
CITY and BOROUGH OF JUNEAU

FOR THE FISCAL YEAR July 1, 2001 to June 30, 2002

COMPREHENSIVE ANNUAL FINANCIAL REPORT



PREPARED BY:

DEPARTMENT OF FINANCE
CONTROLLER'S DIVISION

CRAIG DUNCAN, FINANCE DIRECTOR
MARY NORCROSS, DEPUTY FINANCE DIRECTOR/CONTROLLER

A special thanks to Minch Ritter Voelckers Architects, PC for the cover drawing of the Juneau - Douglas High School Renovation Project.

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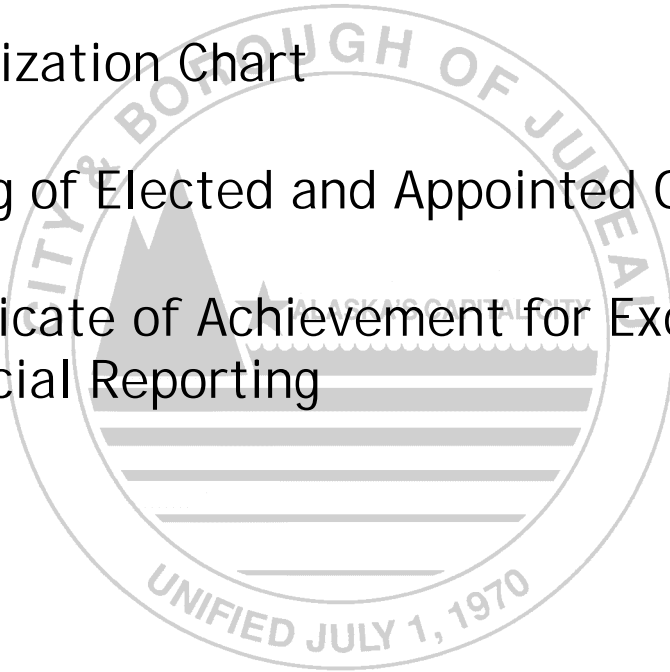
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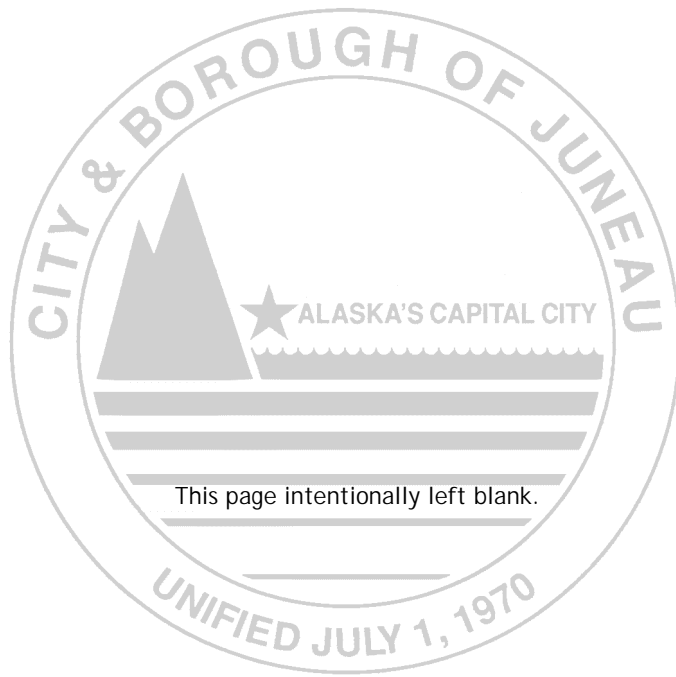
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- Certificate of Achievement for Excellence in Financial Reporting





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CITY/BOROUGH OF JUNEAU
ALASKA'S CAPITAL CITY

December 13, 2002

The Honorable Mayor and Assembly
Mr. John MacKinnon, Interim Manager
City and Borough of Juneau
Juneau, Alaska 99801

I am pleased to transmit to you the Comprehensive Annual Financial Report (CAFR) of the City and Borough of Juneau, Alaska, (CBJ) for the fiscal year ended June 30, 2002.

Section 9.18 of the Charter requires an annual independent audit be made of the financial records and transactions of the CBJ by a certified public accountant. In addition the audit is designed to meet the requirements of the federal Single Audit Act Amendments of 1996, the related OMB Circular A-133 and the State of Alaska audit requirements under AS29.38.220 and 2 AAC 45.010.

The CBJ Finance Department prepared this CAFR. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City. The enclosed data is accurate in all material aspects and is presented in a manner, which fairly sets forth the financial position and results of operations of the CBJ, on a government-wide and fund basis.

INTERNAL CONTROLS

To provide a reasonable basis for making these representations, a comprehensive internal control framework has been designed and established to protect the government's assets from loss, theft or misuse. The internal controls also allow for the preparation of the financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not exceed their benefits, the framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

AUDIT

Elgee, Rehfeld, Mertz & Barrett, LLC, Certified Public Accountants have audited the CBJ's financial statements. The goal of the independent audit is to provide reasonable assurance the financial statements are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the financial statements for the fiscal year ended June 30, 2002 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the CBJ was part of a broader, federal and state mandated "Single Audit" designed to meet the special needs of grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of grant awards. These reports are available in the CBJ's separately issued Single Audit Reports.

REPORT PRESENTATION

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements. This information is presented in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in

The Honorable Mayor and Assembly

conjunction with it. The MD&A can be found in the financial section, immediately following the independent auditor's report.

THE FINANCIAL REPORTING ENTITY

The financial reporting entity includes the primary government (CBJ) and its component unit, the School District, an organization for which the CBJ is financially accountable. The focus of the financial reporting of this entity allows users to distinguish between the financial position and operations of the CBJ and its legally separate component unit. Therefore, the financial data of the School District is presented in a separate column, component unit, in the combined financial statements of the reporting entity.

The CBJ provides a wide range of services including: general administrative, education, community development, port, boat harbors, airport, hospital, alpine and Nordic ski area, parking, library, road services, fire services, mass transit, water and sewer utilities and police. In the last three years, we have had one significant change in our service structure, which is the elimination of the Health and Social Service Department. In FY00, our chemical dependency services were transferred to the hospital and our mental health services were privatized.

MAJOR CONSTRUCTION INITIATIVES AND FACILITY IMPROVEMENTS

Current: In October 1999 voters approved a \$62.9 million general obligation bond to renovate the existing high school (\$13 million) and to construct a second high school (\$49.9 million) in the Mendenhall Valley. Construction of the valley high school was delayed due to the requirements for a 50% or greater state reimbursement under the State of Alaska's School Construction Bond Debt Reimbursement Program. Under this program the state will reimburse local government for bond debt service costs for construction or major maintenance and repair of school facilities. In the November 2002 general election, voters approved a state bonding proposition for design, construction and major maintenance of educational and museum facilities. This proposition implemented companion legislation that provided funding for the Alaska School Construction Bond Debt Program, and allows the CBJ to move ahead with the new high school project.

Currently various committees are reviewing the plans for the new high school. It is estimated that the new high school will cost \$50 - 60 million. Voters have authorized \$49.9 million for the project. If the \$60 million project is chosen, voters will be asked to approve an additional \$10 million in general obligation debt. Depending upon the final cost of the project, the state will reimburse the City at 60% (if it is a \$60 million project) or 70% (if it is a \$50 million project) of the bond debt service through the School Construction Bond Debt Reimbursement Program.

In October 2000 voters approved a proposition that imposes a temporary 5-year, 1% areawide sales tax to fund several large capital projects. The temporary tax provides partial funding for a major expansion of Bartlett Regional Hospital (BRH), construction of a seasonal ice arena (Treadwell Arena) at Savikko Park in Douglas and additional funding for the major renovation of the Juneau-Douglas High School. A description and status of these projects, all of which began in 2001, is presented below.

➤ **Bartlett Regional Hospital:** Final design and bidding documents for the \$41 million project are nearing completion. The project is scheduled to go to bid in January 2003 with overall project completion anticipated in April 2006. Some work on the site (relocation of utilities, roadwork, etc.) has been done in preparation for demolition and construction. Construction is scheduled to begin as early as March 2003. The Medical Arts Building renovation (providing space to relocate departments impacted by construction) was completed in August 2002.

Temporary Sales Tax will provide about half (\$20 million) of the required funding, some Federal funds (\$.850 million) will be available for the rooftop heliport, and revenue bonds (\$25 million) secured by BRH will provide the rest of the funding. CBJ and BRH staff has begun working with the Alaskan Bond Bank authority. Using the Alaska Bond Bank will result in debt service and issuance cost savings.

➤ **Treadwell Arena:** Grants and private donations totaling about \$1.2 million have allowed the project to be completed in one phase instead of two phases, as originally planned. As a result, the project budget increased to approximately \$3.6 million. The additional funding provided for the construction of full locker rooms with showers, a paved access driveway and the purchase of numerous other items that were not initially funded. Construction began in late April 2002 and should be completed in early 2003. The facility's grand opening will follow closely after the completion of construction.

➤ **J-D High School Renovation:** The renovation of the J-D High School began during the summer of 2002. The current project budget is \$19.8 million, although an additional \$1.2 million is expected to be added to the project for necessary additional construction items. Funding for the project is provided from both the State of Alaska and local sources including general obligation bonds, sales tax and reappropriation of excess funds from other completed capital projects.

Under the debt reimbursement program, the State of Alaska will reimburse the CBJ for approximately \$9.1 million of the bonds.

The scope of the project includes extensive interior renovation of the 50-year-old facility. In addition to functional repairs and modernization, the school will be given a new "heart" with a two-story atrium to accommodate a variety of student activities, as well as community activities during non-school hours. This space will also provide seating for dining as the renovation includes construction of a complete kitchen for hot lunches. The project is scheduled for completion by January 2004.

In October 2002 voters approved \$15 million in additional general obligation bonds to fund a variety of capital improvement projects. The following projects were included in the bonding proposition:

- \$9.25 million for various docks and harbors projects;
- \$2.6 million for water and sewer improvements in Douglas and at the Juneau International Airport;
- \$2.2 million for expansion of the water system 3.8 miles for the North Tee Harbor area; and
- \$0.95 million for West Juneau Park design and Eaglecrest ski area day lodge expansion.

Design and construction of these projects will begin over the next few fiscal years.

Another major construction project planned for Juneau is a National Oceanic and Atmospheric Administration (NOAA) and National Marine Fisheries Service (NMFS) Research Facility. In 2002, the federal government began moving ahead with the design and construction of this new facility, with a budget of \$51 million to fund the project. However, construction contract bids, opened in June 2002, were in excess of the available funding. The NMFS is currently evaluating the project, and it is hoped that a resolution to the budget shortfall will be determined by February 2003. The City is anticipating that the project will move ahead, and is proceeding with construction of the access road to the facility site and a sub-division of City-owned land that abuts the access road.

FACTORS AFFECTING FINANCIAL CONDITION

In presenting the financial information it may be helpful to obtain a broader perspective of the CBJ's economic environment. The following is an overview of the economic activity.

Local Economy: Juneau is Alaska's capital and its third largest city. Located in the southeast part of the state, the City is bounded on the north and east by the Coast Range; to the south and west by the extensive network of islands and waterways of the Alexander Archipelago.

As Alaska's Capital City, government largely supports our economic base. In efforts to diversify, the CBJ continues to encourage investments in mining, manufacturing, tourism and regional merchandising. These efforts have resulted in private sector growth and economic diversification.

Private sector jobs accounted for less than 50% of all employment in Juneau until 1992, when private sector employment climbed to just over 50%. This trend continued to where non-government jobs now represent 57% of total employment. However, this trend reversed itself slightly in 2001 as private sector jobs decreased by 195 positions, while public sector jobs increased by 426 positions.

Even though there is some indication that efforts to diversify are succeeding, the fact remains that Juneau's economic base still relies heavily on government employment. More than 7,630 of the 17,286 jobs reported by employers in 2001, were public sector jobs with the federal, state or local governments. The largest public sector employer is the state government with 4,441; while federal and local government employed 853 and 2,069, respectively.

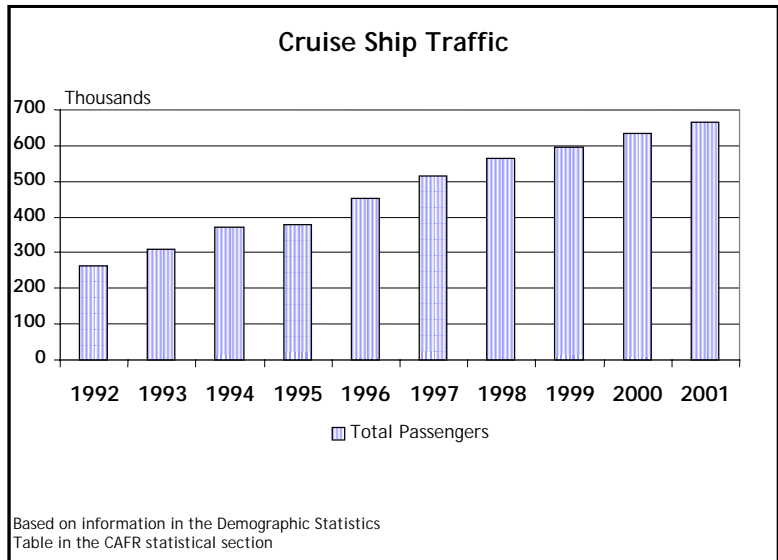
The U.S. Forest Service and National Oceanic and Atmospheric Administration make up most of the federal work force. Other federal agencies providing employment in Juneau include the Coast Guard (U. S. Department of Transportation) and the U.S. Postal Service.

The Honorable Mayor and Assembly

Except for the oil price crash and recession of 1986-88, Juneau's economy has shown moderate to significant growth. The 2001 unemployment rate was 4.8%, which was a slight decrease of .1% from the 2000 rate of 4.9%, and below the 2001 statewide average of 5.9%. In 2001, Juneau's growth trend was slightly lower than the preceding ten-year average. Indicators, such as real estate values and gross business sales, all grew at a slightly slower pace in 2001.

"Real property" assessed value, as of the January 1, 2002 assessment date, was \$2.323 billion, an increase of 2.9% over 2001. This increase was mainly due to a reevaluation of commercial and residential property although there was healthy growth in new construction. The CBJ issued 102 new residential unit-building permits in fiscal year 2002, an increase of 9.9% over fiscal year 2001.

Tourism experienced another active season in 2001. The majority of Juneau's visitors arrive by large cruise ships, traveling from Vancouver and Seattle by way of the "Inside Passage". During the summer of 2001, 666,499 passengers visited Juneau. This was a 6.9% increase over the previous summer's traffic. The preliminary tallies for 2002 indicate that as many as 728,400 cruise ship passengers visited Juneau.



Other visitors to "Alaska's Capital City" arrive by major airline carriers and the Alaska Marine Highway. The number of passengers enplaning at the Juneau International Airport decreased from 269,880 in 2000 to 258,224 in 2001, a 4.3% decrease. Also, Alaska Marine Highway traffic decreased by 14.75%, to a total of 64,334 passengers.

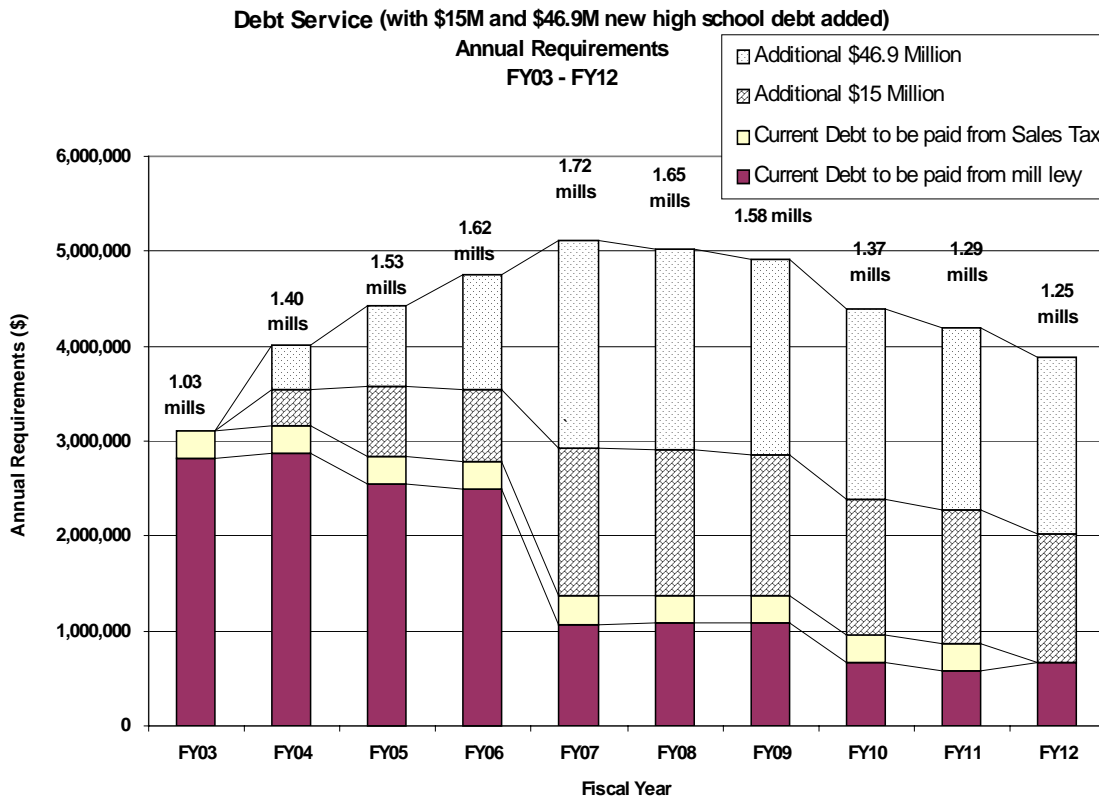
Mining was Juneau's first basic industry and the backbone of the local economy until World War II. Thousands came at the turn of the century to mine gold in a string of highly mineralized deposits known as the "Juneau Gold Belt". Juneau was the hub of mining activity for this region, which stretched 120 miles from Berners Bay to Windham Bay. During the early 1900's the area produced dozens of mines with output totaling six million ounces of gold and one million ounces of silver. At today's prices, that amount of gold and silver would be worth approximately \$2 billion.

Juneau continues to benefit from large-scale mining. Improvements in mining techniques are making mining of the region's lower grade ore deposits profitable. The largest operating mine in the Juneau area, Greens Creek, is located on Admiralty Island 18 miles west of downtown Juneau, and within the CBJ's boundaries. A land exchange/agreement in 1998 provides the Kennecott Greens Creek Mining Company with title to additional mineralized property adjacent to the mine. The Company conducted an active exploration program on the land exchange property during FY01 and expects to continue exploration as long as mineral prices will support it. In FY01, the 269 workers employed at Greens Creek removed on average 2,000 tons of ore per day. From the mine's inception in 1989 to June 30, 2001, the production of silver reached 112 million ounces while the production of zinc reached 1.2 billion pounds.

The Kensington is another mining site that has been under analysis for possible development. In mid-1995 Coeur Alaska, Inc. acquired full ownership of the Kensington Gold Project. Since that time the company has performed engineering, design work and permitting on the mine site. The City approved a Large Mine Permit in November 1997. In 1998, Coeur conducted detailed studies to optimize/reduce costs of mine development and production. Additional exploratory drilling also occurred in 1998. However, the Kensington Mine development project, as approved, has been delayed by the low price for gold and other minerals.

Besides tourism and mining, Juneau is offering economic incentives to other smaller industries to broaden the City's economy. A small, but economically important, area targeted by CBJ is regional shopping. The City has made a concerted effort to establish itself as a regional shopping destination for Southeast Alaska residents. As an incentive, local legislation provides for sales tax exemptions for nonresidents and property tax exemptions on business inventory.

Long-term Financial Position: While Juneau's economic indicators continue to show modest annual growth, the dominance of state government in the local economy, coupled with state government's reliance on a single revenue source, oil royalties and taxes, make long-term economic stability less certain.



Anticipating the eventual reduction in state funds due to decreasing oil production, the Mayor has appointed special ad hoc committees to develop ideas for long-term financial stability. Two such committees appointed in 1999 and 1990 respectively presented the Assembly with a number of economic suggestions. The Assembly implemented a number of efficiency recommendations, with the most significant recommendation being the creation of the Emergency Budget Reserve. The source of funding for the Emergency Budget Reserve is a portion of 1% of the 3% temporary sales tax levy. This sales tax levy has a five-year term. Juneau voters approved renewal of the temporary 3% tax levy in October 2000. The tax is effective July 1, 2002 and will expire July 1, 2007. The goal is to place \$10 million into the Emergency Budget Reserve. The CBJ has placed over half that amount, or about \$5.6 million, into the reserve as of June 30, 2002.

While we anticipate that the CBJ's long-term budgetary position will be tight, these future budgets should be well within our ability to conservatively manage. We are not anticipating any material changes in our long-range operation revenues or expenditures. Our projected operating mill levy need for FY04 is 10.37 mills. This is well below the 12-mill cap placed on the operating mill levy. However, we do have some concerns about mill levy increases necessary to fund future debt service. While there are no mill levy restrictions on the general obligation debt service mill levy, the tax impact to local residents is a concern. The potential mill levy for the voter authorized general obligation bonds is estimated to be as high as 1.72 mills in FY07. We are reviewing funding alternatives and possible ways to reduce the impact by matching maturing debt with this new debt service.

CASH MANAGEMENT

All cash used for operations and capital projects is maintained in an account referred to as the "Central Treasury". Central Treasury investments, consisting of temporarily idle cash, are managed in two separate portfolios. One portfolio is managed internally by CBJ staff while the second is managed through an investment management contract with Northern Trust. Authorized investments under both internal and external management are listed in Footnote 5 of this Comprehensive Annual Financial Report. The CBJ maintains a policy of minimizing risk through emphasis on investment security rather than the investment portfolio rate of return. Investments are selected after cash flow and risk analysis. The average yield on the Central Treasury investments for fiscal year 2002 was 5.59%. Investment revenues in the general fund, for the year ended June 30, 2002, represent 11.65% of the general fund Revenues. Overall, the CBJ earned investment earnings of \$4.8 million.

The Honorable Mayor and Assembly

RISK MANAGEMENT

The CBJ has successfully continued its existing risk management program. Departmental allocations and claims payable figures for incurred but not reported claims have been adjusted to assure the availability of adequate resources to fund potential losses. Deductible levels have been reviewed and have been increased to \$250,000 from \$25,000 for property and non-owned auto liability. This change was effective July 1, 2002. The Workers' Compensation self-insurance reserve (SIR) is \$350,000. Special policies are carried for boiler and machinery coverage, earthquake and flood coverage, airport, hospital, chemical dependency, mental health, ski resort, docks and harbors, police reserve and volunteer fire fighters. The CBJ also carries employee bonds when prudent. The following loss control techniques are employed to enhance our overall risk management program: (1) employee safety programs which include safety awareness and training; (2) regular inspections of all facilities and operations by the CBJ safety and loss control officers; and (3) inspections by third party inspectors such as state OSHA and insurance company loss control specialists. Risk Management also administers health benefits, group insurance and wellness and employee assistance programs.

Due to prior accumulations in fund balance, Risk Management reduced departmental charges for FY02 to help alleviate budgetary concerns for the CBJ. This reduction in charges, as well as an unexpected deterioration in the insurance market and significant increases in health and workers' compensation costs, was largely responsible for the \$2 million decrease in the fund balance.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City and Borough of Juneau, for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2001. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. CBJ has received a Certificate of Achievement for the last fifteen consecutive years (fiscal years ended 6/30/87 - 6/30/01). We believe that our current report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

I would like to thank the Finance Department staff for their efforts in preparing this comprehensive annual financial report. With the implementation of the new financial reporting model required by GASB 34, extra effort was expended on the project. It is our belief that we are one of very few governmental entities in the nation to present three year comparative statements in the year of implementation.

Mary Norcross, CBJ's Assistant Finance Director/Controller, coordinates the team efforts necessary for the report's production. Special thanks goes to Barbara Rolfe, Treasurer; Calvin Kubota, Deputy Treasurer; Helen Davies, Sonia DeIGado, Julia Haldorson, Penny Kohler, James Lockwood, Jeromie Webster and Pat White, Accountants. Without their efforts, the production of the annual financial report would not be possible.

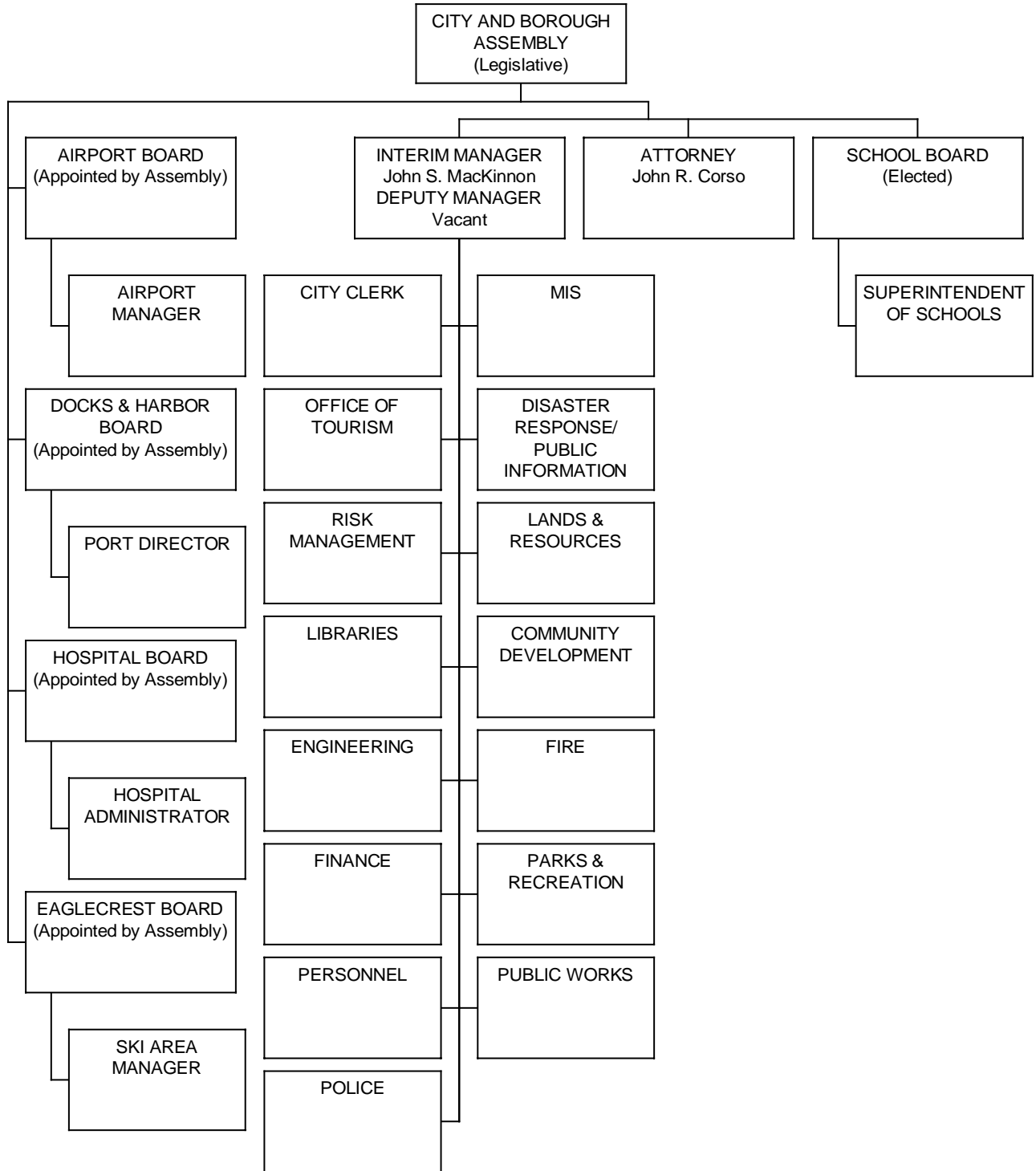
I wish to express my appreciation to John MacKinnon, our Interim City Manager, and to Dave Palmer, our past City Manager, for their support throughout the year in accomplishing our fiscal goals. Also, I want to thank the Mayor and Assembly for their interest and support in planning and conducting the financial operations of the City and Borough of Juneau in a responsible and progressive manner.

Respectfully submitted,



Craig W. Duncan, Finance Director

CITY and BOROUGH OF JUNEAU GOVERNMENTAL FUNCTIONS Organizational Chart



CITY and BOROUGH OF JUNEAU

ASSEMBLY

MAYOR

Sally Smith

DISTRICT #1

Ken Koelsch
Jeannie Johnson
Merrill Sanford

DISTRICT #2

Dale Anderson
Randy Wanamaker
Stan Ridgeway

AREAWIDE

Jim Powell
Marc Wheeler

ADMINISTRATION

John S. MacKinnon, Interim City Manager

FINANCE

Craig W. Duncan, Finance Director
Mary Norcross, Assistant Finance Director/Controller
Barbara J. Rolfe, Treasurer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City and Borough of
Juneau, Alaska

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001

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.

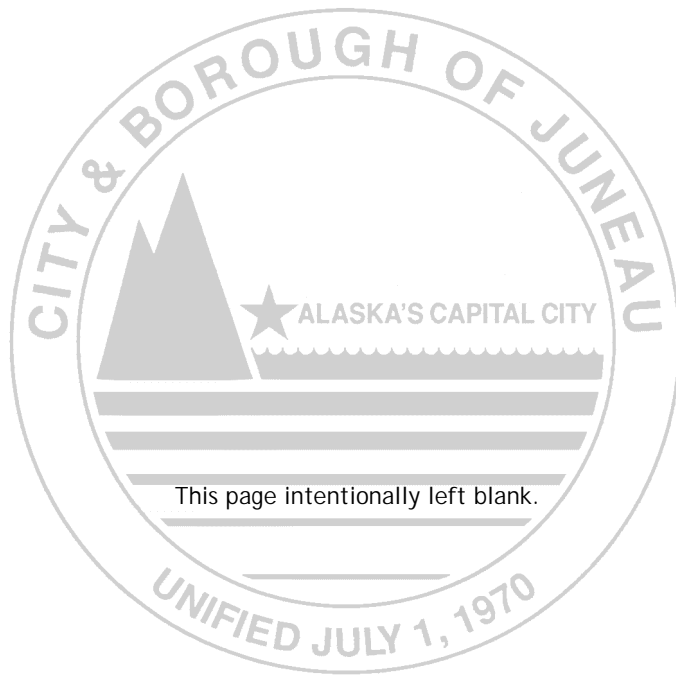


A handwritten signature in black ink, appearing to read "William Patrick Barta".

President

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

Executive Director



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