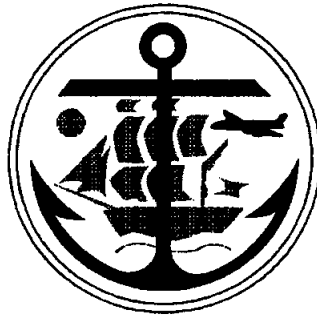


MUNICIPALITY OF ANCHORAGE



COMPREHENSIVE ANNUAL FINANCIAL REPORT

December 31, 2002

**Prepared by:
DEPARTMENT OF FINANCE**

**Kate Giard, CPA
Chief Fiscal Officer**

**Richard E. Miller
Controller**

MUNICIPALITY OF ANCHORAGE, ALASKA

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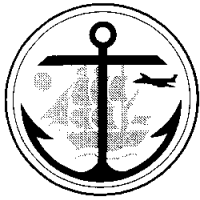
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INTRODUCTORY SECTION



George P. Wuerch,
Mayor

Municipality of Anchorage

Department of Finance

Controller Division



May 7, 2003

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, 2002, is hereby submitted in accordance with Anchorage Home Rule Charter and Anchorage Municipal Code. These laws require an annual report on the finances and the administrative activities and an independent audit of all municipal accounts by a certified public accountant. KPMG, LLP performed the independent audit. Management is responsible for the accuracy, completeness and fairness of the presentation including all disclosures.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. Anchorage's MD&A can be found in the Financial Section of the CAFR immediately preceding the report of the independent auditors.

The CAFR is presented in three sections - Introductory, Financial and Statistical. The Introductory section, which is unaudited, includes this letter of transmittal, a certificate of achievement for excellence in financial reporting for Anchorage's 2001 CAFR, a list of principal elected and appointed officials, and an organization chart. The Financial section includes MD&A, the independent auditors' report on these financial statements and schedules, the basic financial statements, additional required supplementary information, and the combining financial statements. The unaudited Statistical section includes a broad range of selected trend data and non-financial information.

As a recipient of federal grant awards, Anchorage is required to undergo an audit in accordance with the provisions of the U.S. Office of Management and Budget's Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations and Compliance Supplement*. A schedule of expenditures of federal awards, the independent auditors' reports on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs 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 auditors' 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.

KPMG LLP was retained to perform both the financial and the compliance audits of Federal and State financial assistance programs for the year ended December 31, 2002. These audits were performed in accordance with the Federal and State Office of Management and Budget's regulations, AAC 45.010 in accordance with Government Auditing Standards. KPMG LLP audited all 2002 financial records, except for those of two component units, and their reports are included in this CAFR. The component units were audited by certified public accountants who issued unqualified reports on their audits.

Profile of the Government

The City of Anchorage was originally incorporated in 1920 and unified with the Greater Anchorage Area Borough in 1975 to create the Municipality of Anchorage. Anchorage encompasses approximately 1,955 square miles.

Anchorage is operated under a strong mayoral system with an eleven member Assembly serving as the legislative branch. Leading the executive branch, the Mayor is responsible for appointing top executives and running the day to day governmental activities. The Assembly is responsible for approving ordinances, Municipal contracts, budgets, and certain appointments. A compilation of Municipal ordinances can be reviewed on-line in the Anchorage Municipal Code at www.muni.org.

Anchorage provides a full range of services, including police, fire, emergency medical protection, health and human services, construction and maintenance of roads and other infrastructure, culture and recreation activities, and public transportation. Many of these services are provided on a service area basis with taxpayers in different taxing districts paying only for those services they authorize.

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 accounting principles generally accepted in the United States of America. The concept of reasonable assurance recognizes that the cost of controls should not exceed the benefit likely to be derived and that valuation of costs and benefits requires the use of estimates and judgments.

During the year, the Assembly may approve supplemental appropriations to increase or decrease the budget, or to transfer all or part of any unencumbered balance from one appropriation to another. The Assembly by ordinance may authorize a contract, lease or other obligation requiring financing from future appropriations. A lease purchase agreement with respect to acquisition of a capital improvement valued in excess of \$1 million is not valid until approved by the voters. The Mayor may transfer all or part of an unencumbered balance between categories within an appropriation. No obligation involving the expenditure of money may be made unless the Chief Fiscal Officer has certified that the money required has been appropriated and is available for that purpose.

The accounting records are maintained on a budgetary basis; where encumbrances are recorded for budgetary control. However, year-end financial statements present actual amounts in conformity with accounting principles generally accepted in the United States of America; excluding encumbrances. For management control purposes, proprietary type funds track encumbrances during the year.

The financial reporting entity includes the following component units for which Anchorage is financially accountable - Anchorage School District, Anchorage Historic Properties, Inc., Alaska Center for the Performing Arts, Inc., and Anchorage Parking Authority. Additional information on all four of these component units can be found in the notes to the financial statements.

Anchorage owns and operates several utilities and other enterprise activities including electric, water, wastewater, refuse collections, solid waste disposal facilities, port and municipal airport facilities. Anchorage contracts out management of its sports arena, convention center, ice arenas, golf courses and equestrian center.

The most complete source of information available on Anchorage's government, services, current events, economic indicators and other statistics is located on its municipal web site at www.muni.org.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which Anchorage operates.

Anchorage has an approximate population of 269,070 and is expected to grow at a rate of 1.5% annually over the next few years. As the largest city in Alaska, Anchorage accounts for approximately 42% of the state's residents.

Enrollment in the Anchorage School District during the 2002-2003 school year has increased slightly from the prior year, to approximately 50,000. Anchorage is home to the University of Alaska Anchorage (UAA), a state operated university, and Alaska Pacific University (APU), a private independent university.

Local Economy

Anchorage had a total labor force of approximately 153,000 and an unemployment rate of 4.6% annually during 2002.

Anchorage has four major sectors which drive the local economy – oil/gas, military, transportation, and tourism. These sectors, along with the supporting businesses which have developed around these core sectors, have provided fifteen years of consecutive economic growth.

The oil/gas sector accounts for approximately 2% of local employment and 8% of wages earned. Currently there are no significant new development projects and future forecasts envision stable employment.

The military sector employs over 8,000 people and will continue to grow in the future with a C-17 Globemaster III deployment at Elmendorf Air Force Base over the next several years and the continued use of training areas for full scale live fire exercises.

The transportation sector is anchored by air cargo activity at the Ted Stevens International Airport; in-state freight and passenger transportation by the State of Alaska owned Alaska Railroad; and maritime transportation through the municipal owned Port of Anchorage. The Ted Stevens International Airport is one of the busiest cargo airports in the world and currently is in the process of completing a \$19 million dollar reconstruction of its north/south runway and extension of the associated taxiway. During the summer tourism season, the Alaska Railroad

provides passenger service to many popular visitor destinations and recently opened its new Ted Stevens International Airport rail depot to regular passenger service. Approximately 90% of all consumer goods arriving in Alaska pass through the Port of Anchorage. The Port of Anchorage is ice free year round and is served by two major maritime carriers, TOTE and Horizon Lines. The Port of Anchorage recently received the initial visit of TOTE's first of two planned Orca class roll-on/roll-off trailer ships, the "Midnight Sun", which was recently introduced to the Tacoma – Anchorage trade route.

The tourism sector is a major economic driver for Anchorage due to its central location, transportation infrastructure, and offer of abundant recreational opportunities. Visitors to Alaska often use Anchorage as the gateway to the rest of the state. 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. As expected, the 2002 tourism season did not experience significant growth and due to the continued uncertainty in the national economy, the 2003 tourist season appears uncertain. One bright spot during the 2002 season was the strong fourth quarter convention and trade show activity with an estimated economic impact in excess of \$22 million dollars.

Long-term Financial Planning

Anchorage continues to maintain outstanding credit ratings. Current long-term bond 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 2002.

Anchorage's percentage of net general obligation debt to assessed valuation and bonded debt per capita are useful indicators to citizens and investors of Anchorage's debt position. The percentage of net direct general obligation debt to assessed valuation was 5.23% as of December 31, 2002, and the net direct general obligation debt per capita was \$3,372. The respective amounts as of December 31, 2001, were 4.92% and \$2,906.

Cash Management Policies and Procedures

To obtain flexibility in cash management, Anchorage 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 United States or an agency or instrumentality of the United States; commercial paper with no more than nine-month maturities issued by corporations and having the highest rating of a nationally recognized rating service; banker's acceptances accepted by a rated bank and eligible for rediscount with, or purchase by, Federal Reserve System banks; negotiable certificates of deposit issued by rated banks; collateralized non-negotiable certificates of deposit issued by a rated bank or issued by banks with a main or branch office within Anchorage; repurchase agreements secured by obligations insured or guaranteed by the United States or agencies or instrumentalities of the United States; federally insured deposits in banks with a main or branch office within Anchorage; corporate bonds which are rated AA or higher or the equivalent as measured by Standard and Poor's or Moody's Investors Service; or money market mutual funds consisting of any or all of the securities authorized for investment as described above.

Risk Management

The objective of the risk management program is to protect municipal assets by identifying and controlling exposures to financial loss. Because all exposures cannot be eliminated, a comprehensive insurance program is necessary. The municipal 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 Anchorage, which is self-insured up to \$2,000,000 per occurrence.

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.

Pension and Other Post Employment 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 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.

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.

The Police and Fire Retiree Medical Trust Fund provides medical benefits to non-command employees who will retire under the Police and Fire Retirement System subsequent to January 1, 1995. Anchorage will make annual contributions to the fund until 2006 at which time a lump sum payment will be made. Based on an actuarial study completed in 2002, the annual contribution due for prospective years will be \$1.8 million and the lump sum payment required was calculated to be \$9.8 million.

Awards and Acknowledgements

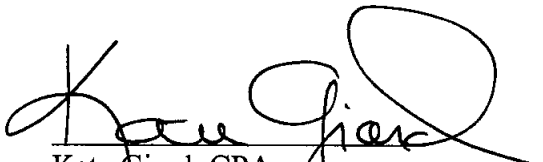
The Municipal administration and employees are committed to the goal of making Anchorage an even better place to live, work, and raise our families.

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Anchorage for its CAFR for the fiscal year ended December 31, 2001. This was the fifteenth consecutive year that Anchorage has received this prestigious award. In order to be awarded a Certificate of Achievement, the government must publish an easily readable and efficiently organized CAFR. Our 2001 report satisfied both GAAP and applicable legal requirements.

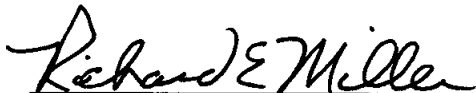
A Certificate of Achievement is valid for a period of one year only. We believe that our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA to determine its eligibility for another certification.

The preparation of the CAFR was made possible by the dedicated efforts of the entire Controller Division staff. We express our sincere appreciation to every member of the staff for their contribution to this report whether it was in processing daily transactions or in report preparation. We also express our appreciation to all other individuals who assisted in this effort.

Prepared by:



Kate 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, 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.

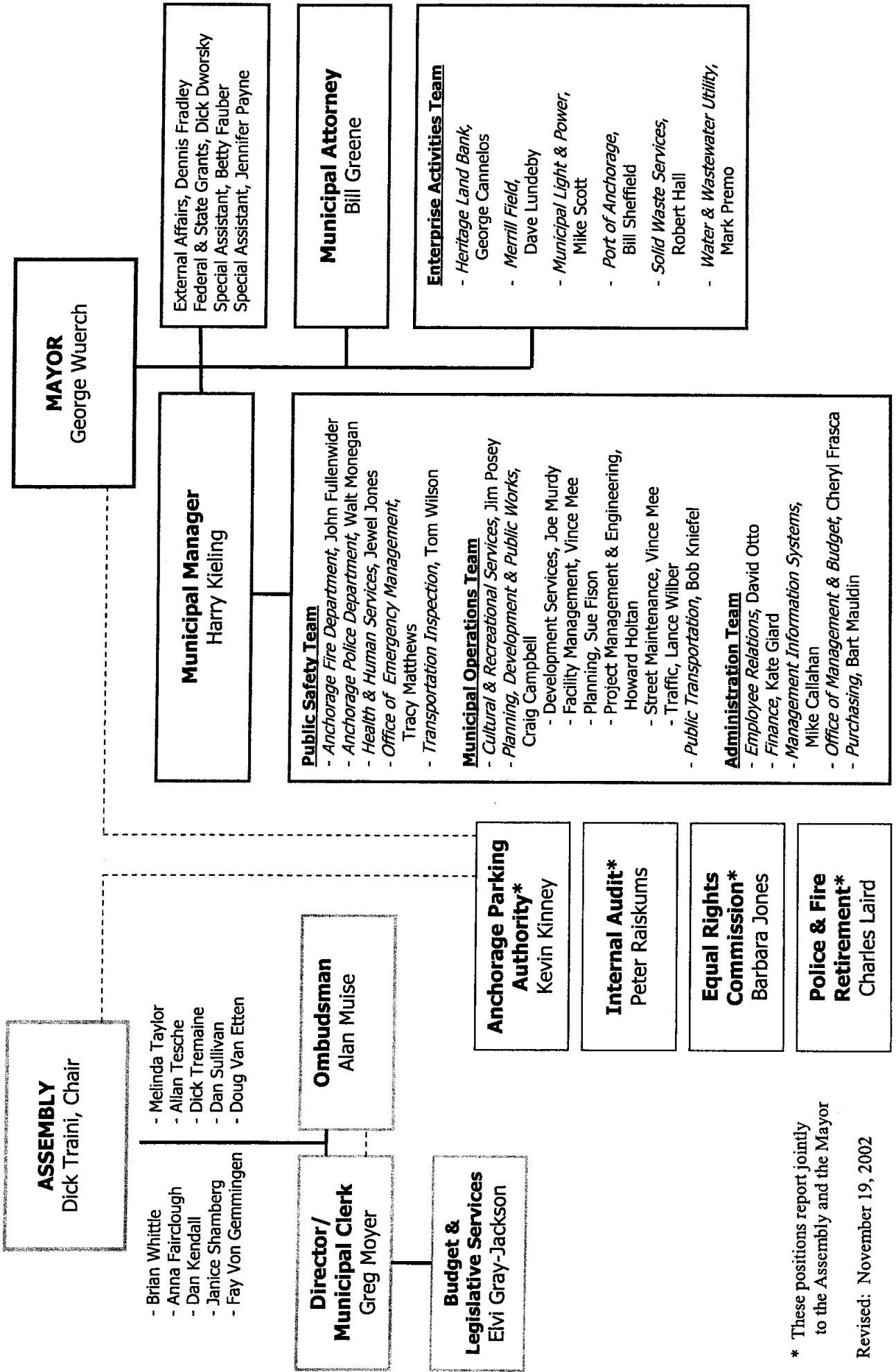


President

Executive Director

MUNICIPALITY OF ANCHORAGE

Organizational Chart



* These positions report jointly to the Assembly and the Mayor

Revised: November 19, 2002

MUNICIPALITY OF ANCHORAGE

2002

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, 2002, the following citizens were elected to serve on the Assembly.

Dick Traini, Chair

Anna Fairclough, Vice Chair
Brian Whittle
Dan Kendall
Janice Shamberg
Dan Sullivan

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

Greg Moyer, Director/Municipal Clerk

ADMINISTRATION

George Wuerch, Mayor

Harry Kieling, Municipal Manager

William Greene, Municipal Attorney

Kate Giard, CPA, Chief Fiscal Officer

Municipality of Anchorage Vicinity Map

