

MUNICIPALITY OF ANCHORAGE, ALASKA COMPREHENSIVE ANNUAL FINANCIAL REPORT

*For the fiscal year ending
December 31, 2006*



Community, Security, Prosperity

MUNICIPALITY OF ANCHORAGE, ALASKA



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended December 31, 2006

**Mark Begich
Mayor**

**Prepared by:
Finance Department**

**Jeffrey E. Sinz
Chief Fiscal Officer**

**Michelle Drew, CPA
Controller**

Cover photo courtesy of Chris Richardson, Senior Staff Accountant, Controller Division

MUNICIPALITY OF ANCHORAGE, ALASKA

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INTRO

June 21, 2007

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

The Comprehensive Annual Financial Report (CAFR) of the Municipality of Anchorage (Anchorage) for the year ended December 31, 2006, is hereby submitted in accordance with Anchorage Home Rule Charter and Anchorage Municipal Code. These laws require an annual report on financial and administrative activities with an independent audit of all municipal accounts by a certified public accountant. KPMG LLP performed the independent audit. Management is responsible for the accuracy, completeness and fairness of the presentation including all disclosures.

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

The CAFR is presented in three sections - Introductory, Financial and Statistical. The Introductory section, which is unaudited, includes this letter of transmittal, a certificate of achievement for excellence in financial reporting for Anchorage's 2005 CAFR, a list of principal elected and appointed officials, and an organization chart. The Financial section includes the MD&A, the independent auditors' report on the financial statements and schedules, the basic financial statements, additional required supplementary information, and the combining financial statements. The unaudited Statistical Section includes a broad range of selected trend data and non-financial information.

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

and questioned costs will be included in a separately issued audit in accordance with OMB Circular A-133

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

KPMG LLP was retained to perform both the financial and the compliance audits of Federal and State financial assistance programs for the year ended December 31, 2006. These audits were performed in accordance with the Federal and State Office of Management and Budget's regulations and Government Auditing Standards. KPMG LLP audited all 2006 financial records except for those of two component units, Anchorage School District and Anchorage Community Development Authority, Inc. KPMG LLP's reports are included in the financial section of the CAFR and in both Financial Assistance reports. The excluded component units were audited by certified public accountants who issued unqualified reports on their audits.

Government Profile

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

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

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

The Assembly and administration are responsible for and committed to establishing and maintaining an internal control structure designed to provide reasonable assurance that Anchorage's assets are protected from loss, theft or misuse, and that adequate accounting records

are maintained for preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The concept of reasonable assurance recognizes that the cost of controls should not exceed the benefit likely to be derived and that valuation of costs and benefits requires the use of estimates and judgments.

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

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

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

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

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

Major Initiatives

In August 2006 Anchorage received a credit rating upgrade on its long-term general obligation bonds, in addition to undergoing a credit rating review from Fitch for the first time. The upgrade, from AA- to AA, by Standard and Poor's cited Anchorage's diversified economy and

commitment to a structurally balanced city budget, aided by a biennial budgeting process newly implemented for 2006/2007. The bond rating upgrade in 2006 sets the stage for future cost savings to local taxpayers as Anchorage undertakes a number of bond refundings in early 2007.

In the last half of 2006, Anchorage received State of Alaska appropriation from Senate Bill #231 (SB231) to partially offset a steep increase in the cost of mandatory employer contributions to the state administered public employee retirement system (PERS) and to provide general government operational assistance. PERS assistance was appropriated to the State's Department of Administration/Division of Retirement and Benefits to be directly applied to Anchorage's PERS asset account as an on-behalf payment in order to reduce Anchorage's required contribution obligation. The retirement portion of SB231 was \$6,913,262 for Anchorage. Of that amount \$5.3 million was used to directly benefit tax-supported activities, resulting in \$5.3 million of tax savings to local tax payers. The operational assistance portion of SB231, in the amount of \$16,687,758 was paid directly to Anchorage. These funds were lapsed to fund balance and are designated for property tax relief in 2007.

Local Economy

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

Anchorage has an approximate population of 282,813 and has been experiencing growth at a rate of 1.4% annually over the last few years. As the largest city in Alaska, Anchorage is home to approximately 42% of the state's residents.

As of June 30, 2006, the Anchorage School District had 49,320 students enrolled for the 2005-2006 academic year, a slight increase from prior year. Anchorage is also home to the University of Alaska Anchorage (UAA), a state operated university, and Alaska Pacific University (APU), a private independent university. They have combined enrollments in excess of 18,000 students.

Employment growth in Anchorage has increased for the past eighteen years. During 2005, employment increased by 2.1% adding 2,800 jobs with health care being one of the largest growth sectors. The average unemployment rate in 2006 of 5.3% decreased slightly from the 2005 rate, but was slightly higher than the national average of 4.9%.

Anchorage has four major sectors which drive the local economy – oil/gas, military, transportation, and tourism. These sectors, along with the supporting businesses which have developed around these core sectors, have provided eighteen years of consecutive economic growth. Statewide, mining and mineral production has soared to all time highs, exceeding \$1 billion. Although most of the mining employment is outside of the Anchorage area, the overall

statewide economic growth indirectly benefits Anchorage as one of the largest retail centers in the state.

In 2006, the oil/gas sector continued to experience record high prices, though the industry had a rocky year. First, the state adopted a new tax structure in the “Petroleum Profits Tax” (PPT) which is anticipated to increase petroleum tax revenues to the State – although the legislation is currently under reconsideration due to allegations of conspiracy and corruption within the State Legislature. Second, Prudhoe Bay made national headlines when BP initiated a production shut-down resulting from the discovery of pipeline corrosion, costing millions per day in lost revenues to the State. In addition, the State initiated legal action against one petroleum producer in a dispute over nondevelopment on Point Thomson leases. 2006 ended with the State and producers in talks regarding the development of a natural gas pipeline; however, following year end, these talks stalled following the inauguration of a new governor who has subsequently brought forward a new plan for the project. The Alaska Gasline Inducement Act (or AGIA) was signed into law in June of 2007; however, it was met with mixed reviews from the producers. A long and complex process is anticipated before an actual pipeline project is begun.

As part of the 2005 Department of Defense Base Realignment and Closure Plan, Kulis National Air Guard Station is slated for closure; however, the command and air assets will be transferred to Elmendorf AFB, situated on the northern boundary of Anchorage. The bulk of work associated with the relocation is planned for the 2008/2009 federal fiscal year. Elmendorf AFB’s command activity will increase with the receipt of eight new C-17 cargo transports and four new C-130 aircraft scheduled for arrival in summer 2007. The base plans to increase troops by approximately 200 to handle these new aircraft operations. Plans continue for Elmendorf AFB to replace its F-15 jet fighters in 2009 with two squadrons of new generation F-22 jet fighters and the transfer of F-16 jet fighters from Eielson AFB near Fairbanks. Alaska, and Anchorage in particular, continues to receive a significant share of the military budget, including both operational dollars, as well as construction dollars to include Kulis relocation activities, as well as ongoing housing construction to handle the new troops.

The transportation sector consists of air cargo activity at the Ted Stevens Anchorage International Airport; in-state freight and passenger transportation by the State of Alaska owned Alaska Railroad; and maritime transportation through the municipal-owned Port of Anchorage. The Ted Stevens Anchorage International Airport continues to be one of the busiest cargo airports in the world, ranked third in tonnage volume in 2006, with transit cargo volume increasing 6% from the previous year. Additional cargo expansion is planned by national carriers. The Alaska Railroad had another solid year, reporting \$10.4 million in net income, experiencing growth in both the passenger and cargo services. The Port of Anchorage is ice free year round and is served by two major maritime carriers, Totem Ocean Trailer Express and Horizon Lines. With approximately 80% of all consumer goods arriving in Alaska through the port facilities, the Port of Anchorage will begin construction of a \$376 million expansion project involving road/rail extensions and

marine terminal redevelopment. Improving cargo flow through expanded dock capacity, accommodating larger ships with deeper drafts, supporting new military rapid deployment requirements, and upgrading cruise ship facilities are the major objectives of this expansion project.

The tourism sector is a major economic driver for Anchorage which offers a central location, available transportation infrastructure, and abundant recreational opportunities. In addition to the Anchorage region's sport fishing and tourism destinations, visitors often use Anchorage as the gateway to other Alaska destinations. Tourism experienced growth during 2006 with hotel tax revenues exceeding \$18 million, due in part to the voter approved 4% tax increase associated with the construction of the new convention center. The local tourist board has already booked four future national conventions at the center, scheduled to open in 2009. The travel industry estimates that it contributed more than \$248 million in economic impact to Anchorage. In 2006, Anchorage received Orbitz Insider Index ranking in the top ten on the list of "perfect summer city getaway" destinations.

Long-term Financial Planning

Anchorage continues to maintain outstanding credit ratings, receiving a rating upgrade on its General obligation bonds in 2006. Current long-term general obligation bond ratings are AA (upgraded from AA-) by Standard and Poor's, Aa3 with a stable outlook by Moody's Investors Service, and AA by Fitch Ratings. Anchorage has no legal debt limit mandated by its Charter, Code or State law. Water, Wastewater, and Electric revenue bonds continue to maintain credit ratings ranging from AA- to A+ (Standard and Poor's) and A3 to A1 Stable (Moody's). Revenue bond covenants stipulating debt service coverage requirements were met in 2006.

Anchorage's percentage of net general obligation debt to assessed valuation and bonded debt per capita are useful indicators to citizens and investors of Anchorage's debt position. The percentage of net direct general obligation debt, exclusive of school debt, to assessed valuation was 1.59% as of December 31, 2006, and the net direct general obligation debt per capita was \$1,456. The respective amounts as of December 31, 2005 were 2.15% and \$1,605. When school debt is included net direct general obligation debt to assessed value is 3.4% (5.45% in 2005) and the net direct general obligation debt per capita is \$3,117 (\$4,376 in 2005).

Awards and Acknowledgements

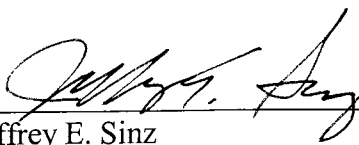
The Municipality and its employees are committed to the goal of making Anchorage a better place to live, work, and raise families.

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Anchorage for its CAFR for the fiscal year ended December 31, 2005. This was the nineteenth consecutive year that Anchorage has received this prestigious award. In order to be awarded a Certificate of Achievement, the government must publish an easily readable and efficiently organized CAFR. Our 2005 report satisfied both Generally Accepted Accounting Principles and applicable legal requirements.

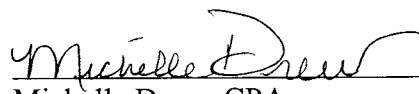
A Certificate of Achievement is valid for a period of one year only. It is believed that our current report continues to conform to the Certificate of Achievement program requirements. The report will be submitted to GFOA to determine its eligibility for another certification.

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

Respectfully submitted:



Jeffrey E. Sinz
Chief Fiscal Officer



Michelle Drew, CPA
Controller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Municipality of Anchorage
Alaska

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2005

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



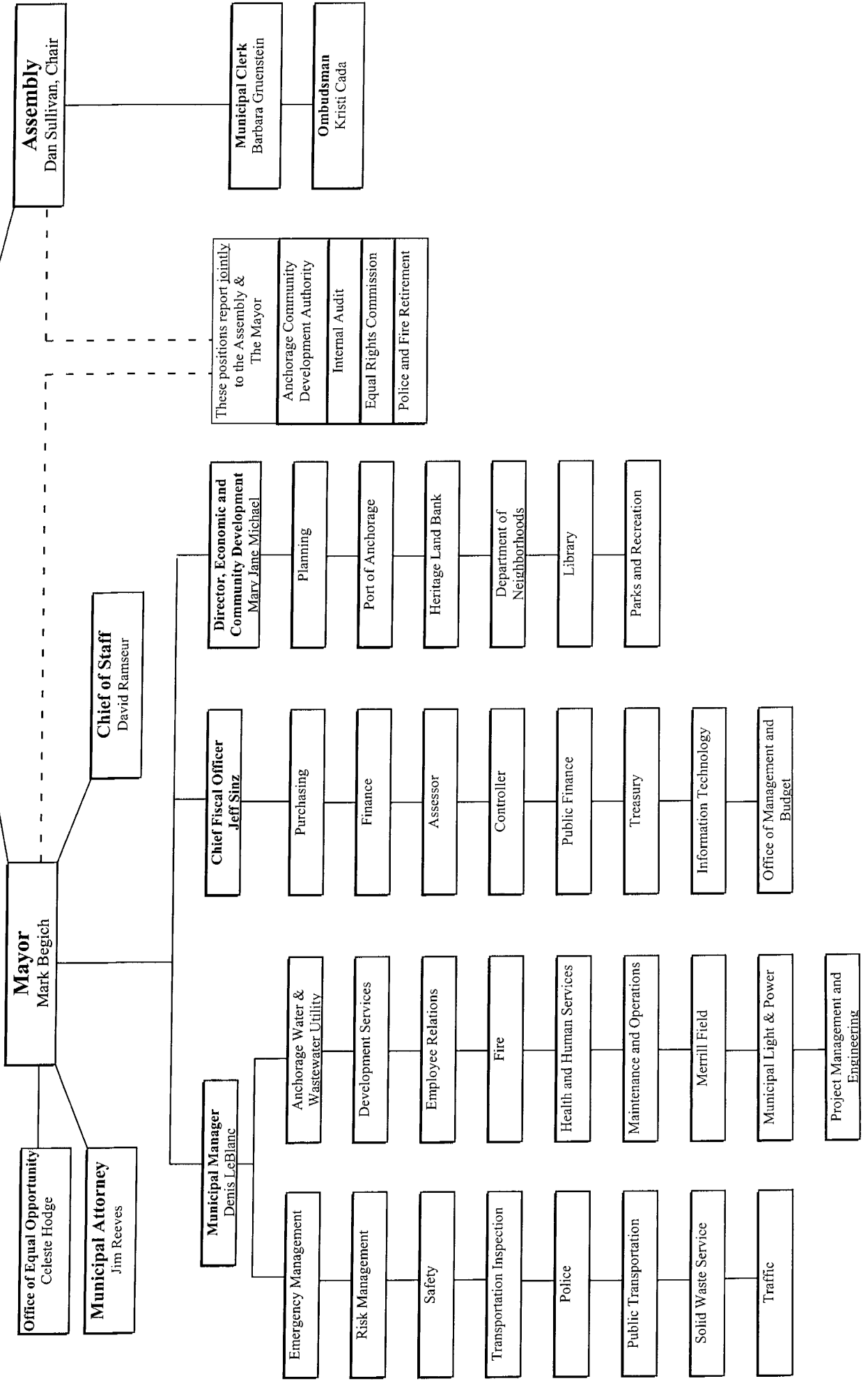
A handwritten signature in black ink, appearing to read "Ronald J. Hawn".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

MOA Organizational Chart - 2006



MUNICIPALITY OF ANCHORAGE

2006

PRINCIPAL OFFICIALS

ASSEMBLY

The legislative power of Anchorage is vested in an eleven member elected assembly. The Assembly, by Charter, is required to meet twice each month. The body meets on Tuesdays in the Assembly Chambers at 3600 Denali Street (Z.J. Loussac Library). Numerous special meetings and work sessions are scheduled throughout the year. At December 31, 2006, the following citizens were elected to serve on the Assembly.

Dan Sullivan, Chair

Paul Bauer

Dan Coffey

Anna Fairclough

Janice Shamberg

Allan Tesche

Chris Birch

Pamela Jennings

Debbie Osslander, Vice Chair

Ken Stout

Dick Traini

Barbara Gruenstein, Municipal Clerk

ADMINISTRATION

Mark Begich, Mayor

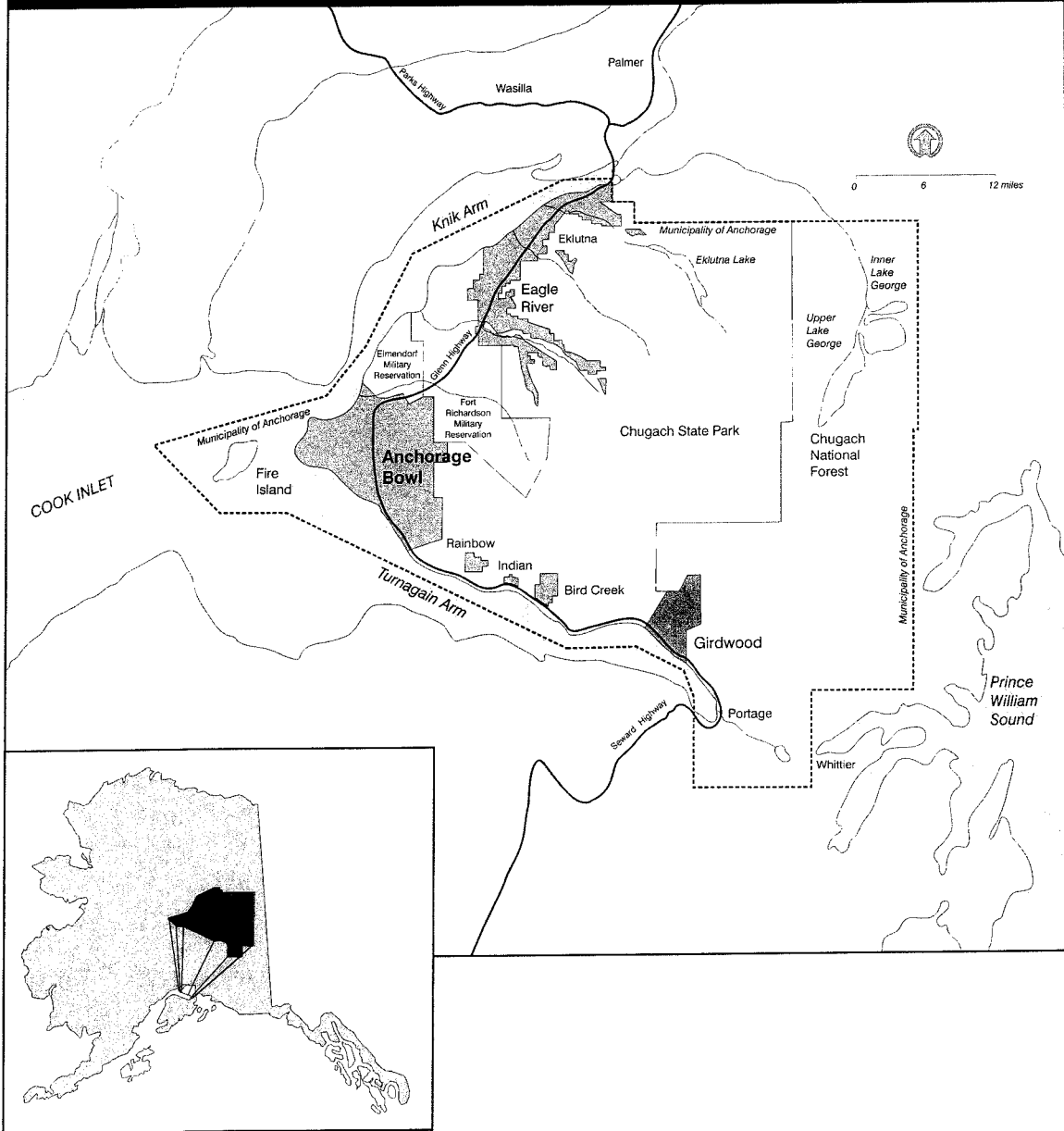
Denis C. LeBlanc, Municipal Manager

Jim Reeves, Municipal Attorney

Jeffrey E. Sinz, Chief Fiscal Officer

Mary Jane Michael, Director Economic & Community Development

Municipality of Anchorage Vicinity Map



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