

**MUNICIPALITY OF ANCHORAGE,  
ALASKA**



**COMPREHENSIVE  
ANNUAL  
FINANCIAL  
REPORT**

**December 31, 2004**

**Mark Begich  
Mayor**

Prepared by:  
**DEPARTMENT OF FINANCE**

**Jeffrey E. Sinz  
Chief Fiscal Officer**

**David M. Richards, CPA, CMA  
Controller**

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## **Introductory Section**



# Municipality of Anchorage

P.O. Box 196650 • Anchorage, Alaska 99519-6650 • Telephone: (907) 343-6576 • Fax: (907) 343-4400 <http://www.muni.org>

*Mayor Mark Begich*

**Department of Finance**

**Controller Division**

May 24, 2005

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, 2004, is hereby submitted in accordance with Anchorage Home Rule Charter and Anchorage Municipal Code. These laws require an annual report on finances 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 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 2003 CAFR, a list of principal elected and appointed officials, and an organization chart. The Financial section includes 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 *OMB Circular A-133 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, 2004. 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 2004 financial records except for those of three component units. 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](http://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 in different taxing districts paying for those services they authorize.

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.

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 money required has been appropriated and is 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, Anchorage Historic Properties, Inc., Alaska Center for the Performing Arts, Inc., Cooperative Services Authority, and Anchorage Parking 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 collections, solid waste disposal, port and municipal airport. Anchorage contracts out management of its sports arena, convention center, ice arenas, golf courses and equestrian center.

The most complete source of information available on Anchorage's government, services, current events, economic indicators and other statistics is located on its municipal web site at [www.muni.org](http://www.muni.org).

## **Major Initiatives**

During 2004, Anchorage put forth a four point tax reform plan to relieve the property tax burden of residential property tax payers. This plan included a \$1 increase in the Municipal tobacco tax, a residential property tax exemption of 10% of assessed valuation up to \$20,000, a business personal property tax exemption on the first \$20,000 of assessed valuation, and a revision of assessed valuations for private businesses holding leases on government owned property. All aspects of the tax reform plan have been implemented or are in the process of being implemented during 2005.

Anchorage also established a Fund Balance Designation policy during 2004 to support the Municipality's bond rating, mitigate risks associated with revenue shortfalls and unanticipated expenditures, provide stable tax rates, and facilitate long term fiscal planning.

Given favorable interest rates in August 2004, Anchorage refinanced \$105 million in outstanding general government general obligation bonds, which included \$81 million in Anchorage School District refunding. This refunding reduced future interest obligation by approximately \$5.6 million.

In 2004, Anchorage put forth plans to build a new downtown civic and convention center. The center has an estimated construction cost of \$93 million and will be financed by the sale of tax exempt revenue bonds backed by a 4% increase in Anchorage's hotel tax. This proposal was presented to and approved by voters as Proposition #2 in the April 2005 Municipal election.

## **Local Economy**

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

Anchorage has an approximate population of 277,500 and has been experiencing growth at a rate of 1.5% annually over the last few years. As the largest city in Alaska, Anchorage accounts for approximately 42% of the state's residents.

As of December 2004, the Anchorage School District had approximately 49,050 students enrolled which represented a slight decrease 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 15,000 students.



Employment growth in Anchorage has successively increased for the past sixteen years. During 2004, employment increased by 1.5%. The average unemployment rate in 2004 of 5.7% remained consistent with the 2003 average unemployment rate and was in line with the national average of 5.8%.

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 sixteen years of consecutive economic growth.

Although the oil/gas sector enjoyed record high prices in 2004, there are no significant new development projects and future forecasts predict level employment. The gas pipeline is still in the discussion stage with no definitive plans yet agreed upon.

Expansion at both Elmendorf AFB and Fort Richardson continues to increase both construction employment and active duty personnel stationed in Anchorage. Elmendorf AFB is expanding infrastructure in preparation for C-17 cargo plane deployment starting in 2007 and their longer term plans to deploy F-22 Raptor fighters in Anchorage.

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 is one of the busiest cargo airports in the world and completed a 440,470 square foot terminal expansion during 2004. International air cargo activity is expected to increase due in part to the cargo transfer provision in the Vision 100 – Century of Air Reauthorization Act. This provision allows foreign and domestic carriers to transport each others cargo as long as the cargo transfer takes place in Alaska. Providing passenger service to many popular tourist destinations helped the Alaska Railroad earn a record \$15.4 million in 2004. Approximately 90% of all consumer goods arriving in Alaska pass through the Port of Anchorage. The Port of Anchorage is ice free year round and is served by two major maritime carriers, Totem Ocean Trailer Express and Horizon Lines. The Port of Anchorage is currently in the planning and permitting stage of a \$380 million expansion project. The expansion project involves 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 major objectives of the expansion project.

The tourism sector is a major economic driver for Anchorage due to its central location, transportation infrastructure, and offer of 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 rebounded during 2004, with hotel tax revenues

increasing by 14%, new room additions in excess of 850 units, and 300 new jobs in the hospitality sector.

### **Long-term Financial Planning**

Anchorage continues to maintain outstanding credit ratings. Current long-term general obligation bond ratings are AA- by Standard and Poor's and Aa3 by Moody's Investors Service. Anchorage has no legal debt limit mandated by its Charter, Code or State law. Revenue bond covenants stipulating debt service coverage requirements were met in 2004.

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 to assessed valuation was 4.97% as of December 31, 2004, and the net direct general obligation debt per capita was \$3,713. The respective amounts as of December 31, 2003 were 4.69% and \$3,269.

### **Cash Management Policies and Procedures**

To obtain flexibility in cash management, Anchorage uses a pooled cash system. 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 debt related requirements are maintained in separate accounts with a Paying Agent.

Anchorage Municipal Code stipulates that the government may invest in the following securities: obligations of, or obligations guaranteed by, the United States or an agency or instrumentality of the United States; commercial paper with no more than nine-month maturities issued by corporations and 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; negotiable certificates of deposit issued by rated banks; collateralized non-negotiable certificates of deposit issued by a rated bank or issued by banks with a main or branch office within Anchorage; repurchase agreements secured by obligations insured or guaranteed by the United States or agencies or instrumentalities of the United States; federally insured deposits in banks with a main or branch office within Anchorage; corporate bonds which are rated AA or higher or the equivalent as measured by Standard and Poor's or Moody's Investors Service; or money market mutual funds consisting of any or all of the securities authorized for investment as described above.

## **Risk Management**

The objective of the risk management program is to protect municipal assets by identifying and controlling exposures to financial loss. Because all exposures cannot be eliminated, a comprehensive insurance program is necessary. The municipal risk program is designed to balance the cost of insurance against the exposure to loss and includes both purchased insurance and self-insurance.

Most casualty risks are covered by the casualty self-insurance fund established in 1976. The casualty fund is intended to self insure worker's compensation (\$750,000 retention), general liability and automobile liability claims with a \$2,000,000 per occurrence loss limitation.

Substantially all property risks are covered by purchased insurance subject to a \$100,000 basic deductible. Mobile equipment has a \$25,000 on-premise deductible and a \$50,000 off-premise deductible, fine art has various deductibles, and the Electric Utility gas turbine generators have specific deductibles on each unit.

## **Pension and Other Post Employment Benefits**

Substantially all regular employees of Anchorage are members of the Public Employees' Retirement System (PERS), except for the International Brotherhood of Electrical Workers (IBEW) members, International Union of Operating Engineers Local 302 (Local 302) members (effective July 1, 2004), and certain police and fire employees. IBEW and Local 302 members participate in union sponsored cost-sharing defined benefit plans. 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 participate in 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 participate in PERS.

The Anchorage Police and Fire Retirement System portfolio is managed by a nine member board. Three members each are Municipal representatives, Police representatives and Fire representatives. The Municipal representatives are appointed by the Mayor. The Police and Fire representatives are elected by popular vote of active and retired members. The names of the persons elected are submitted to the Mayor for appointment. Board appointments are confirmed by the Assembly. The board establishes investment guidelines and oversees the System's investments.

The Police and Fire Retiree Medical Trust Fund provides medical benefits to non-command employees who will retire under the Police and Fire Retirement System subsequent to January 1, 1995. Anchorage will make annual contributions to the fund until 2006 at which time a lump

sum payment will be made from the Retirement Certificates of Participation Debt Service Fund. Based on an actuarial study completed in 2002, the annual contribution due for prospective years will be \$1.8 million and the lump sum payment required was calculated to be \$9.8 million.

### **Awards and Acknowledgements**

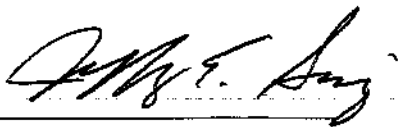
The Municipality and its employees are committed to the goal of making Anchorage a better place to live, work, and raise our families.

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, 2003. This was the seventeenth 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 2003 report satisfied both Generally Accepted Accounting Principles and applicable legal requirements.

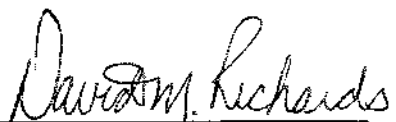
A Certificate of Achievement is valid for a period of one year only. It is believed that our current report continues to conform to the Certificate of Achievement program requirements, and it will be submitted to GFOA to determine its eligibility for another certification.

The preparation of the CAFR was made possible by the dedicated efforts of the entire Controller Division staff. We express our 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.

Prepared by:



Jeffrey E. Sinz  
Chief Fiscal Officer



David M. Richards, CPA, CMA  
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, 2003

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.



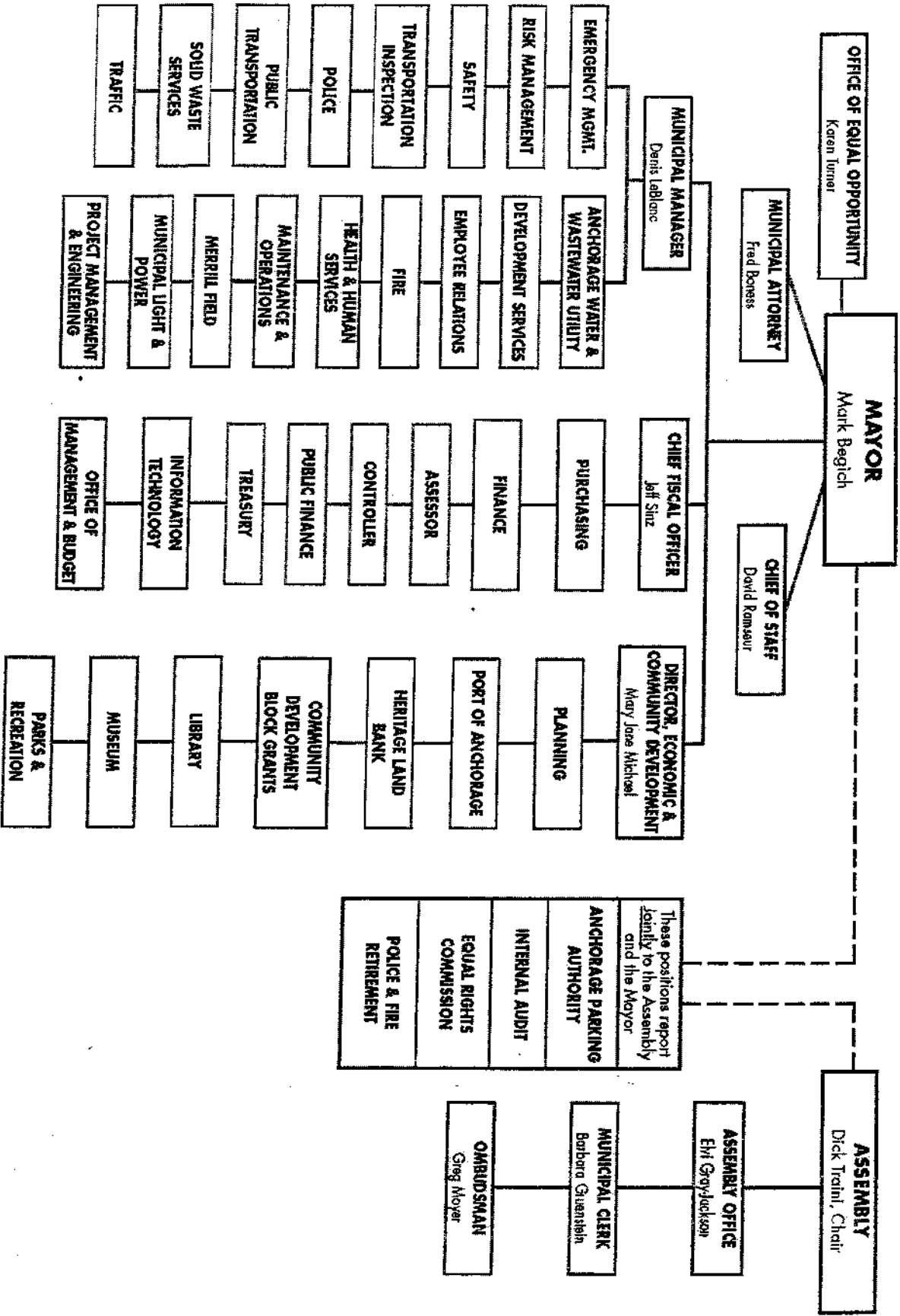
*Nancy L. Ziegen*

President

*Jeffrey R. Emmer*

Executive Director

# Anchorage Organization Chart



# MUNICIPALITY OF ANCHORAGE

2004

## 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, 2004, the following citizens were elected to serve on the Assembly.

Dick Traini, Chair

Anna Fairclough  
Brian Whittle  
Debbie Ossiander  
Janice Shamberg  
Dan Sullivan

Pamela Jennings  
Allan Tesche, Vice Chair  
Dick Tremaine  
Dan Coffey  
Ken Stout

Barbara Gruenstein, Municipal Clerk

### ADMINISTRATION

Mark Begich, Mayor

Denis C. LeBlanc, Municipal Manager

Fred Boness, Municipal Attorney

Jeffrey E. Sinz, Chief Fiscal Officer

Mary Jane Michael, Director Economic & Community Development

# Municipality of Anchorage Vicinity Map

