

May 2, 2007

Internal Audit Report 2007-5
Ground Lease Agreement with Seibu Alaska, Inc.
Heritage Land Bank

Introduction. Seibu Alaska, Inc. (Seibu) has contracted with the Municipality of Anchorage (Municipality) through a Ground Lease Agreement to lease about 31 acres in Girdwood, Alaska, through December 21, 2042. Seibu may use the leased land “. . . for alpine and nordic ski purposes, including the erection and maintenance of up-hill transportation and snow-making facilities, the creation of ski trails and slopes, incidental public facilities such as warming huts, restrooms, ski-school and ticket sales outlets, and for general outdoor recreation related uses.” Rent for the term of this lease is calculated at the rate of 16 percent of the fees paid to the State of Alaska (State). Fees paid to the State are calculated at the rate of .85 percent of gross revenues for selected activities such as chairs, lifts, and trams accessing leased lands, as well as certain functions not located on leased land which are directly related to ski activities occurring on leased lands.

Objective and Scope. The objective of this audit was to determine if monthly payments made by Seibu to the State and the Municipality were accurate from January 2000 through December 2006. Specifically, we verified the revenue reported by Seibu for 14 selected months from January 2000 through December 2006. This verification included a review of general ledger detail as well as point-of-sale data. After verifying monthly revenue, we recalculated the payments made to the State and the Municipality to verify their accuracy.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of

accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of April 2007. The audit was requested by the Administration.

Overall Evaluation. Our tests of provided data revealed that rental payments made by Seibu to the State and the Municipality were reasonably accurate and were based on point-of-sale transactions. From January 2000 through December 2006, the State received about \$387,977 in rental payments and the Municipality received \$62,097 in rental payments. In addition, monthly payments were based on all required revenue sources. These revenue sources included: Daylodge Food, Seven Glaciers Restaurant, Shop At The Top, Lift Tickets, Season Passes, Glacier Express, Ski School, Rental/Repair, Alaska Paragliding, Ascending Path, and telecommunication subleases. Finally, we were able to reconcile, within a reasonable amount, revenue found on the general ledger reports to revenues provided in the point-of-sales reports.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on May 1, 2007.

Audit Staff:
Mike Chadwick, CICA