MUNICIPALITY OF ANCHORAGE

COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

December 31, 2001

Prepared by:
DEPARTMENT OF FINANCE

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# MUNICIPALITY OF ANCHORAGE, ALASKA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

DECEMBER 31, 2001

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April 3, 2002

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, 2001, is hereby submitted in accordance with Anchorage Home Rule Charter and Anchorage Municipal Code. These laws require an annual report on the finances and administrative activities and an independent audit of all municipal accounts by a certified public accountant. KPMG, LLP has prepared this report. Management is responsible for the accuracy, completeness and fairness of the presentation including all disclosures.

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 2000 CAFR, a list of principal elected and appointed officials and an organization chart. The Financial section includes the general purpose financial statements, the combining and individual fund financial statements, the account group schedules, and the independent auditor's report on these financial statements and schedules, along with unaudited additional information on budgetary-based revenues, expenditures and transfers. The unaudited Statistical section includes 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 United States (U.S.) Office of Management and Budget's Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and Compliance Supplement. A schedule of expenditures of federal awards, the independent auditor's reports on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs are included in separately issued Federal Financial Assistance Reports.

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 auditor's reports on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs are included in separately issued State Financial Assistance Reports.
REPORTING ENTITY AND ITS SERVICES

The financial reporting entity includes Anchorage as the primary government, as well as its component units including the Anchorage School District, Anchorage Historic Properties, Inc., Alaska Center for the Performing Arts, Inc., and Anchorage Parking Authority.

Anchorage is a unified Municipality that performs the services typically handled by a combination of city and county governments elsewhere, including police, fire, emergency medical, health and human services, culture and recreation, public transportation, public works, and building safety. Many of these services are provided on a service area basis; taxpayers in different taxing districts pay only for those services they authorize.

Anchorage owns and operates several utilities and other enterprise activities including electric, water, wastewater, refuse collections, solid waste disposal facilities, port and 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 its municipal web site, located at www.muni.org.

ECONOMIC CONDITION AND OUTLOOK

Population

Anchorage’s population is expected to continue growing slowly through 2025. As the largest city in Alaska, Anchorage’s 2000 census population of 260,283 claims nearly 42% of the state’s residents. The 2000 census results showed a 15% increase in the city’s population since 1990, a growth of nearly 34,000 residents. By comparison, the average U.S. population growth rate for this period was less than 10%.

Education

The Anchorage School District enrollment for the 2001-2002 school year was approximately 49,700, a slight increase from the 2000-2001 school year. Anchorage students scored above average on standardized tests in all the basic skill areas.

The University of Alaska Anchorage (UAA), a state operated university, has over 15,000 full-time and part-time students. UAA recently received renewal of its accreditation by the Northwest Association of Schools and Colleges’ Commission on Colleges through 2010.

Alaska Pacific University (APU) is a private, independent university focused on liberal arts and professional programs. APU enrolls approximately 700 students.
Local Economy

Anchorage’s economy is strong and continues to diversify. Anchorage is the major commercial, transportation, finance and government center for the State of Alaska and is closely tied to national and international economies. Alaska exports more of its natural resources and imports more of its consumables than any other state in the nation. Expansion in its construction, retail trade, service, and petroleum sectors, along with stability in the public sector, has continued to improve Anchorage’s local economy.

Employment: Anchorage experienced a repeat of its 2000 employment increase during 2001 with employment growth up 2.6% from 2000, creating approximately 3,500 new jobs. Employment in the service sector accounted for 38% of the total employment increase. New service sector jobs were primarily in health care and engineering/management services. Employment in the construction and petroleum sectors also increased, while the air transportation sector decreased due to the closure of Reeve Aleutian Airways, the withdrawal of United Airlines from the international cargo business, and the events of September 11. The unemployment rate for Anchorage in 2001 was 4.3%, two points below the statewide rate of 6.3%.

Anchorage accounts for approximately 47% of the state’s employment with nine of the ten largest private employers headquartered in the city and more than 70% of the state’s legal, business, engineering and management service jobs located here.

Cost of Living: Anchorage cost of living is approximately 12% above the national average (depending on the market basket used to calculate it), but both state and local taxes are below the national average. Anchorage’s Consumer Price Index increased 2.8% in 2001, which matched the national rate of change. The increase was caused primarily by energy and health care cost increases.

Retail Trade and Service Sectors: In addition to the over 2 million square-feet of retail space added since 1992, Anchorage recently had a new Fred Meyer retail store open in early 2002 and has an additional Lowe’s Home Improvement Warehouse store currently under construction.

As in 2000, service sector growth in 2001 was mainly due to an increase in health care growth. The 7.7% increase in health care growth was a result of continued expansion at the Alaska Native Medical Center, Providence Hospital, and Alaska Regional Hospital. Health care is expected to continue this growth as Anchorage advances technologically and its population continues to age.

Construction: The construction sector continues to see strong growth, with a 9% increase in 2001. Anchorage building permits exceeded $599 million in 2001, which represents the largest building season since 1985.

Expansion continues at the Ted Stevens Anchorage International Airport with work progressing on the terminal redevelopment, Alaska Railroad Depot, and various taxiway improvement projects. Local hospitals also continue to add additional office and clinical space. Other major projects include the Alaska Railroad track straightening project and additional military base
housing at Elmendorf Air Force Base. Several other commercial projects were also started in 2001 with completion expected during 2002.

In 2001, the Anchorage School District (ASD) issued $65 million in general obligation bonds for school construction and renovation. At the same time, ASD refunded $51.8 million in bonds to take advantage of favorable market rates.

Residential building activity also increased dramatically in 2001. New residential permitting increased 50% from the 2000 activity level.

**Transportation:** Anchorage is a crossroads of international air cargo routes, affording easy access to world markets for distribution of materials, components and products. Air transportation is therefore a focal point of Anchorage’s economy, with 24-hour service, growing passenger and cargo operations and no airport closures in more than five years. More than 50 carriers service Anchorage, with nine freight forwarders. Anchorage has the distinction of being the largest cargo airport in the U.S. in terms of landed weight of all cargo carriers.

The Ted Stevens Anchorage International Airport (AIA) handled approximately 5.1 million passengers in 2001, a slight increase over 2000. Continuing construction projects include the $230 million terminal redevelopment, Alaska Railroad Depot, and various taxiway improvements.

After new U.S. Customs Service and Immigration and Naturalization Service regulations were implemented September 11, 2001, AIA noted a substantial decrease in international passenger numbers due to international air carriers opting to overfly Anchorage or to move in-transit operations to Canada. In April 2002, the Progressive Clearance program was reinstated, allowing international air carriers to stop over in Anchorage without downloading passenger baggage.

Since 1996, the U.S. Department of Transportation has allowed expanded cargo handling operations in Anchorage for foreign carriers that operate under bilateral agreements. Major carriers such as Federal Express, Northwest Airlines, United Parcel Service and the U.S. Postal Service have all established international cargo sorting and distribution hubs in Anchorage, taking advantage of the strategic location within nine hours of every major industrial city in the world.

Due to the economic downturn in 2001, cargo traffic through AIA showed a decline of 10%. In comparison, international cargo declined 17% worldwide. Modest cargo growth is anticipated in the future.

Merrill Field Airport, Anchorage’s municipally owned general aviation facility, provides landing areas for smaller aircraft. With over 179,000 takeoffs and landings last year, it was the nation’s 106th busiest airport. Lake Hood seaport located in Anchorage is the largest seaplane base in the world with over 80,000 landings annually.
The Alaska Railroad Corporation is a self-sustaining, full-service railroad owned by the State of Alaska with headquarters in Anchorage. The Alaska Railroad serves ports and communities from the Gulf of Alaska to Fairbanks along a 700-mile route connecting Alaska’s coast with the interior. Passenger service has grown due to new and innovative tour packages.

The Port of Anchorage (Port), owned and operated by the Municipality, serves 80% of Alaska’s populated area, including major military installations, from Homer to the North Slope by means of road, rail and air cargo connections. The Port is the northern-most deep draft port in the U.S. and capable of handling more than 3 million tons of cargo annually. The Port of Anchorage is responsible for more than 90% of all consumer goods sold to residents as far north as Fairbanks and south to Seward, Alaska, covering the majority of the population centers of the State. Two major ocean carriers, CSX Lines LLC and Totem Ocean Trailer Express, Inc. (TOTE), regularly service Anchorage. Vessels carrying bulk refined petroleum and cement also regularly call at the Port on an unscheduled basis.

Construction of a third trestle to accommodate TOTE’s new 839-foot Orca Class Roll-on/Roll-off vessels was effectively completed in 2001. These vessels are anticipated to commence calling at the Port of Anchorage in late 2002. The Port is also embarking on a capital improvement program that includes development of a new intermodal marine facility, harbor deepening, dock improvement and other development expected not to exceed $200 million.

Utilities. Anchorage is served by three entities for electricity. The municipal-owned Municipal Light and Power (ML&P), Chugach Electric Association, Inc. and Matanuska Electric Association all provide electricity to the geographic area covered by the municipality. Enstar Natural Gas provides services throughout the Anchorage area. Waste Management, dba Anchorage Refuse, Eagle River Refuse, and Peninsula Sanitation and municipal-owned Solid Waste Services dba Refuse Collection Utility all provide garbage collection. Solid Waste Services operates the Anchorage Regional Landfill, which exceeds all state and federal regulations and will serve Anchorage at least though the year 2037.

The water and wastewater utilities are operated under the administrative umbrella of one municipal department, Anchorage Water and Wastewater Utility (AWWU), and provide services from Girdwood to Eklutna. In 2001, an employee driven effort led to AWWU receiving an American Water Management Association Gold Award for excellence. The Eagle River and John C. Asplund Wastewater Treatment Facilities won Silver Awards from the America Metropolitan Sewerage Association during the year. AWWU’s water was judged “Best Tasting Water” at the 1998 U.S. Conference of Mayors.

Tourism and Recreation. Anchorage offers an abundance of recreational opportunities. Within its boundaries, there are 15 lakes, 230 parks encompassing 15,000 acres, six indoor swimming pools, six community recreation centers, 13 ice rinks, 180 miles of multi-use paved trails, over 200 kilometers of maintained cross-country ski trails, many of which are lighted for night use, and several golf courses. Municipal facilities include a convention center, sports arena and performing arts center.
Tourism has been one of Alaska's key economic engines. The region's attractiveness as a sport fishing and tourist summer destination is well established and the shoulder season's (spring and fall) convention and visitor numbers continue to grow. During 2001, only slight growth in tourism related services was noted. Bed tax collections exceeded $11 million during 2001, also a slight increase from the previous year.

The 2002 summer tourism season looks uncertain due to the events of September 11 and the general mood of the economy. A decline of up to 35% is anticipated. On the upside, the shoulder seasons have been booked in advance and are expected to show strong growth.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

The Municipal administration and employees are committed to the goal of making Anchorage an even better place to live, work, and raise our families. With the election of Mayor Wuerch in 2000, five broad priorities were identified for Anchorage: public safety, infrastructure development, economic growth, and effective and efficient government services. Efforts toward these priorities include providing the highest possible level of services within budget constraints; implementing a capital program to maintain, improve and enhance our infrastructure; and providing quality utility services at reasonable rates.

Within these priorities, Anchorage has identified numerous specific initiatives. Highlights of these initiatives and accomplishments are summarized below.

Public Safety

Public safety remains Anchorage's number one priority and efforts over the past five years have had results. Violent crime in Anchorage is down substantially with the overall crime rate per 100,000 decreasing dramatically from 8,483 in 1994 to 5,118 in 2001. According to the National Institute of Justice statistics, based on these results, Anchorage is among the safest cities in the U.S.

Because Anchorage's Police, Fire and Health and Human Services (HHS) Departments have the primary responsibility for public safety in the community, these departments receive a lion's share of the Municipality's annual budget. The Police and Fire Departments last year received sufficient funding to acquire new equipment and some of the newest technology, as well as new stations funded by bonds approved by a majority of Anchorage voters. For the Health and Human Services Department, plans are moving ahead to build a new HHS office building and locate it in a more central area of the community more accessible to the department's clients.

Technological developments at the Police Department include the installation of Mobil data terminals (MDT's) in police vehicles during 2001. The MDT's will provide police officers with real time access to data on vehicle registrations, outstanding warrants, state and national criminal

X
history information. They will also be linked to a global positioning system to allow more efficient dispatching of emergency services.

During the first quarter of 2002, the Mayor cut the ribbon for the opening of the city’s new $58 million 384-bed jail facility and inebriate drop-off center, funded by a long-term lease agreement with the State of Alaska. The old Anchorage jail and inebriate drop-off center downtown are now closed and are soon to be torn down.

The community’s investment in public safety continues to produce the desired results. Crime rates remain significantly lower than they were during much of the last decade. Citizens who have been surveyed say they feel relatively safe in their neighborhoods and in the downtown area. Police and Fire emergency response teams have set a goal for themselves to respond on average to all emergency calls for service in less than five minutes.

Initiatives being taken by the Police Department to maintain a strong record of crime prevention include expanding the community patrol programs and creating a community patrol academy, with police officers providing instruction to Anchorage citizens who assist police in their neighborhoods.

The Wuerch Administration’s emphasis on cultural diversity in the municipal workforce is beginning to show results. A greater number of minorities are applying for police and fire positions. For example, Chief Monegan’s 24-member recruitment team has widely broadened the recruitment base. The percentage of minorities hired in APD’s academy has increased from 10% in 1998 to 23% in 2002.

Anchorage Fire Department’s top priority is to reduce the time it takes for emergency personnel to arrive at a fire scene (“response time”). A combination of technological advancements, new fire stations and added personnel are key factors in reducing response time. To achieve this essential objective, the Fire Department acquired and installed a computer-aided dispatch system which provides area specific fire information and enhanced communication between fire stations and the central dispatch. Construction on three fire stations including one in Downtown, Sand Lake and Eagle River was completed in 2001. An advanced life-support engine was added at every station in 2000. The fourth person on each of these engine companies is a paramedic, which will allow the Fire Department to provide earlier treatment for medical emergencies.

A smoking ban covering the majority of restaurants and other businesses in town, which is enforced by HHS, has been accepted by a majority of Anchorage residents. HHS immunized a record number of children last year.

The Municipality’s Emergency Operations Center (EOC), already recognized by Federal Emergency Management officials as one of the best in the nation, is being upgraded in 2002/03 with new telecommunications equipment that will allow the Police and Fire Department Dispatch centers to operate from the EOC in the event of a major emergency. On September 11, 2001, within an hour of the terrorists’ strike in New York and Washington, D.C., the EOC was fully manned and prepared to respond as needed.

XI
Being better prepared for emergencies has been and continues to be a top priority for the Municipality. A number of practice exercises have been conducted out of the EOC focusing on the serious fire hazard facing residents on Anchorage’s hillsides due to the thousands of acres of dead trees in adjacent forests. Concurrent with the exercises, the Fire Department has emphasized training and added specialized equipment to deal with the wildfire threat.

The HHS Department took the lead role in a bioterrorism exercise, dubbed bugwars, that postulated an outbreak of smallpox. Government and non-government health care providers in the community participated in the two-week-long bugwars paper exercise. Most recently, the Municipality was involved with the state in a simulated passenger plane accident at the airport. In the fall of 2002, the Municipality will rehearse a rescue effort in the Inlet, simulating a plane crash offshore.

One of the most successful public safety programs sponsored by the Municipality following the September 11 tragedy, is the AWARE program. AWARE is an acronym for “Anchorage: Watchful, Alert and Ready for Emergencies.” One of the features of the program is the AWARE Academy, which provides training in basic emergency skills to the public. More than 1,100 citizens took the four-hour course over a four-month period.

Executives from the Municipal Manager’s office, the Emergency Operations Center, the Fire Department and other departments pitched in to design the course and share teaching responsibilities. No new staff positions were created. The Mayor and Municipal Manager were among the volunteers who taught parts of the course.

**Economic Stability and Growth**

Anchorage’s economy is strong and growing in diversification. During 2001, Anchorage experienced a steady, upward growth in new jobs, per capita earnings, new housing development, commercial building construction and major public works projects.

Anchorage has experienced robust growth with an upward trending forecast. It is a top priority of the administration to make Anchorage one of the most attractive, environmentally sensitive cities in the world that continues to foster a strong and diverse economic development.

The Administration has worked closely with the Anchorage Economic Development Corporation, Anchorage Convention and Visitors Bureau, Anchorage Downtown Partnership and the Anchorage and Eagle River Chambers of Commerce to foster steady economic growth and achieve its goals.

A key component of the Administration’s economic development plan for Anchorage is to take advantage of the foreign trade zones existing within its boundaries and develop opportunities for value-added production in Anchorage. Among production areas under consideration are those involving secondary processing of Alaskan natural resources in Anchorage. Alaska Seafood
International (ASI) illustrates this concept. Although Alaska is the world’s largest producer of wild salmon and has the richest source of bottom-fish in the world, most value-added processing is still done outside the state. The ASI complex includes much needed cold storage and processing facilities. This will enable the mass preparation of meals, which will be air freighted to customers throughout the world.

The Anchorage Assembly approved a new master plan for the Municipality that will guide development and growth during the next 20 years. Completed in 2000 and approved in early 2001, the Anchorage 2020 Comprehensive Plan culminates a four-year effort involving input from hundreds of Anchorage citizens. The Plan offers a framework for local decisions regarding land use and transportation policies that will shape the growth and expansion of Anchorage for the next 20 years.

**Fiscally Sound and Efficient Government**

Government at all levels is under increasing pressure to provide more services with the same or fewer resources and often struggles to effectively communicate to citizens the "return" or value provided from spending tax dollars. During 2001, the Municipality of Anchorage began development of a performance reporting program entitled "Investing for Results!" that demonstrates the city's commitment to focusing on program performance and delivering results. This performance reporting program requires each agency to state its mission, major functions, and key areas of focus, which are all tied together by results-oriented performance measures. These measures will be updated on a quarterly basis and available online through the Municipal Web site. Investing for Results! enables citizens to understand whether the implemented strategies are delivering intended results.

The long-range plan includes a process that brings the Municipal budget and performance measurement program together to a point where there is no distinction between the two. Ideally, every program would state the anticipated result, how much it costs, and how success will be measured. Integration of the budget process with performance measurement will provide a powerful management tool to assist agency directors in the effective and efficient delivery of public services. This gives the public a full accounting of the value returned for tax dollars spent.

During 1999 Anchorage’s long-term ratings were upgraded from A to AA- by Standard and Poor’s and from A1 to Aa3 by Moody’s Investors Service. This was the first rating upgrade in over 19 years. The rating agencies indicated this action reflects their belief that the Anchorage economy has diversified to a level where it is no longer dependent on oil production and not as vulnerable to fluctuations of the oil industry. The ratings reflect strong financial operations with adequate levels of reserves and sound debt management practices.

Anchorage voters approved the sale of Anchorage Telephone Utility in 1998. The sale closed in 1999 and the $118.7 million proceeds were placed in a newly created MOA Trust Fund to provide a perpetual revenue stream for Anchorage and tax relief for its citizens.
Late in 1999, a settlement was reached on several long-standing class action lawsuits brought by participants in the Anchorage Police and Fire Retirement System. Court and Assembly approval was received May 16, 2000, resulting in a return of $40 million of taxpayer funds to Anchorage. Half was deposited into the MOA Trust Fund to generate future revenue and tax relief, and half was deposited into the MOA Trust Reserve Fund.

On April 2, 2002 70% of Anchorage voters approved Proposition #4, authorizing management of the MOA Trust Fund as an endowment. Under the voter and Assembly approved endowment model, a maximum of 5% of the MOA Trust Fund’s average value will be available each year to support City services. The 5% cap is expected to provide a predictable, sustainable and responsible payment from the MOA Trust Fund each year and to assist efforts in keeping Anchorage property taxes down over time. Having changed to an endowment, the focus of the MOA Trust Fund’s performance has shifted from a short-term view (i.e., with frequent concern over significant short-term swings in the market) to a long-term view for the MOA Trust Fund—one that assumes long-term average annual investment return of 8% and long-term average annual inflation rate of 3% (i.e., a “real” payout rate of 5%).

Anchorage’s Water and Wastewater Utility, Solid Waste Services’ Refuse Collections and Solid Waste Disposal utilities, and Municipal Light and Power all continued to provide outstanding service to the citizens of Anchorage with no rate increases in 2001 or proposed for 2002. This marks their eighth consecutive year without rate increases.

As a result of a tariff revision requested in 1999, Municipal Light and Power was ordered to file a Revenue Requirement and Cost of Service Study by July 2000 based on a 1999 test year. Because this Docket was never resolved, Municipal Light and Power has agreed with the Public Advocacy Section and the Regulatory Commission of Alaska that it will file a 2001 test year Revenue Requirement and Cost of Service Study. At this time the results of that study are not known.

Effective December 2000, the Regulatory Commission of Alaska approved the Wastewater Utility’s request for a 2.75% decrease across the board for Wastewater Utility service effective for bills rendered after January 1, 2001. The Wastewater Utility was able to lower Wastewater rates and nonrecurring charges because of a reduction in the cost of debt, the use of technology to reduce operational costs, savings derived from an employee driven cost savings program, and customer growth.

MANAGEMENT AND BUDGETARY CONTROL AND ACCOUNTING SYSTEM

The administration is 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 generally accepted accounting principles (GAAP). The concept of reasonable assurance recognizes that the cost of controls should not exceed the benefit
likely to be derived and that valuation of costs and benefits requires the use of estimates and judgments.

During the year, the Assembly may approve supplemental appropriations to increase or decrease the budget, or to transfer all or part of any unencumbered balance from one appropriation to another. The Assembly by ordinance may authorize a contract, lease or other obligation requiring financing from future appropriations. A lease purchase agreement with respect to acquirement 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; where encumbrances are recorded for budgetary control. However, year-end financial statements present actual amounts on a GAAP basis; excluding encumbrances. The statements for governmental-type funds also present a column for adjustment to budgetary basis to convert the amounts from GAAP basis for comparison to the budget. For management control purposes, proprietary type funds track encumbrances during the year.

FINANCIAL HIGHLIGHTS

General Government

The general government’s operating budget is driven by expenditures required to provide public services, unlike an enterprise’s budget that is driven by revenues.

In addition to its operating expenditures, the primary government provides annual operating transfers to its component units. Anchorage’s budgeted and actual contribution to the Anchorage School District increased by $9 million to $131 million for calendar year 2001, while the budgeted and actual contribution to the Alaska Center for Performing Arts remained constant at approximately $1 million.
General Fund Expenditure Changes by Function:


<table>
<thead>
<tr>
<th>Function</th>
<th>2001</th>
<th>2000</th>
<th>Change</th>
<th>Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Government</td>
<td>$ 17,959</td>
<td>$ 17,433</td>
<td></td>
<td>$ 526</td>
<td>3.0</td>
</tr>
<tr>
<td>Public Safety</td>
<td>110,882</td>
<td>108,209</td>
<td></td>
<td>2,673</td>
<td>2.5</td>
</tr>
<tr>
<td>Public Services</td>
<td>65,390</td>
<td>65,705</td>
<td>(315)</td>
<td>(0.5)</td>
<td></td>
</tr>
<tr>
<td>Non-Departmental</td>
<td>8,658</td>
<td>8,521</td>
<td>137</td>
<td>1.6</td>
<td></td>
</tr>
<tr>
<td>Debt Service</td>
<td>38,820</td>
<td>29,553</td>
<td>9,267</td>
<td>31.4</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$241,709</strong></td>
<td><strong>$229,421</strong></td>
<td><strong>$ 12,288</strong></td>
<td>5.4</td>
<td></td>
</tr>
</tbody>
</table>

General Government expenditures increased primarily due to costs associated with enhancements to software applications and the purchase of property by the Municipality.

Public Safety expenditures increased due to additional costs associated with the Fire Department gaining advanced EMS technologies, including additional paramedic staff, and fire prevention work on Anchorage’s hillsides.

Public Services expenditures decreased due to a more efficient reorganization of staffing and services within the Public Works and the Cultural and Recreational offices.

Debt Service increased due to principal and interest payments on new bonds issued in 2000.
General Fund Revenue Changes by Source:

A comparative summary of revenues by source for 2001 and 2000 follows (in thousands):

<table>
<thead>
<tr>
<th>Function</th>
<th>2001</th>
<th>2000</th>
<th>Change Amount</th>
<th>Change Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes</td>
<td>$312,875</td>
<td>$288,427</td>
<td>$24,448</td>
<td>8.5</td>
</tr>
<tr>
<td>Special Assessments</td>
<td>953</td>
<td>848</td>
<td>105</td>
<td>12.4</td>
</tr>
<tr>
<td>Licenses and Permits</td>
<td>9,174</td>
<td>8,478</td>
<td>696</td>
<td>8.2</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>14,436</td>
<td>13,979</td>
<td>457</td>
<td>3.3</td>
</tr>
<tr>
<td>Charges for Services</td>
<td>13,093</td>
<td>11,450</td>
<td>1,643</td>
<td>14.3</td>
</tr>
<tr>
<td>Fines and Forfeitures</td>
<td>4,912</td>
<td>5,410</td>
<td>(498)</td>
<td>(9.2)</td>
</tr>
<tr>
<td>Investment Income</td>
<td>6,043</td>
<td>7,091</td>
<td>(1,048)</td>
<td>(14.8)</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>810</td>
<td>1,436</td>
<td>(626)</td>
<td>(43.6)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$362,296</strong></td>
<td><strong>$337,119</strong></td>
<td><strong>$25,177</strong></td>
<td><strong>7.5</strong></td>
</tr>
</tbody>
</table>

The increase in Taxes was the result of the increase in the appraised values for real and personal properties and the full year's collection for the new Motor Vehicle Rental Tax.

Revenues from Special Assessments as well as from Licenses and Permits increased as construction increased this year.

The increase in revenue for Charges for Services is due to additional billings for Ambulance Services and unexpected reimbursements received within the Building Safety Division.

The decrease in Investment Income is primarily due to the lower market rates in the open market combined with a general decrease in cash balances throughout calendar 2001.

General Fund Balance:

A comparative summary of fund balances for 2001 and 2000 follows (in thousands):

<table>
<thead>
<tr>
<th>Status</th>
<th>2001</th>
<th>2000</th>
<th>Change Amount</th>
<th>Change Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserved</td>
<td>$8,878</td>
<td>$8,464</td>
<td>$414</td>
<td>4.9</td>
</tr>
<tr>
<td>Designated for Subsequent Year</td>
<td>4,831</td>
<td>5,140</td>
<td>(309)</td>
<td>(6.0)</td>
</tr>
<tr>
<td>Undesignated</td>
<td>28,424</td>
<td>33,456</td>
<td>(5,032)</td>
<td>(15.0)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$42,133</strong></td>
<td><strong>$47,060</strong></td>
<td><strong>$ (4,927)</strong></td>
<td><strong>(10.5)</strong></td>
</tr>
</tbody>
</table>
While fund balance represents the difference between expenditures and revenues over time, part of the fund balance is reserved for specific purposes by legal or contractual requirements. The unreserved fund balance is available for appropriation for expenditure or purchase of capital items without the issuance of debt. The Administration and Assembly have designated portions of the unreserved fund balance of the General Fund to reflect their intent to use those amounts to supplement tax revenues in the 2002 budget. The remaining unreserved fund balance has not been designated for specific purposes and is available to provide resources to meet emergency needs and may determine the ability of the government to withstand unexpected natural disasters, legal liabilities or revenue shortfalls.

**Enterprise Funds**

Anchorage owns and operates three utilities that are regulated by the Regulatory Commission of Alaska: an electric system, a water system and a wastewater system. Anchorage also owns and operates a refuse collection utility, solid waste disposal facilities, port and airport.

**Municipal Light and Power:** Both operating revenues and operating expenses increased in 2001 as a result of increased gas sales and related production expenses. The net result was a 6.2% decrease in operating income or $1.4 million less than the prior year. The decrease in operating income combined with an increase in non-operating revenue and a decrease in non-operating expense resulted in an overall decrease in total net income of 6.4%, or $551 thousand, increasing retained earnings to $99.6 million compared to $90.9 million in the prior year.

**Anchorage Water Utility:** Although operations expense decreased by $500,000 from 2000 to 2001, total operating expenses increased by $836,000, due to increased depreciation expense of plant and other assets. The 2000 operating revenues of $28.7 million increased by 1%, which generated net income of $5.2 million in 2001 and resulted in retained earnings of $52.5 million.

**Anchorage Wastewater Utility:** The 2.75% across the board rate decrease, which became effective January 1, 2001, resulted in a $600,000 decrease in Total Charges for Services, from 2000 to 2001. Operating expenses increased by $800,000 from the prior year, primarily as a result of increased depreciation expense. However, the Utility still reported net income of $3.6 million for 2001 and retained earnings of $31 million.

**Refuse Collection Utility:** For fiscal year 2001 a $161,000 increase in expenses coupled with a $24,000 increase in revenues resulted in a net income of $510,000 for the Refuse Collections Utility. Retained earnings increased to $8.6 million compared to $8.1 million in 2000.

**Solid Waste Disposal Utility:** While 2001 operating revenues increased approximately $286,000, operating expenses increased approximately $316,000 compared to 2000. Expenses increased primarily in depreciation, $320,000, a result of changing the landfill useful life from 2043 to 2037. The net income of $3.5 million was $.3 million more than 2000. Retained earnings increased $3.7 million.
**Port of Anchorage:** Port revenues increased approximately 80% in 2001 over 2000 primarily due to $6.66 million in State capital grants being recognized as non-operating revenue pursuant to Governmental Accounting Standards Board (GASB) Statement 33. That, combined with a slight reduction in 2001 Port expenses, resulted in a 434% increase in net income. Port operating revenues increased approximately 9.2% in 2001 over 2000 due to increases in all wharfage revenue categories, increased dockage revenue and an increase in industrial park revenue. The Port’s retained earnings increased 20.6% in 2001 to $61.0 million from $50.6 million that was primarily the result of recognizing $6.66 million in State capital grants as non-operating revenue.

**Merrill Field Airport:** For 2001, the Airport experienced increases in both revenues and expenses in the amounts of $4.2 million (350.9%) and $418,000 (24.8%) respectively. These increases combined to yield a net income for the year of $3.3 million, up $3.8 million (763.1%) from last year. Retained Earnings increased $4.4 million in 2001. The primary contributor to these significant increases was the implementation of GASB Statement 33, which now requires inclusion of grant receipts as non-operating revenue. For 2001, these receipts totaled $4.3 million. In prior years, such receipts were not recognized as either operating or non-operating revenue, but instead as a contribution of capital.

**FIDUCIARY OPERATIONS**

**Expendable Fine Arts Museum Trust Fund:** This fund was used to account for investments used to retire general obligation bonds which were issued to finance the construction of the Fine Arts Museum. It was dissolved in 2000 as the bonds it was set up to pay were paid off.

**Expendable Police and Fire Retiree Medical Trust Fund:** This fund was designed to provide medical benefits to non-command employees who will retire under the Police and Fire Retirement System subsequent to January 1, 1995. The Municipality will make annual contributions to the fund until 2006 at which time a lump sum payment will be made. The original annual payment was $1.7 million with a lump sum payment of $11.3 million. However, based on an actuarial study completed in 1999, the annual contribution was reduced to $1.3 million and a lump sum payment was reduced to $9.8 million.

**MOA Trust Reserve Fund:** Along with the transfer of $3.1 million to the MOA Trust Fund, $9.4 million of fund balance was transferred to the General Fund to pay the 2001 dividend.

**MOA Trust Fund:** $3.1 million was transferred from the MOA Trust Reserve Fund in order to comply with the inflation proofing requirement set forth by the MOA code. As discussed previously, on April 2, 2002 the voters approved managing the MOA Trust Fund as an endowment.

**Pension Trust Fund Operations and Post-Employment Health Care Benefits:** Substantially all regular employees of Anchorage are members of the Public Employees Retirement System (PERS), except for members of the International Brotherhood of Electrical Workers (IBEW) and certain police and fire employees. IBEW members participate in a union sponsored defined
benefit plan. 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 either 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 are in PERS.

DEBT ADMINISTRATION

Anchorage continues to maintain outstanding credit ratings. Current long-term ratings are AA- by Standard and Poor’s and Aa3 by Moody’s Investors Service. Anchorage has no legal debt limit mandated by its Charter, Code or State law. Revenue bond covenants stipulating debt service coverage requirements were met in 2001.

Anchorage’s percentage of net general obligation debt to assessed valuation and bonded debt per capita are useful indicators to citizens and investors of Anchorage’s debt position. The percentage of net direct general obligation debt to assessed valuation was 4.47% as of December 31, 2001, and the net direct general obligation debt per capita was $3,048. The respective amounts as of December 31, 2000, were 4.23% and $2,426.

CASH MANAGEMENT

To obtain flexibility in cash management, the primary government uses a pooled cash system. Pooled cash is invested in various securities to maximize return while keeping reasonable liquidity to meet maturing obligations. Investments in securities to satisfy bond reserve and other requirements are maintained in separate accounts with the Paying Agent.

Anchorage Municipal Code stipulates that the government may invest in the following securities:

- Obligations of, or obligations guaranteed by, the U.S. or an agency or instrumentality of the U.S.;

- 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 U.S. or agencies or instrumentalities of the U.S.
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;

Money Market Mutual Funds consisting of any or all of the securities authorized for investment as described above.

The Treasurer manages the MOA Trust Fund, per the Anchorage Municipal Charter. During 1999 the Treasurer developed investment guidelines using the assistance of the Investment Advisory Commission and an outside financial expert. The Assembly approved formal investment guidelines during 1999. The investment objective is to maintain the purchasing power of the corpus and to maximize rates of return over time by utilizing a balanced investment approach, investing in both equity and fixed income instruments, within prudent levels of risk. In 2002 the MOA Trust Fund will be managed as an endowment.

The Anchorage Police and Fire Retirement System portfolio is managed by a board appointed by the Mayor and confirmed by the Assembly. The board establishes investment guidelines and oversees the System's investments.

Component units other than the School District and the Parking Authority have no formally adopted investment policies. In the absence, thereof, the investments are managed pursuant to the MOA policies. The Parking Authority's investment policies and revenue bond indenture agreements require that bond monies be limited to certain types of investments.

The School District may invest either through direct investments or through the primary government's central treasury. School Board policy requires that direct investments in demand and time deposits in excess of insured amounts are collateralized with U.S. government or government guaranteed securities.

**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 program is designed to balance cost of insurance against 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 cover worker's compensation ($500,000 retention), general liability and automobile liability claims against the government, which is self-insured up to $2,000,000.
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 $50,000 off-premise deductible, fine art has various deductibles and the Electric Utility gas turbine generators have specific deductibles on each unit.

INDEPENDENT AUDIT

The Anchorage Municipal Charter requires an annual independent audit of all municipal accounts by a certified public accountant. Accordingly, KPMG LLP audited all 2001 financial records, except for those of one component unit, and their report is included in this Comprehensive Annual Financial Report. The component unit not audited by KPMG LLP was audited by a certified public accountant who issued an unqualified report on the audit.

KPMG LLP has been retained to perform financial and compliance audits of Federal and State financial assistance programs for the year ended December 31, 2001. These audits are performed in accordance with Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the Compliance Supplement issued by the U.S. Office of Management and Budget, and with the Audit Guide and Compliance Supplement for State Single Audits, issued by the State of Alaska, Office of Management and Budget. KPMG LLP performed single audits for the year ended December 31, 2001.

REPORTING ACHIEVEMENT

The Government Finance Officers Association of the U.S. and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Anchorage for its CAFR for the fiscal year ended December 31, 2000. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR. The contents must conform to program standards. 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. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.
ACKNOWLEDGMENTS

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:

Kate H. Giard, CPA
Chief Fiscal Officer

Richard E. Miller
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, 2000

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.

[Signatures]

President

Executive Director
MUNICIPALITY OF ANCHORAGE

2001

PRINCIPAL OFFICIALS

ASSEMBLY

The legislative power of Anchorage is vested in an eleven member elected assembly. The Assembly meets on Tuesday 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, 2001 the following citizens were elected to serve on the Assembly.

Dick Traini, Chair

Anna Fairclough, Vice Chair
Cheryl Clementson
Dan Kendall
Janice Shamberg
Dan Sullivan

Melinda Taylor
Allan Tesche
Dick Tremaine
Doug Van Etten
Fay Von Gemmingen

Greg Moyer, Municipal Clerk

ADMINISTRATION

George Wuerch, Mayor
Harry Kieling, Municipal Manager
William Greene, Municipal Attorney
Kate Giard, CPA, Chief Fiscal Officer
MUNICIPALITY OF ANCHORAGE
Organizational Chart

ASSEMBLY
Dick Traini, Chair
- Cheryl Clementson
- Anna Fairclough
- Dan Kendall
- Janice Shamberg
- Fay Von Gemmingen

Director / Municipal Clerk
Greg Moyer

Budget & Legislative Services
Elvi Gray-Jackson

OMBUDSMAN
Alan Muise

MAYOR
George Wuerch

External Affairs, Dennis Fradley
Federal & State Grants, Dick Dworsky
Special Assistant, Betty Fauber
Special Assistant, Nance Larsen

Municipal Manager
Harry Kieling

Public Safety Team
- Anchorage Fire Department, John Fullenwider
- Anchorage Police Department, Walt Monegan
- Health & Human Services, Jewel Jones
- Office of Emergency Management, Tracy Matthews
- Transportation Inspection, Tom Wilson

Municipal Operations Team
- Cultural & Recreational Services, Jim Posey
- Planning, Development & Public Works, Craig Campbell
  - Development Services, Everett Mabry
  - Facility Management (Vince Mee, Acting)
  - Planning, Sue Fison
  - Project Management & Engineering, Howard Holton
  - Street Maintenance, Vince Mee
  - Traffic, Lance Wilber
- Public Transportation, Bob Kniefel

Administration Team
- Employee Relations, David Otto
- Finance, Kate Giard
- Management Information Systems, Mike Callahan
- Office of Management & Budget, Cheryl Frasca
- Purchasing, Bart Mauldin

Enterprise Activities Team
- Heritage Land Bank, George Canneos
- Merrill Field, Dave Lundeby
- Municipal Light & Power, Mike Scott
- Port of Anchorage, Bill Sheffield
- Solid Waste Services, Joel Grunwald
- Water & Wastewater Utility, Mark Premo

* These positions report jointly to the Assembly and the Mayor

Revised January 14, 2002