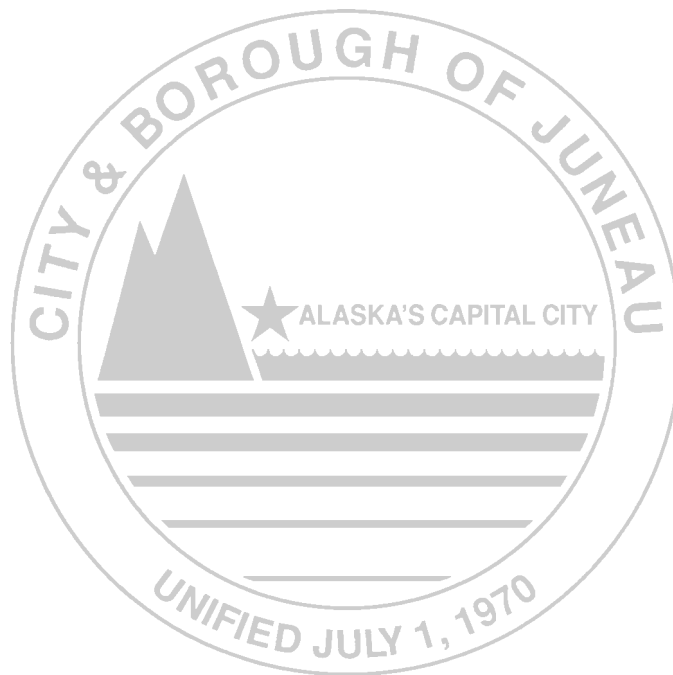

CITY and BOROUGH OF JUNEAU

FOR THE FISCAL YEAR July 1, 2004 to June 30, 2005

COMPREHENSIVE ANNUAL FINANCIAL REPORT



PREPARED BY:

DEPARTMENT OF FINANCE
CONTROLLER'S DIVISION

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



We make winter fun!

A special thanks to David McMaster for our cover photo of hiking out the West Bowl at Eaglecrest.

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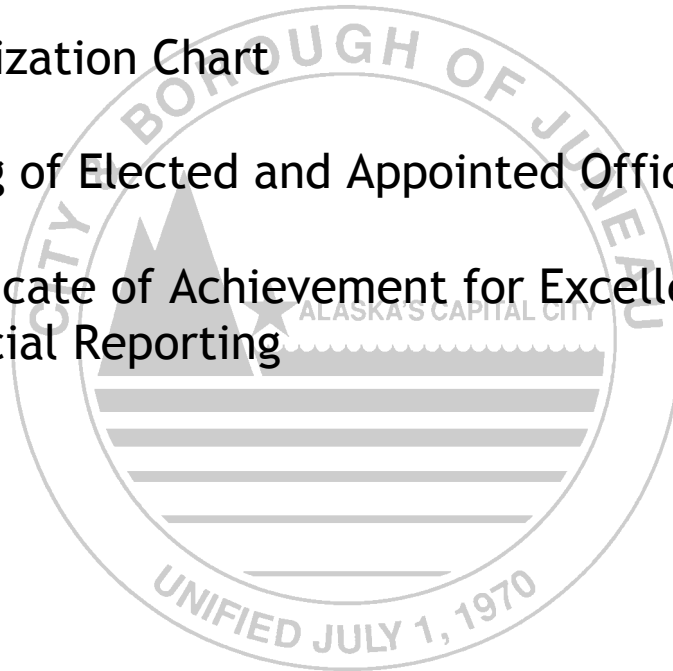
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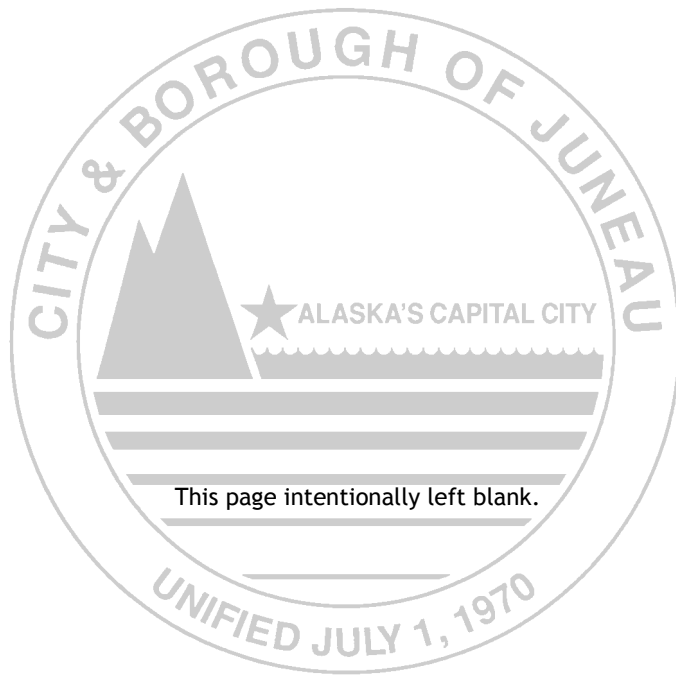
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- Organization Chart
- Listing of Elected and Appointed Officials
- Certificate of Achievement for Excellence in Financial Reporting





December 15, 2005

The Honorable Mayor and Assembly
Mr. Rod Swope, City Manager
City and Borough of Juneau
Juneau, Alaska 99801

I am pleased to transmit to you the City and Borough of Juneau's (CBJ) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005.

The Charter requires an annual independent audit be made of our financial records and transactions. The audit is to be performed by a certified public accountant designated by the Assembly. As part of the annual financial audit, we also comply with 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 AS 29.38.220 and 2 AAC 45.010. This report is published to fulfill the requirement for the fiscal year ended June 30, 2005.

The CAFR is prepared by the CBJ Finance Department. The responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the CBJ. 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.

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. These 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, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Elgee Rehfeld Mertz, LLC, Certified Public Accountants have issued an unqualified opinion that the financial statements for the fiscal year ended June 30, 2005 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component in the financial section of this report.

Immediately following the independent auditor's report is the section, Management's Discussion and Analysis (MD&A) that provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A is designed to complement this letter of transmittal and should be read in conjunction with it.

PROFILE OF THE GOVERNMENT

The City of Juneau was incorporated in 1900 as Alaska's capitol. The City of Douglas was incorporated in 1902. The Greater Juneau Borough was incorporated as a first class borough on September 30, 1963. The Cities of Juneau and Douglas and the Greater Juneau Borough unified into the City and Borough of Juneau, as the first unified home rule government in Alaska, in 1970. Under provisions established by State statutes, the assets and liabilities of the individual local governments were unified into the succeeding municipality. The City and Borough of Juneau is located in the southeast part of the state of Alaska. It occupies 3,248 square miles and serves a population of 30,966. The City and Borough of Juneau is empowered to levy a sales tax on retail sales and a property tax on both real and personal property located within its boundaries. It is also empowered by State statutes to extend its corporate limits by annexation, which it has done from time to time.

An Assembly-Manager form of government was adopted as a provision of the Home Rule Charter accepted by the voters in 1970. The City and Borough Assembly has nine members, one of which is the mayor of Juneau. The Assembly members are

The Honorable Mayor and Assembly

nominated by district, but elected at large to a three-year term. The Assembly has both legislative and policy-making powers and duties. The Manager, who is appointed by and reports to the Assembly, acts as the chief administrative officer.

The CBJ provides a wide range of services including general administrative, police, fire, emergency medical, community development, port, boat harbors, airport, hospital, alpine and Nordic skiing, library, mass transit, parking, water utility, sewer utility and road, street and sidewalk maintenance. The City and Borough of Juneau is also financially accountable for a legally separate school district, which is reported separately within the City and Borough of Juneau's financial statements. Additional information on these legally separate entities can be found in the notes to the financial statements (See Note 1).

The Assembly is required to adopt the annual operating and capital budgets no later than the June 15 prior to the start of each fiscal year. The budget is prepared by fund and department. Department directors may transfer resources within a department as they see fit. Transfers between departments require legislative approval from the Assembly.

LOCAL ECONOMY

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

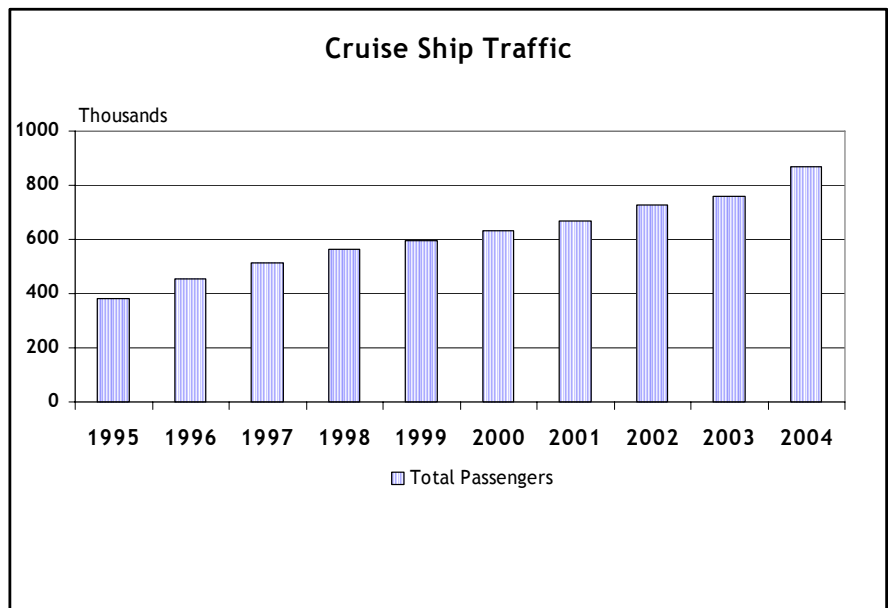
Private sector jobs represented 56% of all employment in 2004. There was a .5% increase in this ratio between 2004 and 2003. However, the increase was due to a larger job loss in the government sector than the private sector. Private sector jobs declined by 41 while public sector jobs declined by 201.

Even though there are some indications that efforts to diversify are succeeding, the fact remains that Juneau's economic base still relies heavily on government employment. More than 7,491 of the 17,221 jobs reported by employers in 2004 were public sector jobs with the federal, state or local governments. The largest public sector employer is the state government with 4,348; while federal and local government employed 959 and 2,184, 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. Homeland Security) and the U.S. Postal Service.

Except for the oil price crash and recession of 1986-88, Juneau's economy has shown moderate to significant growth. The 2004 unemployment rate was 6.0%, the same rate as 2003, Juneau's growth trend was slightly higher than the preceding ten-year average. Indicators, such as real estate values and gross business sales, all grew at a slightly slower pace in 2004.

As of January 1, 2005 assessment, "real property" assessed values were \$3.04 billion, an increase of 18.3% over 2004. This increase was due to significant value growth in commercial and residential property coupled with new construction. The CBJ also issued 80 new residential unit-building permits in fiscal year 2005, a decline of 25.9% over fiscal year 2004.



Tourism experienced another active season in 2005. 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 2005, 918,700 passengers visited Juneau. This was a 6% increase over the previous summer's traffic. The preliminary projections indicate that as many as 941,700 cruise ship passengers may visit Juneau in calendar 2006.

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 increased from 249,929 in 2003 to 257,247 in 2004, a 2.9% increase. The Alaska Marine Highway traffic increased by .5% to 68,009 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 \$2.5 billion.

Juneau continues to benefit from large-scale mining. The largest operating mine in the Juneau area, the Kennecott 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 provided the Kennecott Greens Creek Mining Company with title to an additional 7,100 acres of 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 throughout the mine life. Currently the Kennecott Greens Creek Mine supports an annual payroll of approximately \$20 million, of which \$15.7 is paid to Juneau residents, and employs a workforce of approximately 265 individuals. The mine presently processes in excess of 2,200 tons of ore per day. On an annual basis, that production yields approximately 10 million ounces of silver, 85,000 ounces of gold and a total of 200,000 tons of zinc, lead and bulk concentrates.

Based on exploration information, the Kennecott Greens Creek Mining Company believes that the mine life may be extended an additional 9 years (from 2005). The permitted tailings disposal capacity was expanded to accommodate material from the known ore reserves as well as anticipated reserves. The 2003 U.S. Forest Service Environmental Impact Statement, that was required for the project, and associated Record of Decision allowed an amendment to the General Plan of Operations to expand the tailings disposal capacity. The company also obtained the additional required permits for expansion of the tailings area from other regulatory agencies.

The Kensington and Jualin mining prospects have been under analysis for possible development for approximately 15 years. 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. Coeur Mining has received federal, state and local permits for development of the Kensington gold mine. Subsequent to permitting and the commencement of mine development in 2005, a lawsuit was filed challenging the Corps of Engineers permit to place tailings in Lower Slate Lake. Work on the mine has been largely suspended until this issue is resolved. Given the current prices of gold (\$500+ per ounce), Coeur is motivated to bring the prospect into production. It is estimated that a fully operating mine would employ 225 workers during a 10-year mine life. Annual payroll is estimated to be \$15 million.

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 PLANNING

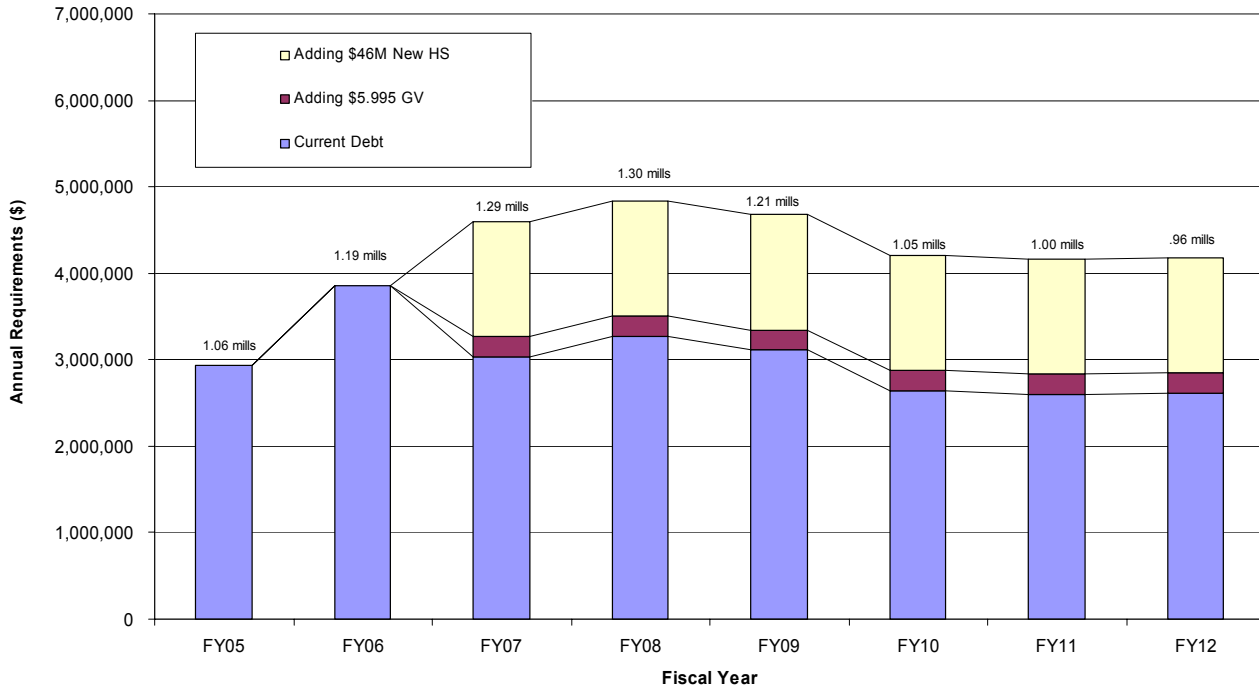
While Juneau's economic indicators continue to show modest annual growth, the dominance of state government in the local economy, coupled with state government's reliance on a single revenue source, oil royalties and taxes, make long-term economic stability less certain.

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 June 30, 2007. Ultimately, the goal is to place \$10 million into the Emergency Budget Reserve. The CBJ has placed over 70% of that amount, \$7.07 million, into the reserve as of June 30, 2005.

While we anticipate that the CBJ's long-term budgetary position will be tight, these future budgets should be within our ability to manage. Our approved FY06 operating mill levy of 9.98 is well below the 12-mill levy cap placed on the operating mill levy. Additionally, we have seen increases in the mill levy to fund 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 mill levy required for the voter authorized general obligation bonds is estimated to climb to a peak of 1.32 mills in FY08. We are reviewing funding alternatives and possible ways to reduce the impact by matching maturing debt with this new debt service.

The Honorable Mayor and Assembly

**Annual Debt Service Requirements
(Current authorizations)
FY05 - FY12**



MAJOR INITIATIVES AND FACILITY IMPROVEMENTS

On October 3, 2000, voters approved a proposition that imposes a temporary 5-year, 1% areawide sales tax levy to fund several capital projects. The temporary tax will provide \$29 million to partially fund major expansion and renovation of the Bartlett Regional Hospital and Juneau-Douglas High School and for the construction of an indoor ice skating facility (Treadwell Arena). The Juneau-Douglas High School Renovation and Treadwell Arena projects are complete. The updated status of the hospital project is presented below:

- **Bartlett Regional Hospital:** This project is divided into two phases with a total budget of approximately \$47.2 million. Phase I will construct a new hospital addition and phase II will remodel the existing building. A \$24.0 million construction contract was awarded in August 2004 for phase I. Phase I has a targeted completion date of May/June 2006. The phase II contract is scheduled to be issued in early 2006 with an anticipated completion date in the summer of 2007. The CBJ issued \$28.845 million in Bartlett Regional Hospital revenue bonds in August 2004. The bond proceeds along with \$20 million in sales tax revenues will fund both phase I and II.

Upgrades to the School District facilities continue to be a focal point of the City’s capital activity. State funding for school capital improvements became available after voters approved, in November 2002, a statewide bonding proposition for design, construction and major maintenance of educational and museum facilities. The proposition implemented companion legislation that provided funding for the School Construction Bond Debt Reimbursement Program and allowed the City to move ahead with a new high school project. The Bond Debt reimburses local governments for a portion of the bond debt

- **New High School:** In June 2003, voters approved a proposition authorizing an additional \$12.6 million for the New High School. This brought the total project authorization to \$60.8 million. Under the State’s Debt Reimbursement Program rules, the new high school would be eligible for 60% reimbursement. Student capacity was estimated at 1,100 students. Between June 2000 and October 2003, \$23 million in general obligation bonds had been issued for this project.

However, in May 2004 voters approved a ballot initiative prohibiting the City from awarding bids for the new high school until three criteria were met (student population, school operating funds and school design). That voter decision effectively cancelled the high school project. After several months of meetings to evaluate how to address the existing high school overcrowding problem, the School Board recommended pursuing a smaller school, which would cost \$54 million and have a capacity of 838 students. The general obligation bonding for the revised new high school project was approved by the voters on October 5, 2004.

The Honorable Mayor and Assembly

We issued \$8 million of the revised new high school general obligation bond authorization in March 2005. We are anticipating that we will issue the remaining \$46 million in the spring of 2006. The new high school is currently in the design phase and site work is underway. The building construction is scheduled to start in summer 2006. The estimated completion date for the new high school is late summer 2008. The revised high school bonds qualify for 70% state reimbursement.

The unexpended new high school bond proceeds (an estimated \$18.25 million of the original \$23 million) were redirected by the voters on October 5, 2004 to district major maintenance projects. These major maintenance projects are currently in the planning phase. The bonds qualify for 70% state reimbursement.

- **School Building Improvements:** In the October 2003 general election, voters authorized the issuance of \$6.9 million in general obligation bonds for renovations to the Floyd Dryden Middle School and Harborview Elementary School. The bonds were issued in November 2004 and these projects are underway. These bonds qualify for 70% state reimbursement. In October 4, 2005, voters approved issuing \$5.995 million in general obligation bonds for renovation the Glacier Valley Elementary School. These bonds scheduled to be issued in the spring of 2006. These bonds will qualify for 70% state reimbursement.
- **Other Capital Projects:** In October 2002, voters approved \$15.0 million in additional general obligation bonds to fund a variety of capital improvement projects. \$13.3 million in general obligation bonds were issued in October 2003 to fund the following projects:
\$9.3 million for various docks and harbors projects; \$2.2 million for a 3.8 mile expansion of the North Tee Harbor water system; \$1.8 million for water and sewer improvements at the Juneau International Airport and in Douglas, expansion of Eaglecrest Ski Area lodge and planning/design of the West Juneau Park.

On October 4, 2005, voters approved a temporary 33-month 1% areawide sales tax to fund a combination of additional capital projects. The \$18.5 million in sales tax will partially fund a downtown parking and transit center, harbor improvements, sewer improvements and a third chairlift for Eaglecrest ski area. The new tax levy will begin on January 1, 2006.

AWARDS AND ACKNOWLEDGEMENTS

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, 2004. 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 eighteen consecutive years (fiscal years ended 6/30/87 - 6/30/04). 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.

I would like to thank the Finance Department staff for their efforts in preparing this comprehensive annual financial report. 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; Anna Blackwell, Helen Davies, Sonia DelGado, Angelica Lopez-Campos and Pat White, Accountants. Without their efforts, the production of the annual financial report would not be possible.

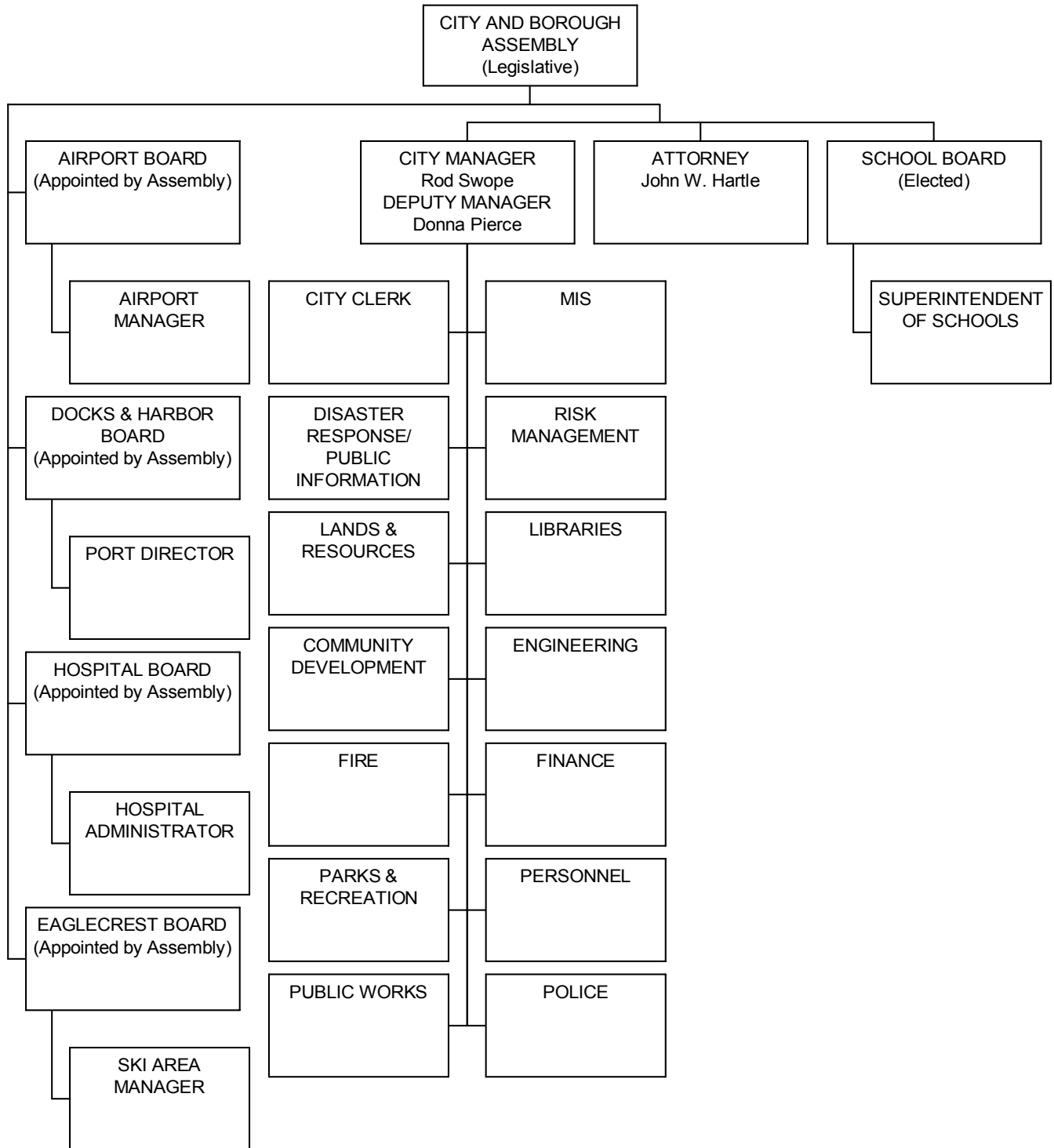
I wish to express my appreciation to Rod Swope our City Manager, for his support throughout the year in accomplishing our fiscal goals. In addition, I want to thank the Mayor and Assembly for their interest and support in planning and conducting the financial operations of the City and Borough of Juneau 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

Bruce Botelho

DISTRICT #1

David G. Stone
Jeff Bush
Merrill Sanford

DISTRICT #2

Daniel Peterson
Randy Wanamaker
Jonathan Anderson

AREAWIDE

Johan Dybdahl
Robert Doll

ADMINISTRATION

Rod Swope, 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, 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.



Nancy L. Ziehl

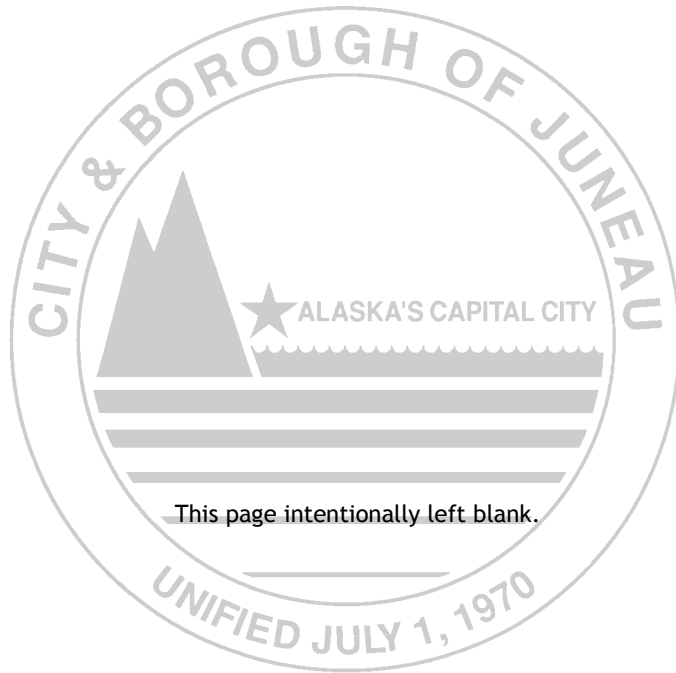
President

Jeffrey R. Emer

Executive Director

FINANCIAL SECTION

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- Proprietary Individual Fund Statements and Schedules
- Capital Assets Used in the Operation of Governmental Funds



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