

MUNICIPALITY OF ANCHORAGE, ALASKA



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended December 31, 2007

**Mark Begich
Mayor**

**Prepared by:
Finance Department**

**Sharon Weddleton, CPA
CFO**

**Teresa L. Peterson, CPA
Controller**

Cover photo courtesy of Robert (Bob) McNeil. "Captain James Cook," Original statue by John Tweed, reproduction by Derek Freeborn located in Resolution Park, Anchorage, Alaska.

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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

July 28, 2008

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, 2007, 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 following 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 2006 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

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, 2007. 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 2007 financial records except for those of two component units, Anchorage School District and Anchorage Community Development Authority. 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 revenues, direct costs and indirect costs at the fund level. During the year, the Assembly may approve supplemental appropriations to increase or decrease the budget, or to transfer all or part of any unencumbered balance from one appropriation to another. The Assembly by ordinance may authorize a contract, lease or other obligation requiring financing from future appropriations. A lease purchase agreement with respect to acquisition of a capital improvement valued in excess of \$1 million is not valid until approved by the voters. The Mayor may transfer all or part of an unencumbered balance between categories within an appropriation. No obligation involving the expenditure of money may be made unless the Chief Fiscal Officer has certified that the funds required have been appropriated and 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

Investment Strategy

During 2007, the Municipality implemented a new investment strategy to transfer management of its unrestricted cash pool monies to external managers in order to enhance yields and to improve

internal controls. As a result of this change, during 2007 municipal cash pool earnings were enhanced by \$8,200,000 compared to what they would have been had this investment policy change not been made.

Port Expansion

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

Convention Center

Construction of the Dena'ina Civic and Convention Center (Center) is slated to be completed by the fall of 2008. The construction of the Center is funded through the hotel tax and is overseen by Anchorage's blended component unit, CIVICVentures.

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 284,000 and has been experiencing growth at a rate of 1.2% 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, 2007, the Anchorage School District had 48,707 students enrolled for the 2006-2007 academic year, 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 20,000 students.

Employment growth in Anchorage has increased for the past eighteen years up through 2006; however, during 2007, employment decreased slightly by 0.2%. The average unemployment rate in 2007 of 5.1% decreased slightly from the 2006 rate, but was slightly higher than the national average of 4.6%.

Anchorage has several major sectors which drive the local economy, including oil/gas, construction, transportation, and tourism. These sectors, along with the supporting businesses which have developed around these core sectors, have provided nineteen years of consecutive economic growth, although there are signs of economic slowing. 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, which continues to grow with the addition of a the 240,000-square-foot Glenn Square retail development and the 900,000-square-foot Tikahtnu Commons retail development.

In 2007, the oil/gas sector continued to experience record high prices, which has benefited the economy in many ways, including employment. This is reflected in the record number of workers on the North Slope during 2007, and the outlook for 2008 calls for an increase of 800 jobs in the Anchorage area. As a result of the Alaska Gasline Inducement Act (AGIA) that was signed into law in June of 2007, the State and TransCanada are in talks regarding the development of a natural gas pipeline; BP and ConocoPhillips are also pursuing a separate plan to develop a pipeline. A long and complex process is anticipated before an actual pipeline project is begun. In addition, various oil/gas companies are contributing to the local economy by rebuilding existing pipeline, exploration and development.

Anchorage has a large military presence with the location of three main operating posts: Elmendorf Air Force Base, Fort Richardson Army Post, and Kulis Air National Guard base. Although the Kulis Air National Guard base is slated for closure, the command and air assets will be transferred to Elmendorf Air Force Base. Approximately 8,500 military personnel are employed by these three military posts and, along with their family members, aid the local economy by supporting local businesses. The return in late 2007 of 3,500 soldiers of the 4th Brigade Combat Team (Airborne), 25th Infantry Division from Fort Richardson has also had a positive impact on the economy

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 2007, with transit cargo volume increasing slightly by 0.6% from the previous year. Additional cargo expansion is planned by national carriers. The Alaska Railroad had continued to have another year of growth, reporting \$16.3 million in net income and an increase in assets of \$120 million, bringing its total assets to \$835 million. 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 90% of all consumer goods arriving in Alaska through the port facilities, servicing 80% of the population of Alaska, the Port of Anchorage has begun construction of a \$700 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 continued to experience growth during 2007 with hotel tax revenues exceeding \$20 million. The local tourist board has already booked numerous future national conventions at the Center, scheduled to open in the fall of 2008. The 200,000 square foot Center will significantly increase the size and number of conventions that can be held locally. The completion of two new hotels will add an additional 335 rooms bringing the Municipality's total room count to approximately 8,000 rooms.

Long-term Financial Planning

Anchorage continues to maintain outstanding credit ratings on all outstanding debt. Current long-term Municipality general obligation bond ratings are AA by Standard and Poor's and AA by Fitch Ratings. Anchorage has no legal debt limit mandated by its Charter, Code or State law. The Anchorage Water Utility bond ratings are AA- by Standard and Poor's and AA- by Fitch Ratings. The Anchorage Wastewater Utility bond ratings are A+ by Standard and Poor's and AA- by Fitch Ratings. The Anchorage Municipal Light & Power Senior Lien and Junior Lien Electric revenue bond ratings are A+ by Standard and Poor's and A+ by Fitch Ratings. These ratings were unchanged in 2007. The Port of Anchorage was assigned the rating of A by Standard & Poor's in March 2008. Revenue bond covenants stipulating debt service coverage requirements were met in 2007.

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 1.51% as of December 31, 2007, and the net direct general obligation debt per capita was \$1,557. The respective amounts as of December 31, 2006 were 1.59% and \$1,456. When school debt is included net direct general obligation debt to assessed value is 3.21% (3.41% in 2006) and the net direct general obligation debt per capita is \$3,308 (\$3,117 in 2006).

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, 2006. This was the twentieth consecutive year that Anchorage has received this prestigious award. In order to be awarded a Certificate of Achievement, the government must

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:



Sharon Weddleton, CPA
CFO



Teresa L. Peterson, 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, 2006

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.



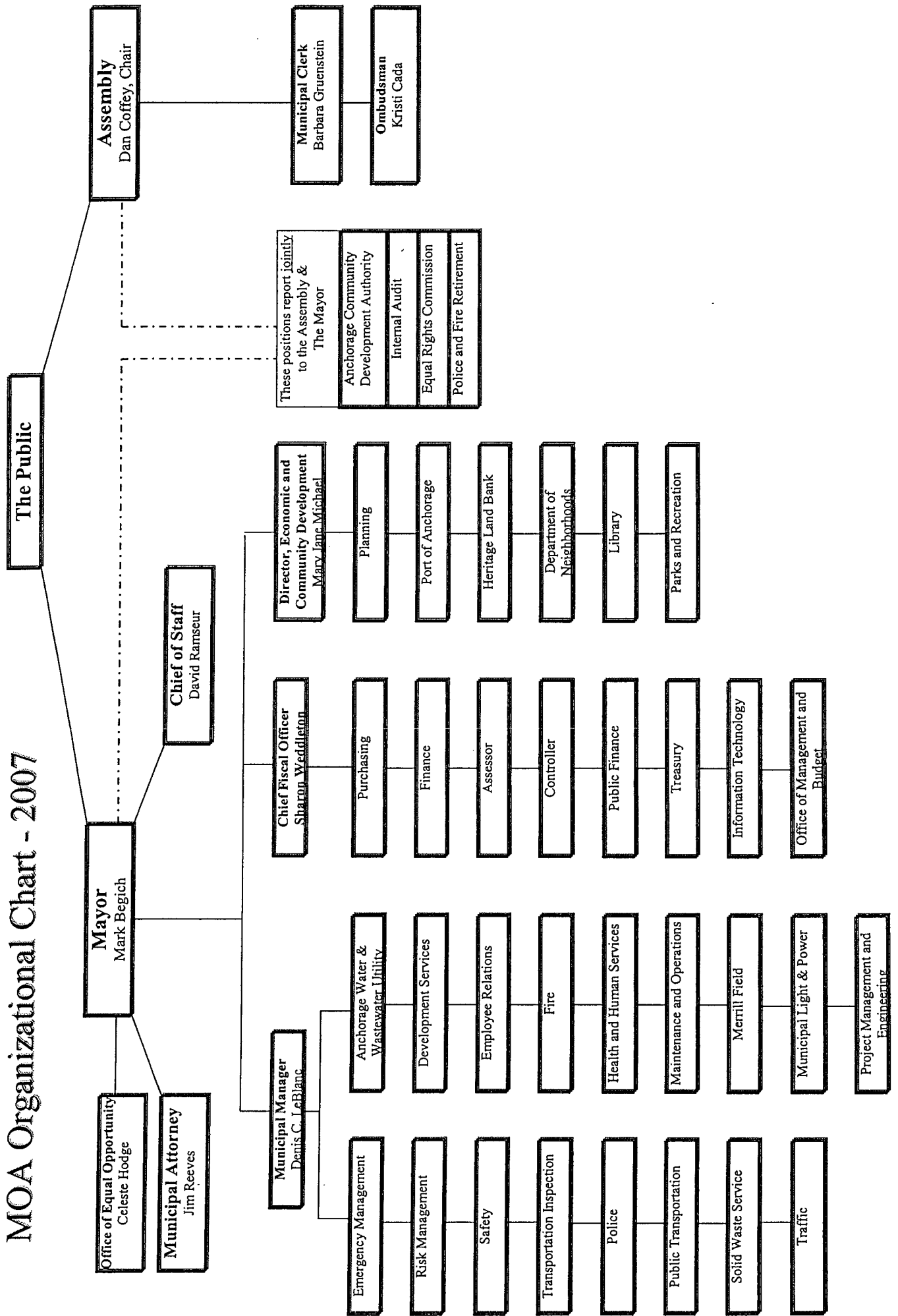
Charles S. Cox

President

Jeffrey R. Emer

Executive Director

MOA Organizational Chart - 2007



MUNICIPALITY OF ANCHORAGE

2007

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, 2007, the following citizens were elected to serve on the Assembly.

Dan Coffey, Chair

Paul Bauer	Chris Birch
Matt Claman	Jennifer Johnston
Debbie Ossiander, Vice Chair	Sheila Selkregg
Bill Starr	Dan Sullivan
Allan Tesche	Dick Traini

Barbara Gruenstein, Municipal Clerk

ADMINISTRATION

Mark Begich, Mayor

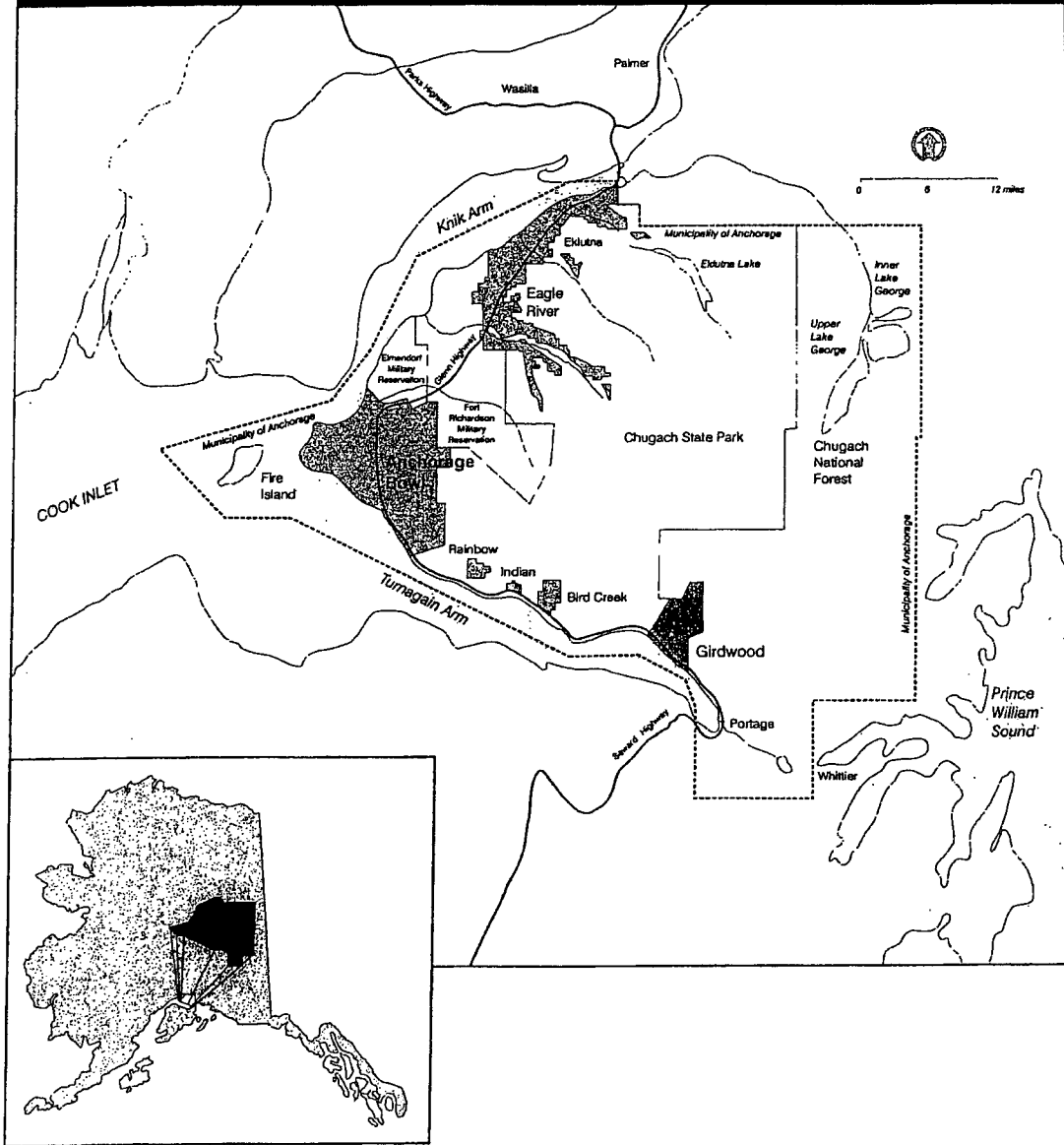
Denis C. LeBlanc, Municipal Manager

Jim Reeves, Municipal Attorney

Sharon Weddleton, CFO

Mary Jane Michael, Director Economic & Community Development

Municipality of Anchorage Vicinity Map



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