail Revenue Bond
Debt Service Fund

Year ended December 31, 2004

	Budget		Actual	Variance With Final Budget – Positive (Negative)
	Original	Final		
Revenues:				
Charges for services	\$ —	\$ 5,212,850	\$ 5,212,844	\$ (6)
Investment income	—	—	180	180
Total revenues	—	5,212,850	5,213,024	174
Expenditures:				
Debt service:				
Principal	—	2,065,000	2,065,000	—
Interest	—	3,161,197	3,147,844	13,353
Total expenditures	—	5,226,197	5,212,844	13,353
Excess of revenues over expenditures	—	(13,347)	180	13,527
Other financing sources:				
Transfers in – from other funds	—	13,347	13,347	—
Total other financing sources	—	13,347	13,347	—
Excess of revenues and other financing sources over expenditures	—	—	13,527	13,527
Fund deficit, beginning of year	(7,471)	(7,471)	(7,471)	—
Fund deficit, end of year	\$ (7,471)	\$ (7,471)	\$ 6,056	\$ 13,527

See accompanying independent auditor's report.

MUNICIPALITY OF ANCHORAGE, ALASKA

Budgetary Comparison Schedule
 PAC Surcharge Revenue Bond
 Debt Service Fund

Year ended December 31, 2004

	Budget		Actual	Variance With Final Budget -- Positive (Negative)
	Original	Final		
Revenues:				
Investment income	—	—	28,439	28,439
Total revenues	—	—	28,439	28,439
Expenditures:				
Debt service:				
Interest	—	218,518	—	218,518
Total expenditures	—	218,518	—	218,518
Excess of revenues over expenditures	—	(218,518)	28,439	246,957
Other financing sources:				
Transfers in – from other funds	—	—	201,682	(201,682)
Long term debt issued	—	215,000	215,000	—
Premium	—	3,518	3,517	1
Total other financing sources	—	218,518	420,199	(201,681)
Excess of revenues and other financing sources over expenditures	—	—	448,638	45,276
Fund balance, beginning of year	—	—	—	—
Fund balance, end of year	\$ —	\$ —	\$ 448,638	\$ 45,276

See accompanying independent auditor's report.

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Non-major Enterprise Funds

NONMAJOR ENTERPRISE FUNDS

Enterprise funds are used to account for activities for which a fee is charged to external users for goods or services received.

The **Refuse Utility Fund** accounts for the Municipal-owned refuse collection services.

The **Solid Waste Fund** accounts for the Municipal-owned landfill and transfer station operations.

The **Port Fund** accounts for operations of the Municipal-owned port facility.

The **Municipal Airport Fund** accounts for the operations of Merrill Field, a Municipal-owned airport.

The **Cooperative Services Authority** accounts for the blended component unit purchasing cooperative created to obtain savings through pooled purchasing power and managed vendor negotiations.

The **Anchorage Parking Authority** accounts for the blended component unit public corporation created to promote adequate parking facilities within Anchorage.

The **Alaska Center for the Performing Arts** accounts for the blended component unit that operates, maintains and promotes the performing arts center.

MUNICIPALITY OF ANCHORAGE, ALASKA

Combining Statement of Net Assets
Nonmajor Enterprise Funds

December 31, 2004

(With summarized financial information at December 31, 2003)

Assets	Refuse Utility	Solid Waste	Port
Current assets:			
Cash	\$ 300	\$ 1,475	\$ 150
Cash in central treasury	2,240,754	12,528,026	9,946,136
Receivables (net of allowance for uncollectibles)	498,416	931,859	869,013
Interest receivable	—	3,034	—
Current portion of lease receivable	—	—	457,236
Prepaid items and deposits	1,366	3,378	36,933
Restricted assets:			
Restricted deposits	—	—	—
Receivables	—	5,225	—
Bond and acquisition and construction accounts	1,365,640	13,836,634	25,912,100
Revenue bond operations and maintenance accounts	—	369,812	—
Debt service accounts	—	—	1,141,022
Total current assets	4,106,476	27,679,443	38,362,590
Noncurrent assets:			
Loans receivables, net	—	—	—
Deferred charges and other assets	—	5,361	1,349,226
Capital assets, net	2,292,836	42,610,104	52,701,112
Total noncurrent assets	2,292,836	42,615,465	54,050,338
Total assets	\$ 6,399,312	\$ 70,294,908	\$ 92,412,928

See accompanying independent auditor's report.

Municipal Airport	Cooperative Services Authority	Anchorage Parking Authority	Alaska Center for the Performing Arts	Total Nonmajor Enterprise Funds	
				December 31, 2004	December 31, 2003
\$ 200	\$ —	\$ 4,331,486	\$ 1,008,434	\$ 5,342,045	\$ 3,999,634
—	134,016	—	—	24,848,932	31,866,696
590,763	—	51,031	29,446	2,970,528	2,498,103
631	—	—	—	3,665	302,680
—	—	—	—	457,236	416,691
1,878	—	—	43,036	86,591	97,541
—	—	35,142	557,060	592,202	524,363
—	—	—	—	5,225	29,432
637,549	—	—	—	41,751,923	29,067,931
—	—	—	—	369,812	736,872
—	—	—	—	1,141,022	1,292,490
<u>1,231,021</u>	<u>134,016</u>	<u>4,417,659</u>	<u>1,637,976</u>	<u>77,569,181</u>	<u>70,832,433</u>
28,585	—	—	—	28,585	34,932
—	—	—	—	1,354,587	1,839,334
42,104,403	955,436	30,356,911	—	171,020,802	173,581,860
<u>42,132,988</u>	<u>955,436</u>	<u>30,356,911</u>	<u>—</u>	<u>172,403,974</u>	<u>175,456,126</u>
<u>\$ 43,364,009</u>	<u>\$ 1,089,452</u>	<u>\$ 34,774,570</u>	<u>\$ 1,637,976</u>	<u>\$ 249,973,155</u>	<u>\$ 246,288,559</u>

(Continued)

MUNICIPALITY OF ANCHORAGE, ALASKA

Combining Statement of Net Assets
Nonmajor Enterprise Funds

December 31, 2004

(With summarized financial information at December 31, 2003)

Liabilities	Refuse Utility	Solid Waste	Port
Current liabilities:			
Accounts payable and retainages	\$ 25,842	\$ 252,594	\$ 457,918
Compensated absences payable	53,826	292,050	117,748
Due to other funds	—	—	—
Accrued interest payable	—	369,181	64,500
Long-term obligations maturing within one year	—	3,657,931	1,250,000
Deferred revenue and deposits	2,578	—	—
Deferred credits and other liabilities	—	—	—
Current liabilities payable from restricted assets:			
Customer deposits payable	—	—	—
Capital acquisition and construction accounts and retainage payable	—	—	284,004
Total current liabilities	82,246	4,571,756	2,174,170
Noncurrent liabilities:			
Due to other funds	—	—	—
General obligation bonds payable (net of unamortized discounts, premiums, deferred gain or loss on refunding)	—	2,267,230	—
Revenue bonds payable (net of unamortized discounts, premiums, deferred gain or loss on refunding)	—	1,277,732	1,263,794
Federal clean water loan payable	—	11,779,341	—
Unfunded pension obligation	25,741	54,973	20,329
Total noncurrent liabilities	25,741	15,379,276	1,284,123
Deferred credits and other liabilities:			
Future landfill closure costs	—	11,111,326	—
Total liabilities	107,987	31,062,358	3,458,293
Net Assets			
Invested in capital assets, net of related debt	2,292,836	23,627,870	50,187,318
Restricted for debt service	—	369,812	1,076,522
Restricted for operations and maintenance	—	—	—
Restricted for capital construction	1,365,640	13,836,634	25,628,096
Unrestricted	2,632,849	1,398,234	12,062,699
Total net assets	6,291,325	39,232,550	88,954,635
Total liabilities and net assets	\$ 6,399,312	\$ 70,294,908	\$ 92,412,928

See accompanying independent auditor's report.

Municipal Airport	Cooperative Services Authority	Anchorage Parking Authority	Alaska Center for the Arts	Total Nonmajor Enterprise Funds	
				December 31, 2004	December 31, 2003
\$ 20,453	\$ 103,776	\$ 266,270	\$ 205,842	\$ 1,332,695	\$ 1,017,279
52,484	—	—	—	516,108	557,169
—	—	246,087	114,130	360,217	375,071
—	—	—	—	433,681	536,763
—	—	—	—	4,907,931	5,012,170
78,266	—	135,920	—	216,764	296,686
—	—	—	260,004	260,004	138,996
—	—	—	54,944	54,944	35,594
301,185	—	—	—	585,189	68,589
<u>452,388</u>	<u>103,776</u>	<u>648,277</u>	<u>634,920</u>	<u>8,667,533</u>	<u>8,038,317</u>
—	962,886	—	—	962,886	—
—	—	—	—	2,267,230	4,654,964
—	—	—	—	2,541,526	4,027,842
—	—	—	—	11,779,341	12,687,273
9,778	—	54,299	—	165,120	—
<u>9,778</u>	<u>962,886</u>	<u>54,299</u>	<u>—</u>	<u>17,716,103</u>	<u>21,370,079</u>
—	—	—	—	11,111,326	10,324,632
<u>462,166</u>	<u>1,066,662</u>	<u>702,576</u>	<u>634,920</u>	<u>37,494,962</u>	<u>39,733,028</u>
42,104,403	955,436	30,356,911	—	149,524,774	147,199,611
—	—	—	—	1,446,334	2,029,362
—	—	35,142	—	35,142	524,363
637,549	—	—	557,060	42,024,979	27,837,537
159,891	(932,646)	3,679,941	445,996	19,446,964	28,964,658
<u>42,901,843</u>	<u>22,790</u>	<u>34,071,994</u>	<u>1,003,056</u>	<u>212,478,193</u>	<u>206,555,531</u>
<u>\$ 43,364,009</u>	<u>\$ 1,089,452</u>	<u>\$ 34,774,570</u>	<u>\$ 1,637,976</u>	<u>\$ 249,973,155</u>	<u>\$ 246,288,559</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Nonmajor Enterprise Funds

Year ended December 31, 2004

(With summarized financial information for the year ended December 31, 2003)

	<u>Refuse Utility</u>	<u>Solid Waste</u>	<u>Port</u>
Operating revenues:			
Charges for sales and services	\$ 5,998,459	\$ 15,344,863	\$ 6,006,259
Other	23,284	344,340	4,134,240
Total operating revenues	<u>6,021,743</u>	<u>15,689,203</u>	<u>10,140,499</u>
Operating expenses:			
Operations	5,398,998	8,230,463	4,063,341
Municipal service assessment taxes	39,750	755,842	545,609
Amortization of future landfill closure costs	—	786,694	—
Depreciation	448,330	2,479,615	3,341,374
Total operating expenses	<u>5,887,078</u>	<u>12,252,614</u>	<u>7,950,324</u>
Operating income (loss)	<u>134,665</u>	<u>3,436,589</u>	<u>2,190,175</u>
Nonoperating revenues (expenses):			
Investment income	49,744	322,822	316,563
Other revenues	11,529	32,903	143,869
Intergovernmental revenue	—	62,250	—
Interest expense	(4,474)	(810,456)	(162,733)
Gain (loss) on disposition of assets	—	97,840	(1,207)
Amortization of deferred charges	(329)	—	(52,600)
Net nonoperating revenues (expenses)	<u>56,470</u>	<u>(294,641)</u>	<u>243,892</u>
Income (loss) before transfers	<u>191,135</u>	<u>3,141,948</u>	<u>2,434,067</u>
Capital contributions	—	—	—
Transfers out	(282,765)	(790,755)	—
Transfers in	—	—	—
Change in net assets	<u>(91,630)</u>	<u>2,351,193</u>	<u>2,434,067</u>
Total net assets – beginning	<u>6,382,955</u>	<u>36,881,357</u>	<u>86,520,568</u>
Total net assets – ending	<u>\$ 6,291,325</u>	<u>\$ 39,232,550</u>	<u>\$ 88,954,635</u>

See accompanying independent auditor's report.

Municipal Airport	Cooperative Services Authority	Anchorage Parking Authority	Alaska Center for the Performing Arts	Total Nonmajor Enterprise Funds	
				2004	2003
\$ 1,048,794	\$ —	\$ 4,950,685	\$ 655,941	\$ 34,005,001	\$ 32,612,459
—	—	328	447,517	4,949,709	3,530,147
<u>1,048,794</u>	<u>—</u>	<u>4,951,013</u>	<u>1,103,458</u>	<u>38,954,710</u>	<u>36,142,606</u>
869,073	201,096	2,840,625	1,726,324	23,329,920	21,864,505
—	—	223,349	—	1,564,550	1,540,369
—	—	—	—	786,694	767,073
<u>1,284,039</u>	<u>—</u>	<u>1,182,573</u>	<u>—</u>	<u>8,735,931</u>	<u>8,814,755</u>
<u>2,153,112</u>	<u>201,096</u>	<u>4,246,547</u>	<u>1,726,324</u>	<u>34,417,095</u>	<u>32,986,702</u>
<u>(1,104,318)</u>	<u>(201,096)</u>	<u>704,466</u>	<u>(622,866)</u>	<u>4,537,615</u>	<u>3,155,904</u>
10,451	—	44,692	15,135	759,407	800,179
6,948	—	—	—	195,249	225,629
2,241,293	—	—	—	2,303,543	1,561,780
—	(1,114)	—	—	(978,777)	(1,262,698)
—	—	12,578	—	109,211	43,121
—	—	—	—	(52,929)	(56,227)
<u>2,258,692</u>	<u>(1,114)</u>	<u>57,270</u>	<u>15,135</u>	<u>2,335,704</u>	<u>1,311,784</u>
<u>1,154,374</u>	<u>(202,210)</u>	<u>761,736</u>	<u>(607,731)</u>	<u>6,873,319</u>	<u>4,467,688</u>
—	—	(484,819)	—	(484,819)	(107,963)
—	—	(564,136)	(201,682)	(1,839,338)	(2,752,273)
—	225,000	—	1,148,500	1,373,500	1,148,500
<u>1,154,374</u>	<u>22,790</u>	<u>(287,219)</u>	<u>339,087</u>	<u>5,922,662</u>	<u>2,755,952</u>
<u>41,747,469</u>	<u>—</u>	<u>34,359,213</u>	<u>663,969</u>	<u>206,555,531</u>	<u>203,799,579</u>
<u>\$ 42,901,843</u>	<u>\$ 22,790</u>	<u>\$ 34,071,994</u>	<u>\$ 1,003,056</u>	<u>\$ 212,478,193</u>	<u>\$ 206,555,531</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Combining Statement of Cash Flows
Nonmajor Enterprise Funds

Year ended December 31, 2004

(With summarized financial information for the year ended December 31, 2003)

	<u>Refuse Utility</u>	<u>Solid Waste</u>	<u>Port</u>
Cash flows from operating activities:			
Receipts from customers and users	\$ 5,878,768	\$ 15,700,845	\$ 9,987,434
Payments to employees	(1,419,335)	(5,227,717)	(1,650,665)
Payments to vendors	(3,964,097)	(3,711,083)	(2,618,274)
Net cash provided (used) by operating activities	<u>495,336</u>	<u>6,762,045</u>	<u>5,718,495</u>
Cash flows from noncapital and related financing activities:			
Transfers to other funds	(282,765)	(790,755)	—
Transfers from other funds	—	—	—
Loan payments to central treasury	—	—	—
Other noncapital receipts	—	32,903	143,869
Net cash provided (used) by noncapital and related financing activities	<u>(282,765)</u>	<u>(757,852)</u>	<u>143,869</u>
Cash flows from capital and related financing activities:			
Principal payments on long-term obligations	(330,000)	(3,502,932)	(1,180,000)
Loan proceeds from central treasury	—	—	—
Interest payments on long-term obligations	(7,982)	(782,412)	(189,059)
Acquisition and construction of capital assets	(714,705)	(10,070,352)	(4,300,797)
Proceeds from disposition of capital assets	12,502	182,064	1,493
Grant proceeds	—	86,457	—
Contributed capital – customers	—	—	—
Net cash used by capital and related financing activities	<u>(1,040,185)</u>	<u>(14,087,175)</u>	<u>(5,668,363)</u>
Cash flows from investing activities:			
Proceeds from investment in direct financing leases	—	—	568,160
Interest received	52,588	331,579	612,488
Net cash provided by investing activities	<u>52,588</u>	<u>331,579</u>	<u>1,180,648</u>
Net increase (decrease) in cash	<u>(775,026)</u>	<u>(7,751,403)</u>	<u>1,374,649</u>
Cash, beginning of year	<u>3,016,080</u>	<u>20,280,904</u>	<u>8,571,637</u>
Cash, end of year	<u>\$ 2,241,054</u>	<u>\$ 12,529,501</u>	<u>\$ 9,946,286</u>
Cash	\$ 300	\$ 1,475	\$ 150
Cash in central treasury	<u>2,240,754</u>	<u>12,528,026</u>	<u>9,946,136</u>
Cash, December 31	<u>\$ 2,241,054</u>	<u>\$ 12,529,501</u>	<u>\$ 9,946,286</u>

See accompanying independent auditor's report.

Municipal Airport	Cooperative Services Authority	Anchorage Parking Authority	Alaska Center for the Performing Arts	Total Nonmajor Enterprise Funds	
				2004	2003
\$ 1,048,947	\$ —	\$ 4,989,715	\$ 5,079,798	\$ 42,685,507	\$ 40,029,569
(741,731)	(31,968)	(1,082,761)	(1,982,819)	(12,136,996)	(11,633,454)
(123,967)	(169,128)	(1,829,378)	(3,572,628)	(15,988,555)	(16,018,781)
183,249	(201,096)	2,077,576	(475,649)	14,559,956	12,377,334
—	—	(564,136)	(201,682)	(1,839,338)	(2,643,053)
—	225,000	—	1,148,500	1,373,500	1,148,500
(310,332)	—	—	—	(310,332)	—
6,948	—	—	—	183,720	486,134
(303,384)	225,000	(564,136)	946,818	(592,450)	(1,008,419)
—	—	—	—	(5,012,932)	(4,230,330)
—	962,886	—	—	962,886	—
—	(1,114)	—	—	(980,567)	(1,218,394)
(1,848,944)	(851,660)	(304,303)	(98,061)	(18,188,822)	(9,910,764)
—	—	12,578	—	208,637	51,034
1,958,379	—	—	—	2,044,836	1,706,059
—	—	(312,239)	—	(312,239)	(213,759)
109,435	110,112	(603,964)	(98,061)	(21,278,201)	(13,816,154)
—	—	—	—	568,160	229,507
10,700	—	44,692	15,135	1,067,182	852,826
10,700	—	44,692	15,135	1,635,342	1,082,333
—	134,016	954,168	388,243	(5,675,353)	(1,364,906)
200	—	3,377,318	620,191	35,866,330	37,231,236
\$ 200	\$ 134,016	\$ 4,331,486	\$ 1,008,434	\$ 30,190,977	\$ 35,866,330
\$ 200	\$ —	\$ 4,331,486	\$ 1,008,434	\$ 5,342,045	\$ 3,999,634
—	134,016	—	—	24,848,932	31,866,696
\$ 200	\$ 134,016	\$ 4,331,486	\$ 1,008,434	\$ 30,190,977	\$ 35,866,330

(Continued)

MUNICIPALITY OF ANCHORAGE, ALASKA

Combining Statement of Cash Flows
Nonmajor Enterprise Funds

Year ended December 31, 2004

(With summarized financial information for the year ended December 31, 2003)

	<u>Refuse Utility</u>	<u>Solid Waste</u>	<u>Port</u>
Reconciliation of change in net assets to net cash provided by operating activities:			
Operating income (loss)	\$ 134,665	\$ 3,436,589	\$ 2,190,175
Adjustments to reconcile operating income to net cash provided or used by operating activities:			
Depreciation	448,330	2,479,615	3,341,374
Amortization of landfill closure costs	—	786,694	—
Capital equipment purchases	—	—	—
Changes in assets and liabilities which increase (decrease) cash:			
Accounts receivable	(119,766)	11,456	(153,065)
Prepaid items and deposits	75	186	3,005
Notes receivable	—	—	—
Customer deposits	—	—	—
Deferred charges and other assets	—	—	—
Accounts payable	9,649	41,493	329,170
Deferred credits	—	—	—
Deferred revenue	—	—	(13,000)
Compensated absences payable	(3,358)	(48,961)	507
Unfunded pension obligation	25,741	54,973	20,329
Total cash provided by operating activities	\$ 495,336	\$ 6,762,045	\$ 5,718,495
Noncash investing, capital, and financing activities:			
Capital purchases on account	—	—	215,415
Deferred refunding loss	433	79,628	—
	\$ 433	\$ 79,628	\$ 215,415

See accompanying independent auditor's report.

Municipal Airport	Cooperative Services Authority	Anchorage Parking Authority	Alaska Center for the Performing Arts	Total Nonmajor Enterprise Funds	
				2004	2003
\$ (1,104,318)	\$ (201,096)	\$ 704,466	\$ (622,866)	\$ 4,537,615	\$ 3,155,904
1,284,039	—	1,182,573	—	8,735,931	8,814,755
—	—	—	—	786,694	767,073
—	—	—	30,558	30,558	—
—	—	77,972	(6,261)	(189,664)	(84,481)
103	—	31,238	(23,813)	10,794	(42,252)
6,500	—	—	—	6,500	2,397
—	—	(180)	19,350	19,170	101,351
—	—	—	—	—	1,171
4,227	—	66,298	6,375	457,212	(214,657)
—	—	(814)	121,008	120,194	(159,207)
(27,832)	—	(38,276)	—	(79,108)	82,626
10,752	—	—	—	(41,060)	(47,346)
9,778	—	54,299	—	165,120	—
<u>\$ 183,249</u>	<u>\$ (201,096)</u>	<u>\$ 2,077,576</u>	<u>\$ (475,649)</u>	<u>\$ 14,559,956</u>	<u>\$ 12,377,334</u>
301,185	—	—	—	516,600	—
—	—	—	—	80,061	111,246
<u>\$ 301,185</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 596,661</u>	<u>\$ 111,246</u>

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Internal Service Funds

INTERNAL SERVICE FUNDS

Internal service funds are used to account for the financing of goods or service provided by one department or agency to other departments or agencies of the government, on a cost reimbursement basis.

Three **Risk Management Funds** account for money received from other Municipal funds to pay for the costs of self-insurance claims in the following categories:

- General liability, automobile liability, workers' compensation
- Unemployment compensation

The **Equipment Maintenance Fund** accounts for the management and maintenance of general government equipment and vehicles.

The **Information Technology Fund** accounts for management information services.

MUNICIPALITY OF ANCHORAGE, ALASKA

Combining Statement of Net Assets
Internal Service Funds

December 31, 2004

(With summarized financial information at December 31, 2003)

Assets	Risk Management		
	General Liability/ Workers' Compensation	Unemployment Compensation	Equipment Maintenance
Current assets:			
Cash in central treasury	\$ 5,137,408	\$ 473,037	\$ —
Due from other funds	908,019	—	—
Receivables (net of allowance for uncollectibles)	—	—	—
Inventories	—	—	333,553
Prepaid items and deposits	226,648	—	—
Restricted assets:			
Capital acquisition and construction accounts	—	—	6,467,563
Total current assets	6,272,075	473,037	6,801,116
Noncurrent assets:			
Advances to other funds	5,826,147	962,886	—
Capital assets, net	—	—	16,621,700
Total noncurrent assets	5,826,147	962,886	16,621,700
Total assets	\$ 12,098,222	\$ 1,435,923	\$ 23,422,816
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and retainages	\$ 309,893	\$ —	\$ 224,657
Compensated absences payable	—	—	164,229
Claims payable	6,553,568	79,844	—
Due to other funds	—	—	—
Claims incurred but not reported	5,837,424	—	—
Accrued interest payable	—	—	—
Long-term obligations maturing within one year	—	—	—
Deferred revenue and deposits	—	—	—
Current liabilities payable from restricted assets:			
Capital acquisition and construction accounts and retainage payable	—	—	395,012
Total current liabilities	12,700,885	79,844	783,898
Noncurrent liabilities:			
Due to other funds	—	—	—
Deferred revenue	—	—	—
Capital leases	—	—	—
Unfunded pension obligation	—	—	48,049
Total noncurrent liabilities	—	—	48,049
Total liabilities	12,700,885	79,844	831,947
Net assets (deficit):			
Invested in capital assets, net of related debt	—	—	16,621,700
Unrestricted	(602,663)	1,356,079	5,969,169
Total net assets (deficit)	(602,663)	1,356,079	22,590,869
Total liabilities and net assets	\$ 12,098,222	\$ 1,435,923	\$ 23,422,816

See accompanying independent auditor's report.

Information Technology	Total Internal Service Funds	
	December 31, 2004	December 31, 2003
\$ —	\$ 5,610,445	\$ 14,488,018
—	908,019	908,019
143	143	1,639
—	333,553	380,062
48,466	275,114	424,322
—	6,467,563	7,187,922
<u>48,609</u>	<u>13,594,837</u>	<u>23,389,982</u>
—	6,789,033	6,734,166
13,952,554	30,574,254	34,556,138
<u>13,952,554</u>	<u>37,363,287</u>	<u>41,290,304</u>
<u>\$ 14,001,163</u>	<u>\$ 50,958,124</u>	<u>\$ 64,680,286</u>

\$ 31,640	\$ 566,190	\$ 476,429
431,481	595,710	622,725
—	6,633,412	6,567,269
5,988,019	5,988,019	11,001,409
—	5,837,424	5,961,115
—	—	1,875
75,997	75,997	331,284
43,467	43,467	42,867
<u>137,362</u>	<u>532,374</u>	<u>143,535</u>
<u>6,707,966</u>	<u>20,272,593</u>	<u>25,148,508</u>
6,024,762	6,024,762	7,642,185
1,276,128	1,276,128	1,505,908
—	—	75,998
84,487	132,536	—
<u>7,385,377</u>	<u>7,433,426</u>	<u>9,224,091</u>
<u>14,093,343</u>	<u>27,706,019</u>	<u>34,372,599</u>
6,943,776	23,565,476	26,506,671
(7,035,956)	(313,371)	3,801,016
<u>(92,180)</u>	<u>23,252,105</u>	<u>30,307,687</u>
<u>\$ 14,001,163</u>	<u>\$ 50,958,124</u>	<u>\$ 64,680,286</u>

MUNICIPALITY OF ANCHORAGE, ALASKA
 Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
 Internal Service Funds

Year ended December 31, 2004

(With summarized financial information for the year ended December 31, 2003)

	<u>Risk Management</u>		
	<u>General Liability/ Workers' Compensation</u>	<u>Unemployment Compensation</u>	<u>Equipment Maintenance</u>
Operating revenues:			
Charges for sales and services	\$ 8,894,387	\$ 853,993	\$ 7,120,872
Other	—	—	—
Total operating revenues	<u>8,894,387</u>	<u>853,993</u>	<u>7,120,872</u>
Operating expenses:			
Operations	9,491,472	411,787	7,160,124
Depreciation	—	—	3,294,252
Total operating expenses	<u>9,491,472</u>	<u>411,787</u>	<u>10,454,376</u>
Operating income (loss)	<u>(597,085)</u>	<u>442,206</u>	<u>(3,333,504)</u>
Nonoperating revenues (expenses):			
Investment income	152,717	16,961	113,060
Intergovernmental revenue	—	—	125,000
Other revenues	—	—	11,874
Interest expense	—	—	—
Gain (loss) on disposition of assets	—	—	11,567
Net nonoperating revenues (expenses)	<u>152,717</u>	<u>16,961</u>	<u>261,501</u>
Income (loss) before transfers	<u>(444,368)</u>	<u>459,167</u>	<u>(3,072,003)</u>
Transfer to other funds	—	—	(3,872,918)
Transfer from other funds	—	—	—
Change in net assets	<u>(444,368)</u>	<u>459,167</u>	<u>(6,944,921)</u>
Total net assets (deficit) – beginning	<u>(158,295)</u>	<u>896,912</u>	<u>29,535,790</u>
Total net assets (deficit) – ending	<u>\$ (602,663)</u>	<u>\$ 1,356,079</u>	<u>\$ 22,590,869</u>

See accompanying independent auditor's report.

Information Technology	Total Internal Service Funds	
	2004	2003
\$ 15,774,471	\$ 32,643,723	\$ 36,433,073
—	—	145,986
<u>15,774,471</u>	<u>32,643,723</u>	<u>36,579,059</u>
12,890,449	29,953,832	30,217,091
2,770,081	6,064,333	6,299,359
<u>15,660,530</u>	<u>36,018,165</u>	<u>36,516,450</u>
113,941	(3,374,442)	62,609
47,073	329,811	286,102
—	125,000	—
3,079	14,953	316,694
(241,784)	(241,784)	(278,228)
(47,769)	(36,202)	—
<u>(239,401)</u>	<u>191,778</u>	<u>324,568</u>
(125,460)	(3,182,664)	387,177
—	(3,872,918)	(1,960,535)
—	—	2,751,000
<u>(125,460)</u>	<u>(7,055,582)</u>	<u>1,177,642</u>
33,280	30,307,687	29,130,045
<u>\$ (92,180)</u>	<u>\$ 23,252,105</u>	<u>\$ 30,307,687</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Combining Statement of Cash Flows
Internal Service Funds

Year ended December 31, 2004

(With summarized financial information for the year ended December 31, 2003)

	Risk Management		
	General Liability/ Workers' Compensation	Unemployment Compensation	Equipment Maintenance
Cash flows from operating activities:			
Receipts from customers and users	\$ 8,894,387	\$ 853,993	\$ 7,167,381
Payments to employees	—	—	(2,753,374)
Payments to vendors	(9,384,515)	(469,335)	(4,377,521)
Net cash provided (used) by operating activities	<u>(490,128)</u>	<u>384,658</u>	<u>36,486</u>
Cash flows from noncapital and related financing activities:			
Transfers out	—	—	(3,872,918)
Transfers in	—	—	—
Loan proceeds from central treasury	908,019	—	10,467
Loan payments to central treasury	—	(962,886)	—
Other	—	—	11,874
Net cash provided (used) by noncapital and related financing activities	<u>908,019</u>	<u>(962,886)</u>	<u>(3,850,577)</u>
Cash flows from capital and related financing activities:			
Principal payments on long-term obligations	—	—	—
Interest payments on long-term obligations	—	—	—
Acquisition and construction of capital assets	—	—	(6,364)
Intergovernmental revenue received	—	—	125,000
Proceeds from disposition of capital assets	—	—	104,805
Net cash used by capital and related financing activities	<u>—</u>	<u>—</u>	<u>223,441</u>
Cash flows from investing activities:			
Interest received	152,717	16,961	113,060
Net cash provided by investing activities	<u>152,717</u>	<u>16,961</u>	<u>113,060</u>
Net increase (decrease) in cash	570,608	(561,267)	(3,477,590)
Cash, beginning of year	4,566,800	1,034,304	3,477,590
Cash, end of year	<u>\$ 5,137,408</u>	<u>\$ 473,037</u>	<u>\$ —</u>
Reconciliation of change in net assets to net cash provided by operating activities:			
Operating income (loss)	\$ (597,085)	\$ 442,206	\$ (3,333,504)
Adjustments to reconcile operating income to net cash provided or used by operating activities:			
Depreciation	—	—	3,294,252
Changes in assets and liabilities which increase (decrease) cash:			
Accounts receivable	—	—	—
Prepaid items	(8,017)	—	—
Inventories	—	—	46,509
Deferred charges and other assets	—	—	—
Accounts payable	114,974	(57,548)	(15,997)
Due to other funds	—	—	—
Claims payable	—	—	—
Deferred credits	—	—	—
Compensated absences payable	—	—	(2,823)
Unfunded pension obligation	—	—	48,049
Total cash provided (used) by operating activities	<u>\$ (490,128)</u>	<u>\$ 384,658</u>	<u>\$ 36,486</u>
Noncash investing, capital, and financing activities:			
Capital purchases on account	\$ —	\$ —	\$ 395,012

See accompanying independent auditor's report.

Total Internal Service Funds

Information Technology	2004	2003
\$ 15,776,568	\$ 32,692,329	\$ 36,837,405
(4,803,484)	(7,556,858)	(8,221,028)
(8,108,442)	(22,339,813)	(19,676,487)
<u>2,864,642</u>	<u>2,795,658</u>	<u>8,939,890</u>
—	(3,872,918)	(1,960,535)
—	—	2,751,000
—	918,486	1,324,782
(5,921,409)	(6,884,295)	—
3,079	14,953	99,761
<u>(5,918,330)</u>	<u>(9,823,774)</u>	<u>2,215,008</u>
(1,040,689)	(1,040,689)	(3,227,226)
(243,659)	(243,659)	(283,044)
(1,122,170)	(1,128,534)	(6,721,405)
—	125,000	—
3,809	108,614	318,477
<u>(2,402,709)</u>	<u>(2,179,268)</u>	<u>(9,913,198)</u>
47,073	329,811	288,733
<u>47,073</u>	<u>329,811</u>	<u>288,733</u>
(5,409,324)	(8,877,573)	1,530,433
5,409,324	14,488,018	12,957,585
<u>\$ —</u>	<u>\$ 5,610,445</u>	<u>\$ 14,488,018</u>
\$ 113,941	\$ (3,374,442)	\$ 62,609
2,770,081	6,064,333	6,299,359
1,496	1,496	(1,639)
—	(8,017)	585,403
—	46,509	(51,269)
157,225	157,225	—
(9,216)	32,213	(403,035)
—	—	1,695,797
—	—	(634,477)
(229,180)	(229,180)	1,486,173
(24,192)	(27,015)	(99,031)
84,487	132,536	—
<u>\$ 2,864,642</u>	<u>\$ 2,795,658</u>	<u>\$ 8,939,890</u>
<u>\$ 137,362</u>	<u>\$ 532,374</u>	<u>\$ 143,535</u>

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Fiduciary & Agency Funds

FIDUCIARY AND AGENCY FUNDS

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs.

The **Police/Fire Retirement Trust Funds** account for the contributions, revenues, expenses and distributions of the three Municipal Police and Fire Retirement Plans.

The **Police/Fire Retiree Medical Trust Fund** accounts for contributions and distributions on behalf of the Police and Fire retirees who are eligible for the plan covered by the Trust.

The **Employee Benefits Agency Fund** accounts for payroll-related liabilities.

MUNICIPALITY OF ANCHORAGE, ALASKA

Combining Statement of Fiduciary Net Assets
Fiduciary Funds

December 31, 2004

(With summarized financial information at December 31, 2003)

Assets	Police/Fire Retirement Trust Funds			Total
	Police/Fire Retirement System Plan I	Police/Fire Retirement System Plan II	Police/Fire Retirement System Plan III	
Cash in central treasury	\$ 19,265	\$ 13,128	\$ 38,534	\$ 70,927
Cash, cash equivalents held under securities lending program	6,101,320	4,162,856	12,249,919	22,514,095
Investment in master group trust	107,070,834	73,040,508	214,927,386	395,038,728
Investments	—	—	—	—
Due from other funds	—	—	—	—
Contributions receivable	—	—	—	—
Capital assets, net	7,342	5,004	14,687	27,033
Total assets	\$ 113,198,761	\$ 77,221,496	\$ 227,230,526	\$ 417,650,783
Liabilities				
Accounts payable	\$ 30,082	\$ 18,864	\$ 50,326	\$ 99,272
Payable under securities lending program	6,101,320	4,162,856	12,249,919	22,514,095
Total liabilities	\$ 6,131,402	\$ 4,181,720	\$ 12,300,245	\$ 22,613,367
Net Assets				
Held in trust for:				
Employees' pension benefits	\$ 107,067,359	\$ 73,039,776	\$ 214,930,281	\$ 395,037,416
Employees' postemployment healthcare benefits	—	—	—	—
Total net assets	\$ 107,067,359	\$ 73,039,776	\$ 214,930,281	\$ 395,037,416

See accompanying independent auditor's report.

Police/Fire Retiree Medical Trust Fund	Total Fiduciary Funds	
	December 31, 2004	December 31, 2003
\$ 1,516	\$ 72,443	\$ 65,032
—	22,514,095	—
—	395,038,728	—
5,897,481	5,897,481	376,339,644
—	—	110,586
—	—	4,710,589
—	27,033	30,667
<u>\$ 5,898,997</u>	<u>\$ 423,549,780</u>	<u>\$ 381,256,518</u>
\$ —	\$ 99,272	\$ 91,941
—	22,514,095	—
<u>\$ —</u>	<u>\$ 22,613,367</u>	<u>\$ 91,941</u>
\$ —	\$ 395,037,416	\$ 376,063,680
5,898,997	5,898,997	5,100,897
<u>\$ 5,898,997</u>	<u>\$ 400,936,413</u>	<u>\$ 381,164,577</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Combining Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended December 31, 2004

(With summarized financial information for the year ended December 31, 2003)

	Police/Fire Retirement Pension Trust Funds			Total
	Police/Fire Retirement System Plan I	Police/Fire Retirement System Plan II	Police/Fire Retirement System Plan III	
Additions:				
Contributions from other funds	\$ —	\$ —	\$ —	\$ —
Contributions	8,647	(13,469)	23,597	18,775
Interest	1,606,792	1,089,434	3,168,450	5,864,676
Dividends	253,188	171,644	499,080	923,912
Net increase in fair value of investments	9,997,038	6,801,712	19,906,739	36,705,489
Less investments expense	(393,004)	(266,102)	(771,828)	(1,430,934)
Total additions	11,472,661	7,783,219	22,826,038	42,081,918
Deductions:				
Regular benefit payments	8,094,378	4,660,819	9,495,135	22,250,332
Administrative expenses	240,140	148,645	469,065	857,850
Total deductions	8,334,518	4,809,464	9,964,200	23,108,182
Change in net assets	3,138,143	2,973,755	12,861,838	18,973,736
Net assets – beginning	103,929,216	70,066,021	202,068,443	376,063,680
Net assets – ending	\$ 107,067,359	\$ 73,039,776	\$ 214,930,281	\$ 395,037,416

See accompanying independent auditor's report.

Police/Fire Retiree Medical Trust Fund	Total Fiduciary Funds	
	December 31, 2004	December 31, 2003
\$ 1,495,890	\$ 1,495,890	\$ 1,320,447
—	18,775	4,710,589
27,364	5,892,040	5,596,750
91,055	1,014,967	1,298,653
260,811	36,966,300	66,079,888
—	(1,430,934)	(1,213,398)
<u>1,875,120</u>	<u>43,957,038</u>	<u>77,792,929</u>
1,067,020	23,317,352	21,032,582
10,000	867,850	1,794,712
<u>1,077,020</u>	<u>24,185,202</u>	<u>22,827,294</u>
798,100	19,771,836	54,965,635
<u>5,100,897</u>	<u>381,164,577</u>	<u>326,198,942</u>
<u>\$ 5,898,997</u>	<u>\$ 400,936,413</u>	<u>\$ 381,164,577</u>

MUNICIPALITY OF ANCHORAGE, ALASKA

Statement of Changes in Assets and Liabilities
Agency Fund

For the Year Ended December 31, 2004

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
Employee Benefits				
Assets:				
Equity in general cash pool	\$ 10,721,651	\$ 231,180,053	\$ 235,277,835	\$ 6,623,869
Accounts receivable	80,107	—	70,133	9,974
Total assets	<u>\$ 10,801,758</u>	<u>\$ 231,180,053</u>	<u>\$ 235,347,968</u>	<u>\$ 6,633,843</u>
Liabilities:				
Accounts payable	\$ 358,748	\$ 8,119,753	\$ 8,314,107	\$ 164,394
Due to employees	6,710,720	116,863,395	118,543,010	5,031,105
Due to employees' retirement system	770,884	19,907,312	19,711,608	966,588
Payroll liabilities	2,961,406	90,985,630	93,475,280	471,756
Total liabilities	<u>\$ 10,801,758</u>	<u>\$ 235,876,090</u>	<u>\$ 240,044,005</u>	<u>\$ 6,633,843</u>

See accompanying independent auditor's report.