

**MUNICIPALITY OF ANCHORAGE,  
ALASKA**



**COMPREHENSIVE  
ANNUAL  
FINANCIAL  
REPORT**

**For the Fiscal Year Ended December 31, 2005**

**Mark Begich  
Mayor**

Prepared by:  
**DEPARTMENT OF FINANCE**

**Jeffrey E. Sinz  
Chief Fiscal Officer**

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

Cover photo courtesy of Tina Verheyen, Municipal Controller's Office

**MUNICIPALITY OF ANCHORAGE, ALASKA**

**Table of Contents**

	<b>Page(s)</b>
<b>Introductory Section:</b>	
Letter of Transmittal	i - ix
Certificate of Achievement for Excellence in Financial Reporting	x
Organizational Chart	xi
The Principal Officials	xii
Municipality of Anchorage Vicinity Map	xiii
<b>Financial Section:</b>	
Management’s Discussion and Analysis	1 – 17
Independent Auditors’ Report	18 - 19
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	20 - 21
Statement of Activities	22 - 23
Fund Financial Statements:	
Balance Sheet – Governmental Funds	24
Reconciliation of Net Assets between the Government-wide and Fund Financial Statements	25
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	26
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	27
Statement of Net Assets – Proprietary Funds	28 - 31
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	32 - 33
Statement of Cash Flows – Proprietary Funds	34 - 37
Statement of Fiduciary Net Assets – Fiduciary Funds	38
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	39
Notes to Basic Financial Statements	41 - 103
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund	104
Notes to Required Supplementary Information – Budgetary Data	105 - 106
Required Supplementary Information – Condition Rating of Anchorage’s Road Network	107
Supplementary Information:	
Nonmajor Governmental Funds:	
Combining Balance Sheet	108 - 111
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	112 - 115
Budgetary Comparison Schedule – Heritage Land Bank	116
Budgetary Comparison Schedule – Special Assessment Bonds	117
Budgetary Comparison Schedule – Retirement Certificate of Participation	118
Budgetary Comparison Schedule – Police/Fire Retiree Medical Liability	119
Budgetary Comparison Schedule – Jail Revenue Bond	120
Budgetary Comparison Schedule – PAC Surcharge Revenue Bond	121

(Continued)

# MUNICIPALITY OF ANCHORAGE, ALASKA

## Table of Contents

	<b>Page(s)</b>
<b>Nonmajor Enterprise Funds:</b>	
Combining Statement of Net Assets	122 - 125
Combining Statement of Revenues, Expenses and Changes in Net Assets	126 - 127
Combining Statement of Cash Flows	128 - 131
<b>Internal Service Funds:</b>	
Combining Statement of Net Assets	132 - 133
Combining Statement of Revenues, Expenses and Changes in Net Assets	134 - 135
Combining Statement of Cash Flows	136 - 137
<b>Fiduciary Funds:</b>	
Combining Statement of Fiduciary Net Assets	138 - 139
Combining Statement of Changes in Fiduciary Net Assets	140 - 141
<b>Agency Fund:</b>	
Statement of Changes in Assets and Liabilities	142
<b>Statistical Section:</b>	
General Fund Expenditures and Other Financing Uses by Function – Last Ten Years	143
General Fund Revenues and Other Financing Sources – Last Ten Years	143
Property Tax Levies and Collections – General Fund – Last Ten Years	144
Assessed Value of Taxable Property – Last Ten Years	144
Property Tax Rates and Levies by Service Area – Last Ten Years	145
Roads and Drainage – Special Assessment Collections – Last Ten Years	146
Ratio of Net General Obligation Bonded Debt to Assessed Value and Net Bonded Debt per Capita – Last Ten Years	146
Computations of Direct and Overlapping Debt – December 31, 2005	146
Computation of Legal Debt Margin – December 31, 2005	147
Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt to Total General Fund Expenditures – Last Ten Years	147
Demographic Statistics – Last Ten Years	148
Commercial and Residential Construction Activity – Last Ten Years	148
Principal Taxpayers – December 31, 2005	148
Miscellaneous Statistical Data – December 31, 2005	149 - 150
Schedule of Revenue Bond Coverage – Electrical Utility – Last Ten Years	151
Schedule of Revenue Bond Coverage – Water Utility – Last Ten Years	151
Schedule of Revenue Bond Coverage – Wastewater Utility	151
Schedule of Revenue Bond Coverage – Solid Waste Fund – Last Ten Years	152
Schedule of Revenue Bond Coverage – Port Fund – Last Ten Years	152

## 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

June 2, 2006

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, 2005, 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 2004 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 *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, 2005. 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 2005 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](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 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 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, CIVICVentures, and Anchorage Community Development Authority. Additional information on all six 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 2005, Anchorage's four point tax relief program was fully implemented and resulted in real property tax savings of approximately \$14.4 million for local homeowners. In addition, the property tax relief program eliminated the need for thousands of small business owners to file business personal property tax returns.

Anchorage received a one time State of Alaska appropriation from Senate Bill #46 (SB46) "Retirement System Funding for Increased Employer Costs for Political Subdivisions" to partially offset estimated public employee retirement system (PERS) employer contribution costs. This appropriation directed funds to be transferred from the State of Alaska, Department of Administration to Anchorage's PERS asset account and reduced the required contractual contributions to be paid by Anchorage during the State of Alaska's 2006 fiscal year. The funding previously budgeted by Anchorage for the PERS costs paid by SB46 was partially redesignated for property tax relief in 2006. Of the \$6.6 million in PERS relief, approximately \$5.1 million benefited tax supported organizations and was designated for future property tax relief. The remaining \$1.5 million was designated for remittance to PERS as an additional payment on Anchorage's unfunded PERS liability.

Anchorage executed a number of bond refundings during 2005 due to favorable market conditions. During 2005, Anchorage issued \$61.3 million in general obligation refunding bonds, \$109.4 million in senior lien electric revenue refunding bonds and \$25.7 million in junior lien electric revenue refunding bonds. These refinancings reduce future general obligation debt service payments an estimated \$3.6 million and future electric revenue debt service payments \$13.9 million. Anchorage also issued \$40.8 million in Correctional Facility lease revenue refunding bonds during 2005 which will result in a \$2.8 million reduction in future debt service payments.

With respect to its electric revenue bonds, Anchorage received upgraded credit ratings from two nationally recognized bond rating agencies during 2005 and settled an Internal Revenue Service tax exempt compliance review. During September 2005, Moody's upgraded Municipal Light & Power's credit rating from A3 to A1 with a stable outlook and Standard & Poor's upgraded its credit rating from A to A+ with a stable outlook. During 2005, an Internal Revenue Service review was completed and settled with the tax exempt status of the bonds confirmed and upheld.

The plan to design and construct a new downtown civic and convention center has been progressing during 2005 with approval by voters in the April 2005 Municipal election of the project and a 4% increase in the Municipal hotel tax to help fund construction and operation of the facility. CIVICVentures, a non-profit entity, was created by Anchorage to finance, construct, and manage the planned development. The center has an estimated construction cost of \$107 million and will be financed by the sale of tax exempt revenue bonds backed by a partial pledge

of Anchorage's hotel tax, including the 4% increase approved by voters in April. The tax increase became effective January 1, 2006, and revenue bonds in the amount of approximately \$110.9 million were sold during February 2006. The revenue bonds are insured by MBIA to AAA ratings from Fitch and Standard & Poor's and Aaa by Moody's.

## **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 278,200 and has been experiencing growth at a rate of 1.3% 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 December 2005, the Anchorage School District had approximately 49,300 students enrolled which represented 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 seventeen years. During 2005, employment increased by 1.4%. The average unemployment rate in 2005 of 5.4% decreased slightly from the 2004 average unemployment rate and was in line with the national average of 5.1%.

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.

With the oil/gas sector continuing to experience record high prices in 2005, there have been recent development projects such as a viscous oil project which started production in December 2005 and future developments in 2006 for new satellite fields with approximately 40 new wells. Investment for these projects over the next few years is expected to be in excess of \$1.5 billion. Progress on the long awaited natural gas pipeline project did materialize in 2005 with the announcement that the State of Alaska had reached agreement on the base fiscal contract terms for the natural gas pipeline contract with one of the three major producers. This marks the beginning of a long and complex process.

During 2005, the Department of Defense Base Realignment and Closure Committee reviewed bases for possible closure. Its recommendations will not adversely impact Anchorage. Kulis National Air Guard Station will be closed, but the command and air assets will be transferred across town to Elmendorf AFB. Elmendorf AFB will replace its F-15 jet fighters in 2009 with two squadrons of new generation F-22 jet fighters. In addition, Elmendorf AFB's command activity will increase with C-17 cargo transports scheduled for arrival in 2007 and the transfer of F-16 jet fighters from Eielson AFB near Fairbanks. Military construction has been substantial in recent years with further planned increases in the future. In 2005, 7.2 percent of the Army Corps of Engineers total budget was designated for Alaska. Fort Richardson will be home to an additional 3,500 soldiers of the 4<sup>th</sup> Brigade Combat Team (Airborne) and \$48.3 million of temporary modular housing was recently completed. Permanent housing will follow in future years to replace the modular housing. Construction at Elmendorf AFB includes various housing projects and support facilities for both the F-22 and C-17 squadrons.

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 with transit cargo volume increasing 14 percent from the previous year. The Alaska Railroad had another solid year earning \$12.7 million in 2005 and placing into service infrastructure improvements such as the Anchorage Operations Center and Fairbanks Intermodal Facility. 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 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 experienced growth during 2005 with hotel tax revenues increasing 3.1 percent due in part by the continuing trend of cruise ship passengers coming into southcentral region to extend their vacations. Although there is no significant hotel construction, the sector continues to add jobs to serve the increasing tourism trade.

## **Long-term Financial Planning**

Anchorage continues to maintain outstanding credit ratings. Current long-term general obligation bond ratings are AA- with a positive outlook by Standard and Poor's and Aa3 with a stable outlook 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 2005.

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 5.45% as of December 31, 2005, and the net direct general obligation debt per capita was \$4,376. The respective amounts as of December 31, 2004 were 4.97% and \$3,713.

## **Cash Management Policies and Procedures**

To obtain flexibility in cash management, Anchorage uses a pooled cash system. Pooled cash is invested in fixed income securities to produce a market rate of return while maintaining reasonable liquidity to meet maturing obligations and ensure preservation of principal. 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 (\$1,000,000 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 2014. A lump sum payment is scheduled to be made from the Retirement Certificates of Participation Debt Service Fund in 2006. Based on an actuarial study completed in 2005, 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**

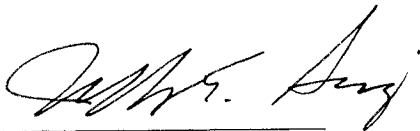
The Municipality and its employees are committed to the goal of making Anchorage a better place to live, work, and raise our families.

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, 2004. This was the eighteenth 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 2004 report satisfied both Generally Accepted Accounting Principles and applicable legal requirements.

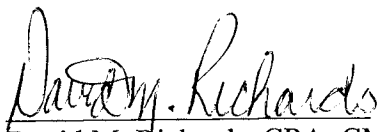
A Certificate of Achievement is valid for a period of one year only. It is believed that our current report continues to conform to the Certificate of Achievement program requirements, and it will be submitted to GFOA to determine its eligibility for another certification.

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, 2004

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.



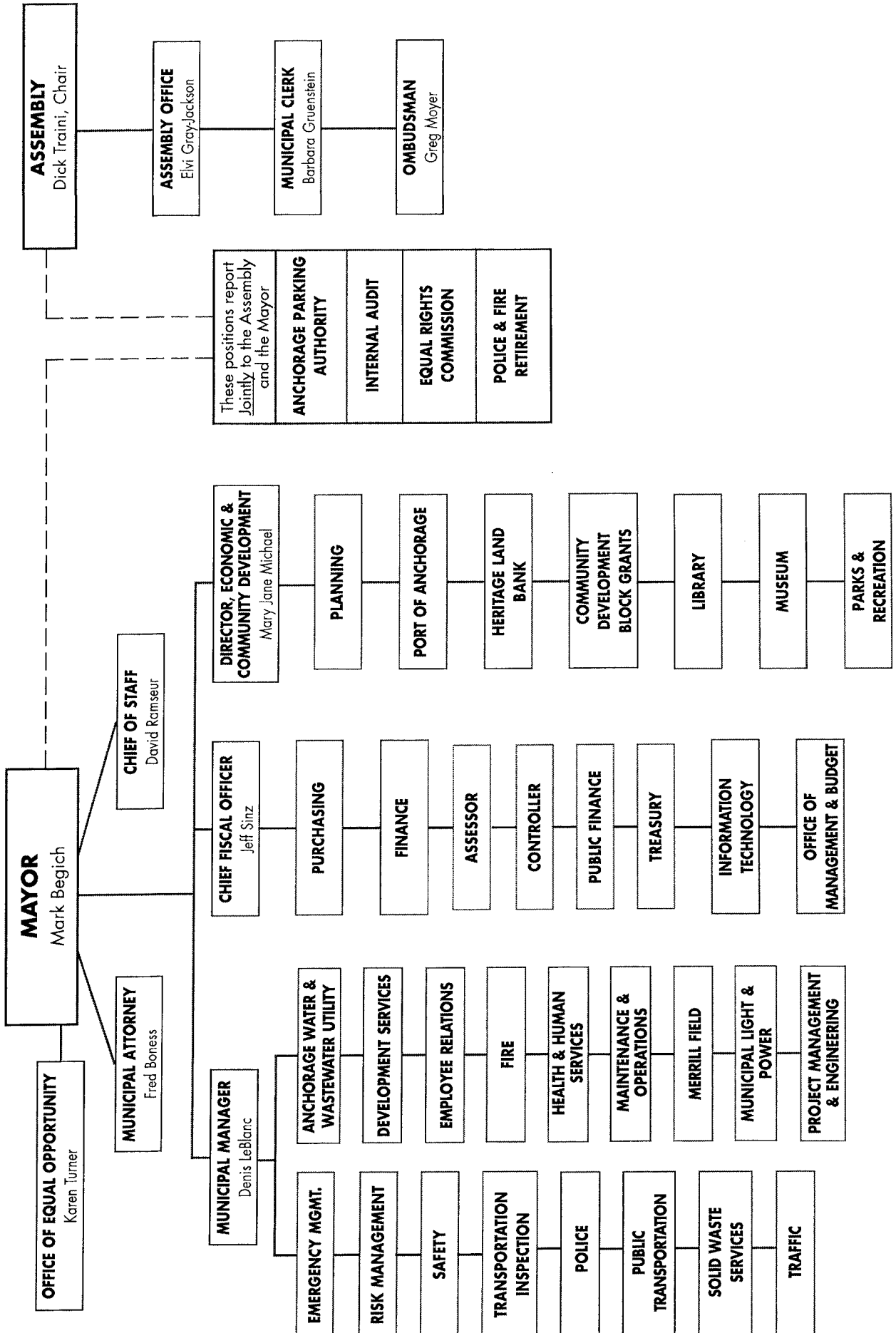
*Carla E. Perry*

President

*Jeffrey R. Emmer*

Executive Director

# MOA Organization Chart





# MUNICIPALITY OF ANCHORAGE

2005

## 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, 2005, the following citizens were elected to serve on the Assembly.

Anna Fairclough, Chair

Paul Bauer  
Dan Coffey, Vice Chair  
Debbie Ossiander  
Ken Stout  
Allan Tesche

Chris Birch  
Pamela Jennings  
Janice Shamberg  
Dan Sullivan  
Dick Traini

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

